Financial statements, Independent auditor's report and Directors' report as at 31 December 2023

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

R.C.S. Luxembourg: B 13.859

Table of contents

Board of Directors' report as at 31 December 2023

Development of the activity

In 2023, Intesa SanPaolo Bank Luxembourg full year result benefited from the strategy started in 2021 aimed at strengthening the bank as a competence and product center for selected business lines such as structured and complex financing, fund financing, and leveraging on differentiated sources of revenues both in terms of products, geographies, clients.
All this implying the achievement of an outstanding level of 236,4 Mln Eur of total revenues and 176,7 Mln Eur of Profit Before Taxes, the best result in the bank history both quantitatively and qualitatively (revenues balanced and differentiated in products and geographies), also thanks to the bank's strong liquidity position, the significant increase in interest rates in the first nine months of the year, and despite the de-risking of Russia related assets in 2022/2023 and a macroeconomic and geopolitical environment still characterized in 2023 by sustained inflation and geo-political instability in many geographical areas

In the early months of the year, the global economy and international trade continued to be weak, owing to the longstanding geopolitical uncertainty and persistently high inflation in the main advanced economies.

The Federal Reserve and the Bank of England decided on new increases in their policy rates in their February and March meetings. Global financial market conditions had deteriorated since mid-January, affected by expectations of greater and more prolonged increases in policy rates; since 9 March, the failure of some banks in the United States and Switzerland has led to a sharp increase in risk aversion and greater volatility.

The ECB Governing Council increased its key interest rates by 50 basis points at both its February and its March meetings, bringing the reference rate to 3.0 per cent.

Inflation went down on average in the first quarter (to 8.2 per cent in March) but core inflation rose, continuing to be affected by the pass-through to final prices of the higher costs linked to the energy shocks.

In this context the Bank performed well on the revenues side, reaching a top in history quarter, this result coming despite the negative still live effects linked to the Russian crisis, with some Desk's total assets (loan to customer) being lower YoY due to Russia related loans de-risking or repayments.

In the second quarter, global economic activity is being curbed by high inflation and by tight financing conditions. GDP was decelerating in the United States, and the recovery in economic activity in China was losing momentum again after benefiting from the pandemic containment policies being lifted. Despite the brisk growth in services in the main economies, activity has been affected by the weakening of the manufacturing cycle, which was contributing to reducing the growth prospects for global trade and for commodity and energy prices.

The lower contribution of the energy component was matched by the fall in consumer price inflation in the leading industrial countries, except for Japan. However, core inflation has been in second quarter still struggling to come down.

After a rise in May, the Federal Reserve left its benchmark interest rates unchanged in June, although it indicated that it might raise them over the next few months. The Bank of England stepped up its restrictive stance, increasing its rates by 50 basis points in June. Following the turmoil connected with the banking crisis episodes in the United States and in Switzerland, conditions normalized in the international financial markets.

Between May and June, the Governing Council of the European Central Bank raised its key interest rates by 50 basis points overall. Decisions on interest rates will continue to be made on a meeting-by-meeting basis, taking account of data as they become available, so as to achieve a timely return of inflation to the 2 per cent medium-term target.

Consumer price inflation fell further in the spring, thanks to the sharp decline in the energy component, although it remained high. The first falls in inflation were recorded in relation to food and non-energy industrial goods, which were beginning to reflect the marked reduction in the prices of energy inputs. Inflation in services also showed some signs of reduction in June. Households and firms expect inflationary pressures to ease further.

The bank continued to generate value in the second quarter, with a sustained performance in progression on the first quarter, demonstrating a robust product factory business model, with a growth both in corporate lending and capital markets related businesses.

In the third quarter, GDP growth remained solid in the United States, while it decreased markedly in China, partly as a result of the housing crisis. Global economic activity slowed in the summer: growth in services abated and the manufacturing cycle contracted further. Inflation went down in the United States and in the United Kingdom in the summer months, though it remains high. The Federal Reserve and the Bank of England increased their policy rates by 25 basis points at their meetings in July and August respectively, bringing them to the highest levels since 2007-08 and leaving them unchanged in September. By contrast, the Bank of Japan maintained an accommodative monetary policy stance. Global financial market conditions tightened in the third quarter, partly reflecting a revision of previous expectations of rapid monetary policy easing.

In July and September, the Governing Council of the ECB increased its key interest rates by a total of 50 basis points. The Council currently considers that the key interest rates have reached levels that, if maintained for a sufficiently long period, will make a substantial contribution to the timely return of inflation to its 2 per cent target. It also reiterated its intention to reinvest the principal payments from maturing securities purchased under the pandemic emergency purchase programme (PEPP) flexibly, at least until the end of 2024. In the euro area, the cost of borrowing for firms and households rose further, reflecting the rise in key interest rates. The yields on ten-year government securities increased, as did the spreads between Italian and German government bonds.

Consumer price inflation rose slightly in September, reflecting higher fuel prices, following the decline recorded in the past few months. Core inflation remained broadly unchanged, well below the February high. Households and firms expect inflationary pressures to ease.

The Bank achieved in the third quarter its best result ever in the first 9 months and for third quarter, confirming a time to market execution of new transactions entered in the pipeline in the beginning of the year, and further commercial effort spent with the bank clients in adding value to the already strong liquidity position of the bank.

The fourth quarter opened with Israeli-Palestinian conflict: an unexpected attack on Israel by the Palestinian Islamic Resistance Movement (Hamas) on October 7, followed by an escalation with Israel declaring war on the Gaza Strip, negatively contributing to the global geo-political instability already present.

Global economic activity has been underpinned by emerging market economies including China, and, among advanced economies, by the United States. Solid domestic demand and a strong labour market in the United States resulted in robust growth despite significant monetary policy tightening. In China, the lifting of coronavirus (COVID-19) restrictions at the start of the year and a broader recovery in private consumption compensated for weakness in the residential sector. While real GDP growth strengthened in both China and the United States in the third quarter, it remained flat in the United Kingdom and contracted in Japan as a result of high inflation weighing on activity and consumption in both. Global real GDP is expected to decelerate slightly in the fourth quarter as previous tailwinds dissipate.

The euro area economy has weakened further in the second half of 2023, as subdued confidence, earlier competitiveness losses, renewed geopolitical tensions and tighter financing conditions all weighed on activity.

The Governing Council decided at its meeting on 14 December 2023 to keep the three key ECB interest rates unchanged. While inflation has dropped in recent months, it is likely to pick up again temporarily in the near term. According to the December 2023 Eurosystem staff macroeconomic projections for the euro area, inflation is expected to decline gradually over the course of 2024, before approaching the Governing Council's 2% target in 2025. Underlying inflation has eased further. But domestic price pressures remain elevated, primarily owing to strong growth in unit labour costs.

The euro area economy contracted slightly in the third quarter of 2023, mostly owing to a decline in inventories. Tighter financing conditions and subdued foreign demand are likely to continue weighing on economic activity in the near term.

The bank full year result reflects a strong focus on risks by the Bank including the almost completed de-risking of Russia related assets, accompanied by the best full year result in the bank's history; most important, the full year result appears to be sustainable and balanced in terms of business lines generating value and geographical differentiation. The result is growing YoY and QoQ and it lays important foundations for further growth and strengthening of the bank and its business model as the EU area center of expertise for IMI CIB Division of the Parent Company Intesa Sanpaolo SpA, for corporate complex and structured lending and capital markets activities.

Corporate Governance

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

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

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

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

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

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

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

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

Risk Control

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

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

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

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

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

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

Subsidiaries and branches

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

Pursuant to the decision of the Board of Directors dated 03.05.2023, ruling the disposal of the subsidiary Lux Gest Asset Management S.A.; the aforementioned Company was sold on 26 July 2023, being a sale purchase agreement signed with PHI 1998 S.A., a public liability company with registered office at 11 rue de Beaumont L-1219 Luxembourg.

The sale occurred within the authorised limits of the maximum consideration of € 525,000, taking into account the value of the licence negotiated at € 25,000 and the cash present in the company at the closing of the transaction, estimated at € 500,000, and taking into into account the minimum capital requirements imposed by the Supervisory Authority (€ 330,000). The sale is subject to the non-objection of the *Commission de Surveillance du Secteur Financier*.

The buyer filed the *Commission de Surveillance du Secteur Financier* for its non-objection to the sale in the first fortnight of August and the final feedback of the Regulator is in progress at the moment.

Perspectives

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

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

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

Deposit guarantee scheme and Resolution mechanism

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

- 2014/59
- 2014/49.

which respectively established:

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

The introduction of the two above mentioned directives had a direct impact on the Bank, which was called to contribute to the Resolution Fund paying an amount of EUR 6,775,148 concerning 2023 and to contribute to the Fonds de Garantie des Dépôts (FGDL) paying an amount of EUR 3,260.

Financial elements for 2023

Total assets as at 31 December 2023 stood at EUR 22.2 billion (31 December 2022: EUR 18.4 billion).

Loans and advances to credit institutions (including balances with central banks) amounted to EUR 10.4 billion as at 31 December 2023, showing an higher amount than at 31 December 2022 (EUR 6.9 billion). Loans and advances granted to customers other than credit institutions amounted to EUR 7.7 billion as at 31 December 2023 (EUR 8.0 billion as at 31 December 2022).

Financial assets held for trading are mainly composed of derivative financial instruments measured at their fair value and amounted to EUR 3.6 million at 31 December 2023 (31 December 2022: EUR 1.8 million). Those are mainly composed of cross currency interest rate swaps and foreign exchange derivative contracts.

Financial instruments measured at Fair Value through Other Comprehensive Income (FVTOCI), which amounted to EUR 3.8 billion as at 31 December 2023 (31 December 2022: EUR 3.0 billion), are composed of sovereign debt securities for an amount of EUR 1.4 billion, debt securities issued by the other public entities for an amount of EUR 0.1 billion and other bonds for an amount of EUR 2.2 billion.

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

Deposits from customers amounted to EUR 3.0 billion at end of the year (31 December 2022: EUR 2.2 billion). The Bank also issued debt certificates for an amount of EUR 10.5 billion as at 31 December 2023 (31 December 2022: EUR 7.5 billion) composed as follows:

- certificates of deposit: EUR 2,6 billion (mainly subscribed by Intesa Sanpaolo Holding International S.A., the Bank's local Parent Company);
- non-convertible bonds: EUR 7,9 billion, which are part of a European Commercial Paper program and of the European Medium Term Notes program described herein.

The net profit for the year amounted to EUR 131.3 million as at 31 December 2023 (2022: loss of EUR 153.8 million).

Net interest income amounted to EUR 176.1 million at the end of 2023 (2022: EUR 130.5 million). Interest income and expenses are mainly focused on the corporate lending activity and the increase in value is linked to both the increase in volumes and the increase of the interest rate experienced during the year.

Net fee and commission income was positive and amounted to EUR 45.5 million as at 31 December 2023, showing a decrease compared to 2022 amount (EUR 44.4 million).

Net unrealised gains on financial assets and liabilities held for trading amounted to EUR 7.2 million as at 31 December 2023 (31 December 2022: loss of EUR 14.1 million). The gain, compared to last year loss, is mainly due to NPV trend of derivatives contracts during 2023 and differentials paid during the year.

Net realised gains on financial assets and liabilities not at fair value through profit or loss amounted to EUR 6.9 million as at 31 December 2023 (31 December 2022: gain of EUR 16.2 million) mainly due to realised gains on the sale of several assets measured at FVTOCI.

Total administrative expenses amounted to EUR 54.2 million, higher than 2022 administrative expenses (EUR 49.2 million).

Impairment losses on financial assets amounted to EUR 7.6 million (as at 31 December 2022 amounted to EUR 333.5 million due to the impact of Russia and Ukraine crisis).

Due to the implementation of IFRS 16 principle, which came into force starting from 1 January 2019, the Bank booked depreciations for EUR 1.9 million in 2023 (31 December 2022: EUR 2.1 million), mainly due to operating leases on real estate location contracts.

Provisions booked in relation to current income taxes are mainly linked to the new horizontal fiscal consolidated financial statements between the Bank, its direct Parent Company Intesa Sanpaolo Holding S.A. and the other Luxembourg entities of the Group at the end of 2023. The entities also set up a tax sharing agreement based on which the Bank booked a tax expense of EUR 43.3 million as at 31 December 2023.

The Bank booked deferred tax assets and deferred tax liabilities generated as at 31 December 2023. Deferred taxes are provided on temporary differences at the reporting date between assets and liabilities evaluated at fair value. They are measured at the tax rate that is expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

The Board of Directors will propose the following allocation to the Annual General Meeting, which will be held to approve the financial statements as at 31 December 2023.

	EUR
Net profit of 2023 financial year	131,256,458
Retained profit from previous year (excluding FTA and reclassification from revaluation reserves)	104,244,839
Amount attributable to shareholders	**235,501,297**
Allocation to legal reserve (5% net profit)	6,562,823
Allocation to the NWT reserve	17,700,000
Dividend for financial year (~ 61% of the net profit)	80,000,000
Total	**104,262,823**
Retained profit carried forward	**131,238,474**

Subsequent events

In addition to the warranty contract "First Ranking Account Pledge Agreement" (granted by Intesa Sanpaolo Holding International SA (the "Parent Company") in January 2016 in relation to a subordinated loan issued by Banca Intesa Russia and subscribed by Intesa Sanpaolo Bank Luxembourg SA for an amount of USD 40 mln) and in relation to an evolution of the geopolitical situation, the Bank signed on 23rd February 2024, a complementary "First Ranking Account Pledge Agreement" guarantee contract with the Parent Company in order to cover any further risk inherent to loans granted in the previous years to Banca Intesa Russia by the Bank for a total amount of EUR 84 million.
The guarantee is executable at the discretion of the Bank on the basis of the evolution of the context.

The Bank is not aware of any adjusting event that would have occurred between 31 December 2023 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 2023. No research and development costs have been sustained during the year 2023.

Risks, uncertainties and impacts

Covid-19

With regard to safety and personal protection measures related to the COVID-19 pandemic, a substantial departure from the prudential approach maintained even in the face of the cessation of the state of emergency was ordered.

As a result, internal regulations on interpersonal spacing were suspended, resulting in the minimum distance of one meter being exceeded for all in-person activities, with a return to the maximum ordinary capacities provided based on the configuration of spaces.

The requirement for home isolation in case of positives has been abolished, replaced by the recommendation of a generally valid set of precautions to prevent the transmission of respiratory infections . Consequently, the obligation to report positive cases has disappeared.

Conflict between Russia and Ukraine

Please refer to dedicated section in Note 3.

Conflict between Israel and Palestine

Please refer to dedicated section in Note 3.

Conclusion

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

Luxembourg, 27 February 2024

Ivan Caliandro
Chief Financial Officer

Massimo Torchiana
Administrateur Délégué & CEO

Ernst & Young
Société anonyme

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

Tel: +352 42 124 1

www.ey.com/luxembourg

B.P. 780
L-2017 Luxembourg

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

Independent auditor's report

To the Board of Directors of
Intesa Sanpaolo Bank Luxembourg S.A.
28, Boulevard de Kockelscheuer
L - 1821 Luxembourg

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Intesa Sanpaolo Bank Luxembourg S.A. (the "Bank"), which comprise the statement of financial position as at 31 December 2023, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2023, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession ("Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under the EU Regulation N° 537/2014, the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the "Responsibilities of the "réviseur d'entreprises agréé" for the audit of the financial statements" section of our report. We are also independent of the Bank in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Building a better
working world

Key audit matters

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

Impairment of loans and advances to customers

As at 31 December 2023, loans and advances to customers amounts to EUR 7,683,649,624 representing 35% of the total assets net of EUR 133,781,952 of loss allowances. Assessing whether impairment on loans and advances to customers need to be recorded, require significant judgments, such as the identification of credit exposures that are deteriorating, the review and monitoring of customers' staging, the consideration of the forward-looking macro-economic scenarios, their probabilities and impacts, the estimation of expected credit losses as per IFRS 9 and of the recoverable value of credit exposures.

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

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

Please refer to notes 3, 7 and 23 of the financial statements for further information on the impairments of loans and advances to customers.

<u>How the matter was addressed in our audit</u>

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

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

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

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

At the Group level we involved our financial risk management specialists to challenge key assumptions and judgements made by management relating to the IFRS 9 expected credit loss model and evaluated

the reasonableness of management's key judgements and estimates made in preparing adjustments (including the forward-looking macro-economic scenarios and their probabilities).

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

Other information

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

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

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

Responsibilities of the Board of Directors for the financial statements

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

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

Building a better working world

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

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

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

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

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

Building a better
working world

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on other legal and regulatory requirements

We have been appointed as “réviseur d’entreprises agréé” by the Board of Directors on 23 March 2023 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 3 years.

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

The corporate governance statement, included in the management report, is the responsibility of the Board of Directors.

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

Ernst & Young
Société anonyme
Cabinet de révision agréé

Papa Saliou Diop

Luxembourg, 11 March 2024

Intesa Sanpaolo Bank Luxembourg S.A.

Statement of financial position
31 December 2023
(expressed in EUR)

<u>Assets</u>	Notes	31.12.2023	31.12.2022
Cash and cash balances with central banks	**3, 4**	**2,132,393,390**	**1,303,175,105**
Financial assets at fair value through profit or loss ("FVTPL")	**3, 5**		
Financial assets held for trading		3,566,300	1,804,034
Financial assets mandatorily at fair value		333,840	400,214
		3,900,140	**2,204,248**
Financial assets at fair value through other comprehensive income ("FVTOCI")	**3, 6**	**3,753,965,402**	**2,994,980,170**
Loans and advances	**3, 7**		
Loans and advances to credit institutions		8,255,406,931	5,564,965,464
Loans and advances to customers		7,683,649,624	7,995,418,925
		15,939,056,555	**13,560,384,389**
Derivatives held for hedging	**3, 12**	**241,967,640**	**404,038,445**
Property, equipment and right-of-use assets	**8**	**6,648,974**	**10,169,669**
Deferred tax assets	**9**	**11,458,578**	**18,047,157**
Other assets	**3, 10**	**81,542,458**	**72,972,831**
Non-current assets held-for-sale and disposal groups	**3, 32**	**1,711,186**	**-**
TOTAL ASSETS		**22,172,644,323**	**18,365,972,014**

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

Statement of financial position
31 December 2023
(expressed in EUR)

Liabilities and equity	Notes	31.12.2023	31.12.2022
Financial liabilities held for trading	**3**	**4,320,714**	**24,260,166**
Financial liabilities at amortised cost	**3, 8, 11**		
Deposits from credit institutions		5,925,398,930	6,087,741,029
Deposits from customers		3,047,125,763	2,237,404,314
Debts evidenced by certificates		10,477,243,950	7,539,765,767
		19,449,768,643	**15,864,911,110**
Derivatives held for hedging	**3, 12**	**71,252,287**	**15,681,046**
Provisions	**13**	**7,665,716**	**14,097,886**
Current tax liabilities	**9**	**296,845**	**-**
Deferred tax liabilities	**9**	**328,374**	**366,289**
Other liabilities	**10**	**70,112,032**	**24,240,461**
Liabilities associated with disposal group	**32**	**1,300,252**	**-**
TOTAL LIABILITIES		**19,605,044,863**	**15,943,556,958**
Equity	**14**		
Share capital		1,389,370,555	1,389,370,555
Share premium		7,720,692	7,720,692
Revaluation reserve		(31,154,047)	(44,942,013)
Other reserves and retained earnings		1,070,405,802	1,224,093,582
Net profit (loss) for the year		131,256,458	(153,827,760)
TOTAL EQUITY		**2,567,599,460**	**2,422,415,056**
TOTAL LIABILITIES AND EQUITY		**22,172,644,323**	**18,365,972,014**

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

Statement of profit or loss
31 December 2023
(expressed in EUR)

	Notes	2023	2022
CONTINUING OPERATIONS:	**15**		
Interest and similar income		921,015,667	287,546,133
Interest and similar charges		(744,928,443)	(157,045,542)
Net interest income		**176,087,224**	**130,500,591**
	16		
Fee and commission income		68,108,586	65,980,345
Fee and commission expenses		(22,606,419)	(21,609,030)
Net fee and commission income		**45,502,167**	**44,371,315**
Dividend income	**17**	**29,209**	**29,029**
Net gains/(losses) on financial assets and liabilities held for trading	**18**	**7,164,195**	**(14,111,743)**
Net gains/(losses) on financial assets and liabilities held for hedging		**678,407**	**(1,037,760)**
Net gains/(losses) on financial assets and liabilities at fair value through profit or loss	**19**	**94,889**	**(47,232)**
Net gains/(losses) on financial assets and liabilities not at fair value through profit or loss	**20**	**6,870,002**	**16,280,829**
Net other operating expenses	**21**		
Other operating income		89,834	71,042
Other operating expenses		(2,335,267)	(3,990,984)
		(2,245,434)	**(3,919,942)**
Administrative expenses	**22**	**(54,244,463)**	**(49,166,124)**
Depreciation of property, equipment and right-of-use assets	**8**	**(1,937,645)**	**(2,136,938)**
Provisions	**13**	**6,332,777**	**(10,727,799)**
Net impairment result on financial assets	**23**	**(7,577,912)**	**(333,477,587)**
Other extraordinary income	**3**	**-**	**15,000,000**
PROFIT (LOSS) BEFORE TAX		**176,753,416**	**(208,443,361)**
Tax (expense)/income related to profit from continuing operations	**9, 10**	**(44,692,015)**	**54,615,601**
Discontinued operations	**31**	**(804,943)**	**-**
NET PROFIT (LOSS) FOR THE YEAR		**131,256,458**	**(153,827,760)**

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

Statement of other comprehensive income
31 December 2023
(expressed in EUR)

	2023	2022
Net profit (loss) for the year	**131,256,458**	**(153,827,760)**
Other comprehensive income :		
Items that are or may be reclassified to profit or loss		
Net change in fair value on financial assets at fair value through other comprehensive income and expected credit losses before tax	18,369,259	(57,352,766)
Deferred tax relating to the components of other comprehensive income	(4,581,293)	14,303,779
Other comprehensive income (loss) for the year net of tax	**13,787,966**	**(43,048,987)**
Total comprehensive income (loss) for the year	**145,044,424**	**(196,876,747)**

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

Statement of changes in equity

31 December 2022

(expressed in EUR)

	Share capital	Share premium	Revaluation reserve	Reserves			Total Reserve and retained earnings	Profit of the year before appropriation	Total
				Legal reserve	Other reserves	Retained earnings			
Note	**15**	**15**	**6, 15**	**15**	**15**	**15**		**15**	
Balance as at 1st January 2022	**1,389,370,555**	**7,720,692**	**(1,893,026)**	**80,448,991**	**836,524,575**	**146,519,339**	**1,063,492,905**	**160,844,424**	**2,619,535,550**
Total comprehensive income	-	-	(43,048,987)	-	-	-	-	(153,827,760)	**196,876,747**
Transfers and appropriation of prior year's profit	-	-	-	8,042,221	18,000,000	134,802,203	160,844,424	(160,844,424)	-
Dividend for the financial year	-	-	-	-	-	-	-	-	-
Foreign translation difference	-	-	-	-	-	(243,747)*	(243,747)*	-	**(243,747)***
Capital decrease	-	-	-	-	-	-	-	-	-
Capital increase	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2022	**1,389,370,555**	**7,720,692**	**(44,942,013)**	**88,491,212**	**854,524,575**	**281,077,795**	**1,224,093,582**	**(153,827,760)**	**2,422,415,056**
Balance as at 1st January 2023	**1,389,370,555**	**7,720,692**	**(44,942,013)**	**88,491,212**	**854,524,575**	**281,077,795**	**1,224,093,582**	**(153,827,760)**	**2,422,415,056**
Total comprehensive income	-	-	13,787,966	-	-	-	-	131,256,458	**145,044,424**
Transfers and appropriation of prior year's profit	-	-	-	-	17,500,000	(171,327,760)	(153,827,760)	(153,827,760)	-
Dividend for the financial year	-	-	-	-	-	-	-	-	-
Foreign translation difference	-	-	-	-	-	139,981*	139,981*	-	**139,981***
Capital decrease	-	-	-	-	-	-	-	-	-
Capital increase	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2023	**1,389,370,555**	**7,720,692**	**(31,154,047)**	**88,491,212**	**872,024,575**	**109,890,016**	**1,070,405,803**	**131,256,458**	**2,567,599,460**

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

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

Statement of cash flows
For the year ended 31 December 2023
(expressed in EUR)

	Notes	31.12.2023	31.12.2022
(Loss) / Profit of the year – net of tax		**131,256,458**	**(153,827,760)**
Tax (income) / loss		44,692,015	(54,615,601)
Discontinued operation			
(Loss) / Profit of the year – gross of tax		**175,948,473**	**(208,443,361)**
Adjustments:			
Depreciation / amortization	8	1,937,645	2,136,938
Impairment for financial assets	23	58,726,494	339,210,400
Reversal of financial assets impairment	23	(51,148,583)	5,732,813
Provisions and other income/expenses	13	(6,332,777)	10,727,799
Fair value adjustments		112,932,494	(202,980,115)
Cash flows from operating profits before changes in operating assets and liabilities		**292,063,746**	**(65,081,153)**
Net (Increase)/decrease in trading assets		(1,762,266)	1,548,548
Net (Increase)/decrease in loans and advances to credit institutions		(2,284,165,103)	(895,768,575)
Net (Increase)/decrease in loans and advances to customers		305,208,564	628,387,951
Net (Increase)/decrease in financial assets at FVTOCI		(742,619,933)	643,255,676
Net (Increase)/decrease in derivatives held for hedging		104,775,926	(186,394,004)
Net (Increase)/decrease in other assets		(8,569,627)	6,463,182
Net Increase/(decrease) in relation to leasing contracts	8	(1,837,301)	(18,858,867)
Net Increase/(decrease) in trading financial liabilities		(19,939,452)	(17,288,116)
Net Increase/(decrease) in deposits from credit institutions		(162,342,099)	1,258,901,542
Net Increase/(decrease) in deposits from central banks		-	(1,984,444,766)
Net Increase/(decrease) in deposits from customers		814,447,111	(757,562,454)
Net Increase /(decrease) in current taxes		296,845	-
Net Increase/(decrease) in financial liabilities at FVTPL & in other liabilities		2,436,086	(1,022,210)
Net cash flows from/(used in) operations activities from discontinued operations		-	(386,730,266)
Net cash flows from/(used in) operating activities		**(1,702,007,504)**	**(1,774,593,512)**
Dividends received		29,029	29,029
Acquisition and disposal of property and equipment	8	(5,059)	(2,120,287)
Net cash flows from/(used in) investing activities from discontinued operations		-	-
Net cash flows/(used in) from investing activities		**23,970**	**(2,091,258)**
Dividends paid		-	-
Net increase/(decrease) in debts evidenced by certificates	11	2,937,478,183	382,084,144
Net cash flows/(used in) from financing activities		**2,937,478,183**	**382,084,144**
Net (decrease)/increase in cash and cash equivalents		**1,235,494,649**	**(1,394,600,626)**

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

Statement of cash flows

For the year ended 31 December 2023
(expressed in EUR)

	31.12.2023	31.12.2022
Cash and cash equivalents at the beginning of the year	**4,440,434,430**	**5,835,035,056**
Net increase/decrease in cash and cash equivalents	1,235,494,649	(1,394,600,626)
Cash and cash equivalents: exchange rate fluctuations		
Cash and cash equivalents at the end of the year	**5,675,929,079**	**4,440,434,430**

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

Note 1 – General information

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

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

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

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

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

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

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

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

On 1 October 2018, the Bank issued a subordinated loan of EUR 200,000,000 subscribed by Intesa Sanpaolo Holding International S.A.. The subordinated loan matures on 2 October 2028.
As at 31 December 2020, 100% of the Bank share capital is owned by Intesa Sanpaolo Holding International S.A..

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

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

These financial statements were authorised for submission to the Shareholders' Annual General Meeting by the Bank's Board of Directors on 27 February 2024.

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

Note 2 – Material Accounting Policy Information

(a) Basis of preparation

Statement of compliance

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

(b) Significant accounting judgements, estimates and assumptions

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

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

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

Fair value of financial instruments

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

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

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

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

Note 2 – Material Accounting Policy Information (continued)

Fair value of financial instruments (continued)

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

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

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

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

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

Impairment losses on financial assets

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

Classification of financial assets and liabilities

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

Valuation of unquoted equity investments and credit exposures

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

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

Note 2 – Material Accounting Policy Information (continued)

Valuation of unquoted equity investments and credit exposures (continued)

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

(c) Changes in accounting policies

The IFRS applied in these illustrative financial statements are those effective for annual periods beginning on or after 1 January 2023, unless otherwise stated. The following standard and amendments became effective as at 1 January 2023:

- IFRS 17 Insurance Contracts;
- Definition of Accounting Estimates – Amendments to IAS 8;
- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2;
- Deferred Tax related to Assets and Liabilities arising from Single Transaction – Amendments to IAS 12;
- International Tax Reform – Pillar II Model Rules – Amendments to IAS 12:

The amendments to IAS 12 have been introduced in response to the OECD's BEPS Pillar II rules and include:

- a mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar II model rules;
- disclosure requirements for the affected entities to help users of the financial statements better understand an entity's exposure to Pillar II income taxes arising from that legislation, particularly before its effective date.

In periods in which Pillar II legislation is (substantially) enacted but not yet effective, the amendment requires disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar II income taxes including both qualitative and quantitative information about its exposure to Pillar II income taxes at the end of the reporting period.

Once the legislation is effective, additional disclosures are required for the current tax expense related to Pillar II income taxes. The requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023.

The Bank has reviewed its corporate structure in light of the introduction of Pillar II Model Rules and it has determined that it will not be subject to Pillar II taxes once the legislation becomes effective since its effective tax rate is above 15%. Therefore, as the related Pillar Two disclosures are not required, the amendments will have no impact on the Bank financial statements at 31 December 2023.

In accordance with International Financial Reporting Standards (IFRS), it is noted that other changes to IFRS standards during the year did not exert a significant impact on the Bank's financial statements.

Note 2 – Material Accounting Policy Information (continued)

Standards issued but not yet effective

The following new and amended standards and interpretations that are issued, but not yet effective, will not have material impact on the Bank's financial statements:

• Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants – Amendments to IAS 1	1 January 2024
• Lease Liability in a Sale and Leaseback – Amendments to IAS 16	1 January 2024
• Disclosures: Supplier Finance Arrangements – Amendments to IAS 7 and IFRS 7	1 January 2024
• Lack of exchangeability – Amendments to IAS 21	1 January 2025
• Sale of Contribution of Assets between an Investor and its Associates or Joint Venture – Amendments to IFRS 10 and IAS 28	N/A

(d) Summary of significant accounting policies

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

Foreign currency translation

Please find below a table presenting the main foreign exchange rates used as at 31 December 2023 and 2022:

Ex.rate/Euro	**31.12.2023**	**31.12.2022**
USD	1,1050	1,0666
GBP	0,8690	0,8869
CHF	0,9269	0,9847

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.

Note 2 – Material Accounting Policy Information (continued)

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

Financial assets and Financial liabilities

(i) Recognition and initial measurement

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

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

(ii) Classification

Financial assets

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

A financial asset is measured at amortised cost if it meets both the following conditions and is not designated at FVTPL:

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Note 2 – Material Accounting Policy Information (continued)

Business model assessment

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

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

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

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

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

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

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

Reclassifications

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

Note 2 – Material Accounting Policy Information (continued)

Financial liabilities

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

(iii) Derecognition

Financial assets

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

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

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

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

Financial liabilities

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

(iv) Offsetting

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

Note 2 – Material Accounting Policy Information (continued)

Financial assets at fair value through profit or loss

Assets and liabilities held for trading

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

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

Designation at fair value through profit or loss

Financial assets

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

Financial liabilities

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

Loans and advances

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

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

Financial assets at FVTOCI

The financial assets at FVTOCI in the statement of financial position include:
- Debt investment securities measured at amortised cost: these are initially measured at fair value plus incremental transaction costs, and subsequently at their amortised cost using the effective interest rate;
- Debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL: these are at fair value with changes recognised immediately in profit or loss;
- Debt securities measured at FVTOCI; and
- Equity investment securities designated at FVTOCI;

Note 2 – Material Accounting Policy Information (continued)

- Loans belonging to the “Originate to share” deals, where a syndicated loan is either originated by the Bank or by a third-party with the intent to distribute a quota on the primary or post-primary market and holding the rest. If there is the willingness and the possibility to sell to third-parties a part of the loan, that amount is designated at FVTOCI.

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

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

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

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

Financial liabilities other than held for trading and hedging

(i) Classification

The Bank classifies its financial liabilities other than derivatives in the following categories: financial liabilities measured at amortised cost and financial liabilities at fair value through profit or loss. The Bank uses the fair value option either when:
- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring liabilities or recognising the gains and losses on them on different bases; or
- a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and
- information about the Bank is provided internally on that basis to the entity’s key management personnel.

(ii) Initial recognition and subsequent measurement

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

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

Note 2 – Material Accounting Policy Information (continued)

(iii) Derecognition

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

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

Derivative financial instruments

(i) Classification

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

(ii) Initial recognition and subsequent measurement

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

(iii) Embedded derivatives

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

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

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

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

Note 2 – Material Accounting Policy Information (continued)

(iv) Trading

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

(v) Hedge accounting

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

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

On initial designation of the hedge, the Bank formally documents:
- the relationship between the hedging instruments and the hedged items;
- the risk management objectives and strategies in undertaking the hedge; and
- the method that will be used to assess the effectiveness of the hedging relationship.

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

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

<u>Fair value hedges</u>

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.

Note 2 – Material Accounting Policy Information (continued)

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

(vi) Derecognition

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

Financial guarantee contracts and loan commitments

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

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- the amount determined in accordance with the impairment provisions of IFRS 9;
- the premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

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

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

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

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

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.

Note 2 – Material Accounting Policy Information (continued)

Impairment of financial assets

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

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

No impairment loss is recognised on equity investments.

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

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

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

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

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

Measurement of ECL

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Restructured financial assets

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

Note 2 – Material Accounting Policy Information (continued)

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

Credit-impaired financial assets

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

Evidence that a financial asset is credit-impaired includes the following observable data:

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

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

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

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

Note 2 – Material Accounting Policy Information (continued)

Presentation of allowance for ECL in the statement of financial position

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

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

Write-off

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

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

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

Non-integral financial guarantee contracts

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

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's group.

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

Note 2 – Material Accounting Policy Information (continued)

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

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

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

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

Property, equipment and right-of-use assets

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

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

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

Note 2 – Material Accounting Policy Information (continued)

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

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

Operating leases

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

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

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

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

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

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

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

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

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

Note 2 – Material Accounting Policy Information (continued)

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

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

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

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

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

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

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

- real estate;
- and vehicles.

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

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

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

Note 2 – Material Accounting Policy Information (continued)

Short-term and leases of low-value assets

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

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

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

Other assets

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

Impairment of non-financial assets

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

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

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

Note 2 – Material Accounting Policy Information (continued)

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

Cash and cash equivalents

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

Cash and cash equivalents include the following 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.

Note 2 – Material Accounting Policy Information (continued)

Share-based payment transactions

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

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

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

- equity-settled;
- cash-settled.

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

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

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

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

Note 2 – Material Accounting Policy Information (continued)

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

Provisions

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

Other liabilities

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

Discontinued operations

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

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

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

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

Interest income and expense

<u>Effective interest rate</u>

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

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

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

Note 2 – Material Accounting Policy Information (continued)

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

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

Amortised cost and gross carrying amount

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

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

Calculation of interest income and expense

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

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

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

Presentation

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

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVTOCI; and

Note 2 – Material Accounting Policy Information (continued)

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

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

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

Fee and commission income

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

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

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

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

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

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

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

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

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

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

Dividend income

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

Note 2 – Material Accounting Policy Information (continued)

Income Tax

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

Current income tax

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

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

Deferred income tax

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

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

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

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

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

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

Note 2 – Material Accounting Policy Information (continued)

Segment reporting

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

Note 3 – Financial risk management

(a) Introduction and overview

The Bank governing body (Board of Directors), supported by specific Committees, defines the "risk profile" at Group level for all the Group entities. The Bank 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 Bank and to provide a transparent portfolio risk representation. The risk policy is consequently aimed to achieve an appropriate balance between risk and return.

The local Risk Management unit operates under the direction of the Chief Risk Officer and applies the Group business strategies and objectives, defines scopes and methods to manage risks:
- assures different types of risk measurement and controls i.e. market, interest rate, liquidity and operational risks following specific policies;
- revalues the Bank assets according to mark-to-market and fair value principle defined in a "Fair Value Policy" issued at Group level;
- measures financial risks in the banking book and assures that the local limits stated by the Parent Company are respected. A periodic reporting is made to the Parent Company;
- provides the relevant reports to the Parent Company, the Risk Committee, the Audit Committee, the Board of Directors, the General Management and to the Assets/Liabilities Committee.

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

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

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

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

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

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

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

Note 3 – Financial risk management (continued)

(b) The impact of the military conflict between Russia and Ukraine

In the face of the continuing military conflict between Russia and Ukraine, the safeguards within the Group that had been activated in the aftermath of the outbreak in February 2022, detailed in Note 3 of the 2022 Financial Statements to which we therefore refer, were not alleviated during 2023.

The Task Force - "Risk Management and Control" continued to meet with the aim, among others, of preparing appropriate briefings for top management that are also shared with the ECB's Joint Supervisory Team (JST) as needed.

The situation remains monitored both at the Parent Company level and in all Group banks directly involved in the conflict or close to it, with which contacts are direct and uninterrupted.

Adequate information is also always prepared for the endoconsiliar committees and the Board of Directors.

The Risk Management and Control Task Force and the Crisis Unit

The 2022 Consolidated Annual Report had accounted for all the major actions put in place since the beginning of the emergency both from an operational point of view and with specific regard to credit risk monitoring, particularly under the Credit Action Plan.

With reference to 2023, there are no significant new developments to report: in continuity with what has already taken place since the second half of 2022, no specific initiatives have been activated as part of the Credit Action Plan dedicated to the conflict between Russia and Ukraine. However, specific diagnostic initiatives are still underway, as part of the prevention of impaired credit flows for positions that show criticality even in the absence of overdrafts, on companies in the energy and gas sectors that are particularly sensitive to fluctuations in the cost of energy also connected to the current geopolitical crisis.

In the face of the further tightening of the already heavy sanctions imposed on Russia by Western countries, in order to ensure the oversight of regulatory compliance, the monitoring, initiated in 2022, continued through a specific dashboard at the Group level aimed at presiding over the evolution of the lists of sanctioned entities at the European and international level, identifying sanctioned entities for the purpose of blocking positions and payments, complying with the specific provision on the prohibition of accepting deposits above the threshold defined by European regulations, and identifying and blocking financial instruments subject to sanctions.

Since the beginning of the conflict, the Group has been continuing to closely monitor the evolution of the fallout of the Russian-Ukrainian crisis on the real economy and on the main financial variables, also conducting specific scenario and stress analyses with which the potential impacts in terms of profitability and capital adequacy are assessed. Although the picture is constantly evolving, excluding extreme scenarios of conflict escalation that could lead to outcomes that are difficult to assess, these analyses confirm the Group's ability to ensure - including through the activation of specific actions - compliance with regulatory constraints and the more stringent limits set internally.

Note 3 – Financial risk management (continued)

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

During the year, in connection with the Group, the Bank continued to active steps to significantly reduce the credit risks associated with the Russian-Ukrainian conflict and the Bank has been directly involved in the disposal of one counterparty and the reimbursement of two exposures with a decrease of assets for a total amount of EUR 77 million.

Off-balance sheet exposures were also further reduced for an amount of EUR 233 million.

In terms of profit and loss impact, the application IFRS 9 to measure the credit risk generated a further negative net impact of EUR 3 million. With regard to the 2022 income statement, it should be recalled that the valuation processes defined at that time had led to the recognition of adjustments, before tax effects, totaling EUR 332 million.

Those significant adjustments and the above-mentioned sales/transactions therefore resulted in an exposure (net of ECA and Intragroup guarantees) to counterparties resident in Russia of EUR 0.4 billion as at 31 December 2023, lower than the amount of EUR 0.6 billion euro as at 31 December 2022.

As at 31 December 2023 the Bank has in its name a deposit account belonging to the “S account” category (as set forth by the applicable Russian sanctions countermeasures), denominated in Roubles, for an amount of 17.9 million EUR equivalent (as at 31 December 2022: EUR 20.9 million); this deposit account has been mandatorily opened (in compliance with the applicable Russian sanctions countermeasures) by one of the Bank’s related parties located in Russia, which has transferred to this deposit account, inter alia, amounts due to the Bank in respect of intercompany loans’ principal reimbursement and interest payment.

The Bank has legal rights to receive these amounts, but their repatriation is subject to the authorization from Russian authorities to demobilize the “S Account”.

The Bank did not impair the value of such receivables because the above mentioned constraints did not affect the credit risk profile of the Russian-located intragroup counterparty; on the other hand, the carrying amount has been adjusted to incorporate the financial effects of the abovementioned limitations.

The Group confirmed the valuation approach guided by the emergence of so-called "transfer" geopolitical risk (an approach applied both for the purpose of determining SICR and related classification at Stage 2, and for the purpose of calculating ECL through the application of adjustments on a managerial basis) in order to better incorporate provisions related to country and geopolitical risk related to the ongoing conflict that would otherwise not be adequately captured by the risk measurement systems normally in use. At the same time, ratings related to the highest risk class already assigned to the most significant counterparties exposed to conflict-related country risk were maintained.

In light of substantially unchanged valuation choices with respect to the 2022 Financial Statements and collections, as mentioned above the Bank contained the impact on loans in the income statement during 2023.

Note 3 – Financial risk management (continued)

(c) Israel and Palestine crisis impact

In relation to the escalation of the crisis between Israel and Palestine, the Bank did not suffer any direct impact. As at 31 December 2023 the only linked exposure is represented by one bond which belongs to the investment portfolio of the Bank and issued by the Israel Government.

The nominal value of the bond amounted to EUR 35,000,000 with a fair value of EUR 27,147,362 and classified in the HTCS category.

(d) 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:

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

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

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

Credit risk is assessed by reviewing:

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

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

Note 3 – Financial risk management (continued)

(i) Credit quality analysis

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

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

The table below details the amount of loss allowances by stage and type of exposure as at 31 December 2023 and 2022:

2023

(in EUR)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances	11,852,951	125,695,319	958,691	**138,506,961**
Off balance sheet exposures	757,079	4,582,582	-	**5,339,661**
Financial assets at FVTOCI	1,097,380	1,078,125	-	**2,175,505**
IFRS 9 Loss allowance	**13,707,410**	**131,356,026**	**958,691**	**146,022,127**
Total exposures	**17,853,878,434**	**6,272,937,135**	**958,691**	**24,127,774,260**
Coverage rate	***0,08%***	***2,09%***	***100,00%***	***0,61%***

2022

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

Note 3 – Financial risk management (continued)

The following table shows the distribution of loss allowance calculated on loans and advances as at 31 December 2023 and 2022 by level of risk and stages, specifying the amount of impairment calculated in relation to each bucket.

	2023			
(in EUR)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to credit institutions at AC				
Grades A: Low-fair risk	8,244,158,311	9,300,917	-	**8,253,459,228**
Grades B: Medium risk	-	5,564	-	**5,564**
Grades C: Higher risk	5,561,673	1042,977	-	**6,604,650**
Grades D: UR (“Unrated”)	62,498	-	-	**62,498**
Grades E: Credit-impaired	-	-	-	**-**
Loss allowance	(4,587,846)	(137,163)	-	**(4,725,009)**
Carrying amount	**8,245,194,636**	**10212,295**	**-**	**8,255,406,931**

	2023			
(in EUR)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers at AC				
Grades A: Low-fair risk	2,563,194,920	10,231,244	-	**2,573,426,164**
Grades B: Medium risk	746,346,261	1,423,256	-	**747,769,517**
Grades C: Higher risk	315,902,548	1,377,522,284	-	**1,693,424,832**
Grades D: UR (“Unrated”)	1,038,830,431	1,763,021,941	-	**2,801,852,372**
Grades E: Credit-impaired	-	-	958,691	**958,691**
Loss allowance	(7,265,105)	(125,558,156)	(958,691)	**(133,781,952)**
Carrying amount	**4,657,009,055**	**3,026,640,569**	**-**	**7,683,649,624**
Total amount loans and advances				**15,939,056,555**
Including loss allowances:				*(138,506,961)*

Note 3 – Financial risk management (continued)

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

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

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

Comparison between 2023 and 2022 tables highlights some shifts between stages and grades:

- Loans and advances to credit institutions: significant shifts have been generated by the ordinary interbank activity and, concerning the increase observed in grade C - stage 1, by a new transaction finalized in 2023;
- Loans and advances to customers: significant shifts have been mainly generated by changes in stages from 2 to 1 and, concerning grade D – stage 1 decrease, by one counterparty's stage which changed from 1 to 2.

Note 3 – Financial risk management (continued)

The following table shows the distribution of loss allowances calculated on guarantees, loan commitments and uncommitted off balance sheet items as at 31 December 2023 and 2022 by level of risk and stages, specifying the amount of impairment calculated in relation to each bucket.

	2023			
(in EUR)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial guarantees, loan commitments and uncommitted credit lines				
Grades A: Low-fair risk	2,237,422,616	48,129,548	-	**2,285,552,164**
Grades B: Medium risk	870,141,754	12,093,909	-	**882,235,663**
Grades C: Higher risk	45,550,785	378,332,586	-	**423,883,371**
Grades D: UR ("Unrated")	193,081,250	2,672,911,031	-	**2,865,992,281**
Grades E: Credit-impaired	-	-		
Loss allowance	(757,079)	(4,582,582)	-	**(5,339,661)**
Carrying amount	**3,345,439,326**	**3,106,884,492**	**-**	**6,452,323,818**
Financial guarantees, loan commitments and uncommitted credit lines				**6,457,663,479**
Uncommitted off balance sheet items				(1,469,013,371)
Financial guarantees and loan commitments				**4,988,650,108**

Comparison between 2023 and 2022 tables highlights some shifts between stages and grades in particular concerning stage 2 amounts which decrease mainly due to some transactions closed and draw downs performed during 2023.

Note 3 – Financial risk management (continued)

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

Financial guarantees, loan commitments and uncommitted credit lines	**7,166,888,634**
Uncommitted off balance sheet items	(3,788,029,587)
Financial guarantees and loan commitments	**3,378,859,047**

Note 3 – Financial risk management (continued)

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

	2023			
(in EUR)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial assets at FVTOCI				
A	138,952,685	-	-	**138,952,685**
A-	490,691,188	-	-	**490,691,188**
A+	73,009,571	-	-	**73,009,571**
AA	176,424,609	-	-	**176,424,609**
AA+	107,058,363	-	-	**107,058,363**
AA-	596,799,569	-	-	**596,799,569**
AAA	774,803,010	57,236,401	-	**832,039,410**
B+	-	8,764,732	-	**8,764,732**
BB+	39,554,079	-	-	**39,554,079**
BBB	858,432,646	-	-	**858,432,646**
BBB+	233,898,918	-	-	**233,898,918**
BBB-	198,339,633	-	-	**198,339,633**
Loss allowance	(1097,380)	(1,078,125)	-	**(2,175,505)**
Total amount net of loss allowance	**3,686,866,889**	**64,923,007**	**-**	**3,751,789,896**
Total amount gross of loss allowance	**3,687,964,269**	**66,001,133**		**3,753,965,402**

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

Note 3 – Financial risk management (continued)

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

(in EUR)	Transfers between Stage 1 & 2		Transfers between Stage 2 & 3		Transfers between Stage 1 & 3		No transfers	Total
	From 1 To 2	From 2 To 1	From 2 To 3	From 3 To 2	From 1 To 3	From 3 To 1		
Balance at 1 January 2023								**160,744,073**
New financial assets originated or purchased	-	-	-	-	-	-	56,258,613	56,258,613
Remeasurement of loss allowance – increase	4,935,978	1,200	-	-	-	-	35,083,700	40,020,878
Remeasurement of loss allowance – decrease	(5,436)	(1,325,875)	-	-	-	-	(25,689,666)	(27,020,977)
Write-offs and assets derecognized	-	-	-	-	-	-	(83,980,461)	(83,980,461)
Balance at 31 December 2023								**146,022,126**

	Transfers between Stage 1 & 2		Transfers between Stage 2 & 3		Transfers between Stage 1 & 3		No transfers	Total
	From 1 To 2	From 2 To 1	From 2 To 3	From 3 To 2	From 1 To 3	From 3 To 1		
Balance at 31 December 2021								**21,905,058**
Amsterdam branch disposal								(682,744)
Balance at 1 January 2022								**21,222,314**
New financial assets originated or purchased	-	-	-	-	-	-	8,561,916	**8,561,916**
Remeasurement of loss allowance – increase	100,145,465	103	-	-	22,560,423	-	14,443,957	**137,149,948**
Remeasurement of loss allowance – decrease	(5,019)	(803,440)	(2)	-	-	-	(701,010)	**(1,509,471)**
Write-offs and assets derecognized	-	-	-	-	-	-	(4,680,634)	**(4,680,634)**
Balance at 31 December 2022								**160,744,073**

During 2022, following the evolution of the crisis between Russia and Ukraine, the reassessments of the model performed to imply the consideration of new forward-looking elements, it has been observed a transfer of exposures from stage 1 to stage 2 and from stage 1 to stage 3 for two counterparties.

Note 3 – Financial risk management (continued)

Inputs, assumptions and methodology used for estimating impairment

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

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

In particular:

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

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

Note 3 – Financial risk management (continued)

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

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

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

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

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

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

Note 3 – Financial risk management (continued)

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

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

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

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

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

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

Including "forward-looking" information

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

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

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

Note 3 – Financial risk management (continued)

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

Briefly stated, this methodology provides that:

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

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

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

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

Note 3 – Financial risk management (continued)

Determination of forward-looking scenarios

Definition of the Most-likely + Add-on model

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

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

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

Forward looking – quantitative analysis

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

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

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

Note 3 – Financial risk management (continued)

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

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

In the period 2023-2026, the macroeconomic variables most relevant for the determination of the ECL and used for the Most likely scenario have compound annual growth rates for the period (CAGR) of +0.4% in 2024 for Real GDP Eurozone and +2.3% for Inflation Eurozone.

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

		Baseline				Improving scenario				Worsening scenario			
		2023	2024	2025	2026	2023	2024	2025	2026	2023	2024	2025	2026
Euro Area	Real GDP Eurozone (annual variation)	0,4%	0,4%	1,5%	1,6%	0,4%	1,1%	1,7%	1,9%	0,4%	-0,0%	0,6%	1,1%
	Inflation Eurozone (annual variation)	5,4%	2,3%	2,0%	1,9%	5,4%	2,4%	2,3%	2,0%	5,4%	2,2%	1,5%	1,7%
	EurIRS 3M	3,43	3,75	2,96	2,53	3,43	3,84	3,54	3,28	3,43	3,03	2,19	1,59
	EurIRS 10Y	3,08	3,12	3,41	3,72	3,08	3,22	3,73	4,15	3,08	2,74	2,87	3,13
	Euro/USD	1,08	1,11	1,13	1,15	1,08	1,10	1,13	1,15	1,08	1,11	1,15	1,15
Italia	Real GDP Italy (annual variation)	0,7%	0,7%	1,2%	1,0%	0,7%	1,1%	1,6%	1,4%	0,7%	-0,3%	0,3%	0,6%
	Italian Inflation (annual variation)	5,6%	1,9%	1,9%	1,9%	5,6%	2,0%	2,3%	2,1%	5,6%	1,7%	1,3%	1,5%
	Italian Real Estate prices (annual variation)	1,1%	0,6%	1,4%	2,1%	1,1%	1,5%	2,0%	2,6%	1,1%	-2,6%	-1,8%	-0,5%
	6-month BOT yield	3,5	3,5	2,8	2,5	3,5	3,5	3,3	3,2	3,5	2,8	2,0	1,6
	10-year BTP yield	4,2	4,1	4,5	5,2	4,2	4,0	4,7	5,4	4,2	3,9	4,2	5,0
	10-year BTP-Bund spread (basis points)	171	159	159	169	171	143	145	153	171	181	186	209
	Unemployment rate %	7,6	7,9	7,8	8,0	7,6	7,8	7,6	7,7	7,6	8,3	8,6	8,9
Commodities	Natural gas price (€/MWh)	43	35	30	26	43	35	31	26	43	35	28	25
	Oil price (BRENT)	82,4	80,0	78,0	76,0	82,4	80,8	83,1	79,0	82,4	79,0	71,6	70,2
USA	Real GDP (annual variation)	2,5%	1,5%	1,7%	1,9%	2,5%	2,1%	1,8%	2,3%	2,5%	0,5%	0,7%	1,9%
	Unemployment rate %	3,7	3,8	3,8	3,7	3,7	3,7	3,6	3,5	3,7	4,2	4,5	4,3

* *The scenarios were elaborated in December 2023 by the Study and Research Department of the Intesa Sanpaolo Group. Forecast data and estimates for 2022*

The estimations of the prospective improving and worsening scenarios compared with the most Likely scenario show the following differences: Real GDP Eurozone +70 bps for the improving scenario in 2024 and -40 bps for the worsening scenario, Inflation Eurozone +10 bps for the improving scenario and -10 bps for the worsening scenario.

Note 3 – Financial risk management (continued)

The updated scenario incorporates a downward revision for Italy and the Euro Area of the forecast for the second half of 2023 and is based on an assumption in 2024 of global growth similar to that of 2023 but burdened by many geopolitical uncertainties.

Inflation projections were revised downward, confirming the scenario of rapidly declining inflation-increasingly comforted by trends in official price data. The recent lower-than-expected data explain much of the revision to the 2024 annual average.

The December scenario incorporates a more rapid path of decline in ECB rates in 2024-25 than the June scenario but more conservative than market expectations, reflecting reduced risks on the inflation front and worsening growth estimates in the meantime. However, the risk of missing the inflation target even in 2025 will keep monetary policies tight for longer than expected.

The conflict in the Middle East in the most likely scenarios, which assume that it remains within limited territorial boundaries, is not expected to have particularly heavy impacts on the global economy. Only if the conflict were to widen to other Middle Eastern countries would there be severe impacts on Eurozone economies, with uncertain implications for monetary policy.

Risks remain on the scenario. While endogenous risks related to the transmission of monetary policy and disinflation are receding, other factors remain, such as the risk of lower-than-expected growth in China or that arising from the international situation characterized by military conflicts that indirectly involve the West and may affect the commodities market, particularly energy. Other risks on the emergence of recessionary episodes in the Euro Area may derive from the rebalancing of the labor market (which should take place at limited cost in terms of layoffs, not jeopardizing the process of recovery of real household incomes). Problems of a structural, not cyclical nature are emerging more clearly: many Western governments appear to be struggling to manage the consequences of ageing populations, climate change and energy transition, having failed to manage globalization, immigration and their social consequences. High levels of public debt limit the scope for action.

The methodology adopted by the Group also involves taking into account alternative scenarios (ameliorative/worsening), for which mainly external information is used (among others, the minimum and maximum forecasts of a key variable such as GDP based on the findings of Consensus Economics).

As for the favorable scenario, the assumptions adopted return a scenario characterized by higher real growth rates, higher inflation, lower unemployment rate; the performance of equity indices and real estate prices is more robust than in the baseline scenario, but with a spread made more modest by the more sustained performance of interest rates. Interest rates are higher across all maturities: in 2024 short-term ECB rates are higher than in the baseline scenario by about 9 basis points while at the end of the three-year period the spread is 75 basis points. As in June this a characterizing feature of the scenario, which describes a situation in which central banks ease monetary policy more slowly in response to economic signals indicative of less slowdown than expected, and more pressure on core inflation, than is needed to restore price stability.

Note 3 – Financial risk management (continued)

The "unfavorable" scenario was constructed from the lowest GDP growth forecasts in the Consensus Economics survey, published in December 2023, for the main advanced countries. Italy's GDP trend is projected to be weak: a moderate recession in 2024 is assumed, followed by a modest recovery in 2025-26, while the Euro Area's GDP trend is assumed to be only slightly stronger: GDP is assumed to be stagnant on an annual basis, with modest contractions on a quarterly basis.

The result is a faster and deeper decline in inflation, allowing the ECB to ease monetary policy to expansionary, instead of neutral as in the baseline scenario. At the end of the three-year period, the level of short-term rates is 94 basis points lower than in the baseline scenario, while 10-year IRSs are 59 basis points lower.

The effectiveness of IFRS 9 models is also monitored by the Validation function at least once a year on risk parameters (staging criteria, PD, LGD and haircut models), both through model performance tests and in terms of model design and data treatment. The results are shown, similarly to what described above, in the annual report on internal models for management purposes. With regard to the analyses carried out during 2023, no particular critical issues emerged and an opinion of general adequacy was expressed with respect to the areas under analysis.

Definition of the Most-likely macroeconomic scenario

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

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

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

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

Note 3 – Financial risk management (continued)

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

Definition of alternative paths to calculate Add-on

At the same time intervals used to prepare the Most-likely scenario, alternative paths are identified; they are used as inputs to calculate the Add-on, using the Oxford Economics' Global Economic Model simulation environment. For certain variables, alternative paths to that provided for in the

Most-likely scenario are imposed. These are used as the basis to resolve the model in order to obtain coherent simulated paths for the other variables used in the process in question.
The key variables are the following:

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

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

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

Note 3 – Financial risk management (continued)

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

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

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

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

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

	Maximum exposure	
(in EUR)	**2023**	**2022**
Cash and cash balances with central banks	2,132,393,390	1,303,175,105
Financial assets held for trading	3,566,300	1,804,034
Financial assets mandatorily at FVTPL	333,840	400,214
Financial assets at FVTOCI	3,753,965,402	2,994,980,170
Loans and advances	15,939,056,555	15,560,384,389
Derivatives held for hedging	241,967,640	404,038,445
Other assets	81,542,458	72,972,831
Non-current assets held for sale	1,711,186	
Total	**22,154,536,772**	**18,337,755,189**
Guarantees	222,710,990	107,595,777
Commitments	4,765,939,118	3,271,263,269
Total	**4,998,650,108**	**3,378,859,047**

Note 3 – Financial risk management (continued)

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

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

(iii) Credit quality per class of financial assets

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

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

(in EUR)	**Performing assets 2023**	**Past due exposures 2023**	**Unlikely to Pay 2023**	**Doubtful assets 2023**	**Total 2023**
Financial assets held for trading	3,566,300	-	-	-	**3,566,300**
Financial assets mandatorily at FVTPL	333,840	-	-	-	**333,840**
Financial assets at FVTOCI	3,753,965,402	-	-	-	**3,753,965,402**
Loans and advances	16,076,604,824	-	958,691	-	**16,077,563,515**
Derivatives held for hedging	241,967,640				**241,967,640**
Non-current assets HFS	1,711,186				**1,711,186**
Total	**20,078,149,192**	**-**	**958,691**	**-**	**20,079,107,883**

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

Note 3 – Financial risk management (continued)

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

(in EUR)	Gross exposure 2023	Individual impairment 2023	Collective impairment 2023	Total 2023
Performing loans	16,076,604,825	-	(137,548,270)	15,939,056,555
Doubtful loans	-	-		-
Unlikely to Pay	958,691	(958,691)		-
Total	**16,077,563,516**	**(958,691)**	**(137,548,270)**	**15,939,056,555**

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

As at 31 December 2023 there are no credit position qualified for loan forbearance as defined by the ESMA (European Security and Market Authority) (there was one position as at 31 December 2022).

(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 2023, the lending limit amounted to EUR 609 million (2022: EUR 606 million) and no borrower exceeded this amount after the application of credit risk mitigation. The main exposures relates to 180 borrowers or group of borrowers (2022: 143 borrowers or group of borrowers) with financing between EUR 8.9 billion and EUR 12.6 million each (2022: between EUR 5.9 billion and EUR 12.8 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 24.

(v) Geographical allocation of risks

As at 31 December 2023 and 2022, the distribution by geographical area of the risks held in securities (except for trading positions and derivatives held for hedging) and loans and advances before taking into account collateral held and other credit enhancements can be summarized as follows:

Note 3 – Financial risk management (continued)

(in EUR)	2023		2022	
	Investment Secs. (FVTOCI, FVTPL)	**Loans and advances**	**Investment Secs. (FVTOCI, FVTPL)**	**Loans and advances**
Italy	993,324,946	7,954,450,098	658,411,011	5,072,723,435
USA	221,901,989	63,997,941	174,323,343	44,528,573
Japan	36,705,255	76,387	34,493,174	691,122
France	587,684,233	133,679,397	360,036,038	106,659,863
Spain	370,393,784	160,946,361	276,691,409	72,784,427
Luxembourg	243,514,225	2,697,717,142	381,362,244	2,774,100,414
Belgium	155,868,565	192,387,032	104,019,745	110,379,528
Germany	189,048,438	152,819,651	206,684,137	223,701,277
Portugal	5,234,401	80,900,152	22,906,640	79,984,395
United Kingdom	56,136,286	291,041,466	33,766,985	316,090,361
Switzerland	-	32,674,752	-	46,627,573
The Netherlands	248,691,084	257,455,993	185,400,119	89,931,122
Poland	-	-	-	776,569
Qatar	-	879,942,752	-	1,035,622,966
Russia	-	1,236,325,774	-	1,512,269,153
Romania	27,037,670	70,585,712	14,027,932	70,392,506
Supranational	113,435,787	-	101,486,549	-
Slovenia	51,422,265	-	29,098,100	-
South Africa	-	21,173,946	-	86,971,130
South Korea	8,253,540	-	7,863,210	-
Ireland	69,108,362	-	52,133,445	140
Czech Republic	31,160,415	-	-	26,710
Denmark	11,638,168	91,044,856	-	20,620
Norway	36,471,316	152,870,899	37,321,212	55,097,360
Canada	115,627,244	34,965,635	111,404,031	222,691,019
Austria	40,965,590	-	74,610,529	145,826,122
Sweden	23,907,693	105,806,036	36,712,231	36,699,997
Cyprus	-	-	-	24,587
Mexico	-	-	9,038,178	-
Egypt	-	407,955,482	-	385,717,986
Ghana	-	-	-	-
Brazil	-	57,360,611	-	59,535,216
India	-	538,394,443	-	531,052,382
Lithuania	-	-	5,553,127	-
Indonesia	15,051,561	-	33,618,007	-
Australia	-	20,832	-	30,175
Jersey Island	-	-	-	124,699,086
Cayman Island	-	116,908,399	-	134,970,363
Guernsey Island	-	150,498,093	-	167,460,118
Israel	27,147,362	-	27,463,762	-
Slovakia	39,713,055	-	16,955,228	-
Chile	-	48,910,856	-	51,523,987
Croatia	23,896,779	-	-	-
Estonia	5,753,225	-	-	-
Finland	5,206,004	-	-	-
Tanzania	-	5,520,988	-	-
Dubai	-	1,421,372	-	-
Hong Kong	-	760,874	-	-
Other	-	442,622	-	774,107
Total	**3,754,299,242**	**15,939,056,555**	**2,995,380,385**	**13,560,384,389**

Note 3 – Financial risk management (continued)

(in EUR'000)	2023		2022	
	Guarantees	**Commitments**	**Guarantees**	**Commitments**
Belgium	99,548	454,212	103,131	444,000
Germany	-	91,924	-	105,793
France	-	177,548	-	13,695
Italy	2,086	-	2,011	-
Luxembourg	120,242	2,434,080	1,566	902,367
The Netherlands	-	49,914	-	7,999
Kuwait	-	67,873	-	70,317
Qatar	-	136,122	-	282,093
Spain	-	170,739	-	229,060
Switzerland	595	16,258	617	16,106
USA	-	-	-	1
United Kingdom	200	107,358	200	111,935
Tunisia	20	-	20	-
South Africa	-	153,846	-	97,748
Russia	-	303,946	-	530,819
India	-	-	-	1,965
British Virgin Isl.	-	-	30	-
Egypt	-	14,827	-	72,862
Cayman Island	-	131,668	-	173,886
Dubai	20	-	20	-
Guernsey Island	-	101,119	-	168,709
Norway	-	61,213	-	41,910
Sweden		275,192	-	-
Mauritius		18,099	-	-
Total	**222,711**	**4,765,938**	**107,595**	**3,271,265**

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

Maturing On	**Fair Value (Eur)**	
	2023	**2022**
2023	-	34,077,750
2024	348,949,608	340,062,633
2025	-	-
2026	-	-
2027	-	-
2028	44,845,588	41,275,293
2029	-	20,057,493
2030	103,349,541	80,262,793
2031	21,195,307	19,060,868
	518,340,044	**534,796,830**

Note 3 – Financial risk management (continued)

(vi) Industry sector allocation of risks

As at 31 December 2023 and 2022, 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)	2023		2022	
	Investment Securities (FVTPL, FVTOCI)	**Loans and Advances**	**Investment Securities (FVTPL, FVTOCI)**	**Loans and Advances**
Financial institutions	1,158,153,838	8,255,406,931	590,703,518	5,564,965,464
Public sector	1,545,427,191	1,152,777,393	1,564,706,585	1,153,487,656
Financial services	455,866,814	3,112,486,261	340,719,631	3,333,553,981
Mining & quarrying	-	929,254,908	-	1,080,420,654
Manufacturing	109,163,606	1,100,216,579	82,549,672	1,045,936,936
Wholesale and retail trade	12,098,952	264,553,314	21,768,826	235,449,000
Information and communication	139,563,520	216,580,602	146,876,427	21,430,377
Other industries	334,025,320	906,530,269	248,055,724	1,124,282,124
Individuals	-	1,250,297	-	858,197
Total	**3,754,299,241**	**15,939,056,555**	**2,994,980,170**	**13,560,384,389**

(in EUR'000)	2023		2022	
	Guarantee	**Commitment**	**Guarantee**	**Commitment**
	s	**s**	**s**	**s**
Financial institutions	215,351	20,666	105,759	3,163
Public sector	-	150,949	,	354,955
Other industries	7,123	4,594,324	1,603	2,913,145
Individuals	237	-	233	-
Total	**222,711**	**4,765,939**	**107,595**	**3,271,263**

(e) Liquidity risk

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

Note 3 – Financial risk management (continued)

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

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

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

As at 31 December 2023, the Liquidity Coverage Ratio of the Bank as defined in the article 416 of EU Regulation No 575/2013 and Delegated Regulation EU No 2015/61 was 371% (2022: 160%). As at 31 December 2023, the Net Stable Funding Ratio as defined by the EU Regulation 2019/876 (known as CRR2) is 122% (2022: 123%).

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 byremaining contractual maturities at the date of the statement of financial position.

31 December 2023 (in million EUR)	**< 1 month**	**≥ 1 month < 3 months**	**≥3 months < 6 months**	**≥6 months < 1 year**	**≥1 year < 2 years**	**≥2 years < 5 years**	**≥ 5 years**	**Total**
Deposits from central banks	-	-	-	-	-	-	-	**-**
Financial liabilities at FVTPL and derivatives held for hedging	296	1,032	619	1,190	119	37	-	**3,293**
Financial liabilities at amortised cost	4,866	2,672	3,820	2,737	3,283	2,012	61	**19,451**
Total	**5,162**	**3,704**	**4,439**	**3,927**	**3,402**	**2,049**	**61**	**22,744**

31 December 2022 (in million EUR)	**< 1 month**	**≥ 1 month < 3 months**	**≥3 months < 6 months**	**≥6 months < 1 year**	**≥1 year < 2 years**	**≥2 years < 5 years**	**≥ 5 years**	**Total**
Deposits from central banks	-	-	-	-	-	-	-	**-**
Financial liabilities held for trading and derivatives held for hedging	9	1,451	215	597	1,010	139	-	**3,421**
Financial liabilities at amortised cost	3,682	3,090	1,389	1,172	2,139	4,088	306	**15,866**
Total	**3,691**	**4,541**	**1,604**	**1,769**	**3,149**	**4,227**	**306**	**19,287**

Note 3 – Financial risk management (continued)

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

2023	**Government and central banks**	**Other public entities**	**Financial institutions**	**Non financial companies**	**Other**	**Total**
Deposits from central banks	-	-	-	-	-	**-**
Financial liabilities held for trading and for hedging	-	-	75,573,001	-	-	**75,573,001**
Financial liabilities at fair value through profit or loss	-	-	-	-	-	**-**
Financial liabilities at amortised cost	-	980,675,235	6,924,759,912	1,056,201,739	10,488,131,758	**19,449,768,643**
Total	**-**	**980,675,235**	**7,000,332,913**	**1,056,201,739**	**10,488,131,758**	**19,525,341,644**

2022	**Government and central banks**	**Other public entities**	**Financial institutions**	**Non financial companies**	**Other**	**Total**
Deposits from central banks	-	-	-	-	-	**-**
Financial liabilities held for trading and for hedging	-	-	39,941,212	-	-	**39,941,212**
Financial liabilities at fair value through profit or loss	-	-	-	-	-	**-**
Financial liabilities at amortised cost	-	993,586,617	6,699,046,484	611,564,395	7,560,713,614	**15,864,911,109**
Total	**-**	**993,586,617**	**6,738,987,696**	**611,564,395**	**7,560,713,614**	**15,904,852,321**

Note 3 – Financial risk management (continued)

2023	Zone EURO	Other European countries	Other	Total
Deposits from central banks	-	-	-	**-**
Financial liabilities held for trading and for hedging	75,573,001	-	-	**75,573,001**
Financial liabilities at fair value through profit or loss	-	-	-	**-**
Financial liabilities at amortised cost	17,460,234,947	1,574,730,473	414,803,223	**19,449,768,643**
Total	**17,535,807,948**	**1,574,730,473**	**414,803,223**	**19,525,341,644**

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

(f) Market risk

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

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

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

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

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

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

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

Note 3 – Financial risk management (continued)

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

Risk measurements

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

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

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

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

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

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

The last time in 2023 the VaR limits have been revised and approved by ISPBL Board of Directors in March 2023:
- A new Trading Portfolio has been created in order to take into account FX position (ISPBL cannot have trading portfolios)
- Based on this, a new VaR limit on Global Portfolio (HTCS + Trading) has been set to EUR 13.1 mln (EUR 10 mln for Investment Portfolio and EUR 5.5 mln for Liquidity Portfolio) and has been calibrated on the basis of a high parameter volatility period.
- Early Warning on VaR set to EUR 11.7 mln (EUR 2 mln for Trading and EUR 11.7 mln for HTCS, of which EUR 8.8 mln for investment portfolio and EUR 4.8 mln for liquidity portfolio) and has been calibrated on the basis of the expected scenario.
- Early Warning on Stressed VaR set to EUR 26.1 mln (EUR 3 mln for Trading and EUR 23.1 mln for HTCS, of which EUR 14 mln for investment portfolio and EUR 11.5 mln for liquidity portfolio) and has been calibrated on the basis of the expected scenario.

Note 3 – Financial risk management (continued)

- Stressed VaR has been fixed at EUR 27.7 mln for the Global Portfolio (EUR 16.8 mln for investment portfolio and EUR 13.8 mln for the liquidity portfolio)

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

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

- rating buckets;
- concentration for single borrower exposure.

Interest rate risk

Average interest rates

The average effective interest rates on financial instruments by main currencies for the year ended 31 December 2023 and 2022 are as follows:

	2023		2022	
	Assets	**Liabilities**	**Assets**	**Liabilities**
EUR	3.891%	3.438%	2.049%	1.263%
USD	6.072%	5.363%	5.068%	4.336%

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

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

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

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

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

Note 3 – Financial risk management (continued)

The set of "Shift sensitivity +100bps" limits for the Bank have been approved by the Group Financial Risk Committee in February 2023 and by the Bank Board in May 2023:

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

In addition a shift sensitivity +100bps limit for USD currency was set to +2/- 3.5 million and a limit for HTCS portfolio net of hedging derivatives has been introduced and equal to 0/-10 million.

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

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

Bucket	**Shift +100p per bucket**	**Shift -100p per bucket**	**Limits**
Short term	(2,684,149)	3,097,937	+6/-17 mln
Medium term	(4,341,002)	5,812,896	+6/-14 mln
Long term	(2,358,044)	2,650,280	+6/-10 mln
Total	**(9,383,195)**	**11,561,112**	**+0/-24 mln**

The shift sensitivity +100 bps limit for USD as of 31 December 2021 is EUR (1,062,701) (Limit +2/-3.5 million) and for HTCS portfolio net of hedging derivatives as of 31 December 2023 is EUR (5,616,984) (Limit 0/-10 million).

At 31 December 2023, the Net Interest Income Sensitivity (NII), which measures the impact on net interest income of a parallel and instantaneous shock in the interest rate curve of +/- 50 bps, over a period of 12 months, has been as follows:

-50 bps	**+50 bps**
(9,866,741)	**9,847,691**

Note 3 – Financial risk management (continued)

In addition, the Bank is required to perform regulatory scenarios defined by banking authorities in relation to the following purposes measured on at least a quarterly basis, in order to capture parallel and non-parallel gap risks for Shift Sensitivity and NII Sensitivity .

These regulatory requirements realize a stress consisting in the assessment of the variation of the economic value of the Bank's wealth assuming a change in interest rates according to the following scenarios:

- a sudden +/- 200 basis point shift of all interest (parallel shift of yield curves);
- parallel shock up;
- parallel shock down;
- steepener shock (short rates down and long rates up);
- flattener shock (short rates up and long rates down);
- short rates shock up;
- short rates shock down

Based on the results from these scenarios, the Bank performs IRRBB Supervisory Outlier test (SOT) according to CSSF and EBA requirements:

- The impact on the EVE of a sudden parallel +/-200 basis points shift of the yield curve must in any event be lower than the alert threshold defined as 20% of the regulatory capital and the impact of six BCBS scenarios must in any case be lower than 15% of Tier 1 capital.
- The impact on the NII of a sudden parallel +/-200 basis points shift of the yield curve must in any event be lower than the alert threshold defined as 5% of Tier 1 capital.

Scenario	Shift EVE	NII
+200 bp	(29,052,556)	6,752,332
-200 bp	17,962,639	(52,706,663)
Parallel up	(29,077,364)	38,883,738
Parallel down	23,740,818	(39,167,868)
Steepening	9,629,864	(18,682,896)
Flattening	(16,176,000)	25,422,113
Short up	(24,692,745)	35,509,166
Short down	20,001,086	(35,818,636)

Results of the BCBS scenarios are quarterly provided to ALCO, Risk Committee and Board of Directors.

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

Note 3 – Financial risk management (continued)

Under the assumptions as defined here above taking into account assets and liabilities as at 31 December 2023 a 100 bp increase or decrease in market interest rates would influence the interest income before tax by EUR 11,561,112 and EUR (9,383,195) respectively.

31 December 2023 (in million of EUR)	**< 1 month**	**≥ 1 month < 3 months**	**≥ 3 months < 6 months**	**≥ 6 months < 1 year**	**≥ 1 year < 2 years**	**≥ 2 years < 5 years**	**≥ 5 years**	**Total**
Cash and cash balances with central banks	2,132	-	-	-	-	-	-	**2,132**
Financial assets held for trading derivatives held for hedging and financial assets mandatorily at FVTPL	5	23	3	56	154	3	-	**244**
Financial assets at FVTOCI	229	134	105	1,131	2,139	10	6	**3,754**
Loans and advances	4,026	2,604	645	1,745	2,577	1,942	2,401	**15,940**
Non-current assets HFS	2	-	-	-	-	-	-	**2**
Total financial assets	**6,394**	**2,761**	**753**	**2,932**	**4,870**	**1,955**	**2,407**	**22,072**
Financial liabilities held for trading and derivatives held for hedging	2	-	2	16	50	4	1	**75**
Financial liabilities at amortised cost	4,867	2,801	3,217	2,012	151	2,582	3,821	**19,451**
Non-current liabilities HFS	1	-	-	-	-	-	-	**1**
Total financial liabilities	**4,870**	**2,801**	**3,219**	**2,028**	**201**	**2,586**	**3,822**	**19,527**

Note 3 – Financial risk management (continued)

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

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

Note 3 – Financial risk management (continued)

(g) 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 2023 and 2022, the financial assets and liabilities denominated in EUR, in USD and in other currencies are as follows (in EUR):

31 December 2023	**EUR**	**USD**	**Other**	**Total**
Cash and cash balances with central banks	2,132,380,205	2,994	10,192	**2,132,393,390**
Financial assets at fair value through profit or loss and held for trading	243,596,932	1,818,239	452,609	**245,867,780**
Financial assets at FVTOCI	3,753,965,402	-	-	**3,753,965,402**
Loans and advances	14,264,154,243	1,301,037,015	373,865,297	**15,939,056,555**
Non-current assets HFS	1,711,186			**1,711,186**
Total financial assets	**20,395,807,968**	**1,302,858,248**	**374,328,098**	**22,072,994,312**
Financial liabilities held for trading and held for hedging	71,252,287	4,065,671	255,044	**75,573,002**
Financial liabilities at amortised cost	17,596,357,011	1,570,873,479	282,538,152	**19,449,768,643**
Non-current liabilities HFS	1,292,582	7,670	-	**1,300,252**
Total financial liabilities	**17,668,901,880**	**1,574,946,820**	**282,793,196**	**19,526,641,896**

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

Note 3 – Financial risk management (continued)

(h) Capital management and capital adequacy

Regulatory capital

The Bank is required to comply with the Luxembourg prudential regulations that transpose the Regulation (EU) 2019/876 of the European Parlament and of the Council of 20 May 2019 amending the Regulation (EU) 575/2013 and Regulation (EU) 648/2012 on “Capital adequacy for credit institutions” into circulars and guidelines.

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

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

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

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

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

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

	2023	**2022**
Tier 1 Capital		
Ordinary share capital	1,389,370,555	1,389,370,555
Share premium	7,720,692	7,720,692
Other reserves and retained earnings	1,040,263,266	1,029,994,204
Others deductions	(2,041,633)	(1,658,754)
Total Tier 1	**2,435,312,880**	**2,425,426,697**

Note 3 – Financial risk management (continued)

	2023	2022
Tier 2 Capital		
General credit risk adjustments	21,356,475	54,466,161
Subordinated loan	190,038,314	200,000,000
Total Tier 2	**211,394,789**	**254,466,161**
Total own fund eligible for solvency purposes	**2,646,707,669**	**2,679,892,859**

Capital requirements and risk weights

The following table summarises the risks broken down by CRR2 regulatory classes. These risks serve as a reference for calculating the solvency ratio of the Bank within the framework of regulatory reports filed to the CSSF.

	2023 Amount of risk weighted assets	**2022 Amount of risk weighted assets**
Credit and counterparty risk	**8,584,824,927**	**7,849,390,975**
Central governments and central banks	54,297,128	76,358,957
Regional governments or local authorities	26,710,366	-
Public Sector Entities	17,392,716	16,043,936
Corporates	4,329,189,709	5,684,099,871
Institutions	3,892,671,484	1,854,749,729
Retail	767,802	723,182
Exposures in default	-	-
Equity exposures	4,277,964	4,478,071
Other items	85,919,894	83,150,731
Covered bonds	173,597,865	129,786,497
Collective investments undertakings (CIU)	-	-
Market risk	**-**	**-**
Operational risk	**391,768,693**	**365,832,514**
Credit Valuation Adjustment	**1,152,175**	**952,881**
Total risk weighted assets and capital requirements	**8,977,745,795**	**8,216,176,370**
Tier 1 capital ratio	*27.13%*	*29.52%*
Total capital ratio	*29.48%*	*32.62%*

Note 3 – Financial risk management (continued)

Capital adequacy

Under the European regulation transposed into regulations 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 2023, the solvency ratio of the Bank is 29.48% (2022: 32.28%), above the regulatory limit of 8% and above the regulatory limit including conservation buffer limit of 10.5%. Over the year 2023, the higher solvency ratio amounted to 31.62% (June) and the lower amounted to 26.69% (September).

Capital management and planning

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

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

As part of the internal assessment process for its capital adequacy (relative to Basel III Pillar 2), the Bank considers that the Pillar 1 risks (credit, market and operational risks) are sufficiently covered by the regulatory capital under Pillar 1 as at 31 December 2023 and going forward.

The ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process)

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

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

Article 86 of the Capital Requirements Directive (CRD IV) requires institutions to have in place robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time horizons, including intra- day, so as to ensure that institutions maintain adequate levels of liquidity buffers. Those strategies, policies, processes and systems shall be tailored to business lines, currencies, branches and legal entities and shall include adequate allocation mechanisms of liquidity costs, benefits and risks. Adequate levels of liquidity are essential for the resilience of individual banks. The Bank is required to assess the risks they face and, in a forward-looking manner, ensure that all material risks are identified, effectively managed and covered by adequate liquidity levels at all times.

In this context the Bank is required, on an annual basis, to implement an "Internal Liquidity Adequacy Assessment Process "(ILAAP).

Note 3 – Financial risk management (continued)

The objective of ILAAP is to assess liquidity risks and maintain the current and future liquidity adequacy of the bank on a continuous basis.

ECB Banking Supervision reviews the quality of institutions' ILAAPs as a fundamental part of the Supervisory Review and Evaluation Process (SREP).

The ILAAP is fully integrated and embedded into internal risk management and business decision-making processes.

(i) 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.

The number of operational events registered during 2023 were 29, with an amount of operational losses equal to EUR 3 million, mainly due to timing losses.

(j) Derivative financial instruments

During 2023 and 2022, in order to manage efficiently its treasury position, the Bank used mainly foreign exchange transactions and interest rate swaps.

Note 3 – Financial risk management (continued)

As at 31 December 2023 and 2022, the notional amount and fair value of the derivatives held for trading are as follows (in EUR):

	2023		2022	
	Notional amount	Fair value	Notional amount	Fair value
Assets				
Interest rate instruments	106,600,000	2,335,927	-	-
Currency instruments	188,318,744	1,230,373	267,370,084	1,804,034
	294,918,744	**3,566,300**	**267,370,084**	**1,804,034**
Liabilities				
Interest rate instruments	-	-	315,000,000	2,894,219
Currency instruments	280,227,783	4,320,714	765,156,083	21,365,947
	280,227,783	**4,320,714**	**1,080,156,083**	**24,260,166**

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

(k) 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	
	2023	2022	2023	2022
Assets				
Loans and advances	15,939	13,560	18,083	14,848
Liabilities				
Financial liabilities measured at amortised cost	19,450	15,865	19,369	15,878

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

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

Note 3 – Financial risk management (continued)

Fair value hierarchy

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

(i) Valuation models

As at 31 December 2023 and 2022, the Bank uses the following fair value hierarchy for determining and disclosing the fair value of financial instruments, which reflects the significance of the inputs used in making the measurements:

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

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

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

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

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

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

Note 3 – Financial risk management (continued)

(ii) Valuation framework

The Bank has adopted and applied a specific policy issued by the Group, denominated "Fair Value Policy", which states principles and methodologies to calculate financial instruments fair value.

In relation to controls and procedures put in place concerning valuation framework, please refer to Note 3.d "Market risk".

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

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

31 December 2023 (in EUR)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss (FVTPL):				
- Financial assets held for trading	-	3,566,300	-	**3,566,300**
- Financial assets mandatorily at fair value	333,840	-	-	**333,840**
Financial assets at FVTOCI				
- Debt instruments	3,753,965,402	-	-	**3,753,965,402**
- Loans	-	-	-	**-**
Derivatives held for hedging	-	241,967,640	-	**241,967,640**
Non-current assets HFS		1,711,186	-	**1,711,186**
Total financial assets	**3,754,299,242**	**247,245,126**	**-**	**4,001,544,368**
Financial liabilities held for trading				
- Derivatives held for trading	-	4,320,714	-	**4,320,714**
- Short positions	-	-	-	-
Financial liabilities at fair value through profit or loss	-	-	-	**-**
Derivatives held for hedging	-	71,252,287	-	**71,252,287**
Total financial liabilities	**-**	**75,573,001**	**-**	**75,573,001**

Note 3 – Financial risk management (continued)

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

During the reporting years ending 31 December 2023 and 31 December 2022, there were no transfers between Level 1 and Level 2 categories, and no transfers into Level 3 category.

(l) Operating segments

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

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

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

Note 3 – Financial risk management (continued)

Results by strategic division in EUR '000	**2023**				
	Corporate & Financial Institutions	**Financial Markets**	**Others Financial Institutions**	**Governance**	**Total revenues**
Net interest margin	371,901	(192,031)	(3,783)	-	**176,087**
Dividends	,	29	,	-	**29**
Net commission margin	33,600	11,820	82	-	**45,502**
Net trading income	42,021	(28,324)	1,110	-	**14,807**
Net other expenses	(48)	16	(2,213)	-	**(2,245)**
Impairment on financial assets	(5,905)	(1,306)	(367)	-	**(7,578)**
Total area results	**441,569**	**(209,796)**	**(5,171)**	-	**226,603**
Depreciation	**-**	**-**	**-**	(1,938)	**(1,938)**
Provision	**-**	**-**	**-**	6,333	**6,333**
Staff and administrative expenses	**-**	**-**	**-**	(54,244)	**(54,244)**
Tax expenses	**-**	**-**	**-**	(44,692)	**(44,692)**
Discontinued operations	**-**	**-**	**-**	(805)	**(805)**
Total operating & extraordinary expenses	**-**	-	-	(95,346)	**(95,346)**
RESULTS FOR THE YEAR					**(131,256)**

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

Note 3 – Financial risk management (continued)

Assets by strategic division in EUR'000	**2023**			
	Corporate & Financial Institutions	**Financial Markets**	**Others Financial Institutions**	**Total**
Cash and cash balances with central banks	**-**	**2,132,073**	**321**	**2,132,394**
Financial assets held for trading	**-**	**3,566**	**-**	**3,566**
Financial assets mandatorily at fair value	**-**	**334**	**-**	**334**
Financial assets at FVTOCI	**-**	**3,753,965**	**-**	**3,753,965**
Loans and advances	**7,736,866**	**8,010,888**	**191,303**	**15,939,057**
Loans and advances to credit institutions	55,692	8,008,709	191,006	8,255,407
Loans and advances to customers	7,681,174	2,178	298	7,683,650
Derivatives held for hedging	**-**	**240,975**	**993**	**241,968**
Tangible fixed assets	-	-	**6,649**	**6,649**
Intangible assets	-	-	-	**-**
Tax assets	-	-	**11,459**	**11,459**
Other assets	**6,807**	**2,698**	**72,037**	**81,542**
Non-current assets HFS	**-**	**-**	**1,711**	**1,711**
Total assets	**7,743,673**	**14,144,499**	**284,473**	**22,172,644**

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

Note 3 – Financial risk management (continued)

Liabilities & Equity by strategic division in EUR'000 — **2023**

Liabilities	**Corporate & Financial Institutions**	**Financial Markets**	**Others Financial Institutions**	**Total**
Financial liabilities held for trading	**-**	**(4,321)**	**-**	**(4,321)**
Financial liabilities at amortised cost	**(177,313)**	**(19,059,980)**	**(212,476)**	**(19,449,769)**
Deposits from credit institutions	(11,606)	(5,913,774)	(19)	(5,925,399)
Deposits from customers	(165,707)	(2,669,563)	(211,856)	(3,047,126)
Debts evidenced by certificates	-	(10,476,643)	(601)	(10,477,244)
Derivatives held for hedging	**-**	(71,252)	**-**	**(71,252)**
Provisions	(5,339)	-	(2,327)	**(7,666)**
Tax liabilities	-	-	(625)	**(625)**
Other liabilities	(1,803)	(5,098)	(63,210)	**(70,111)**
Non-current liabilities HFS	-	-	(1,300)	**(1,300)**
Total liabilities	**(184,455)**	**(19,140,651)**	**(279,948)**	**(19,605,045)**
Equity				
Share capital and share premium	-	-	(1,397,091)	**(1,397,091)**
Revaluation reserve	-	41,506	(10,351)	**31,154**
Other reserves and retained earnings	(1,493)	14,823	(1,083,736)	**(1,070,406)**
Net profit for the year	(447,602)	209,505	106,840	**(131,257)**
Total equity	**(449,095)**	**265,834**	**(2,384,338)**	**(2,567,599)**
Total liabilities and equity	**(633,550)**	**(18,874,817)**	**(2,664,276)**	**(22,172,644)**

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

Liabilities	**Corporate & Financial Institutions**	**Financial Markets**	**Others Financial Institutions**	**Total**
Financial liabilities held for trading	-	(24,260)	-	**(24,260)**
Financial liabilities at amortised cost	**(322,607)**	**(15,327,607)**	**(214,697)**	**(15,864,911)**
Deposits from credit institutions	(11,559)	(6,076,106)	(76)	(6,087,741)
Deposits from customers	(311,048)	(1,712,357)	(213,999)	(2,237,404)
Debts evidenced by certificates	-	(7,539,144)	(622)	(7,539,766)
Derivatives held for hedging	-	(15,681)	-	**(15,681)**
Provisions	(11,420)	(290)	(2,387)	**(14,098)**
Tax liabilities	-	-	(366)	**(366)**
Other liabilities	(1,913)	(4,475)	(17,853)	**(24,240)**
Total liabilities	**(335,940)**	**(15,372,313)**	**(235,303)**	**(15,943,556)**
Equity				
Share capital and share premium	-	-	(1,397,091)	**(1,397,091)**
Revaluation reserve	-	59,875	(14,933)	**44,942**
Other reserves and retained earnings	(1,493)	14,963	(1,237,564)	**(1,224,094)**
Net profit for the year	192,147	(28,845)	(9,475)	**153,828**
Total equity	**190,654**	**45,994**	**(2,659,063)**	**(2,422,415)**
Total liabilities and equity	**(145,286)**	**(15,326,319)**	**(2,894,366)**	**(18,365,972)**

Note 3 – Financial risk management (continued)

(m) Return on assets ("ROA")

The Bank return on assets is as follow:

	2023	2022
Total assets	22,172,644,323	18,365,972,014
Net profit for the year	131,256,458	(153,827,760)
Return on assets	**0.59%**	**(0.84)%**

(n) Pillar III disclosures requirements

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

The document, denominated "Third pillar of Basel 2 and Basel 3 ("Pillar 3")" is available at the following web address:

"http://www.group.intesasanpaolo.com/scriptIsir0/si09/governance/eng_terzo_pilastro_basilea.jsp"

The 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.

The ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process)

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

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

Article 86 of the Capital Requirements Directive (CRD IV) requires institutions to have in place robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time horizons, including intra- day, so as to ensure that institutions maintain adequate levels of liquidity buffers. Those strategies, policies, processes and systems shall be tailored to business lines, currencies, branches and legal entities and shall include adequate allocation mechanisms of liquidity costs, benefits and risks. Adequate levels of liquidity are essential for the resilience of individual banks. The Bank is required to assess the risks they face and, in a forward-looking manner, ensure that all material risks are identified, effectively managed and covered by adequate liquidity levels at all times.

In this context the Bank is required, on an annual basis, to implement an "Internal Liquidity Adequacy Assessment Process "(ILAAP).

Note 3 – Financial risk management (continued)

The objective of ILAAP is to assess liquidity risks and maintain the current and future liquidity adequacy of the bank on a continuous basis.

ECB Banking Supervision reviews the quality of institutions' ILAAPs as a fundamental part of the Supervisory Review and Evaluation Process (SREP).

The ILAAP is fully integrated and embedded into internal risk management and business decision-making processes.

The Benchmark Regulation

Initiated in 2016, following the publication of the European Union Benchmark Regulation, EU Regulation No. 2016/1011, benchmarks reform in recent years has been characterized in particular by the following elements:

- 2019 new mode of Euribor survey completed by EMMI (European Money Market Institute) begins;
- 2019 the €STR rate, detected and published daily by the ECB, replaced the previous fixing of the Sonia rate, also laying the foundations, with the detections of the compound rates and the €STR index, to have a so-called fallback rate of Euribor, to be indicated in contracts and to be used in the event of any future permanent cessation of Euribor publication;
- 2021 the Financial Conduct Authority (FCA) confirmed the cessation of publication or loss of loss of representativeness (i) immediately after December 31, 2021 for all maturities of the pound sterling Libor, euro, Swiss franc, and Japanese yen and the 1-week and 2-month maturities for the U.S. dollar Libor and (ii) immediately after June 30, 2023 for the remaining dollar maturities (i.e. overnight, 1 month, 3 months, 6 months, and 12 months);
- 2023 is announced the FCA's decision to request the administrator to continue with the publication for 1- 3- 6-month maturities of USD LIBOR in summary form even after the termination date of June 30, 2023 and through September 2024 to facilitate the transition of so-called legacy contracts (excluding cleared derivatives).

The summary framework of risk free rates is as follows:

Fonte: ICE Benchmak Administration, Intesa Sanpaolo

Regarding LIBOR, with the Financial Conduct Authority's (FCA) announcement on March 5, 2021, there has been a cessation of publication or loss of representativeness (i) immediately as of December 31, 2021 for all maturities of LIBOR of the pound sterling, euro, Swiss franc and Japanese yen and the 1-week and 2-month maturities for LIBOR of the U.S. dollar; the last phase will be activated after June 30, 2023 for the remaining maturities of the dollar (i.e. overnight, 1 month, 3 months, 6 months and 12 months).

The Benchmarks Project in Intesa Sanpaolo Group

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

Note 3 – Financial risk management (continued)

Leveraging the activities of specialized desks and within the expenditure limits provided by the Capital Budget of the project, the completion of the transition to the new indices on the different types of products was managed in 2023, and as layers were deemed to have achieved the project objectives, the activities were concluded in December 2023. The desks have ceased their activities, however for some residual activities, they have been addressed and taken over by the respective owners who will follow them in ordinary.

Also in the past year, Intesa Sanpaolo participated in the activities of the working groups at the European level, organized by EMMI and ESMA. In the latter sphere in particular, Intesa Sanpaolo acted until the final closure of the work in November 2023 as a voting member and participant in the project strand of the Working Group on euro risk free rates, dedicated to monitoring developments related to the use of €STR as a fallback of Euribor but also as a reference rate for the derivatives market and eventually potentially for other products as well.

In light of the regulatory interventions and activities undertaken by the Group, no critical issues have emerged in completing the transition within the stipulated deadlines. In particular, for the management of the stock of outstanding instruments, the Group planned, on the one hand, the massive adoption of the new Risk Free Rates (RFRs) on newly stipulated financial instruments, thus abandoning the use of the benchmarks impacted by the reform and stabilizing the stock of transactions to be transacted, and on the other hand, preparing the solutions for the transition to the new RFRs, defined on the basis of the main international recommendations, capable of minimizing the financial impacts of the transition.

Intesa Sanpaolo Group applies from the 2019 Financial Statements the Regulation no. 34/2020 of January 15, 2020, which adopted the document issued by the IASB on "Reform of interest rate benchmarks (amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: recognition and measurement, and IFRS 7 Financial Instruments: Disclosures)," in which certain changes were introduced in the area of hedging (hedge accounting) with the aim of preventing uncertainties about the amount and timing of cash flows resulting from the rate reform from leading to the discontinuation of existing hedges and difficulties in designating new hedging relationships.

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

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

The instruments considered in-scope of the Project were:

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

The Bank analysed its financial instruments to identify connections with the above mentioned rates and the transition of products to the bew indices was managed during 2023

Note 3 – Financial risk management (continued)

Specifically, the table below provides quantitative information on financial instruments-subdivided into financial assets, financial liabilities, and derivative contracts-that have yet to transition to an alternative benchmark rate as of December 31, 2023, disaggregated by benchmark index for determining significant interest rates subject to IBOR Reform. The Bank considers a contract as not yet transitioned to an alternative benchmark when interest under the contract is indexed to a benchmark index that is still impacted by IBOR Reform, even if it includes an appropriate fallback clause to manage the termination of the existing benchmark.

(EUR mio) **Benchmark**	**Loans & advances to credit institutions**	**Loans & advances to customers**	**Debt securities**	**Deposits from credit institutions**	**Deposits from customers**	**Debts evidence by certificates**	**Hedging derivatives**	**Trading derivatives**
EONIA	-	-	-	-	-	-	-	-
Libor USD	18	798	-	399	14	1	45	-
Libor – other currencies								-
GBP	-	9	-	1	4	-	-	-
Other IBORs	19	242		123	4	-	-	-

The disclosures do not include financial instruments indexed to Euribor because the benchmark was reformed in November 2019 through the adoption of a hybrid-type calculation methodology, which fully complies with the requirements for so-called critical benchmarks, the EU Benchmark Regulation 2016/1011 and the IOSCO principles. Therefore, there is not considered to be any uncertainty about the timing or amount of cash flows benchmarked to Euribor, and financial instruments indexed to it are not considered to be instruments impacted by the reform.

Instead, instruments indexed to LIBOR in the residual currency LIBOR USD are represented in this IBOR Reform disclosure. The exposure in debt securities issued by the Group is attributable to its own Fix-to-Float issues currently indexed to the LIBOR USD floating rate (the period in which these issues remunerated at a fixed rate having ended).

It should be noted that in light of the regulatory interventions and activities undertaken by the Group, no critical issues have emerged in completing the transition within the stipulated deadlines. In particular, for the management of the stock of outstanding instruments, the Group planned, on the one hand, the massive adoption of the new Risk Free Rates (RFRs) on newly stipulated financial instruments, thus abandoning the use of the benchmarks impacted by the reform and stabilizing the stock of transactions to be transacted, and on the other hand, preparing the solutions for the transition to the new RFRs, defined on the basis of the main international recommendations, capable of minimizing the financial impacts of the transition.

With respect to the benchmarks subject to termination by December 31, 2023, the corresponding transition activities were successfully completed for all respective benchmarks.

Note 3 – Financial risk management (continued)

With regard to instruments indexed to USD LIBOR, we note the presence of residual positions essentially referring, as far as loans are concerned, to some loans disbursed (especially at some foreign branches of Intesa Sanpaolo) and for which, as of December 31, 2023, the renegotiation of the underlying reference rate is still in progress and which use the respective published values of USD LIBOR with synthetic methodology; also, for residual positions in debt securities in the Group's assets (third-party issues) and liabilities (own issues), for which the values of the USD LIBOR published with synthetic methodology are still being used, until termination, pending receipt of indications from the issuers of the same on the indexing for the remaining coupons.

Financial instruments indexed to Other IBORs, whose holdings as of December 31, 2023, are nil.

Sustainable Finance

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

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

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

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

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

Note 3 – Financial risk management (continued)

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

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

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

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

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

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

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

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

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

The Sustainable finance Project in Intesa Sanpaolo Group

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

Sustainability is summarized with the acronym ESG, and is gaining more and more importance in the business context.

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

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

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

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

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

With reference to ESG issues, in its 2022-2025 Business Plan, Intesa Sanpaolo Group is committed to further strengthen its role as a leading bank in ESG, continuing at being a model of reference in terms of sustainability and social and cultural responsibility.

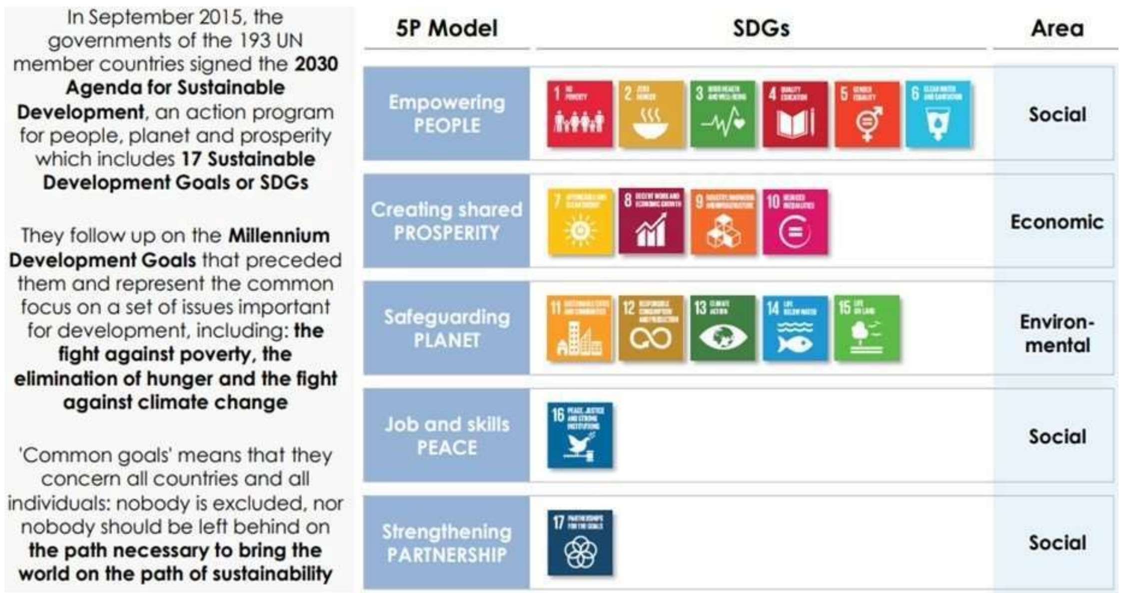
ISP Group has been promoting ways of engagement that are focused on social and environmental responsibility and an increasing inclusion of these issues in the traditional and institutionalized engagement activities.

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

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

Note 3 – Financial risk management (continued)

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



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

Note 3 – Financial risk management (continued)

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

Environmental

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

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

Intesa Sanpaolo Bank Luxembourg Corporate & Financial Institution Division and Structured Finance Division have developed during the 2023 about 10% of their Total Commitments Portfolio on ESG exposures through bilateral or syndicated solutions on both Sustainability linked Loan and Circular Economy Loan, which represent, in terms of draw down amounts, 6% of the total loans to customers portfolio.

Intesa Sanpaolo Bank Luxembourg Investment Portfolio, as of 2023, amounts to EUR 2 billion, evenly splitted in Governmental Bond and Corporates, of which 36% invested in green Bonds, for an amount of EUR 360 million.

Social

The continuous enhancement, growth and satisfaction of Intesa Sanpaolo Bank Luxembourg people represent fundamental objectives to be pursued. ISPBL continue investing in its talents, encouraging diversity and inclusion, creating a unique ecosystem of skills suited to the evolution of the Bank.

The ISPBL Diversity & Inclusion Policy was approved in March 2022 with the aim of promoting a more diverse and inclusive culture in ISP Bank Luxembourg and in order to stay relevant to ISPBL customers, employees, shareholders and society in the future.

Note 3 – Financial risk management (continued)

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

To this end, ISPBL has promoted within the Bank ESG culture by organizing several trainings, as "Together is better", and some focused on the well-being and psychosocial risks.

Furthermore, during the year 2023, the Bank signed as a signatory the Luxembourg Woman in Finance Charter. A pledge for gender balance in the Luxembourg financial centre, a commitment by signatories firms and representative bodies to achieve greater gender balance and inclusivity across the Luxembourg financial services sector. The initiative, supported by the Luxembourg Ministry of Finance, underpins the industry's ambition to see increased participation of women at all levels within financial services organizations and representative bodies in Luxembourg.

Recognising the sector's diversity and firms' different levels of maturity on gender balance, the Charter encourages each signatory to set its own measurable objectives to promote gender balance.

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

Governance

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

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

The ISPBL contributes to defining ABBL position on sustainability, with the aim of a productive dialogue with national and European decision-makers.

At this purpose and to booster culture sustainability within the Bank several internal events have been organized with the collaboration of ESG HO team for the employees and Board's members.

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

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

Note 3 – Financial risk management (continued)

In 2023 the Bank updated of the “Group Guidelines for the Governance of Environmental, Social and Governance (ESG) Risks”, with the aim of integrating and expanding the contents of the previous version. There was an update of the list of sectors sensitive to ESG and/or Reputational risks, in coherence with related strategic directions, the ESG Sectorial Assessment results, scenario analysis and Reputational Risk Management outcomes. Based on the analysis that was carried out, the following sensitive sectors and/or sub-sectors have been identified:

- Agriculture, fishery, livestock
- Automotive – Manufacturing
- Chemicals, Rubber and Plastic
- Coal mining
- Construction Materials - Concrete, lime and plaster
- Defence
- Forestry
- Gambling
- Metals - Non-ferrous metals
- Metals - Steel industry
- Mining
- Oil and Gas
- Power generation
- Tobacco

As part of this process, in coordination with ISPBL HO, the updated "Credit Granting Rules" defined a specific framework, the "ESG Climate Credit Framework", for the Bank to be adopted by Business Units during the Credit approval process, in order to identify whether the ESG and Reputational Clearing has to be processed.

The assessment is performed for sectors and sub-sectors identified by Group Guidelines for the Governance of Environmental, Social and Governance (ESG) Risks”

In the context of the New Credit Framework and Action Plan indications on climate and environmental risks, communicated with the European Central Bank, there was also an alignment of the Guidelines with recent developments in ESG risk management

The Credit Strategy directs credit activity at the portfolio level, within the risk framework defined by the Credit Risk Appetite “CRA”, to optimize the risk-return profile of the credit portfolio ensuring sustainability and consistency with the propensity to risk and the creation of value for the Group in the medium/long term. The ESG Sectoral Color Coding that identifies different clusters of sectors and subsectors based on sectoral characteristics of risk and opportunity by assigning a color to each of them contributes to the definition of credit strategies.

The above-mentioned Guidelines provided and expansion of rules and responsibilities of the functions involved in enforcing the Guidelines.

As part of the process of the extension to Group perimeter of the Group Liquidity Risk Management guidelines, ISPBL has reviewed its current Liquidity Risk Management Guidelines and Implementing Procedure for the measurement of Liquidity risk.

Note 3 – Financial risk management (continued)

The guidelines provide that, the stress testing process must be supplemented with assessments and load testing to identify and isolate the specific risk factors that are important for the current and future situation of the Group, the bank and the market, so that the Corporate Bodies can easily recognise the occurrence of vulnerabilities and guide the implementation of the resulting corrective measures. Particular attention must be given to possible implications arising from the area of Reputational risks, as well as Environmental Social and Governance (ESG).

In this context, the risk factors linked to Climate and Environmental changes must be identified and appropriately measured in order to assess their impact both, in terms of potential net cash outflows and reduction in liquidity reserves, and thus provide adequate information to guarantee and support the decision-making processes of the competent functions.

Furthermore, the ISPBL's Purchasing Policy establishes the need for new suppliers to be carefully assessed and approved by the Management Board before being contracted. To this end, the Bank has developed a specific Supplier Assessment during which the Risk Management Department supports the Administration & Account Payable unit in assessing suppliers from the reputational and ESG point of view.

Note 4 – Cash and cash equivalents measured at amortized cost

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

	Net carrying amount	
(in EUR)	**2023**	**2022**
Cash and cash balances with central banks	2,132,393,390	1,303,175,105
Cash on hand	*320,783*	*234,033*
Cash balances with central banks	*2,132,072,607*	*1,302,941,072*
Loans and advances to credit institutions with maturity <= 3 months	5,675,608,296	4,440,200,397
	7,808,001,686	**5,743,375,502**

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 2023 is EUR 2,132,072,607 (2022: EUR 1,302,941,072).

In terms of mandatory reserves at Luxembourg Central Bank, the amount as at 31 December 2023 is EUR 109,198,540 (2022: EUR 77,569,459)

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

(in EUR)	Net carrying amount 2023	2022
Financial assets held for trading	**3,566,300**	**1,804,034**
Derivatives held for trading	3,566,300	1,804,034
Financial assets mandatorily at fair value through profit or loss ("FVTPL")	**333,840**	**400,214**
Securities	333,840	400,214
	3,900,140	**2,204,248**

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

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

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

(in EUR)	Net carrying amount 2023	2022
Quoted debt instruments issued by:		
Financial institutions	1,157,819,999	590,303,303
Public sector	1,545,427,191	1,564,706,585
Financial and non financial companies	1,050,718,212	838,259,096
	3,753,965,402	**2,993,268,984**

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

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

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

(in EUR)	Fixed Inc. securities	Floating Inc. securities	Total
Balance as at 31 December 2022	**(41,880,851)**	**(3,061,162)**	**(44,942,013)**
Increase (decrease) of unrealised gain	(3,299,040)	(2,826)	(3,301,866)
(Increase) decrease of unrealised loss	23,711,861	3,116,558	26,828,419
Amount reclassified from equity to profit or loss for the year	1,107,218	46,063	1,153,281
Unrealised fair value gain made on assets bought during the year	(7,300,651)	-	(7,300,651)
Loss allowance movement	987,326	2,750	990,076
Deferred taxes	(3,792,554)	(788,739)	(4,581,293)
Balance as at 31 December 2023	**(30,466,691)**	**(687,356)**	**(31,154,047)**

Note 7 – Loans and advances

(in EUR)	2023		2022	
	Total Net carrying amount	**Of which: Impairment**	**Total Net carrying amount**	**Of which: Impairment**
Unquoted loans and advances to:				
Financial institutions & public sector	11,069,240,150	(10,181,205)	11,488,893,911	(4,663,562)
Private customers	1,250,297	(13,400)	858,197	(12,959)
Corporate customers	4,868,566,108	(128,312,356)	2,070,632,281	(143,175,890)
Total	**15,939,056,555**	**(138,506,961)**	**13,560,384,389**	**(147,852,411)**

Impairment allowance for loans and advances

As at 31 December 2023, the Bank individual impairment amounting to EUR 957,459 (2022: EUR 22,560,423) and a collective provision amounting to EUR 137,549,501 (2022: EUR 125,291,988).

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

(in EUR)	2023	2022
Impairment as at 1st January	147,852,411	18,716,391
Amsterdam branch disposal	-	(231,259)
Charge of the year	67,943,071	134,217,467
Recoveries/amounts written-off	(77,288,521)	(4,850,188)
Impairment as at 31 December	**138,506,961**	**147,852,411**
of which:		
Individual impairment	958,691	22,560,423
Collective impairment	137,548,270	125,291,988

Guarantees received as collateral

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

(in EUR)	2023		2022	
	Loans and advances to customers	**Loans and advances to credit institutions**	**Loans and advances to customers**	**Loans and advances to credit institutions**
Net carrying amounts	**7,683,649,624**	**8,255,406,931**	**7,995,418,925**	**5,564,965,464**
Real guarantees				
Securities	984,158,304	-	1,010,992,819	-
Other real guarantees	11,500,001	36,199,095	11,500,001	37,502,344
Other guarantees				
Government guarantees	1,761,100,552	-	1,832,712,574	-
Credit institutions guarantees	132,020,076	-	161,564,887	-
Total guarantees	**2,888,778,933**	**36,199,095**	**3,016,770,281**	**37,502,344**

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

(in EUR)	Land & building	Office equipment	Other equipment	Total
Carrying value before depreciation as at 1st January 2023	**16,053,319**	**68,730**	**1,821,818**	**17,943,867**
Additions	-	5,059	251,614	**256,673**
Disposals/Transfers	(1,839,723)			**(1,839,723)**
Cost as at 31 December 2023	**14,213,596**	**73,789**	**2,073,432**	**16,360,817**
Accumulated depreciation as at 1st January 2023	(6,705,590)	-	(1,068,609)	**(7,774,199)**
Depreciation charge	(1,502,199)	(562)	(434,884)	**(1,937,645)**
Accumulated depreciation as at 31 December 2023	(8,207,789)	(562)	(1,503,493)	**(9,711,844)**
Net carrying amount as at 31 December 2023	**6,005,807**	**73,227**	**569,939**	**6,648,974**

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

The Bank leases cars and office premises under operating leases.

Right-of-use-assets

Right-of-use-assets mainly relate to office premises that are presented within property and equipment.

(in EUR)	Right-of-use assets
Balance at 1 January 2023	**10,100,938**
Depreciation charge of the year	*(1,937,082)*
Additions	*251,614*
Reductions	*(1,839,723)*
Balance at 31 December 2023	**6,575,746**

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

As at 31 December 2023, the future minimum lease payments under non-cancellable operating leases are mainly composed of Luxembourg real estate location contract.

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

Lease liabilities

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

(in EUR)	Lease liabilities
Balance at 1 January 2023	**10,173,465**
Reductions	*(3,938,153)*
Additions	*512,743*
Balance at 31 December 2023	**6,748,055**

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

Amounts recognised in profit or loss

(in EUR)	2023
Interest on lease liabilities	(255,724)
Depreciation charge of the year	*(1,937,082)*
Expenses relating to leases of low-value assets	(110,363)
Total amount	**(2,303,169)**

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

As at 31 December 2023, the future minimum lease payments under non-cancellable operating leases were payable as follows:

In EUR	Motor vehicles	Real estate location contracts	Total
Within 1 year	370,617	1,878,571	2,249,188
1 to 5 years	210,226	3,757,141	3,967,367
Over 5 years	11,205	2,363,696	2,374,901
Total	**592,048**	**7,999,408**	**8,591,456**

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

Current tax assets and liabilities

(in EUR)	2023	2022
Current tax assets	-	-
Current tax liabilities	(296,845)	-
Net current tax liabilities	**(296,845)**	**-**

Deferred tax assets and liabilities

	2023	2022
Deferred tax assets	11,458,578	18,047,157
Deferred tax liabilities	(328,374)	(366,289)
Deferred tax assets	**11,130,204**	**17,680,868**

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

(in EUR)	1 January 2023	Statement of P/L	Equity	31 December 2023
Financial assets held for trading	**(20,621,745)**	54,304	-	**(20,567,441)**
Financial assets mandatorily measured at fair value	**157,185**	(16,389)	-	**140,796**
Financial assets measured at FVTOCI	**14,879,025**	-	(4,581,293)	**10,297,732**
Financial liabilities held for trading	**23,057,729**	(2,007,286)	-	**21,050,443**
Provisions and value adjustments	**208,674**	-	-	**208,674**
		-	-	
Net deferred income tax assets/(liabilities)	**17,680,868**	**(1,969,371)**	**(4,581,293)**	**11,130,204**

The deferred tax expenses presented in profit or loss are related to temporary differences generated by financial instruments fair value changes booked through profit or loss.

The deferred tax assets calculated on financial assets at fair value through other comprehensive income are showing a net deferred tax asset balance. The deferred tax amount has been consequently shown in deduction of the relative comprehensive income.

Starting from 1 January 2022, the Bank entered in the new horizontal fiscal consolidated financial statements organized by its direct Parent Company Intesa Sanpaolo Holding S.A. and including the Luxembourgish entities of the Group.

Please refer to note 10 for the impact on the 2023 financial statements of the Bank, which reprensents the 97% of the tax expense caption presented in the Bank's income statement; the other 3% relates respectively to deferred taxes EUR 2 million (as detailed in the above reconciliation table) and a positive regularisation on the Amsterdam branch fiscal position for an amount of EUR 0,6 million.

Note 10 – Other assets and other liabilities

(in EUR)	2023	2022
		Tot.
Prepaid charges	408,303	1,113,407
Taxes	14,078,328	10,709,662
Accrued commission income	60,362	49,842
Commissions to be received	6,744,069	1,100,808
Other	60,251,396	59,999,110
Other assets	**81,542,458**	**72,972,831**

(in EUR)	2023	2022
Social security charges	1,922,639	1,848,739
VAT	2,134,022	2,545,749
Administrative expenses to be paid	18,637,194	15,578,200
Accrued commission expenses	1,664,240	1,760,473
Short term payable and other sundry accounts	2,417,845	2,507,300
Tax consolidation	43,336,092	-
Other liabilities	**70,112,032**	**24,240,461**

The item “Tax consolidation” relates to the payable due to Intesa Sanpaolo Holding S.A. for the tax sharing agreement formalized between the parties in relation to the horizontal fiscal consolidated financial statements signed in 2022. The amount represents the best estimate of the tax amount expected to be paid.

Concerning 2023 Financial year, caption “Tax consolidation”, part of caption “Other liabilities”, includes the payable due to Intesa Sanpaolo Holding S.A for an amount of EUR 43,336,092 and comprise tax payables on the profits realised by the Bank and representing the best esitamete of the tax amount expected to be paid; concerning 2022 Financial year, instead, caption “Other”, part of the caption “Other assets”, includes the receivable due from Intesa Sanpaolo Holding S.A. for an amount EUR 55,708,725 and comprise tax receivables on the losses realised by the Bank and representing the best estimate of the credit tax amount expected to be collected.

Note 11– Financial liabilities at amortised cost

(in EUR)	2023 Carrying amount	2022 Carrying amount	Variation in EUR	Variation in %
Deposits from credit institutions				
Current accounts and amounts with period of notice	1,394,024,097	1,266,614,462	127,409,635	10%
Term deposits	4,531,374,833	4,821,126,567	(289,751,734)	(6%)
Total	**5,925,398,930**	**6,087,741,029**	**(162,342,099)**	**(3%)**
Corporate customers				
Current accounts and amounts with period of notice	494,541,592	612,059,214	(117,517,622)	(19%)
Term deposits	2,549,145,695	1,620,642,964	928,502,731	57%
Total	**3,043,687,287**	**2,232,702,178**	**810,985,110**	**36%**
Private customers				
Current accounts and amounts with period of notice	1,973,148	4,702,136	(2,728,988)	(58%)
Term deposits	1,465,328	-	1,465,328	100%
Total	**3,438,476**	**4,702,136**	**(1,263,661)**	**(27%)**
Debts evidenced by certificates				
Certificates of deposits	2,598,825,721	3,044,840,463	(446,014,742)	(15%)
Commercial paper	7,878,418,229	4,494,925,304	3,383,492,925	75%
Total	**10,477,243,950**	**7,539,765,767**	**2,937,478,183**	**39%**
Financial liabilities measured at amortised cost	**19,449,768,643**	**15,864,911,110**	**3,587,586,521**	**23%**

European Medium Term Notes :

Since November 2011, the Bank participates as an additional issuer in a EUR 70 billion Euro Medium Term Notes (EMTN) Programme, developed by its ultimate Parent Company, alongside Intesa Sanpaolo Bank Ireland (INSPIRE). The programme is guaranteed by Intesa Sanpaolo S.p.A.. The EMTN (the “bonds”) issued under this programme bear a maturity date of maximum 5 years. The maximum aggregate principal amount of notes from time to time outstanding in respect of all issuers will not exceed EUR 70 billion or the equivalent thereof in other currencies. The notes are denominated in any currency subject to compliance with any applicable legal and or regulatory and or Central Bank requirements. As at 31 December 2023 and 2022, there were no subscribed notes.

Commercial Paper:

Since March 2011, the Bank participates as an additional issuer in a EUR 30 billion Euro Commercial Paper (ECP) Programme, developed by its ultimate Parent Company, alongside Intesa

Sanpaolo Bank Ireland (INSPIRE). The ECP (further the “notes”) issued under this programme bear a maturity date under 1 year (short term notes) and are denominated in Euro, US Dollars or any other currency subject to compliance with any applicable legal and regulatory requirements. The maximum aggregate principal amount of notes from time to time outstanding in respect of all issuers will not exceed EUR 30 billion or the equivalent thereof in other currencies. As at 31 December 2023, such ECP issued by the Bank amount to EUR 7,878 million (2022: EUR 4,495 million).

Note 12 – Derivatives held for hedging

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

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

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

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

(in EUR)	**2023**		**2022**	
	Notional amount	**Fair value**	**Notional amount**	**Fair value**
Assets				
Interest rate instruments	3,317,848,869	241,967,640	3,576,763,210	404,038,445
	3,317,848,869	**241,967,640**	**3,576,763,210**	**404,038,445**
Liabilities				
Interest rate instruments	2,465,100,000	71,252,287	1,173,700,000	15,681,046
	2,465,100,000	**71,252,287**	**1,173,700,000**	**15,681,046**

Note 12 – Derivatives held for hedging (continued)

Hedged items are as follows (in EUR):

	2023 Carrying value	2022 Carrying value
Financial assets at fair value through other comprehensive income	3,753,965,402	2,059,682,982
Loans and advances	720,743,993	909,326,053
Deposits	523,989,377	490,635,890
Debts evidenced by certificates	1,056,174,832	144,936,931

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

		2023		
		Gains/(losses) attributable to the hedged risk		
Hedged items	**Hedging instruments**	**Hedged items**	**Hedging instruments**	**Ineffectiveness**
Fixed rate loans & liabilities	Interest rate swaps	11,689,138	(11,010,731)	678,407
Fixed rate FVOCI debt instruments	Interest rate swaps	158,374,631	(158,374,631)	-
Total		**170,063,769**	**169,385,362**	**678,407**

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

Note 13 – Provisions

(in EUR)	2023	2022
Financial guarantee contracts issued	6,234	2,516
Loan commitments issued and uncommitted credit lines	5,333,427	11,708,055
Other provisions	2,326,055	2,387,315
Total	**7,665,716**	**14,097,886**

Financial guarantee contracts, loan commitments issued and uncommitted credit lines

As at 31 December 2023, the amount in respect of financial guarantee contracts issued, loan commitments issued and uncommitted credit lines represent the sum of ECL provisions calculated following IFRS 9 implementation (note 3).

Other provisions

The following table sets out other provisions.

(in EUR)	2023
Provision as at 1st January 2023	**2,387,315**
Additions	**-**
Reductions	**-**
Forex impact	(61,260)
Provisions as at 31 December 2023	**2,326,055**

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

The above table shows provisions movements from 31 December 2022 to 31 December 2023. Decrease in value has been mainly generated by foreign exchange movements (linked to some provisions in foreign currency).

Note 14 – Equity

Share capital

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

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

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

As at 31 December 2023, the subscribed capital was therefore EUR 1,389,370,555 represented by 4,464,237 shares (integrally subscribed).

Share premium

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

Revaluation reserve

Revaluation reserve caption is composed of the cumulative net change in fair value of debt securities measured at FVTOCI until the assets are derecognised or reclassified and it amounts to EUR -31,154,047 (2022: EUR -44,942,013). This amount includes the ECL loss allowance equal to EUR 53,891. FTA revaluation reserve calculated as at 1 January 2018 following the IFRS 9 implementation has been recorded in Retained Earnings.

These revaluation reserves are not distributable.

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 2023, the legal reserve maintains the same amount as at the end of 2022 equal to EUR 88,491,212, due to the loss realized as at 31 December 2022.

Other reserves

As at 31 December 2023, other reserves amount to EUR 872,024,575 (2022: EUR 854,524,575).

Net Wealth Tax

During 2023, the Bank allocated to the Net Wealth tax reserve an amount equal to EUR 17,500,000, which constitutes an unavailable reserve.

Note 14– Equity (continued)

Retained earnings

As at 31 December 2023, retained earnings amount to EUR 109,890,016 (2022: EUR 281,077,795) and mainly include :

- the impact of the implementation (FTA) of IFRS 9 as adopted by the European Union (EUR -15,082,330);
- the impact of the first time adoption (FTA) of IAS/IFRS standards as adopted by the European Union (EUR 4,850,848);
- the impact of the disposal of the functional property carried at fair value (EUR 24,513,535);
- the impact of other retained earnings for an amount of EUR 95,607,963.

Allocation proposal

The amount attributable to shareholders, including earnings profit from previous years, but excluding the impact of the first time application of IFRS as adopted by European Union, totals EUR 235,501,297. It is proposed to the Annual General Shareholders' Meeting approving the financial statements as at 31 December 2022 to allocate the above mentioned amounts as follows (in EUR):

Net profit of 2023 financial year Retained profit from previous year (excluding FTA and reclassification from revaluation reserves)	131,256,458 104,244,839
Amount attributable to shareholders	**235,501,297**
Allocation to legal reserve (5% net profit)	6,562,823
Allocation to the NWT reserve	17,700,000
Dividends for financial year	80,000,000
Retained profit carried forward	**131,238,474**
Total	**235,501,297**

Note 15 – Net interest income

(in EUR)	2023	2022
Financial assets held for trading	1,775,957	1,473,037
Hedging derivatives	169,284,283	23,818,757
Financial assets at FVTOCI	52,560,013	18,578,852
Loans and advances	474,073,199	130,531,379
Interest income on liabilities	223,320,824	113,143,819
Other	1,391	289
Total interest and similar income	**921,015,667**	**287,546,133**

(in EUR)	2023	2022
Hedging derivatives	(94,187,258)	(27,195,952)
Financial liabilities held for trading	(8,663)	(7,232)
Financial liabilities measured at amortised cost	(650,732,522)	(129,842,359)
Total interest expenses and similar charges	**(744,928,443)**	**(157,045,542)**
Net interest income	**176,087,224**	**130,500,591**

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

Note 16 – Net fee and commission income

A. Disaggregation of fee and commission income

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

(in EUR)	2023	2022
Credit activities	38,579,258	36,290,259
Brokerage and treasury activities	23,709,514	27,200,483
Corporate services	1,115,061	391,820
Other	4,704,753	2,097,782
Total fee and commission income	**68,108,586**	**65,980,345**
Credit activities	(6,606,325)	(5,527,159)
Brokerage and clearing fees	(11,008,298)	(10,887,014)
Other	(4,991,796)	(5,194,857)
Total fee and commission expenses	**(22,606,419)**	**(21,609,030)**
Net fee and commission income	**45,502,167**	**44,371,315**

Note 16 – Net fee and commission income (continued)

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

(in EUR)	2023	2022
Amendment fees	2,559,627	557,215
Arrangement fees	14,955,010	7,474,078
Commission income on guarantees	372,007	209,128
Commitment fees	14,893,261	13,825,375
Corporate services fees	446,812	759,801
Liquidity fees	241,623	-
Structuring fees	785,058	6,207,496
Treasury activities	23,708,382	27,195,842
Upfront fees	4,126,529	7,633,122
Other	6,020,276	2,118,287
Total fee and commission income	**68,108,586**	**65,980,345**
Brokerage and clearing fees	(11,050,084)	(10,930,862)
Servicing fees	(4,997,840)	-
Credit activities – other	(679,409)	(4,089,468)
Commitment fees	(366,020)	(669,806)
Corporate services fees	(522,500)	(714,219)
Other	(4,990,565)	(5,204,675)
Total fee and commission expenses	**(22,606,419)**	**(21,609,030)**
Net fee and commission income	**45,502,167**	**44,371,315**

Note 16 – Net fee and commission income (continued)

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

(in EUR)	2023	2022
LUXEMBOURG	15,888,635	16,243,053
U.S.A.	5,289,543	6,178,290
BELGIUM	5,203,741	984,498
SWEDEN	4,584,433	-
SPAIN	4,333,270	3,033,414
FRANCE	4,328,475	2,780,892
UNITED KINGDOM	4,097,897	2,889,563
RUSSIA	2,547,266*	6,830,345
SOUTH AFRICA	2,263,567	1,470,465
NORWAY	1,865,123	1,851,889
GERMANY	1,653,275	3,043,898
CAYMAN ISL	1,429,278	1,312,020
CHINA	1,370,151	354,551
ITALY	1,324,200	1,931,445
NETHERLAND	984,806	872,903
QATAR	929,410	1,631,270
JAPAN	881,706	942,732
TAIWAN	832,787	666,740
INDIA	816,347	3,620,511
CROATIA	788,854	-
GUERNSEY ISL.	675,307	580,954
SOUTH KOREA	667,426	529,007
IRELAND	621,200	2,287,503
SAUDI ARABIA	567,577	796,125
SWITZERLAND	444,673	714,378
HONG KONG	348,408	362,774
KUWAIT	295,928	296,407
BRAZIL	231,328	243,662
HUNGARY	231,326	-
CANADA	226,890	167,116
INDONESIA	213,486	-
AUSTRALIA	211,618	-
EGYPT	178,350	472,912
TANZANIA	148,964	-
MALAYSIA	138,650	-
CHILE	19,908	741,024
OTHER COUNTRIES	1,474,783	2,150,003
Total fee and commission income	**68,108,586**	**65,980,345**

Note 16 – Net fee and commission income (continued)

(in EUR)	2023	2022
ITALY	(6,494,703)	(1,860,994)
GERMANY	(3,808,461)	(4,054,147)
UNITED KINGDOM	(1,990,972)	(1,568,924)
U.S.A.	(1,818,317)	(2,215,059)
FRANCE	(1,265,862)	(4,804,408)
CHINA	(968,579)	(287,041)
CAYMAN ISL	(598,412)	(563,529)
TAIWAN	(550,657)	(402,282)
BELGIUM	(535,654)	-
INDIA	(505,175)	(392,180)
SAUDI ARABIA	(430,053)	(399,891)
SOUTH KOREA	(392,011)	(295,995)
IRELAND	(366,462)	(318,774)
RUSSIA	(357,950)	(1,072,078)
JAPAN	(303,037)	(331,414)
HONG KONG	(283,181)	(300,116)
LUXEMBOURG	(16,613)	(653,797)
SPAIN	(213,716)	(276,162)
NETHERLAND	(171,966)	(305,153)
SOUTH AFRICA	(168,747)	(228,335)
INDONESIA	(128,828)	-
BRAZIL	(113,575)	(104,007)
SWITZERLAND	(102,802)	(109,285)
CANADA	(73,339)	(63,496)
PHILIPPINES	(57,804)	(42,185)
OTHER COUNTRIES	(889,541)	(959,738)
Total fee and commission expenses	**(22,606,419)**	**(21,609,030)**
Net fee and commission income	**45,502,167**	**44,371,315**

*Commission income linked to Russia have been fully paid as at 31 December 2023 and they relate mostly to a transaction closed in December 2023.

B. Contract balances

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

C. Performance obligations and revenue recognition policies

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

The following table provides information about the nature and timing of satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 9 and 15 (applicable from 1 January 2018)
Corporate banking service	The Bank provides banking services to corporate customers. Fees for ongoing account management are charged to the customers' account on a monthly basis. Transaction-based fees are charged when the transaction takes place.	Revenue from account service is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Asset management service	The Bank provides asset management services. Fees for asset management services are calculated based on a fixed percentage of the value of assets managed and deducted from the customers' account balance on a monthly basis.	Revenue from asset management services is recognised over time as the services are provided.

Note 17 – Dividend income

As at 31 December 2023 dividend income relates to financial assets mandatorily measured at fair value and amounts to EUR 29,209 (2022: EUR 29,029).

Note 18– Net gains/(losses) on financial assets and liabilities held for trading

As at 31 December 2023 and 2022, the net (un)realised (losses) on financial assets and liabilities held for trading are composed of:

(in EUR)	2023	2022
Equity instruments and linked derivatives	(601)	2,154
Interest rate instruments and linked derivatives	(7,463)	(4,825,374)
Foreign exchange transactions	7,172,260	(9,288,523)
	7,164,195	**(14,111,743)**

As at 31 December 2023 net gains/(losses) on financial assets and liabilities held for trading are mainly composed of :

- Losses unrealised on Interest rate swap contracts for an amount of EUR -7 thousands (of which EUR 2.8 million linked to their NPV and EUR -2.8 million linked to interest rate differentials); as at 31 December 2022 corresponding figures were respectively EUR -5.1 million, EUR -2.4 million and EUR -2.6 million;
- Losses unrealised on Cross Currency Interest rate swap contracts for an amount of EUR -2.7 million, of which EUR -27 thousands of losses linked to their NPV and EUR -2.7 million of losses linked to the interest rate differentials related to the hedging of forex exposures; as at 31 December 2022 corresponding figures were respectively EUR -5.2 million, EUR 0.5 million and EUR -5.7 million.
- Global positive impact generated by foreign translation differences and fex contracts for an amount of EUR 9.9 million (2022: EUR -4.1 million).

Note 19 – Net gains/(losses) on financial assets and liabilities at fair value through profit or loss

As at 31 December 2023 the net (un)realised gains on financial assets and liabilities at fair value through profit or loss are mainly composed of unrealised gains on assets classified at fair value through profit or loss for an amount of EUR 94,889 (2022 unrealised loss: EUR 47,232).

Note 20 – Net gains/(losses) on financial assets and liabilities not at fair value through profit or loss

As at 31 December 2023 net realised gains on financial assets and liabilities not at fair value through profit or loss are mainly composed of net gains realised on the sale of bond instruments measured at FVTOCI perfectly hedged by interest rate swaps (asset swaps portfolio).

(in EUR)		**2023**			**2022**	
	Profits	**Losses**	**Net**	**Profits**	**Losses**	**Net**
Due from banks and customers	24,488	-	24,488	140,635	-	140,635
Financial assets measured at FVTOCI	65,269,461	(58,423,948)	6,845,513	127,450,756	(111,310,563)	16,140,193
Debt securities	*65,269,461*	*(58,423,948)*	*6,845,513*	*127,450,756*	*(111,310,563)*	*16,140,193*
Equities	-	-	-	-	-	-
Total assets	**65,293,949**	**(58,423,948)**	**6,870,002**	**127,450,756**	**(111,310,563)**	**16,280,829**
Securities issued	-	-	-	-	-	-
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**
Net realised gains and losses	**65,293,949**	**(58,423,948)**	**6,870,002**	**127,591,391**	**(111,310,563)**	**16,280,829**

Through the disposal of each asset swap before maturity, losses realised by the Bank on each bond have been compensated by gains realised on the related hedged (and vice versa).

The amounts presented in the table are composed by net gains realised on bonds for an amount of EUR 4.0 million and net gains realised on interest rate swap contracts unwinded before their maturity for an amount of EUR 2.9 million.

As at 31 December 2022 corresponding figures were respectively EUR -106 million and EUR 122 million.

Note 21 – Net other operating expenses

As at 31 December 2023 and 2022, net other operating expenses are mainly composed of withholding taxes which are linked to the Bank's business activity and VAT and amount to EUR 2,245,434 (2022: EUR 3,919,942).

Note 22 – Administrative expenses

(in EUR)	2023	2022
Wages and salaries	(17,893,640)	(16,843,835)
Social security charges	(3,028,597)	(2,524,949)
Legal pension and similar expenses	(1,100,371)	(839,731)
Employee benefits	(1,541,801)	(1,837,942)
Other	(2,040,728)	(1,862,306)
Total staff expenses	**(25,605,138)**	**(23,908,762)**
Operating expenses	(8,920,566)	(8,843,674)
Repair and maintenance	(115,829)	(273,425)
Training and moving	(2,073,979)	(1,694,400)
IT outsourcing costs	(10,612,611)	(8,748,559)
Legal and professional fees	(1,393,118)	(1,445,225)
Marketing and representation fees	(1,937,487)	(2,068,000)
Charges linked to Corporate activity and other charges	(3,585,735)	(2,183,478)
Total general and administrative expenses	**(28,639,326)**	**(25,257,362)**
Total administrative expenses	**(54,244,463)**	**(49,166,124)**

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

	2023	2022
Authorized Management	3	3
Middle Management	44	52
Employees	120	110
	167	**165**

Note 23 – Net impairment result on financial assets

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

(in EUR)	2023			2022
	Write-downs	Write-backs	Total	Total
Loans and advances	(57,360,955)	50,800,218	(6,560,737)	(333,502,074)
Debt securities	(1,365,539)	348,365	(1,017,174)	24,488
Impairment	**(58,726,494)**	**51,148,583**	**(7,577,912)**	**(333,477,587)**

As at 31 December 2022 Net impairment result on financial assets significantly higher due to the impact of the conflict between Russia and Ukraine to capture credit risk on Russian counterparties.

Note 24 – 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 2023 and 2022 concerning Group entities and the parent companies are as follows:

(in EUR)	2023	2022
Assets and liabilities		
Assets held for trading and assets carried at fair value through profit or loss	2,547,105	1,363,232
Investment securities mandatorily measured at FVTPL	333,840	400,214
Investment securities at FVTOCI	-	1,711,186
Loans and advances	8,163,257,612	5,282,017,820
Hedging derivatives – Assets	241,967,640	404,038,445
Tangible assets*	6,005,808	9,347,729
Other assets	55,819,673	55,789,741
Non-current assets held for sale	1,711,186	-
Financial liabilities held for trading and liabilities carried at fair value through profit or loss	(3,222,078)	(20,349,058)
Financial liabilities measured at amortised cost*	(7,634,227,526)	(7,870,960,394)
Hedging derivatives – Liabilities	(71,252,287)	(15,681,046)
Provisions	(306)	(290,706)
Other liabilities	(173,714)	(519,736)
Non-current liabilities held for sale	(1,300,252)	-

Note 24 – Related party disclosures (continued)

(in EUR)	2023	2022
Income and expenses		
Interest income*	429,529,875	71,765,879
Fees and commissions income	483,417	322,563
Dividend income	29,209	29,029
Net (un)realised gains and losses on financial assets and liabilities held for trading	(14,671,886)	(34,748,049)
Net unrealised losses on financials assets and liabilities held for hedging	(173,988,515)	401,038,472
Net (un)realised gains and losses on financials assets and liabilities at fair value through profit or loss	(94,889)	(47,232)
Net realised gains (losses) on financial assets and liabs not at FVtoPL	2,873,209	
Interest expenses*	(407,392,766)	(104,309,274)
Fees and commissions expenses	(6,926,176)	(6,022,571)
Impairment	(660,708)	(99,113)
Administrative expenses	(16,825,583)	(12,905,321)
Other income and expenses	(1,905,418)	(2,035,132)
Depreciation*	(1,502,199)	(1,756,301)
Provisions	290,385	(131,719)
Discontinued operations	(394,594)	15,000,000
Tax (expense) income	1,209,440	

**Tangible assets amount (and the related amount booked in caption "Depreciation") relates to real estate operating lease contract subscribed by the Bank with its Parent Company Intesa Sanpaolo Holding International S.A. (ISPH); concerning financial liabilities measured at AC, the amount includes EUR 244 mio of deposits and EUR 2,329 mio of debt certificates with ISPH. In relation to Income and expenses captions, interest expenses related to transactions with ISPH amounted to EUR 133 mio.*

Key management personnel

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

(in EUR)	2023	2022
Administrative bodies	272,000	124,501
Other key management personnel	761,231	670,126
	1,033,231	**794,627**

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

Note 24 – Related party disclosures (continued)

As at 31 December 2023 and 2022, the Bank has no obligations related to retirement pensions for former administrative bodies and key management personnel.

As at 31 December 2023 and 2022, the Bank has not granted advances and credits and has not entered into guarantee commitments for the above mentioned bodies and personnel.

During 2023 the Bank paid deferred bonuses to other key management personnel for an amount of EUR 22,050 (2022: EUR 112,814) but linked to previous financial years; no bonuses were paid in relation to 2022 financial year.

Share-based payment transactions

On 30 April 2019, 17 March 2020, 23 February 2021 and 29 April 2022 the Bank granted share appreciation rights (SARs) to employees identified as *Group Risk Takers* that entitle the employees to a cash and shares payment. The amount of the shares payment is determined based on the increase/decrease in the share price of the Ultimate Parent Company shares between grant date and the time of exercise.

The terms and conditions of the grants are as follows:

Grant date	Number of instruments	Assignment	Number of instruments	Vesting conditions
SARs granted at 30 April 2019	25,707	25,707	-	3 years services
SARs granted at 17 March 2020	32,862	32,862	-	2 years services
SARs granted at 23 February 2021	24,725	21,264	3,461	2 years services
SARs granted at 29 April 2022	92,136	55,281	36,855	2 years services
	175,429	**135,113**	**40,316**	

Details of liabilities arising from SARs are as follows:

(in EUR'000)	2020	2021	Total
Total carrying amount of liabilities	23	527	551
Cash	*14*	*430*	*444*
Shares	*9*	*97*	*106*

Note 25 – Commitments and contingent liabilities

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

(in EUR)	2023	2022
Unused confirmed credits	4,765,939,118	3,271,263,269
- out of which towards related parties	*2,566,719*	*3,162,933*
Guarantees and other direct substitutes for credit	222,710,990	107,595,777
- out of which towards related parties	*2,121,715*	*2,051,515*

Guarantees received by the Bank:

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

(in EUR)	2023		2022	
	Contingent liabilities	**Unused confirmed credits**	**Contingent Liabilities**	**Unused confirmed credits**
Net carrying amounts	**222,710,990**	**4,765,939,118**	**107,595,777**	**3,271,263,269**
Real guarantees				
Securities	10,000,003	-	-	-
Other real guarantees	262,667	-	479,690	2,715,831
Personal guarantees				
Government guarantees	-	424,993,209	-	615,659,385
Credit institutions guarantees	-	14,699,669	-	8,435,113
Total guarantees	**10,262,670**	**439,692,878**	**479,690**	**626,810,329**

Note 26 – Deposit guarantee and investor compensation schemes

The law related to the resolution, reorganisation and winding-up measures of credit institutions and certain investment firms and on deposit guarantee and investor compensation schemes (“the Law”), transposing into Luxembourgish law the directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms and the directive 2014/49/EU related to deposit guarantee and investor compensation schemes, was passed on 18 December 2015.

The deposit guarantee and investor compensation scheme “Association pour la Garantie des Dépôts Luxembourg” (AGDL) was replaced by a new contribution based system of deposit guarantee and investor compensation scheme. This new system covers eligible deposits of each depositor up to an amount of EUR 100,000 and investments up to an amount of EUR 20,000. The Law also provides that deposits resulting from specific transactions or fulfilling a specific social or other purpose are covered for an amount above EUR 100,000 for a period of 12 months.

The funded amount of the “Fonds de résolution Luxembourg” (FRL) shall reach by the end of 2026 at least 1% of covered deposits, as defined in article 1 number 36 of the Law, of all authorized credit institutions in all participating Member States. This amount will be collected from the credit institutions through annual contributions during the years 2015 to 2024.

The target level of funding of the “Fonds de Garantie des Dépôts Luxembourg” (FGDL) is set at 0.8% of covered deposits, as defined in article 163 number 8 of the Law, of the relevant credit institutions and was to be reached by the end of 2018 through annual contributions. The contributions were made in the form of annual payments during the years 2016 to 2018.

Since the level of 0.8% was reached, the Luxembourgish credit institutions are to continue to contribute for 8 additional years in order to constitute an additional safety buffer of 0.8% of covered deposits as defined in article 163 number 8 of the Law.

Note 27 – Investment management services and underwriting functions

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

- Corporate services;
- Custody.

Assets managed on behalf of third parties are as follows:

(in EUR)	**2023**	**2022**
Custody and administration of transferable securities	10,256,037,326	9,698,519,997

Note 28 – Audit fees

The audit fees and audit related fees for the years ended 31 December 2023 and 2022 are as follows:

(in EUR)	2023	2022
Statutory audit fees	217,776	224,826
Audit related fees	385,479	365,786
Other	35,690	113,790
	638,944	**704,402**

Note 29 – Encumbered assets

Encumbered assets may be analysed as follows:

	ENCUMBERED		UNENCUMBERED		CARRYING AMOUNT	
(in EUR)	Carrying amount	Fair value	Carrying amount	Fair value	2023	2022
Cash and cash equivalents	-	-	7,808,001,686	-	7,808,001,686	5,743,375,502
Debt securities	541,421	541,421	3,753,423,981	3,753,423,981	3,753,965,402	2,994,980,170
Equities	-	-	333,840	333,840	333,840	400,214
Loans and advances	750,000	-	10,262,698,259	-	10,263,448,259	9,120,183,992
Other financial assets	-	-	245,533,940	-	245,533,940	405,842,480
Non financial assets	-	-	99,650,012	-	99,650,012	100,189,656
Non-current assets HFS	-	-	1,711,186		1,711,186	
Total 2023	**1,291,421**	**541,421**	**22,171,352,904**	**3,753,757,821**	**22,172,644,325**	**18,364,972,014**

Note 30 – Analysis of changes in financing during the year

In EUR	Liabilities: Debt Securities	Liabilities: Subordinated Liabilities	Equity: Ordinary Shares	Equity: Share Premium	Equity: Retained Earnings	Total
Opening balance at 1 January 2023	**4,494,925,304**	**200,000,000**	**1,389,370,555**	**7,720,692**	**281,077,795**	**6,373,094,346**
Changes from financing cash flows						
Proceeds from issue of debt securities	7,878,418,229					7,878,418,229
Repayment of debt securities	(4,494,925,304)					(4,494,925,304)
Proceeds from issue of subordinated loans						
Proceeds from disposal of assets						
Total changes from financing cash flow	3,383,492,925					3,383,492,925
Other changes					139,981	139,981
Allocation of 2022 result					(171,327,760)	(171,327,760)
Balance at 31 December 2023	**7,878,418,229**	**200,000,000**	**1,389,370,555**	**7,720,692**	**109,890,016**	**9,585,399,492**

In EUR	Liabilities: Debt Securities	Liabilities: Subordinated Liabilities	Equity: Ordinary Shares	Equity: Share Premium	Equity: Retained Earnings	Total
Opening balance at 1 January 2022	**4,157,280,112**	**200,000,000**	**1,389,370,555**	**7,720,692**	**146,519,338**	**5,900,890,698**
Changes from financing cash flows						
Proceeds from issue of debt securities	4,494,925,304	-	-	-	-	4,494,925,304
Repayment of debt securities	(4,157,280,113)	-	-	-	-	(4,157,280,113)
Proceeds from issue of subordinated loans	-	-	-	-	-	-
Proceeds from disposal of assets	-	-	-	-	-	-
Total changes from financing cash flow	337,645,192	-	-	-	-	337,645,192
Other changes	-	-	-	-	(243,747)	(243,747)
Allocation of 2021 result	-	-	-	-	134,802,203	134,802,203
Balance at 31 December 2022	**4,494,925,304**	**200,000,000**	**1,389,370,555**	**7,720,692**	**281,077,795**	**6,373,094,346**

Note 31 – Non-current assets held for sale and disposal groups

Discontinued operations relate to Luxgest Asset Management S.A.

Lux Gest Asset Management S.A. (LGAM), a wholly owned subsidiary of Intesa Sanpaolo Bank Luxembourg SA, is a Luxembourg asset management company under the control of the local supervisory authority (CSSF). Until 2022, LGAM acted as an originator and manager of regulated funds and SICAVs, particularly alternative funds (AIFs) and UCITS , to support wealth management activities in favor of the parent company ISPBL's corporate clients.

Following the sale of the private banking division to Fideuram Bank Luxembourg in 2021 and in the absence of any extra-captive prospects, LGAM started in early 2022 the liquidation of the managed SICAVs, which was completed by the end of April.

All the relevant information and documentation have been sent to the attention of the Local Regulators and the seller and the buyer are waiting for the CSSF final authorization to formalize the disposal.

The tables below provide details of the amounts presented in the statement of profit or loss and of financial position.

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

(in EUR)	2023
ASSETS	
Quoted & unquoted shares issued by:	
Corporates (shares in affiliated undertakings)	**1,711,186**
LIABILITIES	
Current accounts	**1,300,252**

(in EUR)	2023
INCOME STATEMENT	
Net interest margin	(28,142)
Net commission margin	(277,909)
Net trading income	860
Administrative expenses	(499,752)
	(804,943)

Note 31 – Non-current assets held for sale and disposal groups - continued

As at 31 December 2023, shares in affiliated undertakings, which are classified in this category, where the Bank held at least 20% are as follows:

	Registered Office	Percentage Owned	Net equity (in EUR)*	Of which Profit of the year (in EUR)*
Lux Gest Asset Management S.A.	Luxembourg	100%	1,286,676	(201,553)

** Based on unaudited figures*

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

Note 32 – Events after the reporting date

In addition to the warranty contract "First Ranking Account Pledge Agreement" (granted by Intesa Sanpaolo Holding International SA (the "Parent Company") in January 2016 in relation to a subordinated loan issued by Banca Intesa Russia and subscribed by Intesa Sanpaolo Bank Luxembourg SA for an amount of USD 40 mln) and in relation to an evolution of the geopolitical situation, the Bank signed on 23rd February 2024, a complementary "First Ranking Account Pledge Agreement" guarantee contract with the Parent Company in order to cover any further risk inherent to loans granted in the previous years to Banca Intesa Russia by the Bank for a total amount of EUR 84 million.
The guarantee is executable at the discretion of the Bank on the basis of the evolution of the context.

The Bank is not aware of any adjusting event that would have occurred between 31 December 2023 and the date when the present financial statements were authorised for submission by the Board of Directors to the Annual General Meeting of Shareholders.