MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.

RCS n. B 112885

Annual Accounts and Report as at June 30, 2017

MEDIOBANCA INTERNATIONAL (Luxembourg) S.A.

SOCIÉTÉ ANONYME

SHARE CAPITAL € 10,000,000.00
HEAD OFFICE: 4, BOULEVARD JOSEPH II – L-1840 LUXEMBOURG

Annual General Meeting
20 October 2017

www.mediobancaint.lu

BOARD OF DIRECTORS

		Term expires	Location
PETER W. GERRARD	Chairman	2017	Luxembourg
STEFANO BIONDI	Managing Director & CEO	2017	Luxembourg
MASSIMO DI CARLO	Director	2017	Italy
LUCA MACCARI	»	2017	Italy
MASSIMO BERTOLINI	»	2017	Italy
ALEX SCHMITT	»	2017	Luxembourg
STEPHANE BOSI	»	2017	Luxembourg

INDEPENDENT AUDITOR

PRICEWATERHOUSECOOPERS S.C.	Luxembourg

CONTENTS

Mediobanca International (Luxembourg) S.A.

Head Office: 4, Boulevard Joseph II, L-1840 Luxembourg

Mediobanca Banking Group

Share capital: € 10.000.000 fully paid up

FINANCIAL SITUATION AT JUNE 30, 2017

BOARD OF DIRECTORS' REVIEW OF OPERATIONS

DEVELOPMENT IN MACROECONOMIC SCENARIO

In 2016, the GDP of advanced economies expanded by 1.7% (2.1% in 2015), while Emerging Markets and Developing Economies (EMDE) grew by 4.3% (as in 2015). Among the former, the United States grew by 1.6% (2.6% in 2015), the Eurozone by 1.8% (from 2%). Within the Eurozone, individual Countries recorded further diversified trends: Spain grew by 3.2%, twice the rate of 2015, Germany with +1.8% appears to be accelerating from +1.5% in 2015, France (+1.2%) and Italy (+0.9%) were less ebullient and confirmed the rates achieved in 2015. The UK attained a rate of 1.8%, losing ground from the previous year's +2.2%, Japan advanced by 1%, in line with 2015. In the EMDE group, the range of performance levels is even broader: in 2016, Russia declined by 0.2% (-2.8% in 2015), while Brazil was affected by a heavy contraction of 3.6%, replicating the negative performance of 2015 (-3.8%). China (+6.7%) and above all India (+7.1%) continue to represent the most dynamic areas in the world, together with the ASEAN Countries (Indonesia, Malaysia, Philippines, Thailand and Vietnam) whose GDP grew by 4.9%. The rest of the world did not exhibit any particular lively peaks: South America as a whole declined by 1%, weighted down by Brazil and in spite of Mexico's dynamism (+2.3%). Growth in the Middle East was affected, on the one hand, by the still-adverse trend in crude oil prices (-15.7% in USD terms in 2016) which contained growth in Saudi Arabia (+1.4%), while on the other hand it benefited from the flash of the Iranian economy (+6.4%), growing by 3.2% as a whole. Sub-Saharan Africa appeared to weaken yet further, reducing its growth in 2016 to +1.3%, down from 3.4% in 2015.

The IMF forecasts (July 2017) for the current year point to a slight rise in the worldwide growth rate, projected at +3.5% (+3.6% in 2018). Some positive surprises came from China, which grew sharply in Q1 2017 and appears to be supported by the fiscal stimuli, and from the Eurozone, which closed 2016 and started 2017 above expectations. On the contrary, the forecast for the USA is more prudent, both in view of a smaller expansion of the fiscal policy and in relation to the normalization of the monetary policy (in June, the Fed raised interest rates). In fact, the long-term rates of advanced economies stopped declining, bouncing back in the months of June and July. In 2017, advanced economies should grow by 2%, while EMDE countries should further accelerate to 4.6%. The United States are expected to advance by 2.1%, the Eurozone by 1.9%. The main Countries' standings are substantially a repeat of those already observed in 2015: Spain appears to be the most dynamic economy (+3.1%), Germany (+1.8%) is ahead of France (+1.5%), while Italy, in spite of a first half that far exceeded expectations (the IMF revised the rate upwards compared to its April 2017, to +0.5%), is still lagging behind (+1.3%). The UK continues to be affected by Brexit: the 2017 forecasts see it growing by 1.7%, a downward revision by 0.3% compared to the April forecast, then settling to +1.5% in 2018. The expectation of a recovery in Brent prices (+21.2% in 2017) and in the prices of non-petroleum commodities (+5.4%) could selectively benefit exporter Countries: for the

Middle East, growth would lose a bit of its vigor, at 2.6%, while for sub-Saharan Africa an improvement to +2.7% is projected. The year 2017 should mark a return to growth for Russia (+1.4%) and Brazil (+0.3%), in both cases after two years of decline. Growth expectations remain broadly positive for China (6.7%) and for India (7.2%).

Expectations for consumer prices remain below the authorities' targets in the advanced economies, but signs of cooling prices are cropping up in emerging economies as well.

Manufacturing industry

In this scenario, in 2016 manufacturing multinationals recorded slight declines in revenues compared to 2015. In Europe, the contraction was by 0.2%, in North America by 1.5%. Industrial margins exhibit mixed trends: European multinationals' EBIT grew by 3.7%, while in North America it dropped by 5.5%. The net profitability (ROE) expressed by US manufacturing multinationals amounted to 27.9%, widely above the results achieved by European multinationals (13.3%).

	Europe		North America	
	Energy	*Manufacturing*	*Energy*	*Manufacturing*
	% chg. vs 2016/15			
Revenues	-12.9	-0.2	-16.0	-1.5
EBIT	-15.5	+3.7	-115.6	-5.5
ROE (%)	*1.6*	*13.3*	*1.4*	*27.9*

Source: R&S – Multinationals: financial aggregates (2017)

In 2016, the energy industry was affected by an additional, severe contraction which manifested itself on sales (-12.9% in Europe, -16% in North America), but above all on margins, which dropped precipitously in North America, where they became negative. In 2016, as in last year, the ROE of the energy industry was far lower than that of the manufacturing industry.

	Europe		North America	
	% chg. vs 2015	% of capital invested	% chg. vs 2015	% of capital invested
Equity	5.9	54.9	-2,0	53,9
Financial debt	8.7	45.1	12,8	46,1
Liquidity	3.9	11.6	1,1	12,4
Net debt /Equity (%)		82,6		85,4
Intangibles/equity (%)		80,9		99,4

Source: R&S – Multinationals: financial aggregates (2017), manufacturing companies

The capital structure of manufacturing multinationals showed signs of deterioration in North America where financial debt increased (+12.8%) with a concurrent decline in equity (-2%). These trends brought the debt/equity ratio to 85.4%, from 75.1% in 2015, i.e. on levels that are not unlike those of European companies (82.6%). One factor of potential vulnerability is intangibles, which account for nearly all of equity in North America and 80.9% Europe.

Financial industry

Concerning major international banks, 2016 confirmed the divergence of trends between Europe and the USA.

The revenues of leading European institutions declined by 6.2% (+3% in 2015) as a result of the contraction of all main components: trading income (-14%), the interest margin (-5.3%) and net fees (-6%). Total business resumed growth (+0.8%), but this did not prevent the reduction of the interest margin, which accounts for 55% of revenues, hampered by the persistent scenario of ZLB rates albeit in the presence of a symmetrical reduction in the cost of funding. The need to contain the cost of funding compressed the bond component, among the most onerous forms of funding, which declined by 1.6%, whilst deposits grew by 3.2%. Interbank funding also declined by 2.5%, even though the ECB deposit facility rate is negative and Targeted longer-term refinancing operations (TLTRO II) continued, with the issue of € 740 billion (of which 241 to Italian banks).

Operating costs contracted less than revenues (-2.8%) and the cost/income ratio thus worsened by 2.4 percentage points, nearly reaching 69%, partly also as a result of the costs of implementing the new regulations, estimated to account for 11% of revenues for 2016 alone. After the reduction of 2015 (-6.6%), in 2016 losses on loans increased again (+10.8%), reaching 11% of revenues, the highest value of the past three years.

The combination of the contraction in revenues, of the more limited containment of operating costs and of the reprise in loan impairments caused a 22% reduction in income from continuing operations. While the balance of extraordinary items remained negative, it improved by 39% even though there were still costs tied to fines and penalties and to asset impairments (in particular to goodwill). Net profit thus declined by 32.3% compared to 2015. The ROE decreased to 2.8%. The current levels are far from the pre-crisis figures (20.1% in 2006), but also from those reached in 2010 (7.7%) and they seem widely insufficient to remunerate equity.

As to the major institutions of the United States, their revenues grew by 1.7% in 2016, thanks to the interest margin (+3.8%) and to trading income (+14.1%) and in spite of the contraction in net fees (-2.6%). Overhead costs decreased by 0.4% and the cost/income ratio thus declined to 61%, with an advantage of approximately 8 points on European institutions. Losses on loans rose for the second consecutive year (+22.1% in 2016, +22.9% in 2015) and their proportion of revenues was 6.8% (below the European banks' 11%). Income from continuing operations improved by 2.1% compared to 2015, reaching 32.2% of revenues (20.1% for European banks). In 2016, the balance of extraordinary components was positive again, albeit down by 15% compared to 2015, so that net profit contracted slightly (-1.1%), as did ROE, down to 9.4% from 9.8% in 2015. It should be recalled that major US banks were approximating the pre-crisis levels of profitability again as early as 2013, considering that income from current operations accounted for 30% of revenues throughout the 2013-2016 time interval, the same average value as in the three years between 2005 and 2007.

	Europe	United States
	% chg. vs 2016/2015	
Revenues	-6.2	+1.7
of which: interest margin	*-5.3*	*+3.8*
Loan write-downs	+10.8	+22.1
Income	-22.1	+2.1
Net profit	-32.3	-1.1
ROE (%)	*2.8*	*9.4*

Source: R&S –Major international banks (2017)

On the capital side, in 2016 the European banks' assets grew by 1.8% (+2.4% in the United States) with all balance sheet items rising, with the sole exception of securities (-2.1%) and intangible assets (-0.6%). In Europe, cash and deposits at central banks grew by € 240 billion (20.4%) overall, even though the rate of bank deposits with the central bank dropped to -0.4% in 2016. Changes in loans to customers were positive both in Europe (+0.8%) and in the USA (+4.2%). In Europe, the government bond portfolio remains sizeable and it continues to account for approximately 10% of total assets. Equity decreased by 0.3% in Europe and increased by 2.7% in the USA. Breaking down funding by technical form, bonds contracted by 1.6% in Europe, continuing to be affected both by the abundant and competitive liquidity injected into the banking system by the ECB through the TLTRO and by customers' preference for liquidity and/or for replacing maturing securities with asset management forms. In the USA, instead, bonds grew by 3.8% compared to 2015, but their proportion of total assets is lower than that of European institutions (9.2% versus 13.6%), considering also that American institutions obtain more funding through deposits (49.4% of total assets versus 43.5% for European institutions).

In Europe, net non-performing loans decreased by 11.9% relative to 2015. The biggest changes were in Italy (-21.3%) and in the UK (-18.2%). A high level of disparity remains among the various European countries in terms of effect over loans to customers, from 6.7% for institutions in Italy to 1% in Germany (the European average is 1.8%).

	Europe	United States
	% chg. vs 2016/15	
Balance sheet total	+1.8	+2.4
Derivatives	-0.1	-3.9
Securities	-2.1	+4.8
Loans to customers	+0.8	+4.2
Deposits from customers	+3.2	+4.7
Debt securities	-1.6	+3.8
Leverage (%)	*20.2*	*13.5*

Source: R&S – Major international banks (2017)

The capitalization level of major US banks remains above that of the European banks: in 2016, equity accounted for 9.4% of the balance sheet total, versus 5.6% in Europe. Hence, European institutions continue to have a higher leverage than US institutions (20.2x versus 13.5x). In any case, considering the new leverage indicator according to Basel III criteria, which require banks to hold Tier 1 capital of at least 3% of total exposures from 1 January 2018, all European institutions are compliant, with an average value of 4.8% at the end of 2016.

RESTATED STATEMENT OF FINANCIAL POSITION

Statement of financial position has been restated in the customary manner to provide the most accurate reflection of the Bank's operations, in particular:

- "Net treasury investments" include financial assets and liabilities held for trading, along with money market instruments and secured financing transactions;
- Carrying amount of "loans and advances" includes the impairment for loan commitments and issued financial guarantees;
- Carrying amount reported under the caption "Funding" comprises the institution structural borrowings inclusive of bilateral financings and notes issued under the existing Programmes guaranteed by the Parent.

	12 mths to 30/06/2017	12 mths to 30/06/2016	Y.o.Y. chg.
	€m	€m	%
Net treasury investments	1.294,3	1.185,0	9%
Securities (HTM & L&R)	62,1	60,7	2%
Loans and advances	3.299,5	3.733,0	-12%
Equity investments	4,2	4,2	0%
Tangible and intangible assets	-	-	0%
Other assets	10,9	5,9	85%
TOTAL ASSETS	**4.671,0**	**4.988,8**	**-6%**
Funding	4.323,3	4.670,8	-7%
Other liabilities	19,1	10,2	88%
of which: tax liabilities	*11,1*	*5,6*	*98%*
Net equity	307,8	288,7	7%
Profit	20,8	19,0	9%
TOTAL LIABILITIES	**4.671,0**	**4.988,8**	**-6%**

ASSETS

On the asset side the following variations are to be noted:

Net treasury investments – This item increased by 9%, from € 1.185m to € 1.294,3m and includes:

- financial assets held for trading (other than derivatives) which decreased by 13% when compared to June 2016 (from € 147,7m to € 128,7m) reflecting the small volatility registered over the reference market-inputs.

- net application in treasury funds (including repos, time deposits, etc.) which increased by 10%, from € 1.163,2m to € 1.282,4m, mainly as a consequence of higher balances on current accounts held with third party credit institutions.
- value adjustments on derivative contracts which are stable when compared to June 2016 (-7%, from € -125,9m to € -116,8m) reflecting the small volatility registered over the reference market-inputs.

	12 mths to 30/06/2017	12 mths to 30/06/2016	Y.o.Y. chg.
	€m	€m	%
Financial assets HFT other than derivatives	128,7	147,7	-13%
Net applications treasury funds	1.282,4	1.163,2	10%
Derivatives instruments	- 116,8	- 125,9	-7%
Net treasury investments	**1.294,3**	**1.185,0**	**9%**

Securities (HTM & L&R) – This item amounts to € 62,1m and increased by 2% compared to June 2016 (€ 60,7m) due to growing face value of zero-coupon-bonds held by the institution.

Loans and advances – This item decreased by 12% (from € 3.733,0m to € 3.299,5m). However, this decrease was mainly due to a temporary repayment in June 2017 linked to the refinancing of an existing loan facility for an amount of approx. € 380m equiv. Since at reporting date the new refinancing remained undrawn, this decrease may be considered temporary. It is worth mentioning that subsequent to the reporting date, € 205m equiv. of the new facility had already been drawn down. The institution's net credit risk exposure (i.e. drawn amount excluding the portions guaranteed by surety of the Parent and/or third party insurers) increased considerably from € 895,3m to € 978,4m (+9%). It is noteworthy that the quality of the credit portfolio continues to be very satisfactory with the "watch list ratio" of the Bank remaining stable at 3,6% (same value of June 2016).

In an environment which continues to be very challenging, non-performing loans (which remain fully guaranteed by the Parent Company) went slightly down from € 52,6m to € 50,6m representing approximately 1,5% of total corporate loans.

	12 mths to 30/06/2017	12 mths to 30/06/2016	Y.o.Y. chg.
	€m	€m	%
Performing	3.248,9	3.680,4	-12%
Restructured and non performing	50,6	52,6	-4%
FV hedging loans and advances	-	-	0%
Loans and advances	**3.299,5**	**3.733,0**	**-12%**

Equity investment - In September 2011 the Bank has purchased via a share deal all the 1.000 shares of Jodewa S.à r.l. (following renamed as Mediobanca International Immobilière) a real estate company which owns the building where the Bank has moved its head office in April 2012. In November 2016 a test was carried out to assess the presence of any impairment indicator, and in particular whether the carrying amount of the real estate property may be higher than its recoverable amount. An independent evaluation made in this respect by a primary advisor has confirmed the fairness of the Bank's carrying amount.

Other assets – This item increased by 85%, from € 5,9m to € 10,9m, and is composed by transitory accounts and commissions receivable. Transitory accounts increased by 315% compared to June 2016, passing from € 1,8m to € 7,6m, and they mainly refer to receivables accounted for at the end of June 2017 which were already cleared at the beginning of July 2017. Commissions receivable almost entirely refer to corporate lending activity; the carrying amount as at June 2017 remains stable at € 3,3m (+5% compared to June 2016).

LIABILITIES

On the liabilities side the following variations are worth noting:

Funding – This item amounts to € 4.323,2m and decreased by 7% when compared to June 2016 (€ 4.670,8m). In detail:

- Amount due to banks and customers increased by 11% (from € 2.892,3m to € 3.198,4m) mainly due to higher long term borrowings negotiated with the Parent Company in order to sustain the liquidity needs arising from the corporate lending activity, and to compensate the decline of the borrowings under the existing Group Programmes (see below).
- Notes issued under the existing EMTN Programme decreased by 44% (from € 1.051,8m to € 586m);
- Fair value valuation of hedging derivatives decreased by 54% (from € -422m to € -192,3m) reflecting the volatility arising from the market-based valuation of derivative products and the early redemption of some existing strategies;
- Short term papers issued under the existing Euro Commercial Paper and French CD Programmes decreased by 36% (from € 1.148,7m to € 731,1m).

	12 mths to 30/06/2017	12 mths to 30/06/2016	Y.o.Y. chg.
	€m	€m	%
Amount due to banks and customers	3.198,4	2.892,3	11%
Notes issued	586,0	1.051,8	-44%
FV hedging of borrowings	- 192,3	- 422,0	-54%
Short term funding debt instruments	731,1	1.148,7	-36%
Funding	**4.323,2**	**4.670,8**	**-7%**

Other liabilities – this item increased by 88%, from € 10,2m to € 19,1m, mainly due to (i) tax provision of the fiscal year net of the quarterly advances paid to the Tax Authority (+ € 5,5m compared to June 2016), and (ii) invoice receivables from the Parent Company and other amounts payable (+ € 3,2m compared to June 2016).

Net equity – No dividends have been distributed during the exercise and the increase from € 288,7m to € 307,8m (+7%) is exclusively attributable to the provisioning of the net profit from the previous fiscal year. The strategy of the Bank remains focused on continuous strengthening of own funds as demonstrated by the resiliency of the regulatory capital ratios: in detail, the Common Equity Tier 1 ratio (CET1) stood at 11,4% at the reporting date, whilst the Total Capital Ratio stood at 13,2%. Both levels are well above the minimum capital requirement for credit institutions as enacted by EU regulations.

RESTATED STATEMENT OF COMPREHENSIVE INCOME

Statement of comprehensive income has been restated in the customary manner to provide the most accurate reflection of the Bank's operations, in particular:

- "Net interest income" includes the result of the hedging accounting of interest rate risks, as well as the interest portion of derivative instruments held for trading;
- "Net trading income" includes the fees paid/received for secured financing transactions as well as the gains/losses from disposal/repurchase of financial assets/liabilities;
- Carrying amount of "Other administrative expenses" includes the depreciation charges for tangible/intangible assets.

	12 mths to 30/06/2017	12 mths to 30/06/2016	Y.o.Y. chg.
	€m	€m	%
Net interest income	37,3	30,7	21%
Net trading income	- 3,5	1,1	-418%
Net fee and commission income	2,4	1,9	26%
TOTAL INCOME	**36,2**	**33,7**	**7%**
Wages and salaries	- 1,3	- 1,1	18%
Other administrative expenses	- 7,2	- 6,7	7%
OPERATING COST	**- 8,5**	**- 7,8**	**9%**
Loans impairment	0,8	1,0	-20%
Provisions for other financial assets	-	-	0%
PROFIT BEFORE TAX	**28,5**	**27,0**	**6%**
Fiscal provision	- 7,7	- 7,9	-3%
NET PROFIT	**20,8**	**19,0**	**9%**

Net interest income – Net interest income increased by 21% from € 30,7m to € 37,3m. During the reference period, the different components performed as follows (cf. also table below):

- higher interest income registered on corporate lending (+19%, from € 74,2m to € 88,3m) due to the combined effect of (i) early release to the income statement of the amortised cost for those credit facilities which were prepaid and/or refinanced during the period (+€ 7m vs. June 2016), and (ii) positive dynamic of the credit portfolio thanks to increasing utilization of the outstanding commitments and increasing production of new facilities;
- cost of financing is substantially stable when compared to June 2016 (+3%, from € -56,9m to € -58,4m). Expired borrowings under the EMTN Programme were partially replaced by intragroup long-

term financings which are drawn under the existing internal credit line with the Group Treasury for amount up to € 7,5bn equiv.

- net interest income from treasury operations decreased by 45%, from € 13,4m to € 7,4m, especially due to (i) lower interest received on "held to maturity" securities, and (ii) higher interest paid on time deposits and financial derivatives negotiated with the Group Treasury.

	12 mths to 30/06/2017	12 mths to 30/06/2016	Y.o.Y. chg.
	€m	€m	%
Interests receivable - lending	88,3	74,2	19%
Interests payable - funding	- 58,4	- 56,9	3%
Treasury	7,4	13,4	-45%
Net interest income	**37,3**	**30,7**	**21%**

Net trading income – This category is made up of € -3,5m (€ +1,1m in June 2016) and is composed as follows:

- dealing profits amount to € 1m (€ -0,6m in June 2016) and mostly refer to income realized for the early unwinding of derivative instruments;
- unrealised losses made on the revaluation of assets and liabilities to fair value amount to € -2.3m (€ +1m in June 2016);
- impact on forex exposure (including pricing of forex and/or cross currency swaps negotiated with the Parent) is negative for € -1,1m (€ +1,8m in June 2016);
- gains on disposals and repurchases are positive for an amount of € 0,3m (nil in June 2016);
- Securities lending fees amount to € -1,4m (€ -1,1m in June 2016) and mainly refer to the borrowings under GMSLA of high quality liquid assets (HQLAs) from the Group Treasury in order to allow the institution to fully comply with the liquidity coverage ratio (LCR) indicator.

	12 mths to 30/06/2017	12 mths to 30/06/2016	Y.o.Y. chg.
	€m	€m	%
Realised gains/losses	1,0	- 0,6	-267%
Unrealised gains/losses	- 2,3	1,0	-330%
Forex exchange gains/losses	- 1,1	1,8	-161%
Gains on disposals/repurchases	0,3	-	-
Securities lending/borrowing	- 1,4	- 1,1	27%
Net trading income	**- 3,5**	**1,1**	**-418%**

Net fee and commission income – This item, still driven by corporate lending and treasury services, increased by 26% when compared to June 2016 (from € 1,9m to € 2,4m).

Net lending fees in particular decreased by 8% (from € 6,4m to € 5,9m). This dynamic was mainly driven by the increase of commission expenses (+23%, from € -6,5m to € -8m) which has been more-than-proportional of the increase of commission income (+10%, from € 12,6m to € 13,8m).

Net treasury fees decreased by 22% (from € -4,5m to € -3,5m) and represent for the most part the costs incurred by the institution in respect of the services received from the Group Treasury (e.g. guarantee over the security and money market Programmes, dealing and structuring of bond issuances, etc.).

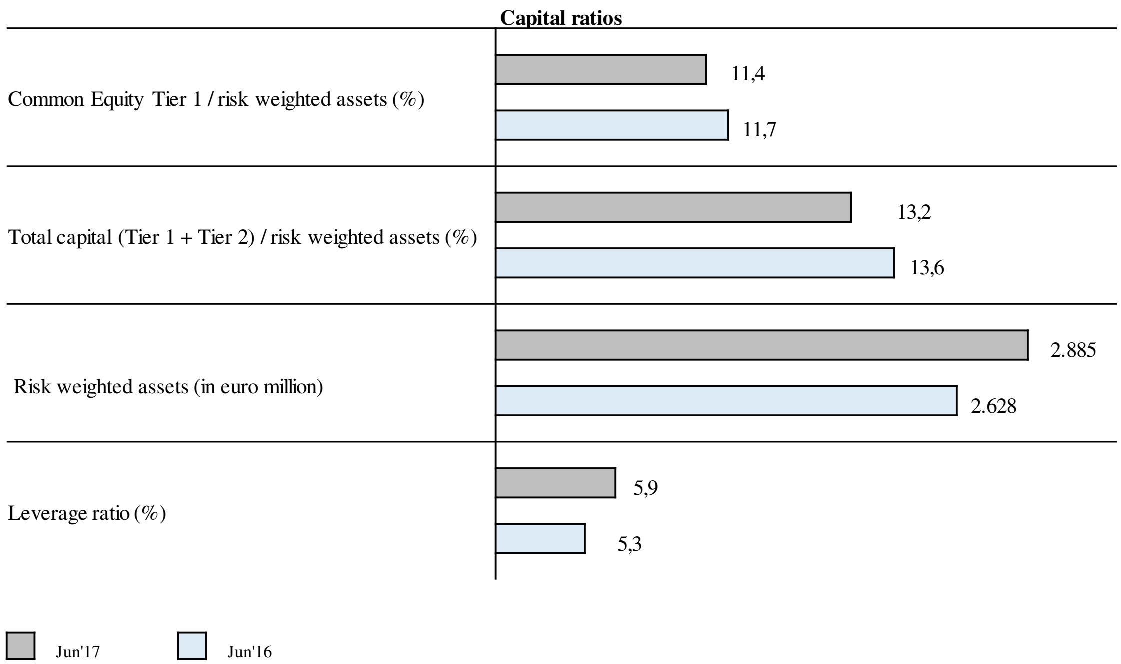
	12 mths to 30/06/2017	12 mths to 30/06/2016	Y.o.Y. chg.
	€m	€m	%
Net lending fees:	5,9	6,4	-8%
- Loans and advances rec. (+)	*13,8*	*12,6*	10%
- Loans and advances pay (-)	- *8,0*	- *6,5*	23%
- Guarantees given (+)	*0,1*	*0,2*	-50%
Net treasury fees:	- 3,5	- 4,5	-22%
- commission income (+)	*0,2*	*0,2*	0%
- commission expense (-)	- *0,0*	- *1,4*	-97%
- Guarantees rec. (-)	- *3,7*	- *3,3*	12%
Net fee income	**2,4**	**1,9**	**26%**

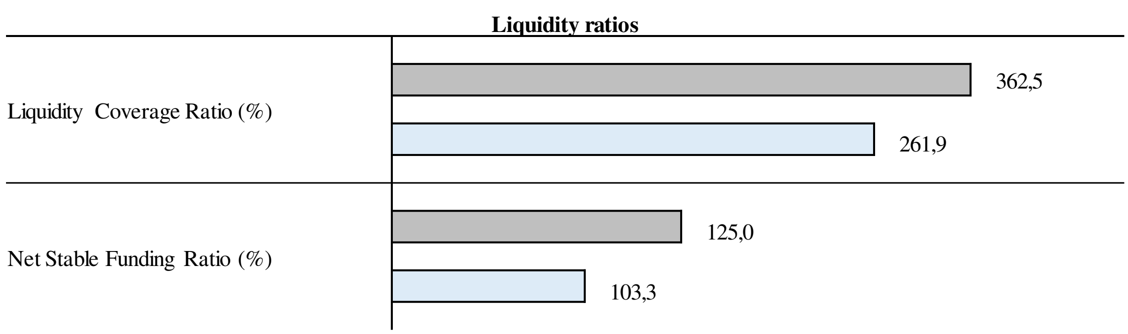
Operating costs – This item increased by 9%, from € -7,8m to € -8,5m, mainly by reason of (i) higher contribution to the Single Resolution Fund (+€ 0,4m compared to June 2016), and (ii) increasing personnel costs (+0,2m compared to June 2016) as a consequence of the new recruitment occurred during the period.

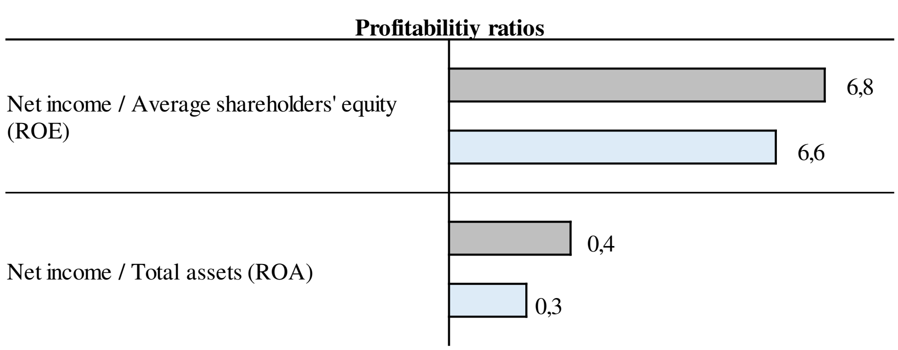
Value adjustments in respect of financial assets and other financial operations – This item decreased by 20%, from € 1,0m to € 0,8m, evidence of the high-quality of the corporate lending portfolio.

ALTERNATIVE PERFORMANCE MEASURES

The results achieved at the end of the financial year are accompanied by the soundness of the capital ratios (CET1 ratio is equal to 11,4%), the adequacy of liquidity indicators (already in line with Basel 3 requirements) and the low risk profile of our business model (cf. below):







SIGNIFICANT EVENTS

Significant events that have taken place during the twelve months under review include:

- approval by the Board of Directors of the new business plan for the years 2016-2019;
- approval of the amendments to the Articles of Associations by the extraordinary general meeting of Shareholders in January 2017;
- appointment of a new Chief Compliance Officer;
- migration to the Parent's IT applications for liquidity and interest rate risk management;
- migration to the Parent's IT application for regulatory reporting.

As regards the Bank's activity and the regulatory agenda, the following top priorities are to be mentioned for the forthcoming months:

- Anti-money laundering directive IV (ALM IV): The European Commission called for a swift implementation of the ALM IV and proposed additional measures aiming at fighting money laundering and terrorist financing.
- Country-by-Country reporting (CbC): On 13 December 2016 the Luxembourg Parliament passed legislation implementing CbC requirements for Luxembourg entities that are part of a Multinational Enterprise Group (MNE). Both Luxembourg MNE Parents and Luxembourg Companies that are part of MNE Groups are required to file CbC reports with the Tax Authorities.
- Analytical credit datasets (AnaCredit): On 1 June 2016 the European Central Bank (ECB) published the final version of the AnaCredit Regulation on the collection of granular credit and credit risk data. AnaCredit will be implemented in stages and the first stage shall start on September 2018.
- IFRS 9: On 24 July 2014 the International Accounting Standard Board (IASB) issued the final version of the IFRS9, bringing together all the three phases of the financial instruments project: (i) classification and measurement, (ii) impairment, and (iii) hedge accounting. In November 2016 the EU has formally endorsed IFRS9 for use across Member States. The standard will be mandatorily effective for periods beginning on or after January 1st, 2018 with early adoption permitted.
- Single rulebook, CRR II/CRDV and Basel IV: The European Commission proposed amendments to the existing Capital Requirement Directive (CRD) and Regulation (CRR). The amendments include measures that will strengthen the resilience of the banking sector by introducing more risk-sensitives capital requirements.

CORPORATE GOVERNANCE STATEMENT

The Board and Management of Mediobanca International (Luxembourg) S.A. are committed to maintain the highest standards of corporate governance. Decision making and governance comply with the institution's Articles of Association, the law of 5 April 1993 (as amended), and other applicable legislation.

Governing bodies are the following:

- General meeting of Shareholders;
- Board of Directors;
- Risk Committee;
- Authorised managers.

<u>General meeting of Shareholders</u>

The general meeting is the highest decision-making body and is vested with the broadest powers to perform, authorize or ratify all acts concerning the Bank. In accordance with the Articles of Association, the annual general meeting is held in Luxembourg at the registered office of the Bank (or at any other place in the municipality of Luxembourg to be indicated in the notice of meeting) within six (6) months of the end of each financial year. Further ordinary or extraordinary general meeting can be held during the year, if necessary, in accordance with the provisions of the bylaws.

The shareholders general meeting resolves – among others – on the following matters:

- Approval of the financial statements and allocation of profit;
- Discharging members of the Board of Directors and the Managing Director from liability;
- Defining the number of Board members and their appointment;
- Remuneration of the Board of Directors;
- Transaction required by law to be approved by shareholders in general meeting.

Only holders of registered shares, as recorded in the register of shareholders, are authorized to take part and vote in general meeting; moreover, they may choose to be represented in the general meeting under a proxy issued in writing or electronically where this is permitted by the regulations in force and in accordance with them, without prejudice to grounds of incompatibility and within the limits provided by law. Proxies may also be issued free of charge, along with instructions on how to vote on all or some of the items on the agenda.

The Bank has not adopted a specific set of regulations for holding general meetings, as its Articles of Association ensure that proceedings are conducted in an orderly manner, providing for the Chairman of the meeting, who under the Articles is the Chairman of the Board of Directors, the duty of establishing that a quorum has been reached, ascertaining the identity of those in attendance, and assessing their entitlement to be so present, chairing and conducting the proceedings, and checking and announcing the results of any votes taken.

Board of Directors

The Board of Directors is collectively responsible for the long-term success of the Bank. In accordance with the Articles of Associations the Board of Directors is vested with the broadest powers to perform all acts of administration and disposition in the Company's interest. All powers not expressly reserved by law or by the Articles of Associations to the general meeting of Shareholders are within the competence of the Board of Directors. In particular, it has full powers to decide on all transactions pertaining to the object of the Company, as well as on all contributions, transfers, subscriptions, partnership, associations, participations or financial interventions with respect to such operations.

The essential duties and responsibilities of the Board are defined primarily by the Articles of Association and the Luxembourg law(s). According to the Articles of Associations the Board of Directors will be composed of at least three members who need not to be Shareholder and who shall be elected by general meeting of Shareholders for a term of office as determined by the Shareholders but not exceeding six (6) years. Directors can be removed at any time from office by a simple resolution of a majority of Shareholders voting in general meeting. In the event of a vacancy in the office of a Director, the remaining Directors may, under the conditions foreseen by the law, temporarily fill such vacancy. In such a case the first general meeting of Shareholders following the temporary appointment shall ratify such appointment.

The Board's leadership responsibilities involve working with Management to set corporate values and to develop strategy, including the definition of the risks it is prepared to take in pursuing its strategic objectives. Its oversight responsibilities involve it in providing constructive challenge to the management team in relation to operational aspects of the business, including approval of budgets, and probing whether risk management and internal controls are sound.

Under the Articles of Associations currently in force, the Board of Directors delegates Management of the Bank's current operations to the Risk Committee and the Authorised Managers who exercise such powers in accordance with the strategic guidelines and direction formulated by the Board itself. The following matters, however, remain within the sole jurisdiction of the Board of Directors:

- approval of strategic guidelines and directions, business and financial plans, budgets, and risk management and internal control policies;
- approval of quarterly, semiannual and annual accounts;
- appointment of the Authorised Managers and establishment of powers;
- appointment of the key management personnel (e.g. Chief Compliance Officer, Chief Risk Officer, Chief Internal Auditor);
- appointment of the Risk Committee and establishment of powers;
- approval of or amendment to internal regulations.

The Board of Directors of Mediobanca International was appointed by Shareholders in a general meeting held on October 3rd, 2014 for the period ending with the annual general meeting to be called to approve the annual accounts as of June 30, 2017. The number of the Board members was further re-defined in a general meeting held on February 1st, 2016. It consists of seven members (four of whom qualify as independent): Peter W. Gerrard (Chairman), Stefano Biondi (Managing Director), Massimo Bertolini, Massimo Di Carlo, Luca Maccari, Alex Schmitt, Stephane Bosi. The Board includes prominent figures from the banking and legal sectors, which ensures an appropriate degree of professionalism as required by the complexity of the

Bank's operations, and given the Board's role in strategic supervision. During the fiscal year the Board of Directors convened no. eight (8) times and the attendance rate was 89%.

The Board has approved internal regulations in the area of self-assessment to govern the various phases into which the process is structured, identifying the means and instruments by which it is implemented. Such formalization enables a standardized process to be developed over the years meaning that results can also be compared more easily. The process of self-assessment of the size, composition and functioning of the Board of Directors and its committee required inter alia by the supervisory instructions for banks in the area of corporate governance was conducted in the months of February and April 2017.

The Board of Directors elects a Chairman from among its members. The Chairman's primary responsibility is to lead the Board, to ensure that it has a common purpose, is effective as a group and at individual Director level. The Chairman also ensures that the Board and the Management have a full understanding of the views of Shareholders.

Risk Committee

Board of Directors appoints a Risk Committee, which may be either composed by Directors and/or Management, establishing their powers in accordance with the provisions set forth in the Articles of Association. The Risk Committee presently is composed by four members, namely: Stefano Biondi (Managing Director), Edoardo Reitano (Chief Financial Officer), Antonio Santese (Chief Risk Officer) and Massimo Di Carlo (Director).

The Committee remains in force for the entire duration of the office of the Board of Directors which appointed it. The Board held on February 1st, 2016 has vested the Risk Committee with the following powers:

- assessment and approval of credit, issuer and market risk (within the limits set forth by the Board);
- pass resolutions as regards the declaration of insolvency status of a counterparty, the classification of credit exposures as non performing, restructured or forbearance, and their return to the "performing" status once conditions of solvency have been restored;
- promote effective management of all risk categories and oversee the current risk exposure of the Bank and its future risk strategy;
- pass resolutions on those transactions which are significant in term of structure, number and/or typology of risks involved.

The Risk Committee shall normally meet at least once per month or whenever necessary for examination of proposed deals/transactions. For strictly advisory purposes persons external to the company and/or Mediobanca S.p.A. may also take part in such meetings without having voting rights.

The members of the Committee with responsibility for the day-to-day management of the Company have a veto right to be exercised individually.

The Committee shall report to the Board of Directors on a regular basis or, without prejudice to the foregoing, at least semiannually regarding the transactions executed and the results of control activity carried out in the period concerned.

Authorised Managers

In accordance with the requirements laid down by the law 5 April 1993 on the financial sector (as amended) the Board of Directors delegate day-to-day management to two (or more) persons who must be empowered effectively to determine the direction of the activity without prejudice to the direct exercise by the Board at any time of its powers. Authorised Managers must possess adequate professional experience having carried on similar activities at high level of responsibility and autonomy.

Authorised Managers are in charge of the management of the Company's business operations and governance in accordance with the Articles of Association, the Luxembourg law and the instructions given by the Board.

The Board of Directors appointed as Authorised Managers Mr. Stefano Biondi (Managing Director) and Mr. Edoardo Reitano (Chief Financial Officer).

OTHER INFORMATION

During the fiscal year ended on June 30, 2017 the Bank has not purchased own shares nor has undertaken activities in the field of research and development.

ECONOMIC OUTLOOK FOR THE NEXT TWELVE MONTHS

After years of fragile recovery, some signs of improvement have begun to appear. Confidence indicators, industrial production, headline measures of employment, and cross-border trade flows have strengthened in most economies. Global growth is projected to be reinforced, helped by improving policy-supported outcomes in some emerging market economies, and the assumption of a supportive fiscal stance in a number of advanced economies, especially in the United States. Notwithstanding the foregoing, global growth remains below the past norm and below the pace needed to avoid upside risks.

Focusing the attention on those economies where the Bank is mostly exposed, the following trends are expected:

In the United States consumption growth continues to benefit from a solid labour market and increases in household wealth. Also investment growth is recovering, helped by the rise of the energy sector spending and improved business confidence. The assumed corporate tax reduction, coupled with an upturn of government spending, should provide an additional stimulus to domestic demand.

In the Euro Area the accommodative monetary policy is sustaining the GDP growth, which remains nonetheless threatened by high unemployment rates, soft real wage growth and high levels of non-performing loans. Stronger growth in non-EU markets, Asia and United States in particular, should support export growth, but negative effects from weaker demand growth in the United Kingdom and persisting uncertainties about the future of the European Union could undermine the consolidation process.

In the United Kingdom the GDP growth is projected to slow notwithstanding the additional support from the depreciation of Sterling which has improved export prospects, but has also pushed up inflation, thereby reducing income growth and consumer spending. Uncertainties caused by the Brexit referendum are still present, generating negative impacts on business investments.

In this scenario the Bank expects to experience a decrease of the net interest margin, due to the combined effect of (i) lower contribution from interest receivable on wholesale banking, and (ii) higher cost of borrowing. Net fee income is forecasted to remain stable, whilst administrative expenses should increase by reason of higher spending for (i) Group projects, and (ii) local projects generated by increasing banking regulations. Cost of risk on the other hand is expected to increase, reflecting a moderate growth of corporate lending.

PROPOSAL FOR ALLOCATION OF DISPOSABLE PROFIT

The Board of Directors of Mediobanca International (Luxembourg) S.A. proposes the following allocation of the net result to the Annual General Meeting:

- Profit of the year	€	20.779.413
- Balance on retained earnings	€	-
- Total profit to be allocated	**€**	**20.779.413**
- To specific reserve for N.W.T.	€	8.131.775
- To free reserves	€	12.647.638

Luxembourg, 12 September 2017

pp. BOARD OF DIRECTORS
CHAIRMAN
(Mr. Peter W. Gerrard)

MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.

Statement of Directors' responsibilities

To the best of our knowledge, the financial statements of MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A. (the "Bank") give a true and fair view of the assets, liabilities, financial position and profit and loss of the Bank in accordance with applicable accounting standards. The Directors' report includes a fair view of (I) the Bank's development, (II) its position, and (III) a description of the opportunities and risks relevant to the Bank that arose during the period ended 30 June 2017.

Luxembourg, 12 September 2017

The Board of Directors

Peter W. Gerrard	Stefano Biondi	Massimo Di Carlo
Massimo Bertolini	Stephane Bosi	Luca Maccari
Alex Schmitt		

INDEPENDENT AUDITOR'S REPORT

Audit report

To the Board of Directors of
Mediobanca International (Luxembourg) S.A.

Report on the audit of the financial statements

Our opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Mediobanca International (Luxembourg) S.A. (the "Bank") as at 30 June 2017, 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.

Our opinion is consistent with our additional report to the Board of Directors.

What we have audited

The Bank's financial statements comprise:

- The statement of financial position as at 30 June 2017;
- The statement of comprehensive income for the year then ended;
- The statement of changes in equity for the year then ended;
- The statement of cash flows for the year then ended; and
- The notes to the financial statements, which include a summary of significant accounting policies.

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 those Regulation, Law and standards are further described in the "Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the financial statements" section of our report.

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

PricewaterhouseCoopers, Société coopérative, 2 rue Gerhard Mercator, B.P. 1443, L-1014 Luxembourg
T : +352 494848 1, F : +352 494848 2900, www.pwc.lu

Cabinet de révision agréé. Expert-comptable (autorisation gouvernementale n°10028256)
R.C.S. Luxembourg B 65 477 - TVA LU25482518

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements. We have fulfilled our other ethical responsibilities under those ethical requirements.

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

The non-audit services that we have provided to the Bank, in the period from 1 July 2016 to 30 June 2017, are disclosed here below.

Nature of service
Report on review of interim financial information as of 31 December 2016
Report on review of interim financial information as of 31 March 2017
Comfort letter issued on the EMTN programme

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, and include the most significant assessed risks of material misstatement (whether or not due to fraud). These matters were addressed in the context of our 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.

Key audit matter	**How our audit addressed the Key audit matter**
*Valuation of loans to customers (*loan loss provisioning process) Customer loans are one of the key items on the Bank's balance sheet representing 63% of total assets. The Bank's customer lending operations primarily consist of loans to corporate clients, including syndicated loans arranged by leading non-Italian banks and high return finance (e.g. mezzanine and subordinated finance). The loans are grouped in different categories (corporate lending, leverage acquisition, project finance, export finance). The major part of corporate loans is guaranteed, in total or partially, by the Parent Bank Mediobanca - Banca di Credito Finanziario	We first tested and assessed the Bank's relevant internal control system with respect to the valuation of loans to customers. We considered the respective business organisation, IT systems and valuation models. We tested for a selection of dates the controls regarding the loan origination, loan monitoring and credit assessment processes. We also tested and assessed the Bank's processes on credit assessment and valuation of loans as part of our credit review testing (please refer below). We involved our specialists in the fields of IT audits to test the relevant IT applications. Regarding test of details, the following audit procedures were performed: • Overall analysis of the loan portfolio by comparison to prior years to identify trends and areas of particular risk; • Comparison on sample basis of internal ratings used in the Bank's credit assessments to external publicly available; • Credit assessment for a sample of 31 items representing groups of related borrowers, covering at least the following: – All non-performing loans (all items in the Watchlist,

Key audit matter	How our audit addressed the Key audit matter
S.p.A.. As it relates to its credit activities, there is a considerable inherent risk because measurement of loans and receivables is based on estimates of the borrower's credit risk. However, the Bank has a low record of non-performing loans since its incorporation and in general has maintained a good quality loan portfolio of well recognised international groups. The current market conditions may worsen the quality of credit, with a significant adverse impact on this item. This matter was of particular importance during our audit. The Bank's disclosures on the accounting for loan loss provisions are provided in PART B Section 4 within the notes of the financial statements.	including those categorised as "black" and considered as non-performing and those categorised as "red", "amber" and "green", which are "de facto" performing); – TOP 15 largest exposures; – Exposures of particular risk identified (UK borrowers); – Exposures to new customers. • Assessment of collective impairment approach used by the Bank. Based on our testing of the Bank's credit assessment procedures of its corporate lending portfolio and sample testing of loan files we conclude that during the year ended 30 June 2017 the Bank recorded a level of loan and loss provisions consistent with the Bank's accounting policies and that the assumptions used to calculate the impairment provision were appropriate.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management report but does not include the financial statements and our audit report 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 identified above 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 that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and those charged with governance for the financial statements

The Board of Directors 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 Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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 Board of Directors;

- conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report 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 audit report. 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 audit report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

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

The Corporate Governance Statement is included in the Management report. The information required by Article 68bis Paragraph (1) Letters c) and d) of the Law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, which is included in the Corporate Governance Statement, is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

We have been re-appointed as “Réviseur d’Entreprises Agréé” by the Board of Directors on 14 December 2016 for another five years period and the duration of our uninterrupted engagement up to and including 30 June 2017, including previous renewals and reappointments, is five years, starting as from the year ended 30 June 2013.

Other matter

The Corporate Governance Statement includes the information required by Article 68bis Paragraph (1) of the Law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 13 September 2017

Holger von Keutz

FINANCIAL STATEMENTS AS OF 30 JUNE 2017

STATEMENT OF FINANCIAL POSITION

	Assets	30/06/2017	30/06/2016
		€	€
10.	Cash and cash balances with Central Banks	7.221.565	8.569.125
20.	Financial assets held for trading	331.060.716	581.421.047
50.	Financial assets held to maturity	59.324.089	57.931.477
60.	Loans and advances to Credit Institutions	1.290.118.564	1.801.711.947
70.	Loans and advances to Customers	3.299.878.078	3.404.309.522
80.	Hedging derivatives	192.320.798	421.965.488
100.	Equity investments	4.150.000	4.150.000
120.	Property, plant and equipment	14.323	23.311
160.	Other assets	7.581.346	1.830.476
	TOTAL ASSETS	**5.191.669.479**	**6.281.912.393**

	Liabilities and equity	30/06/2017	30/06/2016
		€	€
10.	Amounts due to Credit Institutions	2.248.876.976	1.928.167.631
20.	Amounts due to Customers	962.522.538	1.274.951.346
30.	Debt securities in issue	1.317.432.907	2.200.452.131
40.	Trading liabilities	319.189.654	559.638.248
80.	Tax liabilities	11.100.231	5.646.402
	a) current	*10.319.931*	*4.769.802*
	b) deferred	*780.300*	*876.600*
100.	Other liabilities	3.994.561	5.283.436
160.	Reserves	297.773.199	278.724.857
190.	Share capital	10.000.000	10.000.000
200.	Profit for the year	20.779.413	19.048.342
	TOTAL LIABILITIES AND EQUITY	**5.191.669.479**	**6.281.912.393**

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

STATEMENT OF COMPREHENSIVE INCOME

	Item	30/06/2017	30/06/2016
		€	€
010.	Interests and similar income	105.856.586	101.080.327
020.	Interests expense and similar charges	-67.304.693	-70.740.770
030.	**Net interest income**	**38.551.893**	**30.339.557**
040.	Fee and commission income	14.485.525	13.037.313
050.	Fee and commission expense	-13.514.458	-12.218.337
060.	**Net fee and commission income**	**971.067**	**818.976**
080.	Net trading income/expense	-3.705.319	2.572.585
090.	Net hedging income/expense	48.692	-2.781
100.	Gain or loss on disposal or repurchase of:	329.240	-15.295
	a) loans and receivables	*278.946*	*73.264*
	b) financial assets available for sale	—	—
	c) financial assets held to maturity	—	*-1*
	d) financial liabilities	*50.294*	*-88.558*
120.	**Total income**	**36.195.573**	**33.713.042**
130.	Adjustments for impairment to:	787.761	994.676
	a) loans and receivables	*474.501*	*612.251*
	b) financial assets available for sale	—	—
	c) financial assets held to maturity	—	—
	d) other financial operations	*313.260*	*382.425*
140.	**Net income from banking activities**	**36.983.334**	**34.707.718**
180.	Administrative expenses:	-8.523.667	-7.737.849
	a) personnel costs	*-1.302.826*	*-1.054.166*
	b) other administrative expenses	*-7.220.841*	*-6.683.683*
200.	Net adjustments in respect of tangible assets	-11.215	-12.746
220.	Other operating income/expense	35.418	30.515
280.	**Profit (loss) of the ordinary activity before tax**	**28.483.870**	**26.987.638**
290.	Income tax on the ordinary activity	-7.704.457	-7.939.296
340.	**Profit (loss) for the year**	**20.779.413**	**19.048.342**
350.	Other comprehensive income, net of tax	—	—
360.	**Total comprehensive income for the year, net of tax**	**20.779.413**	**19.048.342**

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

STATEMENT OF CHANGES IN EQUITY FROM 01/07/2016 TO 30/06/2017 (in €)

	Balance as of June 30, 2016	Allocation of the profit for the previous period		Changes during the reference period					Balance as of June 30, 2017
				Changes in reserves	Transactions involving equity			Profit (loss) of the period	
		Reserves	Dividends and other fund applications		New shares issued	Treasury shares derivatives	Stock options and others		
Share capital	**10.000.000**	—	—	—	—	—	—	—	**10.000.000**
a) ordinary shares	10.000.000	—	—	—	—	—	—	—	10.000.000
b) other shares	—	—	—	—	—	—	—	—	—
Profit brought forward	—	—	—	—	—	—	—	—	—
Reserves	**278.724.857**	**19.048.342**	—	—	—	—	—	—	**297.773.199**
a) legal reserve	1.000.000	—	—	—	—	—	—	—	1.000.000
b) free reserve	249.438.006	11.510.542	—	—	—	—	—	—	260.948.548
c) special reserve[1]	28.286.851	7.537.800	—	—	—	—	—	—	35.824.651
d) FTA reserve	—	—	—	—	—	—	—	—	—
Valuation reserves	—	—	—	—	—	—	—	—	—
a) AFS securities	—	—	—	—	—	—	—	—	—
b) cash flow hedges	—	—	—	—	—	—	—	—	—
c) special laws – others	—	—	—	—	—	—	—	—	—
Own shares	—	—	—	—	—	—	—	—	—
Comprehensive income of the period	**19.048.342**	**-19.048.342**	—	—	—	—	—	**20.779.413**	**20.779.413**
Total equity	**307.773.199**	—	—	—	—	—	—	**20.779.413**	**328.552.612**

[1] As of 30 June 2017 and 2016 the Bank has opted for the exoneration of the net wealth tax charge provided that the following conditions have been respected:
- A reserve equivalent to 5 times the net wealth tax charge for each year is recorded following the decision of the Shareholders meeting;
- The reserve will be maintained for a period at least of five years.

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

STATEMENT OF CHANGES IN EQUITY FROM 01/07/2015 TO 30/06/2016 (in €)

	Balance as of June 30, 2015	Allocation of the profit for the previous period		Changes during the reference period						Balance as of June 30, 2016
					Transactions involving equity					
		Reserves	Dividends and other fund applications	Changes in reserves	New shares issued	Treasury shares derivatives	Stock options and others	Profit (loss) of the period		
Share capital	**10.000.000**	—	—	—	—	—	—	—		**10.000.000**
a) ordinary shares	10.000.000	—	—	—	—	—	—	—		10.000.000
b) other shares	—	—	—	—	—	—	—	—		—
Profit brought forward	—	—	—	—	—	—	—	—		—
Reserves	**254.812.048**	**23.912.809**	—	—	—	—	—	—		**278.724.857**
a) legal reserve	1.000.000	—	—	—	—	—	—	—		1.000.000
b) free reserve	229.811.747	23.437.534	—	-3.811.275	—	—	—	—		249.438.006
c) special reserve[1]	24.000.301	475.275	—	3.811.275	—	—	—	—		28.286.851
d) FTA reserve	—	—	—	—	—	—	—	—		—
Valuation reserves	—	—	—	—	—	—	—	—		—
a) AFS securities	—	—	—	—	—	—	—	—		—
b) cash flow hedges	—	—	—	—	—	—	—	—		—
c) special laws – others	—	—	—	—	—	—	—	—		—
Own shares	—	—	—	—	—	—	—	—		—
Comprehensive income of the period	**23.912.809**	**-23.912.809**	—	—	—	—	—	**19.048.342**		**19.048.342**
Total equity	**288.724.857**	—	—	—	—	—	—	**19.048.342**		**307.773.199**

[1] As of 30 June 2016 and 2015 the Bank has opted for the exoneration of the net wealth tax charge provided that the following conditions have been respected:
- A reserve equivalent to 5 times the net wealth tax charge for each year is recorded following the decision of the Shareholders meeting;
- The reserve will be maintained for a period at least of five years.

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

CASH FLOW STATEMENT – Direct Method

(in € k)

A.	Cash flow from operating activities	Amount	
		30/06/2017	**30/06/2016**
1.	**Operating activities**	**81.740**	**11.214**
	– interest received	124.180	92.350
	– interest paid	-28.386	-77.360
	– net fee and commission received/paid	-4.300	9.061
	– dividends and similar income	—	—
	– net premium income	—	224
	– cash payments to employees	-1.101	-736
	– other income (expenses)	-6.064	-6.342
	– Tax income (expenses)	-2.589	-5.983
2.	**Cash generated/absorbed by financial assets**	**580.864**	**-1.117.162**
	– amounts due from customers	56.293	-411.258
	– amounts due from banks: on demand	99.047	-82.255
	– amounts due from banks: other	421.505	-620.149
	– financial assets measured at fair value	3.906	-3.500
	– other assets	113	—
3.	**Cash generated/absorbed by financial liabilities**	**-663.951**	**919.212**
	– amounts due to banks: on demand	-31.959	1.691
	– amounts due to banks: other	286.573	427.024
	– amounts due to clients	-43.125	-171.471
	– debt securities in issue	-881.495	671.022
	– financial liabilities measured at fair value	—	-9.054
	– other liabilities	6.055	—
	Net cash flow (outflow) from operating activities	**-1.347**	**-186.736**
B.	**Investing activities**	—	—
	– equity investment	—	—
	– acquisitions/redemption of held-to-maturity investments	—	195.000
	– acquisitions of tangible assets	—	-11
	– acquisitions of intangible assets	—	—
	Net cash flow (outflow) from investing activities	**—**	**194.989**
C.	**Financing activities**	—	—
	– issues/purchases of subordinated debts (Tier II)	—	—
	Net cash flow (outflow) from financing activities	—	—
	Net cash flow (outflow) during year	**-1.347**	**8.253**

RECONCILIATION	Amount	
	30/06/2017	**30/06/2016**
Cash and cash equivalents: balance at 1 July	8.569	316
Total cash flow (outflow) during year	-1.347	8.253
Cash and cash equivalents: balance at 30 June	**7.222**	**8.569**

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

NOTES TO THE FINANCIAL STATEMENTS

PART A – CORPORATE INFORMATION

Corporate matters

Mediobanca International (Luxembourg) S.A. (the "Bank") was incorporated under the name of "Mediobanca International Limited" on 13 September 1990 under the Companies Law of the Cayman Islands, with its registered office at Ugland House, South Church Street, P.O. Box 309 George Town, Grand Cayman, Cayman Islands, British West Indies.

On 21 December 2005, the shareholders of the Bank decided to transfer the registered office and the principal establishment of the Bank from the Cayman Islands to the Grand Duchy of Luxembourg and declared that the Bank had accordingly adopted the Luxembourg nationality. In addition, the shareholders of the Bank decided to adopt the form of "Société Anonyme" and to change the name of the Bank into Mediobanca International (Luxembourg) S.A..

Nature of the Bank's business

Mediobanca International (Luxembourg) S.A. is mostly focused on structured lending transactions and the related activity of buying and selling on the secondary market.

Corporate lending: the business handles loans to corporates, which are generally medium-to-long term, and are granted with a view to meeting our clients' needs for financing in relation either to specific investments or to structural needs generated by growth. Loans may be disbursed to all kinds of corporate clients, whether industrial or service-oriented, European or non-European, large or mid-size. Larger facilities may be syndicated to a selected number of trusted banking counterparties or with the broader involvement of international banks.

Structured finance: the business is focused on transactions involving a considerable degree of financial leverage and limited recourse to the originator. Such deals usually arise as a result of industrial or infrastructure capital spending requirements, or of acquisitions of listed or non-listed companies launched inter alia with the backing of institutional investors. Such facilities are often structured in complex fashion, including in terms of contracts and guarantees, in order to maintain the risk profile of the transaction within limits that are acceptable to the banking community. Because of their size, such loans are often syndicated.

Export finance: this mainly involves providing financial support to Italian exporters of goods and services to non-Italian counterparties usually located in emerging markets. It may take the form of financing with the benefit of insurance covers and interest rate subsidies from SIMEST, SACE or other European export credit agencies. The structuring of these transactions, which are often part-syndicated to other banking counterparties, goes hand-in-hand with advisory services provided to clients in respect of commercial negotiations with government organizations granting the insurance cover and/or interest rate subsidy.

The Bank raises funds on international markets, via the issuance of medium-long term or short term financial instruments under the terms of specific programs (Notes, Certificats de Dépôt, Commercial Papers) fully guaranteed by the Parent Bank. Mediobanca S.p.A. guarantees a plafond of funding which could be drawn in different ways (i.e. overdraft on current accounts, medium-long term loans, money-market transactions) and provides as well treasury services.

Outsourcing

Since inception, the Bank has outsourced a significant part of its activities to the Parent Bank under the terms of a servicing contract.

Financial statements

The Bank's financial year runs from 1 July to 30 June.

The financial statements as of 30 June 2017 were authorised for issue by the Board of Directors on 12 September 2017.

Parent Bank

The Bank is a wholly-owned subsidiary of Mediobanca – Banca di Credito Finanziario S.p.A., the ultimate parent (hereafter "Mediobanca S.p.A." or "Parent Bank"), having its registered office in Piazzetta Enrico Cuccia n.1, Milan, Italy. The financial statements of the Bank are included in the consolidated financial statements of Mediobanca S.p.A..

Mediobanca S.p.A. is the leading investment bank in Italy and helped for over 60 years clients grow, offering high-quality advisory services and providing finance in all its various forms, from more traditional bank credit to the most sophisticated solutions available on capital markets.

PART B – ACCOUNTING POLICIES

Section 1

Statement of conformity with IAS/IFRS

The Bank's financial statements have been drawn up in accordance with the International Financial Reporting Standards (IFRS) including the interpretation documents issued by the SIC and the IFRIC, and endorsed by the European Commission in accordance with the procedure laid down in art. 6 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002. The Bank's financial statements of June 30, 2017 have been prepared following the same structure of the Parent Bank (disciplined by the Circular of Banca d'Italia n. 262).

Section 2

General principles

The financial statements comprise:

- statement of financial position;
- statement of comprehensive income;
- statement of changes in equity;
- cash flow statement (direct method);
- notes to the financial statements.

All the statements have been drawn up in conformity with the general principles provided for under IFRS as adopted by EU and the accounting policies illustrated in section 4, and show data for the period under review compared with that for the previous financial period.

Section 3

Basis of preparation

The financial statements are prepared on the historical cost basis except for financial instruments held for trading, for derivatives concluded for hedging purposes, which are measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The statement of financial position, statement of comprehensive income and the statement of changes in equity are presented in Euro (€) and all values are rounded to the nearest Euro. Cash flow statement and notes to the financial statements are presented in € k unless otherwise stated.

The preparation of financial statements in accordance with IFRS as adopted by the European Union requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expense items. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Section 4

Accounting policies

New amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year.

Other amendments resulting from Improvements to IFRS to the following standards did not have any impact on the accounting policies, financial position or performance of the Bank:

- IAS 16 Property, Plant and Equipment: The International Accounting Standards Board (IASB) has published 'Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16)'. The amendments provide additional guidance on how the depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. This is because such methods reflect a pattern of generation of economic benefits that arise from the operation of the business of which an asset is part, rather than the pattern of consumption of an asset's expected future economic benefits. They are effective for annual periods beginning on or after 1 January 2016, with earlier application being permitted.

- IAS 38 Property, Plant and Equipment: The International Accounting Standards Board (IASB) has published 'Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 38)'. The requirements of IAS 38 are amended to introduce a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate for the same reasons as in IAS 16. However, the IASB states that there are limited circumstances when the presumption can be overcome:
  - The intangible asset is expressed as a measure of revenue (the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold); and
  - it can be demonstrated that revenue and the consumption of economic benefits of the intangible asset are highly correlated (the consumption of the intangible asset is directly linked to the revenue generated from using the asset).

- IFRS 11 Joint Arrangements: The International Accounting Standards Board (IASB) has issued 'Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)'. The amendments clarify the accounting for acquisitions of an interest in a joint operation when the operation constitutes a business. As defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11. Accordingly, a joint operator that is an acquirer of such an interest has to:

- measure most identifiable assets and liabilities at fair value;
- expense acquisition-related costs (other than debt or equity issuance costs);
- recognise deferred taxes;
- recognising any goodwill or bargain purchase gain;
- perform impairment tests for the cash generating units to which goodwill has been allocated;
- disclose information required relevant for business combinations;

The amendments apply to the acquisition of an interest in an existing joint operation and also to the acquisition of an interest in a joint operation on its formation, unless the formation of the joint operation coincides with the formation of the business. The amendments are effective for annual periods beginning on or after 1 January 2016, with earlier application being permitted.

- The IASB issued Annual Improvements to IFRSs 2012–2014 Cycle on 25 September 2014, amending the following standards:

  I. IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

  II. IFRS 7 Financial Instruments: Disclosures (with consequential amendments to IFRS 1): adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required and clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.

  III. IAS 19 Employee Benefits: clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).

  IV. IAS 34 Interim Financial Reporting: clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference

The amendments are effective for annual periods beginning on or after 1 January 2016, with earlier application being permitted.

- IAS 1 — Presentation of Financial Statements: the amendments makes the following changes:
  - Materiality. The amendments clarify that (1) information should not be obscured by aggregating or by providing immaterial information, (2) materiality considerations apply to the all parts of the financial statements, and (3) even when a standard requires a specific disclosure, materiality considerations do apply.
  - Statement of financial position and statement of profit or loss and other comprehensive income. The amendments (1) introduce a clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and (2) clarify that an entity's share of OCI of equity-accounted associates

and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

The amendments are effective for annual periods beginning on or after 1 January 2016, with earlier application being permitted.

- IAS 27 Equity Method in Separate Financial Statements: the amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements
  - at cost,
  - in accordance with IFRS 9 Financial Instruments (or IAS 39 Financial Instruments: Recognition and Measurement for entities that have not yet adopted IFRS 9), or
  - using the equity method as described in IAS 28 Investments in Associates and Joint Ventures.

  The accounting option must be applied by category of investments. The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred. In addition to the amendments to IAS 27, there are consequential amendments to IAS 28 to avoid a potential conflict with IFRS 10 Consolidated Financial Statements and to IFRS 1 First-time Adoption of International Financial Reporting Standards.

  The amendments are effective for annual periods beginning on or after 1 January 2016, with earlier application being permitted.

- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27): makes changes aimed at clarifying the following aspects:
  - Exemption from preparing consolidated financial statements. The amendments confirm that the exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.
  - A subsidiary providing services that relate to the parent's investment activities. A subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity.
  - Application of the equity method by a non-investment entity investor to an investment entity investee. When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
  - Disclosures required. An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by IFRS 12.

  The amendments are effective for annual periods beginning on or after 1 January 2016, with earlier application being permitted

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Bank’s financial statements are listed below. This listing includes standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. (If applicable) The Bank intends to adopt those standards when they become effective.

The EU endorsed the following accounting principles that will become effective for the Bank's reporting period beginning on or after the 1st of July 2018:

- IFRS 9 Classification and Measurement, Impairment and Hedge Accounting: in July 2014, the IASB issued IFRS 9, which replaces IAS 39, "Financial Instruments: Recognition and Measurement".

Status of the project

Mediobanca Group will apply the new standard as of 1st July 2018. Since spring of 2015, an internal project was launched under the joint guidance of both the Risk Management and Group Financial Control with the involvement of all the relevant other areas (in particular Front Office, Group Technology and Operations, Group ALM, Group Treasury). The initiative was developed in coherence with the three areas defined by the new principle (Classification & Measurement, Impairment and Hedge Accounting) and was subsequently subdivided into the "assessment" (now completed) and "design & implementation" (currently being finalized) phases.

With respect to the new criteria for the classification and measurement of financial instruments, no particular impacts were found, after conducting a thorough analysis of the entire portfolio. As for the methodological framework, this was defined by the changes introduced by the Standard. Whilst the implementation of the organizational processes, systems adaptation, and internal regulation enforcement impacted by the new requirements is considered still ongoing.

In addition, the development activities of the new impairment models for the calculation of the expected loss (the staging criteria, the introduction of macroeconomic scenarios and forward looking elements) are being finalized with the aim of evaluating their business impacts, as well as monitoring processes and accounting policies of financial instruments (in particular loans).

Whilst for Hedge Accounting, no significant impacts are forecasted from the application of the new criteria which, is expected to use the opt-in option.

The performance of the activities is in keeping with project planning expectations, which, at the completion of the ongoing developments and implementations, should provide a parallel run between IAS 39 and IFRS 9.

- IFRS 15 Revenue from Contracts with Customers: starting from November 2015, a Preliminary Impact Assessment project was launched within the Group to identify the most critical issues in the current accounting typologies. The project (the scope of which included all the most impacted companies) showed that the current situation was substantially aligned with the new accounting requirements.

- Amendments to IAS 7 Statement of Cash Flows: the amendments require that an entity disclose the changes in liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. The amendments indicate that the new disclosure requirements also apply to changes in financial assets that meet this definition. The amendments state that one way to meet the new disclosure requirements is to provide "a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

- Amendments to IAS 12: The amendments in Recognition of Deferred Tax Assets for Unrealised Losses clarify the following aspects:
  - Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
  - The carrying amount of an asset does not limit the estimation of probable future taxable profits.
  - Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
  - An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

- The IASB issued Annual Improvements to IFRSs 2014–2016 Cycle on 8 December 2016, amending the following standards:
  I. IFRS 1 First-time Adoption of International Financial Reporting Standards: Deleted the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.
  II. IFRS 12 Disclosure of Interests in Other Entities: Clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.
  III. IAS 28 Investments in Associates and Joint Ventures: Clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisations, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

- IFRIC 22 Foreign Currency Transactions and Advance Consideration issued: The Interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration received or payed at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. Also, the Interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts.

- Amendments to IFRS 15 Revenue from contracts with customers: the amendments include clarifications of the guidance on identifying performance obligations, accounting for licenses of intellectual property, and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of these areas of guidance. The IASB also included additional practical expedients related to transition to the new revenue standard.

- IFRS 16 Leases will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases. The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change. Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows. The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the Accounting policies contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Summary of significant accounting policy

Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand and short-term highly liquid investments with maturities of three months or less when purchased. Cash as referred to in the cash flow statement comprises only cash on hand and non–restricted current accounts with Central Banks, therefore mandatory deposit with the Central Bank of Luxembourg, which is not available for use in the Bank's day–to–day operations, is not considered as cash on hand in the cash flow statement.

Financial assets held for trading

This category comprises debt securities, equities and loans held for trading purposes. Such assets are recognized at fair value not including any transaction expenses or income directly attributable to the asset concerned, which are taken through the profit and loss account.

After initial recognition they continue to be measured at fair value. Equities for which it is not possible to reliably determine fair value using the methods described above are stated at cost (these too qualify as Level 3 assets). If the assets suffer impairment, they are written down to their current value.

Gains and losses upon disposal and/or redemption and the positive and negative effects of changes in fair value over time are reflected in the profit and loss account under the heading Net trading income.

Financial assets held to maturity

These comprise debt securities with fixed or otherwise determinable payments and fixed maturities which the Bank's management has the positive intention and ability to hold to maturity.

Such assets are initially recognized at fair value, which is calculated as at the settlement date and includes any transaction costs or income directly attributable to them. Following their initial recognition they are measured at amortized cost using the effective interest method. Differences between the initial recognition value and the amount receivable at maturity are booked to the profit and loss account pro-rata.

Assets are tested for impairment at annual and interim reporting dates. If there is evidence of a long-term reduction in the value of the asset concerned, this is recognized in the profit and loss account on the basis of market prices in the case of listed instruments, and of estimated future cash flows discounted according to the original effective interest rate in the case of unlisted securities.

If the reasons which brought about the loss of value subsequently cease to apply, the impairment is written back to the profit and loss account up to the value of amortized cost.

Loans and receivables

These comprise loans to customers and banks which provide for fixed or otherwise determinable payments that are not quoted in an active market and are not classified as available for sale.

Loans and receivables are booked on disbursement at a value equal to the amount drawn plus (less) any income (expenses) directly attributable to individual transactions and determinable from the outset despite being payable at a later date. The item does not, however, include costs subject to separate repayment by the borrower, or which may otherwise be accounted for as ordinary internal administrative costs. Repos and reverse repos are booked as funding or lending transactions for the spot amount received or paid. Non-performing loans acquired are booked at amortized cost on the basis of an internal rate of return calculated using estimates of expected recoverable amounts. Loans and receivables are stated at amortized cost, i.e. initial values adjusted upwards or downwards to reflect: repayments of principal, amounts written down/back, and the difference between amounts drawn at disbursement and repayable at maturity amortized on the basis of the effective interest rate. The latter is defined as the rate of interest which renders the discounted value of future cash flows deriving from the loan or receivable by way of principal and interest equal to the initial recognition value of the loan or receivable. Individual items are tested at annual and interim reporting dates to show whether or not there is evidence of impairment. Items reflecting such evidence are then subjected to analytical testing, and, if appropriate, adjusted to reflect the difference between their carrying amount at the time of the impairment test (amortized cost), and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Future cash flows are estimated to take account of anticipated collection times, the presumed value of receivables upon disposal of any collateral, and costs likely to be incurred in order to recover the exposure. Cash flows from loans expected to be recovered in the short term are not discounted.

The original effective interest rate for each loan remains unchanged in subsequent years, even if new terms are negotiated leading to a reduction to below market rates, including non-interest-bearing loans.

The relevant value adjustment is taken through the profit and loss account.

If the reasons which brought about the loss of value cease to apply, the original value of the loan is recovered in the profit and loss account in subsequent accounting periods up to the value of amortized cost.

Accounts for which there is no objective evidence of impairment, including those involving counterparties in countries deemed to be at risk, are subject to collective tests. Loans are grouped on the basis of similar credit risk characteristics, and the related loss percentages are estimated at the impairment date on the basis of historical series of internal and external data. Collective value adjustments are credited or charged to the profit and loss account, as appropriate. At each annual and interim reporting date, any writedowns or writebacks are remeasured on a differentiated basis with respect to the entire portfolio of loans deemed to be performing at that date.

Financial guarantees

In the ordinary course of business, the bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Overall, the fair value of a financial guarantee is zero at the time a contract is issued, since for market standards, the consideration received is generally equal to the value of the obligation assumed. Guarantees given are recognized in the off balance sheet (within "guarantees and commitments") at the nominal value, while premiums receivables are recognized over the life of the assets in the financial statement (within "other assets") and in the statement of comprehensive income (within "net fee and commission income"). Subsequent to initial recognition, the Bank's exposure under each guarantee is tested to show whether or not there is evidence of expenditure required to settle any financial obligation arising as a result of the guarantee or any other evidence of impairment. Items reflecting such evidence are then subjected to analytical testing, and, if appropriate, adjusted to reflect the increase in the liability related to financial guarantee; accounts for which there are no objective evidence of impairment, including those involving counterparties in countries deemed to be at risk, are subject to collective tests. Financial guarantees are grouped on the basis of similar credit risk characteristics, and the related loss percentages are estimated at the impairment date on the basis of historical series of internal and external data. Collective value adjustments are credited or charged to the comprehensive income, as appropriate.

Derivative financial instruments

A derivative is a financial instrument or other contract with all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable (usually called the 'underlying');
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
- it is settled at a future date.

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument. An embedded derivative is separated from the host contract and recognized as a derivative if:

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid (combined) instrument is not measured entirely at fair value through profit or loss.

If it is necessary to separate an embedded derivative from its host contract, but it is not possible to measure the embedded derivative separately either at acquisition or at a subsequent financial reporting date, the entire combined contract is treated as a financial asset or financial liability at fair value through profit or loss. When an embedded derivative is separated, the host contract is recognized according to its category.

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

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

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

Certain derivatives embedded in other financial instruments 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 comprehensive income. These embedded derivatives are measured at fair value with changes in fair value recognized in the comprehensive income.

Trading

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

Hedges

There are two types of hedge:

- fair value hedges, which are intended to offset the exposure of recognized assets and liabilities to changes in their fair value;

- cash flow hedges, which are intended to offset the exposure of recognized assets and liabilities to changes in future cash flows attributable to specific risks relating to the items concerned;

For the process to be effective, the item must be hedged with a counterparty from outside the Group. Hedge derivatives are recognized at fair value as follows:

- changes in fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged asset, where a difference between the two emerges as a result of the partial ineffectiveness of the hedge;

- designated and qualify as cash flow hedges are recognized in net equity, while the gain or loss deriving from the ineffective portion is recognized through the profit and loss account only as and when, with reference to the hedged item, the change in cash flow to be offset crystallizes.

Hedge accounting is permitted for derivatives where the hedging relationship is formally designated and documented and provided that the hedge is effective at its inception and is expected to be so for its entire life.

A hedge is considered to be effective when the changes in fair value or cash flow of the hedging instrument offset those of the hedged item within a range of 80-125%. The effectiveness of a hedge is assessed both prospectively and retrospectively at annual and interim reporting dates, the former to show expectations regarding effectiveness, the latter to show the degree of effectiveness actually achieved by the hedge during the period concerned. If an instrument proves to be ineffective, hedge accounting is discontinued and the derivative concerned is accounted for under trading securities.

The hedge relationship may also be discontinued either voluntarily or when the hedged instrument is derecognized or the hedging instrument wound up early.

As at 30 June 2017 the Bank does not hold any cash flow hedged transaction.

Fair Value hierarchy

Financial instruments recognized at fair value are classified, depending on the valuation methodology, in three different levels.

Level 1: the fair value of financial instruments quoted in active markets, such as shares, futures, options, rights and bonds, is calculated by using directly the market prices recorded on the corresponding trading markets or otherwise received from independent market data providers.

Level 2: the fair value of financial instruments classified as level 2 in the fair value hierarchy is calculated by using standard valuation models calibrated to the market prices of liquid instruments or market prices provided by brokers. The Middle Office - Market Data unit of the Parent Bank checks the validity and accuracy of the market data and model parameters, with the support, among other things, of consensus instruments. The Risk Management - model validation unit of the Parent Bank checks that the models function correctly and are consistent with market practices. These instruments may be broken down as follows:

- Linear interest rate and inflation instruments, such as deposits, asset swaps, IRS, inflation swaps, CCS, FX swaps, FRA, repos, are constructed from the interest rate curves via standard bootstrap techniques and interpolation based on the most recent fixings of interest rate and inflation indexes and on the prices of short rate futures, FRA, IRS, CCS, inflation futures and inflation swaps. The inflation curves are also supplemented with information derived from macro-economic analysis of short-term prospects and historical analysis of seasonality effects. These curves are then used to make a projection of future cash flows dependent on interest rate and inflation indexes. Lastly, these flows are discounted using a discount factor, which allows the fair value of linear interest rate and inflation instruments to be calculated in line with the market.

- Non-linear interest rate and inflation instruments, such as caps/floors, caps/floors on inflation and European swaptions: volatility surfaces are constructed using standard techniques based on the market prices of caps/floors and swaptions at standard maturities and strike prices, and using interpolation techniques a suitable volatility is constructed for the unlisted instrument or its components. This volatility combines with the interest rate curve to determine the fair value using standard models.
- Forex instruments such as FX-spot/forwards, FX swaps and FX plain vanilla options: for the simpler instruments it is sufficient to use the interest rate curves to discount future flows and convert these flows in the relevant foreign currency to the equivalent amount in Euros using the market exchange rate. For more complex instruments such as options, volatility surfaces are constructed using the market prices of listed FX options at standard maturities and strike prices using classical interpolation models and methods. These volatility surfaces, along with the interest rate curves and market exchange rates, are used to calculate the fair value of the unlisted plain vanilla FX options in line with the market.
- Equity instruments such as forwards, equity swaps, and plain vanilla options on equities and indexes: volatility surfaces are constructed from the market prices of listed options using standard techniques, and dividend curves are constructed based on estimates of dividends supplied by external providers and compiled internally. The interest rate curves and the dividend curves, together with the current market value of the underlying asset, allows a projection to be made of the underlying asset's future value. This projection, along with the volatility surface for the options, using standard market models allows these financial instruments to be valued in line with the market.
- Credit instruments such as credit default swaps on individual names or credit indexes, or bonds with no liquid market: default probability curves are constructed based on the prices of the CDS at various maturities or on bonds and estimates of recovery rates received from external providers. These probability curves, together with the interest rate curves, allow the fair value of the credit default swaps and bonds to be calculated using models in line with market prices.

Level 3: the fair value of financial instruments classified as 3 in the fair value hierarchy is calculated in the same way as for level 2 instruments, with the difference that some model parameters are not directly observable on the market, and are therefore calculated internally using appropriate methodologies. In many cases, for this calculation historical data are analyzed or comparable underlying instruments are used. As for level 2, the model parameters are checked by the Middle Office - Market Data unit of the Parent Bank and the models themselves by the Risk management - model validation unit of the Parent Bank. The fair values thus calculated, if necessary, are then adjusted to reflect the uncertainty of the model or the specific market data. Examples of model parameters calculated internally are as follows:

- Equity options: the market prices of the options do not allow a volatility surface to be constructed beyond a certain expiry. If it is necessary to value an option beyond this limit, extrapolation methods are applied, supported by analysis of the volatility surfaces of other comparable underlying assets (peers).
- Equity options on baskets: standard market models are used, along with estimated correlation data. For this estimate, historical analyses of yields on the basket's components are used, taking into consideration the historical difference between listed and historical correlation.

"Day1" profit or loss

When the transaction price is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in Net trading income/expense. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the comprehensive income when the inputs become observable, or when the instrument is derecognised.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Bank has a legally enforceable right to offset the recognised amounts and the transactions are intended to be settled on a net basis or realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the statement of financial position.

Repurchase agreements and reverse repurchase agreements

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

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

If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within 'Financial liabilities held for trading' and measured at fair value with any gains or losses included in 'Net trading income'.

Securities lending and borrowing

Financial assets are derecognized as and when the Bank is no longer entitled to receive cash flows deriving from them, or when they are sold and the related risks and benefits are transferred accordingly.

Assets or groups of assets which are sold, continue to be recognized if the risks and benefits associated with them (in the relevant technical form) continue to be attributable to the Bank. A corresponding amount is then entered as a liability to offset any amounts received (as Other amounts receivable or Repos).

The main forms of activity currently carried out by the Bank which do not require underlying assets to be derecognized are the secured financing, repo trading and securities lending.

Equity investments

This heading consists of investments in:

- associates, which are equity-accounted. Associates are defined as companies in which at least 20% of the voting rights are held, and those in which the size of the investment is sufficient to ensure an influence in the governance of the investee company;

Where there is objective evidence that the value of an investment may be impaired, estimates are made of its current value using market prices if possible, and of the present value of estimated cash flows generated by the investment, including its terminal value. Where the value thus calculated is lower than the asset's carrying amount, the difference is taken through the statement of comprehensive income account.

Property, plant and equipment

This heading comprises land, core and investment properties, plant, furniture, fittings, equipment and assets used under the terms of finance leases, despite the fact that such assets remain the legal property of the lessor rather than the lessee.

These are stated at historical cost, which in addition to the purchase price, includes any ancillary charges directly resulting from their acquisition and/or usage. Extraordinary maintenance charges are reflected by increasing the asset's value, while ordinary maintenance charges are recorded in the statement of comprehensive income account.

Fixed assets are depreciated over the length of their useful life on a straightline basis, with the exception of land, which is not depreciated on the grounds that it has unlimited useful life. Properties built on land owned by the Bank are recorded separately, on the basis of valuations prepared by independent experts.

At annual and interim reporting dates, where there is objective evidence that the value of an asset may be impaired, its carrying amount is compared to its current value, which is defined as the higher of its fair value net of any sales costs and its related value of use, and adjustments, if any, are recognized through the statement of comprehensive income account. If the reasons which gave rise to the loss in value cease to apply, the adjustment is written back to earnings with the proviso that the amount credited may not exceed the value which the asset would have had net of depreciation, which is calculated assuming no impairment took place.

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when a reliable estimate can be made of the amount of the obligation. Where the Bank expects part or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as interest expense.

Pension plans

The Bank operates a defined contribution pension plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Bank by the employees and is recorded as an expense under personnel costs. The Bank has no defined benefit obligation regarding post employee benefit to be recognised under IAS 19.

Payables, debt securities in issue and subordinated liabilities

These include the items due to credit institution, due to customers and debt securities in issue less any shares bought back.

Initial recognition takes place when funds raised are collected or debt securities are issued, and occurs at fair value, which is equal to the amount collected net of transaction costs incurred directly or indirectly in connection with the liability concerned. Thereafter liabilities are stated at amortized cost on the basis of the original effective interest rate, with the exception of short term liabilities which continue to be stated at the original amount collected.

Derivatives embedded in structured bonds are stripped out from the underlying contract and recognized at fair value. Subsequent changes in fair value are recognized through the statement of comprehensive income account.

Financial liabilities are derecognized upon expiry or repayment, even if buybacks of previously issued bonds are involved. The difference between the liabilities' carrying value and the amount paid to repurchase them is recorded through the statement of comprehensive income account.

The sale of treasury shares over the market following a buyback (even in the form of repos and securities lending transactions) is treated as a new issue. The new sale price is recorded as a liability without passing through the statement of comprehensive income account.

Derecognition of assets

Financial assets are derecognized as and when the Bank is no longer entitled to receive cash flows deriving from them, or when they are sold and the related risks and benefits are transferred accordingly. Tangible and intangible assets are derecognized upon disposal, or when an asset is permanently retired from use and no further earnings are expected to derive from it.

Assets or group of assets which are sold continue to be recognized if the risks and benefits associated with them (in the relevant technical form) continue to be attributable to the Bank. A corresponding amount is then entered as a liability to offset any amounts received (as Other amounts receivable or Repos). The main forms of activity currently carried out by the Bank which do not require underlying assets to be derecognized are the securitization of receivables, repo trading and securities lending.

Impairment of financial assets

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Indicators of impairment include:

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

For financial assets carried at amortised cost (such as loans and advances), the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest and similar income". Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. If the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new effective interest rate determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors (financial, budget and business analysis are performed taking into consideration most recent data).

Future cash flows of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with similar credit risk characteristics. Estimates of changes in future cash flows reflect changes in related observable data from year to year and certain components of expected loss models (Probability of default, Loss Given Default, etc) are used to determine the amount charged to comprehensive income.

Impairment of non financial assets

The carrying amounts of the Bank's assets, except deferred income tax assets and financial assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the comprehensive income. The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Interest income and expenses

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

Fee and commission income and expenses

Fee and commission income arises on financial services provided by the Bank. Fee and commission income is recognised when the corresponding service is provided.

Fee and commission expenses arise on financial services received by the Bank in relation to its lending activity. They are recognized when the corresponding service is received or on an accrued basis for guarantees received on loans.

Fees included in amortized cost used to calculate effective interest rates are not included under fees and commissions, since they are part of the effective interest rate.

Net trading income/expense

Gains and losses on financial instruments measured at fair value through profit or loss includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading or designated at fair value through profit or loss.

Administrative expenses

Administrative expenses are recognized in the statement of comprehensive income as incurred and comprise expenses relating to administrative staff and management, including bonus.

Foreign currency transactions

Transactions in foreign currencies are recorded by applying the exchange rates as at the date of the transaction to the amount in the foreign currency concerned.

Assets and liabilities denominated in currencies other than the Euro are translated into Euros using exchange rates ruling at the dates of the transactions.

Differences on cash items due to translation are recorded through the statement of comprehensive income account, whereas those on non-cash items are recorded according to the valuation criteria used in respect of the category they belong to (i.e. at cost, through the statement of comprehensive income account or on an equity basis).

Tax assets and liabilities

Income taxes are recorded in the statement of comprehensive income account, with the exception of tax payable on items debited or credited directly to net equity. Provisions for income tax are calculated on the basis of current, advance and deferred obligations. Deferred tax is calculated on the basis of temporary differences – without time limits – between the carrying amount of an asset or liability and its tax base, according to statutory criteria and the corresponding values used for tax purposes.

Advance tax assets are recognized in the balance sheet based on the likelihood of their being recovered.

Deferred tax liabilities are recognized in the balance sheet with the exception of tax-suspended reserves, if the size of the reserves available already subjected to taxation is such that it may be reasonably assumed that no transactions will be carried out on the Bank's own initiative that might lead to their being taxed.

Tax assets and liabilities are adjusted as and when changes occur in the regulatory framework or in applicable tax rates, inter alia to cover charges that might arise in connection with inspections by or disputes with the tax revenue authorities.

Changes in accounting policies and reclassifications of prior year figures

There are no changes in accounting policies, but a reclassifications compared to the 30th of June 2016 concerning Schuldschein products (please refer to the table "1.2 Amounts due to credit institutions: items subject to specific hedges" in Section 1 of liabilities side).

Related parties

Related parties are defined by IAS 24 as:

a) Individuals or entities which directly or indirectly:
   1. are subject to joint control by the Bank (including parent companies, subsidiaries and associates);
   2. own an interest in the Bank which enables them to exert a significant influence over it: "significant influence" is presumed to exist in cases where an individual or entity owns a shareholding of more than 5% of the share capital of Mediobanca International (Luxembourg) S.A., along with the entitlement to appoint at least one member of the Board of Directors;

b) Associate companies;
c) Management with strategic responsibility, that is, those individuals vested with powers and responsibilities, directly or indirectly, in respect of the planning, management and control of the activities of the Parent Bank, including directors and members of the statutory audit committee;
d) Subsidiaries, companies controlled jointly and/or subject to significant influence by one of the individuals referred to under the foregoing letter c), or in which the said individuals hold, directly or indirectly, a significant share of the voting rights or are shareholders or hold strategic positions such as Chairman or Managing Director;
e) close relations of the individuals referred to under the foregoing letter c), that is, individuals who might be expected to be able to influence or be influenced by them in their relations with Mediobanca (this category includes partners, children, partners' children, dependents and partners' dependents), and the entities controlled or controlled jointly or otherwise subject to significant influence by one of these individuals, or in which they directly or indirectly hold a significant share of the voting rights;
f) staff pension schemes operated by the Parent Bank or by any other entity related to it.

Section 5

Significant accounting estimates and judgment

In the process of applying the Bank's accounting policies, management makes estimates and assumptions concerning the future and the amounts recognized in the financial statements. The most significant uses of judgment and estimates are as follows:

Going concern

The Bank's Board of Directors has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the Board of Directors is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for structured securities. The valuation of financial instruments is described in more detail in Section 4.

Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances on a monthly basis to assess whether an impairment loss should be recorded in the income statement. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilization, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data. The impairment loss on loans and advances is disclosed in more detail in Section 4.

Deferred tax assets

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. There are no deferred tax assets as at 30 June 2017.

PART C – NOTES TO THE STATEMENT OF FINANCIAL POSITION

ASSETS

Section 1

Heading 10: Cash and cash balances with Central Banks

1.1 Cash and cash balances with Central Banks (in € k)

At 30 June 2017 the item **Cash and cash balances** amounts to € 7.222k, a slightly decrease when compared to June 2016 which has been essentially due to the decrease of liabilities[1] used for the computation of the minimum reserve (in particular French CD and Commercial Papers passed from € 1.144 million at the end of June 2016 to € 731 million at the reporting date).

	30/06/2017	30/06/2016
a) Cash	1	—
b) Demand deposit held at Central Banks	7.221	8.569
Total	**7.222**	**8.569**

Credit institutions established in Luxembourg are required to hold a minimum reserve with the Luxembourg Central Bank. These deposits represent 1% of some of their liabilities. Compliance with the reserve requirement is determined on the basis of the institutions' average daily reserve holdings over the maintenance period, thus reserves of credit institutions can vary from one day to another following their treasury management, the money market or their expectations in interest rates.

Mandatory reserve deposits with the central Bank are not used in the Bank's day-to-day operations, and are therefore not part of Cash and cash equivalent as disclosed in the cash flow statement.

[1] Overnight deposits, deposits with agreed maturity or period of notice up to 2 years, debt securities issued with maturity up to 2 years, money market paper.

Section 2

Heading 20: Financial assets held for trading

2.1 Financial assets held for trading: composition (in € k)

As at June 30, 2017 **Financial assets held for trading** amount to € 331.061k, a decrease of € 250.360k (-43%) compared to June 2016 when the item stood at € 581.421k. Non-derivative products decreased from € 147.671k to € 128.674 (-13%), likewise derivative products which have decreased from € 433.750k to € 202.387k (-53%).

Item/Value	30/06/2017			30/06/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	—	—	—	—	—	—
1.1 Structured	—	—	—	—	—	—
1.2 Other debt securities	—	—	—	—	—	—
2. Equities	—	—	—	—	—	—
3. UCITS units	—	118.714	—	—	132.437	—
4. Loans and advances	9.960	—	—	15.234	—	—
4.1 Repos	—	—	—	—	—	—
4.2 Others	9.960	—	—	15.234	—	—
Total A	**9.960**	**118.714**	—	**15.234**	**132.437**	—
B. Derivative products						
1. Financial derivatives	—	199.023	—	—	423.168	5.975
1.1 Trading	—	10.510	—	—	14.293	5.975
1.2 Linked to FV options	—	—	—	—	—	—
1.3 Others	—	188.513	—	—	408.875	—
2. Credit derivatives	—	3.231	133	—	4.017	590
2.1 Trading	—	3.231	133	—	4.017	590
2.2 Linked to FV options	—	—	—	—	—	—
2.3 Others	—	—	—	—	—	—
Total B	—	**202.254**	**133**	—	**427.185**	**6.565**
Total (A+B)	**9.960**	**320.968**	**133**	**15.234**	**559.622**	**6.565**
Total Level 1, Level 2 and Level 3		**331.061**				**581.421**

The counterparty credit risk of trading loan products is neutralized via CDS contracts.

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For more information about fair value hierarchy please refer to part B "accounting policies".

2.2 Movements on level 3 fair value hierarchy (in € k)

	30/06/2017	30/06/2016
1. Opening balance	**6.565**	**104.065**
2. Increases	**2**	**2.661**
2.1 Issues and purchases	—	—
2.2 Transfers from other levels	—	—
2.3 Other increases	2	2.661
3. Decreases	**6.434**	**100.161**
3.1 Sales and settlements	5.974	49.752
3.2 Transfers to other levels	—	—
3.3 Other decreases	460	50.409
4. Closing balance	**133**	**6.565**

Change in fair value of existing contracts has been accounted in the comprehensive income of the Bank within "Net trading income"[2] as follows:

	A. Gains	B. Losses	Total
Total gains (losses) included in the comprehensive income for the period	2	-6.434	-6.432

Impacts on the fair value of level 3 instruments of using reasonably possible alternative assumptions is considered not significant[3].

[2] For a comparison to be meaningful unrealised gains/losses on financial assets held for trading should be read together with unrealised gains/losses on financial liabilities held for trading (Liabilities – Section 4).

[3] The sensitivity analysis on level 3 financial instruments is carried out by the Parent Bank on a consolidated basis.

2.3 Financial assets held for trading: by borrower/issuer (in € k)

Item/Value	30/06/2017	30/06/2016
A. CASH ASSETS		
1. Debt securities	—	—
a. Governments and central Banks	—	—
b. Other public agencies	—	—
c. Banks	—	—
d. Other issuers	—	—
2. Equities	—	—
a. Banks	—	—
b. Other issuers	—	—
- insurances	—	—
- financial companies	—	—
- non-financial companies	—	—
- others	—	—
3. UCITS units	118.714	132.437
4. Loans and advances	9.960	15.234
a. Governments and central Banks	—	—
b. Other public agencies	—	—
c. Banks	—	—
d. Other entities	9.960	15.234
Total A	**128.674**	**147.671**
B. DERIVATIVE PRODUCTS		
a. Banks	202.387	433.750
- Fair value	202.387	433.750
b. Customers	—	—
- Fair value	—	—
Total B	**202.387**	**433.750**
Total A+B	**331.061**	**581.421**

2.4 Financial assets held for trading: derivative products (in € k)

Type of derivatives/Underlying assets	Interest rates		Foreign currency/gold		Equities		Credit		30/06/2017		30/06/2016	
	Notional amount	**Fair value**	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**
OTC derivative products												
1) Financial derivatives:	2.086.263	197.424	862.247	974	5.258	625	—	—	2.953.768	199.023	1.283.164	429.143
– with exchange of principal	40.000	187.893	862.247	974	—	—	—	—	902.247	188.867	268.369	319.077
– options bought	—	—	862.247	974	—	—	—	—	862.247	974	178.369	3.876
– other derivatives	40.000	187.893	—	—	—	—	—	—	40.000	187.893	90.000	315.201
– without exchange of principal	2.046.263	9.531	—	—	5.258	625	—	—	2.051.521	10.156	1.014.795	110.066
– options bought	—	—	—	—	—	—	—	—	—	—	—	—
– other derivatives	2.046.263	9.531	—	—	5.258	625	—	—	2.051.521	10.156	1.014.795	110.066
2) Credit derivatives:	—	—	—	—	—	—	1.884.581	3.364	1.884.581	3.364	498.761	4.607
– with exchange of principal	—	—	—	—	—	—	55.525	341	55.525	341	414.059	379
– without exchange of principal	—	—	—	—	—	—	1.829.056	3.023	1.829.056	3.023	84.702	4.228
Total	**2.086.263**	**197.424**	**862.247**	**974**	**5.258**	**625**	**1.884.581**	**3.364**	**4.838.349**	**202.387**	**1.781.925**	**433.750**

Section 5

Heading 50: Financial assets held to maturity

5.1 Financial assets held to maturity: composition (in € k)

	Book value	Fair value 30/06/2017			Book value	Fair value 30/06/2016		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	59.324	—	60.052	—	57.931	—	64.315	—
1.1 Structured	—	—	—	—	—	—	—	—
1.2 Other debt securities	59.324	—	60.052	—	57.931	—	64.315	—
2. Loans and advances	—	—	—	—	—	—	—	—
Total	**59.324**	—	**60.052**	—	**57.931**	—	**64.315**	—

5.2 Financial assets held to maturity: by borrower/issuer (in € k)

Type of transactions/Value	30/06/2017	30/06/2016
1. Debt securities:	59.324	57.931
a) Governments and Central Bank	—	—
b) Other public agencies	—	—
c) Bank	59.324	57.931
d) Other issuers	—	—
2. Loans and advances to:	—	—
a) Governments and Central Bank	—	—
b) Other public agencies	—	—
c) Bank	—	—
d) Others	—	—
Total book value	**59.324**	**57.931**
Total fair value	**60.052**	**64.315**

Section 6

Heading 60: Loans and advances to credit institutions

6.1 Loans and advances to credit institutions: composition (in € k)

As at June 30, 2017 **Loans and advances to credit institutions** amount to € 1.290.119k, a decrease of € 511.593k (-28%) compared to June 2016. Whilst the balance of repos and receivables remained substantially stable over the period, the amount of time deposits and other loans decreased by 82% (from € 953.635k to € 173.815k), especially by reason of a significant reduction of re-used of intragroup liquidity gathered with EMTN program product "CD-CP" and a repayment of a loan with notional amount of € 330m. The aforementioned decrease was partially compensated by the increase of the outstanding balance of current account which passed from € 437.148k to € 702.316k (+61%).

Type of transactions/Value	30/06/2017				30/06/2016			
		Fair value				Fair value		
	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
B. Loans to banks	**1.290.119**	—	**1.290.119**	—	**1.801.712**	—	**1.801.712**	—
1. Loans	1.287.325	—	1.287.325	—	1.798.919	—	1.798.919	—
1.1 Current accounts and demand deposits	702.316	—	702.316	—	437.148	—	437.148	—
1.2 Time deposits	173.604	—	173.604	—	620.199	—	620.199	—
1.3 Other loans	411.405	—	411.405	—	741.572	—	741.572	—
- Repos	411.194	—	411.194	—	408.136	—	408.136	—
- Finance leases	—	—	—	—	—	—	—	—
- Other	211	—	211	—	333.436	—	333.436	—
2. Debt securities	**2.794**	—	**2.794**	—	**2.793**	—	**2.793**	—
2.1 Structured	—	—	—	—	—	—	—	—
2.2 Other	2.794	—	2.794	—	2.793	—	2.793	—
Total	**1.290.119**	—	**1.290.119**	—	**1.801.712**	—	**1.801.712**	—

None of the loans and borrowings of the Bank is hedged with financial instruments. The Bank does not book any receivable under the terms of finance lease (IAS17).

Section 7

Heading 70: Loans and advances to customers

7.1 Loans and advances to customers: composition (in € k)

Type of transactions/Value	30/06/2017					30/06/2016				
	Book Value		Fair Value			Book Value		Fair Value		
	Performing	Impaired	Level 1	Level 2	Level 3	Performing	Impaired	Level 1	Level 2	Level 3
Loans	**3.249.272**	**50.606**	—	**3.309.930**	—	**3.351.758**	**52.552**	—	**3.409.375**	—
1. Current accounts	—	—	—	—	—	—	—	—	—	—
2. Repos	—	—	—	—	—	—	—	—	—	—
3. Mortgages	—	—	—	—	—	—	—	—	—	—
4. Credit cards, personal loans inc. wage assignment loans	—	—	—	—	—	—	—	—	—	—
5. Finance leasing	—	—	—	—	—	—	—	—	—	—
6. Factoring	—	—	—	—	—	939	—	—	939	—
7. Other loans	3.249.272	50.606	—	3.309.930	—	3.350.819	52.552	—	3.408.436	—
Debt securities	—	—	—	—	—	—	—	—	—	—
8. Structured	—	—	—	—	—	—	—	—	—	—
9. Other	—	—	—	—	—	—	—	—	—	—
Total	**3.249.272**	**50.606**	—	**3.309.930**	—	**3.351.758**	**52.552**	—	**3.409.375**	—

7.2 Loans and advances to customers: by borrower/issuer (in € k)

Type of transactions/Value	30/06/2017		30/06/2016	
	Performing	**Impaired**	**Performing**	**Impaired**
1. Debt securities:	—	—	—	—
a) Governments	—	—	—	—
b) Other public agencies	—	—	—	—
c) Other issuers	—	—	—	—
- non-financial undertakings	—	—	—	—
- financial companies	—	—	—	—
- insurances	—	—	—	—
- other entities	—	—	—	—
2. Loans and advances to:	3.249.272	50.606	3.351.758	52.552
a) Governments	—	—	—	—
b) Other public agencies	—	—	—	—
c) Other issuers	3.249.272	50.606	3.351.758	52.552
- non-financial undertakings	2.522.727	37.046	3.023.995	38.992
- financial companies	686.897	13.560	327.763	13.560
- insurances	39.648	—	—	—
- other entities	—	—	—	—
Total	**3.249.272**	**50.606**	**3.351.758**	**52.552**

Section 8

Heading 80: Hedging derivatives

8.1 Hedging derivatives: by type of hedging and levels (in € k)

	30/06/2017			Notional value	30/06/2016			Notional value
	Fair value				*Fair value*			
	level 1	level 2	level 3		level 1	level 2	level 3	
A. Financial derivatives	—	192.321	—	78.503	—	421.965	—	227.432
1) Fair value	—	192.321	—	78.503	—	421.965	—	227.432
2) Cash flow	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	**—**	**192.321**	**—**	**78.503**	**—**	**421.965**	**—**	**227.432**

8.2 Hedging derivatives: by portfolio hedged and hedge type (in € k)

30/06/2017 **Operations/Type of hedging**	**Fair Value Hedge**						**Cash Flow Hedge**		**Net Investments in foreign subsidiaries**
	Micro					**Macro**	**Specific**	**Generic**	
	Interest risk	**Currency risk**	**Credit risk**	**Price risk**	**Multiple risk**				
1. Financial assets available-for-sale	—	—	—	—	—	—	—	—	—
2. Lending portfolio	—	—	—	—	—	—	—	—	—
3. Financial assets held-to-maturity	—	—	—	—	—	—	—	—	—
4. Portfolio	—	—	—	—	—	—	—	—	—
5. Other	—	—	—	—	—	—	—	—	—
TOTAL ASSETS	—	—	—	—	—	—	—	—	
1. Financial liabilities	192.321	—	—	—	—	—	—	—	—
2. Portfolio	—	—	—	—	—	—	—	—	—
TOTAL LIABILITIES	**192.321**	—	—	—	—	—	—	—	—
1. Highly probable transactions	—	—	—	—	—	—	—	—	—
2. Financial assets and liabilities portfoglio	—	—	—	—	—	—	—	—	—

30/06/2016 **Operations/Type of hedging**	**Fair Value Hedge**						**Cash Flow Hedge**		**Net Investments in foreign subsidiaries**
	Micro					**Macro**	**Specific**	**Generic**	
	Interest risk	**Currency risk**	**Credit risk**	**Price risk**	**Multiple risk**				
1. Financial assets available-for-sale	—	—	—	—	—	—	—	—	—
2. Lending portfolio	—	—	—	—	—	—	—	—	—
3. Financial assets held-to-maturity	—	—	—	—	—	—	—	—	—
4. Portfolio	—	—	—	—	—	—	—	—	—
5. Other	—	—	—	—	—	—	—	—	—
TOTAL ASSETS	—	—	—	—	—	—	—	—	
1. Financial liabilities	421.965	—	—	—	—	—	—	—	—
2. Portfolio	—	—	—	—	—	—	—	—	—
TOTAL LIABILITIES	**421.965**	—	—	—	—	—	—	—	—
1. Highly probable transactions	—	—	—	—	—	—	—	—	—
2. Financial assets and liabilities portfoglio	—	—	—	—	—	—	—	—	—

Section 10

Heading 100: Equity investments

10.1 Investments in subsidiaries, jointly-controlled companies and companies subject to significant influence: disclosures on shareholding (in € k)

Equity investments consist of a participation in a real estate company which owns the building where the Bank moved its head office in April 2012.

Name	Registerd Office	Type of relationship[4]	Ownership relationship		Voting rights[5]
			Investor Company	% Interest	
Mediobanca International Immobilière S.à r.l.	Luxembourg	3	Mediobanca International (Luxembourg) S.A.	100	-

In accordance with article 83 of the Law of 17 June 1992 as amended, this undertaking is not consolidated since it represents a negligible interest to the consolidated financial situation.

10.2 Investments in subsidiaries, jointly-controlled companies and companies subject to significant influence: financial information (in € k)

Name	Total assets	Total revenues	Net profit (loss)	Shareholders' equity	Book value
Mediobanca International Immobilière S.à r.l.	1.927	163	24	1.667	4.150

The financial year of Mediobanca International Immobilière S.à r.l. runs from 1 July to 30 June as modified by the extraordinary shareholders' meeting held on 15 May 2012.

The Bank, based on the last available evaluation report (November 2016) which showed a market value higher than the carrying amount, and looking at the macro trend of the Luxembourg real market estate, has decided to not perform any impairment test.

[4] Type of relationship:
1 = Joint control
2 = Subject to significant influence
3 = Exclusively controlled and not consolidated

[5] Voting rights available at the general meeting. Voting rights are disclosed only if different from the percentage of ownership.

Section 12

Heading 120: Property, plant and equipment

12.1 Tangible assets stated at cost (in € k)

Assets/value	30/06/2017	30/06/2016
1. Assets owned by Bank	14	23
a) land	—	—
b) buildings	—	—
c) furniture and fitting	4	5
d) electronic equipment	—	—
e) other assets	10	18
2. Assets acquired under finance leases:	—	—
a) land	—	—
b) buildings	—	—
c) furniture	—	—
d) electronic equipment	—	—
e) other assets	—	—
Total	**14**	**23**

12.2 Core tangible assets: movements during the period (in € k)

	Land	**Buildings**	**Furniture**	**Electronic equipment**	**Other assets**	**Total**
A. Gross opening balance	—	—	46	—	74	120
A.1 Total net value reductions	—	—	-41	—	-56	-97
A.2 Net opening balance	—	—	5	—	18	23
B. Additions:	—	—	—	—	2	2
B.1 Purchases	—	—	—	—	2	2
B.2 Improvement expenses, capitalized	—	—	—	—	—	—
B.3 Write-backs	—	—	—	—	—	—
B.4 Increases in fair value recognized in:	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit and loss account	—	—	—	—	—	—
B.5 Increases arising due to exchange rates	—	—	—	—	—	—
B.6 Transfers from properties held for investment purposes	—	—	—	—	—	—
B.7 Other additions	—	—	—	—	—	—
C. Reductions:	—	—	-1	—	-10	-11
C.1 Disposals	—	—	—	—	—	—
C.2 Depreciation charges	—	—	-1	—	-10	-11
C.3 Value adjustments for impairment taken to:	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit and loss account	—	—	—	—	—	—
C.4 Reductions in fair value charged to:	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit and loss account	—	—	—	—	—	—
C.5 Reductions due to exchange rates	—	—	—	—	—	—
C.6 Transfers to:	—	—	—	—	—	—
a) assets held for investment purposes	—	—	—	—	—	—
b) assets being sold	—	—	—	—	—	—
C.7 Other reductions	—	—	—	—	—	—
D. Net closing balance	—	—	4	—	10	14
D.1 Total net value reductions	—	—	-42	—	-66	-108
D.2 Gross closing balance	—	—	46	—	76	122

Section 15
Heading 150: Other assets
15.1 Other assets (in € k)

	30/06/2017	30/06/2016
- Gold, silver and precious metal	—	—
- Accrued income other than capitalized income	1.016	1.618
- Trade receivables or invoice to be issued	1	2
- Amount due from tax revenue Authorities (not recorded under heading 140)	210	210
- Other	6.354	—
Total	**7.581**	**1.830**

The caption "Other" is composed by transitory items arising from a technical mismatch between funds flow forecast and payments received on loans to customer that were given as collateral to secured financing transactions. Since the average time frame of this delay is no longer than 3 business days, than these transitory items were closed at the very beginning of July.

Liabilities

Section 1

Heading 10: Amounts due to credit institutions

1.1 Amounts due to credit institutions: composition (in € k)

Type of transaction/amounts	30/06/2017	30/06/2016
1. Due to central Banks	—	—
2. Deposits from banks	2.248.877	1.928.168
2.1 Other current accounts and demand deposits	12.823	49.663
2.2 Time deposits	—	292.964
2.3 Loans	2.235.879	1.585.408
2.3.1 Repos	—	—
2.3.2 Others	2.235.879	1.585.408
2.4 Liabilities in respect of commitments to repurchase treasury shares	—	—
2.5 Other debt	175	133
Total book value	**2.248.877**	**1.928.168**
Fair value - level 1	—	—
Fair value - level 2	2.272.056	1.937.670
Fair value - level 3	—	—
Total fair value	**2.272.056**	**1.937.670**

Breakdown of Heading 10: "Amounts due to credit institutions" - subordinated debt

Subordinated liabilities included - under the heading *Due to Banks* – a subordinated debt assimilated to Tier 2 equal to € 50.000.000.

1.2 Amounts due to credit institutions: items subject to specific hedges (in € k)

	30/06/2017	30/06/2016
1. Items subject to specific fair value hedges for:	—	—
a) interest rate risk	—	—
b) exchange rate risk	—	—
c) more than one risk	—	—
2. Items subject to specific cash flow hedges for:	—	—
a) interest rate risk	—	—
b) exchange rate risk	—	—
c) other	—	—
Total	—	—

A reclassification has been applied to the financial year 2016/2017 on "Schuldscheine", by changing the counterparty from "*credit institution*" to "*non-financial customer*". The same reclassification has been done to the prior fiscal year (€ m 406).

Section 2

Heading 20: Amounts due to customers

2.1 Amounts due to customers: composition (in € k)

Type of transaction/amounts	30/06/2017	30/06/2016
1. Current accounts and demand deposits	—	—
2. Term deposits including saving deposits with maturity	—	—
3. Loans	962.523	1.274.951
3.1 Repos	—	—
3.2 Other	962.523	1.274.951
4. Liabilities in respect of assets sold but not derecognized	—	—
5. Other	—	—
Total book value	**962.523**	**1.274.951**
Fair value - level 1	—	—
Fair value - level 2	979.738	1.295.562
Fair value - level 3	—	—
Total fair value	**979.738**	**1.295.562**

2.2 Amounts due to customers: items subject to specific hedges (in € k)

Type of transaction/amounts	30/06/2017	30/06/2016
1. Liability items subject to micro-hedging of fair value	259.370	571.140
a) Interest rate risk	259.370	571.140
b) Currency risk	—	—
c) Other risks	—	—
2. Liability items subject to micro-hedging of cash flows	—	—
a) Interest rate risk	—	—
b) Currency risk	—	—
c) Other risks	—	—
Total	**259.370**	**571.140**

A reclassification has been applied to the financial year 2016/2017 on "Schuldscheine", by changing the counterparty from "*credit institution*" to "*non-financial customer*". The same reclassification has been done to the prior fiscal year (€ m 406).

Items subject to micro fair value hedge are "Schuldscheine" subscribed by non-financial corporate entities.

Section 3

Heading 30: Debt securities in issue

3.1 Debt securities in issue: composition (in € k)

Type of transaction/amounts	30/06/2017				30/06/2016			
	Book value	*Fair value*			Book value	*Fair value*		
		Level 1	Level 2[1]	Level 3		Level 1	Level 2	Level 3
A. Listed securities	537.333	—	552.729	—	864.184	—	878.222	—
1. notes	537.333	—	552.729	—	864.184	—	878.222	—
1.1 structured	50.421	—	52.733	—	51.608	—	54.333	—
1.2 others	486.912	—	499.996	—	812.576	—	823.889	—
2. other securities	—	—	—	—	—	—	—	—
2.1 structured	—	—	—	—	—	—	—	—
2.2 others	—	—	—	—	—	—	—	—
B. Unlisted securities	780.100	—	781.265	—	1.336.268	—	1.338.016	—
1. notes	48.911	—	50.076	—	187.613	—	189.361	—
1.1 structured	48.911	—	50.076	—	187.613	—	189.361	—
1.2 others	—	—	—	—	—	—	—	—
2. other securities	731.189	—	731.189	—	1.148.655	—	1.148.655	—
2.1 structured	—	—	—	—	—	—	—	—
2.2 others	731.189	—	731.189	—	1.148.655	—	1.148.655	—
Total	**1.317.433**	—	**1.333.994**	—	**2.200.452**	—	**2.216.238**	—

[1] Fair value does not include issuer risk. If issuer risk was considered, the fair value of debt securities as of June 30, 2017 would have increased by € 7.1 m approximately.

3.2 Debt securities: items subject to specific hedging (in € k)

Type of transaction/amounts	30/06/2017	30/06/2016
A. Securities subject to specific fair value hedges	10.438	79.636
1. Interest rate risk	10.438	79.636
2. Currency risk	—	—
3. Other risks	—	—
B. Securities subject to specific cash flow hedges	—	—
1. Interest rate risk	—	—
2. Currency risk	—	—
3. Other risks	—	—
Total	**10.438**	**79.636**

3.3 Debt securities: items measured at amortised cost (in € k)

Type of transaction/amounts	30/06/2017	30/06/2016
A. Debt securities	575.806	972.161
1. Structured	88.894	178.308
2. Other	486.912	793.853
B. Other financial instruments	731.189	1.148.655
1. Structured	—	—
2. Other	731.189	1.148.655
Total	**1.306.995**	**2.120.816**

Section 4

Heading 40: Financial liabilities held for trading

4.1 Financial liabilities held for trading: composition (in € k)

Type of transaction/amounts	30/06/2017					30/06/2016				
	Nominal value	Fair Value			*Fair Value*	Nominal value	Fair Value			*Fair Value*
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. Cash liabilities										
1. Amount due to Banks	—	—	—	—	—	—	—	—	—	—
2. Amount due to customers	—	—	—	—	—	—	—	—	—	—
3. Debt securities	—	—	—	—	—	—	—	—	—	—
3.1 Bonds	—	—	—	—	—	—	—	—	—	—
3.1.1 Structured	—	—	—	—	—	—	—	—	—	—
3.1.2 Other bonds	—	—	—	—	—	—	—	—	—	—
3.2 Other securities	—	—	—	—	—	—	—	—	—	—
3.2.1 Structured	—	—	—	—	—	—	—	—	—	—
3.2.2 Other	—	—	—	—	—	—	—	—	—	—
Total A	—	—	—	—	—	—	—	—	—	—
B. Derivatives instruments					—					
1. Financial derivatives	1.128.150	—	197.881	140	198.021	1.278.344	—	411.207	6.142	417.349
1.1 Trading	1.088.150	—	9.988	140	10.128	1.149.146	—	3.325	6.142	9.467
1.2 Related to Fair Value option	—	—	—	—	—	—	—	—	—	—
1.3 Other	40.000	—	187.893	—	187.893	129.198	—	407.882	—	407.882
2. Credit derivatives	1.025.627	—	121.169	—	121.169	531.329	—	142.289	—	142.289
2.1 Trading	1.025.627	—	121.169	—	121.169	531.329	—	142.289	—	142.289
2.2 Related to Fair Value option	—	—	—	—	—	—	—	—	—	—
2.3 Other	—	—	—	—	—	—	—	—	—	—
Total B	**2.153.777**	**—**	**319.050**	**140**	**319.190**	**1.809.673**	**—**	**553.496**	**6.142**	**559.638**
Total (A+B)	**2.153.777**	**—**	**319.050**	**140**	**319.190**	**1.809.673**	**—**	**553.496**	**6.142**	**559.638**

4.2 Movements on level 3 fair value hierarchy (in € k)

	30/06/2017	30/06/2016
1. Opening balance	**6.142**	**103.236**
2. Increases	**42**	**2.623**
2.1 Issues and purchases	—	—
2.2 Transfers from other levels	—	—
2.3 Other increases	42	2.623
3. Decreases	**6.044**	**99.717**
3.1 Sales and settlements	5.975	249
3.2 Transfers to other levels	—	—
3.3 Other decreases	69	99.468
4. Closing balance	**140**	**6.142**

Change in fair value of existing contracts has been accounted in the comprehensive income of the Bank within "Net trading income" as follows:

	A. Gains	B. Losses	Total
Total gains (losses) included in the comprehensive income for the period	6.044	-42	6.002

Impacts on the fair value of level 3 instruments of using reasonably possible alternative assumptions is considered not significant[6].

[6] The sensitivity analysis on level 3 financial instruments is carried out by the Parent Bank on a consolidated basis

4.3 Financial liabilities held for trading: derivative products (in € k)

	Interest rate		Foreign currency/gold		Equity		Credit		30/06/2017		30/06/2016	
Type of transaction/amounts	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**
OTC derivative products												
1. Financial derivatives	729.699	196.705	343.246	689	55.205	627	—	—	1.128.150	198.021	1.278.344	417.349
1.1 With exchange of principal	40.000	187.893	343.246	689	—	—	—	—	383.246	188.582	238.418	316.382
- options issued	—	—	343.246	689	—	—	—	—	343.246	689	148.418	1.181
- other derivatives	40.000	187.893	—	—	—	—	—	—	40.000	187.893	90.000	315.201
1.2 Without exchange of principal	689.699	8.812	—	—	55.205	627	—	—	744.904	9.439	1.039.926	100.967
- options issued	—	—	—	—	—	—	—	—	—	—	—	—
- other derivatives	689.699	8.812	—	—	55.205	627	—	—	744.904	9.439	1.039.926	100.967
2. Credit derivatives	—	—	—	—	—	—	1.025.627	121.169	1.025.627	121.169	531.329	142.289
2.1 With exchange of principal	—	—	—	—	—	—	20.525	2.464	20.525	2.464	376.015	2.764
2.2 Without exchange of principal	—	—	—	—	—	—	1.005.102	118.705	1.005.102	118.705	155.314	139.525
Total	**729.699**	**196.705**	**343.246**	**689**	**55.205**	**627**	**1.025.627**	**121.169**	**2.153.777**	**319.190**	**1.809.673**	**559.638**

Section 8

Heading 80: Tax liabilities

8.1 Tax liabilities: current tax liabilities (in € k)

	30/06/2017	30/06/2016
Corporate income tax (IRC)	7.923	3.682
Municipal business tax (ICC)	2.421	992
Other	-24	95
Total	**10.320**	**4.769**

The Bank is liable for all taxes to which the credit institutions are subject to in Luxembourg. At the reporting date the Bank has opted for the exoneration of the net wealth tax charge of € 1.507.495 (30 June 2016: € 1.412.255) provided the following conditions are fulfilled:

(1) A reserve equivalent to 5 times the net wealth tax liability is created. A new reserve has to be created each year. This requires a decision of the general shareholders' meeting and this reserve has to appear in the statement of financial position. If the profit of the year is not sufficient to create the reserve, it is possible to transfer the profit of the preceding years to create such reserve.

(2) This reserve is maintained for a period of at least 5 years after the year of the credit.

The amount of net wealth tax that can be reduced is the lower of net wealth tax and corporate income tax before tax credits, and the reduction will be equalled to one fifth of the reserve booked.

8.2 Current tax liabilities: composition (in € k)

	IRC	ICC	Other	Total
Balance at the beginning of the year				
A. Current fiscal liabilities (+)	17.682	5.192	425	23.299
B. Advances paid (-)	14.000	4.200	330	18.530
A.1 Fiscal liabilities: increase (+)	**5.898**	**1.936**	**776**	**8.610**
- provisions of the year	5.898	1.936	776	8.610
- transfers	—	—	—	—
- others	—	—	—	—
A.2 Fiscal liabilities: decrease (-)	**-6.353**	**-1.905**	**—**	**-8.258**
- payments of the year (assessments)	-6.353	-1.905	—	-8.258
- transfers	—	—	—	—
- others	—	—	—	—
B.1 Advances paid: increase (+)	**3.304**	**1.068**	**803**	**5.175**
- payments/advances	3.304	1.068	803	5.175
- transfers	—	—	—	—
- others	—	—	—	—
B.2 Advances paid: decrease (-)	**-8.000**	**-2.466**	**92**	**-10.374**
- payments of the year (assessments)	-8.000	-2.466	92	-10.374
- transfers	—	—	—	—
- others	—	—	—	—
Total A. Fiscal liabilities	**17.227**	**5.223**	**1.201**	**23.651**
Total B. Advances paid	**9.304**	**2.802**	**1.225**	**13.331**
Current fiscal liabilities (A-B)	**7.923**	**2.421**	**-24**	**10.320**

8.3 Changes in deferred tax liabilities during the period (in € k)

Deferred tax liabilities	30/06/2017	30/06/2016
1. Initial amount	877	877
1.1 Initial amount	877	877
2. Additions	—	—
2.1 Deferred tax originating during the period	—	—
a) for previous years	—	—
b) due to changes in accounting policies	—	—
c) amounts written back	—	—
d) other addition	—	—
2.2 New taxes or increases in tax rates	—	—
2.3 Other additions	—	—
3. Reductions	97	—
3.1 Deferred tax reversed during the period	—	—
a) amounts written off as unrecoverable	—	—
b) reverse to comprehensive income	—	—
c) due to changes in accounting policies	—	—
3.2 Reduction in tax rates	97	—
3.3 Other reductions	—	—
Total	**780**	**877**

8.4 Deferred tax assets and liabilities by financial statement captions (in € k)

	30/06/2017			30/06/2016		
	Deferred tax assets	**Deferred tax liabilities**	**Tax rate 26,01%**	**Deferred tax assets**	**Deferred tax liabilities**	**Tax rate 29,22%**
Cash and cash equivalent	—	—	—	—	—	—
Financial assets hft	—	—	—	—	—	—
Loans and advances	—	—	—	—	—	—
Hedging derivatives	—	—	—	—	—	—
Other assets	—	—	—	—	—	—
Total assets	—	—	—	—	—	—
Amounts due	—	—	—	—	—	—
Debt securities	—	—	—	—	—	—
Financial liabilities hft	—	—	—	—	—	—
Hedging derivatives	—	—	—	—	—	—
Other liabilities	—	—	—	—	—	—
Shareholders' equity	—	3.000	780	—	3.000	877
Total liabilities	—	**3.000**	**780**	—	**3.000**	**877**

Section 10

Heading 100: Other liabilities

10.1 Other liabilities (in € k)

	30/06/2017	30/06/2016
1. Payment agreements (IFRS2)	—	—
2. Impaired endorsements	359	672
3. Working capital payables and invoices pending receipts	3.406	3.590
4. Prepaid expenses other than capitalized expenses on related financial assets	—	—
5. Amounts due to revenue authorities	—	—
6. Amount due to staff	23	17
7. Other items	207	1.004
- coupons and dividends pending collection	194	194
- available sum payable to third parties	—	—
- premium, grants and other items in respect of lending transactions	13	810
- credit notes to be issued	—	—
- other	—	—
Total	**3.995**	**5.283**

Pending invoices mainly refer to amount payable to the Parent Bank under the service agreement.

Section 16

Heading 160: Reserves

16.1 Reserves (in € k)

Under Luxembourg law an amount equal to at least 5% of the net profit must be allocated to a legal reserve until such reserve equals 10% of the issued share capital. This reserve is not available for dividends distribution and has been already fully provisioned on the previous exercises.

As of June 30, 2017 the Bank has taken up the option to credit net wealth tax against the tax itself, provided that the following conditions have been respected:

- The IRC (corporate income tax) charge must be at least equal to the IF (net wealth tax) charge in order to credit the entire amount of the IF, if not only the amount of IF equivalent to the IRC charge can be credited;
- The Bank has to book a reserve for an amount at least 5 times the IF tax charge due for the financial year 2017;
- This reserve will be maintained for a minimum period of 5 years.

(in € k)	**30/06/2017**	**30/06/2016**
A. Reserves	297.773	278.725
A.1 legal reserve	1.000	1.000
A.2 free reserve	260.948	249.438
A.3 special reserve[(1)]	35.825	28.287
A.4 FTA reserve	—	—

[(1)] Reserve linked to the exoneration of net wealth tax charge.

Section 19

Heading 190: Share capital

19.1 Share capital

As of 30 June 2017 and 2016, the issued capital of the Bank amounts to € 10.000.000 and is divided into 1 million shares fully paid with a par value of € 10 each.

Authorised capital and issue share capital coincide.

Other information

1. Guarantees and commitments (in € k)

	30/06/2017	30/06/2016
1. Financial guarantees given to:	13.377	7.907
a) Banks	—	—
b) Customers	13.377	7.907
2. Commercial guarantees given to:	—	—
a) Banks	—	—
b) Customers	—	—
3. Irrevocable commitments to lend funds:	1.139.679	1.050.225
a) Banks	—	—
b) Customers	1.139.679	1.050.225
4. Commitment underlying credit derivatives: hedge sales	1.823.150	443.081
Total	**2.976.206**	**1.501.213**

Amounts are shown net of collective or specific impairment booked at the reporting date.

The Bank is a member of "Fonds pour la Garantie des Dépôts, Luxembourg" (FGDL) that was established with the law of 18th December 2015 (the December law). The December law implements two European directives in Luxembourg Law namely:

- Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD).
- Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes (DGSD).

The December law already entered into force and is structured in four parts: Resolution, Reorganisation and winding up, Protection of depositors and investors and Amending, transitional and final provisions, introducing notably the recovery provisions.

The FGDL covers all eligible deposits for each depositor up to a total amount of EUR 100.000. Deposits are covered per depositor per bank, the limit of EUR 100.000 applies to all aggregated accounts at the same bank. A higher protection is foreseen in certain situations. The Law specifies the exclusions of some deposits, such as interbank deposits, UCI's deposits, insurances deposits, etc.

The FGDL is financed by ex-ante contributions. These contributions are calculated based on the amount of covered deposits and the risk profile of the institution. In this respect the Bank has not accounted for any provision nor contribution to the FGDL, since cash deposits and/or depositors with which the institution is currently dealing belong to categories specifically excluded from the protection scheme.

The Luxembourg Resolution Fund FRL is set-up to finance the implementation of resolution tools. The FRL target level is at least 1 percent of guaranteed deposits and the contribution of each credit institutions is proportional to the ratio of:

- Amount of liabilities of each institution (excluding equity), less guaranteed deposits; and
- Cumulated liabilities (excluding own funds) of all authorised institutions contributing to the FRL, less cumulated guaranteed deposits.

The annual ex-ante contribution is adjusted in proportion to the risk profile of credit institutions. For the financial year, the total amount paid by the Bank was € 1.235k.

2. Other commitments

Securities under custody are managed on a non-discretionary basis and relate to:

- € 408.313k of commitment to return at a forward date securities received as collateral under repurchase agreement where the Bank acts as lender.

As of year-end the Bank has placed collateral in form of securities and loans for an amount of € 1.697m (of which € 725m owned by the Bank, while € 971m represents the re-use of collateral acquired from the Parent Bank through repurchase agreement or securities lending) under 4 secured financing operations with a nominal value of € 1.120m.

3. Assets managed and traded on behalf of customers (in € k)

Type of service	30/06/2017	30/06/2016
1. Securities traded on behalf of customers		
a) Purchases	—	—
1. settled	—	—
2. pending settlement	—	—
b) Disposals	—	—
1. settled	—	—
2. pending settlement	—	—
2. Asset management		
a) individuals	—	—
b) groups	—	—
3. Securities under custody/managed on a non-discretionary basis	1.669.673	1.101.750
a) customers' securities held on deposit: in connection with the Bank's activity as deposit bank (not including asset management)	—	—
1. securities issued by bank drawing up financial statements	—	—
2. other securities	—	—
b) other customers' securities held on deposit (not including asset management): others	—	—
1. securities issued by bank drawing up financial statements	—	—
2. other securities	—	—
c) customers' securities held on deposit with customers	1.603.735	1.095.724
d) own securities held on deposit with customers	65.938	6.026

PART D – NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

Section 1

Headings 10 and 20: Net interest income

1.1 Interest and similar income: composition (in € k)

	Performing assets			Non Performing assets	30/06/2017	30/06/2016
	Debt securities	Loans	Other financial assets			
1. Financial assets held for trading	—	—	—	—	—	819
2. Financial assets at fair value	—	—	—	—	—	—
3. AFS securities	—	—	—	—	—	—
4. Financial assets held to maturity	1.428	—	—	—	1.428	3.697
5. Loans and advances to credit institutions	8	11.406	—	—	11.414	16.705
6. Loans and advances to customers	—	85.024	—	330	85.354	66.445
7. Hedging derivatives	—	—	7.661	—	7.661	13.414
8. Financial assets sold but not derecognize	—	—	—	—	—	—
9. Other assets	—	—	—	—	—	—
Total	**1.436**	**96.430**	**7.661**	**330**	**105.857**	**101.080**

1.2 Interest and similar income: differences arising on hedging transactions (in € k)

	30/06/2017	30/06/2016
A. Positive differences on transactions involving:	7.661	13.414
A.1 Specific fair value hedge of assets	—	—
A.2 Specific fair value hedge of liabilities	7.661	13.414
A.3 General interest rate risk hedges	—	—
A.4 Specific cash flow hedge of assets	—	—
A.5 Specific cash flow hedge of liabilities	—	—
A.6 General cash flow hedge	—	—

1.3 Interest and similar income: other information (in € k)

	30/06/2017	30/06/2016
1.3.1 Interests receivable on financial assets denominated in currencies other than Euro	55.624	40.757
1.3.2 Interests receivable in respect of financial leasing transactions	—	—
1.3.3 Interests income on receivables involving customers' funds held on a non discretionary basis	—	—

1.4 Interest expense and similar charges: composition (in € k)

	Payables	Notes	Other liabilities	30/06/2017	30/06/2016
1. Amount due to Banks	-37.884	—	—	-37.884	-29.809
2. Amount due to customers	-17.939	—	—	-17.939	-15.255
3. Debt securities	—	-11.202	—	-11.202	-21.469
4. Trading liabilities	—	—	—	—	—
5. Liabilities at fair value	—	—	—	—	—
6. Liabilities in respect of assets sold but not yet derecogniz	—	—	—	—	—
7. Other liabilities	—	—	—	—	—
8. Hedging derivatives	—	—	-280	-280	-4.208
Total	**-55.823**	**-11.202**	**-280**	**-67.305**	**-70.741**

1.5 Interest expense and similar charges: differences arising on hedging transactions (in € k)

	30/06/2017	30/06/2016
A. Negative differences on transactions involving:	-280	-4.208
A.1 Specific fair value hedge of assets	—	—
A.2 Specific fair value hedge of liabilities	-280	-4.208
A.3 General interest rate risk hedges	—	—
A.4 Specific cash flow hedge of assets	—	—
A.5 Specific cash flow hedge of liabilities	—	—
A.6 General cash flow hedge	—	—

1.6 Interest expense and similar charges: other information (in € k)

	30/06/2017	30/06/2016
1.6.1 Interests payable on financial liabilities denominated in currencies other than Euro	-36.083	-24.303
1.6.2 Interests payable on liabilities in respect of financial leasing transactions	—	—
1.6.3 Interests payable on customers' funds held on a non discretionary basis	—	—

Section 2

Headings 40 and 50: Net fee and commission income

2.1 Fee and commission income: composition (in € k)

	30/06/2017	30/06/2016
a) guarantees given	91	238
b) credit derivates	—	—
c) management, trading and advisory services:	202	169
1. securities dealing	—	—
2. currency dealing	—	—
3. asset management	—	—
4. securities under custody and non-discretionary	—	—
5. depositary services	—	—
6. securities placing	198	169
7. procurement of orders	4	—
8. advisory services	—	—
9. agency fees	—	—
9.1 asset management	—	—
9.2 insurance products	—	—
9.3 other products	—	—
d) collection and payment services	—	—
e) securitization servicing	372	1
f) factoring servicing	—	1
g) tax collection and receipt services	—	—
h) lending services	13.821	12.628
Total	**14.486**	**13.037**

2.2 Fee and commission expense (in € k)

	30/06/2017	30/06/2016
a) guarantees received	-3.664	-3.256
b) credit derivatives	—	—
c) management and services:	—	-140
1. securities dealing	—	-140
2. currency dealing	—	—
3. asset management:	—	—
3.1 own portfolio	—	—
3.2 clients' portfolios	—	—
4. securities custody and non-discretionary management	—	—
5. securities placing	—	—
6. door-to-door sales of securities, products and services	—	—
d) collection and payment services	—	—
e) lending services	-5.497	-3.672
f) others	-4.353	-5.150
Total	**-13.514**	**-12.218**

Section 3

Heading 80: Net trading income (expense)

3.1 Net trading income (expense): composition (in € k)

	Value increases	Dealing profits	Value reductions	Dealing losses	30/06/2017	30/06/2016
1. Trading assets	3.368	—	-13.365	-27	**-10.024**	**-2.765**
1.1 Debt securities	—	—	—	—	—	—
1.2 Equities	—	—	—	—	—	—
1.3 OICR units	3.239	—	-13.365	—	**-10.126**	**-2.632**
1.4 Loans and receivables	129	—	—	-27	**102**	**-133**
1.5 Others	—	—	—	—	—	—
2. Trading liabilities	—	—	—	—	—	—
2.1 Debt securities	—	—	—	—	—	—
2.2 Payables	—	—	—	—	—	—
2.3 Other	—	—	—	—	—	—
3. Other financial assets and liabilities: difference arising on exchange rates	400.675	—	-398.929	—	**1.746**	**-1.704**
4. Derivative products	365.042	1.211	-361.610	-70	**4.573**	**7.041**
4.1 Financial derivatives:	347.053	—	-353.010	-70	**-6.027**	**3.468**
– on debt securities/interest rates	19.021	—	-22.138	-70	**-3.187**	**557**
– on equities/share indexes	324.546	—	-324.543	—	**3**	**-461**
– on foreign currency/gold	3.486	—	-6.329	—	**-2.843**	**3.372**
– others	—	—	—	—	—	—
4.2 Credit derivatives	17.989	1.211	-8.600	—	**10.600**	**3.573**
Total	**769.085**	**1.211**	**-773.904**	**-97**	**-3.705**	**2.572**

Section 4

Heading 90: Net hedging income (expense)

4.1 Net hedging income (expense): composition (in € k)

	30/06/2017	30/06/2016
A. Income from:		
A.1 Fair value hedge derivatives	—	139.264
A.2 Financial assets hedged (fair value)	—	—
A.3 Financial liabilities hedged (fair value)	227.904	1.495
A.4 Cash flow hedge financial derivatives	—	—
A.5 Assets and liabilities in foreign currency	—	—
Total hedging income (A)	**227.904**	**140.759**
B. Expenses relating to:		
B.1 Fair value hedge derivatives	-227.468	-577
B.2 Financial assets hedged (fair value)	—	—
B.3 Financial liabilities hedged (fair value)	-387	-140.185
B.4 Cash flow hedge financial liabilities	—	—
B.5 Assets and liabilities in foreign currency	—	—
Total hedging expenses (B)	**-227.855**	**-140.762**
C. Net hedging income (A-B)	**49**	**-3**

Section 5

Heading 100: Gain (or loss) on disposal or repurchase

5.1 Gains (losses) on disposals/repurchases: composition (in € k)

	30/06/2017			30/06/2016		
	Gains	**Losses**	**Net profit (loss)**	**Gains**	**Losses**	**Net profit (loss)**
Financial assets						
1. Due from Banks	—	—	—	—	—	—
2. Due from customers	279	—	279	73	—	73
3. AFS securities	—	—	—	—	—	—
3.1 Debt securities	—	—	—	—	—	—
3.2 Equities	—	—	—	—	—	—
3.3 UCITS units	—	—	—	—	—	—
3.4 Loans and advances	—	—	—	—	—	—
4. Financial assets held to maturity	—	—	—	—	—	—
Total assets	**279**	**—**	**279**	**73**	**—**	**73**
Financial liabilities						
1. Due to Banks	—	—	—	—	—	—
2. Due to customers	—	—	—	—	—	—
3. Debt securities in issue	50	—	50	—	-89	-89
Total liabilities	**50**	**—**	**50**	**—**	**-89**	**-89**

Section 6

Heading 130: Adjustments for impairment

6.1 Adjustments for impairment: lending portfolio (in € k)

Transactions/Income-linked components	Value adjustments			Amounts recovered				30/06/2017	30/06/2016
	Specific		Portfolio	Specific		Portfolio			
	Write offs	Others		A	B	A	B		
A. Due from Banks	—	—	—	—	—	—	—	—	—
B. Due from customers	—	—	-2.728	—	—	—	3.203	475	612
C. Total	—	—	**-2.728**	—	—	—	**3.203**	**475**	**612**

Legend

A = interests

B = other amounts recovered

6.2 Adjustments for impairment: other financial transactions (in € k)

Transactions/Income-linked components	Value adjustments			Amounts recovered				30/06/2017	30/06/2016
	Specific		Portfolio	Specific		Portfolio			
	Write offs	Others		A	B	A	B		
A. Guarantees given	—	—	-6	—	—	—	1	-5	33
B. Credit derivatives	—	—	—	—	—	—	—	—	—
C. Commitments	—	—	-146	—	—	—	464	318	349
D. Other transactions	—	—	—	—	—	—	—	—	—
E. Total	—	—	**-152**	—	—	—	**465**	**313**	**382**

Legend

A = interest

B = other amounts recovered

Section 7

Heading 180: Administrative expenses

7.1 Personnel cost: composition (in € k)

	30/06/2017	30/06/2016
1.Employees	-1.088	-745
a) wages and salaries	-900	-614
b) social security charges	-35	-25
c) severance indemnities	—	—
d) pension contributions	-61	-40
e) transfers to severance indemnity provision	—	—
f) transfers to post-employment and similar benefits:	—	—
– defined contribution	—	—
– defined benefit	—	—
g) payments to outside complementary pension schemes:	-64	-42
– defined contribution	-64	-42
– defined benefit	—	—
h) expenses incurred in connection with share payment schemes	—	—
i) other staff benefits	-28	-24
2. Other staff	-46	-122
3. Board members	-169	-187
Total	**-1.303**	**-1.054**

7.2 Other administrative expenses: composition (in € k)

	30/06/2017	30/06/2016
OTHER ADMINISTRATIVE EXPENSES		
– legal, tax and professional services	-385	-266
– loan recovery activity	-65	-88
– marketing and communication	-7	-5
– property	-181	-27
– EDP	-912	-666
– Info-provider	-4	-1
– bank charges, collection and payment fees	-29	-28
– operating expenses	-3.586	-3.848
– other staff expenses	-12	-35
– other costs (1)	-1.463	-1.004
– indirect and other taxes	-577	-716
Total other administrative expenses	**-7.221**	**-6.684**

(1) **The items includes the contribution ex-ante of the Single Resolution Fund according to EU Regulation 806/2014**

Section 8

Heading 200: Value adjustments in respect of tangible assets

8.1 Value adjustments in respect of tangible assets: composition (in € k)

	Depreciation and other reduction	Adjustments for impairment	Amounts recovered	30/06/2017	30/06/2016
A. Tangible assets					
A.1 Owned:	-11	—	—	-11	-13
– Core	-11	—	—	-11	-13
– Investment	—	—	—	—	—
A.2 Acquired under finance leases:	—	—	—	—	—
Total	**-11**	—	—	**-11**	**-13**

Section 10

Heading 220: Other operating income (expenses)

10.1 Other operating income (expenses): composition (in € k)

Income-based components/values	30/06/2017	30/06/2016
a) Amounts recovered from customers	—	—
b) Other income	35	31
Total	**35**	**31**

Section 11

Heading 290: Income tax on the ordinary activity

11.1 Income tax on the ordinary activity: composition (in € k)

	30/06/2017	30/06/2016
1. Current taxes	-7.704	-7.939
2. Changes in current tax for previous financial years	—	—
3. Decrease in current tax for period	—	—
4. Changes in deferred tax assets	—	—
4.1 related to previous fiscal exercise (reverse to the comprehensive income)	—	—
4.2 generated in the fiscal exercise	—	—
5. Changes in deferred tax liabilities	—	—
5.1 related to previous fiscal exercise (reverse to the comprehensive income)	—	—
5.2 generated in the fiscal exercise	—	—
Total	**-7.704**	**-7.939**

11.2 Reconciliation of the effective tax expense to the theoretical tax expense at standard tax rate in Luxembourg (in € k)

	30/06/2017		30/06/2016	
	Amounts %	Absolute values	Amounts %	Absolute values
Total profit or loss before tax from current operations		**28.484**		**26.987**
Theoretical income tax expense on pre-tax income	-27,06%	-7.708	-29,22%	-7.886
Tax exempt interest and dividends	0,00%	—	0,00%	—
Income from tax exempt investments	0,00%	—	0,00%	—
Impact of using tax losses for which no deferred tax asset was previously recognised	0,00%	—	0,00%	—
Impact of tax rate adustment on temporary differences	0,00%	—	0,00%	—
Differential effect in tax rates applicable to foreign entities	0,00%	—	0,00%	—
Other items	0,00%	—	0,00%	—
Theoretical corporate income tax expense	**-27,06%**	**-7.708**	**-29,22%**	**-7.886**

PART E – OPERATING SEGMENT INFORMATION

A. PRIMARY SEGMENT REPORTING

The Bank does not run separate accounts or reporting for individual divisions or other business segments, primary because the business is essentially focused on wholesale banking. Upper management uses specific markets segment reporting (i.e. geographical, economic sector, ratings) to evaluate segment's income, expenses, assets, liabilities and so on in order to assess profitability and riskiness of the business. The Bank's segmental reporting is based on the following operating segments: corporate lending, export finance, leverage acquisition, project finance, other.

A.1 Financial statement by business segment (in € k)

		CORPORATE LENDING	EXPORT FINANCE	LEVERAGE FINANCE	PROJECT FINANCE	OTHER
10.	Cash and cash equivalent	—	—	—	—	7.222
20.	Financial assets held for trading	60.997	—	64.925	16.620	188.519
50.	Financial assets held to maturity	25.386	—	27.021	6.917	—
60.	Loans and advances to credit institutions	552.066	—	587.624	150.428	—
70.	Loans and advances to customers	1.412.081	—	1.503.031	384.766	—
80.	Hedging derivatives	82.298	—	87.598	22.425	—
100.	Equity investments	—	—	—	—	4.150
120.	Tangible assets	—	—	—	—	14
130.	Intangible assets	—	—	—	—	—
140.	Tax assets	—	—	—	—	—
160.	Other assets	3.244	—	3.453	884	—
	Total assets at 30/06/2017	**2.136.072**	**—**	**2.273.652**	**582.040**	**199.905**
	Total assets at 30/06/2016	**3.688.119**	**—**	**1.727.598**	**440.867**	**425.328**
10.	Amount due to Credit institutions	-962.338	—	-1.024.320	-262.219	—
20.	Amount due to customers	-411.882	—	-438.411	-112.230	—
30.	Debt securities in issue	-563.755	—	-600.065	-153.613	—
40.	Financial liabilities held for trading	-85.791	—	-91.318	-23.376	-118.705
60.	Hedging derivatives	—	—	—	—	—
80.	Tax liabilities	-4.750	—	-5.056	-1.294	—
100.	Other liabilities	-1.709	—	-1.819	-466	—
160.	Shareholders' equity	-131.702	—	-140.185	-35.886	—
	Total liabilities at 30/06/2017	**-2.161.927**	**—**	**-2.301.174**	**-589.084**	**-118.705**
	Total liabilities at 30/06/2016	**-3.856.395**	**—**	**-1.806.421**	**-460.985**	**-139.063**

A.2 Comprehensive income data by business segment (in € k)

		CORPORATE LENDING	EXPORT FINANCE	LEVERAGE FINANCE	PROJECT FINANCE	OTHER
010.	Interests receivable and similar income	50.812	—	46.575	8.466	—
020.	Interests payable and similar charges	-32.308	—	-29.613	-5.384	—
030.	**Net interest income**	**18.504**	**—**	**16.962**	**3.082**	**—**
040.	Fee and commission income	6.952	—	6.374	1.159	—
050.	Fee and commission expense	-6.488	—	-5.946	-1.081	—
060.	**Net fee and commission income**	**464**	**—**	**428**	**78**	**—**
080.	Net trading income/expense	-1.598	—	-1.467	-268	-372
090.	Net hedging income/expense	24	—	21	5	—
100.	Gain or loss on disposal or repurchase of:	158	—	144	27	—
	a) loans and receivables	—	—	—	—	—
	b) financial assets available for sale	—	—	—	—	—
	c) financial assets held to maturity	—	—	—	—	—
	d) financial liabilities	49	—	34	8	—
120.	**Total income**	**17.552**	**—**	**16.088**	**2.924**	**-372**
130.	Value adjustments	379	—	347	63	—
140.	**Net income from the financial management**	**17.931**	**—**	**16.435**	**2.987**	**-372**
180.	Administrative expenses	-4.092	—	-3.750	-681	—
200.	Value adjustments in respect of tangible assets	—	—	—	—	-10
210.	Value adjustments in respect of intangible assets	—	—	—	—	—
220.	Other operating income/expense	—	—	—	—	36
280.	**Profit (loss) of the ordinary activity before tax**	**13.839**	**—**	**12.685**	**2.306**	**-346**
290.	Income tax on the ordinary activity	-3.699	—	-3.390	-616	—
340.	**Profit (loss) for the year**	**10.140**	**—**	**9.295**	**1.690**	**-346**
350.	Other comprehensive income, net of tax	—	—	—	—	—
360.	**Total comprehensive income for the year, net of tax as at 30/06/2017**	**10.140**	**—**	**9.295**	**1.690**	**-346**
	Total comprehensive income for the year, net of tax as at 30/06/2016	**9.727**	**—**	**6.668**	**1.620**	**1.033**

Assets have been allocated on the basis of the originator business unit, while break down of liabilities has been performed following criteria of economic pertinence.

B. Secondary segment reporting

The Bank operates in four geographical markets: Luxembourg, Other EU Countries, Americas and Asia. The following tables show the distribution of the Bank's financial and income statements based on the location of the customers for the years ended 30 June 2017 and 2016.

B.1 Financial statement by geographical region (in € k)

	LUXEMBOURG	OTHER EUROPEAN COUNTRIES	AMERICAS	OTHER EMEA
Cash and cash balances with Central Banks	7.222	—	—	—
Financial assets held for trading	317.403	3.698	9.960	—
Financial assets held to maturity	—	59.324	—	—
Loans and advances to Credit Institutions	2.106	1.288.012	—	—
Loans and advances to Customers	257.802	2.288.365	754.200	-489
Hedging derivatives	—	192.321	—	—
Equity investments	4.150	—	—	—
Tangible assets	14	—	—	—
Intangible assets	—	—	—	—
Tax assets	—	—	—	—
Other assets	6.377	1.115	89	—
A. Total assets 30/06/2017	**595.074**	**3.832.835**	**764.249**	**-489**
A. Total assets 30/06/2016	**719.965**	**4.491.837**	**1.070.110**	—
Amount due to Banks	-4.272	-2.244.605	—	—
Amount due to customers	—	-962.523	—	—
Debt securities in issue	-586.301	-731.132	—	—
Financial liabilities held for trading	-118.831	-200.359	—	—
Hedging derivatives	—	—	—	—
Tax liabilities	-11.100	—	—	—
Other liabilities	-56	-3.921	-17	—
Shareholders' equity	-307.773	—	—	—
B. Total liabilities 30/06/2017 [1]	**-1.028.333**	**-4.142.540**	**-17**	—
B. Total liabilities 30/06/2016 [1]	**-1.503.817**	**-4.759.018**	**-29**	—

[1] Profit for the period excluded

B.2 Income statement by geographical region (in € k)

	LUXEMBOURG	OTHER EUROPEAN COUNTRIES	AMERICAS	OTHER EMEA	OCEANIA
Net interest income	-3.529	10.595	31.441	43	—
Net fee and commission income	4.532	-5.191	1.629	—	—
Net trading income/expense	4.036	-7.843	102	—	—
Net hedging income/expense	261	-212	—	—	—
Gain or loss on disposal or repurchase	-276	311	295	—	—
Value adjustments - impairment	-79	634	233	—	—
Administrative expenses	-4.163	-4.360	—	—	—
Value adjustments – amortisation	-11	—	—	—	—
Other operating income (expenses)	6	28	1	—	—
Income tax	-7.704	—	—	—	—
Net profit/loss 2017	**-6.927**	**-6.038**	**33.701**	**43**	**—**
Net profit/loss 2016	**-13.248**	**5.694**	**26.057**	**—**	**545**

PART F – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

INTRODUCTION

Risk is inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

The Bank's risks are measured using a method that reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst-case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information on risks is examined and processed in order to analyse, control and identify risks on a timely basis. This information is presented and explained to the Risk Committee on a monthly basis. The report includes aggregate credit exposure, liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis.

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. In accordance with the Bank's policy, its risk profile is assessed before entering into hedge transactions, which are authorized by the appropriate level of seniority within the Bank. The effectiveness of hedges is assessed by the Risk Controlling Unit (based on economic considerations rather than the IFRS hedge accounting regulations). The effectiveness of all the hedge relationships is monitored by the Risk Controlling Unit monthly. The Bank actively uses collateral to reduce its credit risks.

Section 1

1.1 CREDIT RISK

QUALITATIVE INFORMATION

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. This risk is always inherent in traditional lending operations regardless of the form of the credit facility (whether cash or credit commitments, secured or unsecured, etc). The main reasons for default lie in the borrower's lacking the autonomous ability to service and repay the debt (due to a lack of liquidity, insolvency, etc.), as well as the occurrence of events that are unrelated to the debtor's operating and financial condition, such as Country risk or the impact of operational risk. Other banking operations, in addition to traditional lending and deposit activities, can expose the Bank to other credit risks. For example, 'non-traditional' credit risk may arise from:

- entering into derivative contracts;
- purchasing and selling securities, futures, currencies or commodities.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the statement of financial position. In the case of credit derivatives, the Bank is also exposed to (or protected from) the risk of default of the underlying entity referenced by the derivative.

Credit valuation adjustments (CVAs) normally is incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk. At the reference date, the Bank has not calculated any CVA cumulative adjustment due to the fact that the only counterparty to deal with is the Parent Bank; furthermore the Bank has signed a Credit Support Annex (CSA) that allowed the two counterparties to post cash collateral according to margin call made by the calculation agent, *de facto* resetting the counterparty risk.

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

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, industry, rating and currency concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

The Risk management unit based in Italy is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The unit works closely with the Risk Committee to ensure that procedures are compliant with the overall framework. Risk management is controlled by the Parent Bank and is divided into the following units: enterprise risk management, credit risk management and market risk management. Credit risk management unit is responsible for executing the credit risk analysis entailed by lending and market transactions, and for assigning credit ratings to the counterparties in these transactions.

During the year there were no significant changes in the Bank's objectives, policies and process for managing credit risk.

Corporate banking

The Group's internal system for managing, evaluating and controlling credit risk reflects its traditional policy based on a prudent and highly selective approach. Lending decisions are based on individual analysis, which builds on adequate and often extensive knowledge of the borrower's business, assets and management, as well as the macro-economic framework in which it operates. Applications for finance are processed through the different operating levels, and, if successful, are submitted for approval to the relevant bodies, i.e. the Risk Committee. Once the finance has been disbursed the account is monitored on an ongoing basis, via analysis of published financial statements and a series of other controls (i.e. covenants). Any deterioration in the risk profile of a loan is brought swiftly to the attention of head of the operating unit and management.

Leverage finance

As a part of its corporate lending activity the Bank takes an active part in buyout transactions promoted or sponsored almost entirely by private equity funds in order to take over companies with promising growth prospects, low debt levels and stable cash flows over time. Such transactions have a sub-investment grade rating, a non-recourse contractual structure and borrowing is commensurate with future cash flow levels. The purpose of such transactions is never for the Bank to acquire target companies, as the majority stakes are held directly by the private equity funds.

Loan impairment provisions

Loans for which no objective evidence of loss has emerged from individual measurement are subject to collective measurement. Collective measurement occurs for homogeneous loan categories in terms of credit risk and the relative loss percentages are estimated considering past time-series, founded on observable elements at measurement date, that enable to estimate the value of the latent loss in each loan category. Measurement also considers the risk connected to the borrower's country of residence.

The determination of provisions on performing loans is carried out by identifying the highest possible synergies with the supervisory approach contained in the regulations known as "Basel 3". In particular, the parameters of the calculation model set out in the supervisory provisions, namely Probability of Default (PD) and Loss Given Default (LGD), are used – where already available – also for the purposes of financial statement valuation. The relationship between the two aforementioned parameters represents the starting point for loan segmentation, since they summarise the relevant factors considered by IAS/IFRS for the determination of the homogeneous categories and for the calculation of provisions.

The time period of a year used for the determination of the probability of default is considered suitable to approximate the notion of incurred loss, that is, the loss based on current events but not yet included by the entity in the review of the risk of the specific customer, set forth by international accounting standards.

The amount of the provision also reflects the phase of the economic cycle through an appropriate corrective factor: an annually updated adjusting coefficient, estimated on the basis of the economic cycle, made necessary by the fact that ratings, which are calibrated according to the long-term expected average level throughout the economic cycle, only partially reflect current conditions. This coefficient is determined by regulatory segment and is equal to the ratio of the default rates estimated for the following 12 months on the basis of the available scenario.

Quantitative information

A.1.1 *Financial assets by portfolio and credit quality (in € k)*

Portfolio/Quality	Defaulted	Performing past due below 90 days	Non-Performing exposures with forbearance measures	Impaired (past due more than 90 days)	Other exposures (performing)	Total
1. Financial assets held for trading	—	—	—	—	331.061	331.061
2. Available-for-sale financial assets	—	—	—	—	—	—
3. Held to maturity financial instruments	—	—	—	—	59.324	59.324
4. Loans and receivables with Banks	—	—	—	—	1.290.119	1.290.119
5. Loans and receivables with customers	—	—	50.606	—	3.249.272	3.299.878
6. Financial assets at fair value through profit	—	—	—	—	—	—
7. Financial assets classified as held for	—	—	—	—	—	—
8. Hedging derivatives	—	—	—	—	192.321	192.321
Total 30/06/2017	**—**	**—**	**50.606**	**—**	**5.122.097**	**5.172.703**
Total 30/06/2016	**—**	**—**	**52.552**	**—**	**5.633.366**	**5.685.918**

A.1.2 *Financial assets by portfolio and credit quality (in € k)*

Portfolio/Quality	Impaired assets			Other assets			Total net exposure
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
1. Financial assets held for trading	—	—	—	331.061	—	331.061	331.061
2. AFS securities	—	—	—	—	—	—	—
3. Financial assets held to maturity	—	—	—	59.324	—	59.324	59.324
4. Due from Banks	—	—	—	1.290.119	—	1.290.119	1.290.119
5. Due from customers	50.606	—	50.606	3.252.861	-3.589	3.249.272	3.299.878
6. Financial assets recognized at fair value	—	—	—	—	—	—	—
7. Financial assets being sold	—	—	—	—	—	—	—
8. Hedging derivatives	—	—	—	192.321	—	192.321	192.321
Total at 30/06/2017	**50.606**	**—**	**50.606**	**5.125.686**	**-3.589**	**5.122.097**	**5.172.703**
Total at 30/06/2016	**52.552**	**—**	**52.552**	**6.086.414**	**-4.064**	**6.082.350**	**6.134.902**

Impaired assets at 30 June 2017 refer to non-performing exposures with forbearance measures fully covered by letter of credit issued by the Parent Bank.

A.1.3 *Cash and off balance sheet exposures to credit institutions (in € k)*

Type of exposure/Amounts	Gross exposure	Specific value adjustments	Portfolio value adjustments	30/06/2017	30/06/2016
A. CASH EXPOSURES					
a) Non-performing	—	—	—	—	—
b) Other assets	1.349.443	—	—	1.349.443	1.868.213
Total A	**1.349.443**	**—**	**—**	**1.349.443**	**1.868.213**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Non-performing	—	—	—	—	—
b) Other assets	—	—	—	—	237.619
Total B	**—**	**—**	**—**	**—**	**237.619**

A.1.4 *Cash and off balance sheet exposures to customers (in € k)*

Type of exposure/Amounts	Gross exposure	Specific value adjustments	Portfolio value adjustments	30/06/2017	30/06/2016
A. CASH EXPOSURES					
a) Non-performing	50.606	—	—	50.606	52.552
b) Other assets	3.252.861	—	-3.589	3.249.272	3.366.991
Total A	**3.303.467**	**—**	**-3.589**	**3.299.878**	**3.419.543**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Non-performing	2.443	—	—	2.443	1.791
b) Other assets	1.150.971	—	-358	1.150.613	1.056.341
Total B	**1.153.414**	**—**	**-358**	**1.153.056**	**1.058.132**

Non-performing assets at 30 June 2017 refer to non-performing exposures with forbearance measures fully covered by letter of credit issued by the Parent Bank.

A.1.5 *Cash exposure to customers: trends in gross impaired positions/accounts (in € k)*

Description/Category	30/06/2017		30/06/2016
	Non performing	Restructured	
A. Gross exposure at start of period	—	52.552	53.891
of which: accounts sold but not derecognized	—	—	—
B. Additions	—	763	965
B.1 transfers from performing loans	—	—	—
B.2 transfer from other categories of impaired assets	—	—	—
B.3 other additions	—	763	965
C. Reductions	—	-2.709	-2.304
C.1 transfer to performing loans	—	—	—
C.2 amounts written off	—	—	—
C.3 amounts collected	—	-2.231	—
C.4 gains realized on disposal	—	—	-1.127
C.5 transfers to other categories of impaired assets	—	—	—
C.6 other reductions	—	-478	-1.177
D. Gross exposure at end of period	—	50.606	52.552
of which: accounts sold but not derecognized	—	—	—

A.1.6 *Cash exposure to customers: trends in value adjustments (in € k)*

	Non-performing	Restructured	Performing
A. Adjustments at start of period	—	—	-4.064
B. Additions	—	—	-2.728
B.1 value adjustments	—	—	-2.539
B.2 transfers from other categories of impaired assets	—	—	—
B.3 other additions	—	—	-189
C. Reductions	—	—	3.203
C.1 writebacks based on valuations	—	—	—
C.2 writebacks due to amounts collected	—	—	2.130
C.3 amounts written off	—	—	—
C.4 transfers to other categories of impaired assets	—	—	—
C.5 other reductions	—	—	1.073
D. Adjustments at 30/06/2017	**—**	**—**	**-3.589**
D. Adjustments at 30/06/2016	**—**	**—**	**-4.064**

A.3.1 *Secured cash exposure to Banks and customers (in € k)*

	Total exposure	Real guarantees			Personal guarantees							
					Credit derivatives				Financial guarantees			
		Properties	Securities	Other assets	Governments	Other public agencies	Banks	Others	Governments	Other public agencies	Banks	Others
1. Secured exposures to Banks:												
1.1 completely secured	411.194	—	411.194	—	—	—	—	—	—	—	—	—
- non performing	—	—	—	—	—	—	—	—	—	—	—	—
1.2 partly secured	—	—	—	—	—	—	—	—	—	—	—	—
- non performing	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2017	**411.194**	—	**411.194**	—	—	—	—	—	—	—	—	—
Total 30/06/2016	**408.136**	—	**408.136**	—	—	—	—	—	—	—	—	—
2. Secured exposures to customers:												
2.1 completely secured	593.708	40.707	111.552	15.283	—	—	9.960	—	—	217.026	199.180	—
- non performing	*50.606*	—	—	—	—	—	—	—	—	—	*50.606*	—
2.2 partly secured (1)	2.645.948	—	—	—	—	—	—	—	—	—	1.822.368	—
- non performing	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2017	**3.239.656**	**40.707**	**111.552**	**15.283**	—	—	**9.960**	—	—	**217.026**	**2.021.548**	—
Total 30/06/2016	**3.262.233**	**58.076**	—	—	—	—	**15.234**	—	—	**203.925**	**2.243.459**	—

(1) Values indicated in the column "Total exposure" correspond to the carrying amount (i.e. the value of personal and/or real guarantees has not been deducted).

A.3.2 *Secured off-balance sheet exposure to Banks and customers (in € k)*

	Total exposure	Real guarantees			Personal guarantees							
					Credit derivatives				Endorsements			
		Properties	Securities	Other assets	Governments	Other public agencies	Banks	Others	Governments	Other public agencies	Banks	Others
1. Secured exposures to Banks:												
1.1 completely secured	—	—	—	—	—	—	—	—	—	—	—	—
1.2 partly secured	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2017	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2016	—	—	—	—	—	—	—	—	—	—	—	—
2. Secured exposures to customers:												
2.1 completely secured	200.162	—	—	—	—	—	—	—	—	—	200.162	—
- non performing	*2.433*	—	—	—	—	—	—	—	—	—	*2.433*	—
2.2 partly secured	927.046	—	—	—	—	—	—	—	—	—	661.983	—
- non performing	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2017	**1.127.208**	—	—	—	—	—	—	—	—	—	**862.145**	—
Total 30/06/2016	**1.054.435**	—	—	—	—	—	—	—	—	**23.339**	**791.209**	—

1.1a Credit risk - Excessive risk concentration

Qualitative information

Concentrations arise when a number of customers/counterparties operate on business activities in the same geographical region or in the same market, or have similar economic features that would question their capability to meet contractual obligations to be similarly undermined by changes in economic, political or other conditions. Country risk is defined as the risk of losses caused by events in a specific country which may be under the control of the government but not under the control of a private enterprise or individuals. This may imply that the repayment of assets within a specific country will be ultimately prevented by actions of the country's government (e.g. transfer risk, expropriation risk, legal risk, tax risk) or by a deterioration of the economic and / or political environment (e.g. a sharp recession, currency and / or banking crisis, civil war) of a country. The Bank's performance may be affected by developments concerning a particular industry or geographical area.

In order to avoid excessive concentrations of risk, the Bank's monitors on a monthly basis the concentration of his loan portfolio based on the following items: geographical, economic sector, class of rating, currencies. Identified concentrations of credit risks are controlled and managed accordingly and are always considered as strategic guidelines in the Risk Committee resolutions in order to achieve an improved diversification.

Risk concentrations: maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The Bank's concentrations of risk are managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to a single client (or group of connected clients) other than the Parent as of June 30, 2017 was € 456 million (2016: € 497 million) before taking account of collateral or other credit enhancements and € 68 million (2016: € 64 million) net of such protection.

The following tables show the maximum exposure to credit risk for the components of the statement of financial position, including derivatives, guarantees and commitments by geography of counterparty and by industry before the effect of any mitigation.

Where financial instruments are recorded at fair value, the carrying amounts represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

QUANTITATIVE INFORMATION

B.1 *Cash and off balance sheet exposure to customers by sector (in € k)*

Non-performing assets at 30 June 2017 refer to non-performing exposures with forbearance measures fully covered by letter of credit issued by the Parent Bank.

	Governments and Central Banks	Other Public agencies	Financial companies	Insurances	Non-financial undertakings	Other entities
A. Cash exposures						
A.1 Non-performing						
Gross exposure	—	—	13.560	—	37.046	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	—	—	—	—
Net exposure	—	—	13.560	—	37.046	—
A.2 Other exposures						
Gross exposure	—	—	652.128	39.712	2.570.980	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-677	-64	-2.848	—
Net exposure	—	—	651.451	39.648	2.568.132	—
Total A						
Gross exposure	—	—	665.688	39.712	2.608.026	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-677	-64	-2.848	—
Net exposure	—	—	665.011	39.648	2.605.178	—
B. Off-balance sheet exposures						
B.1 Non-performing						
Gross exposure	—	—	—	—	2.443	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	—	—	—	—
Net exposure	—	—	—	—	2.443	—
B.2 Other exposures						
Gross exposure	—	—	199.848	—	951.123	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-37	—	-321	—
Net exposure	—	—	199.811	—	950.802	—
Total B						
Gross exposure	—	—	199.848	—	953.566	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-37	—	-321	—
Net exposure	—	—	199.811	—	953.245	—
Total 30/06/2017						
Gross exposure	—	—	865.536	—	3.561.592	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-714	—	-3.169	—
Net exposure	—	—	864.822	—	3.558.423	—
Net exposure 30/06/2016	—	—	479.015	—	3.998.660	—

B.2 *Cash and off balance sheet exposure to customers by geography (in € k)*

Exposure/geographical areas	Luxembourg		Other European countries		America		Asia		Oceania	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A) Cash exposures										
A.1 Non-performing	—	—	50.606	50.606	—	—	—	—	—	—
A.2 Performing	258.460	257.802	2.239.618	2.237.758	765.233	764.160	-489	-489	—	—
Total A	258.460	257.802	2.290.224	2.288.364	765.233	764.160	-489	-489	—	—
B) Off-balance-sheet exposures										
B.1 Non-performing	—	—	2.443	2.443	—	—	—	—	—	—
B.2 Performing	18.113	18.092	1.041.274	1.040.953	91.584	91.568	—	—	—	—
Total B	18.113	18.092	1.043.717	1.043.396	91.584	91.568	—	—	—	—
Total 30/06/2017	**276.573**	**275.894**	**3.333.941**	**3.331.760**	**856.817**	**855.728**	**-489**	**-489**	**—**	**—**
Total 30/06/2016	**173.376**	**172.879**	**3.135.771**	**3.132.955**	**1.173.263**	**1.171.841**	**—**	**—**	**—**	**—**

B.3 *Cash and off balance sheet exposure to Banks by geography (in € k)*

Exposure/geographical areas	Luxembourg		Other European countries		United States		Asia		Oceania	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A) Cash exposures										
A.1 Non-performing	—	—	—	—	—	—	—	—	—	—
A.2 Performing	2.106	2.106	1.347.337	1.347.337	—	—	—	—	—	—
Total A	2.106	2.106	1.347.337	1.347.337	—	—	—	—	—	—
B) Off-balance-sheet exposures										
B.1 Non-performing	—	—	—	—	—	—	—	—	—	—
B.2 Performing	—	—	—	—	—	—	—	—	—	—
Total B	—	—	—	—	—	—	—	—	—	—
Total 30/06/2017	**2.106**	**2.106**	**1.347.337**	**1.347.337**	—	—	—	—	—	—
Total 30/06/2016	**11.792**	**11.792**	**2.094.040**	**2.094.040**	—	—	—	—	—	—

B.4 *Large risk credit exposures – cash and commitments (in € k)*

	30/06/2017	30/06/2016
a) Gross exposure	4.591.036	4.627.010
b) No. large risk exposures	61	51
c) Large risk exposure after CRM	1.260.096	1.113.882
d) No. large risk exposures after CRM	54	45
e) Large risk after CRM/regulatory capital	3,30	3,12

In accordance with EU Regulation n. 575/2013 of the European Parliament and of the Council of 26 June 2013, the Bank's exposures to a client or group of connected clients shall be considered a large exposure where the amount is greater than or equal to the lower of the two following amounts: 10% of own funds or EUR 12,5 million for risks taken on "clients" other than institutions (CSSF Circular 14/593). The CSSF has granted a total exemption for the exposures towards the Parent Bank in the calculation of large exposure limits, in accordance with article 20 point 2 of CSSF Regulation 14-01, as amended. The amount of exposures covered by this exemption is €4.519m as at 30 June 2017 (€3.425m as at 30 June 2016).

E.2 *Financial liabilities in respect of financial assets sold but not derecognized: book value (in € k)*

Liabilities/Portfolio assets	Financial assets held for trading	Financial assets carried at fair value	Available for sale financial assets	Held to maturity investments	Loans and receivables with banks	Loans and receivables with customers	Total
1. Deposits from customers	—	—	—	—	—	703.153	703.153
a) Related to fully recognized assets	—	—	—	—	—	703.153	703.153
b) Related to partially recognized assets	—	—	—	—	—	—	—
2. Deposits from banks	—	—	—	—	—	—	—
a) Related to fully recognized assets	—	—	—	—	—	—	—
b) Related to partially recognized assets	—	—	—	—	—	—	—
3. Debt securities in issue	—	—	—	—	—	—	—
a) Related to fully recognized assets	—	—	—	—	—	—	—
b) Related to partially recognized assets	—	—	—	—	—	—	—
Total 30/06/2017	—	—	—	—	—	**703.153**	**703.153**
Total 30/06/2016	—	—	—	—	—	**703.812**	**703.812**

1.2 MARKET RISK

1.2.1 Interest rate risk – regulatory banking book

QUALITATIVE INFORMATION

Interest rate risk arises from the possibility that changes in interest rates of non-trading activities will affect future cash flows or the fair values of financial instruments. The Bank's policy is to monitor positions on a regular basis and to offset the overall risk exposure using appropriate hedging and ALM strategies.

According to the Article 30(4) of CSSF Regulation N° 15-02, the Bank performs semi-annually a "test de résistance, en matière de risque de taux d'intérêt" and, according with circular 12/552 as amended by Circulars CSSF 13/563, CSSF 14/597 and CSSF 16/642, the internal used methods applied is a sudden parallel shift of yield curves of +/- 200 basis point of all interest rates, applying a 0% floor, so called the standard shock.

According with the Regulator, if +/-200 basis points shift is lower than the actual level of change in interest rates, calculated using the 1st and 99th percentile of observed one-day interest rate changes over a five-year period scaled up to a 240-day year, the higher level of shock arising from the latter calculation should be applied as the standard shock.

Interest rate risk is controlled on a quarterly basis by the Management using specific risk management reports. The gap analysis report is available every day, showing the sensitivity of the statement of financial position for a 1 basis point shift of the interest rate curve. A monthly ALM Report points out the mismatching of the statement of financial position in terms of maturity and rate re-fixing. Based on reporting evidences, the Management of the Bank – in coordination with the Treasury Department of the Parent Bank – decides on possible remedial measures (if needed) concerning the "mix" of funding (Notes, overdraft on current account, time deposits, loans, etc) in order to obtain a better matching with the lending.

According to the part III of the Circular CSSF 08/338 as amended by Circular CSSF 16/642, an "résistance test" of interest rate risk was carried out as at 30 June 2017. The simulation was based on two different scenarios (parallel shift of the interest rate curve +200 and -200 bps, applying a 0% floor). The results achieved are described herein after:

- Scenario +200 bps: - € 8.089.997
- Scenario -200 bps: + € 2.418.029

Fair value hedge

Fair value hedges are used to neutralize exposure to interest rate or price risk for particular asset or liability positions, via derivative contracts entered into with leading counterparties; all structured notes issues are fair value hedged as to the interest rate component. Fair value hedges are also used in corporate finance for certain bilateral, fixed rate transactions.

During the year there were no significant changes in the Bank's objectives, policies and process for managing interest rate risk.

QUANTITATIVE INFORMATION

1. *Regulatory trading book by outstanding maturity (repricing date) of cash assets and liabilities and financial derivative products (in € k)*

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets								
1.1 Debt securities	—	—	—	—	—	—	—	—
– with early redemption option	—	—	—	—	—	—	—	—
– other	—	—	—	—	—	—	—	—
1.2 Loans to Banks	—	—	—	—	—	—	—	—
1.3 Loans to customers	—	—	—	—	—	—	—	—
Total cash assets at 30/06/2017	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total cash assets at 30/06/2016	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
2. Cash liabilities								
2.1 Amounts due to Banks	—	—	—	—	—	—	—	—
2.2 Amounts due to customers	—	—	—	—	—	—	—	—
2.3 Debt securities in issue	—	—	—	—	—	—	—	—
Total cash liabilities at 30/06/2017	—	—	—	—	—	—	—	—
Total cash liabilities at 30/06/2016	—	—	—	—	—	—	—	—
3. Financial derivatives								
3.1 With underlying securities	—	—	—	—	—	—	—	—
– Options	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities	—	1.795.529	92.835	125.926	1.553.722	1.200	—	—
– Options	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others	—	1.795.529	92.835	125.926	1.553.722	1.200	—	—
+ Long positions	—	743.247	92.835	65.463	881.861	1.200	—	—
+ Short positions	—	1.052.282	—	60.463	671.861	—	—	—
Total financial derivatives at 30/06/2017	**—**	**1.795.529**	**92.835**	**125.926**	**1.553.722**	**1.200**	**—**	—
Total financial derivatives at 30/06/2016	**54.044**	**1.610.668**	**110.440**	**—**	**528.404**	**1.200**	**—**	—

2. *Regulatory banking book by outstanding maturity (repricing date) of cash assets and liabilities and financial derivative products (in € k)*

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets								
1.1 Debt securities	—	62.118	—	—	—	—	—	—
– with early redemption option	—	—	—	—	—	—	—	—
– other	—	62.118	—	—	—	—	—	—
1.2 Loans to Banks	699.017	19.599	405.811	170.128	—	—	—	—
1.3 Loans to customers	84.759	2.534.645	568.300	2.773	48.290	77.412	—	—
Total cash assets at 30/06/2017	**783.776**	**2.616.362**	**974.111**	**172.901**	**48.290**	**77.412**	—	—
Total cash assets at 30/06/2016	**667.121**	**3.212.167**	**874.301**	**509.588**	**44.993**	—	—	—
2. Cash liabilities								
2.1 Amounts due to customers	—	703.153	2.888	—	—	—	256.482	—
2.2 Amounts due to Banks	8.630	1.916.582	284.415	39.261	—	—	—	—
2.3 Debt securities in issue	—	357.127	13.402	725.218	220.269	1.417	—	—
Total cash liabilities at 30/06/2017	**8.630**	**2.976.862**	**300.705**	**764.479**	**220.269**	**1.417**	**256.482**	—
Total cash liabilities at 30/06/2016	**-77.179**	**-3.031.369**	**-853.125**	**-656.248**	**-236.918**	**-1.446**	**-546.590**	—
3. Financial derivatives								
3.1 With underlying securities	—	—	—	—	—	—	—	—
– Options	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities	—	78.503	—	—	10.000	—	148.503	—
– Options	—	—	—	—	—	—	80.000	—
+ Long positions	—	—	—	—	—	—	40.000	—
+ Short positions	—	—	—	—	—	—	40.000	—
– Others	—	78.503	—	—	10.000	—	68.503	—
+ Long positions	—	—	—	—	10.000	—	68.503	—
+ Short positions	—	78.503	—	—	—	—	—	—
Total financial derivatives at 30/06/2017	—	**78.503**	—	—	**10.000**	—	**148.503**	—
Total financial derivatives at 30/06/2016	—	**262.833**	**46.598**	**6.305**	**10.000**	—	**645.920**	—
4. Other off-balance sheet								
+ Long positions	170.584	258.940	3.126	2.443	674.751	7.492	—	—
+ Short positions	1.117.336	—	—	—	—	—	—	—
Total other off-balance sheet at 30/06/2017	**1.287.920**	**258.940**	**3.126**	**2.443**	**674.751**	**7.492**	—	—
Total other off-balance sheet at 30/06/2016	**1.050.892**	**258.366**	**24.575**	—	**732.714**	**35.237**	—	—

1.2.2 Exchange rate risk

QUALITATIVE INFORMATION

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Forex risk exposure is minimal. A continuous monitoring and a dynamic management of the liquidity allow the offsetting of the financial structure in terms of currency risk exposure.

Forex exposures are funded with financial liabilities in the same currencies and, whenever this kind of strategy results unrealizable in terms of costs/opportunity, specific hedging transactions are negotiated with the treasury dept of the Parent Bank (i.e. CCS, Forex Swap). Forex exposure is constantly monitored by management through dedicated ALM reports; corrective actions are dealt if necessary.

As at 30 June 2017 the Bank has not registered any forex capital allowance.

During the year there were no significant changes in the Bank's objectives, policies and process for managing its exchange rate risk.

QUANTITATIVE INFORMATION

1. *Assets, liabilities and derivatives by currency (in € k)*

Line items	**Currency**				
	US dollars	**Pounds sterling**	**Swedish krona**	**Swiss francs**	**Other**
A. Assets					
A.1 Debt securities	—	—	—	—	—
A.2 Equities	—	—	—	—	—
A.3 Loans and advances to Banks	253.786	36.627	14.691	9.777	4.893
A.4 Loans and advances to customers	804.679	728.404	58.338	69.361	38.868
A.5 Other financial assets	—	—	—	—	—
B. Financial liabilities					
B.1 Due to Banks	-877.456	-580.653	—	-27.458	
B.2 Due to customers	—	—	—	—	—
B.3 Debt securities	-93.675	—	—	-5.533	—
B.4 Other financial liabilities	—	—	—	—	—
C. Financial Derivatives					
- Options	—	—	—	—	—
+ long positions	—	—	—	—	—
+ short positions	—	—	—	—	—
- Other	-87.627	-181.957	-72.616	-45.746	-42.929
+ long positions	—	—	—	—	—
+ short positions	-87.627	-181.957	-72.616	-45.746	-42.929
Total assets 30/06/2017	1.058.465	765.031	73.029	79.138	43.761
Total liabilities 30/06/2017	-1.058.758	-762.610	-72.616	-78.737	-42.929
Difference (+/-) 30/06/2017	**-293**	**2.421**	**413**	**401**	**832**
Total assets 30/06/2016	1.321.324	526.946	40.078	78.524	4.747
Total liabilities 30/06/2016	-1.320.811	-526.837	-39.908	-78.236	-4.310
Difference (+/-) 30/06/2016	**513**	**109**	**170**	**288**	**437**

1.2.3 Financial derivative products

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments may involve a degree of leverage and are volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Bank.

Over–the–counter derivatives may expose the Bank to the risks associated with the absence of an exchange market on which to close out an open position.

The Bank's exposure under derivative contracts is closely monitored as part of the overall management of the Bank's market risk. During the year there were no significant changes in the Bank's objectives, policies and process for managing those risks.

The Bank enter into credit support annexes ("CSA") to master agreements in order to further reduce derivatives-related credit risk. These annexes generally provide risk mitigation through periodic, usually daily, margining of the covered exposure. The CSAs also provide for the right to terminate the related derivative transactions upon the counterparty's failure to honor a margin call.

A. FINANCIAL DERIVATIVES

A.1 *Regulatory trading book: average and reporting date notional values (in € k)*

Type of transactions	30/06/2017		30/06/2016	
	Over-the-counter	**Listed**	**Over-the-counter**	**Listed**
1. Debt securities and interest rates	1.295.899	—	870.627	—
a) Options	—	—	—	—
b) Swap	1.295.899	—	870.627	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
2. Equities and share indexes	57.834	—	370.734	—
a) Options	57.834	—	370.734	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Exchange rates and Gold	430.873		281.751	
a) Options	—	—	—	—
b) Swap	87.627	—	45.037	—
c) Forward	343.246	—	236.714	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	**1.784.606**	—	**1.523.112**	—

A.2 *Regulatory banking book: average and reporting date notional values (in € k)*

A.2.1 *Hedging derivatives*

Type of transactions	**30/06/2017**		**30/06/2016**	
	Over-the-counter	**Listed**	**Over-the-counter**	**Listed**
1. Debt securities and interest rates	118.503	—	485.829	—
a) Options	—	—	—	—
b) Swap	78.503	—	227.432	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	40.000	—	258.397	—
2. Equities and share indexes	—	—	—	—
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Exchange rates and Gold	—	—	—	—
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	**118.503**	—	**485.829**	—

A.2.2 *Other derivatives*

Type of transactions	30/06/2017		30/06/2016	
	Over-the-counter	Listed	Over-the-counter	Listed
1. Debt securities and interest rates	711.861	—	245.000	—
a) Options	—	—	—	—
b) Swap	671.861	—	245.000	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	40.000	—	—	—
2. Equities and share indexes	2.629	—	306.557	—
a) Options	2.629	—	306.557	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Exchange rates and Gold	—	—	—	—
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	**714.490**	**—**	**551.557**	**—**

A.3 *OTC financial derivatives: positive fair value (in € k)*

Type of transactions	Positive fair value			
	30/06/2017		30/06/2016	
	Over-the-counter	Listed	Over-the-counter	Listed
A. Regulatory trading book	2.225	—	20.268	—
a) Options	5	—	12.279	—
b) Interest Rate Swap	1.245	—	4.113	—
c) Cross Currency Swap	975	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	3.876	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
B. Banking book: Hedge derivatives	192.321	—	829.848	—
a) Options	—	—	—	—
b) Interest Rate Swap	192.321	—	421.965	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others		—	407.883	—
C. Banking book: Others derivatives	196.799	—	992	—
a) Options	620	—	992	—
b) Interest Rate Swap	8.286	—	—	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	187.893	—	—	—
Total	**391.345**	**—**	**851.108**	**—**

A.4 *OTC financial derivatives: negative fair value – financial risk (in € k)*

Type of transactions	Negative fair value			
	30/06/2017		30/06/2016	
	Over-the-counter	Listed	Over-the-counter	Listed
A. Regulatory trading book	-10.128	—	-2.435	—
a) Options	-627	—	-1.008	—
b) Interest Rate Swap	-8.812	—	-1.188	—
c) Cross Currency Swap	—	—	-116	—
d) Equity Swap	—	—	—	—
e) Forward	-689	—	-123	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
B. Banking book: Hedge derivatives	-187.893	—	-407.883	—
a) Options	—	—	—	—
b) Interest Rate Swap	—	—	—	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	-187.893	—	-407.883	—
C. Banking book: Others derivatives	—	—	-7.031	—
a) Options		—	-5.975	—
b) Interest Rate Swap		—	-1.056	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	**-198.021**	—	**-417.349**	—

A.5 *Regulatory trading book: counterparty and financial risks – OTC financial derivatives not included in netting agreements (in € k)*

Contracts not forming part of netting arrangements	**30/06/2017**							**30/06/2016**
	Governments and central Bank	**Other public agencies**	**Banks**	**Financial companies**	**Insurances**	**Non-Financial companies**	**Other counterparties**	
1. Debt securities and interest rates								
- notional value	—	—	400.000	—	—	—	—	400.000
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	2.000	—	—	—	—	3.000
2. Equities and share indexes								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—
3. Exchange rates and Gold								—
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—
4. Other assets								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—

[1] Counterparty credit exposure on OTC derivatives is computed using the "current exposure method"; potential future credit exposure is determined by multiplying the notional principal amount of each of these contracts irrespective of whether the contract has a zero, positive or negative MTM value by the relevant add-on factor indicated below according to the nature and residual maturity of the instrument.

Residual Maturity	Credit Conversion Factor				
	Interest rate contracts	**Exchange rate & gold**	**Equity**	**Precious metals**	**Goods other than metals**
One year or less	0%	1%	6%	7%	10%
Over one year to five years	0,50%	5%	8%	7%	12%
Over five years	1,50%	7,50%	10%	8%	15%

A.6 *Regulatory trading book: counterparty and financial risks – OTC financial derivatives included in netting agreements (in € k)*

Contracts not forming part of netting arrangements	30/06/2017							30/06/2016
	Governments and central Bank	**Other public agencies**	**Banks**	**Financial companies**	**Insurances**	**Non-Financial companies**	**Other counterparties**	
1. Debt securities and interest rates								
- notional value	—	—	895.899	—	—	—	—	470.627
- positive fair value	—	—	1.245	—	—	—	—	4.113
- negative fair value	—	—	-8.812	—	—	—	—	-1.188
2. Equities and share indexes								
- notional value	—	—	57.834	—	—	—	—	370.734
- positive fair value	—	—	5	—	—	—	—	12.279
- negative fair value	—	—	-627	—	—	—	—	-1.008
3. Exchange rates and Gold								
- notional value	—	—	430.874	—	—	—	—	281.751
- positive fair value	—	—	975	—	—	—	—	3.876
- negative fair value	—	—	-689	—	—	—	—	-239
4. Other assets								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—

The Bank entered into an ISDA Master Agreement and CSA annex with the Parent Bank to allow both entities to reduce the capital absorption from RWA on derivatives products (cross products netting agreement).

A.7 *Regulatory banking book: counterparty and financial risks – OTC financial derivatives not included in netting agreements (in € k)*

Contracts not forming part of netting arrangements	30/06/2017							30/06/2016
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	—	200.000	—	—	—	129.199
- positive fair value	—	—	—	—	—	—	—	407.883
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	1.000	—	—	—	—
2. Equities and share indexes								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—
3. Exchange rates and Gold								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—
4. Other assets								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—

[1] See table A.5

A.8 *Regulatory banking book: counterparty and financial risks – OTC financial derivatives included in netting agreements (in € k)*

Contracts not forming part of netting arrangements	30/06/2017							30/06/2016
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	118.503	—	—	—	—	356.630
- positive fair value	—	—	192.321	—	—	—	—	421.966
- negative fair value	—	—	-187.893	—	—	—	—	-407.883
2. Equities and share indexes								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
3. Exchange rates and Gold								
- notional value	—	—	—	—	—	—	—	
- positive fair value	—	—	—	—	—	—	—	
- negative fair value	—	—	—	—	—	—	—	
4. Other assets								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—

The Bank entered into an ISDA Master Agreement and CSA annex with the Parent Bank to allow both entities to reduce the capital absorption from RWA on derivatives products (cross products netting agreement).

A.9 *OTC financial derivatives – residual life: notional values (in € k)*

Underlying/Residual maturity	Up to 1 year	From 1 to 5 years	Over 5 years	Total
A. Regulatory trading book				
A.1 Financial derivatives on debt securities and interest rates	12.837	1.281.861	1.200	1.295.898
A.2 Financial derivatives on equities and share indexes	57.834	—	—	57.834
A.3 Financial derivatives on foreign currency and gold	387.060	43.814	—	430.874
A.4 Financial derivatives on other assets	—	—	—	—
B. Banking book:				
B.1 Financial derivatives on debt securities and interest rates	80.000	681.861	68.503	830.364
B.2 Financial derivatives on equities and share indexes	2.629	—	—	2.629
B.3 Financial derivatives on foreign currency and gold	—	—	—	—
B.4 Financial derivatives on other assets	—	—	—	—
Total at 30/06/2017	**540.360**	**2.007.536**	**69.703**	**2.617.599**
Total at 30/06/2016	**1.159.812**	**1.270.358**	**130.326**	**2.560.496**

B. Credit derivatives

B.1 *Credit derivatives: average and reporting date notional values (in € k)*

Transaction categories	Regulatory trading book		Other transactions	
	Individual assets	Baskets	Individual assets	Baskets
1. Hedge buys				
a) Credit default	140.944	876.271	33.000	7.906
b) Credit spread products	—	—	—	—
c) Total rate of return swap	—	—	—	—
d) Others	—	—	—	—
Total at 30/06/2017	**140.944**	**876.271**	**33.000**	**7.906**
Total at 30/06/2016	**12.368**	**330.000**	**72.680**	**8.000**
2. Hedge sales				
a) Credit default	57.612	5.208	16.200	876.271
b) Credit spread products	—	—	—	—
c) Total rate of return swap	—	—	—	—
d) Others	—	—	—	—
Total at 30/06/2017	**57.612**	**5.208**	**16.200**	**876.271**
Total at 30/06/2016	**97.528**	**8.000**	**16.200**	**330.000**

B.2 *Credit derivatives: positive fair value (in € k)*

Transaction categories	Positive FV	
	30/06/2017	30/06/2016
1. Regulatory trading book		
a) Credit default	1.475	905
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
2. Regulatory banking book		
a) Credit default	1.889	3.702
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
Total	**3.364**	**4.607**

B.3 *Credit derivatives: negative fair value (in € k)*

Transaction categories	Negative FV	
	30/06/2017	30/06/2016
1. Regulatory trading book		
a) Credit default	-121.169	-142.285
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
2. Regulatory banking book		
a) Credit default	—	-4
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
Total	**-121.169**	**-142.289**

B.5 *Credit derivatives: counterparty and financial risks – OTC financial derivatives included in netting agreements (in € k)*

Contracts not forming part of netting arrangements	30/06/2017							30/06/2016
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
Regulatory trading book								
1. Hedge buys								
- notional value	—	—	888.384	—	—	—	—	342.368
- positive fair value	—	—	—	—	—	—	—	5
- negative fair value	—	—	-1.678	—	—	—	—	-1.564
2. Hedge sales								
- notional value	—	—	62.821	—	—	—	—	105.528
- positive fair value	—	—	1.474	—	—	—	—	900
- negative fair value	—	—	-786	—	—	—	—	-1.658
Banking book								
1. Hedge buys								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
2. Hedge sales								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—

In March 2012 the Company entered into an ISDA Master Agreement with the Parent Bank to allow both entities to reduce the capital absorption from RWA on derivatives products (cross products netting agreement).

B.6 *Credit derivatives: outstanding life – notional values (in € k)*

Transaction categories	Up to 1 year	From 1 to 5 years	Over 5 years	Total
1. Regulatory trading book	102.072	976.763	1.200	1.080.035
a) CDS with "qualified" reference obligation	—	—	—	—
b) CDS with "unqualified" reference obligation	102.072	976.763	1.200	1.080.035
2. Regulatory banking book	17.906	914.271	1.200	933.377
a) CDS with "qualified" reference obligation	—	—	—	—
b) CDS with "unqualified" reference obligation	17.906	914.271	1.200	933.377
Total at 30/06/2017	**119.978**	**1.891.034**	**2.400**	**2.013.412**
Total at 30/06/2016	**739.362**	**133.015**	**2.400**	**874.777**

1.3 Liquidity risk

Qualitative information

1.3.1 Liquidity

Liquidity risk is defined as the risk that the Bank would encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

In June 2017, the Bank has completed the migration to a new ALM risk management application (which is in turn the same used by the Parent Company) that will enable an ongoing monitoring and control of the regulatory and managerial liquidity metrics (cf. below).

The liquidity risk management and monitoring model is divided in:

- **Management of short-term liquidity** ("operational liquidity") with the purpose of managing events which might impact the bank's liquidity position over 1-year horizon, and preserving in this way the bank's ability to fulfill its ordinary and/or extraordinary payment obligations while minimizing the related funding costs. The Institution uses both regulatory and managerial liquidity metrics, respectively namely the Liquidity Coverage Ratio (hereinafter also referred to as "LCR") and the Operational Liquidity Ratio (hereinafter also referred to as "OLR").
- **Management of long-term liquidity** ("structural liquidity") focusing on events which might impair the bank's liquidity position beyond 1-year time horizon, with the primary goal of maintaining an adequate and efficient ratio between medium/long term liabilities and assets. The institution uses both regulatory and managerial liquidity metrics, respectively namely the Net Stable Funding Ratio (hereinafter also referred to as "NSFR") and the Structural Liquidity Ratio (hereinafter also referred to as "SLR").

The goal of the Institution is to keep maintaining a level of liquidity that enables the payment of commitments undertaken, being it ordinary or extraordinary. In this regard, the Bank has adopted a specific approach for the short term managerial metrics which foresees the settlement of the cash flows in two analysis scenarios, namely the "Standard" and the "Stressed" scenarios. Stress testing assumes factors such as a) cash outflows and inflows defined based on the underlining contractual maturity, b) incoming flows from corporate loans are weighted based on the internal rating assigned to the counterparty - failure to repay assumption, c) inflows from assets encumbered are weighted differently (less) than in the standard scenario, d) estimates of early repayments prepared by the Lending division (if any) are not incorporated in the analysis, e) higher probability of drawdowns on the outstanding credit commitments compared to the standard scenario, assuming that the revolving-facilities are more liquid than the term-facilities, f) new bond issues communicated by the Treasury Division (if any) are not incorporated in the analysis - failure to issue and g) the available credit limit with the Group Treasury is downsized. The liquidity risk tolerance thresholds are defined as the maximum exposure to risk deemed sustainable by the management in the normal course of business, as well as "stress situations".

The objectives and metrics described above are addressed through the preparation of the Risk Appetite Framework (RAF), which involves defining the Institution's appetite for risk on regulatory indicators (LCR and NSFR) and through the preparation of the Internal Capital Adequacy Assessment Process (ICAAP) for the managerial indicators.

1.3.2 Contingency Funding Plan

The Group Treasury acts as lender of last resort for the Group Companies including Mediobanca International (Luxembourg) S.A. , guarantees their solvency in both the short and the medium/long terms, and is responsible for activating the Contingency Funding Plan (CFP) aimed at safeguarding the continuity of ordinary operations during liquidity crisis.

Based on the above, the Bank has not implemented a CFP on an individual basis but relies on the Group's plan.

Quantitative information

The data presented in the following tables are disclosed by their residual contractual maturity, based on undiscounted cash flow.

1.a *Financial assets and liabilities by outstanding life as at 30/06/2017 (in € k)*

Type	On demand	From 1 days to 7 days	From 7 days to 15 days	From 15 days to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Unlimited
Cash assets	738.942	5.451	32.219	180.263	292.538	518.248	337.305	1.963.549	632.744	7.222
A.1 Government securities	—	—	—	—	—	—	—	—	—	—
A.2 Listed debt securities	—	—	—	—	—	—	—	—	—	—
A.3 Other debt securities	—	—	—	—	9	59.328	4	2.791	—	—
A.4 OICR units	—	—	—	—	—	—	—	—	—	—
A.5 Loans and advances	738.942	5.451	32.219	180.263	292.529	458.920	337.301	1.960.758	632.744	7.222
– to Banks	699.017	211	3.299	—	8.869	405.811	170.128	—	—	7.222
– to customers	39.925	5.240	28.920	180.263	283.660	53.109	167.173	1.960.758	632.744	—
Cash liabilities	-8.630	-274	-4.193	-5.402	-18.427	-186.866	-846.396	-3.062.570	-247.460	—
B.1 Deposits	-8.630	-274	-4.193	-5.315	-6.412	-171.008	-117.220	-2.538.541	-206.130	—
– to Banks	-8.630	-274	-4.193	-2.649	-6.273	-168.120	-117.220	-1.838.541	-137.627	—
– to customers	—	—	—	-2.666	-139	-2.888	—	-700.000	-68.503	—
B.2 Debt securities	—	—	—	-87	-12.015	-15.858	-729.176	-524.029	-41.330	—
B.3 Other liabilities	—	—	—	—	—	—	—	—	—	—
Off-balance-sheet transactions	1.294.754	—	—	686.495	8	27.559	100.093	1.071.563	198.571	—
C.1 Financial derivatives with exchange of principal	—	—	—	686.492	—	—	87.628	87.628	160.000	—
– long positions	—	—	—	343.246	—	—	43.814	43.814	80.000	—
– short positions	—	—	—	343.246	—	—	43.814	43.814	80.000	—
C.2 Financial derivatives without exch. of principal	3.016	—	—	3	8	4.358	22	—	—	—
– long positions	1.870	—	—	—	—	4.347	—	—	—	—
– short positions	1.146	—	—	3	8	11	22	—	—	—
C.3 Irrevocable commitments to disburse funds	1.288.268	—	—	—	—	3.201	2.443	902.885	38.571	—
– long positions	170.584	—	—	—	—	3.201	2.443	902.885	38.571	—
– short positions	1.117.684	—	—	—	—	—	—	—	—	—
C.4 Credit derivatives with exchange of principal	—	—	—	—	—	20.000	10.000	81.050	—	—
– long positions	—	—	—	—	—	10.000	5.000	40.525	—	—
– short positions	—	—	—	—	—	10.000	5.000	40.525	—	—
C.5 Credit derivatives without exchange of principal	3.470	—	—	—	—	—	—	—	—	—
– long positions	3.018	—	—	—	—	—	—	—	—	—
– short positions	452	—	—	—	—	—	—	—	—	—

1.b *Financial assets and liabilities by outstanding life as at 30/06/2016 (in € k)*

Type	On demand	From 1 days to 7 days	From 7 days to 15 days	From 15 days to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Unlimited
Cash assets	438.133	9.892	5.655	193.402	269.352	786.990	913.492	1.737.259	1.016.167	8.569
A.1 Government securities	—	—	—	—	—	—	—	—	—	—
A.2 Listed debt securities	—	—	—	—	—	—	—	—	—	—
A.3 Other debt securities	—	—	—	—	20	14	34	60.718	—	—
A.4 OICR units	—	—	—	—	—	—	—	—	—	—
A.5 Loans and advances	438.133	9.892	5.655	193.402	269.332	786.976	913.458	1.676.541	1.016.167	8.569
– to Banks	437.148	—	3.129	55.997	64.262	731.819	509.588	—	—	8.569
– to customers	985	9.892	2.526	137.405	205.070	55.157	403.870	1.676.541	1.016.167	—
Cash liabilities	-77.141	-313.046	-322	-151.661	-62.123	-1.372.779	-630.928	-2.188.284	-222.697	—
B.1 Deposits	-49.795	-313.046	—	-4.182	-3.617	-518.464	-11.188	-1.728.973	-181.355	—
– to Banks	-49.795	-313.046	—	-1.213	-3.472	-518.464	-10.724	-1.028.973	-129.528	—
– to customers	—	—	—	-2.969	-145	—	-464	-700.000	-51.827	—
B.2 Debt securities	-27.346	—	-322	-147.479	-58.506	-854.315	-619.740	-459.311	-41.342	—
B.3 Other liabilities	—	—	—	—	—	—	—	—	—	—
Off-balance-sheet transactions	1.073.256	4.715	72.705	268.845	132	1.328.781	3.905	1.201.687	267.338	—
C.1 Financial derivatives with exchange of principal	—	3.714	72.595	160.405	—	—	—	90.074	180.000	—
– long positions	—	—	—	—	—	—	—	—	90.000	—
– short positions	—	3.714	72.595	160.405	—	—	—	90.074	90.000	—
C.2 Financial derivatives without exch. of principal	17.643	1.001	110	350	132	4.781	3.905	—	—	—
– long positions	16.392	1.000	14	300	84	4.619	3.814	—	—	—
– short positions	1.251	1	96	50	48	162	91	—	—	—
C.3 Irrevocable commitments to disburse funds	1.050.892	—	—	—	—	—	—	981.569	69.323	—
– long positions	—	—	—	—	—	—	—	981.569	69.323	—
– short positions	1.050.892	—	—	—	—	—	—	—	—	—
C.4 Credit derivatives with exchange of principal	—	—	—	108.090	—	1.324.000	—	130.044	18.015	—
– long positions	—	—	—	36.030	—	662.000	—	74.029	18.015	—
– short positions	—	—	—	72.060	—	662.000	—	56.015	—	—
C.5 Credit derivatives without exchange of principal	4.721	—	—	—	—	—	—	—	—	—
– long positions	4.258	—	—	—	—	—	—	—	—	—
– short positions	463	—	—	—	—	—	—	—	—	—

1.4 Operational risk

Operational risk is the risk of incurring losses as a result of external events or the inadequacy or malfunctioning of procedures, staff and internal systems. Operational risk includes legal risk and compliance risk, but does not include strategic or reputational risk.

The Bank has decided to adopt the Basic Indicator Approach ("BIA") in order to calculate the capital requirement for covering operational risk, applying a margin of 15% to the average of the last three annual readings of total income. Based on this method of calculation the minimum capital requirement as at 30 June 2017 is € 5,3 million (€5,2 million as at 30 June 2016).

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

In the review of its internal procedures as part of the "Head of Company Financial Reporting" project, the Bank has sought to identify the majority of the sources of possible risk and the relevant measures to be taken to control and mitigate them, by formulating company procedures in order to deal with them, and focusing mitigation activity on the most serious aspects.

Through the quarterly monitoring of the Risk Appetite Framework, the RM Function reports to the Risk Committee and to the Board of Directors any operational loss recorded during the period. In this respect it is worth noting that the Board of Directors has also defined a specific risk tolerance threshold on operational risk, and in case of breach of the aforementioned trigger the CRO, supported by responsible Functions/Departments of the bank and/or of the Parent Bank and after discussion with the Risk Committee, shall inform the Board about the reasons for overshooting the pre-established ceiling. Such information shall take place within 45 days from the breach or at the first available meeting after that date.

With reference to the possibility of losses caused by interruptions in operations or due to systems being unavailable, the Bank has drawn up operating continuity and disaster recovery plans to ensure that activity is able to continue and to limit the operating losses in the event of prolonged interruptions. The Bank regularly reviews the operating continuity and disaster recovery plans with a view to ensuring that they are consistent with its activities and current operating strategies.

Control of internal access (individual system users) and external access (IT attacks) is carried out via the relevant computer and observation tools.

Insurance policies have been taken out to cover the most valuable staff members and assets.

As for the possibility of risk deriving from outsourcing activities, the Group has implemented a continuous monitoring and regular review system to assess the care taken in performing these activities by the Parent Bank and Group's IT Consortium entity.

As at 30 June 2017 and 2016 the Bank does not face any litigation risk.

1.5 Other risks

The implementation of the Internal Capital Adequacy Assessment Process (ICAAP) consists of sound, effective and complete strategies and processes allowing the Bank to assess and maintain, on an on-going basis, the amounts, types and distribution of internal capital that the Bank considers adequate to cover the nature and level of the risk to which they are or might be exposed. The identification of relevant risks of Mediobanca International in the ICAAP is structured into 4 distinct phases.

Phase 1 – Definition of the potential risks: the Bank identifies the risks starting from the regulatory requirements and related guidelines, i.e. the SSM Risk Map which has been locally integrated with additional risk categories valued as appropriate by the management.

Phase 2 – Risk Map definition: the Bank applies a filtering of the potential risk list based on its own peculiarities and business.

Phase 3 – Definition of criteria for relevant risks: where possible, Key Performance Indicator ("KPI"), based on risk indicators adapted to the type of risk, are selected. For each KPI a materiality threshold is defined based on historical observations related to the Bank. The identification of relevant risk is executed comparing the value of KPIs as of 30 June 2017 with the identified materiality threshold. Where KPIs adoption is not possible, due to non-measurability of the risk itself, assessment is made on a qualitative basis.

Phase 4 – The final materiality assessment is supported by qualitative considerations in order to identify and correct misleading outcomes (if any). Therefore, some risk may be judgmentally considered as "not relevant" even though the identified KPI as of 30 June 2017 is higher than the materiality threshold.

Following the identification of relevant risk, capital requirement quantification is performed on risks not covered by the Pillar I framework. In case the management shall consider that some risks are underestimated and not entirely covered by the minimum capital requirements of Pillar I, an additional discretionary capital II add-on may be calculated and allocated. The adequacy of the risk measurement methodologies supporting the ICAAP, including stress testing and risk aggregation, is checked by internal validation. Measuring the risk profile is a fundamental element of the Internal Capital Adequacy Assessment Process under Basel II Pillar II.

Capital adequacy is assessed considering the balance between the assumed risk, both Pillar I and Pillar II, and the available capital. The internal economic capital measurements and the resulting Risk Taking Capacity show an adequate capitalization at 30 June 2017.

The Group continues to operate regularly in United Kingdom through the subsidiary of Mediobanca Spa (investment banking services) and the subsidiary Cairn Capital (alternative fund management company). The potential impact of Brexit for the Group is contained (less than 1.5% of revenues), however, the Bank closely monitors the progress of negotiations and potential regulatory impacts through an internal working group.

PART G – CAPITAL MANAGEMENT

Capital is the first and most important safeguard of a Bank's stability. For this reason, the international and domestic supervisory bodies have established rigorous rules for calculating regulatory capital and the minimum capital requirements with which Banks are bound to comply. In particular, the ratio between eligible own funds and capital requirement must not fall below 8,5% (Tier 1 Capital ratio 6% + Capital conservation buffer 2,5%).

Since its inception, one of the distinguishing features of the Italian Banking Group Mediobanca has been the solidity of its financial structure, with capital ratios that have been consistently and significantly higher than those required by the regulatory guidelines. Such surplus capital is justified by the nature of the operations on corporate markets.

The Bank maintains locally an actively managed capital base to cover risks inherent to the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Commission de Surveillance du Secteur Financier supervising the Bank.

Regulatory capital has been calculated on the basis of the reference of the EU Regulation (i.e. EU Regulation n. 575/2013 – CRR and EU Directive n. 36/2013 – CRD IV) and in conjunction with CSSF Regulation 14-01 about the implementation of certain discretions contained in Regulation (EU) n. 575/2013. The governing Council of the European Central Bank (ECB), having regard to EU Council Regulation n. 1024/2013 conferring specific tasks on the ECB concerning the prudential supervision of credit institution, has adopted on February 20th, 2015 a formal decision on the prudential requirements that the Bank shall at all time satisfy. Based on the above, the institution must always comply with a minimum overall capital ratio of 7% in terms of Common Equity Tier I ratio (CET1) and 10,5% in terms of Total Capital Ratio.

At the end of June 30, 2017, the Bank complies with all capital ratios:

1. CET1 Capital ratio: 11,38% (min. 4.5%)
2. T1 Capital ratio: 11,38% (min. 6%)
3. Total Capital ratio: 13,24% (min. 8%)

Therefore the financial year ended with a capital surplus of € 151m (with regards to the total capital ratio). Also including the Tier I Capital Conservation Buffer (as required by the CSSF Regulation 14-01), the Bank is fully above the standard (5,2% against 2,50%) that leading to a Total Capital Ratio of 10,5%.

In the aftermath of the financial crisis, the Basel Committee on Banking Supervision (BCBS) published a new set of capital and liquidity standards aiming to strengthen the banking sector's resistance and resilience to economic and financial shocks. As part of these new standards, the Basel III regulatory capital framework introduced the Countercyclical Capital Buffer (CCyB). Binding as from 2017, the CCyB will aim to achieve the broader macro prudential goal of protecting the banking sector during periods of excessive credit growth by maintaining a sufficient capital base to absorb losses in stressed periods. The CCyB regime is fully applicable in Luxembourg from 1st January 2016 onwards through the CSSF Regulation 15-01. The rate applicable to relevant credit exposures located in Luxembourg was set to 0.0% by the CSSF Regulation 17-01. The CCyB should reflect the location of residence of the ultimate obligor of the institution's portfolio of relevant credit exposures, which include credit risk exposures, exposures held in the trading book and securitisation excluding governments and institutions obligors. As a result, CRR institutions which have exposures to counterparties in more than one jurisdiction compute their institution-specific CCyB by applying the CCyB applicable in the country of location of these exposures. Based on this method of calculation the capital requirement as at 30 June 2017 for CCyB is € 2,3 million.

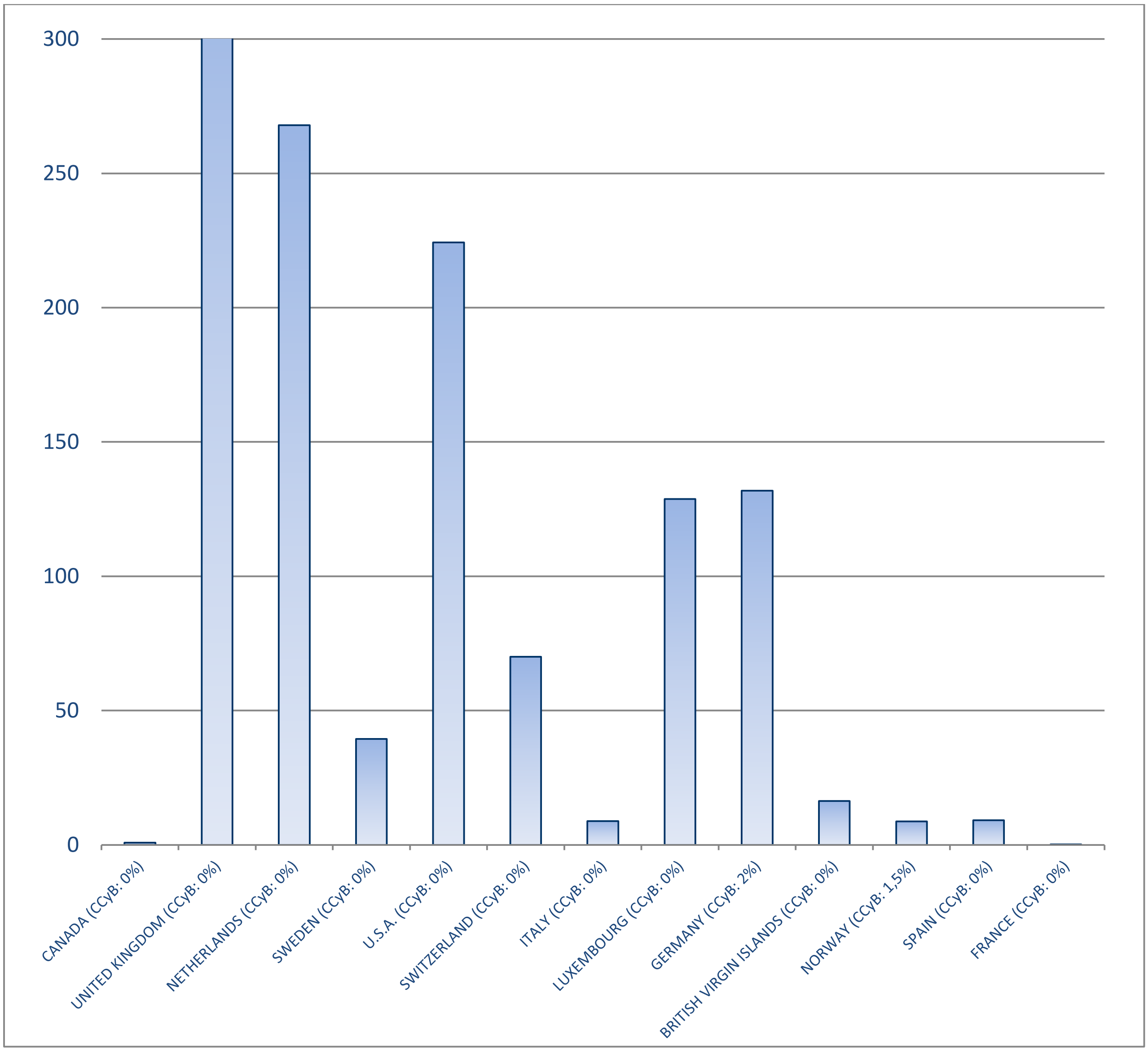
The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it, if needed, in the light of changes in economic conditions and the risk characteristics of its activities. No changes yet have been made in the objectives, policies and processes from the previous years, however it is under constant scrutiny of the Board of Directors of the Bank.

QUANTITATIVE INFORMATION

(In €)	**30/06/2017 (including profit of the fiscal year)**	**30/06/2016 (including profit of the fiscal year)**
Original own funds (Tier 1)	328.290.510	307.372.855
Additional own funds (Tier 2)	53.589.301	50.000.000
Total own funds (Tier 1 + Tier 2)	**381.879.811**	**357.372.855**
Credit/Counterparty risk (Standardized approach)	210.865.732	205.030.234
Market risk (Standardized Approach)	14.561.892	—
Operational risk (Basic Indicator Approach)	5.345.166	5.199.127
Total capital requirements (Pillar 1)	**230.772.790**	**210.229.361**
Specific own fund requirement	7.211.650	—
Combined Buffer Requirement:	74.406.776	67.234.221
Capital conservation buffer	72.116.497	65.696.675
Institution specific countercyclical capital buffer	2.290.279	1.537.545
Total capital requirements (Pillar 1 + Pillar 2)	**312.391.216**	**277.463.582**
Surplus (+) / Deficit (-) of Own Funds	69.488.595	79.909.273
Total capital ratio (%)	13,24	13,60

Countercyclical Capital Buffer Countries' Breakdown (in € m)



PART H – RELATED PARTY DISCLOSURES

Accounts with related parties fall within the ordinary operations of the Bank are maintained on an arm's length basis and are entered into in the interests of the individual companies concerned. No atypical or unusual transactions have been entered with such counterparties. Related parties for the purpose hereof include local strategic management, Parent Bank, entities of its Group and its Directors and executive officers (and any company owned by them).

Reference is made in the following tables to Parent Bank and other related parties, separately disclosed as required by IAS 24.

The amount of balance sheet and off balance sheet's items as at 30 June 2017 and 2016 concerning related parties are as follows (in € k):

Assets and liabilities	**30/06/2017**		**30/06/2016**
	Parent Bank	**Other related parties**	
Financial assets held for trading	4.276	—	21.258
Financial assets held to maturity	59.324	—	57.931
Loans and advances	1.339.053	224	1.849.118
Derivatives held for hedging	192.321	—	421.965
Other assets	—	1	2
Total assets	**1.594.974**	**225**	**2.350.274**
Amounts due	-2.247.519	—	-1.928.168
Debt securities	-291.451	-200.105	-243.497
Financial liabilities held for trading	-200.484	—	-413.541
Derivatives held for hedging	—	—	—
Other liabilities	-2.637	-1	-1.309
Total liabilities	**-2.742.091**	**-200.106**	**-2.586.515**

Comprehensive income	**30/06/2017**		**30/06/2016**
	Parent Bank	**Other related parties**	
Interest and similar income	-11.889	16	6.638
Interest expenses and similar charges	-39.543	—	-24.022
Fee and commission income	-414	-2	675
Fee and commission expenses	-13.346	—	-11.984
Net gains and losses on financial assets and liabilities hft	207.865	—	-133.670
Net gains and losses from hedge accounting	-227.468	—	138.687
Administrative expenses	-3.572	-882	-4.564
Impairment	—	—	—
Other income	120	—	-10
Total	**-88.247**	**-868**	**-28.250**

Guarantees and commitments	30/06/2017		30/06/2016
	Parent Bank	Other related parties	
Financial guarantees received	2.338.217		2.324.029
Financial guarantees given	—	—	—
Commercial guarantees given	—	—	—
Irrevocable commitments to disburse funds	—	380	325
Commitments underlying cds: hedge sales	930.679	—	96.881
Total	**3.268.896**	**380**	**2.421.235**

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

	30/06/2017	30/06/2016
Administrative bodies	164	89
Key management personnel	357	326
	521	**415**

As of 30 June 2017 and 2016, neither advances nor guarantees were granted to Directors or Senior Management. Remuneration to key management personnel includes salary, benefit, tantieme and bonus. One member of key management benefits of a pension plan and supplementary insurances, as do all employed staff.

PART I – OTHER INFORMATION

Audit fees

As of 30 June 2017 and 2016, audit fees (exluding VAT) are split as follows (in €):

	30/06/2017	30/06/2016
Audit fees	206.089	99.599
Audit related fees	36.468	36.468
Other fees	—	675
Total	**242.557**	**136.742**

The table contains the aggregate fees (paid on the services' state of completion) billed by PricewaterhouseCoopers Société coopérative. For the fiscal year 2016-2017, the agreed audit fees are equal to € 123.000, while the audit related fees are equal to € 56.000.

Staff number

As at 30 June 2017 and 2016, the Bank's staff is as follows:

	30/06/2017	30/06/2016
Management–Senior	2	2
Management–Middle	1	—
Other staff	9	7
Total	**12**	**9**

As of 30 June 2017, the Bank's Senior Management consists of the Chief Executive Officer and the Chief Financial Officer.

PART J – SUBSEQUENT EVENTS

The Bank is not aware of any subsequent events (other than those already reflected in the financial statement), that occurred between 30 June 2017 and the date when the present financial statements were authorized for issue.