UniCredit International Bank
Luxembourg

Financial Statements and Report of the *réviseur d'entreprises agréé*
31 December 2021

8-10, rue Jean Monnet
L-2180 Luxembourg
R.C.S. Luxembourg: B 103 341

Contents

UniCredit International Bank
Luxembourg

2021

Report of the Management Board

of UniCredit International Bank (Luxembourg) S.A.

2021 Report of the Management Board

Content

2021 Report of the Management Board

I. Macroeconomic environment

The global economy

2021 started with the ratification by Congress of Joe Biden's victory, accompanied by a more conciliatory attitude in domestic politics and more collaboration in international politics.

Progress in the vaccination campaign contributed to the reopening of economies, albeit with different timing in different geographic areas. This in a context where the savings accumulated during the pandemic reached unprecedented levels in some countries, reaching for example 21% of disposable income in the United States ("US"). Expectations of a significant fiscal stimulus coupled with potential actions focused on infrastructure investments and the high savings rate have led to continued growth in US stock prices and reinforced the cyclical recovery scenario.

The economic recovery contributed to raise concerns about the risk of an acceleration of structural inflation and the possible removal of monetary support from Central Banks more quickly than expected.

The compression of real yields has once again been the driving factor of the valuations of the entire financial system, directly supporting bonds and indirectly equities. The bond market did not embed expectations of prolonged cycles of rates hikes. The stock market, on the other hand, is comforted by the still low level of real interest rates.

The first part of the year therefore ended positively for the financial markets, with the Standard & Poor's 500 index exceeding 4.000 points for the first time in its history with a growth of 6%. With regard to the evolution of interest rates, tapering risk has also begun to have an impact on the European bond market with rates rising especially on the peripheral markets, as demonstrated the ten-year BTP yield rose by 25 basis points in April and the euro rose against the dollar.

In Europe, with the victory of the coalition between the Social-democrats, Greens and Liberals in the German federal elections , the markets have extrapolated a possible paradigm shift with respect to the issues of public spending and rigorous fiscal discipline, observed by German governments in the past. As a result, the German Bund yield rose at year-end and it seemed to have lost the characteristic of a safe haven that has distinguished it in recent history.

Contrary to what happened in the US, the situation in Europe, with the new restrictions that came into force in many countries since the beginning of December, has slowed down the upward pressure of government yields, which have returned to the ten-year curve in the Eurozone in negative territory.

In China, after the new regulation on the tech giants, the bankruptcy of Evergrande, one of the largest real estate developers in the country contribute to create worries about the pace of the growth of GDP.

Equity markets

The equity markets were characterized by a return of volatility compared to 2020 but with some spikes due in particular to unexpected Covid variants.

The most important stock index in the world, the S&P 500 index has risen since the beginning of the year hitting its high point on 18 November at 4.808.

In 2021 in terms of total return, the difference between Nasdaq Composite and SP500 was + 6,19% for the SP500 index. The Nasdaq index started the year at 12.698 and then reached an all-time high on November 22 at 16.212 (+27,6%) and then gradually dropped, due to fears related to the new Omicron variant, and rebounded in recent weeks to 15.723.

In Europe, the Eurostoxx 600 benchmark index performed by 19,6% starting from 400,14 and reaching its all-time high point of 487,72 on 17 November to close the year at 478,84.

Good result also for the Italian Ftse Mib index which closed the end of the year at 27.347 scoring a +23% after reaching its peak of the year on November 16 at 27.969 points. A similar trend was recorded for the Dax 30 index in Frankfurt even if the index performance was lower than in Italy and Eurostoxx from mid-July.

Below is the trend of the main indices in the period 04/01/2021 - 30/12/2021:

Indices	Price Change in €	Price change in Local currency
Standard&Poors	+36,87%	26,89%
Eurostoxx50	+20,59%	+20,59%
Nikkei 225	+1,38%	+4,91%
Hang Seng	-8,33%	-17,24%

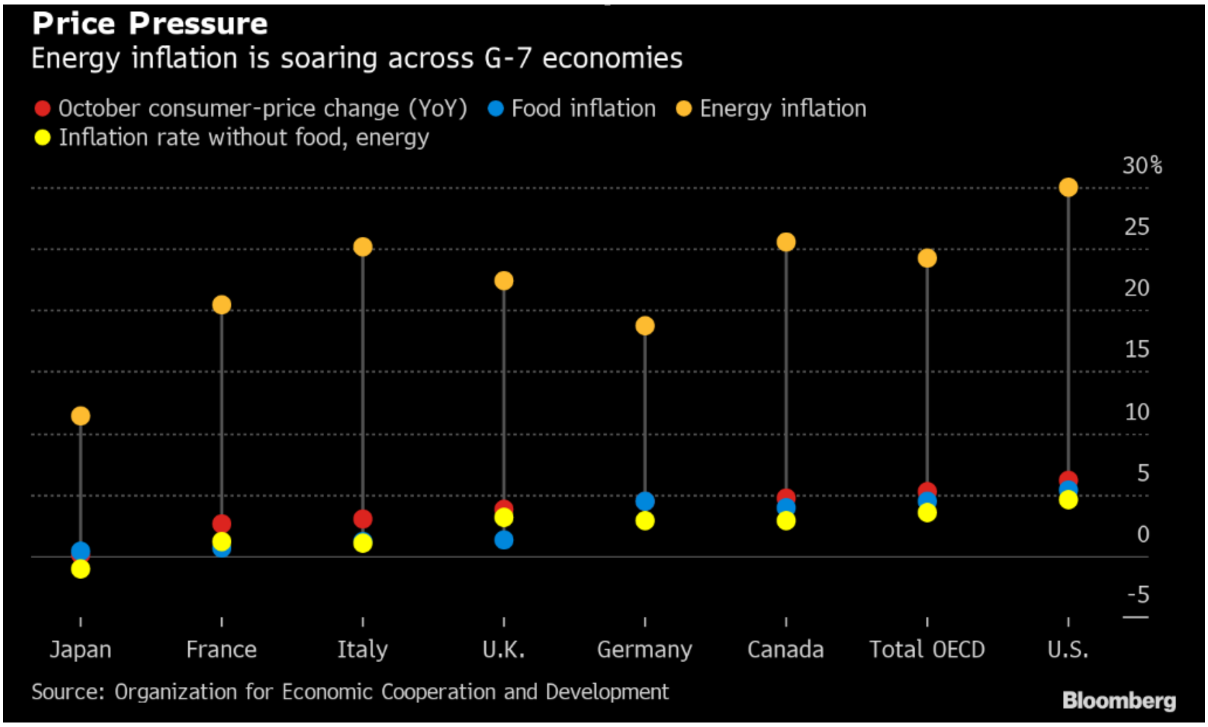
The sectors (MSCI World Sectors) that drove the performance of the main stock exchanges are: Automotive, Oil&Gas, Technology, Bank, Insurance and Health Care.

Forex

Compared to 2020, the dollar strengthened against the euro in 2021. The US dollar rose against the euro by 7,72% since the beginning of the year. The strong expectations of rate hikes in United states led to a weakening of the Euro up to the exchange rate of 1,12 on November 24 to close at the end of the year at 1,137.

Fixed income and interest rates

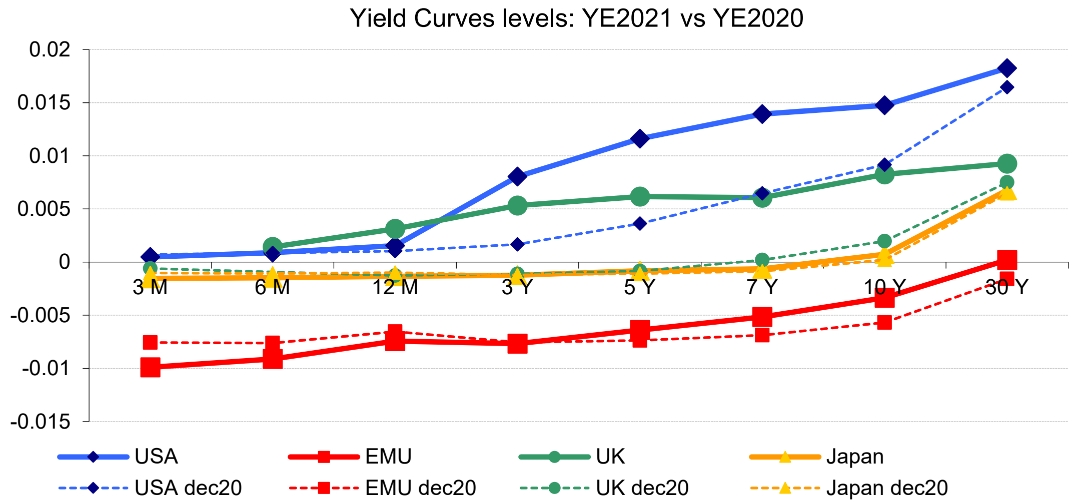
Inflation in the G7 countries has risen to the highest level of the last 25 years in the face of the increase in the cost of energy. The rise in prices was one of the main factors that influenced the evolution of interest rates in 2021.



Central bank buying programs of securities have kept bond yields at low levels despite that rise in the prices of raw materials and transport services together with the sharp rise in energy prices are less and less considered temporary by Central Banks.

The revision of monetary policies (tapering) and the possible increase in rates expected for 2022 led to a revision of the composition of fixed income assets together with duration by investors.
The effect produced was therefore an increase in yields on all curves.

The 10-year German Bund remained in negative territory. After reaching -0,5% August, it increased to -0,19% at year end.
The 3-month Euribor (interbank index) remained on an annual average of -0,55%, which fell to unprecedented levels, or -0,57%, at the end of the year. This situation is the result of the policies implemented by the ECB to support the economic recovery following the pandemic.



Outlook 2022

Growth rates should be sustained in 2022 with a weakening by the end of 2022. For European Union real GDP is expected to increase by around 4% in 2022 and by 3% in 2023.

Several factors will contribute to support growth: the unexpressed and unmet demand, the further advances in vaccinations, the ambitious multi-year investment programs and the healthy balance sheets of families and private companies with their savings and cash surpluses.

For the next year, more impulses will come from consumption and investment activities. Consumption will also be supported by the increase in wealth in a context of rising interest rates and yields, as well as by the expected double-digit increases on the stock markets. This implies still optimistic profit expectations, which will support the propensity to invest. Looking at the Supply, the reopening of factories and the resumption of production in Asian countries (excluding China), from major industrial suppliers, will increase confidence in an upcoming stabilization of manufacturing production in Europe.

The most recent developments show that the world will likely have to live with recurring (longer) waves of Covid. However, further increases in vaccination rates, the rapid adaptation of vaccines to new variants and the increase in unvaccinated infections (which fuel herd immunity) should make the pandemic increasingly manageable.

Even if inflation growth is continuing in the short term, in the medium term inflation rates are expected to remain above pre-Covid levels. In 2022 it could be anticipated a rapid reduction in bond purchases (tapering) and the first hikes in interest rates by the Fed.

On the equity front, from a geographical point of view, the economic cycle differential for 2022 slightly favours Europe compared to the United States. The factor justifying the outperformance is certainly the much lighter positioning of investors in equities from the Old Continent.

Downside risk comes from Inflation, Covid mutations and geopolitical factors (China, Russia).

The greatest downside risks derive from inflation. If inflation does not decline sustainably next year, this will lead not only to a substantial loss of purchasing power, but also to a more restrictive monetary policy with a possible risk of a slowdown in economic growth. In this sense, the United States is particularly under pressure. Furthermore, higher interest rates could fuel the debate on the sustainability of the sizeable public debt and trigger fiscal policy initiatives. All of this could weigh a lot on growth and cause a halt to the recovery process.

Covid remains an element of uncertainty for 2022 and could once again send shockwaves around the world if variations of the virus emerge that undermine existing vaccine protection.

Also geopolitics is an open question. Growing tensions between the Western world and Russia (Belarus, Ukraine) or China (trade and expansionist foreign policy, Taiwan, human rights) could have an impact on global trade.

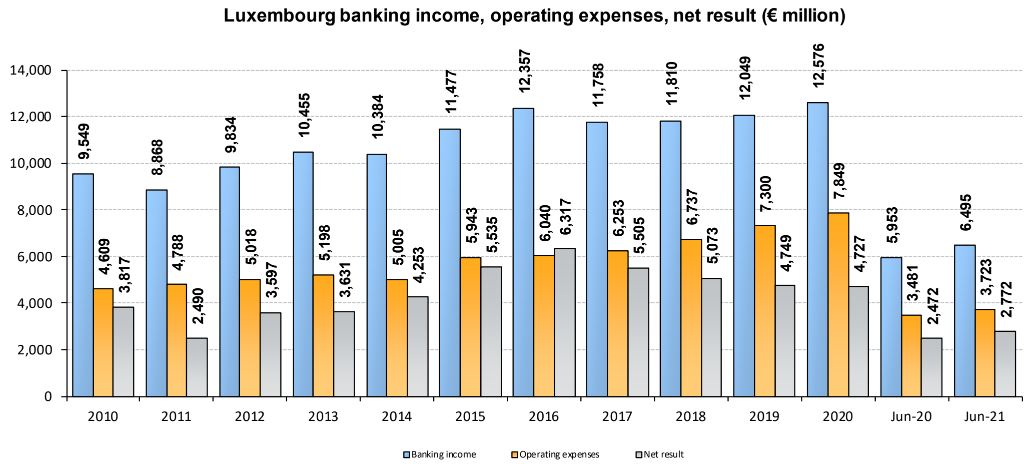
China's structural problems such as the excessive debt of many state-owned enterprises and regional governments, as well as the transformation of the Chinese economic model from an export-driven model to a service-based economy could also weigh on global growth.

The future will be increasingly oriented towards new technologies, towards greater protection of the climate and equality / opportunity for participation, with the latter two trends closely linked to a new sensitivity towards environmental, social and governance issues (ESG). Also linked to the ESG theme is the trend towards healthy lifestyles, a trend that is mainly associated with a better balance between work and private life, a longer life expectancy and changing consumer needs.

II. Luxembourg’s financial centre

In 2021, as in previous years, Luxembourg’s financial centre coped better than other European countries with challenges in the European environment with regard to investment and economic governance. In Luxembourg, GDP in 2021 is expected to increase by 6.0%, well above the rise of the average of the European Union. This evolution compares to the -1,8 % drop of 2020 as a consequence of the negative effects of Covid 19 on the real economy. The inflation should reach 2,3%, with a substantial increase compared to the 0,8% of the previous year[1].

Despite the pressure on costs coming from increasing regulatory requirements, the profitability of the Luxembourg Banking sector slightly improved in 2021. Income in the Banking industry as of June 2021 amounted to € 6,5 billion, increasing versus the almost 6 billion as of June 2020.



Source: CSSF

In the latest figures published by the *Commission de Surveillance du Secteur Financier* (CSSF) in December 2021, the balance sheet total of the Banking system in Luxembourg amounted around € 921 billion[2](September 2021), revealing an increase compared to the previous year (September 2020). In 2021, the Luxembourg Banking system continued to cope with increased regulatory requirements. The number of Banks didn’t change substantially compared to the previous year. In the Banking labour market the number of employees slightly decreased from 26,154 in September 2020 to 26,147 in September 2021.

[1] Source: Statec, December 2021
[2] Source: CSSF, December 2021

III. Report on operations

Key performance indicators

Statement of comprehensive income (€ thousands and %)

	31.12.2021	31.12.2020	Δ 2021 vs 2020%	2021 vs 2020
Operating income	**24.074**	25.585	-6%	-1.511
Operating costs	**20.796**	17.079	22%	3.716
Operating profit *	**4.156**	8.549	-51%	-4.393
Profit before tax	**3.224**	8.558	-62%	-5.334
Cost/income	**86,4%**	66,8%	29%	19,5%

Statement of financial position (€ thousands)

	31.12.2021	31.12.2020	Δ 2021 vs 2020%	2021 vs 2020
Total assets	**2.416.705**	2.470.335	-2%	-53.630
Loans and receivables with customers	**1.078.564**	1.291.609	-16%	-213.045
Deposits from customers	**475.187**	574.279	-17%	-99.092
Shareholders´equity	**307.183**	306.305	0%	878

Ratios (%)

	31.12.2021	31.12.2020	Δ 2021 vs 2020%	2021 vs 2020
Core Tier 1/total risk-weighted assets	**80,8%**	58,6%	38,0%	22,2%
Total capital ratio	**80,8%**	58,6%	38,0%	22,2%
LCR ratio	**149,6%**	226,1%	-33,8%	-76,5%
Leverage ratio	**11,5%**	10,9%	5,6%	0,6%
ROA	**0,1%**	0,2%	-59,6%	-0,1%

* Operating profit = Profit before tax - Net (losses)/recoveries on credit impairment - Net provisions for risks and charges

The Bank's operations

In 2021, the Bank ("UCInt") continued in its effort to develop the business transferred in 2017 and in 2018, namely the Global Family Office ("GFO"), the Wealth Management ("WM"), the Insurance business and the Fund Management ("FM").

The Bank is directly involved in the Group strategic funding activity and it has issued notes under the € 1bn Equity Linked Notes Programme.

The Bank Governance Model foresees a clear segregation between the day-to-day management and the control/supervision of the Bank. The Bank is managed by a Management Board, which exercises its functions under the control of a Supervisory Board. The Management Board is in charge of taking all actions necessary or useful to fulfil the Company's corporate objectives, with the exception of the actions reserved by Luxembourg law or by the Articles of Association to the General Meeting or the Supervisory Board. The Supervisory Board is in charge of the supervision and control of UCInt's administration by the Management Board.

From an organizational point of view, the Bank continued the efforts in order to optimize all the processes formalize them in Operating Guidelines and implement Group guidelines in relation to its Business model. A permanent monitoring of strategies, guiding principles, policies and internal procedures in force is in place, in order to ensure the compliance with the applicable external regulations as well as with the Group Global Rules issued by the Group and adopted by the Bank.

In 2021, ICT infrastructure and Disaster Recovery remained outsourced to the Luxembourg branch of UniCredit Bank AG ("HVBL").

Combined teams composed by employees of the Bank and of HVBL are covering the following areas in order to leverage on the existing know-how and expertise:

- Human Resources
- Compliance
- ICT Applications

In compliance with the applicable regulations, the outsourcing activities and the combined teams are governed by Service Level Agreements (hereinafter: the "SLA"), which specifies all details in relation with the involved activities.

To ensure an enhanced framework, aligned with all regulatory requirements and capable of dealing appropriately with UHNWI needs, the Bank did significant investments both in human capital and in upgrading needed software. In the ICT projects area the Bank continued to improve efficiency and automation of the Back Office processes, performed an important enhancement of the Compliance processes thanks to the upgrade of Transaction monitoring IT tool (MDS software) and several other Compliance ICT related implementations. The replacement of the reconciliation tool TLM has been completed as well during the year with the installation of the newest version called Aurora. Similar initiatives were implemented for tools used by the business. The new version of the front office portfolio management software Equalizer is planned at the beginning of 2022 and the release of the new version of the E-Banking, is expected to be live in the second quarter of 2022. From a regulatory perspective, a dedicated project DAC 6 has been established by UniCredit Group and the Bank has implemented the new regulatory requirement in 2021. In line with the DAC 6 requirements, new ICT automatic extractions were implemented and procedures have been updated. ICT continued in its effort to roll out Windows 10 to all the employees, to renew obsolete hardware and to upgrade the old Oracle databases versions to the latest one.

After implementing in 2019 the system SAP with the SAP modules FI Financials (including asset management and accounts payable) and CO Controlling as a satellite system of the core system of the Bank (OLYMPIC), in 2020 the Bank introduced a fully digitalised electronic validation and approval workflow for the invoice handling within SAP. In 2021, the SAP implementation was completed with additional enhancements for budget monitoring. With this project, the Bank was able to achieve several targets: enlarging the 4-eyes principles within SAP, defining a full Bank-wide electronic paperless process from scanning of invoices, validation of budget and tax parameters and approval of the responsible following the approval authorities of the Bank.

Significant investments in 2020 and 2021 were dedicated to the implementation of the Compliance Programme with focus on anti-financial crime topics, i.e. anti-money laundering and counter terrorism financing as well as compliance to financial sanctions and embargoes. In particular, the Bank reviewed and enhanced its KYC process (e.g. enhanced Customer Risk Rating methodology), Transaction monitoring, Financial Sanction Screening processes and procedures (sanity check on data quality was completed) and further strengthened Second Level of Controls and Risk Assessment execution. Furthermore, following the reinforcement of the Compliance team, the key regulatory frameworks (e.g. MIFID II, MAR, CoI, GDPR, Anti-Corruption, etc.) were reviewed and further enhanced.

In 2021, the Bank continued to deliver its loan portfolio data to the Group. This information is used by the Group both for managerial as well as Regulatory purposes. In 2021, the group started to feasibility study to assess whether the Corep, large Exposure and Leverage ratio reporting can be included in the Centralized Last Mile Engine.

Since the end of 2018, the Bank is connected with the Group Management Information System ("GMIS") used to centrally monitor the commercial performance of Group customers assisted by several legal entities. In a first step only commercial and risk data related to GFO customers have been included in GMIS.

The FATCA is a US law applicable to foreign financial institutions (FFIs) and other financial intermediaries to prevent and avoid tax evasion by US citizens and residents with offshore accounts and/or other structures. The Bank is FATCA-compliant and implemented the necessary new IT tools and processes to file FATCA reporting.

On 14 October 2014, the European Council established a draft directive extending the scope of the Automatic Exchange of Information (AEoI) for tax purposes among EU member states. This Directive includes Automatic Exchange of Information obligations based on the OECD CRS, which represents another important step for tax transparency and a global agreement to disclose certain incomes earned by individuals and enterprises. The Bank performs the necessary activities related to CRS and QI reporting.

Furthermore, on 25 May 2018 the Economic and Financial Affairs Council formally adopted the Council Directive amending the existing Directive 2011/16/EU on administrative cooperation in the field of taxation, as regards mandatory automatic exchange of information in relation to reportable cross-border arrangements to disclose potential aggressive tax planning. The obligation to disclose is on all EU-based intermediaries involved in the arrangement. Under certain conditions, the taxpayer may be obliged to disclose as well. The update of the local Transfer Pricing File related to the year 2020 has started in 2021 and it is expected to be finalized at the beginning of 2022.

The safety of the employees and the continuity of the activities of the UCInt continued to be a top priority, especially in consideration of the pandemic Coronavirus. Dedicated plans has been put in place in order to ensure the safety of the employees, and the business continuity. During the crisis, the Bank activated health and safety protocols and constantly monitored the situation.

During 2021, Government has prolonged the state of crisis, releasing progressively some restrictions, which allowed the Bank, in coordination with the Group and protocols of neighbour’s countries, to increase the percentage of presence in the premises from 20% to maximum 50% of employees with a weekly rotation schedule. At year-end, following the development of the pandemic and in line with the recommendation of the local authorities the Bank decreased again the presence of staff in the Bank premises in order to minimize the Covid-19 contagion risk. Only staff that have to perform tasks that require physical presence in the office are in the building.

The following main contingency measures were kept in place according with Government recommendations and Group guidelines:

- Wearing masks
- Taking distance
- Avoiding physical meetings
- Business Travel ban

During 2021 the Bank registered a very limited number of positive cases fully recovered and no major incident on availability of the business has been recorded.

In 2021, the Bank did not have branches, did not acquire own shares and did not perform any activity in the field of research and development.

Risk management and internal control systems in relation to the financial reporting process

Risk Management process refers to the strategic management, identification and assessment of risks as well as the assumption or avoidance of risk. In 2021, the Bank was fully operational and had no operational disruptions and no losses due to collateral deterioration, counterparty defaults or credit losses. With regard to liquidity risk management, LCR was always far above the regulatory limit. The Bank performed a stress test and examined the robustness of its liability structure in case of crisis. The results of the stress test showed that the Bank had sufficient liquidity for more than 3 months.

The Bank also performed a wider risk assessment and implemented mitigation actions.

In 2021, the Bank continued to focus operational risk management and to enhance and adapt processes. In case of need, additional controls have been implemented to mitigate operational risks. The Bank also faced higher market risk and business risk in consideration of the increased volatility in the markets and of the reduced business activities especially in Italy due to the lockdown.

The Bank has defined an Internal Capital Adequacy Assessment Process (ICAAP) as the central cornerstone of the Risk Management process. The risk types are described in detail in the ICAAP Report for 2021. The risk is monitored using various risk management methods and risk systems that are appropriate for the risk type and its exposure level.

The central risk measure is the internally determined risk capital (Economic Capital) which is equal to the Economic Capital plus a cushion of € 25 million. Risk capital is compared to the Available Financial Resources (AFR). The risk taking capacity is the ratio of AFR over Economic Capital. It expresses the coverage of the actual economic capital used. As at the end of 2021, the AFR was € 295 million. Risk-bearing capacity (coverage of calculated economic capital by the AFR) was always well above the limit of 100% in the course of 2021.

The control of the identified risks is centralised in Risk Management. By monitoring of the Bank's activities, Risk Management is not only tasked to control actual compliance of the Bank's activities with the risk appetite but also to look forward on the impact of the business strategies as defined at Group level and approved by the Bank, so that the Bank remains compliant within the risk framework and proactively propose risk mitigating solutions when required. In the European Union the Single Supervisory Mechanism (SSM) is applied to Banks with assets in excess of € 30 billion or 20% of domestic GDP. The ECB is the competent authority commissioned for this supervision. The SSM is applicable to UniCredit Group, thus UniCredit SpA ("UC SpA") and the relevant subsidiaries in the Eurozone are supervised by the ECB. In 2021, the ECB carried out an assessment of the Banks, which fall under its direct supervision. The Bank received the results of this supervisory review, SREP, in November 2021 and was informed that no additional supervisory requirements are set to the Bank's Prudential Capital and Liquidity ratios.

The steering and management of liquidity risk remained a major topic in 2021. In line with the local liquidity policy, the Bank continued to maintain a positive cumulative liquidity gap on the liquidity ladder up to the three-month, monitored and forecasted on a daily basis its liquidity coverage ratio (LCR).

As part of the Bank's risk appetite, the Bank defined for the LCR, in addition to the regulatory minimum requirement of 100%, two other managerial restrictions: an internal limit of 115% and an internal trigger level at 124% aligned with the Group's Risk appetite. The Bank has escalation procedures in case of activation of the trigger or overdraft of the internal limit.

In order to manage the assets and liabilities stemming from its business model in a proactive manner, the Bank established an Asset & Liability Committee (ALCO). The adherence to the earlier mentioned liquidity metrics put constrains on the balance sheet. Therefore, the focus of the ALCO in 2021 was on strategies to adhere to the liquidity targets and the Funding Plan.

The liquidity management is the responsibility of the department Strategic Funding and Treasury. It operates within the limits approved, which are fully aligned with the Group's Liquidity Risk appetite. Risk Management is responsible for the second level control of the Bank's adherence to these limits and also for escalating limit breaches to the Management Board and relevant Group functions.

In order to manage unforeseen liquidity demands the Bank has an unencumbered Government bond portfolio that can be liquidated in case of necessity. The Bank implemented a free capital investment model in line with the methodology defined by UniCredit Group.
It should be noted that the Bank does not have independent access to the Money Market. The Bank executes its Money Market Transactions with its parent company.
The main methodologies to manage the liquidity risk are Short Term Gap analysis, Stress test and Structural liquidity analysis.

At 31 December 2021 the Bank's LCR was:

Liquidity buffer	€ 909 mn
Net liquidity outflow	€ 608 mn
Liquidity coverage ratio (%)	149.6%

The Internal Regulations, approved by the Management Board, define one decision making body to grant credits: Credit Committee. The committee can authorize, suspend or revoke loans or investments, within the scope of the powers assigned to it. Depending on the characteristics of the transaction, a non-binding credit opinion of UC SpA can be necessary.

The Risk Management Department monitors the credit portfolio on a daily basis, controlling the adherence to credit limits including assessment of the value of the collateral pledged. It gives its independent advice to the Credit Committee on credit proposals. The renewal requests and the annual reviews are submitted, according to the nature and duration of the transaction, to the Credit Committee.
The Bank continued to use the Standard Approach for the measurement of its regulatory Capital adequacy. The Group has confirmed that UniCredit International is on the Group's roll-out plan for the extension of the Foundation IRB approach which is planned to be submitted to ECB in the first half of 2023. It is envisaged that this approach will be used for the bank's Multi-National Clients segment, whereas for the other Credit exposures the Bank will continue to use the Standard approach. Application of the Foundation IRB for Capital Adequacy purposes requires approval from the competent authorities.

With regard to its credit exposure, the Bank has to adhere to two regulatory limits. The credit exposures to each single group are required to fall within the large exposure limit, which is set at 25% of the Bank's own funds. This mitigates the concentration risk. The Bank's large exposure limit was € 75 million in December 2021. The Bank obtained a credit guarantee for one Group customer to ensure that the Bank continuously meets the large exposure limit. The second constraint is the Total Capital Ratio. The Bank's TCR was 81% as at 31 December 2021 much higher than the minimum requirement and leaving room for growth in full compliance with minimum capital requirements.

The Bank is exposed to market risks through Credit Spread Risk in its Investment portfolio, interest rate and foreign exchange risks. Risk Management daily monitors the limits defined and approved. In case of a breach, the Risk management is responsible for the defined escalation process. The Bank manages interest rate risk by setting limits, amongst other, on the value sensitivity per bucket and the one year Net Interest Income sensitivity under a parallel shift scenario. Investment in securities are controlled by securities portfolio global limits.

FX limits are set on the basis of the Banks accounting positions in foreign currencies. The Bank adopts the Basic Indicator method to measure its operational risk. As at 31 December 2021, the amount of capital absorbed by operational risk calculated according to the Capital Requirements Regulation ("CRR") was € 3.0 million.

As part of its BCM (Business Continuity Management), the Bank implemented BIA (Business Impact Analysis) and risk analysis procedures aimed at identifying and breaking down the critical processes either to identify elements of vulnerability presented by the processes involved in Banking activity in the various business segments with the potential to result in operational loss events, or to ensure the continuity of the critical processes in case of disaster or any event that could put at risk the Bank functioning.

The Internal Control System (ICS) relates to the operational monitoring and management of risk.

In conformity with the regulations in force, and in particular with the CSSF Circulars 12/552 as amended by Circulars CSSF 13/563, 14/597, 16/642, 16/647, 17/655, 20/750 and 20/759, the internal control system of the Bank comprises regulations on the management of corporate activities (internal management system) and regulations on the monitoring of adherence to these regulations (internal monitoring system). The internal monitoring system is organised in a three-lines-of-defence model and allows for process integrated and process independent controls that, in general, take place on the following levels:

- First Line of Defence
    - Daily controls by the responsible personnel (4-eyes principle);
    - Hierarchical controls as integral part of a leadership function;
    - Controls by members of the Management Board with regard to the activities that fall in their area of responsibility.

- Second Line of Defence

In addition to the first level controls being integrated in the business processes, there are controls by support functions in place which are independent from the actual processes in particular Risk Control and Compliance.

Compliance monitors the following Compliance Perimeter unless activities are internally delegated:

- Anti-Money Laundering (AML) and Counter Terrorist Financing (CTF);
- Compliance with national and international Financial Sanctions and Embargos;
- Prevention of Market Abuse and Insider Trading;
- Appropriate implementation of compliance related CSSF-Circulars;
- Compliance with MIFID policies and procedures;
- Conflicts of Interest;
- Customer Complaints Management;
- Anti-bribery & Corruption;
- Antitrust and Unfair Commercial Practices;
- Privacy/ Data Protection and Observance of Professional Banking Secrecy

The second level control functions provide for an additional surveillance of the first level controls and at the same time support third level controls.

- Third Line of Defence

The third level controls are covered by Internal Audit with objectives as follows:

- Assess whether necessary internal controls have been implemented within business processes;
- Assess whether controls in place are effective and support adequately to achieve control targets;
- Risk assessment in case of divergence.

For support in the performance of its duties, including those relating to the financial reporting process, the Supervisory Board has set up an Audit Committee made up of three members of the Supervisory Board. The Audit Committee, effective as from 1 January 2018, provides assistance in fulfilling the oversight responsibilities to shareholders relating to the reliability and integrity of corporate accounting and financial reporting practices, compliance with laws, regulations and company policies and maintenance of a sound system of internal controls. Four meetings of the Audit Committee were held in 2021.

The Bank has implemented several policies with respect to Risk Control, Compliance and Internal Audit. These policies describe the fields of intervention directly related to each internal control function and clearly define the responsibilities for the common fields of intervention and objectives as well as the independence, objectivity and performance of the internal control functions. The policies are regularly reviewed, either in case of major changes or annually. Furthermore, value systems such as the Code of Conduct and compliance rules have been applied by the Group in all countries for many years and all employees have to adhere to them while performing their activities. These value systems are key-elements for an effective risk management process and are the basis for responsible action by all staff members including those directly involved in the financial reporting process.

The purpose of the RMS (Risk Management System) and the ICS (Internal Control System) in the financial reporting process is to implement controls that ensure, with an adequate degree of certainty, that annual financial statements together with the management report and management's discussion and analysis are prepared in compliance with regulations despite the identified risks. They ensure that the internal and external financial reporting is correct and reliable and that assets, liabilities and equity are classified, recognised and measured.

The Management Board determines the scope and orientation of the RMS and the ICS specifically in line with the Bank's requirements and subject to the approval of the Supervisory Board, taking measures for the ongoing development of the systems and their adaptation to changing conditions. With regard in particular to the financial reporting process, the internal control system encompasses the policies, processes and measures needed to ensure the effectiveness of financial reporting and the compliance with applicable regulations.

The responsibility for the financial reporting process and, in particular, for the annual financial statements and for contributing to UniCredit Group consolidated financial statements remains with the Management Board who is also responsible for adopting the financial statements and proposing the financial statements for the Shareholders approval.

According to the Policy on 262 Law certification process the Management Board is requested to approve the adequacy of the administrative and accounting procedures and actually applied in relation to the Legal Entity features and the actual application of the procedures employed to draw up the economic and financial situation, the assets and liabilities and reporting packages towards UniCredit Holding. Moreover, the Management Board is requested to attest that the economic and financial situation, the assets and liabilities and reporting packages towards UniCredit SpA correspond to the results of the accounting books and records are suitable to provide a true and correct representation of the assets and liabilities, and the economic and financial situation of the Legal Entity.

The Bank uses Olympic software as a general ledger. The Bank integrated the accounting and reporting tools with a new middleware based on an Oracle technology: Advance Management Information System (AMIS). AMIS is based on the mainly automated uploading of individual transaction data from the upstream systems relevant to financial reporting (sub-ledger). SAP Business Warehouse is automatically supplied with data by the AMIS. This solution allows to fulfil the new internal analytical reporting needs related to the business by enriching accounting data with information for analytical controlling purposes and to ensure the consistency of accounting and controlling data.

AMIS DB allows the collection, integration and harmonisation of data coming from several data sources. With the SAP BW (Business Warehouse) reporting layer an ad-hoc multidimensional analysis is available to easily extract data and to provide flexible managerial reporting. Explore and SAP Business Warehouse are used for reporting and data retrieval. Explore is the data source used for FINREP reporting to the local regulator.

The COO (“chief operating officer”) is responsible for the maintenance of the IT systems required for the financial reporting process. The figures for the UC Group consolidated financial statements and the subsequent consolidated bookings are collected and reported using the TAGETIK CPM consolidation system used in the entire UC Group and network across all UC Group companies. TAGETIK is automatically supplied with data by AMIS.

The law dated 18 December 2015 transposed into Luxembourg law EU Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms (“BRRD”) and EU Directive 2014/49/EU on deposit guarantee schemes (“DGSD”). The Bank’s contribution to the national resolution fund in 2021 amounted to € 0.6 million.

Employees

Below are the staff figures as at 31 December 2021:

Bank's staff	2021	2020
Top management	2	3
Employees	65	65
Total	**67**	**68**

As of 31 December 2021, the Bank employed 22 female and 45 male staff members. In the current challenging environment, well-trained employees with special advisory qualities are the prerequisites for meeting the high expectations of our clients. In this respect, a permanent commitment to outstanding performance in connection with the five fundamentals of the Group is reflected in the day-to-day work of our staff.

In order to allow “young talents” gaining experience in the Bank, the Bank has developed cooperative arrangements with universities and is offering several traineeships.

The Management Board wishes to express its sincere thanks to all of the Bank’s employees for their contribution to the Bank’s performance over the past year. The success of the Bank would not have been possible without their personal efforts and commitment.

IV. Report on Internal Profit Centers

GFO (Global Family Office)

GFO is part of a global initiative aimed at enhancing UniCredit Group value proposition towards family financial holdings and family offices. Being part of the CIB Division, GFO´s mission is to fulfil holding companies and family offices financial needs by providing corporate and investment Banking solutions.

In cooperation with the relevant CIB product units, the Bank offers to its clients investment Banking products and services – financing capital markets, M&A and hedging solutions – to support them in corporate finance and capital markets transactions and fulfil their financial needs.

The main goal of this focused and strategic client approach is to attract new clients and maximize the overall profitability of the relationship by means of collateralized transactions with reduced capital absorption and by optimising the management of customers' liabilities while creating cross-selling opportunities.

Customer on-boarding activities are fulfilled in close cooperation with the Bank Compliance and, when necessary, Group Compliance and account opening is dependent on the approval of the internal acceptance committee.

At the end of 2021, the Group undertook a reorganization with the target of developing synergies and of increasing the focus on the Ultra High Net Worth Individuals ("UHNWI"). As a result, starting from 2022 GFO will be integrated into the Ultra-high Net Worth families & family holdings business line of the newly created Division Wealth Management e Private Banking Italy.

Wealth Management & GIS

The mission of the Wealth Management business is threefold:

- To provide Private Banking services, focusing exclusively on fully transparent International activities aiming at providing our customers with a high level of efficiency,
- To provide services to insurance companies (investment management of insurance funds and custody services),
- To provide investment management services to funds.

All three activities are meant to be closely linked to client generation from Italian Group entities (Cordusio SIM and UniCredit S.p.A. Private Banking) or Luxembourgish Group entities (Structured Invest, a UniCredit Bank AG fully owned Management company).

Leveraging on Luxembourg financial centre characteristics, the Bank Wealth Management benefits from:

- a flexible legislation aimed at continuously promoting cross-border businesses, with a track record of efficient and reliable solutions in a most stable financial centre (AAA rating);
- a proactive, business-friendly government as well as accessible regulators who are implementing the appropriate legal framework to offer an attractive environment for innovative products and to promote Luxembourg as a world-class financial centre;
- fully compliant solutions, offered within the European Union.

The activities of UCI do not overlap with the ones of the on-shore networks but complement their offering through products and services designed to meet the needs of selected customers in a unique way.
In line with Group guidelines, financial assets are managed accordingly to the independent Global Investment Strategy (GIS) view. To further strengthen this link with the Group, an advisory agreement is in place with Cordusio SIM for the provision of investment models and its scope will be further enlarged to cover other advisory activities to be offered by the Bank.

In compliance with the ICMA Private Wealth Management Charter of Quality and Group Policies, the Bank provides its customers with a spectrum of exclusive, high level products and services.

Strategic Funding & Treasury (SF&T)

SF&T is predominantly a client driven business. The activities of SF&T form an integral part of the CIB value chain. Consistently with the mission decided by the Holding Company, the business of the Strategic Funding & Treasury is based on the following activities:

- The Bank performs selective investments for its own portfolio. The investments are usually carried out in fixed rate European Government Bonds. The Investment Strategy is related to instruments purchased either for liquidity purpose or for capital Investment.
- The Bank issues Structured Notes.
- The Bank manages the WM & GFO clients orders (bonds, equities, funds) through an automated solution to route the orders to the standard UniCredit market platform used within CIB.

V. Statement of financial position

(€ '000)

ASSETS	AMOUNTS AS AT 31.12.2021	AMOUNTS AS AT 31.12.2020
Cash and cash balances and Other demand deposits	5.170	8.879
Financial assets at fair value through profit or loss:	8.903	3.782
a) financial assets held for trading	8.903	3.782
Financial assets at fair value through other comprehensive income	701.345	608.660
Financial assets at amortised cost:	1.670.175	1.825.485
a) loans and advances to banks	338.530	322.552
b) loans and advances to customers	1.078.564	1.291.609
c) loans and advances to customers - Debt securities	253.081	211.324
Hedging derivatives	7.964	218
Equity investments	12	12
Property, plant and equipment	1.709	2.146
Intangible assets	8.112	4.655
Tax assets:	9.673	13.228
a) current	1.111	-
b) deferred	8.562	13.228
Other assets	3.643	3.271
Total assets	**2.416.705**	**2.470.335**

LIABILITIES	AMOUNTS AS AT 31.12.2021	AMOUNTS AS AT 31.12.2020
Financial liabilities at amortised cost:	2.053.583	2.085.882
a) deposits from banks	1.371.825	1.305.030
b) deposits from customers	475.187	574.279
c) debt securities in issue	205.246	204.687
d) other liabilities	1.325	1.887
Financial liabilities held for trading	9.214	4.231
Hedging derivatives	24.201	43.883
Tax liabilities:	11.527	17.141
a) current	-	234
b) deferred	11.527	16.907
Other liabilities	6.981	9.814
Provisions for risks and charges:	4.015	3.079
a) commitments and guarantees given	32	54
b) post-retirement benefit obligations	3.082	3.025
c) other provisions for risks and charges	900	-
Valuation reserves	10.729	12.281
Reserves	74.974	68.559
Share premium	205.644	205.644
Share capital	13.407	13.407
Profit (Loss) of the year (+/-)	2.430	6.415
Total liabilities and shareholders' equity	**2.416.705**	**2.470.335**

2021 Report of the Management Board

The balance sheet total of 2.4 billion at 31 December 2021 showed a slight decrease of € 0.1 billion, or 2.2%, compared to the previous year-end. The evolution of total assets can be mainly explained by the decrease of loans to customers.

The Bank's total committed volume for loans with customers was € 1.5 billion (of which € 1.0 billion consisted of unused off-balance-sheet credit lines).

Overall, in 2021, the very good quality of the Bank's assets portfolio was maintained. More than 95% of the Bank's commitments were to borrowers with group internal ratings of A+ or better, whereas the securities portfolio was fully composed of European government bonds.

Client deposits at year-end 2021 amounted to € 0.5 billion mainly composed of deposits with GFO and WM clients.

VI. Income Statement

(€ '000)

ITEMS	YEAR 2021	YEAR 2020
Interest income and similar revenues	28.929	38.727
Interest expenses and similar charges	(17.722)	(20.793)
Net interest margin	**11.207**	**17.933**
Fees and commissions income	15.436	12.034
Fees and commissions expenses	(8.834)	(7.280)
Net fees and commissions	**6.602**	**4.754**
Net gains (losses) on trading	382	1.027
Net gains (losses) on hedge accounting	46	(46)
Gains (Losses) on disposal of securities at FV/OCI	5.837	1.917
Operating income	**24.074**	**25.585**
Net losses/recoveries on credit impairment	(54)	52
Net profit from financial activities	**24.020**	**25.637**
Administrative expenses:	(18.495)	(16.203)
a) staff costs	(10.165)	(8.679)
b) other administrative expenses	(8.330)	(7.524)
Net provisions for risks and charges:	(878)	(43)
Net value adjustments/write-backs on property, plant and equipment	(962)	(828)
Net value adjustments/write-backs on intangible assets	(1.108)	(623)
Other operating expenses/income	647	617
Operating costs	**(20.796)**	**(17.079)**
Profit (Loss) before tax from continuing operations	**3.224**	**8.558**
Tax expenses (income) of the year from continuing operations	(794)	(2.143)
Profit (Loss) of the year	**2.430**	**6.415**

2021 Report of the Management Board

Revenues

Net interest income amounted to € 11.2 million at the end of 2021 with a decrease of € 6.7 million, compared to the previous year. The development is mainly explained by the decreasing volumes in loans to clients and lower interest on the securities at FV/OCI.

Net commission income amounted to € 6.6 million in 2021 with a € 1.9 million or 39% rise compared to 2020 figure as a result of increasing fees in each profit centre. In particular, asset management fees and commissions with UHNWI showed a very positive evolution.

At the end of 2021, net gains on disposal of financial assets at fair value through other comprehensive income amounted to € 5.8 million. This is mainly explained by one-off revenues from disposal of a minor part of the bond portfolio.

Operating income amounted to € 24.1 million at the end of 2021. This represents a decrease of € 1.5 million or compared with the previous year's figure.

Operating costs

Operating costs summed up to € 20.8 million in 2021 compared to € 17.1 million in 2020. This evolution is mainly explained by the extraordinary expenses related to COVID emergency, higher staff expenses and increasing regulatory and ICT costs.

Staff costs increased by € 1.5 million, because of the new hiring plan implemented both to support the business evolution and to strengthen furthermore the control functions. Depreciation on tangible and intangible assets amounted to € 2.1 million as of 31 December 2021, compared with € 1.5 million in 2020 mainly due to new investments to enhance the IT infrastructure and to digitalize and automatize most of the processes of the Bank.

In 2021, the profit from continuous operations was € 3.2 million. This represents a € 5.3 million decrease versus the 2020 result of € 8.6 million.

After accounting for provisions, depreciation, amortisation and taxes, the Bank's net profit of € 2.4 million was € 4.0 million lower compared to the € 6.4 million reported in 2020.

The Bank's net profit of € 2.4 million is to be appropriated as follows, subject to the approval of the Extraordinary General Shareholders' Meeting:

Retained earnings:	€	2.4 million
Dividend:	€	0 million

Furthermore, in the interest of continuing to be eligible for the benefits provided under the amended Law of 23 December 1997 concerning the exemption from the net wealth tax ("Impôt sur la Fortune"), it will be proposed to the General Meeting of Shareholders to dissolve the reserve created in 2017 for 2017 amounting to € 2.815.615, to increase the reserve created in 2021 for 2021 by EUR 9.000 and to create a new net wealth tax reserve for 2022 amounting to € 3.650.000. The total amount of this non-distributable reserve will amount to € 27.816.255, which corresponds to five times the net wealth tax due for the financial years 2018 to 2022.

VII. Outlook for 2022

Under its current and future strategy, the Bank will continue to place its clients at the centre of its endeavours. In consideration of the political stability, financial solidity (AAA) and effective local normative framework, our international minded customers consider increasingly strategical to manage in Luxembourg part of their assets. The Bank takes its clients' needs as a starting point, with the aim of accompanying them and fostering their wealth. In particular, the Bank is continuing to support the financial needs of customers who operates in Luxembourg with financial holdings and to serve the UHNWIs who request a Luxembourgish Bank to achieve a geographical diversification of the risk on their assets.

In line with the new Business Plan defined by the Group, in 2022 the Bank is going to be part of the newly created Division Wealth Management & Private Banking Italy. This change will help in fostering or activating synergies with Italian Commercial Networks.

The immediate focus for 2022 and following years is on extending the cooperation already activated with CIB and Cordusio SIM also to Private Banking and Corporate Banking. In the medium term, the Bank should leverage on the entire existing UniCredit group network of banks, international branches and representative offices, to enlarge the clients' basis with customers from other markets also interested in the product and services offered in Luxembourg.

The main goal of this client approach is to attract new clients and maximize the overall profitability of the relationship by means of collateralized transactions with reduced capital absorption and by optimising the management of customers' liabilities while creating cross-selling opportunities.

The Bank sees potential from continuing to be a major actor in the Group value chain for Asset Management. A further driver of growth will be the offer of tailor-made fund solutions in partnership with Structured Invest (SI), a Management Company 100% owned by UniCredit Group. For both SI and the Bank a strict cooperation is a key success factor. A distribution agreement is already in place.
A strong cross-selling effort (jointly with SI and Group CIB network) is planned for the next years, aiming at:

- increasing mandates with corporate clients;
- increase in investments by clients in assets that cannot be easily purchased directly on the markets due to the minimum size required;
- increase in the equity component with partial coverage of the capital risk in management mandates, favouring alignment with the Group view;
- greatly increasing business with external institutional clients (e.g. insurance companies) and Group counterparties;

Given the specific nature of an investment management mandate in all the above-mentioned cases long term, sticky revenues are foreseen.

The Bank acts as investment manager for funds managed by Structured Invest (SI) and as sub-investment manager for funds where SI acts as investment manager. SI funds (with active management to be provided by UCI) are distributed in various Group business areas among them Markets, Corporate Banking and GFO. In 2022, it is foreseen to enlarge the scope of the cooperation with CIB network from Germany to Italy.

With regard to the future development of the Wealth Management and Asset Management business, the Bank's vision, principles and purpose are going to be fully aligned with ESG. For enabling the offer of ESG compliant services and products, the Bank is going to leverage on existing Group expertise on (i) assessing sustainable and green investment offerings; (ii) sustainability standards; (iii) responsible governance; (iv) measures to fight "*green washing*".

For Treasury business, in 2022, the Bank will continue to carry out and develop the activities related to investments for its own portfolio. These activities will be performed in compliance with the Group policies and strategies. The Bank will have to cope with persisting low yields environment and negative short term interest rates. The low interest rate environment will lead to continuing pressure on interest rate margins.

In parallel with the development of business with clients, the Bank will continue to enhance its ICT backbone. 2022 will be a key milestone for the Bank ICT. The Bank will continue to invest into the digitalization and automation of the processes with a dedicated focus for 2022 in the automation of some operational processes.

The ICT project portfolio for 2022 foresees additional improvements in the Compliance monitoring processes including the upgrade of Smarag TCM “Transaction Controlling & Monitoring” and a complete review of the architecture of CFO and CRO processes, combined in a project called Umbrella.

The upgrade of a new E-Banking solution will be released in the second quarter of 2022.

A specific focus will be on the ISO2022 conformity of the infrastructure and applications.

The transfer of the local Applications into the ICT infrastructure of UniCredit Services “UCS” is going to complete the already implemented upgrades and enhancements in the ICT applications. This will not only have an impact on the hosting of the applications but also on the full integration of the Bank into the Group network and on the alignment of the ICT processes and ICT security with the Group standards.

Deloitte.

Deloitte Audit
Société à responsabilité limitée
20 Boulevard de Kockelscheuer
L-1821 Luxembourg

Tel: +352 451 451
www.deloitte.lu

To the sole shareholder of

UniCredit International Bank (Luxembourg) S.A.

8-10, rue Jean Monnet

L-2180 Luxembourg

REPORT OF THE *RÉVISEUR D'ENTREPRISES AGRÉÉ*

Report on the Audit of the financial statements

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with the EU Regulation Nº 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 Nº 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.

Société à responsabilité limitée au capital de 360.000 €
RCS Luxembourg B 67.895
Autorisation d'établissement 10022179

Deloitte.

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.

Valuation of embedded derivative instruments

Key audit matter description

As described in note 2.8, note 6 and note 16, the Bank set up a Medium Term Note (MTN) program including Equity Linked Notes (ELN) containing embedded derivatives.

The positive fair value of the embedded derivatives amounts to EUR 8,903,084 and is recorded in the caption "Financial assets held for trading" and negative fair value of EUR 9,214,015 is recorded in the position "Financial liabilities held for trading".

The valuation of the embedded derivatives is performed through the application of complex valuation techniques based on internal models which involve the exercise of significant management judgement in relation to

- valuation models used for the specific instruments, and
- market inputs used in these models.

How the matter was addressed in the audit?

Our audit procedures included:

- understanding the policies and procedures for the valuation of these embedded derivatives;
- assessment of the design and implementation of relevant key controls over the valuation process; and
- testing, on a sample basis, the valuation of the embedded derivative instruments by involving internal specialists in order to challenge the valuation model used by the Bank and to determine an independent valuation based on the contractual documents and market parameters. The objective was to use a valuation technique consistent with the generally accepted valuation methodologies for pricing financial instruments and which incorporates all factors and assumptions that knowledgeable willing market participants would consider in setting the price.

Other Information

The Management Board of the Bank is responsible for the other information. The other information comprises the information stated in the management report but does not include the financial statements and our report of the *"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 Management Board of the Bank and Those Charged with Governance for the financial statements

The Management Board of the Bank is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Management Board of the Bank 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 Management Board of the Bank 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 Management Board of the Bank either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Bank's financial reporting process.

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 the EU Regulation Nº 537/2014, the Law of 23 July 2016 and with 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.

Deloitte.

As part of an audit in accordance with the EU Regulation Nº 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 scepticism 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 Management Board of the Bank.
- Conclude on the appropriateness of the Management Board of the Bank's 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with 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.

Deloitte.

Report on Other Legal and Regulatory Requirements

We have been appointed as *"réviseur d'entreprises agréé"* by the Management Board on March 6, 2013 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 9 years.
The management report is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the audit opinion is consistent with the additional report to the audit committee or equivalent.

We confirm that the prohibited non-audit services referred to in the EU Regulation N° 537/2014, on the audit profession were not provided and that we remain independent of the Bank in conducting the audit.

For Deloitte Audit, *Cabinet de révision agréé*

Ekaterina Volotovskaya, *Réviseur d'entreprises agréé*
Partner

Luxembourg, February 21, 2022

UniCredit International Bank (Luxembourg) S.A.

Statement of financial position

As of 31 December 2021 (EUR)

ASSETS	NOTES	AMOUNTS AS AT 31.12.2021	AMOUNTS AS AT 31.12.2020
Cash and cash balances with central banks	5,8	**5.170.254**	**8.878.833**
Financial assets at fair value through profit or loss:	6	**8.903.084**	**3.781.615**
a) financial assets held for trading	6	8.903.084	3.781.615
Financial assets at fair value through other comprehensive income	7	**701.345.455**	**608.660.192**
Financial assets at amortised cost:	8, 9	**1.670.174.772**	**1.825.484.796**
a) loans and advances to banks	8	338.529.797	322.552.265
b) loans and advances to customers	9	1.078.563.964	1.291.608.720
c) loans and advances to customers - debt securities	9	253.081.011	211.323.810
Hedging derivatives	3.2.2	**7.963.694**	**218.428**
Equity investments	13.1	**12.000**	**12.000**
Property, plant and equipment	11	**1.708.639**	**2.145.537**
Intangible assets	12	**8.111.586**	**4.654.661**
Tax assets:	10	**9.672.896**	**13.228.097**
a) current		1.111.126	-
b) deferred	10	8.561.770	13.228.097
Other assets	13.2	**3.642.848**	**3.270.662**
Total assets		**2.416.705.227**	**2.470.334.822**

LIABILITIES & SHAREHOLDERS' EQUITY	NOTES	AMOUNTS AS AT 31.12.2021	AMOUNTS AS AT 31.12.2020
Financial liabilities at amortised cost:	14, 15, 16	**2.053.583.436**	**2.085.882.373**
a) deposits from banks	14	1.371.825.447	1.305.030.280
b) deposits from customers	15	475.186.838	574.278.693
c) debt securities in issue	16	205.245.711	204.686.516
d) other liabilities	3.3.2	1.325.440	1.886.884
Financial liabilities held for trading	3.2.2	**9.214.015**	**4.230.630**
Financial liabilities designated at fair value	16	-	-
Hedging derivatives	3.2.2	**24.201.423**	**43.882.603**
Tax liabilities:		**11.527.318**	**17.141.185**
a) current		0	234.441
b) deferred	18	11.527.318	16.906.744
Other liabilities	19	**6.981.061**	**9.813.757**
Provisions for risks and charges:	17	**4.014.504**	**3.079.060**
a) commitments and guarantees given	17	32.138	54.008
b) post-retirement benefit obligations	17	3.082.366	3.025.052
c) other provisions for risks and charges	17	900.000	-
Valuation reserves	21.4	**10.728.661**	**12.280.608**
Reserves	21.5	**74.973.544**	**68.558.796**
Share premium	21.3	**205.644.462**	**205.644.462**
Share capital	20	**13.406.600**	**13.406.600**
Profit (Loss) of the year		**2.430.203**	**6.414.748**
Total liabilities and shareholders' equity		**2.416.705.227**	**2.470.334.822**

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

UniCredit International Bank (Luxembourg) S.A.

Income Statement

For the year ended 31 December 2021 (EUR)

	NOTES	YEAR 2021	2020
Interest income and similar revenues	22.1	28.928.665	38.726.623
Interest expense and similar charges	22.2	(17.721.815)	(20.793.428)
Net interest income	**22**	**11.206.850**	**17.933.195**
Fees and commission income	23.1	15.436.242	12.033.766
Fees and commission expense	23.2	(8.834.132)	(7.280.195)
Net fees and commission income	**23**	**6.602.111**	**4.753.571**
Net gains on trading	24	382.143	1.027.495
Net gains on hedge accounting	25.2	46.249	(45.546)
Gains on disposal of securities at FV/OCI	25.1	5.836.802	1.916.770
Operating income		**24.074.155**	**25.585.486**
Net (losses)/recoveries on credit impairment		(54.058)	51.905
Net profit from financial activities		**24.020.097**	**25.637.392**
Administrative expenses:		(18.494.871)	(16.202.702)
a) staff costs	26	(10.165.254)	(8.678.772)
b) other administrative expenses	27	(8.329.617)	(7.523.929)
Net provisions for risks and charges		(878.130)	(42.614)
Net value adjustments/write-backs on property, plant and equipment	11	(962.114)	(827.930)
Net value adjustments/write-backs on intangible assets	12	(1.107.944)	(623.087)
Other operating income/expense	25.3	646.742	616.880
Operating costs		**(20.796.317)**	**(17.079.452)**
Profit before tax from continuing operations		**3.223.780**	**8.557.940**
Tax expenses of the year from continuing operations	28	(793.577)	(2.143.191)
Profit of the year		**2.430.203**	**6.414.748**
Parent Company's profit of the year		**2.430.203**	**6.414.748**

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

UniCredit International Bank (Luxembourg) S.A.

Statement of comprehensive income

For the year ended 31 December 2021 **(EUR)**

	YEAR	
	2021	**2020**
Profit of the year	**2.430.203**	**6.414.748**
Movement in Defined benefit Plans	111.825	(1.469.630)
Fair value reserve- net change in fair value	(187.085)	6.149.775
Other changes in FV reserve	(1.476.687)	(1.957.194)
Total other comprehensive income/(loss)	**(1.551.947)**	**2.722.951**
Total comprehensive income/(loss) of the year	**878.256**	**9.137.700**
Total comprehensive income/(loss) of the year attribuable to the parent	**878.256**	**9.137.700**

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

UniCredit International Bank (Luxembourg) S.A.

Statement of changes in equity

As of 31 December 2021 (EUR)

	Share capital	Share premium	Revaluation reserve	Restricted reserve	Retained earnings	Profit for the year	Total
At 1 January 2021	13.406.600	205.644.462	12.280.608	1.340.660	67.218.136	6.414.748	**306.305.214**
Profit for the year	-	-	-	-	-	2.430.203	-
Total comprehensive income for the year	**-**	**-**	**(1.551.947)**	**-**	**-**	**2.430.203**	**878.256**
Contributions by and distributions to equity holders							
Allocation to retained earnings	-	-	-	-	6.414.748	(6.414.748)	-
Dividends to equity holders	-	-	-	-	-	-	-
At 31 December 2021	**13.406.600**	**205.644.462**	**10.728.661**	**1.340.660**	**73.632.884**	**2.430.203**	**307.183.470**

UniCredit International Bank (Luxembourg) S.A.

Statement of changes in equity

As of 31 December 2020 **(EUR)**

(continued)

	Share capital	Share premium	Revaluation reserve	Restricted reserve	Retained earnings	Profit for the year	Total
At 1 January 2020	13.406.600	205.644.462	9.557.656	1.340.660	67.059.176	8.758.960	**305.767.514**
Profit for the year	-	-	-	-	-	6.414.748	-
Total comprehensive income for the year	**-**	**-**	**2.722.951**	**-**	**-**	**6.414.748**	**9.137.700**
Contributions by and distributions to equity holders							
Allocation to retained earnings	-	-	-	-	158.960	(158.960)	-
Dividends to equity holders	-	-	-	-	-	**(8.600.000)**	**(8.600.000)**
At 31 December 2020	**13.406.600**	**205.644.462**	**12.280.607**	**1.340.660**	**67.218.136**	**6.414.748**	**306.305.214**

UniCredit International Bank (Luxembourg) S.A.

Statement of cash flows
As of 31 December 2021 (EUR)

	Notes	2021	2020
		EUR	EUR
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		2.430.203	6.414.748
Income tax expense	28	793.577	2.143.191
Profit before income tax		**3.223.780**	**8.557.940**
Adjustments for:			
Depreciation and amortisation	11,12	2.070.058	1.451.017
Net provisions for risks and charges	17	878.130	42.614
Reversal of loan impairment		54.058	(51.905)
Defined benefit expense	17.1	239.229	86.892
Net (gain)/loss on derivatives	7,16	14.268.685	(4.281.484)
Net interest income	7,16,22	4.668.740	(7.663.246)
Recycling effect OCI reserve	7	2.216.591	(5.585.638)
Changes in operating assets and liabilities:			
Net (increase)/decrease in deposit with central banks	5,8	1.188.000	2.829.000
Net (increase)/decrease in derivative financial instruments	3.2.2	(27.426.446)	6.129.891
Net (increase)/decrease in loans and advances to banks	5,8	(11.059.467)	25.686.499
Net (increase)/decrease in loans and advances to customers	9	171.287.555	(45.301.614)
Net (increase)/decrease in other assets	10,13	3.183.016	43.950
Net increase/(decrease) in deposits from banks	14	66.795.167	(164.603.629)
Net increase/(decrease) in amounts due to customers	15	(99.091.855)	(112.653.207)
Net increase/(decrease) in other liabilities	3.3.2, 18, 19	(7.652.986)	3.844.991
Net increase/(decrease) in defined benefit plan	17	(181.915)	1.838.317
Foreign exchange on debt securities and assets classified as FV/OCI	7,16	-	-
Net cash provided (used) by operating activities		**124.660.340**	**(289.629.613)**

UniCredit International Bank (Luxembourg) S.A.

Statement of cash flows

As of 31 December 2021 **(EUR)**

(continued)

	Notes	2021	2020
		EUR	EUR
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of securities classified as FV/OCI	7	(220.310.500)	(105.273.000)
Purchase of property plant and equipment	11	(302.718)	(467.506)
Purchase of intangible assets	12	(4.617.125)	(2.112.986)
Proceeds from sale and redemption of securities classified as FV/OCI	7	107.662.000	300.358.745
Net cash (used) provided by investing activities		**(117.568.343)**	**192.505.253**
CASH FLOWS FROM FINANCING ACTIVITIES			
Redemption of debt securities	16	-	-
Dividend paid		-	(8.600.000)
Net cash (used) provided by financing activities		**-**	**(8.600.000)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**7.091.997**	**(105.724.359)**
Cash and cash equivalents at beginning of year		**78.258.022**	**183.982.382**
Cash and cash equivalents end of year		**85.350.019**	**78.258.022**

Please refer to note 2.23 for the definition of cash and cash equivalents.

Any discrepancies in this table and between data shown are solely due to the effect of rounding.

Notes to the financial statements

1 General information

UniCredit International Bank (Luxembourg) S.A. (the “Bank”) was incorporated in the Grand-Duchy of Luxembourg on 30 September 2004 as a limited liability company (“Société Anonyme”). Since 1 February 2008, the registered office of the Bank is: 8-10, rue Jean Monnet, L-2180 Luxembourg. On 1 July 2008 and following the extraordinary meeting of shareholders held on 16 June 2008, the Bank merged by absorption with Capitalia Luxembourg S.A. with a retroactive accounting effect as at 1 January 2008.

The object of the Bank is to perform for its own account, as well as for the account of third parties, or on joint account with third parties, either within or outside the Grand-Duchy of Luxembourg, any banking or financial operations, including (but not limited to): receipt of sight or term deposits, granting of and taking of participation in credits, safekeeping and managing securities, administration and collection of coupons, the activity of asset manager, financial adviser, broker and commissioner, the provision of fiduciary services. Lastly, the Bank can perform all other operations, in order to facilitate the accomplishment of its purpose.

In the context of the UniCredit Group strategic project “Transform 2019” and of the subsequent internal reorganisation of the activities performed by the Group in the Grand-Duchy of Luxembourg, the Board of Directors of UniCredit S.p.A. (“UC or The Parent Company”), sole shareholder of the Bank, approved on 11 July 2016 a project aiming to create in Luxembourg a Global Family Office hub (hereinafter: “GFO”) under the responsibility of the Head of CIB Division, for serving Family Offices and Holding Companies offering them Investment Banking Products to fulfil their increasing financial needs.

In this context, it was proposed, and the Board of Directors of UC approved, the transfer of the Italian Private Banking Business from UniCredit Luxembourg S.A. (“UCL”) to the Bank.

UniCredit International Bank (Luxembourg) is a multi-divisional entity with revenue generation by 3 different business lines: Wealth Management (“WM”), Global Family Office (“GFO”), Strategic Funding & Treasury (“SF&T”). The mission of WM is to provide Private Banking services, to provide services to insurance companies and to provide investment management services to funds. The mission of GFO is aimed at offering holding companies and family offices a broad range of solutions to support them in structured financial operations. SF&T is predominantly a client driven business whose activities forms an integral part of the CIB value chain.

The Bank is included in the consolidated financial statements of UniCredit S.p.A.. The consolidated financial statements of the Parent Company may be obtained from its registered office: Piazza Gae Aulenti, 3 Tower A, 20154 Milan (Italy).

In its meeting on 9 February 2022, the Management Board has approved the financial statements and the Supervisory Board has reviewed them on 11 February 2022. At the same date, the Supervisory Board has approved the proposal of the appropriation of profits to the Annual General Meeting of Shareholders.

Except otherwise indicated, all figures included in these financial statements are presented in euros (EUR).

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to each year presented, unless otherwise stated. Rounding differences may occur.

2.1 Basis of preparation

2.1.1 Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union ("EU"). Additional information is included in the financial statements in order to comply with Luxembourg legal requirements.

2.1.2 Basis of measurement

In accordance with the framework of IFRS and the IAS standards 1 and 8, the Bank is consistent in the use of recognition, measurement and presentation methods. Where errors of recognition or measurement in prior periods need to be corrected, the effects (if material) are recognised retrospectively in the first set of financial statements authorised for issue after their discovery in accordance with the requirements of IAS 8.41 – IAS 8.49.

The financial statements have been prepared on the historical cost basis except for the following:

- Financial instruments at fair value through profit or loss (FV/P&L) are measured at fair value;
- Financial assets at fair value through other comprehensive income (FV/OCI) are measured at fair value;
- Recognised financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships are adjusted for the changes in fair value attributable to the risk being hedged;
- The liability for defined benefit obligations is recognised at the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses.

The Management has, at the time of approving the financial statements, a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Thus the Management continues to adopt the going concern basis of accounting in preparing the financial statements.

2.1.3 Foreign currency translation

(a) Functional and presentation currency

The financial statements are presented in euros, which is the Bank's functional currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Changes in the fair value of monetary securities denominated in foreign currency classified as financial assets at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary items, such as equities, are reported as part of the fair value gain or loss.

2.1.4 Use of estimates and judgments

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

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.

2.1.5 Changes in accounting policies and presentation

New and amended IFRS Standards that are effective for the current year

In 2021 the following standards, amendments or interpretations came into force:

• Amendments to IFRS9, IAS39, IFRS7, IFRS4 and IFRS16 Interest Rate Benchmark Reform - Phase 2 (EU Regulation 2021/25);

• Amendments to IFRS4 Insurance Contracts - deferral of IFRS9 (EU Regulation 2020/2097);

• Amendments to IFRS16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021 (EU Regulation 2021/1421);

whose adoption has not determined substantial effects on the amounts recognised in balance sheet or income statement. With reference to the "Amendments to IFRS9, IAS39, IFRS7, IFRS4 and IFRS16 Interest Rate Benchmark Reform - Phase 2" additional explanations are provided below in this section.

New and revised IFRS Standards in issue but not yet effective

As at 31 December 2021, the following documents have been endorsed by the European Commission:

• Amendments to IFRS3 Business Combinations; IAS16 Property, Plant and Equipment; IAS37 Provisions, Contingent Liabilities and Contingent Assets; and Annual Improvements 2018-2020" (EU Regulation 2021/1080) applicable to reporting starting from 1 January 2022; and

• IFRS 17 Insurance Contracts; including Amendments to IFRS 17 (EU Regulation 2021/2036) applicable to reporting starting from 1 January 2023.

As at 31 December 2021 the IASB issued the following accounting standards whose application is subject to completion of the endorsement process by the competent bodies of the European Commission, which is still ongoing:

• Amendments to IAS1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date (January 2020 and July 2020 respectively);

• Amendments to IAS1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (February 2021);

• Amendments to IAS8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (February 2021);

• Amendments to IAS12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (May 2021);

• Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information (December 2021).

The Management does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Bank in future periods.

Interbank Offered Rates (IBORs) transition

Following the concerns raised about the integrity and reliability of major financial market benchmarks the Financial Stability Board (FSB) started a comprehensive reference rates reform. In order to assess the relevant risks associated with the benchmark reforms and taking appropriate actions to ensure an adequate transition to alternative or reformed benchmark rates ahead of the deadline of the end of 2021 specified in the revised EU Benchmark Regulation (BMR), UniCredit group launched in October 2018 a Group wide project in order to manage the IBORs discontinuation with a multiyear roadmap defined based on both Group exposure (mainly focused on Euro) and transition timeline.

It is worth to mention that the European Working Groups on Euro Risk-Free Rates issued its recommendations on Euribor fallbacks and cessation triggers while other international working groups and bodies (e.g., International Swaps and Derivatives Association - ISDA; ICE Benchmark Administration - IBA; London Clearing House - LCH) issued recommendations, focused on LIBOR discontinuation, that will be taken into account while envisaging market practices to consider on transition.

At the same time Benchmark Regulation has been amended in order to allow the EU Commission to provide for statutory replacement rates (to be defined after a public consultation and applicable to contracts lacking a suitable fallback provision in case of the cessation of the benchmark rate agreed by the parties), while the other mainly involved international market authorities (e.g., Financial Conduct Authority and Bank of England in the UK, New York State Department of Financial Services in the US) are defining possible amendments to the applicable laws in order to support a smooth transition.

Such discussions and consultation outcomes, while aimed to bring further stability in the market and reduce conduct risk, still represent source of possible uncertainty, with reference to the timing and/or fallback rules applied to outstanding stock of assets, liability and derivatives linked to other IBOR agreements (yet to be transformed or transitioned).

On 5 March 2021, the Financial Conduct Authority (FCA) in its capacity as LIBOR regulator announced that LIBOR settings process will not be available (ceased to be provided or no longer representative) according with the below discontinuation path:

• immediately after 31 December 2021, in the case of all Sterling, Euro, Swiss Franc and Japanese Yen settings, and the 1-week and 2-month US Dollar settings; and
• immediately after 30 June 2023, in the case of the remaining US Dollar settings.

ISDA echoed on the same day, stating that the FCA announcement constituted a trigger event under the ISDA 2020 IBOR Fallbacks Protocol. As a result, the fallback spread adjustment on relevant derivatives (also applicable on cash instrument considering the recommendations of major national working group), is fixed starting from the same day for all Euro, Sterling, Swiss Franc, US Dollar and Japanese Yen LIBOR settings.

In order to avoid disruption to legacy contracts that reference the 1-, 3- and 6-month GBP and JPY Libor, the FCA deliberate for the publication under a changed methodology basis (also known as 'synthetic'), until end of 2022, of the mentioned 6 Libor settings made available by IBA for use in legacy contracts other than cleared derivatives. Synthetic settings availability provides some relief on LIBOR contracts repapering effort (in particular for contracts subject to UK law).

The European Commission adopted an Implementing Act of the BMR that has been published in the Official Journal of the European Union on Friday, 22 October 2021; the Implementing Act provides legal ground for a Statutory Replacement Rate for legacy contracts indexed to CHF LIBOR and EONIA that have not yet been repapered or do not contain adequate fallback rates.
Such a replacement rate operating by law brought further stability in the market and reduced the conduct risk associated with the outstanding stock of assets, liabilities and derivatives transformed or transitioned or yet to be transformed or transitioned.

The Management of the Bank does not anticipate that any impact in the future on the financial statements from the transition to IBOR..

2.2 Operating segments

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, 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. Starting from 2020 the Bank reports segmented figures into the Group financial reporting. Revenue generation is entrusted to 3 different profit centers: Wealth Management (WM), Global Family Office (GFO), Strategic Funding & Treasury (SF&T). Revenues generated by the 3 profit centers are regularly reported to the Management Board.

Segment reporting, defined in the Bank as internal financial reporting, is based on the before mentioned internal organisational and Management structure. In accordance with IFRS8 (Operating Segments), segment reporting thus follows the Management Approach, which requires segment information to be presented externally in the same way as regularly used by the Management Board as the responsible Management body when allocating resources to the business segments and assessing profitability. In this context, the segment data is determined in accordance with International Financial Reporting Standards (IFRS).

The total revenues shown in the segments, such as net fees and commissions and net trading profit, are based almost exclusively on transactions involving external customers. Net interest income is assigned to the segments in accordance with the market interest calculation method on the basis of the external interest income and interest expenses.

Operating costs, which contain staff expenses, other operating costs, amortization, depreciation and impairment losses on intangible and tangible assets, are split between the divisions according to where they have incurred. For costs that are not directly allocable, overheads allocation keys are set for each division in the budgeting process and applied on the direct and indirect costs for the financial year in question.

2.3 Business combination and common control transactions

A business combination is the bringing together of separate entities or businesses into one reporting entity. A business combination may result in a Parent-subsidiary relationship in which the acquirer is the Parent and the acquiree a subsidiary of the acquirer.

A business combination may involve the purchase of the net assets, including any goodwill, of another entity rather than the purchase of the other comprehensive income of the other entity (mergers).

IFRS3 requires that all business combinations shall be accounted for by applying the purchase method that involves the following steps:

- Identifying an acquirer;
- Measuring the cost of the business combination; and
- Allocating, at the acquisition date, the cost of the business combination to the assets acquired and liabilities and contingent liabilities assumed.

The cost of a business combination is the aggregate of the fair value, at the date of exchange, of assets given, liabilities incurred or assumed and other comprehensive income instruments issued by the acquirer, in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. When this is achieved through a single exchange transaction, the date of exchange coincides with the acquisition date. The acquirer shall, at the acquisition date, allocate the cost of a business combination by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria.

The acquirer shall recognise the acquiree's identifiable assets, liabilities and contingent liabilities separately at the acquisition date only if they satisfy the following criteria at that date:

- In the case of an asset other than an intangible asset, it is probable that any associated future economic benefits will flow to the acquirer, and its fair value can be measured reliably;
- In the case of a liability other than a contingent liability, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and its fair value can be measured reliably;
- In the case of an intangible asset or a contingent liability, its fair value can be measured reliably.

After initial recognition, goodwill is measured at cost and tested for impairment at least annually.

If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the acquirer shall reassess the fair values and recognise immediately any excess remaining after that reassessment in profit or loss.
In relation to common control transactions, IFRS3 defines a "business combination involving entities under common control" as a transaction in which all of the combining entities are controlled by the same party or parties before and after the transaction and that control is not transitory. IFRS principles do not identify specific accounting treatment that should be applied to business combinations involving entities under common control.

The two basic methods of accounting for business combinations involving entities under common controls are:

- The purchase method;
- The predecessor values method.

The Bank has elected to apply the predecessor values method to a business combination involving entities under common control.

Applying the predecessor values method, an entity should record:

- The transaction as if it had taken place at the beginning of the earliest period presented (or the date that the entities were first under common control, if later);

- The assets and liabilities of the acquiree using book values;
- The difference between the consideration given and the aggregate book value of the assets and liabilities (as of the date of the transaction) of the acquired entity as an adjustment to other comprehensive income (recorded in retained earnings or as a separate reserve). No additional goodwill is created by the transaction.

The predecessor values method does not restate the assets and liabilities of the acquirer to fair value. The financial statements are a continuation of amounts that have been reported previously.

2.4 Trade date and settlement date of accounting

All regular transactions on non-derivative financial instruments are recognised and derecognised at "value date" which is the date that an asset is delivered to or by the Bank. Derivative hedging instruments and hedged items that form part of a hedge relationship are also recognised at value date. Derivative instruments held for trading are recognised on trade date.

2.5 Recognition of financial assets and financial liabilities

In accordance with the framework of IFRS and the IAS standards 1 and 8, the Bank is consistent in the use of recognition, measurement and presentation methods. Where errors of recognition or measurement in prior periods need to be corrected, the effects (if material) are recognised retrospectively in the first set of financial statements authorised for issue after their discovery in accordance with the requirements of IAS 8.41 – IAS 8.49. The Bank classifies its financial assets and liabilities in the following categories:

(a) Financial assets/liabilities at fair value through profit or loss

This category has two sub-categories: financial assets or financial liabilities held for trading, including derivatives that do not qualify for hedge accounting and those mandatorily at fair value through profit or loss.

A financial asset or a financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Financial assets and financial liabilities are designated at fair value through profit or loss when:

- doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for loans and advances to customers or banks and debt securities in issue;
- certain investments, such as other comprehensive income investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis;
- financial instruments, such as debt securities held, contain one or more embedded derivatives that significantly modify the cash flows.

  The Bank classifies Loans and Receivables which initially are concluded to fail SPPI criteria into FVP&L category.

(b) Financial assets at fair value through other comprehensive income

The business model of government securities within the bond portfolio is achieved by both collecting contractual cash flows and by selling the financial assets. The Bank can sell financial assets to optimize liquidity or in case of changes in the market conditions. For the classification of financial assets in the FVOCI category, the analysis of the business model is complemented by the analysis of the contractual cash flows ("SPPI Test"). As a result of the business model defined, in case of positive SPPI test, government securities are accounted for at FVOCI.

(c) Financial assets at amortised cost

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as held to collect and sell; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. The Bank operates primarily based on a "Hold to collect Business Model", which is one of the prerequisites for measuring financial instruments at amortised cost, for the following instruments: loans to banks and loans to clients. In addition, the Bank uses the Group model for investing the free funds of the Bank. The Group model foresees that own funds are equally invested in assets with tenors up to 10 years on a rolling basis. In consideration of the specificities of the Banks structure, Government bonds have been selected as the appropriate assets to be used for the free funds investment model. The portfolio of bonds used for free funds investment is segregated from the remaining bond portfolio and as it is maintained with the aim to keep it until maturity it is also measured at amortised cost.

(d) Other financial liabilities

Other financial liabilities are those non-derivative financial liabilities that are not classified as financial liabilities held for trading.

2.6 Financial assets and financial liabilities measurement

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

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished - that is, when the obligation is discharged, cancelled or expired.

Financial assets at fair value through profit or loss are subsequently measured at fair value. Loans and advances are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the “financial assets held for trading” category are included in the profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of assets (only debt instruments) measured at FVOCI are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as financial assets at fair value through other comprehensive income are recognised in the profit or loss. Dividends on other comprehensive income instruments are recognised in the profit or loss when the entity’s right to receive payment is established. In case of premium/discounts on purchased securities, the Bank is linearly amortizing the premium/discounts according to the maturity of the related financial asset.

The fair values of quoted investments in active markets are based on current mid prices. If there is no active market for a financial asset, the Bank establishes fair value using valuation techniques. These include the use of recent arm’s length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.
A simplified assumption is used to estimate the fair value of financial assets and liabilities carried at amortised cost at initial recognition: the cash flows of financial assets and liabilities maturing within a short term period are not discounted if the effect of discounting is immaterial.

The Bank measures all financial liabilities at amortised cost using the effective interest method, except for:

- Financial liabilities held for trading. Such liabilities, including derivatives that are liabilities, are measured at fair value except for a derivative liability that is linked to and must be settled by delivery of an unquoted other comprehensive income instrument whose fair value cannot be reliably measured, which shall be measured at cost;
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- Financial guarantee contracts that are measured at the higher of:
  - The amount determined in accordance with IAS37 *Provisions, Contingent Liabilities and Contingent Assets*; and
  - The amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IFRS15;
- Commitments to provide a loan at a below-market interest rate. After initial recognition, an issuer of such a commitment shall measure it at the higher of:
  - The amount determined in accordance with IAS37; and
  - The amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IFRS15.

Financial liabilities that are designated as hedged items are subject to the hedge accounting requirements (Note 2.8).

2.7 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.8 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values of derivatives with optionality are obtained from Group systems, whereas the linear derivatives are valued via financial software to ensure the same discount curves for the hedging instrument and the hedged item. Both tools use observable market curves and implied curves for its valuation techniques, including discounted cash flow models, as appropriate. The Group tool uses also option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as pay-out based on an equity index (in an equity linked note), are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the profit or loss unless the Bank chooses to designate the hybrid contracts at fair value through profit or loss.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Bank may designate certain derivatives as either:
(a) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge);
(b) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge); or
(c) hedges of a net investment in a foreign operation (net investment hedge).

The Bank continues to apply IAS39 for Hedge Accounting. A hedging relationship qualifies for hedge accounting if there is formal designation and documentation of the hedging relationship including the risk management objective, the strategy for undertaking the hedge, and how the hedging instrument's effectiveness will be assessed. It is necessary to assess the hedge effectiveness, at inception and in subsequent periods. In offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. A hedge is regarded as highly effective if, at the inception of the hedge and in subsequent periods, it is determined prospectively to remain highly effective, i.e. that the hedge ratio is within a range of 80 - 125 per cent.

The hedge is assessed on an ongoing basis and thus must prospectively remain highly effective throughout the financial reporting periods for which the hedge was designated.

The assessment of effectiveness is made at each balance sheet date or other reporting date.

If the assessment does not confirm the effectiveness of the hedge, from that time on hedge accounting is discontinued in respect of the hedge and the hedging derivative is reclassified as a held-for-trading instrument.
Hedge accounting is discontinued prospectively if the hedge is terminated or no longer highly effective; the hedging instrument expires or is sold, terminated or exercised; the hedged item is sold, expires or is repaid; or it is no longer highly probable that the forecast transaction will occur.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in fair value of interest rate swaps and related hedged items are reflected in "net interest income – net gains/losses on hedging instruments". Any ineffectiveness is recorded in "net trading income".

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is prospectively discontinued. Any adjustment up to that point to a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged other comprehensive income security remains other comprehensive income until the disposal of the other comprehensive income security.

Certain derivative instruments are used for economical hedging purposes without applying hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the profit or loss under net trading income.
The Bank entered into a micro fair value hedge relationship to protect itself against changes in the fair value of financial liabilities due to movement in interest rates. The Bank designates the benchmark rate as the hedged risk and accordingly enters into interest rate swaps whereby the fixed leg represents the economic risk of the hedged item.

During the reporting period the Bank did not apply cash flow and net investment hedge.
EIR includes all fees that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts.

2.9 Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading (Note 2.12), are recognised within “interest and similar income” and “interest and similar charges” in the profit or loss using the effective interest method.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.10 Fee and commission

Fee and commission income which are not part of the effective interest rate of a financial instrument and other operating income are accounted for in P&L as the entity satisfies the performance obligation embedded in the contract, according to “IFRS15 Revenue from Contracts with Customers” rules.

In particular:

- if the performance obligation is satisfied at a specific moment (“point in time”), the related revenue is recognized in P&L when the service is provided;
- if the performance obligation is satisfied over-time, the related revenue is recognized in P&L in order to reflect the progress of satisfaction of such obligation.

Due to the above mentioned rules, transaction fees coming from trading in securities are typically booked in the moment when the service is provided while fees related to portfolios management, consulting or fund management are normally recognized during the term of the contract (input method).
For this second type of fees, in fact, it is deemed that the input which are necessary to provide the service incorporated in the performance obligation are evenly distributed during the term of the contract.

If the timing of cash-in is not aligned to the way the performance obligation is satisfied, the Bank accounts for a contract asset or a contract liability for the portion of revenue accrued in the period or to defer in the following periods.

The amount of revenues linked to fees and commissions income and other operating income is measured based on contractual provisions.
If the amount contractually foreseen is subject, totally or partially, to variability, a revenue has to be booked based on the most probable amount that the Bank expects to receive.
Such amount is determined on the basis of all facts and circumstances considered relevant for the evaluation, that depend on the type of service provided and, in particular, on the presumption that it is not highly probable that the revenue recognized will not be significantly reversed.
Please note, nevertheless, that for the services provided by the Bank such a variability is not usually foreseen.

Finally, if a contract regards different services whose performance obligations are not satisfied at the same time, the revenue is allocated among the different obligation proportionally to the stand-alone price of the single item delivered. These amounts will be accounted for in the P&L on the basis of the timing of satisfaction of each obligation.
Fee and commission are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are accrued over the life of the loan using the effective interest rate (EIR) methodology.

Commission and fees arising from negotiating a transaction for a third party are recognised on completion of the underlying transaction. Management and other service fees are recognised based on the applicable service contracts and are accrued over the time. Asset management fees related to investment funds are recognised pro-rata over the period in which the service is provided. The same principle is applied for wealth management, and custody services.

2.11 Dividend income

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

2.12 Net trading income

Net trading income includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading. The Bank selected to present the full fair value movement of trading assets and liabilities in trading income, including any related interest income, expense and dividends.

2.13 Sale and repurchase agreements

Securities sold subject to repurchase agreements ("repos") remain in the statement of financial position, the counterparty liability is included in deposits from banks. Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to banks. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements.

2.14 Impairment of financial assets

The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. In line with IFRS9, all financial assets that are measured at amortised cost (AC) or debt instruments at fair value through other comprehensive income (FVOCI) and off-balance sheet exposures shall be considered as exposures subject to impairment.

The impairment requirements under IFRS9, are significantly different from those under IAS39:

1. A credit event does not have to occur in order for a credit loss to be recognized (i.e. Expected Credit Losses (ECLs) are recognized also for non-impaired financial assets).
2. ECLs are recalculated at each reporting date in order to reflect changes in credit risk since initial recognition of a financial instrument.
3. Forward-looking information and macro-economic factors are used for the determination of ECLs.

Stage allocation acts as the determinant for the appropriate ECL time horizon to be used.
For the purpose of IFRS9 Expected Credit Loss estimation the Bank is required to appropriately allocate exposures into Stages, where:
Stage 1 – To this stage the Bank will allocate all exposures for which the Bank concludes that no significant increase in credit risk occurred since inception of the loan.
Stage 2 – To this stage the Bank would classify financial assets which exhibited significant increase in credit risk since initial recognition.
Stage 3 – To this stage the Bank would classify assets which are considered to be credit impaired.

Group model

The Bank uses the transfer logic of UniCredit Group for stage allocation between Stage 1 and Stage 2 for all the exposures with the only exception of Private Banking exposures. The Stage 1 and 2 allocation for these clients requires approval of the Bank's Credit Committee. Risk Management proposes the allocation based on 30 days past due and/or significant credit deterioration. A loan to collateral (LtV) ratio at or above 80%, is a quantitative indicator for a SICR (significant increase in credit risk) for stage 2 allocation. For the purpose of identifying default of borrowers the Bank uses the rebuttable presumption as stipulated in IFRS 9.B5.5.37 as well as in Article 178 1(b) of REGULATION (EU) No 575/2013 of 90 days past due as an indicator of the default. It should be noted, that for the purpose of meeting the past due criterion, the Bank will assess whether the identified past due situation does not comprise a technical past due situation.

Provisioning for Stage 3

In line with UC Group guidelines, provisions have to be recognized whenever the estimated recoverable amount of an exposure is lower than its carrying amount. For a financial asset that is credit-impaired at the reporting date and that is not a purchased or originated credit-impaired financial asset, the estimated recoverable amount is the present value of future cash flows expected to be recovered, discounted at the original effective interest rate of the exposure.
Therefore the main determinants of this value are:

- the expected cash flows;
- the expected timing of payments of these cash flows;
- the effective interest rate used for discounting.

ECL model application

For the purpose of estimating ECL, the Bank has established 2 separate models which would be applicable to all its exposures subject to impairment, including both balance sheet and off balance exposures. These models could be summarized as follows:

- Private Banking Model ("PB Model")

The PB Model is determined by entity's key management personnel i.e. those persons having authority and responsibility for planning, directing and controlling the activities of the Bank and it is concluded to be hold to collect contractual cash flows. In the PB Model collateral is deemed as key driver of credit risk. The expected future losses are mostly determined by the "Loan To Collateral" LtC ratio. This ratio is managed actively by the bank to ensure that there is always surplus collateral available to offset the loan exposure. In case the ratio increases either the client tops up the collateral, or the bank has the right to liquidate a part of the portfolio, thereby reducing the LtC ratio.

- Score-based model (based on group methodology and inputs) ("Group Model")

A significant portion of Bank's exposures consists of loans and bonds with sovereigns, supranational institutions and banks. Application of such statistical model established by the Group is deemed appropriate in the Banks circumstances for counterparties like sovereigns and banks since such exposures would be homogeneous with the Group wide exposures within the same category and therefore Group-wide statistics are an appropriate measure of credit risk given limited default history observed locally. Group model is based on internal Group scores assigned to the counterparty and statistical methods applied in determination of risk parameters. The Bank would obtain credit risk parameters from the group which would then be applied locally in order to quantify the ECL.

<table>
<tr><th>Balance type</th><th>Counterparty type</th><th>Product type</th><th>Model type</th></tr>
<tr><td rowspan="6">On balance</td><td rowspan="3">Private Banking Clients</td><td>Lombard Loans</td><td rowspan="3">PB model (except for one client with Group Model)</td></tr>
<tr><td>Term deposits</td></tr>
<tr><td>Current account/Credit Facility</td></tr>
<tr><td rowspan="3">Rated entities (Banks, Sovereigns and Supranational)</td><td>Bonds purchased</td><td>Group Model</td></tr>
<tr><td>Balances with Central Bank</td><td>Group Model</td></tr>
<tr><td>Balances with other banks</td><td>Group Model</td></tr>
<tr><td rowspan="2">Off-balance sheet</td><td rowspan="2">Private Banking Clients</td><td>Guarantees given</td><td>PB Model</td></tr>
<tr><td>Loan commitments</td><td>PB Model</td></tr>
</table>

2.15 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance, controlled by the Bank and from which future economic benefits are probable.

Intangible assets include software, brands, patents and assets used by the Bank as lessee under finance leases or as lessor under operating leases (rental/hire).

Intangible assets other than goodwill are recognised at purchase cost, i.e. including any cost incurred to bring the asset into use, less accumulated amortisation and impairment losses. An intangible asset with a finite life is subject to straight-line amortisation over its estimated useful life. An intangible asset with indefinite life is not amortised. Software are amortised over 3-8 years.

If there is objective evidence that an asset has been impaired, the carrying amount of the asset is compared with its recoverable value, equal to the greater of its fair value less selling cost and its value in use, i.e. the present value of future cash flows expected to originate from the asset. Any impairment loss is recognised in the profit or loss.

An intangible asset with indefinite life is not amortised. Even if there are no indications of impairment, each intangible asset's carrying amount is compared annually with its recoverable value. If the carrying amount is greater than the recoverable value, the difference is recognised in the profit or loss.

If the value of a previously impaired intangible asset, other than goodwill is restored, its increased carrying amount cannot exceed the net carrying amount it would have had if there were no losses recognised on the prior year impairment.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or sale in the future and any difference between sale proceeds and carrying value is recognised in the profit or loss.

2.16 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Office equipment and machines	3 - 8 years
Other fixtures and fittings	3 - 8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating income or other operating expenses in the profit or loss.
In line with IFRS 16, the Bank books within this balance sheet item the right to use assets. Please also refer to Note 2.18.

2.17 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.18 Leases

(a) The Bank is the lessee

The leases entered into by the Bank are operating leases. The total payments made under operating leases are charged to other operating expenses in the profit or loss over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

IFRS 16 is applied to lease contracts of tangible assets, different from short term and/or including low value assets. The Bank calculates the initial recognition amount of the lease liability by discounting at the incremental borrowing rate, the future lease payments. The incremental borrowing rate is determined by considering its cost of funding for liabilities similar, in terms of duration and security, to the one implicit in the lease contract. The Bank recognises a right of use asset as the sum of the lease liability, the lease payments made at or before the commencement date and the initial direct costs. Subsequent to initial recognition the lease liability shall be subject to the calculation of amortized cost and subject to remeasurement so to consider changes in lease term, lease payments or contractual modification. Subsequent to initial recognition the right of use asset shall be subject to amortization along the lease term as well as assessment of the need to calculate impairment loss.

(b) The Bank is the lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. The Bank is currently not acting as lessor.

2.19 Defined Benefit pension plan

The Bank operates four defined benefit pension plans in favour of some employees. The pension plans are all funded through payments to an insurance company, determined by periodic actuarial calculations.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past- service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected UnitCredit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. The remeasurements of the net defined benefit obligation are recognized immediately in Other Comprehensive Income.

2.20 Contribution pension plan

In addition to the defined benefit pension plans, the Bank maintains also two defined contribution pension plans, under which the Bank pays fixed contributions into the fund “LaLux” and will have no legal or constructive obligation to pay further amounts. The contributions payable are recognized in the statement of comprehensive income when they are due in respect of services rendered before the end of the reporting period.

2.21 Other liabilities

Compliant with IAS37, accruals and other items are shown under other liabilities. These reflect future expenditure of uncertain timing or amount, but the uncertainty is much less than for provisions. Accruals are carried at the amount likely to be used. Accruals are liabilities for goods and services received that have been neither paid for nor invoiced by the supplier, nor formally agreed. This also includes current liabilities to employees, such as flexi-time credits and outstanding vacation. Accruals are carried at the amount likely to be used.

2.22 Share-based payments

UC Group Medium & Long Term Incentive Plans for selected employees include the following category:

Equity-Settled Share Based Payments, which provide for the delivery of shares;

This category includes the following:
Group Executive Incentive System (Bonus Pool) that offer to eligible Group Executives and relevant employees identified following regulatory rules, a bonus structure composed by upfront (following the moment of performance evaluation) and deferred payments in cash and in shares, to be paid over a period of ranging from 1 to 7 years. This payment structure will guarantee the alignment to shareholder interest and will be subjected to malus (which applies in case specific profitability, capital and liquidity thresholds are not met at both Group and Country/Division level) and claw back conditions (as legally enforceable) as defined in Plan Rules (both non-market vesting conditions).

Group Executive Incentive System (Bonus Pool)

Group Executive Incentive System (Bonus Pool) is offered to eligible Executives of the Bank.
The economic value of Performance Shares is measured considering the share market price at the grant date less the present value of the future dividends during the vesting period.

Economic and Net Equity effects will be accrued on basis of instruments' vesting period.

The new Group Incentive System is based on a bonus pool approach, aligned with regulatory requirements and market practices, which defines:

- sustainability, through direct link with entity results and alignment with relevant risk categories, utilizing specific indicators linked to risk-appetite framework;
- link between bonuses and organization structure, defining the pool at country/division level with further review at Group level;
- bonuses allocated to executives and other relevant employee, identified on a basis of European Bank Authority (EBA) rules, according to local regulations;
- payment structure has been defined in accordance with regulatory provisions qualified by Directive 2013/36/EU (CRD IV) and will be distributed in a period of six years by using a mix of shares and cash.

All profit and loss and net equity effects related to the plan will be booked during the vesting period.

2.23 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include balances with less than three months' maturity from the date of acquisition. Please refer to note 5.

2.24 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.25 Financial guarantees

The Bank issues financial guarantees, ensuring the beneficiary the payment obligation of a Bank's client. This obligation can arise from a debt, rental payments or other financial obligations. Such financial guarantees are given to banks, financial institutions and other corporates on behalf of clients. By receiving a guarantee issued by the Bank, the beneficiary does not run any credit on the client anymore.

Financial guarantees are subject to ECL calculation as described in note 2.14.

2.26 Income taxes

Income taxes include the current and deferred income taxes.

Current income tax is recognised as the expected tax payable on the taxable profit for the year using the enacted or substantively enacted tax rate at the statement of financial position date including adjustments to tax payable in respect of previous years.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions. The rates enacted or substantively enacted at the statement of financial position date are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. The tax effects of income tax losses available for carry-forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to fair value re-measurement of FVOCI investments, which are charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and subsequently (once the asset at FVOCI has been derecognised) recognised in the profit or loss together with the deferred gain or loss.

2.27 Share issue costs

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

3 Credit & Financial risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

At Group level risk management is carried out by a central Risk management department of the Parent Company ("The Parent Risk Management department") under policies approved by its Board of Directors. The Parent Risk Management department identifies, evaluates and monitors financial risks in close co-operation with other operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments.

The Bank's risk management is operated by the Risk Management department which reports to the Chief Risk Officer. The objective of Risk Management is to ensure that the Bank's financial activity remains within the guidelines established by Management Board. The Bank follows the Parent Company's policy and acts locally with a low risk appetite. Generally, its customers are already Parent Company customers. The Bank is mainly exposed to credit risk and to liquidity risk.

3.1 Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to meet their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

In its banking business the Bank is exposed to the risk that its loans, regardless of their purpose, may not be repaid by debtors at maturity, and then must be fully or partially written off due to the deterioration of the debtor's financial conditions. The main reasons for default lie in the borrower's lacking the autonomous ability to repay the loan (due to a lack of liquidity, insolvency, etc.) or the occurrence of events that are unrelated to the debtor's operating and financial condition, such as country risk (defined as the inability of a borrower in another country to honour its obligations due, for example, to a deterioration in the country's economic situation or the local Government's adoption of restrictive measures). Defaults in relation to a large number of transactions, or one or more large transactions, could have a material adverse impact on the Bank's operations, financial condition and operating results.

The Bank monitors and manages credit quality, any specific risk relating to every counterparty and the overall risk of loan portfolios. The Bank established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

In 2020, the Covid-19 pandemic started leading to a deteriorating economic environment. In most countries, governments took measures to support their economies and prevent a severe recession. These policies were also continued in 2021. The government of Luxembourg facilitates a support scheme to all companies, except those active in the promotion, renting and sale of building as well as holding of investments. Under this scheme the Government can issue guarantees on loans at favourable terms to help businesses to cover immediate working capital and investment needs. Also in 2021, the Bank did not receive any requests from the clients to provide a credit facility with a supporting state guarantee.

The pandemic did not lead to an observable credit deterioration in the Bank's loan portfolio. All loans remain performing.

3.1.1 Credit risk measurement

(a) Loans and advances

According to the nature and duration of the transaction, Risk Management formulates its recommendations for credit proposals / annual reviews submitted by the relationship managers and submits them subsequently to the competent bodies of the Bank as defined by the Supervisory Board and in accordance with the Operating Guidelines ("OG's") and Approval Matrix in place.

The measurement and follow-up of credit risk exposure is performed on a daily basis by control on each loan and related guarantees. Each customer credit line with a maturity over one year is subject to an annual review. This review includes a detailed analysis of the customer's financial situation, the associated country risk and adherence to repayment requirements. The Bank also reviews the risk associated with all credit provided to a single customer.

Collateral received on customers' credit lines is monitored on a daily basis for each individual position.

In order to avoid a too high concentration of risks, the Bank has to respect the following criteria: the total risk exposure towards a single client or group of connected clients must not exceed 25% of the own funds of the Bank. The Bank has received an exemption to this rule on its risk exposure towards the Parent undertaking and Group entities.

(b) Debt securities and other bills

The Bank defines and yearly review limits for debt securities in order to limit the credit risk linked to its securities portfolio.

3.1.2 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified − in particular, to individual counterparties and groups and to industries and geographical.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers and industry segments. The exposure to any borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts.

The Bank monitors compliance with such limits on a daily basis. This monitoring is reviewed by the Risk Management department. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations. Some other specific control and mitigation measures are outlined below.

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. With regard to the Lombard Loans, the Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Cash deposit at the Bank;
- Pledged securities portfolio;
- Financial guarantees received from the Parent Company or from an entity related to the borrower.

Collateral is followed up on a daily basis, and in order to minimise the exposure the Bank will seek additional collateral from the counterparty as soon as thresholds are broken for the relevant individual loans and advances.

(b) Derivatives

All derivatives have to be executed with a counterpart of the Group. In this context, the Bank maintains strict control limits on Counterparty Credit Risk Exposure. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. derivatives where their fair value is positive), which in relation to derivatives is only a small fraction of the notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall obligor limits with customers, together with potential exposures from market movements. Collateral in the form of cash or government bonds are usually exchanged for credit risk exposures on these instruments.

(c) Credit-related commitments

The primary purpose of these instruments is to ensure that credit is available to a customer as required subject to certain conditions in the form of loans, overdraft facilities and guarantees. With respect to credit risk on commitments, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3.1.3 Impairment and provisioning policies

The Bank reviews regularly credit risk exposures and computes quarterly Expected Credit Losses (ECL) related to those exposures. The daily controls performed allow the Bank to react quickly to an upcoming potential issue. In case of past due loans and subsequent to an analysis of the reasons leading to such event, the Bank, after consultation with the customer, impairs, renegotiates or starts legal procedures / collection of the loan with such customer, as the case may be.

Objective evidence of impairment is based on the following criteria:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delays in interest or principal payments;
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, grants concessions to the borrower, which the lender would not otherwise consider;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; the disappearance though of an active market due to the fact that a company's financial instruments are no longer traded publicly is no evidence of impairment;

- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - Adverse changes in the payment status of borrowers in the group; or
  - National or local economic conditions that correlate with defaults on the assets.

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

	Maximum exposure	
	2021	2020
	EUR	EUR
Credit risk exposures relating to the statement of financial position are as follows:		
Loans and advances	**1.670.174.772**	**1.825.484.796**
Loans and advances to banks	338.529.797	322.552.265
Loans and advances to customers	1.331.644.975	1.502.932.531
of which Loans and advances to corporate entities	1.078.563.964	1.291.608.720
of which debt securities	253.081.011	211.323.810
Derivative financial instruments including trading assets	**16.866.778**	**4.000.043**
Other comprehensive income - Debt securities	**701.345.455**	**608.660.192**
Listed securities	701.345.455	608.660.192
Other assets	**3.642.848**	**3.270.662**
	2.392.029.852	2.441.415.694
Credit risk exposures relating to off-balance sheet items are as follows:		
Financial guarantees	**5.654.750**	**4.252.750**
Loan commitments and other credit related liabilities	**1.076.354.919**	**1.332.449.345**
As at 31 December	**3.474.039.521**	**3.778.117.789**

The above table represents the worst case scenario of credit risk exposure to the Bank at 31 December 2021 and 2020, without taking account of any collateral held or other credit enhancements attached. For assets included in the statement of financial position, the exposures set out above are based on net carrying amounts as reported in the statement of financial position. As shown above, the main part of the credit risk, before collateral held or other credit risk enhancement, is located within the loans and advances.

Loans to customers are secured by collateral (cash, listed securities and financial guarantees). Please see note 3.1.7.

3.1.5 Loans and advances

ECL for loans and advances are summarised as follows:

in EUR	Opening balance 2021	Increases due to origination and acquisition	Decreases due to derecognition	Changes due to change in credit risk (net)	Other adjustments	Closing balance 2021
Allowances for financial assets without increase in credit risk since initial recognition (Stage 1)	**314.886**	**57.604**	**- 20.314**	**16.768**	**-**	**368.944**
Debt securities	***99.419***	***57.604***	***- 17.903***	***55.256***	***-***	***194.376***
Loans and advances	***215.467***	***-***	***- 2.411***	***- 38.488***	***-***	***174.568***
of which: individually measured allowances	314.886	57.604	- 20.314	16.768	-	368.944
Allowances for credit-impaired debt instruments (Stage 3)	-	-	-	-	-	-
Total allowance for debt instruments	**314.886**	**57.604**	**- 20.314**	**16.768**	**-**	**368.944**
Commitments and financial guarantees given (Stage 1)	54.009	25.665	- 48.019	484	- 1	32.138
Total provisions on commitments and financial guarantees given	**54.009**	**25.665**	**- 48.019**	**484**	**-**	**32.139**

(a) Impaired loans and advances

The total allowance for loans and advances as of December 31, 2021 EUR 368.944 (2020: EUR 314.886) and all of them are individually provisioned. The Bank has no loans and advances classified in stage 2 or in stage 3 as past due or non-performing as of 31 December 2021.

(b) Loans and advances renegotiated

Restructuring activities include the negotiation by the Bank and the customer of amended/deferred payment arrangements and the fixing of covenants to be observed by the customer. Once restructured, a previously overdue customer loan is reset to a normal status renegotiated loan that would otherwise be past due or impaired. Loans and advances renegotiated totalled zero as at 31 December 2021 and 31 December 2020.

3.1.6 Financial assets at fair value through other comprehensive income

The table below presents an analysis of financial assets at fair value through other comprehensive income by rating agency designation based on Standard & Poor's ratings or equivalent extracted by Group system UGRM. In 2020, the classification was based on the individual issuer rating, whereas in 2021, it is based on the general issuer rating, ensuring consistency for non-rated issues.

	2021 EUR FV/OCI	2020 EUR FV/OCI
AA	-	-
A	54.646.364	-
A-	241.698.275	56.515.702
BBB+	-	140.302.951
BBB	405.000.816	-
BBB-	-	411.841.538
BB	-	-
B+	-	-
Not rated	-	-
	701.345.455	**608.660.192**

3.1.7 Seized collateral

In 2021, collateral held on Private Banking Lombard loans was mainly composed by cash, equities and investment grade securities with no significant change in the quality of the collateral compared to the previous year. Loan to Value and Loan to Collateral indicators were regularly monitored during the year. During 2021 and 2020, the Bank did not use its right to seize collateral as no impaired loans required the Bank to do so.

3.1.8 Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

The Bank's main credit exposure can be split between Luxembourg and Italy as majority of bank counterparties are based in Italy for banks and in Luxembourg for the customers.

In EUR	2021					2020
	Italy	Luxembourg	Spain	Other	Total	Total
Cash and balances at central banks	848.071	4.320.798	-	1.385	**5.170.254**	8.878.833
Financial assets at FV/PL	-	-	-	16.866.778	**16.866.778**	4.000.043
Financial assets at amortised cost: loans to banks	306.296.868	-	-	32.232.929	**338.529.797**	322.552.265
Financial assets at amortised cost: loans to custome	42.288.064	1.033.031.927	-	3.243.973	**1.078.563.964**	1.291.608.720
Financial assets at amortsed cost: debt securities	253.081.011	-	-	-	**253.081.011**	211.323.810
Financial assets at FV/OCI - Debt securities	405.000.816	-	241.698.275	54.646.364	**701.345.455**	608.660.192
Financial assets mandatorily at fair value	-	-	-	-	**-**	-
Total	1.007.514.829	1.037.352.725	241.698.275	106.991.430	**2.393.557.258**	2.447.023.865

(b) Industry sectors

The Bank's main credit exposure can be split between banks, governments and other financial corporations. The following table breaks down the Bank's main credit exposure at its carrying amount, as categorised by the industry sectors of the counterparties.

In EUR	Banks	Government	Other financial corporations	Total
As at 31 December 2020	**331.754.880**	**819.984.003**	**1.291.608.720**	**2.443.347.603**
Cash and balances at central banks	5.170.254	-	-	5.170.254
Financial assets at FV/PL	16.866.778	-	-	16.866.778
Financial assets at FV/OCI	-	701.345.455	-	701.345.455
Financial assets at amortised cost	338.529.797	253.081.011	1.078.563.964	1.670.174.772
As at 31 December 2021	**360.566.829**	**954.426.466**	**1.078.563.964**	**2.393.557.259**

3.1.9 Financial guarantees & commitments

The total ECL on commitments and financial guarantees is EUR 32,139 (2020: EUR 54,009) and each of them is individually provisioned. There were no changes between the stages during the year.

3.2 Market risk

The Bank takes market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market variables (interest rates, prices, exchange rates). Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and foreign exchange rates.

3.2.1 Market risk measurement techniques

The Bank is primarily exposed to market risks through interest rate and foreign currency risks. The market risks are followed by the Bank on a daily basis by ways of reporting prepared by the Risk Management department. The Bank manages interest rate risk by setting value sensitivity limits per bucket. The choice of the instruments best suited to managing risk within the assigned limits is delegated to the treasury function. Securities activities are controlled by means of securities portfolio global limits. In the interest of improving and complementing the various risk management and treasury tools, the Bank uses an integrated Risk management tool that is used by the Group, to measure, manage and simulate its liquidity and interest rate risk position.

Risk Management ensures that the exposure of the Bank is not above the limits defined by the Parent Company. With a monthly frequency, specific sensitivity analyses on capital and interest margins are produced. The parametric analysis, considering duration and convexity is used to evaluate the impact on the value of shareholders' equity of parallel shifts in the yield curve (change is identical for all nodes along the curve).

Shifts in the yield curve are almost never parallel:

- Monetary policy signals (restrictive or expansionary) are first transmitted to the money market, via open market operations, and only later to the financial market;
- The expectations of operators about yields over the short and long term affect the rates applying in different segments of the curve.

Therefore sensitivity analysis by bucket is used to calculate the impact on the present value of each cashflow using the rates from two yield curves (the current curve at the analysis date and the shifted curve) and then comparing the two amounts (full valuation method).

3.2.2 Foreign currency 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. The Bank is exposed to this risk when the amount of assets and liabilities per currency is not zero. The Management Board of the Bank sets limits on the level of exposure in aggregate which are monitored daily by the Risk Management department. The table below summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

As at 31 December 2021	EUR	USD	Other	Total
Assets				
Cash and cash balances	4.233.000	-	-	**4.233.000**
Other demand deposits	289.623	267.231	380.400	**937.254**
Financial assets at fair value through profit or loss	8.903.084	-	-	**8.903.084**
Financial assets at fair value through OCI	701.345.455	-	-	**701.345.455**
Financial assets at amortised cost	1.606.031.929	55.930.440	8.212.403	**1.670.174.772**
Hedging derivatives	7.963.694	-	-	**7.963.694**
Property, plant and equipment	1.708.639	-	-	**1.708.639**
Intangible assets	8.111.586	-	-	**8.111.586**
Tax assets	9.672.896	-	-	**9.672.896**
Other assets	3.642.848	-	-	**3.642.848**
Equity investments: controlled - not consolidated	12.000	-	-	**12.000**
Total Assets	**2.351.914.754**	**56.197.670**	**8.592.803**	**2.416.705.227**

As at 31 December 2021	EUR	USD	Other	Total
Liabilities				
Financial liabilities at amortised cost	1.988.771.246	56.435.380	8.376.810	**2.053.583.436**
Financial liabilities held for trading	9.214.015	-	-	**9.214.015**
Hedging derivatives	24.201.423	-	-	**24.201.423**
Tax liabilities	11.527.318	-	-	**11.527.318**
Other liabilities	6.981.061	-	-	**6.981.061**
Provisions for risks and charges	4.014.504	-	-	**4.014.504**
Total Liabilities	**2.044.709.568**	**56.435.380**	**8.376.810**	**2.109.521.758**

Net on-balance sheet financial position	307.205.186	(237.710)	215.994	**307.183.469**
Loan commitments and other credit related liabilities	1.076.354.919	-	-	**1.076.354.919**
Financial Guarantees	5.654.750	-	-	**5.654.750**

As at 31 December 2020				
Total financial assets	2.435.010.850	33.427.978	1.883.994	**2.470.322.822**
Total financial liabilities	2.129.367.801	33.154.332	1.507.476	**2.164.029.609**
Net on-balance sheet financial position	305.643.049	273.646	376.518	**306.293.214**

Concentrations of currency risk – on- and off-balance sheet instruments

Under the assumptions, as defined here above, taking into account assets and liabilities as at 31 December 2021 (respectively 2020), a 10% strengthening in EUR to USD would influence income before tax by EUR -23,771 (2020 EUR +35,166) and a 10% weakening in EUR to USD would influence income before tax by EUR 23,771 (2020 EUR -35,166).

3.2.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposures to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value risks. Interest margins may increase as a result of such changes but may reduce in the- event that unexpected movements arise. The Bank sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by the Risk Management department.

The table below summarises the Bank's exposure to interest rate risks. It includes the financial instruments at carrying amounts (including accrued interest), categorised by contractual date, taking into account repricing dates.

	Up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Non-interest	Total
As at 31 December 2021							
In EUR							
Assets							
Cash and cash balances and Other demand deposits	937.254	4.233.000	-	-	-	-	**5.170.254**
Financial assets at amortised cost - Banks	161.879.894	115.525.736	61.124.167	-	-	-	**338.529.797**
Financial assets at amortised cost - Customers	1.066.130.808	8.158.033	4.275.122	-	-	-	**1.078.563.964**
Financial assets at amortised cost Customers - Debt securities	-	-	25.206.308	99.520.654	128.354.050	-	**253.081.011**
Financial assets at FV/OCI	-	-	-	329.203.848	372.141.607	-	**701.345.455**
Derivative financial instruments	-	920.126	3.945.509	12.001.143	-	-	**16.866.778**
Other assets	-	-	-	-	-	3.642.848	**3.642.848**
Total financial assets	**1.228.947.956**	**128.836.895**	**94.551.106**	**440.725.645**	**500.495.656**	**3.642.848**	**2.397.200.106**
Liabilities							
Deposits from banks	520.681.164	291.465.790	559.678.494	-	-	-	**1.371.825.447**
Deposits from customers	449.540.924	10.356.792	15.289.122	-	-	-	**475.186.838**
Debt securities in issue	-	13.981.934	15.969.745	175.294.033	-	-	**205.245.711**
Derivative financial instruments	4.272.471	2.876.504	19.358.990	6.907.473	-	-	**33.415.438**
Other liabilities	6.981.061	-	-	-	-	-	**6.981.061**
Total financial liabilities	**981.475.620**	**318.681.020**	**610.296.351**	**182.201.506**	**0**	**-**	**2.092.654.496**
Total interest repricing gap	**247.472.336**	**(189.844.125)**	**(515.745.245)**	**258.524.139**	**500.495.656**	**3.642.848**	**304.545.610**
As at 31 December 2020							
Total financial assets	**1.359.064.377**	**17.226.800**	**25.476.522**	**793.924.422**	**251.331.743**	**3.270.662**	**2.450.294.527**
Total financial liabilities	**533.752.060**	**394.517.318**	**958.116.707**	**233.699.112**	**23.724.167**	**-**	**2.143.809.365**
Total interest repricing gap	**825.312.317**	**(377.290.519)**	**(932.640.184)**	**560.225.310**	**227.607.576**	**3.270.662**	**306.485.162**

Under the assumptions, as defined here above, taking into account assets and liabilities as at 31 December 2021 and 2020, respectively a 100 basis points increase or decrease in market interest rates would influence the net interest income before tax by EUR 0,588 mln (2020 EUR 2,462 mln) and by EUR 2,214 mln (2020 EUR 1,255 mln) respectively.

3.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

3.3.1 Liquidity risk management process

The Bank's policies for liquidity risk establish the responsibility of the Parent Company concerning both the observance of the consolidated limits and the strategic decisions for funding allocation. The Group's objective consists into maintaining a constant level of liquidity in order to carry out the normal business and to comply with international regulations and rules defined by the national central banks.

The Group liquidity risk is managed within a centralized location on behalf of all group entities. Liquidity risk is mitigated by various funding sources, by investing in readily marketable securities and closely monitoring maturities and limits related to asset and liability management.

The management of liquidity risk is not limited to cash management but also includes analysis of the strategic and long term liquidity forecast, in order to determine possible surplus or shortage of liquidity. On a daily basis the Risk Management department of the Bank measures and monitors the exposure of the Bank to liquidity risk; it also ensures the Bank remains within the limits imposed by the Parent Company and applicable regulations.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

3.3.2 Cash flows on non-derivative financial assets and liabilities

The table below presents the initial contractual cash flows receivable/payable (interest not included) by the Bank under non-derivative financial assets and liabilities and other assets/liabilities and by remaining contractual maturities at the statement of financial position date. The amounts disclosed in the table are categorised by contractual maturity dates.

As at 31 December 2021 **In EUR**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**over 5 years**	**Total**
Assets						
Cash equivalents	937.254	4.233.000	-	-	-	**5.170.254**
Loans and advances to Banks	74.796.203	10.553.815	41.038.691	212.141.087	-	**338.529.797**
Loans and advances to Customers	1.066.130.808	8.158.033	-	-	4.275.122	**1.078.563.964**
Financial assets at amortised cost Customers - Debt securities	-	-	25.206.308	99.520.654	128.354.050	**253.081.011**
Non-trading financial assets mandatorily at FV/P&L	-	-	-	-	-	**-**
Financial assets at FV/OCI	-	-	-	329.203.848	372.141.607	**701.345.455**
Total financial assets	**1.141.864.265**	**22.944.849**	**66.244.998**	**640.865.589**	**504.770.779**	**2.376.690.481**
Liabilities						
Deposits from banks	520.681.164	291.465.790	559.678.494	-	-	**1.371.825.447**
Deposits from customers	449.540.924	10.356.792	11.018.534	-	4.270.588	**475.186.838**
Debt securities in issue	-	13.981.934	15.969.745	175.294.033	-	**205.245.711**
Financial liabilities designated at FV	-	-	-	-	-	**-**
Other liabilities (IFRS 16) - no maturity breakdown	-	-	-	-	-	**1.325.440**
Total financial liabilities	**970.222.088**	**315.804.515**	**586.666.773**	**175.294.033**	**4.270.588**	**2.053.583.436**

As at 31 December 2020 **In EUR**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**over 5 years**	**Total**
Assets						
Cash equivalents	3.457.833	5.421.000	-	-	-	**8.878.833**
Loans and advances to banks	72.218.734	8.213.221	-	242.120.311	-	**322.552.265**
Loans and advances to customers	1.283.387.807	3.592.579	25.476.522	100.662.200	89.813.422	**1.502.932.470**
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	**-**
Financial assets mandatory at FV/P&L	-	-	-	-	-	**-**
Financial assets at fair value through OCI	-	-	-	447.141.872	161.518.321	**608.660.192**
Total assets	**1.359.064.374**	**17.226.800**	**25.476.522**	**789.924.382**	**251.331.743**	**2.443.023.824**
Liabilities						
Deposits from banks	618.015	346.302.598	958.109.668	-	-	**1.305.030.280**
Deposits from customers	521.440.442	48.214.721	-	-	4.623.529	**574.278.693**
Debt securities in issue	-	-	-	204.686.516	-	**204.686.516**
Financial liabilities designed at FV	-	-	-	-	-	**-**
other liabilities (IFRS 16) - no maturity breakdown	-	-	-	-	-	**1.886.885**
Total liabilities	**522.058.457**	**394.517.318**	**958.109.668**	**204.686.516**	**4.623.529**	**2.085.882.374**

The Bank is integrated in the liquidity's risk management processes of UniCredit S.p.A.. In case of liquidity shortfall, the liquidity contingency plan, which foresees a dedicated support from UniCredit S.p.A., will be activated.

3.3.3 Cash flows on derivative financial instruments

The table below analyses the Bank's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The amounts disclosed in 2020 are based on the contractual flows, where the interest rate has been set. The flows in 2021 also includes the expected cash flows of the variable rate index that will be set in the future. The expected cash flow is based on the forward Euribor curve.

At 31 December 2021 **In EUR**	**Up to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Derivatives:					
Interest rate derivatives					
– Outflow	(4.027.310)	(1.892.757)	(14.923.240)	(9.762.426)	**(30.605.732)**
– Inflow	-	817.806	9.076.343	14.681.632	**24.575.780**
Total outflow	(4.027.310)	(1.892.757)	(14.923.240)	(9.762.426)	**(30.605.733)**
Total inflow	-	817.806	9.076.343	14.681.632	**24.575.780**

At 31 December 2020 **In EUR**	**Up to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Derivatives:					
Interest rate derivatives					
– Outflow	(3.664.782)	(1.474.522)	(14.829.006)	(8.502.763)	**(28.471.071)**
– Inflow	-	481.615	1.387.338	854.364	2.723.317
Total outflow	(3.664.782)	(1.474.522)	(14.829.006)	(8.502.763)	(28.471.071)
Total inflow	-	481.615	1.387.338	854.364	2.723.317

3.3.4 Off-balance sheet items

The details of the contractual amounts of the Bank's off-balance sheet financial instruments are summarised in the table below in EUR:

	2021		2020	
	Nominal amount of off-balance sheet commitments and financial guarantees	Provisions on off-balance sheet commitments and financial guarantees	Nominal amount of off-balance sheet commitments and financial guarantees	Provisions on off-balance sheet commitments and financial guarantees
Type of transactions/Value	Instruments without significant increase in credit risk since initial recognition (Stage 1)	Instruments without significant increase in credit risk since initial recognition (Stage 1)	Instruments without significant increase in credit risk since initial recognition (Stage 1)	Instruments without significant increase in credit risk since initial recognition (Stage 1)
Loan commitments given	**1.076.354.919**	**29.995**	**1.332.449.345**	**53.549**
Other financial corporations	1.032.260.185	8.103	1.282.847.368	11.109
Non-financial corporations	25.700.000	2.513	40.485.824	22.217
Households	18.394.734	19.379	9.116.153	20.223
Financial guarantees given	**5.654.750**	**2.144**	**4.252.750**	**460**
Other financial corporations	2.886.750	41	2.986.750	**21**
Non-financial corporations	148.000	90	146.000	**43**
Households	2.620.000	2.013	1.120.000	**396**

3.4 Fair value of financial assets and liabilities

3.4.1 Fair value versus carrying amounts

The carrying amounts of the financial assets and financial liabilities measured at amortised cost are deemed to be a reasonable estimate of their fair value considering their short term maturity.

3.4.2 Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no changes between the different stages during the year.

In EUR	Level 1	Level 2	Total
31 December 2021			
Financial assets			
Financial assets at FV/PL	-	8.903.084	**8.903.084**
Financial assets at FV/OCI	701.345.455	-	**701.345.455**
Hedging derivatives	-	7.963.694	**7.963.694**
	701.345.455	**16.866.778**	**718.212.233**
Financial liabilities			
Financial liabilities held for trading	-	9.214.015	**9.214.015**
Financial liabilities designated at FV	-	-	**-**
Hedging derivatives	-	24.201.423	**24.201.423**
	-	**33.415.438**	**33.415.438**

In EUR	Level 1	Level 2	Total
31 December 2020			
Financial assets			
Financial assets at FV/PL	-	3.781.615	**3.781.615**
Financial assets at FV/OCI	608.660.192	-	**608.660.192**
Hedging derivatives	-	218.428	**218.428**
	608.660.192	**4.000.043**	**612.660.236**
Financial liabilities			
Financial liabilities held for trading	-	4.230.630	**4.230.630**
Financial liabilities designated at FV	-	-	**-**
Hedging derivatives	-	43.882.603	**43.882.603**
	0	**48.113.233**	**48.113.233**

3.5 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial positions, are:

- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored monthly by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and set as Regulatory Directive and Regulation by the European Parliament and Council. The required information is filed with the ECB and CSSF on a quarterly basis.

In 2021 the ECB, after finalization of the SREP process, has set for the Bank a Minimum Total Capital ratio of 8% plus capital conservation buffer of 2,5%. The Bank's regulatory capital is composed of subscribed capital, reserves and retained earnings.
The risk-weighted assets are measured by means of risk weights classified according to the nature of − and reflecting an estimate of credit, market and other risks associated with − each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted

for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios of the Bank for the year ended 31 December. During those two years, the Bank complied with all externally imposed capital requirements to which it is subject.

	2021 EUR	2020 EUR
Global Regulatory Capital	**301.434.259**	**297.034.302**
Capital requirements		
Capital requirement for the credit risk	335.882.215	471.273.253
Capital requirements for position, foreign exchange and commodities	236.365	684.578
Capital requirement for operational risk	37.031.568	35.250.478
Total capital requirement	**373.150.148**	**507.208.309**
Core Tier 1 (minimum being 8,00%)	**80,78%**	**58,56%**

4 Critical accounting estimates and judgments

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Fair value of unquoted financial instruments

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example models) are used to determine fair value, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. The bank uses Group models for these calculations.

(b) Income taxes

The Bank is subject to income tax in Luxembourg. Estimates are required in determining the provision for income taxes. The provision has been calculated taking into account the applicable rate of 24.94% for the financial year.

(c) Defined benefit plan

The present value of the pension obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions used in determining the net cost/income for pensions include demographic assumptions, the discount rate, the inflation rate, expected rates of wage costs increase and expected cash flow linked to pension increases. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Bank determines the appropriate discount rate at the end of each year. This rate is used to determine the present value of estimated future cash flows expected to settle the pension obligations. In determining the discount rate, the Bank considers the interest rate of high-quality corporate bonds denominated in EUR and that have terms to maturity approximating the terms of the related pension liability. Assumptions and estimations are provided by an external insurance company. Additional information is disclosed in Note 17.1.

(d) Provisions

All provisions and potential litigations that the Bank could be involved in are analysed at each reporting date and adjusted to reflect the current best estimate. When necessary, legal advice is sought and provisions are recorded.

5 Cash and balances with central banks

	2021 EUR	2020 EUR
a) Cash	937.254	3.457.833
b) Balances with central banks	4.233.000	5.421.000
Total	**5.170.254**	**8.878.833**

Cash and cash equivalents of the year as reported in the Cash Flow Statement also includes loans with banks below 3 months and overall sum up to EUR 85.350.019 (2020: EUR 78,258,021).

6 Financial assets at fair value through profit or loss

The Bank trades mainly in the following types of derivatives:

- Interest rate Swaps;
- Equity linked swaps;
- Equity linked options.

No exchange of principal takes place. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. In order to mitigate this Counterparty Credit Risk the bank has entered into netting agreements (ISDA Agreement) and a collateral exchange agreement (ISDA Collateral Support Annex). On a daily basis, the replacement value is calculated and variation margin is exchanged, if the difference between collateral and replacement value exceeds the contractual threshold.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms.

The aggregate contractual or notional amount of derivative financial instruments, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair value of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below.
There were no changes in the level classification during the year.

	AMOUNTS AS AT 31.12.2021			AMOUNTS AS AT 31.12.2020		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
A. Financial assets (non-derivatives)	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-
Structured securities	-	-	-	-	-	-
Other debt securities	-	-	-	-	-	-
Equity instruments	-	-	-	-	-	-
Units in investment funds	-	-	-	-	-	-
Loans	-	-	-	-	-	-
Reverse Repos	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total (A)	-	-	-	-	-	-
B. Derivative instruments	-	-	-	-	-	-
Financial derivatives	-	**8.903.084**	-	-	**3.781.615**	-
Trading	-	-	-	-	-	-
Linked to fair value option	-	-	-	-	-	-
Other	-	8.903.084	-	-	3.781.615	-
Credit derivatives	-	-	-	-	-	-
Trading	-	-	-	-	-	-
Linked to fair value option	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total (B)	-	**8.903.084**	-	-	**3.781.615**	-
Total (A+B)	-	**8.903.084**	-	-	**3.781.615**	-

At 31 December 2021	**Contract/ notional amount**	**Fair value**	
In EUR		**Assets**	**Liabilities**
Equity swaps on Equity linked note -Trading	414.600.000	8.903.084	9.214.015
Interest rate Swaps - Hedging	824.800.000	7.963.694	24.201.423
Total derivatives		**16.866.778**	**33.415.438**
Maturity >1 year	1.103.000.000	14.560.236	31.063.836
Maturity < 1 year	136.400.000	2.306.542	2.351.602
		16.866.778	**33.415.438**

At 31 December 2020	**Contract/ notional amount**	**Fair value**	
In EUR		**Assets**	**Liabilities**
Equity swaps on Equity linked note -Trading	414.600.000	3.781.615	4.230.630
Interest rate Swaps - Hedging	699.800.000	218.428	43.882.604
Total derivatives		**4.000.043**	**48.113.234**
Maturity >1 year	1.114.400.000	4.000.043	48.113.234
Maturity < 1 year	0	-	0
		4.000.043	**48.113.234**

7 Financial assets at fair value through other comprehensive income

	2021 EUR
Securities at FV/OCI	
Listed debt securities	701.345.455
Total securities at FV/OCI	**701.345.455**

	2021 EUR
At 1 January	608.660.192
Additions	220.310.500
Disposals (sale and redemption)	(107.662.000)
Changes in fair value allocated to profit or loss	(15.946.940)
Changes in fair value allocated to other comprehensive income	(2.216.591)
Change in accrued interest	(1.799.706)
At 31 December	**701.345.455**

Change in the FV/OCI reserve	2021 EUR
At 1 January	12.695.538
(Increase) decrease in unrealised losses on FV/OCI portfolio	(2.216.591)
Deferred taxes	552.818
At 31 December	**11.031.765**

	2020 EUR
Securities at FV/OCI	
Listed debt securities	608.660.192
Total securities at FV/OCI	**608.660.192**

	2020 EUR
At 1 January	801.631.596
Additions	105.273.000
Disposals (sale and redemption)	(300.358.745)
Changes in fair value allocated to profit or loss	4.581.745
Changes in fair value allocated to other comprehensive income	5.585.638
Change in accrued interest	(8.053.042)
At 31 December	**608.660.192**

Change in the FV/OCI reserve	2020 EUR
At 1 January	8.502.958
(Increase) decrease in unrealised gains/losses on FV/OCI portfolio	5.585.638
Deferred taxes	(1.393.058)
At 31 December	**12.695.538**

During the year, the Bank disposed EUR 100 million (notional amount) of Italian Government Bonds.

8 Financial assets at amortised cost: Loans and advances to banks

	AMOUNTS AS AT 31.12.2021 BOOK VALUE	
	STAGE 1	STAGE 2 AND 3
Loans and advances to Central Banks	**4.233.000**	**-**
Other	4.233.000	-
Loans and advances to banks	**339.467.051**	**-**
Current accounts and demand deposits	937.254	-
Time deposits	64.142.763	-
Other loans	274.387.033	-
Total	**343.700.051**	**-**
Loans to banks net of cash and loans to central banks (note 5)	338.529.797	-

	AMOUNTS AS AT 31.12.2020 BOOK VALUE	
	STAGE 1	STAGE 2 AND 3
Loans and advances to Central Banks	**5.421.000**	**-**
Other	5.421.000	-
Loans and advances to banks	**326.010.099**	**-**
Current accounts and demand deposits	3.457.833	-
Time deposits	33.632.097	-
Other loans	288.920.167	-
Total	**331.431.099**	**-**
Loans to banks net of cash and loans to central banks (note 5)	322.552.265	-

There were no changes between the stages during the year.

9 Financial assets at amortised cost: Loans and advances to customers

	AMOUNTS AS AT 31.12.2021	
	BOOK VALUE	
	STAGE 1	STAGE 2 AND 3
Loans	**1.078.563.964**	**-**
Current accounts	1.066.130.808	-
Other loans	12.433.156	-
Debt securities	**253.081.011**	**-**
Structured securities	-	-
Other debt securities	253.081.011	-
Total	**1.331.644.975**	**-**

	AMOUNTS AS AT 31.12.2020	
	BOOK VALUE	
	STAGE 1	STAGE 2 AND 3
Loans	**1.291.608.720**	**-**
Current accounts	1.279.896.679	-
Other loans	11.712.041	-
Debt securities	**211.323.810**	**-**
Structured securities	-	-
Other debt securities	211.323.810	-
Total	**1.502.932.530**	**-**

In 2021, the Bank restructured the revolving credit facility of one of its clients. In the new set-up, part of the exposure has been transferred to another legal entity of the Group via a funded silent sub-participation.

10 Deferred tax assets

EUR	Tax asset 2021		Tax asset 2020	
	Posted to P&L	Posted to Net Equity	Posted to P&L	Posted to Net Equity
Breakdown				
Financial assets and liabilities (different from Loans and Deposits)	1.057.071	167.402	1.838.359	-
Loans and advances to and deposits from banks and customers	43.537	-	53.737	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-
Hedging and hedged item revaluation	6.416.290	-	10.430.214	-
Other assets and Other liabilities	-	100.713	-	137.869
Provisions, pension funds and similar	776.758	-	767.918	-
	-	-	-	-
Total	**8.293.655**	**268.115**	**13.090.229**	**137.869**
TOTAL		**8.561.770**		**13.228.097**
Change	-	-	-	-
Opening balance	**13.090.229**	**137.869**	**10.950.448**	**681.362**
Financial assets and liabilities (different from Loans and Deposits)	(781.288)	167.402	375.000	(330.920)
Loans and advances to and deposits from banks and customers	(10.200)	-	(24.538)	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-
Hedging and hedged item revaluation	(4.013.924)	-	1.298.544	-
Retirement benefit obligations	-	-	-	-
Other assets and Other liabilities	-	(37.156)	-	(212.573)
Provisions, pension funds and similar	8.840	-	490.775	-
Closing balance	**8.293.655**	**268.115**	**13.090.229**	**137.869**
TOTAL		**8.561.770**		**13.228.097**

11 Property, plant and equipment

	Changes in 2021		
	Office furniture and fittings	Electronic systems	Total
Gross opening balance	294.411	405.836	700.247
Total net reduction in value	(243.763)	(184.369)	(428.132)
Net opening balance	**50.648**	**221.467**	**272.114**
Increases	**37.759**	**151.138**	**188.897**
Purchases	37.759	151.138	188.897
Reductions	**10.884**	**53.658**	**64.542**
Depreciation	10.884	53.658	64.542
Net final balance	**77.523**	**318.947**	**396.470**
Total net reduction in value	(254.647)	(238.027)	(492.674)
Gross closing balance	332.169	556.974	889.144

	Changes in 2021		
	Right to use	Right to use - other	Total
Gross opening balance	**2.980.683**	**275.370**	**3.256.053**
Total net reduction in value	(1.286.075)	(96.555)	(1.382.630)
Net opening balance	1.694.608	178.815	1.873.423
Increases	**262.059**	**168.940**	**430.999**
Purchases	176.193	126.525	302.718
Reductions	**836.740**	**155.512**	**992.252**
Depreciation	791.630	105.942	897.572
Net final balance	**1.119.927**	**192.243**	**1.312.170**
Total net reduction in value	(1.993.172)	(160.083)	(2.153.255)
Gross closing balance	3.113.099	352.326	3.465.425

12 Intangible assets

	CHANGES IN 2021					
	OTHER INTANGIBLE ASSETS					
	GENERATED INTERNALLY			OTHER		
	GOODWILL	FINITE LIFE	INDEFINITE LIFE	FINITE LIFE	INDEFINITE LIFE	TOTAL
Gross opening balance	**-**	**-**	**-**	**7.413.285**	**-**	**7.413.285**
Total net reduction in value	-	-	-	(2.758.625)	-	(2.758.625)
Net opening balance	**-**	**-**	**-**	**4.654.661**	**-**	**4.654.661**
Increases	**-**	**-**	**-**	**4.617.125**	**-**	**4.617.125**
Purchases	-	-	-	4.617.125	-	4.617.125
Reduction	**-**	**-**	**-**	**1.160.200**	**-**	**1.160.200**
Write-downs	-	-	-	1.160.200	-	1.160.200
- Amortisation	-	-	-	1.107.944	-	1.107.944
Net closing balance	-	**-**	**-**	**8.111.586**	**-**	**8.111.586**
Total net write-down	-	-	-	(3.814.313)	-	(3.814.313)
Gross closing balance	**-**	**-**	**-**	**11.925.899**	**-**	**11.925.899**

	AMOUNTS AS AT 31.12.2021		AMOUNTS AS AT 31.12.2020	
	Finite life	Indefinite life	Finite life	Indefinite life
Other intangible assets	**8.111.586**	**-**	**4.654.661**	**-**
Assets carried at cost	8.111.586	-	4.654.661	-
Assets measured at fair value	-	-	-	-
Total	**8.111.586**	**-**	**4.654.661**	**-**

Total finite and indefinite life	**8.111.586**	**4.654.661**

Intangible assets are mainly related to software used by the Bank and to the investments needed to move the Luxembourg applications to the Group data center.

13 Other assets

13.1 Participation

In 2020, the Bank, with the aim to support UniCredit Group Wealth Management, established a participation in UC Group Wealth Management Investments S.à r.l, ("GP S.à r.l") which acts as General Partner of GWM Opportunities SCS-SICAV-SIF ("GWM Opportunities") with its principal place of business in Luxembourg. The Bank holds a 100% proportion of ownership interest. With this new set-up UniCredit Group Wealth Management will offer alternative investments to its clients. The GWM Opportunities (in the legal form of a "société en commandite simple") will allow to create different sub-funds (funds which invest solely in one or more closed-ended funds) that can be distributed in the countries covered by GWM Opportunities.

13.2 Other assets

	AMOUNTS AS AT	
	31.12.2021	**31.12.2020**
Accrued income other than capitalised income	3.579.381	3.000.274
Items in processing	1.964	241.588
Tax items	12.353	-
Other assets	49.150	28.800
Total	**3.642.848**	**3.270.662**

14 Financial liabilities at amortised cost: Deposits from banks

	AMOUNTS AS AT 31.12.2021	AMOUNTS AS AT 31.12.2020
	BOOK VALUE	BOOK VALUE
Deposits from central banks	-	-
Deposits from banks	**1.371.825.447**	**1.305.030.280**
a) Current accounts and demand deposits	22.173.043	78.015
b) Time deposits	1.297.207.214	958.649.668
c) Loans	52.445.190	346.302.598
Repos	52.445.190	346.302.598
Total	**1.371.825.447**	**1.305.030.280**

15 Financial liabilities at amortised cost: Deposits from customers

	AMOUNTS AS AT 31.12.2021	AMOUNTS AS AT 31.12.2020
Current accounts and demand deposits	429.978.484	510.430.852
Time deposits	45.208.354	63.847.841
Total	**475.186.838**	**574.278.693**

16 Debt securities in issue & Financial liabilities designed at fair value

	2021 EUR	2020 EUR
Equity linked notes	205.245.711	204.686.516
Senior notes	-	-
	205.245.711	**204.686.516**

	2021 EUR	2020 EUR
At 1 January	204.686.515	202.169.346
Redemption	-	-
Change in fair value allocated to profit or loss	(1.678.255)	300.261
Change in accrued interest	2.237.451	2.216.907
Foreign exchange movements	-	-
At 31 December	**205.245.711**	**204.686.515**

The Bank issued the following debt instruments (not yet arrived at maturity as at 31/12/2021):

Issuance Date	Debt Instruments	Stock Exchange	Nominal	Guaranteed by	Interest rate	Maturity Date
2016	10 Equity Linked Notes	N/A	EUR 37.0 million	Unicredit S.p.A.	N/A	2024
2015	12 Equity Linked Notes	N/A	EUR 79.4 million	Unicredit S.p.A.	N/A	2023
2017	7 Equity Linked Notes	N/A	EUR 60.9 million	Unicredit S.p.A.	N/A	2023
2017	2 Equity Linked Notes	N/A	EUR 30.0 million	Unicredit S.p.A.	N/A	2022

All debt issued by the Bank are guaranteed by the Parent company. Therefore a change in the Bank's own credit risk does not change the value of the issued debt and no entries are reported into OCI related to Own Credit Risk.

17 Provisions for risks and charges

In line with the organizational changes undertaken by the Group within the Strategic Plan "UniCredit Unlocked 2022-2024", internal reorganization has been planned to foster the business effectiveness and improve the alignment with the Holding.The financial effects related to the reorganization are included in the category " Other provisions for risks and charges".

	AMOUNTS AS AT	
	31.12.2021	**31.12.2020**
Provisions for credit risk on commitments and financial guarantees give	32.138	54.008
Pensions and other post-retirement benefit obligations	3.082.366	3.025.052
Other provisions for risks and charges	900.000	-
Legal and tax disputes	-	-
Staff expenses	900.000	-
Other	-	
Total	**4.014.504**	**3.079.060**

17.1 Post Retirement benefit obligations

8 employees of the Bank (2020: 9) participate in four defined benefit plans set up and operated in accordance with Luxembourg law and regulations. The Bank has also two defined contribution plans for 53 employees.

	2021 **EUR**	**2020** **EUR**
Balance sheet obligations for pension benefits	3.082.366	3.025.052
Income statement charged for pension benefits	239.229	86.892

The amounts recognised in the balance sheet are determined as follows:

	2021 **EUR**	**2020** **EUR**
Present value of defined benefit obligations	3.700.518	3.618.279
Fair value of plan assets	(618.152)	(593.227)
	3.082.366	**3.025.052**
Unrecognised gains and losses	-	-
Liability in the balance sheet	**3.082.366**	**3.025.052**

The movement in the defined benefit obligation is as follows:

	2021 EUR	2020 EUR
Beginning of year	3.618.279	1.605.726
Transfer of liabilites	-	-
Interest cost	32.308	18.131
Current service cost	212.560	75.159
Actual benefit payments by the fund	(30.913)	(45.589)
(Gain) or loss on change of financial assumptions	211.999	1.920.828
(Gain) or loss on experience adjustment	(343.715)	44.025
End of year	**3.700.518**	**3.618.279**

The movement in the fair value of plan assets of the year is as follows:

	2021 EUR	2020 EUR
Beginning of year	593.227	505.883
Transfer of assets	-	-
Actual total benefit payments	(30.913)	(45.589)
Actual Bank contributions (including benefits paid directly by the Bank)	32.935	119.622
Interest income	5.639	6.398
Return on plan assets	17.264	6.913
	618.152	**593.227**

The charges recognised in the statement of comprehensive income are as follows:

	2021 EUR	2020 EUR
Current service cost	212.560	75.159
Net interest cost:	26.669	11.733
- Interest cost on defined benefit plan	32.308	18.131
- Interest income on plan assets	(5.639)	(6.398)
Total charges recognised and included in staff costs	**239.229**	**86.892**

The movement recognised in Other Comprehensive income is as follows:

	2021 EUR	2020 EUR
Beginning of year	3.363.079	1.405.139
(Gain) or loss on experience adjustment	343.715	44.025
(Gain) or loss on change of financial assumptions	(211.999)	1.920.828
Return on plan assets	17.264	6.913
	3.477.531	**3.363.079**

(Gain) or loss due to change on Demographic assumption is nil as at 31 December 2021 (2020: nil).

The actuarial assumptions used are as follows:

	2021 % p.a.	2020 % p.a.
Inflation rate	1,75	1,40
Discount rate	1,15	0,90
Expected rate of salary increases	3,75	3,40
Expected rate of social security increases	1,75	1,40
Longevity at age 65 (in years):		
-Male	19,65	19,65
-Female	22,41	22,41

The mortality table is ERM90 for males and ERF90 for females.

As of 31 December 2021, sensitivity analysis is as follows:

	Increase	Increase
Discount rate (0,25% movement)	131.397	134.831
Future salary growth (0,25% movement)	352.967	359.355
Inflation rate growth (0,25% movement)	246.863	249.503
Future mortality (1 year movement)	11.688	12.092

Expected cash flow and other information as of 31 December 2021 are as follows:

Employer contributions to plan assets	34.171	123.689
Benefit payments from plan assets	41.864	57.052

As of 31 December 2021, the duration of the Defined benefit plan (liabilities) is 14.08 years.

18 Deferred income tax liabilities

Deferred income tax assets and liabilities are disclosed separately in the statement of financial positions. Applica-ble income tax rate is 24.94%. More details regarding the deferred tax assets is provided in the note 10 of these financial statements.

	Tax liabilities 2021		Tax liabilities 2020	
	Posted to P&L	Posted to Net Equity	Posted to P&L	Posted to Net Equity
Breakdown				
Financial assets and liabilities (different from Loans and advances and Deposits)	2.255.679	3.832.900	3.026.894	4.218.316
Financial assets mandatorily at fair value through profit or loss	-	-	-	-
Hedging and hedged item revaluation	5.338.026	-	9.523.665	-
Other assets and Other liabilities	-	100.713	-	137.869
Total	**7.593.705**	**3.933.613**	**12.550.559**	**4.356.185**
TOTAL		**11.527.318**		**16.906.744**
Change				
Opening balance	**12.550.559**	**4.356.185**	**10.912.108**	**3.506.620**
Financial assets and liabilities (different from Loans and advances and Deposits)	- 771.215	- 385.416	518.762	1.062.138
Financial assets mandatorily at fair value through profit or loss	-	-	-	-
Hedging and hedged item revaluation	- 4.185.639	-	1.119.689	-
Other assets and Other liabilities	-	- 37.156	-	- 212.573
Total	**7.593.705**	**3.933.613**	**12.550.559**	**4.356.185**
TOTAL		**11.527.318**		**16.906.744**

19 Other liabilities

	AMOUNTS AS AT	
	31.12.2021	**31.12.2020**
Accrued expenses other than those to be capitalised for the financial liabilities concerned	2.066.773	1.517.740
Other liabilities due to employees	179.599	591.045
Other liabilities due to other staff	936.264	1.311.261
Interest and amounts to be credited to Banks	338.845	2.058.251
Items in processing	213.929	268.413
Other liabilities	3.118.820	3.630.513
Other Tax items	126.831	436.534
Total	**6.981.061**	**9.813.757**

Other liabilities to employees are mainly composed by salary, bonus and social charges payable. Other liabilities are related to accounts payable to suppliers.

20 Share capital

The total number of ordinary shares in issue at year-end was 134,066 (2020: 134,066) with a par value of EUR 100 per share (2020: EUR 100 per share). All issued shares are fully paid.

21 Restricted reserves and other reserves

21.1 Restricted reserve

	AMOUNTS AS AT	
	31.12.2021	**31.12.2020**
Legal Reserve	1.340.660	1.340.660
Statutory Reserve	-	-
Other Reserves	-	-
Total	**1.340.660**	**1.340.660**

Under the Luxembourg Law, the Bank must book into a restricted reserve an amount equivalent to at least 5% of the annual net profit until such reserve is equal to 10% of the share capital. This booking is made in the following year. Distribution of the restricted reserve is restricted for the proportion equal to 10% of the share capital.

21.2 Net wealth tax reserve

In accordance with paragraph 8a of the Luxembourg tax law, the Bank uses the possibility to reduce net wealth tax incurred during the financial year up to the amount of the tax on profit of the precedent year. Such a deduction is subject to the allocation of an amount equal to five times the reduced net wealth tax to a non-distributable reserve. The respective decision is taken at the Annual General Meeting of shareholders. Such a reserve is required to be maintained during 5 years.

The net wealth tax reserve for 2021 is EUR 26,972,870 (2020: EUR 26,588,045).

21.3 Share premium

The total share premium as at 31 December 2021 is EUR 205,644,462 (2020: EUR 205,644,462).

21.4 Revaluation Reserve

The change in revaluation reserve comes mainly from sold and matured securities in 2021 and from the change in market value between 2021 and 2020 on the FVOCI portfolio (more details are provided in the Statement of changes in equity).

	AMOUNTS AS AT	
	31.12.2021	**31.12.2020**
Financial Assets (other than equity instruments) at fair value through other comprehensive income	11.031.769	12.695.538
Actuarial gains (losses) on defined-benefit plans	(303.108)	(414.932)
Total	**10.728.661**	**12.280.606**

21.5 Other reserves

The change is due to the profit brought forward in previous years.

22 Net interest income

22.1 Interest income and similar revenues: breakdown

	YEAR 2021			
	DEBT SECURITIES	LOANS	OTHER TRANSACTIONS	TOTAL
Financial assets at fair value through profit or loss	**-**	**-**	**-**	**-**
Financial assets held for trading	-	-	-	-
Other financial assets mandatorily at fair value	-	-	-	-
Financial assets at FV/OCI	**8.731.712**	**-**	**-**	**8.731.712**
Financial assets at amortised cost	**3.628.398**	**8.691.980**	**-**	**12.320.378**
Loans and advances to banks	-	2.178.674	-	2.178.674
Loans and advances to customers	3.628.398	6.513.306	-	10.141.704
Hedging derivatives	**-**	**-**	**3.930.736**	**3.930.736**
Financial liabilities (negative interest rates)	**-**	**-**	**3.945.839**	**3.945.839**
Total	**12.360.110**	**8.691.980**	**7.876.575**	**28.928.665**
of which: interest income on impaired financial assets	-	-	-	-

	YEAR 2020			
	DEBT SECURITIES	LOANS	OTHER TRANSACTIONS	TOTAL
Financial assets at fair value through profit or loss	**-**	**-**	**-**	**-**
Financial assets held for trading	-	-	-	-
Other financial assets mandatorily at fair value	-	-	-	-
Financial assets at FV/OCI	**12.201.524**	**-**	**-**	**12.201.524**
Financial assets at amortised cost	**3.086.751**	**11.820.099**	**-**	**14.906.850**
Loans and advances to banks	-	2.842.693	-	2.842.693
Loans and advances to customers	3.086.751	8.977.406	-	12.064.157
Hedging derivatives	**-**	**-**	**8.298.724**	**8.298.724**
Financial liabilities (negative interest rates)	**-**	**-**	**3.319.525**	**3.319.525**
Total	**15.288.275**	**11.820.099**	**11.618.249**	**38.726.623**
of which: interest income on impaired financial assets	-	-	-	-

22.2 Interest expense and similar charges: breakdown

	YEAR 2021			
	DEBTS	SECURITIES	OTHER TRANSACTIONS	TOTAL
Financial liabilities at amortised cost	**(1.156.594)**	**(2.648.752)**	**(17.301)**	**(3.822.648)**
Deposits from banks	(1.078.580)	-	-	(1.078.580)
Deposits from customers	(78.014)	-	-	(78.014)
Debt securities in issue	-	(2.648.752)	-	(2.648.752)
Other liabilities (IFRS 16)	-	-	(17.301)	(17.301)
Financial liabilities held for trading	**-**	**-**	**(162.979)**	**(162.979)**
Hedging derivatives	**-**	**-**	**(13.442.244)**	**(13.442.244)**
Financial assets (negative interest rates)	**-**	**-**	**(293.944)**	**(293.944)**
Total	**(1.156.594)**	**(2.648.752)**	**(13.916.469)**	**(17.721.815)**

	YEAR 2020			
	DEBTS	SECURITIES	OTHER TRANSACTIONS	TOTAL
Financial liabilities at amortised cost	**(1.165.427)**	**(2.675.679)**	**(28.119)**	**(3.869.225)**
Deposits from banks	(711.381)	-	-	(711.381)
Deposits from customers	(454.045)	-	-	(454.045)
Debt securities in issue	-	(2.675.679)	-	(2.675.679)
Other liabilities (IFRS 16)	-	-	(28.119)	(28.119)
Financial liabilities held for trading	**-**	**-**	**(190.710)**	**(190.710)**
Hedging derivatives	**-**	**-**	**(16.239.593)**	**(16.239.593)**
Financial assets (negative interest rates)	**-**	**-**	**(493.899)**	**(493.899)**
Total	**(1.165.427)**	**(2.675.679)**	**(16.952.322)**	**(20.793.428)**

23 Net fee and commission income

23.1 Fee and commission income: breakdown

TYPE OF SERVICES/VALUES	YEAR 2021	YEAR 2020
Financial Instruments	1.946.381	1.566.218
Reception and transmission of orders	1.533.693	1.150.271
Reception and transmission of orders of financial instruments	1.533.693	1.150.271
Other fees related to activities linked to financial instruments	412.688	415.947
Collective portfolio management	6.567.118	4.810.423
Custody and administration of securities	3.242.847	2.627.230
Custodian Bank	1.528.010	1.340.876
Other fee and commission income in relation to corporate finance activities	1.714.837	1.286.353
Distribution of third party services	3.206.366	2.703.117
Insurance products	2.806.366	2.703.117
Other products	400.000	-
Structured finance	915	780
Financial guarantees	14.195	14.233
Currency trading	70.582	95.675
Other fee income	387.838	216.090
Total	**15.436.242**	**12.033.766**

In 2021, the Bank amended the classification of the commission income to match classification criteria used by the Group. Consequently, starting from 2021 fee incomes which were previously reported in the item "Securities trading", "Placement of securities" and "Management of current accouts" are included in item "Other fee income".

23.2 Fee and commission expense: breakdown

SERVICES/VALUES	YEAR 2021	YEAR 2020
Financial instruments	(419.346)	(437.857)
of which: individual Portfolio management	*(419.346)*	*(437.857)*
own portfolio	(419.346)	(437.857)
Portfolio management: collective	(5.447.574)	(4.108.160)
Own portfolio	(5.447.574)	(4.108.160)
Custody and Admnistration	(1.366.113)	(831.295)
Collection and payments services	(110.632)	(104.544)
Financial guarantees received	(625.756)	(1.186.861)
Off - site distribution of financial instruments, products and services	(309.881)	(338.450)
Other commission expenses	(554.830)	(273.028)
Total	**(8.834.132)**	**(7.280.195)**

24 Net gains on trading income

	2021 EUR	2020 EUR
Net gain(loss) on derivatives equity linked notes	124.672	622.909
Gain(loss) on foreign exchange transactions	257.471	404.586
	382.143	**1.027.495**

25 Other operating income/expense

The position includes:

a) Gains (losses) on disposal of financial assets at fair value through other comprehensive income
b) Net gains (losses) on hedge accounting
c) Net gains (losses) on other financial assets/liabilities at FV/PL
d) Other operating income/expense

25.1 Gains on disposal of financial assets at fair value through other comprehensive income

During the year, the Bank sold EUR 100 million of Italian BTP, realizing a gain of EUR 5,836,802 which compares to a gain of EUR 1,916,770 realized in 2020.

25.2 Net gains (losses) on hedge accounting

The Bank hedges part of its existing interest rate risk resulting from any potential decrease in the fair value of fixed rate assets and liabilities using interest rate swaps. As at 31 December 2021, the impact on the P/L coming from hedge accounting was EUR 46,249, which compares to a loss of EUR -45,546 booked in 2020.

25.3 Other operating income/expense

Other operating income/expense of EUR 646,742 mainly includes expenses recoveries with other companies belonging to UniCredit Group (2020: EUR 616,880).

26 Staff costs

	YEAR 2021	YEAR 2020
Employees	**(9.961.396)**	**(7.940.546)**
Wages and salaries	(7.705.464)	(7.075.655)
Social charges	(1.668.637)	(740.198)
Provision for retirements and similar provisions	(239.229)	(86.891)
- Defined benefit	(239.229)	(86.891)
Payments to external pension funds	(75.854)	(95.809)
- Defined contribution	(75.854)	(95.809)
Costs arising from share-based payments	(82.118)	58.007
Other employee benefits	(190.094)	(0)
Other staff	**(334.393)**	**(898.361)**
Supervisory Board Members	**(59.128)**	**(60.000)**
Recoveries of payments for second employees to other companies	**189.663**	**220.135**
Total	**(10.165.254)**	**(8.678.772)**

In 2021, the increase of personnel expenses is due to the completion of the staff-plan after the re-insourcing of activities previously performed by UniCredit Bank AG Luxembourg branch and to the hirings mainly in the Control functions.

	AMOUNTS AS AT	
	31.12.2021	31.12.2020
Employees	**67**	**68**
Senior managers	2	3
Managers	17	17
Remaining employees staff	48	48
Other Staff	-	-
Total	**67**	**68**

Remuneration paid during the year 2021 to Management and other executives of the Bank (overall 20 persons during 2021) amounted to EUR 3,607,3071 (2020: overall 23 persons, EUR 3,643,668). Remuneration paid during the year 2021 to members of the Supervisory Board amounted to EUR 59,128 (2020: EUR 60,000).

The composition of the Supervisory Board remained unchanged during the entire financial year 2021:

- Mr Patrick SANTER – President
- Mr Alfredo Maria DE FALCO – Vice-President
- Ms Michaela EHRHARDT – Member
- Mr Ivan TARDIVO – Member
- Mr Stefano VECCHI – Member

The mandates of all the members of the Supervisory Board expire on the date of the Annual General Meeting of Shareholders which will be held in 2023.

The Management Board had, at the beginning of the financial year 2021, the following composition:

- Dr Joachim BECKERT – CEO and President of the Management Board
- Mr Luigi COLAVOLPE – CFO and General Manager
- Mr Pietro GAVAZZONI – Head of GFO&WM and General Manager

Following the resolution taken by the Supervisory Board on 17 May 2021 and the regulatory approval issued by ECB on 26 July 2021, Dr Joachim BECKERT was replaced on 27 July 2021 in his functions of CEO by Mr Martin BOEHM, who was appointed as President of the Management Board in the Management Board meeting held on 30 July 2021 (appointment confirmed by the Supervisory Board on 26 October 2021).

In addition, Mr Pietro GAVAZZONI resigned from his functions of Management Board member with effect as of 1 December 2021. Mr GAVAZZONI was not immediately replaced, and his managerial responsibilities were temporarily re-allocated to the other Management Board members.

27 Other administrative expenses

	YEAR 2021	YEAR 2020
Contributions to Resolution Fund and FGDL	**(625.940)**	**(684.574)**
Miscellaneous costs and expenses	**(7.703.677)**	**(6.839.356)**
Advertising marketing and communication	(6.751)	(4.761)
Indirect expenses relating to personnel	(114.869)	(119.120)
Information & Communication Technology expenses	(3.782.986)	(2.253.583)
Lease of ICT equipment and software	(67.667)	(4.567)
Software expenses: lease and maintenance	(1.430.546)	(1.552.451)
ICT communication systems	(51.834)	(41.903)
Services ICT in outsourcing	(1.551.006)	(125.912)
Financial information providers	(681.933)	(528.749)
Consulting and professionals services	(1.241.078)	(1.842.186)
Consulting	(1.048.810)	(1.601.158)
Legal expenses	(192.268)	(241.028)
Real estate expenses	(277.733)	(233.164)
Premises rentals	(136.474)	(147.636)
Utilities	(127.901)	(85.528)
Other real estate expenses	(13.359)	-
Operating costs	(2.280.260)	(2.386.543)
Surveillance and security services	-	(1.468)
Printing and stationery	(35.736)	(56.079)
Postage and transport of documents	(54.380)	(57.974)
Administrative and logistic services	(1.812.578)	(1.591.427)
Insurance	(90.520)	(106.631)
Association dues and fees and contributions to the administrative expenses deposit guarantee funds	(287.046)	(572.964)
Total	**(8.329.617)**	**(7.523.929)**

28 Income tax expense

The effect of deductible differences is due to diverging tax valuation and depreciation rules. The income tax rate of the Bank for current and deferred taxes in 2021 was 24.94% (2020: 24.94%).

	2021 EUR	2020 EUR
Current tax	(991.013)	(2.156.211)
Deferred tax	197.436	13.020
	(793.577)	**(2.143.191)**

	2021 EUR	2020 EUR
Profit before tax	3.223.779	8.557.940
Net Wealth tax	-	-
Current income tax	(992.194)	(2.134.350)
Other tax effect of deductible differences	198.617	(8.841)
	(793.577)	**(2.143.191)**

29 Segment reporting

Starting from 2020, the Bank reports segmented figures into the Group financial reporting in the following divisions: Commercial Banking and Corporate & Investment Banking. Revenue generation is entrusted to three different profit centers: Wealth Management (WM) which is included in the division Commercial Banking, Global Family Office (GFO) and Strategic Funding & Treasury (SF&T) which are part of the division Corporate & Investment Banking. Revenues generated by the profit centers are regularly reported to the Management Board.

(a) Segment reporting methodology
The total revenues shown in the segments, such as net fees and commissions and net trading profit, are based almost exclusively on transactions involving external customers. Net interest income is assigned to the segments in accordance with the market interest calculation method on the basis of the external interest income and interest expenses.

Operating costs, which contain staff expenses, other operating costs, amortization, depreciation and impairment losses on intangible and tangible assets, are split between the divisions according to where they have incurred. For costs that are not directly allocable, overheads allocation keys are set for each division in the budgeting process and applied on the direct and indirect costs for the financial year in question.

Corporate & Investment Banking - GFO Clients

GFO is part of a global initiative aimed at enhancing UniCredit Group value proposition towards family financial holdings and family offices. Being part of the CIB Division, GFO´s mission is to fulfil holding companies and family offices financial needs by providing corporate and investment Banking solutions.

In cooperation with the relevant CIB product units, the Bank offers to its clients investment Banking products and services – financing capital markets, M&A and hedging solutions – to support them in corporate finance and capital markets transactions and fulfil their financial needs. The main goal of this focused and strategic client approach is to attract new clients and maximize the overall profitability of the relationship by means of collateralized transactions with reduced capital absorption and by optimising the management of customers’ liabilities while creating cross-selling opportunities. Customer on boarding activities are fulfilled in close cooperation with the Bank Compliance and, when necessary, Group Compliance.

Corporate & Investment Banking – Strategic Funding and Treasury

SF&T is predominantly a client driven business. The activities of SF&T form an integral part of the CIB value chain. Consistently with the mission decided by the Holding Company, the business of the Strategic Funding & Treasury is based on the following activities.

• The Bank performs selective investments for its own portfolio. The investments are usually carried out in fixed rate European Government Bonds. The Investment Strategy is related to instruments purchased either for liquidity purpose or for capital Investment.

• The Bank issues Structured Notes.

• The Bank manages the WM & GFO clients orders (bonds, equities, funds) through an automated solution to route the orders to the standard UniCredit market platform used within CIB.

Commercial Banking – Wealth Management Clients

The mission of the Wealth Management business is threefold:

• To provide Private Banking services, focusing exclusively on fully transparent International activities aiming at providing customers with a high level of efficiency,

• To provide services to insurance companies (investment management of insurance funds and custody services),

• To provide investment management services to funds.

(b) Income statement by division

Income Statement by division				
in EUR	CORPORATE & INVESTMENT BANKING		COMMERCIAL BANKING	TOTAL
	GFO Clients	Strategic Funding & Treasury	Wealth Management Clients	
OPERATING INCOME				
2021	9.031.256	7.859.658	7.183.241	24.074.155
2020	8.793.499	10.460.468	6.331.520	25.585.486
OPERATING COSTS *				
2021	(4.063.104)	(8.699.966)	(7.155.117)	(19.918.187)
2020	(3.534.415)	(7.225.406)	(6.277.017)	(17.036.839)
OPERATING PROFIT **				
2021	4.968.152	(840.308)	28.124	4.155.968
2020	5.259.084	3.235.062	54.503	8.548.648
Net write-downs on loans and provisions for guarantees and commitments				
2021	-	(54.058)	-	(54.058)
2020	-	51.905	-	51.905
Net provisions for risks and charges				
2021	-	(878.130)	-	(878.130)
2020	-	(42.614)	-	(42.614)
PROFIT BEFORE TAXES				
2021	4.968.152	(1.772.496)	28.124	3.223.780
2020	5.259.084	3.244.353	54.503	8.557.940
TAXES				
2021	(1.242.038)	455.492	(7.031)	(793.577)
2020	(1.314.771)	(814.795)	(13.626)	(2.143.191)
NET PROFIT				
2021	3.726.114	(1.317.004)	21.093	2.430.203
2020	3.944.313	2.429.559	40.877	6.414.748

* The Net provisions for risks and charges that are included in the Financial Statements in the category Operating costs are excluded in the Segment reporting

** Operating profit = Profit before tax - Net write-downs on loans and provisions for guarantees and commitments - Net provisions for risks and charges

(c) Income statement for “Corporate & Investment Banking - GFO Clients”

in EUR	YEAR	
	2021	2020
Net interest margin	**8.607.789**	**9.584.465**
Net fees and commissions	423.467	(798.078)
Dividend income and similar revenues	-	-
Net trading income	-	7.112
Net other expenses/ income	-	-
Net non-interest income	**423.467**	**(790.966)**
OPERATING INCOME	**9.031.256**	**8.793.499**
Staff expenses	(210.515)	(251.847)
Other operating costs, amortisation, and impairment	(384.861)	(517.674)
Cost allocation	(3.467.728)	(2.764.895)
Operating expenses *	**(4.063.104)**	**(3.534.415)**
**OPERATING PROFIT ** **	**4.968.152**	**5.259.084**
Net provisions for risks and charges	-	-
Net write-downs on loans and provisions for guarantees and commit	-	-
PROFIT BEFORE TAXES	**4.968.152**	**5.259.084**
TAXES	(1.242.038)	(1.314.771)
NET PROFIT	**3.726.114**	**3.944.313**

* The Net provisions for risks and charges that are included in the Financial Statements in the category Operating costs are excluded in the Segment reporting

** Operating profit = Profit before tax - Net write-downs on loans and provisions for guarantees and commitments - Net provisions for risks and charges

(d) Income statement for "Corporate & Investment Banking – Strategic Funding and Treasury"

in EUR	YEAR	
	2021	2020
Net interest margin	**1.867.037**	**7.844.000**
Net fees and commissions	(272.573)	(260.448)
Dividend income and similar revenues	-	-
Net trading income	6.265.194	2.876.915
Net other expenses/income	-	-
Net non-interest income	**5.992.621**	**2.616.467**
OPERATING INCOME	**7.859.658**	**10.460.468**
Staff expenses	(7.974.389)	(6.342.249)
Other operating costs, amortisation, and impairment	(8.449.087)	(7.183.645)
Cost allocation	7.723.510	6.299.906
Operating expenses *	**(8.699.967)**	**(7.225.988)**
OPERATING PROFIT **	**(840.309)**	**3.234.480**
Net provisions for risks and charges	(878.130)	(42.614)
Net write-downs on loans and provisions for guarantees and commitments	(54.058)	51.905
PROFIT BEFORE TAXES	**(1.772.497)**	**3.243.771**
TAXES	455.492	(814.795)
NET PROFIT	**(1.317.005)**	**2.428.977**

* The Net provisions for risks and charges that are included in the Financial Statements in the category Operating costs are excluded in the Segment reporting

** Operating profit = Profit before tax - Net write-downs on loans and provisions for guarantees and commitments - Net provisions for risks and charges

(e) Income statement for “Commercial Banking – Wealth Management Clients”

in EUR	YEAR	
	2021	2020
Net interest margin	**732.024**	**504.729**
Net fees and commissions	6.451.217	5.812.097
Dividend income and similar revenues	-	-
Net trading income	-	14.693
Net other expenses/income	-	-
Net non-interest income	**6.451.217**	**5.826.790**
OPERATING INCOME	**7.183.241**	**6.331.520**
Staff expenses	(1.980.350)	(2.084.676)
Other operating costs, amortisation, and impairment	(918.985)	(657.330)
Cost allocation	(4.255.782)	(3.535.012)
Operating expenses *	**(7.155.117)**	**(6.277.017)**
OPERATING PROFIT **	**28.124**	**54.503**
Net provisions for risks and charges	-	-
Net write-downs on loans and provisions for guarantees and commitments	-	-
PROFIT BEFORE TAXES	**28.124**	**54.503**
TAXES	(7.031)	(13.626)
NET PROFIT	**21.093**	**40.877**

* The Net provisions for risks and charges that are included in the Financial Statements in the category Operating costs are excluded in the Segment reporting

** Operating profit = Profit before tax - Net write-downs on loans and provisions for guarantees and commitments - Net provisions for risks and charges

(f) Volumes figures by division

in EUR	CORPORATE & INVESTMENT BANKING		COMMERCIAL BANKING	TOTAL
	GFO Clients	Strategic Funding & Treasury	Wealth Management Clients	
Loans and receivables to banks				
2021	-	338.529.797	-	338.529.797
2020	-	322.552.265	-	322.552.265
Loans and receivables to customers				
2021	997.361.281	-	81.202.683	1.078.563.964
2020	1.249.608.404	-	42.000.317	1.291.608.720
Deposits from banks				
2021	-	1.371.825.447	-	1.371.825.447
2020	-	1.305.030.280	-	1.305.030.280
Deposits from customers				
2021	68.025.058	-	407.161.780	475.186.838
2020	106.921.208	-	467.357.485	574.278.693
Risk-weighted assets				
2021	135.663.882	74.711.160	12.451.860	222.826.902
2020	96.378.047	331.141.437	43.754.819	471.274.303

30 Related party transactions

The Bank is controlled by UniCredit S.p.A., which owns 100% of the ordinary shares.

The Related Parties are identified in compliance with the relevant Bank of Italy regulation, as the sum of the “Related Parties” strictly defined, i.e.:

1. The corporate officers of UniCredit S.p.A. as well as of the supervised banks and intermediaries;
2. The stakeholders of UniCredit S.p.A. as well as of the banks and supervised intermediaries;
3. The persons, other than the stakeholders, which are able to appoint one or more members of the management body or of the body with strategic supervisory function of UniCredit S.p.A., and of the Supervised Banks and Intermediaries, also on the basis of agreements whatever their form or of statutory clauses whose subject matter or effect is the exercise of such rights or powers;
4. Companies or other corporate entities, also existing as non-corporate entities, on which UniCredit S.p.A. or Supervised Banks and Intermediaries or companies belonging to the Banking Group can exercise control or significant influence;

and the “Associated Persons” defined by the Bank of Italy regulation as:

1. Companies and enterprises, regardless of whether incorporated, controlled by any related party mentioned in above points 1), 2) and 3).
2. The persons controlling a related party among those mentioned above or the persons subject to, directly or indirectly, the joint control with said related party.
3. Close family members of a related party mentioned in above points 1), 2) and 3) and the companies or other corporate entities controlled by them.

Transactions with related parties are always conducted at market rates. A number of banking transactions are entered into with the related parties in the normal course of business. These include loans, deposits and derivative instruments. The outstanding balances at year-end and related expense and income for the year are as follows:

Related-party transactions: profit and loss items In EUR	2021 TOTAL P&L ITEM	2020 TOTAL P&L ITEM
Operating income	42.941.874	19.576.988
Operating costs	(20.160.537)	(25.992.976)

Related-party transactions: balance sheet items In EUR	2021 TOTAL BS ITEM	2020 TOTAL BS ITEM
Total - Assets	357.244.902	329.797.771
Total - Liabilities	1.448.070.515	1.391.582.390

31 Fees billed by the *réviseur d'entreprises agréé*

The fees (VAT included) recorded in the financial year under other administrative expenses for the independent statutory auditor Deloitte Audit S.à r.l., Luxembourg breaks down as follows:

	2021	2020
Statutory audit of financial statements	246.051	246.051
Other audit services	-	-
	246.051	**246.051**

32 Deposit guarantee scheme

The Bank is a member of the "Fonds de garantie des dépôts Luxembourg" (FGDL), introduced by the law of 18 December 2015 to enact in national law the EU Directive of the European Parliament 2014/49/EU, which established a Deposit Guarantee Scheme (DGSD).

FGDL will cover eligible deposits of each depositor up to an amount of EUR 100,000. 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. To be funded until a target level of 0.8% of covered deposits, as defined in article 163 number 8 of the Law, FGDL is collecting annual contributions of the relevant credit institutions until end of 2018. When the level of 0.8% is reached, the Luxembourgish credit institutions should 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.

Covered deposits at year-end summed up to EUR 7.4 million. In 2021 the Bank contributed with EUR 2 thousands to FGDL for DGSD.

The Bank is reporting yearly to *Système d'indemnisation des investisseurs Luxembourg* (SIIL).

33 Single Resolution Mechanism

The law of 18 December 2015 Luxembourg transposed EU Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms ("BRRD") into local law. With the directive authorities should be provided with comprehensive and effective arrangements to deal with failing banks at national level and to be able to handle in cooperation cross-border banking failures. One measure is the setup of national resolution funds funded by the contribution of all financial institutions based on their size and risk profile.

The Bank's contribution to the national resolution fund in 2021 amounted to EUR 0.62 million (2020: EUR 0.66 million).

34 Advances and loans granted to the members of the administrative, managerial and supervisory bodies

There were no advances nor loans granted to the members of the administrative, managerial and supervisory bodies.

35 Events after the reporting period

No events which could have a material influence on the financial position, results of operations or cash flows occurred between the balance sheet date and the date on which the financial statements were drawn up.