MEDIOBANCA INTERNATIONAL
(LUXEMBOURG)

Interim Report
for the six months ended December 31, 2017

MEDIOBANCA INTERNATIONAL (Luxembourg)

SOCIÉTÉ ANONYME

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

Board of Directors meeting
31st January 2018

BOARD OF DIRECTORS *

		Term expires	Location
PETER W. GERRARD	CHAIRMAN	2020	LUXEMBOURG
STEFANO BIONDI	MANAGING DIRECTOR	2020	LUXEMBOURG
STEPHANE BOSI	DIRECTOR	2020	LUXEMBOURG
MASSIMO DI CARLO	»	2020	ITALY
GIOVANNI MANCUSO	»	2020	LUXEMBOURG
PIERO PEZZATI	»	2020	ITALY
PAOLA SCHNEIDER	»	2020	ITALY

INDEPENDENT AUDITOR

PRICEWATERHOUSECOOPERS S.C.	LUXEMBOURG

*The assessment of the Board of Directors by the ECB (which is responsible for taking decisions on the appointment of all members of the management bodies of significant credit institutions that fall under its direct supervision) is on-going and a final decision has not been issued yet. According to the relevant guidelines issued by the ECB on May 2017, the Regulators has the power to include recommendations, conditions or obligations in positive decisions regarding the appointment of directors of significant credit institutions falling under its direct supervision and, where concerns cannot be adequately addressed by means of these tools, a negative decision can be taken by the ECB, and in this case a new director will be appointed by Mediobanca International replacing the previous one whose relevant appointment has not been approved by the ECB.

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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 31 DECEMBER 2017
BOARD OF DIRECTORS' REVIEW OF OPERATIONS

The World Bank forecasts global economic growth to edge up to 3.1 percent in 2018 after a much stronger-than-expected 2017, as the recovery in investment, manufacturing, and trade continues. Growth in advanced economies is expected to moderate slightly to 2.2 percent in 2018, as central banks gradually remove their post-crisis accommodation and the upturn in investment growth stabilizes. Growth in emerging market and developing economies as a whole is projected to strengthen to 4.5 percent in 2018, as activity in commodity exporters continues to recover amid firming prices.

The euro area economy is on track to grow at its fastest pace in a decade this year, with real GDP growth forecast at 2.2%. This is substantially higher than expected by the European Commission in spring (1.7%). The EU economy as a whole is also set to beat expectations with robust growth of 2.3% this year (up from 1.9% in spring). According to its Autumn Forecast, the European Commission expects growth to continue in both the euro area and in the EU at 2.1% in 2018 and at 1.9% in 2019 (Spring Forecast: 2018: 1.8% in the euro area, 1.9% in the EU).

In Italy GDP growth is projected to edge down to 1.5% in 2018. Private consumption will continue to be the main driver of the recovery, which will continue to broaden to investment and exports. The large stock of banks' non-performing loans (NPLs) and the high public debt pose financial vulnerabilities.

Economic forecasts for the United Kingdom predict a weakening growth in 2018. The depreciation of sterling has increased input costs and led to pressures on corporate margins and private sector wages. The major risk for the economy is the uncertainty surrounding the exit process from the European Union, which could hold back private spending more than projected.

In United States the economic expansion is projected to continue in 2018. Fiscal policy is projected to become more supportive in 2018 as measures are assumed to be introduced lowering tax rates on corporate and personal income and stimulating investment and consumption. Financial stability has strengthened since the crisis and regulatory oversight has improved, but vulnerabilities have emerged during the extended period of exceptional monetary easing.

During the six months under review the Bank has reported a net profit of € 7,2m i.e. a decrease of approximately -37% when compared to December 2016 (€ 11,4m). A detailed analysis of the performance registered on the main income and financial items is made further in this report.

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

- Benchmark Regulation (BMR): The EU Benchmark Regulation was issued on June 2016 and its entry into application is set for January 2018. The BMR introduces a regime for benchmark index administrators, contributors, and users that will ensure the accuracy and integrity of benchmarks across the EU.
- MiFID II/MiFIR: MiFID II/MiFIR will apply from January 2018. This new legislative framework will strengthen investor protection and improve the functioning of financial markets making them more efficient, resilient and transparent.
- Key information documents for packaged retail and insurance-based investment products (PRIIPs): PRIIPs will entry into force from January 2018. This new legislative framework aims to improve retail investor protection by (i) providing basic pre-contractual information via introduction of the KID (Key

Information Document), and (ii) improving the quality and comparability of information on the key features of investments products (in particular on risk, performance and costs).

- General Data Protection Regulation (GDPR): GDPR will enter into force in 2018 creating a unified and coherent data protection framework in the EU, which protects individuals and allows the development of the digital economy across the internal market.
- Anacredit: In May 2016 the European Central Bank (ECB) adopted Regulation (EU) 2016/867 on the collection of granular credit and credit risk data (Anacredit). The ECB aims to set up a dataset containing granular credit and credit risk data about the exposure of credit institutions and other loan-providing financial firms within the Eurozone.
- IFRS 9 accounting standard: IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The new standard contains substantial changes from the current financial instruments standard (IAS 39) with regards to the classification, measurement, impairment and hedge accounting requirements which will impact many entities across various industries.

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.

	31/12/2017	30/06/2017	Chg.
	€m	€m	%
Net treasury investments	1.994,5	1.294,3	54,1%
Securities (HTM & L&R)	2,8	62,1	-95,5%
Loans and advances	3.490,9	3.299,5	5,8%
Equity investments	4,2	4,2	0,0%
Tangible and intangible assets	-	-	-
Other assets	50,2	10,9	360,8%
TOTAL ASSETS	**5.542,6**	**4.671,0**	**18,7%**
Funding	5.191,8	4.323,3	20,1%
Other liabilities	15,0	19,1	-21,5%
of which: tax liabilities	*11,4*	*11,1*	*2,6%*
Net equity	328,6	307,8	6,8%
Profit	7,2	20,8	-65,4%
TOTAL LIABILITIES	**5.542,6**	**4.671,0**	**18,7%**

Net treasury investments – the item increased by 54,1% from € 1.294,3m to € 1.994,5m and includes:

- Financial assets held for trading (other than derivatives) which decreased by 78,1% when compared to June 2017 (from € 128,7m to € 28,2m) mainly as a consequence of the early redemption of some delta-one strategies held by the Bank with the consequent write-off of underlying investments.
- Net treasury application (including money market financial instruments such as repos, time deposits, etc.) which increased by 54,3% when compared to June 2017 (from € 1.282,4m to € 1.979,1m) primarily by reason of (i) higher balances on current accounts held with third party credit institutions, and (ii) higher outstanding balances on time deposits negotiated with the Group Treasury in order to re-invest the temporary excess of liquidity generated through the issuance of commercial papers.

– Value adjustment on OTC derivative contracts which decreased significantly compared to June 2017 (from € -116,8m to € -12,8m) reflecting the volatility registered over the reference market-inputs.

	31/12/2017	30/06/2017	Chg.
	€m	€m	%
Financial assets HFT other than derivatives	28,2	128,7	-78,1%
Net applications treasury funds	1.979,1	1.282,4	54,3%
Derivatives instruments	- 12,8	- 116,8	-89,0%
Net treasury investments	**1.994,5**	**1.294,3**	**54,1%**

Fixed financial assets – this portfolio brings together the Bank's holding in securities issued by the Parent Company and classified under IAS 39 as held to maturity and/or loan and receivables. This item amounts to € 2,8m and decreased significantly when compared to June 2017 (-95,5%) by reason of the contractual repayment of the bond IT0003974760 issued by the Parent and subscribed for a nominal amount of € 60.0m.

Loans and advances – this item increased by 5,8% (from € 3.299,5m to € 3.490,9m) due to the continued growth of corporate lending. The institution's net credit risk exposure (i.e. excluding the amounts already guaranteed by financial pledge of the Parent and/or third Insurers/public Agencies) also increased, passing from € 978,4m at the end of June 2017 to € 1.016,8m at the end of December 2017.

In an environment which continues to be very challenging, it is worth mentioning that non performing exposures dropped to € 1,4m (from € 50,6m, -97,1%) and remain fully guaranteed by the Parent. This result confirms the institution' strong commitment to asset quality and risk control.

	31/12/2017	30/06/2017	Chg.
	€m	€m	%
Performing	3.489,4	3.248,9	7,4%
Restructured and non-performing	1,4	50,6	-97,1%
FV hedging loans and advances	-	-	-
Loans and advances	**3.490,9**	**3.299,5**	**5,8%**

Equity investments – in September 2011 the Bank purchased via a share deal all the 1.000 shares of Jodewa S.à R.L. (subsequently renamed in Mediobanca International Immobilière S.à R.L.) a real estate company, that as of April 2012, owns the building that currently houses the Bank's head office. During the current semester 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 estimate.

Other assets – the increase compared to June 2017 (+360,8%, from € 10,9m to € 50,2m) was essentially due to transitory items accounted at the end of December 2017 which were already cleared in January 2018.

Funding – this item increased by 20,1%, passing from € 4.323,3m to € 5.191,8m. In detail:

- Amount due to banks and customers decreased by 12%, passing from € 3.198,4m to € 2.815m mainly as a consequence of the early repayment of shuldschein loans occurred in October 2017.
- Borrowings under the EMTN Programme (125,4%) increased significantly when compared to June 2017 (from € 586m to € 1.320,6m) by reason of the bond issues concluded during the period.
- Fair value valuation of hedging derivatives dropped by -99,7% (from € -192,3m to € -0,5m) because of the early unwind of interest rate swaps originally attached to shuldschein loans which prepaid during the semester (cf. above).
- Short term papers issued under the existing Commercial Paper Programmes increased by 44,5% compared to June 2017 (from € 731,1m to € 1.056,7m).

	31/12/2017	30/06/2017	Chg.
	€m	€m	%
Amount due to banks and customers	2.815,0	3.198,4	-12,0%
Notes issued	1.320,6	586,0	125,4%
FV hedging of borrowings	- 0,5	- 192,3	-99,7%
Short term funding debt instruments	1.056,7	731,1	44,5%
Funding	**5.191,8**	**4.323,3**	**20,1%**

Other liabilities – this item decreased by 21,5% from € 19,1m to € 15m. This variation is mainly due to amount payables and other outstanding balance on transitory accounts which were for the most already cleared in January 2018.

Net equity – No dividends have been distributed during the semester, and the increase from € 307,8m to € 328,6m is exclusively attributable to the provisioning of the net profit from the previous fiscal year (€ 20,8m). The strategy of the institution remains focused on continuous strengthening its own funds as demonstrated by the resiliency of the regulatory capital ratios.

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.

	6 mths to 31/12/2017	6 mths to 31/12/2016	Chg.
	€m	€m	%
Net interest income	12,5	19,9	-37,2%
Net trading income	- 1,5	- 1,1	37,6%
Net fee and commission income	2,6	1,3	103,3%
TOTAL INCOME	**13,6**	**20,1**	**-32,2%**
Wages and salaries	- 0,8	- 0,7	19,6%
Other administrative expenses	- 3,2	- 2,9	10,0%
OPERATING COSTS	**- 4,0**	**- 3,6**	**11,8%**

Value adjustments	0,2	- 0,4	-142,7%
Provisions for other financial assets	–	–	–
Other profit (losses)	–	–	–
PROFIT BEFORE TAX	**9,8**	**16,1**	**-39,3%**
Fiscal provision	- 2,6	- 4,7	-45,2%
TOTAL COMPREHENSIVE INCOME	**7,2**	**11,4**	**-36,9%**

Net interest income – this item decreased by 37,2% (from € 19,9m to € 12,5m) due to the followings:

- minor interests received on corporate lending (-11,5%, from € 44,1m to € 39m) due to the combined effect of (i) decreasing contribution to the income statement of the amortised cost for those credit facilities which were prepaid and/or refinanced during the semester, and (ii) lowering interest rates on corporate lending activity;
- higher cost of financing (+10,1%, from € -27,8m to € -30,6m) by reason of the ALM structure of the Bank which is more concentrated on structural/long term borrowings;
- The above, was only partially compensated by the increasing income margin on Treasury (+13,7%, from € 3,6m to € 4,1m).

	6 mths to 31/12/2017	6 mths to 31/12/2016	Chg.
	€m	€m	%
Interests receivables – corporate lending	39,0	44,1	-11,5%
Interests payables – proprietary funding	- 30,6	- 27,8	10,1%
Treasury	4,1	3,6	13,7%
Net interest income	**12,5**	**19,9**	**-37,2%**

Net trading income – this item increased from € -1,1m in December 2016 to € -1,5m in December 2017. This category is composed as follows:

	6 mths to 31/12/2017	6 mths to 31/12/2016	Chg.
	€m	€m	%
Realised gains/losses	- 1,0	0,6	-266,7%
Unrealised gains/losses (mtm valuation)	0,3	- 1,3	-123,1%
Forex gains/losses	- 0,8	- 0,4	100,0%
Net trading income	**- 1,5**	**- 1,1**	**36,4%**

- Dealing losses are € -1,0m (€ 0,6m at December 2016) and mostly refer to securities lending fees paid to the Group Treasury for the borrowing of high quality liquid assets to comply with the regulatory short-term liquidity indicator (i.e. Liquidity Coverage Ratio).
- Unrealised mark to market valuations generated an income of € 0,3m (€ -1,3m at December 2016). In this respect it is worth remarking that the Parent Bank is substantially the only swap counterparty of the institution.

– Forex exposures conversely has generated a loss of € -0,8m (whilst at December 2016 the loss was equal to € -0,4m).

Net fee and commission income – this item, still driven by corporate lending and treasury services, increased by 100% when compared to December 2016 (from € 1,3m to € 2,6m).

Operating costs – this item is stable at € -4,0m (€ -3,6m at December 2016) with the main components which performed as follows:

- wages and salaries increased by 14,3% (from € -0,7m to € -0,8m) essentially because of the hiring of new personnel.
- other costs increased by 10,3% (from € -2,9m to € -3,2m) mainly driven by higher regulatory and compliance charges (both within and outside the Group).

Value adjustments in respect of financial assets and other financial operations – this item decreased by 150% when compared to December 2016 (from € -0,4m to € 0,2m) evidence of the high quality of the corporate lending portfolio.

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 interim accounts 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 31 December 2017.

Luxembourg, 31 January 2018

The Board of Directors

Peter W. Gerrard	Stefano Biondi	Stephane Bosi
Massimo Di Carlo	Giovanni Mancuso	Piero Pezzati
Paola Schneider		

INDEPENDENT AUDITOR’S REPORT

Report on Review of interim financial information

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

We have reviewed the accompanying interim financial information of Mediobanca International (Luxembourg) S.A. (the "Company") which comprises the statement of financial position as at 31 December 2017, and the statement of comprehensive income, for the six-month period then ended.

Board of Directors' responsibility for the interim financial information

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

Responsibility of the "Réviseur d'entreprises agréé"

Our responsibility is to express a conclusion on this interim financial information based on our review. We conducted our review in accordance with International Standard on Review Engagements (ISRE 2410) "Review of interim financial information performed by the independent auditor of the entity." This standard requires us to comply with relevant ethical requirements and conclude whether anything has come to our attention that causes us to believe that the interim financial information, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework.

A review of interim financial information in accordance with ISRE 2410 is a limited assurance engagement. The "Réviseur d'entreprises agréé" performs procedures, primarily consisting of making inquiries of management and others within the Company, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on this interim financial information.

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Cabinet de revision agréé. Expert –comptable (authorisation gouvernementale n°10028256
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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of Mediobanca International (Luxembourg) S.A. as of 31 December 2017, and of its financial performance for the six-month period then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 19 February 2018

Holger von Keutz

INTERIM ACCOUNTS

STATEMENT OF FINANCIAL POSITION

	Assets	31/12/2017	30/06/2017
		€	€
10.	Cash and cash balances with Central Banks	13.647.033	7.221.565
20.	Financial assets held for trading	63.662.359	331.060.716
50.	Financial assets held to maturity	—	59.324.089
60.	Loans and advances to Credit Institutions	1.991.359.106	1.290.118.564
70.	Loans and advances to Customers	3.475.371.115	3.299.878.078
80.	Hedging derivatives	515.703	192.320.798
100.	Equity investments	4.150.000	4.150.000
120.	Property, plant and equipment	10.844	14.323
160.	Other assets	48.682.531	7.581.346
	TOTAL ASSETS	**5.597.398.692**	**5.191.669.479**

	Liabilities and equity	31/12/2017	30/06/2017
		€	€
10.	Amounts due to Credit Institutions	2.037.689.305	2.248.876.976
20.	Amounts due to Customers	782.987.718	962.522.538
30.	Debt securities in issue	2.377.392.379	1.317.432.907
40.	Trading liabilities	48.306.424	319.189.654
80.	Tax liabilities	11.386.349	11.100.231
	a) current	*10.606.049*	*10.319.931*
	b) deferred	*780.300*	*780.300*
100.	Other liabilities	3.886.693	3.994.561
160.	Reserves	318.552.612	297.773.199
190.	Share capital	10.000.000	10.000.000
200.	Profit for the year	7.197.212	20.779.413
	TOTAL LIABILITIES AND EQUITY	**5.597.398.692**	**5.191.669.479**

The accompanying notes form an integral part of the interim accounts.

STATEMENT OF COMPREHENSIVE INCOME

	Item	31/12/2017	31/12/2016
		€	€
010.	Interests receivable and similar income	44.875.692	53.737.684
020.	Interests payable and similar charges	-32.078.269	-33.290.638
030.	**Net interest income**	**12.797.423**	**20.447.046**
040.	Fee and commission income	7.475.656	8.447.728
050.	Fee and commission expense	-5.160.283	-7.888.569
060.	**Net fee and commission income**	**2.315.373**	**559.159**
080.	Net trading income/expense	-1.313.271	-1.472.703
090.	Net hedging income/expense	-298.179	44.256
100.	Gain or loss on disposal or repurchase of:	45.022	462.406
	a) loans and receivables	*84.904*	*459.109*
	b) financial assets available for sale	—	—
	c) financial assets held to maturity	—	—
	d) financial liabilities	*-39.882*	*3.297*
120.	**Total income**	**13.546.368**	**20.040.164**
130.	Value adjustments in respect of:	170.602	-352.943
	a) loans and receivables	*148.540*	*-669.109*
	b) financial assets available for sale	—	—
	c) financial assets held to maturity	—	—
	d) other financial operations	*22.062*	*316.166*
140.	**Net income from banking activities**	**13.716.971**	**19.687.221**
180.	Administrative expenses:	-4.022.240	-3.618.379
	a) personnel costs	*-837.537*	*-692.275*
	b) other administrative expenses	*-3.184.703*	*-2.926.104*
200.	Value adjustments in respect of tangible assets	-3.479	-7.528
210.	Value adjustments in respect of intangible assets	—	—
220.	Other operating income/expense	81.247	9.328
280.	**Profit (loss) of the ordinary activity before tax**	**9.772.499**	**16.070.642**
290.	Income tax on the ordinary activity	-2.575.287	-4.700.608
340.	**Profit (loss) for the year**	**7.197.212**	**11.370.035**
350.	Other comprehensive income, net of tax	—	—
360.	**Total comprehensive income for the year, net of tax**	**7.197.212**	**11.370.035**

The accompanying notes form an integral part of the interim accounts.

STATEMENT OF CHANGES IN EQUITY FROM 01/07/2017 TO 31/12/2017 (in €)

	Balance as of June 30, 2017	Allocation of the profit for the previous period		Changes during the reference period					Balance as of Dec 31, 2017
					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	**297.773.199**	**20.779.413**	—	—	—	—	—	—	**318.552.612**
a) legal reserve	1.000.000	—	—	—	—	—	—	—	1.000.000
b) free reserve	260.948.548	12.647.638	9.250.000	—	—	—	—	—	282.846.187
c) special reserve[1]	35.824.651	8.131.775	-9.250.000	—	—	—	—	—	34.706.425
d) FTA reserve	—	—	—	—	—	—	—	—	—
Valuation reserves	—	—	—	—	—	—	—	—	—
a) AFS securities	—	—	—	—	—	—	—	—	—
b) cash flow hedges	—	—	—	—	—	—	—	—	—
c) special laws – others	—	—	—	—	—	—	—	—	—
Own shares	—	—	—	—	—	—	—	—	—
Comprehensive income of the period	**20.779.413**	**-20.779.413**	—	—	—	—	—	**7.197.212**	**7.197.212**
Total equity	**328.552.612**	—	—	—	—	—	—	**7.197.212**	**335.749.823**

[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 interim accounts.

STATEMENT OF CHANGES IN EQUITY FROM 01/07/2016 TO 31/12/2016 (in €)

	Balance as of June 30, 2016	Allocation of the profit for the previous period		Changes during the reference period					Balance as of Dec 31, 2016
				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**	—	—	—	—	—	**11.370.035**	**11.370.035**
Total equity	**307.773.199**	—	—	—	—	—	—	**11.370.035**	**319.143.234**

(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 interim accounts.

CASH FLOW STATEMENT – Direct Method

(in € k)

A.	Cash flow from operating activities	Amount	
		31/12/2017	31/12/2016
1.	**Operating activities**	**35.892**	**57.852**
	– interest received	30.426	69.333
	– interest paid	-5.168	-17.166
	– net fee and commission received/paid	-349	1.459
	– dividends and similar income	—	—
	– net premium income	—	—
	– cash payments to employees	-694	-582
	– other income (expenses)	13.984	4.939
	– Tax income (expenses)	-2.307	-131
2.	**Cash generated/absorbed by financial assets**	**-778.751**	**438.454**
	– amounts due from customers	-212.794	-426.105
	– amounts due from banks: on demand	—	—
	– amounts due from banks: other	-653.734	858.814
	– financial assets measured at fair value	88.070	5.745
	– other assets	-293	—
3.	**Cash generated/absorbed by financial liabilities**	**689.284**	**-496.634**
	– amounts due to banks: on demand	—	—
	– amounts due to banks: other	-219.742	555.012
	– amounts due to clients	-73.440	-5.855
	– debt securities in issue	978.957	-1.050.734
	– financial liabilities measured at fair value	—	—
	– other liabilities	3.509	4.943
	Net cash flow (outflow) from operating activities	**-53.575**	**-328**
B.	**Investing activities**	—	—
	– equity investment	—	—
	– disposals/redemptions of financial assets held to maturity	60.000	—
	– acquisitions of tangible assets	—	—
	– acquisitions of intangible assets	—	—
	Net cash flow (outflow) from investing activities	**60.000**	**—**
C.	**Financing activities**	—	—
	– issues/purchases of subordinated debts (Tier II)	—	—
	Net cash flow (outflow) from financing activities	—	—
	Net cash flow (outflow) during year	**6.425**	**-328**

RECONCILIATION	Amount	
	31/12/2017	31/12/2016
Cash and cash equivalents: balance at 1 July	7.222	8.569
Total cash flow (outflow) during year	6.425	-328
Cash and cash equivalents: balance at 31 December	**13.647**	**8.241**

The accompanying notes form an integral part of the interim accounts

NOTES TO THE INTERIM ACCOUNTS

PART A – 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 December 31, 2017 have been prepared following the same structure of the Parent Bank (disciplined by the Circular of Banca d'Italia n. 262).

The abridged interim report has been drawn up in conformity with IAS 34 on interim financial reporting.

Section 2

General principles

The interim accounts comprise:

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

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

This first half financial report is subject to a limited audit of the accounts by PWC Luxembourg, Société cooperative.

Section 3

Basis of preparation

The interim accounts 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 interim accounts are presented in € k unless otherwise stated.

The preparation of interim accounts 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

The same accounting policies and methods of computation have been followed in the interim financial statement as compared with the annual accounts as at 30 June 2017.

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 interim accounts. 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 interim accounts 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, risk 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 1.

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 31 December 2017.

PART B – 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)

	31/12/2017	30/06/2017
a) Cash	—	1
b) Demand deposit held at Central Banks	13.647	7.221
Total	**13.647**	**7.222**

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.

On 21 July 2016 the Governing Council decided, after a review of newly available statistical evidence, to lower, from 30% to 15%, the standardised deduction from the reserve base to be applied to liabilities with a maturity of up to two years within the debt securities category.

Section 2

Heading 20: Financial assets held for trading

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

Item/Value	31/12/2017			30/06/2017		
	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	—	18.689	—	—	118.714	—
4. Loans and advances	9.467	—	—	9.960	—	—
4.1 Repos	—	—	—	—	—	—
4.2 Others	9.467	—	—	9.960	—	—
Total A	**9.467**	**18.689**	**—**	**9.960**	**118.714**	**—**
B. Derivative products						
1. Financial derivatives	—	18.301	—	—	199.023	—
1.1 Trading	—	18.301	—	—	10.510	—
1.2 Linked to FV options	—	—	—	—	—	—
1.3 Others	—	—	—	—	188.513	—
2. Credit derivatives	—	17.205	—	—	3.231	133
2.1 Trading	—	17.205	—	—	3.231	133
2.2 Linked to FV options	—	—	—	—	—	—
2.3 Others	—	—	—	—	—	—
Total B	**—**	**35.506**	**—**	**—**	**202.254**	**133**
Total (A+B)	**9.467**	**54.195**	**—**	**9.960**	**320.968**	**133**
Total Level 1, Level 2 and Level 3			**63.662**			**331.061**

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.

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

Item/Value	31/12/2017	30/06/2017
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	18.689	118.714
4. Loans and advances	9.467	9.960
a. Governments and central Banks	—	—
b. Other public agencies	—	—
c. Banks	—	—
d. Other entities	9.467	9.960
Total A	**28.156**	**128.674**
B. DERIVATIVE PRODUCTS		
a. Banks	35.506	202.387
- Fair value	35.506	202.387
b. Customers	—	—
- Fair value	—	—
Total B	**35.506**	**202.387**
Total A+B	**63.662**	**331.061**

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

Type of derivatives/Underlying assets	Interest rates		Foreign currency/gold		Equities		Credit		31/12/2017		30/06/2017	
	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:	774.695	9.508	469.986	8.793	—	—	—	—	1.244.681	18.301	2.953.768	199.023
– with exchange of principal	—	—	469.986	8.793	—	—	—	—	469.986	8.793	902.247	188.867
– options bought	—	—	469.986	8.793	—	—	—	—	469.986	8.793	862.247	974
– other derivatives	—	—	—	—	—	—	—	—	—	—	40.000	187.893
– without exchange of principal	774.695	9.508	—	—	—	—	—	—	774.695	9.508	2.051.521	10.156
– options bought	—	526	—	—	—	—	—	—	—	526	—	—
– other derivatives	774.695	8.982	—	—	—	—	—	—	774.695	8.982	2.051.521	10.156
2) Credit derivatives:	—	—	—	—	—	—	2.741.200	17.205	2.741.200	17.205	1.884.581	3.364
– with exchange of principal	—	—	—	—	—	—	—	—	—	—	55.525	341
– without exchange of principal	—	—	—	—	—	—	2.741.200	17.205	2.741.200	17.205	1.829.056	3.023
Total	**774.695**	**9.508**	**469.986**	**8.793**	—	—	**2.741.200**	**17.205**	**3.985.881**	**35.506**	**4.838.349**	**202.387**

Section 5

Heading 50: Financial assets held to maturity

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

	Book value	Fair value 31/12/2017			Book value	Fair value 30/06/2017		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	—	—	—	—	59.324	—	60.052	—
1.1 Structured	—	—	—	—	—	—	—	—
1.2 Other debt securities	—	—	—	—	59.324	—	60.052	—
2. Loans and advances	—	—	—	—	—	—	—	—
Total	—	—	—	—	**59.324**	—	**60.052**	—

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

Type of transactions/Value	31/12/2017	30/06/2017
1. Debt securities:	—	59.324
a) Governments and Central Bank	—	—
b) Other public agencies	—	—
c) Bank	—	59.324
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**
Total fair value	**—**	**60.052**

Section 6

Heading 60: Loans and advances to credit institutions

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

Type of transactions/Value	31/12/2017				30/06/2017			
		Fair value				Fair value		
	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
B. Loans to banks	**1.991.359**	**—**	**1.991.359**	**—**	**1.290.119**	**—**	**1.290.119**	**—**
1. Loans	1.988.563	—	1.988.563	—	1.287.325	—	1.287.325	—
1.1 Current accounts and demand deposits	1.040.455	—	1.040.455	—	702.316	—	702.316	—
1.2 Time deposits	524.432	—	524.432	—	173.604	—	173.604	—
1.3 Other loans	423.676	—	423.676	—	411.405	—	411.405	—
- Repos	407.710	—	407.710	—	411.194	—	411.194	—
- Finance leases	—	—	—	—	—	—	—	—
- Other	15.966	—	15.966	—	211	—	211	—
2. Debt securities	**2.796**	**—**	**2.796**	**—**	**2.794**	**—**	**2.794**	**—**
2.1 Structured	—	—	—	—	—	—	—	—
2.2 Other	2.796	—	2.796	—	2.794	—	2.794	—
Total	**1.991.359**	**—**	**1.991.359**	**—**	**1.290.119**	**—**	**1.290.119**	**—**

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 (IAS 17).

Section 7

Heading 70: Loans and advances to customers

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

Type of transactions/Value	31/12/2017					30/06/2017				
	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	**3.473.922**	**1.449**	**—**	**3.497.226**	**—**	**3.249.272**	**50.606**	**—**	**3.309.930**	**—**
1. Current accounts	—	—	—	—	—	—	—	—	—	—
2. Repos	—	—	—	—	—	—	—	—	—	—
3. Mortgages	—	—	—	—	—	—	—	—	—	—
4. Credit cards, personal loans inc. wage assignment loans	—	—	—	—	—	—	—	—	—	—
5. Finance leasing	—	—	—	—	—	—	—	—	—	—
6. Factoring	—	—	—	—	—	—	—	—	—	—
7. Other loans	3.473.922	1.449	—	3.497.226	—	3.249.272	50.606	—	3.309.930	—
Debt securities	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
8 Structured	—	—	—	—	—	—	—	—	—	—
9 Other	—	—	—	—	—	—	—	—	—	—
Total	**3.473.922**	**1.449**	**—**	**3.497.226**	**—**	**3.249.272**	**50.606**	**—**	**3.309.930**	**—**

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

Type of transactions/Value	31/12/2017		30/06/2017	
	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:	3.473.922	1.449	3.249.272	50.606
a) Governments	—	—	—	—
b) Other public agencies	—	—	—	—
c) Other issuers	3.473.922	1.449	3.249.272	50.606
- non-financial undertakings	2.498.834	1.449	2.522.727	37.046
- financial companies	935.467	—	686.897	13.560
- insurances	39.621	—	39.648	—
- other entities	—	—	—	—
Total	**3.473.922**	**1.449**	**3.249.272**	**50.606**

Section 8

Heading 80: Hedging derivatives

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

	31/12/2017			Notional value	30/06/2017			Notional value
	Fair value				*Fair value*			
	level 1	**level 2**	**level 3**		**level 1**	**level 2**	**level 3**	
A. Financial derivatives	—	516	—	660.000	—	192.321	—	78.503
1) Fair value	—	516	—	660.000	—	192.321	—	78.503
2) Cash flow	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	**—**	**516**	**—**	**660.000**	**—**	**192.321**	**—**	**78.503**

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

31/12/2017 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	516	—	—	—	—	—	—	—	—
2. Portfolio	—	—	—	—	—	—	—	—	—
TOTAL LIABILITIES	**516**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
1. Highly probable transactions	—	—	—	—	—	—	—	—	—
2. Financial assets and liabilities portfoglio	—	—	—	—	—	—	—	—	—

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	—	—	—	—	—	—	—	—	—

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[1]	Ownership relationship		Voting rights[2]
			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.	1.903	82	28	1.650	4.150

The fiscal 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, looking at the Luxembourg real estate trend market of 2017, has decided not to make any impairment test.

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

[2] 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	31/12/2017	30/06/2017
1. Assets owned by the Bank	11	14
a) land	—	—
b) buildings	—	—
c) furniture	3	4
d) electronic equipment	—	—
e) other assets	8	10
2. Assets acquired under finance leases:	—	—
a) land	—	—
b) buildings	—	—
c) furniture	—	—
d) electronic equipment	—	—
e) other assets	—	—
Total	**11**	**14**

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

	Land	**Buildings**	**Furniture**	**Electronic equipment**	**Other assets**	**Total**
A. Gross opening balance	—	—	46	—	128	174
A.1 Total net value reductions	—	—	-43	—	-117	-160
A.2 Net opening balance	—	—	4	—	10	14
B. Additions:	—	—	—	—	—	—
B.1 Purchases	—	—	—	—	—	—
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	—	-2	-3
C.1 Disposals	—	—	—	—	—	—
C.2 Depreciation charges	—	—	-1	—	-2	-3
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	—	—	2	—	9	11
D.1 Total net value reductions	—	—	-44	—	-119	-163
D.2 Gross closing balance	—	—	46	—	128	174

Section 15

Heading 150: Other assets

15.1 Other assets (in € k)

	31/12/2017	30/06/2017
1. Gold, silver and precious metal	—	—
2. Accrued income other than capitalized income	1.259	1.016
3. Trade receivables or invoice to be issued	2	1
4. Amount due from tax revenue Authorities (not recorded under heading 140)	210	210
5. Other *	47.212	6.354
Total	**48.683**	**7.581**

*The amount outstanding as at December 31, 2017 mainly refers to transitory items which normally will be cleared in January 2018.

Liabilities

Section 1

Heading 10: Amounts due to credit institutions

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

Type of transaction/amounts	31/12/2017	30/06/2017
1. Due to central Banks	—	—
2. Due to Banks	2.037.689	2.248.877
2.1 Current accounts and demand deposits	5.577	12.823
2.2 Term deposits	—	—
2.3 Borrowings	2.032.005	2.235.879
2.3.1 Leasing & stock lending	—	—
2.3.2 Others	2.032.005	2.235.879
2.4 Amounts due under commitments to buy back own shares	—	—
2.5 Other amounts due	107	175
Total book value	**2.037.689**	**2.248.877**
Fair value - level 1	—	—
Fair value - level 2	2.037.689	2.272.056
Fair value - level 3	—	—
Total fair value	**2.037.689**	**2.272.056**

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.

Section 2

Heading 20: Amounts due to customers

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

Type of transaction/amounts	31/12/2017	30/06/2017
1. Current accounts and demand deposits	—	—
2. Term deposits including saving deposits with maturity	—	—
3. Loans	782.988	962.523
3.1 Repos	—	—
3.2 Others	782.988	962.523
4. Liabilities in respect of assets sold but not derecognized	—	—
5. Other	—	—
Total book value	**782.988**	**962.523**
Fair value - level 1	—	—
Fair value - level 2	787.706	979.738
Fair value - level 3	—	—
Total fair value	**787.706**	**979.738**

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

Type of transaction/amounts	31/12/2017	30/06/2017
1. Liability items subject to micro-hedging of fair value	—	259.370
a) Interest rate risk	—	259.370
b) Currency risk	—	—
c) Other risks	—	—
2. Liability items dubect to micro-hedging of cash flows	—	—
a) Interest rate risk	—	—
b) Currency risk	—	—
c) Other risks	—	—
Total	**—**	**259.370**

Section 3

Heading 30: Debt securities in issue

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

Type of transaction/amounts	31/12/2017				30/06/2017			
	Book value	*Fair value*			Book value	*Fair value*		
		Level 1	Level 2[1]	Level 3		Level 1	Level 2	Level 3
A. Listed securities	1.282.597	—	1.314.928	—	537.333	—	552.729	—
1. notes	1.282.597	—	1.314.928	—	537.333	—	552.729	—
1.1 structured	50.233	—	52.466	—	50.421	—	52.733	—
1.2 others	1.232.364	—	1.262.462	—	486.912	—	499.996	—
2. other securities	—	—	—	—	—	—	—	—
2.1 structured	—	—	—	—	—	—	—	—
2.2 others	—	—	—	—	—	—	—	—
B. Unlisted securities	1.094.795	—	1.098.711	—	780.100	—	781.265	—
1. notes	38.111	—	42.027	—	48.911	—	50.076	—
1.1 structured	38.111	—	42.027	—	48.911	—	50.076	—
1.2 others	—	—	—	—	—	—	—	—
2. other securities	1.056.684	—	1.056.684	—	731.189	—	731.189	—
2.1 structured	—	—	—	—	—	—	—	—
2.2 others	1.056.684	—	1.056.684	—	731.189	—	731.189	—
Total	**2.377.392**	—	**2.413.639**	—	**1.317.433**	—	**1.333.994**	—

[1] Fair value does not include issuer risk; if issuer risk was considered, the fair value of debt securities issued would decrease by € 9,1m approximately, as at December 31, 2017.

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

Type of transaction/amounts	31/12/2017	30/06/2017
A. Securities subject to specific fair value hedges	659.766	10.438
1. Interest rate risk	659.766	10.438
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	**659.766**	**10.438**

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

Type of transaction/amounts	31/12/2017	30/06/2017
A. Debt securities	660.942	575.806
1. Structured	78.022	88.894
2. Other	582.920	486.912
B. Other financial instruments	1.056.684	731.189
1. Structured	—	—
2. Other	1.056.684	731.189
Total	**1.717.626**	**1.306.995**

Section 4

Heading 40: Financial liabilities held for trading

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

Type of transaction/amounts	31/12/2017					30/06/2017				
	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	1.871.519	—	13.879	—	13.879	1.128.150	—	197.881	140	198.021
1.1 Trading	1.871.519	—	13.879	—	13.879	1.088.150	—	9.988	140	10.128
1.2 Related to Fair Value option	—	—	—	—	—	—	—	—	—	—
1.3 Other	—	—	—	—	—	40.000	—	187.893	—	187.893
2. Credit derivatives	2.448.213	—	34.427	—	34.427	1.025.627	—	121.169	—	121.169
2.1 Trading	2.448.213	—	34.427	—	34.427	1.025.627	—	121.169	—	121.169
2.2 Related to Fair Value option	—	—	—	—	—	—	—	—	—	—
2.3 Other	—	—	—	—	—	—	—	—	—	—
Total B	**4.319.732**	**—**	**48.306**	**—**	**48.306**	**2.153.777**	**—**	**319.050**	**140**	**319.190**
Total (A+B)	**4.319.732**	**—**	**48.306**	**—**	**48.306**	**2.153.777**	**—**	**319.050**	**140**	**319.190**

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

	Interest rate		Foreign currency/gold		Equity		Credit		31/12/2017		30/06/2017	
Type of transaction/amounts	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**
OTC derivative products												
1. Financial derivatives	858.857	8.076	526.799	5.803	2.501	—	—	—	1.871.519	13.879	1.128.150	198.021
1.1 With exchange of principal	—	—	526.799	5.803	—	—	—	—	526.799	5.803	383.246	188.582
- options issued	—	—	526.799	5.803	—	—	—	—	526.799	5.803	343.246	689
- other derivatives	—	—	—	—	—	—	—	—	—	—	40.000	187.893
1.2 Without exchange of principal	858.857	8.076	—	—	2.501	—	—	—	861.358	8.076	744.904	9.439
- options issued	—	659	—	—	—	—	—	—	—	659	—	—
- other derivatives	858.857	7.417	—	—	2.501	—	—	—	861.358	7.417	744.904	9.439
2. Credit derivatives	—	—	—	—	—	—	2.448.213	34.427	2.448.213	34.427	1.025.627	121.169
2.1 With exchange of principal	—	—	—	—	—	—	—	—	—	—	20.525	2.464
2.2 Without exchange of principal	—	—	—	—	—	—	2.448.213	34.427	2.448.213	34.427	1.005.102	118.705
Total	**858.857**	**8.076**	**526.799**	**5.803**	**2.501**	**—**	**2.448.213**	**34.427**	**4.319.732**	**48.306**	**2.153.777**	**319.190**

Section 8

Heading 80: Tax liabilities

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

	31/12/2017	30/06/2017
Corporate income tax (IRC)	8.056	7.923
Municipal business tax (ICC)	2.561	2.421
Other	-11	-24
Total	**10.606**	**10.320**

The Bank is liable for all taxes to which the credit institutions are subject to in Luxembourg. 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 period				
A. Current fiscal liabilities (+)	17.227	5.223	1.201	23.651
B. Advances paid (-)	9.304	2.802	1.225	13.331
A.1 Fiscal liabilities: increase (+)	**1.901**	**674**	**443**	**3.018**
- provisions of the period	1.901	674	443	3.018
- transfers	—	—	—	—
- others	—	—	—	—
A.2 Fiscal liabilities: decrease (-)	**—**	**—**	**—**	**—**
- payments of the period (assessments)	—	—	—	—
- transfers	—	—	—	—
- others	—	—	—	—
B.1 Advances paid: increase (+)	**1.768**	**534**	**430**	**2.732**
- payments/advances	1.768	534	430	2.732
- transfers	—	—	—	—
- others	—	—	—	—
B.2 Advances paid: decrease (-)	**—**	**—**	**—**	**—**
- payments of the period (assessments)	—	—	—	—
- transfers	—	—	—	—
- others	—	—	—	—
Total A. Fiscal liabilities	**19.128**	**5.897**	**1.644**	**26.669**
Total B. Advances paid	**11.072**	**3.336**	**1.655**	**16.063**
Current fiscal liabilities (A-B)	**8.056**	**2.561**	**-11**	**10.606**

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

Deferred tax liabilities	31/12/2017	30/06/2017
1. Initial amount	780	877
1.1 Initial amount	780	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**	**780**

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

	31/12/2017			30/06/2017		
	Deferred tax assets	**Deferred tax liabilities**	**Tax rate 26,01%**	**Deferred tax assets**	**Deferred tax liabilities**	**Tax rate 26,01%**
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	780
Total liabilities	**—**	**3.000**	**780**	**—**	**3.000**	**780**

Section 10

Heading 100: Other liabilities

10.1 Other liabilities (in € k)

	31/12/2017	**30/06/2017**
1. Payment agreements (IFRS2)	—	—
2. Impaired endorsements	337	359
3. Working capital payables and invoices pending receipts	1.542	3.406
4. Prepaid expenses other than capitalized expenses on related financial assets	—	—
5. Amounts due to revenue authorities	—	—
6. Amount due to staff	38	23
7. Other items	1.970	207
- coupons and dividends pending collection	194	194
- available sum payable to third parties	—	—
- premium, grants and other items in respect of lending transactions	1.776	13
- credit notes to be issued	—	—
- other	—	—
Total	**3.887**	**3.995**

Pending invoices mainly refer to amount payable to the Parent Bank under the service agreement.
Other items in respect of lending transactions mainly refer to transitory items which will normally be cleared in January 2018.

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 December 31, 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)	**31/12/2017**	**30/06/2017**
A. Reserves	318.553	297.773
A.1 legal reserve	1.000	1.000
A.2 free reserve	282.846	260.948
A.3 special reserve(1)	34.707	35.825
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 with a par value of € 10 each.

Authorised capital and issue share capital coincide.

Other information

1. Guarantees and commitments (in € k)

	31/12/2017	30/06/2017
1. Financial guarantees given to:	14.635	13.377
a) Banks	—	—
b) Customers	14.635	13.377
2. Commercial guarantees given to:	—	—
a) Banks	—	—
b) Customers	—	—
3. Irrevocable commitments to lend funds:	1.330.989	1.139.679
a) Banks	—	—
b) Customers	1.330.989	1.139.679
4. Commitment underlying credit derivatives: hedge sales	1.963.596	1.823.150
Total	**3.309.220**	**2.976.206**

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.

2. Other commitments

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

- € 407.710k 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 € 1.841m (of which € 810m owned by the Bank, while € 1.031m 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 € 1.167m.

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

Type of service	31/12/2017	30/06/2017
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	1.490.689	1.669.673
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	1.484.986	1.603.735
d) own securities held on deposit with customers	5.703	65.938

PART C – 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 (1)	6 mths to 31/12/17	6 mths to 31/12/2016
	Debt securities	Loans	Other financial assets			
1. Financial assets held for trading	—	296	—	—	296	300
2. Financial assets at fair value	—	—	—	—	—	—
3. AFS securities	—	—	—	—	—	—
4. Financial assets held to maturity	685	—	—	—	685	721
5. Loans and advances to credit institutions	5	3.619	—	—	3.624	7.569
6. Loans and advances to customers	—	38.642	—	57	38.699	40.798
7. Hedging derivatives	—	—	1.572	—	1.572	4.350
8. Financial assets sold but not derecognized	—	—	—	—	—	—
9. Other assets	—	—	—	—	—	—
Total	**690**	**42.557**	**1.572**	**57**	**44.876**	**53.738**

(1) During the first semester of the fiscal year the Bank has executed financial guarantees on a non performing exposures fully covered by financial pledge issued by Parent Company, as a result the Bank did not register any loss in its income statement. Non-performing loans at the reference date refer to forborne exposures which remain fully covered by financial guarantees issued by the Parent Company.

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

	Payables	Notes	Other liabilities	6 mths to 31/12/17	6 mths to 31/12/16
1. Amount due to Banks	-21.759	—	—	-21.759	-16.410
2. Amount due to customers	-6.599	—	—	-6.599	-9.482
3. Debt securities	—	-3.720	—	-3.720	-7.163
4. Trading liabilities	—	—	—	—	—
5. Liabilities at fair value	—	—	—	—	—
6. Liabilities in respect of assets sold but not yet derecognized	—	—	—	—	—
7. Other liabilities	—	—	—	—	—
8. Hedging derivatives	—	—	—	—	-236
Total	**-28.358**	**-3.720**	**—**	**-32.078**	**-33.291**

Section 2

Headings 40 and 50: Net fee and commission income

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

	6 mths to 31/12/17	**6 mths to 31/12/16**
a) guarantees given	99	19
b) credit derivates	—	—
c) management, trading and advisory services:	75	—
1. securities dealing	—	—
2. currency dealing	—	—
3. asset management	—	—
4. securities under custody and non-discretionary	—	—
5. depositary services	—	—
6. securities placing	75	—
7. procurement of orders	—	—
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	561	41
f) factoring servicing	—	—
g) tax collection and receipt services	—	—
h) lending services	6.741	8.388
Total	**7.476**	**8.448**

2.2 Fee and commission expense (in € k)

	6 mths to 31/12/17	**6 mths to 31/12/16**
a) guarantees received	-502	-1.701
b) credit derivatives	—	—
c) management and services:	—	—
1. securities dealing	—	—
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) stock borrowings	-806	-1.061
f) others	-3.852	-5.126
Total	**-5.160**	**-7.888**

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	6 mths to 31/12/17	6 mths to 31/12/16
1. Trading assets		—	-8.544		**-8.544**	**-1.509**
1.1 Debt securities	—	—	—	—	**—**	**—**
1.2 Equities	—	—	—	—	**—**	**—**
1.3 OICR units	—	—	-8.536	—	**-8.536**	**-1.697**
1.4 Loans and receivables	—	—	-8	—	**-8**	**188**
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	233.327	—	-234.133	—	**-806**	**9.531**
4. Derivative products	144.827	134	-136.525	-399	**8.037**	**-9.495**
4.1 Financial derivatives:	115.543	—	-116.006	—	**-463**	**-10.950**
– on debt securities/interest rates	114.690	—	-115.155	—	**-465**	**-1.848**
– on equities/share indexes	853	—	-851	—	**2**	**646**
– on foreign currency/gold	—	—	—	—	**—**	**-9.748**
– others	—	—	—	—	**—**	**—**
4.2 Credit derivatives	29.284	134	-20.519	-399	**8.500**	**1.455**
Total	**378.154**	**134**	**-379.202**	**-399**	**-1.313**	**-1.473**

Section 4

Heading 90: Net hedging income (expense)

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

	6 mths to 31/12/17	6 mths to 31/12/16
A. Income from:		
A.1 Fair value hedge derivatives	187.980	—
A.2 Financial assets hedged (fair value)	—	—
A.3 Financial liabilities hedged (fair value)	189.306	97.559
A.4 Cash flow hedge financial derivatives	—	—
A.5 Assets and liabilities in foreign currency	—	—
Total hedging income (A)	**377.286**	**97.559**
B. Expenses relating to:		
B.1 Fair value hedge derivatives	-377.442	-97.205
B.2 Financial assets hedged (fair value)	—	—
B.3 Financial liabilities hedged (fair value)	-142	-310
B.4 Cash flow hedge financial liabilities	—	—
B.5 Assets and liabilities in foreign currency	—	—
Total hedging expenses (B)	**-377.584**	**-97.515**
C. Net hedging income (A-B)	**-298**	**44**

Section 5

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

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

	6 mths to 31/12/17			6 mths to 31/12/16		
	Gains	**Losses**	**Net profit (loss)**	**Gains**	**Losses**	**Net profit (loss)**
Financial assets						
1. Due from Banks	—	—	—	—	—	—
2. Due from customers	85	—	85	459	—	459
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	**85**	**—**	**85**	**459**	**—**	**459**
Financial liabilities						
1. Due to Banks	—	—	—	—	—	—
2. Due to customers	—	—	—	—	—	—
3. Debt securities in issue		-40	-40	3	—	3
Total liabilities	**—**	**-40**	**-40**	**3**	**—**	**3**

Section 6

Heading 130: Adjustments for impairment

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

Transactions/Income-linked components	Value adjustments			Amounts recovered				6 mths to 31/12/17	6 mths to 31/12/16
	Specific		Portfolio	Specific		Portfolio			
	Write offs	Others		A	B	A	B		
A. Due from Banks	—	—	-10	—	—	—	—	-10	—
B. Due from customers	—	—	-1.736	—	—	—	1.895	159	-669
C. Total	**—**	**—**	**-1.746**	**—**	**—**	**—**	**1.895**	**149**	**-669**

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				6 mths to 31/12/17	6 mths to 31/12/16
	Specific		Portfolio	Specific		Portfolio			
	Write offs	Others		A	B	A	B		
A. Guarantees given	—	—	—	—	—	—	1	1	-1
B. Credit derivatives	—	—	—	—	—	—	—	—	—
C. Commitments	—	—	-133	—	—	—	154	21	317
D. Other transactions	—	—	—	—	—	—	—	—	—
E. Total	**—**	**—**	**-133**	**—**	**—**	**—**	**155**	**22**	**316**

Legend

A = interest

B = other amounts recovered

Section 7

Heading 180: Administrative expenses

7.1 Personnel cost: composition (in € k)

	6 mths to 31/12/17	6 mths to 31/12/16
1.Employees	-740	-545
a) wages and salaries	-651	-476
b) social security charges	-58	-45
c) severance indemnities	—	—
d) pension contributions	—	—
e) transfers to severance indemnity provision	—	—
f) transfers to post-employment and similar benefits:	—	—
– defined contribution	-8	—
– defined benefit	—	—
g) payments to outside complementary pension schemes:	—	-2
– defined contribution	—	-2
– defined benefit	—	—
h) expenses incurred in connection with share payment schemes	—	—
i) other staff benefits	—	-22
2. Other staff	-23	-47
3. Board members	-98	-100
Total	**-861**	**-692**

7.2 Other administrative expenses: composition (in € k)

	6 mths to 31/12/17	6 mths to 31/12/16
OTHER ADMINISTRATIVE EXPENSES		
– legal, tax and professional services	-165	-144
– loan recovery activity	—	-28
– marketing and communication	-4	-3
– property	-100	-94
– EDP	-633	-469
– Info-provider	-1	-2
– bank charges, collection and payment fees	-13	-16
– operating expenses	-1.838	-1.769
– other staff expenses	-13	-5
– other costs	-80	-64
– indirect and other taxes	-338	-332
Total other administrative expenses	**-3.185**	**-2.926**

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	6 mths to 31/12/17	6 mths to 31/12/16
A. Tangible assets					
A.1 Owned:	-3	—	—	-3	-8
– Core	-3	—	—	-3	-8
– Investment	—	—	—	—	—
A.2 Acquired under finance leases:	—	—	—	—	—
Total	**-3**	—	—	**-3**	**-8**

Section 10

Heading 220: Other operating income (expenses)

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

Income-based components/values	6 mths to 31/12/17	6 mths to 31/12/16
a) Amounts recovered from customers	—	—
b) Other income	81	9
Total	**81**	**9**

Section 11

Heading 290: Income tax on the ordinary activity

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

	6 mths to 31/12/17	6 mths to 31/12/16
1. Current taxes	-2.575	-4.701
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	**-2.575**	**-4.701**

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

	31/12/2017		31/12/2016	
	Amounts %	**Absolute values**	**Amounts %**	**Absolute values**
Total profit or loss before tax from current operations		**9.772**		**16.071**
Theoretical income tax expense on pre-tax income	-26,01%	-2.542	-29,22%	-4.696
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%	-33	-0,03%	-5
Effective corporate income tax expense	**-26,01%**	**-2.575**	**-29,25%**	**-4.701**

PART D – 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	—	—	—	—	13.647
20.	Financial assets held for trading	21.240	—	36.786	5.087	549
50.	Financial assets held to maturity	—	—	—	—	—
60.	Loans and advances to credit institutions	670.167	—	1.160.679	160.513	—
70.	Loans and advances to customers	1.169.593	—	2.025.645	280.133	—
80.	Hedging derivatives	174	—	300	42	—
100.	Equity investments	—	—	—	—	4.150
120.	Tangible assets	—	—	—	—	11
130.	Intangible assets	—	—	—	—	—
140.	Tax assets	—	—	—	—	—
160.	Other assets	16.383	—	28.376	3.924	—
	Total assets at 31/12/2017	**1.877.557**	**—**	**3.251.786**	**449.699**	**18.357**
	Total assets at 30/06/2017	**2.136.072**	**—**	**2.273.652**	**582.040**	**199.905**
10.	Amount due to Credit institutions	-685.759	—	-1.187.682	-164.248	—
20.	Amount due to customers	-263.505	—	-456.370	-63.113	—
30.	Debt securities in issue	-800.082	—	-1.385.681	-191.629	—
40.	Financial liabilities held for trading	-9.970	—	-17.267	-2.388	-18.681
60.	Hedging derivatives	—	—	—	—	—
80.	Tax liabilities	-3.832	—	-6.637	-918	—
100.	Other liabilities	-1.308	—	-2.266	-313	—
160.	Shareholders' equity	-110.570	—	-191.500	-26.483	—
	Total liabilities at 31/12/2017 (1)	**-1.875.026**	**—**	**-3.247.403**	**-449.092**	**-18.681**
	Total liabilities at 30/06/2017 (1)	**-2.161.927**	**—**	**-2.301.174**	**-589.084**	**-118.705**

(1) Profit for the period excluded

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	20.558	—	19.984	4.333	—
020.	Interests payable and similar charges	-14.700	—	-14.283	-3.095	—
030.	**Net interest income**	**5.858**	**—**	**5.701**	**1.238**	**—**
040.	Fee and commission income	3.426	—	3.329	721	—
050.	Fee and commission expense	-2.365	—	-2.298	-498	—
060.	**Net fee and commission income**	**1.061**	**—**	**1.031**	**223**	**—**
080.	Net trading income/expense	-424	—	-410	-90	-389
090.	Net hedging income/expense	-135	—	-134	-29	—
100.	Gain or loss on disposal or repurchase of:	22	—	19	4	—
	a) loans and receivables	39	—	37	8	—
	b) financial assets available for sale	—	—	—	—	—
	c) financial assets held to maturity	—	—	—	—	—
	d) financial liabilities	-17	—	-18	-4	—
120.	**Total income**	**6.382**	**—**	**6.207**	**1.346**	**-389**
130.	Value adjustments	78	—	76	16	—
140.	**Net income from the financial management**	**6.460**	**—**	**6.283**	**1.362**	**-389**
180.	Administrative expenses	-1.842	—	-1.793	-387	—
200.	Value adjustments in respect of tangible assets	—	—	—	—	-3
210.	Value adjustments in respect of intangible assets	—	—	—	—	—
220.	Other operating income/expense	—	—	—	—	81
280.	**Profit (loss) of the ordinary activity before tax**	**4.618**	**—**	**4.490**	**975**	**-311**
290.	Income tax on the ordinary activity	-1.180	—	-1.146	-249	—
340.	**Profit (loss) for the year**	**3.438**	**—**	**3.344**	**726**	**-311**
350.	Other comprehensive income, net of tax	—	—	—	—	—
360.	**Total comprehensive income for the year, net of tax as at 31/12/2017**	**3.438**	**—**	**3.344**	**726**	**-311**
	Total comprehensive income for the year, net of tax as at 31/12/2016	**5.959**	**—**	**4.584**	**917**	**-90**

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, Europe, Americas and Oceania. The following tables show the distribution of the Bank's financial and income statements based on the location of the customers for the interim accounts ended 31 December 2017 and 31 December 2016.

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

	LUXEMBOURG	OTHER EUROPEAN COUNTRIES	AMERICAS	OTHER EMEA
Cash and cash balances with Central Banks	13.647	—	—	—
Financial assets held for trading	40.553	13.643	9.467	—
Financial assets held to maturity	—	—	—	—
Loans and advances to Credit Institutions	1.582	1.989.777	—	—
Loans and advances to Customers	407.755	2.424.554	643.062	—
Hedging derivatives	—	516	—	—
Equity investments	4.150	—	—	—
Tangible assets	11	—	—	—
Intangible assets	—	—	—	—
Tax assets	—	—	—	—
Other assets	47.261	1.337	84	—
A. Total assets 31/12/2017	**514.959**	**4.429.827**	**652.613**	**—**
A. Total assets 30/06/2017	**595.074**	**3.832.835**	**764.249**	**-489**
Amount due to Banks	—	-2.037.689	—	—
Amount due to customers	-80.000	-702.988	—	—
Debt securities in issue	-2.377.392	—	—	—
Financial liabilities held for trading	-18.577	-29.730	—	—
Hedging derivatives	—	—	—	—
Tax liabilities	-11.386	—	—	—
Other liabilities	-1.845	-2.023	-19	—
Shareholders' equity	-328.553	—	—	—
B. Total liabilities 31/12/2017 (1)	**-2.817.753**	**-2.772.430**	**-19**	**—**
B. Total liabilities 30/06/2017 (1)	**-1.028.333**	**-4.142.540**	**-17**	**—**

(1) Profit for the period excluded

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

	LUXEMBOURG	OTHER EUROPEAN COUNTRIES	AMERICAS	ASIA
Net interest income	93	2.537	10.034	131
Net fee and commission income	880	992	395	49
Net trading income/expense	-1.372	67	-8	—
Net hedging income/expense	1.269	-1.567	—	—
Gain or loss on disposal or repurchase	-67	84	28	—
Value adjustments - impairment	-172	74	269	—
Administrative expenses	-1.193	-2.828	-1	—
Value adjustments – amortisation	-3	—	—	—
Other operating income (expenses)	6	73	2	—
Income tax	-2.575	—	—	—
Net profit/loss 6 months 2017	**-3.134**	**-568**	**10.719**	**180**
Net profit/loss 6 months 2016	**5.345**	**-10.430**	**16.455**	**—**

PART E – 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 Mother company; 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 Risks Committee. Once the finance has been disbursed the account is monitored on an ongoing basis, via analysis of published interim accounts 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 Mediobanca International (Luxembourg) S.A. 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	—	—	—	—	63.662	63.662
2. Available-for-sale financial assets	—	—	—	—	—	—
3. Held to maturity financial instruments	—	—	—	—	—	—
4. Loans and receivables with Banks	—	—	—	—	1.991.359	1.991.359
5. Loans and receivables with customers	—	—	1.449	—	3.473.923	3.475.372
6. Financial assets at fair value through profit	—	—	—	—	—	—
7. Financial assets classified as held for	—	—	—	—	—	—
8. Hedging derivatives	—	—	—	—	516	516
Total 31/12/2017	**—**	**—**	**1.449**	**—**	**5.529.460**	**5.530.909**
Total 30/06/2017	**—**	**—**	**50.606**	**—**	**5.122.097**	**5.172.703**

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	—	—	—	63.662	—	63.662	63.662
2. AFS securities	—	—	—	—	—	—	—
3. Financial assets held to maturity	—	—	—	—	—	—	—
4. Due from Banks	—	—	—	1.991.370	-11	1.991.359	1.991.359
5. Due from customers	1.449	—	1.449	3.477.353	-3.430	3.473.923	3.475.372
6. Financial assets recognized at fair value	—	—	—	—	—	—	—
7. Financial assets being sold	—	—	—	—	—	—	—
8. Hedging derivatives	—	—	—	516	—	516	516
Total at 31/12/2017	**1.449**	**—**	**1.449**	**5.532.901**	**-3.441**	**5.529.460**	**5.530.909**
Total at 30/06/2017	**50.606**	**—**	**50.606**	**5.125.686**	**-3.589**	**5.122.097**	**5.172.703**

Impaired assets at 31 December 2017 refer to non performing and restructured loans 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	31/12/2017	30/06/2017
A. CASH EXPOSURES					
a) Non-performing	—	—	—	—	—
e) Other assets	1.991.370	—	-11	1.991.359	1.349.443
Total A	**1.991.370**	**—**	**-11**	**1.991.359**	**1.349.443**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Non-performing	—	—	—	—	—
b) Other assets	—	—	—	—	—
Total B	**—**	**—**	**—**	**—**	**—**

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	31/12/2017	30/06/2017
A. CASH EXPOSURES					
a) Non-performing	1.449	—	—	1.449	50.606
b) Other assets	3.477.353	—	-3.430	3.473.923	3.249.272
Total A	**3.478.802**	**—**	**-3.430**	**3.475.372**	**3.299.878**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Non-performing	—	—	—	—	2.443
b) Other assets	1.345.960	—	-336	1.345.624	1.150.613
Total B	**1.345.960**	**—**	**-336**	**1.345.624**	**1.153.056**

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

Description/Category	31/12/2017		30/06/2017
	Non performing	**Restructured**	
A. Gross exposure at start of period	50.606	—	52.552
of which: accounts sold but not derecognized	—	—	—
B. Additions	—	—	763
B.1 transfers from performing loans	—	—	—
B.2 transfer from other categories of impaired assets	—	—	—
B.3 other additions	—	—	763
C. Reductions	-49.157	—	-2.709
C.1 transfer to performing loans	—	—	—
C.2 amounts written off [1]	-32.645	—	—
C.3 amounts collected	-16.373	—	-2.231
C.4 gains realized on disposal	—	—	—
C.5 transfers to other categories of impaired assets	—	—	—
C.6 other reductions	-139	—	-478
D. Gross exposure at end of period	1.449	—	50.606
of which: accounts sold but not derecognized	—	—	—

[1] Following the loan written off, no impacts have been registered for MB International on P&L given that non-performing loans are all restructured positions fully covered by financial guarantees issued by the Parent Company.

1.2 Market risk

1.2.1 Interest rate risk – regulatory trading 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 31 December 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: - € 2.226.753
- Scenario -200 bps: - € 6.222.308

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.

1.2.2 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)*

	31/12/2017		30/06/2017	
Type of transactions	**Over-the-counter**	**Listed**	**Over-the-counter**	**Listed**
1. Debt securities and interest rates	1.782.197	—	1.295.899	—
a) Options	380.000	—	—	—
b) Swap	1.402.197	—	1.295.899	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
2. Equities and share indexes	2.501	—	57.834	—
a) Options	2.501	—	57.834	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Exchange rates and Gold	996.784		430.873	
a) Options	—	—	—	—
b) Swap	606.019	—	87.627	—
c) Forward	390.765	—	343.246	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	**2.781.482**	—	**1.784.606**	—

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

A.2.1 *Hedging derivatives*

Type of transactions	**31/12/2017**		**30/06/2017**	
	Over-the-counter	**Listed**	**Over-the-counter**	**Listed**
1. Debt securities and interest rates	660.000	—	118.503	—
a) Options	—	—	—	—
b) Swap	660.000	—	78.503	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others(1)		—	40.000	—
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	**660.000**	**—**	**118.503**	**—**

[1] A reclassification between regulatory banking book and other derivatives has been applied for the financial year 2016/2017, in order to improve the qualitative information within the banking book portfolio.

A.2.2 *Other derivatives*

Type of transactions	31/12/2017		30/06/2017	
	Over-the-counter	**Listed**	**Over-the-counter**	**Listed**
1. Debt securities and interest rates	471.355	—	711.861	—
a) Options	—	—	—	—
b) Swap	471.355	—	671.861	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others[(1)]	—	—	40.000	—
2. Equities and share indexes	2.501	—	2.629	—
a) Options	2.501	—	2.629	—
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	**473.856**	—	**714.490**	—

[1] A reclassification between regulatory banking book and other derivatives has been applied for the financial year 2016/2017, in order to improve the qualitative information within the banking book portfolio.

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

Type of transactions	Positive fair value			
	31/12/2017		30/06/2017	
	Over-the-counter	**Listed**	**Over-the-counter**	**Listed**
A. Regulatory trading book	11.826	—	2.225	—
a) Options	526	—	5	—
b) Interest Rate Swap	2.508	—	1.245	—
c) Cross Currency Swap	7.957	—	975	—
d) Equity Swap	—	—	—	—
e) Forward	835	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
B. Banking book: Hedge derivatives	516	—	192.321	—
a) Options	—	—	—	—
b) Interest Rate Swap	516	—	192.321	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others[1]	—	—		—
C. Banking book: Others derivatives	6.475	—	196.799	—
a) Options	—	—	620	—
b) Interest Rate Swap	6.475	—	8.286	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others[1]		—	187.893	—
Total	**18.817**	—	**391.345**	—

[1] A reclassification between regulatory banking book and other derivatives has been applied for the financial year 2016/2017, in order to improve the qualitative information within the banking book portfolio.

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

Type of transactions	Negative fair value			
	31/12/2017		30/06/2017	
	Over-the-counter	Listed	Over-the-counter	Listed
A. Regulatory trading book	-13.880	—	-10.128	—
a) Options	-659	—	-627	—
b) Interest Rate Swap	-7.418	—	-8.812	—
c) Cross Currency Swap	-5.052	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	-751	—	-689	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
B. Banking book: Hedge derivatives		—	-187.893	—
a) Options	—	—	—	—
b) Interest Rate Swap	—	—	—	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others		—	-187.893	—
C. Banking book: Others derivatives	—	—	—	—
a) Options	—	—	—	—
b) Interest Rate Swap	—	—	—	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	**-13.880**	—	**-198.021**	—

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	31/12/2017							30/06/2017[2]
	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	300.000	—	—	—	600.000
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	-127	—	—	—	—
- future exposure[1]	—	—	—	1.000	—	—	—	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] 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.

[2] A reclassification has been applied to the financial year 2017/2018 on financial derivatives by changing the regulatory portfolio from "banking" to "trading" book The same reclassification has been done to the prior fiscal year (€ 200m as notional and € 1 m as future exposure)

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	31/12/2017							30/06/2017
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	1.082.197	—	—	—	—	895.899
- positive fair value	—	—	3.033	—	—	—	—	1.245
- negative fair value	—	—	-7.950	—	—	—	—	-8.812
2. Equities and share indexes								
- notional value	—	—	2.501	—	—	—	—	57.834
- positive fair value	—	—	—	—	—	—	—	5
- negative fair value	—	—	—	—	—	—	—	-627
3. Exchange rates and Gold								
- notional value	—	—	996.784	—	—	—	—	430.874
- positive fair value	—	—	8.793	—	—	—	—	975
- negative fair value	—	—	-5.803	—	—	—	—	-689
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	31/12/2017							30/06/2017[2]
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—
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

[2] A reclassification has been applied to the financial year 2017/2018 on financial derivatives by changing the regulatory portfolio from "banking" to "trading" book The same reclassification has been done to the prior fiscal year (€ 200m as notional and € 1 m as future exposure)

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	31/12/2017							30/06/2017
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	660.000	—	—	—	—	118.503
- positive fair value	—	—	516	—	—	—	—	192.321
- negative fair value	—	—	—	—	—	—	—	-187.893
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).

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	43.894	949.304	33.000	896.356
b) Credit spread products	—	—	—	—
c) Total rate of return swap	—	—	—	—
d) Others	—	—	—	—
Total at 31/12/2017	**43.894**	**949.304**	**33.000**	**896.356**
Total at 30/06/2017	**140.944**	**876.271**	**33.000**	**7.906**
2. Hedge sales				
a) Credit default	669.565	854.665	594.874	1.053.531
b) Credit spread products	—	—	—	—
c) Total rate of return swap	—	—	—	—
d) Others	—	—	—	—
Total at 31/12/2017	**669.565**	**854.665**	**594.874**	**1.053.531**
Total at 30/06/2017	**57.612**	**5.208**	**16.200**	**876.271**

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

Transaction categories	Positive FV	
	31/12/2017	**30/06/2017**
1. Regulatory trading book		
a) Credit default	1.816	1.475
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
2. Regulatory banking book		
a) Credit default	15.389	1.889
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
Total	**17.205**	**3.364**

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

Transaction categories	Negative FV	
	31/12/2017	30/06/2017
1. Regulatory trading book		
a) Credit default	-34.427	-121.169
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
2. Regulatory banking book		
a) Credit default	—	—
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
Total	**-34.427**	**-121.169**

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

Contracts not forming part of netting arrangements	31/12/2017							30/06/2017
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
Regulatory trading book								
1. Hedge buys								
- notional value	—	—	965.980	—	—	—	—	888.384
- positive fair value	—	—	674	—	—	—	—	—
- negative fair value	—	—	-9.505	—	—	—	—	-1.678
2. Hedge sales								
- notional value	—	—	1.524.230	—	—	—	—	62.821
- positive fair value	—	—	1.142	—	—	—	—	1.474
- negative fair value	—	—	-6.241	—	—	—	—	-786
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 Company to allow both entities to reduce the capital absorption from RWA on derivatives products (cross products netting agreement).

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 individual companies concerned. No atypical or unusual transactions have been entered with such companies. Related parties for the purpose hereof include local strategic management, Parent Company, entities of its Group and its Directors and executive officers (and any company owned by them).

Reference is made in the following table 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 31 December 2017 and 30 June 2017 concerning related parties are as follows (in € k):

Assets and liabilities	31/12/2017		30/06/2017
	Parent Bank	Other related parties	
Financial assets held for trading	13.643	—	4.276
Financial assets held to maturity	—	—	59.324
Loans and advances	1.978.478	173	1.339.277
Derivatives held for hedging	516	—	192.321
Other assets	—	—	1
Total assets	**1.992.637**	**173**	**1.595.199**
Amounts due	-2.037.689	-80.000	-1.928.168
Debt securities	-385.058	-200.600	-243.497
Financial liabilities held for trading	-29.730	—	-413.541
Derivatives held for hedging	—	—	—
Other liabilities	-693	-29	-1.309
Total liabilities	**-2.453.170**	**-280.629**	**-2.586.515**

Comprehensive income	31/12/2017		31/12/2016
	Parent Bank	Other related parties	
Interest and similar income	-5.846	—	-4.687
Interest expenses and similar charges	-24.080	—	-16.564
Fee and commission income	261	1	42
Fee and commission expenses	-5.109	—	-7.805
Net gains and losses on financial assets and liabilities hft	1.966	—	70.039
Net gains and losses from hedge accounting	-1.569	—	-97.205
Administrative expenses	-1.811	-593	-2.359
Impairment	—	—	—
Other income	—	3	7
Total	**-36.188**	**-589**	**-58.532**

Guarantees and commitments	31/12/2017		30/06/2017
	Parent Bank	Other related parties	
Financial guarantees received	2.294.181	—	2.338.217
Financial guarantees given	—	—	—
Commercial guarantees given	—	—	—
Irrevocable commitments to disburse funds	—	430	380
Commitments underlying cds: hedge sales	893.865	—	930.679
Total	**3.188.046**	**430**	**3.269.276**

PART I – OTHER INFORMATION

Staff number

As at 31 December 2017, the Bank's staff is as follows:

	31/12/2017	30/06/2017
Management–Senior	2	2
Management–Middle	1	1
Other staff	8	9
Total	**11**	**12**

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 other adjusting or not-adjusting event that would have occurred between 31 December 2017 and the date when the present interim accounts were authorized for issue.