MEDIOBANCA

International (Luxembourg) S.A.

Annual Accounts and Report
as at June 30, 2012

MEDIOBANCA INTERNATIONAL (LUXEMBOURG)

SOCIÉTÉ ANONYME

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

www.mediobancaint.lu

BOARD OF DIRECTORS

		Term expires	Location
MASSIMO DI CARLO	CHAIRMAN	2014	ITALY
LUCA MACCARI	MANAGING DIRECTOR	2014	LUXEMBOURG
PETER W. GERRARD	»	2014	LUXEMBOURG
DANIEL CARDON DE LICHTBUER	DIRECTOR	2014	BELGIUM
STEFANO PELLEGRINO	»	2014	ITALY
SILVIO PERAZZINI	»	2014	ITALY
FEDERICO POTSIOS	»	2014	ITALY
ALEX SCHMITT	»	2014	LUXEMBOURG

LEGAL ADVISOR

BONN & SCHMITT	LUXEMBOURG

INDEPENDENT AUDITOR

ERNST & YOUNG S.A.	LUXEMBOURG

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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 30 JUNE 2012
BOARD OF DIRECTORS' REVIEW OF OPERATIONS

The Bank's results for the twelve months under review show a net profit of €28,4m (30/06/11: €36,1m). This lowering reflects a 14,5% decrease in total income, from €51,8m to €44,3m. Main income items performed as follows:

- Interest income shows a decrease of 12,2%, from €34,5m to €30,3m, involving in particular the area of corporate and investment banking (CIB) due to the increased funding costs, which reflects the uncertainty in the economic and financial situation within the Eurozone; more in particular the Group Mediobanca is concerned by the Italian sovereign debt crisis. In this stressed and weak scenario the Bank decided to maintain a conservative and prudential approach in the business.
- net fee and commission income decrease by 31,5%, from €16,2m to €11,1m, due to a substantial slowdown in lending activity.

On the balance-sheet side, loans and advances to customers decreased substantially from €3.863m down to €3.218m as a result of the lowering strategy on RWA, while notes worth a total of €493m from €118m were issued against the Bank's Medium Term Notes Programme and €1.190m from €2.172m were issued against its Short Term Programme.

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

- In September 2011 the Bank finalized the purchase of 100% of the shares of Jodewa S.à R.L. (afterwards renamed Mediobanca International Immobilière S.à R.L.). The Company owns the building where the legal and administrative office of the Bank moved on April 2012.
- In October 2011 Moody's cut its rating for Italy to A2 from Aa2, citing weak growth prospects and increasing difficulties to slash its debt; the downgrade implied a heavier weighting factor (50% instead of 20%) for exposures towards Italian entities and for the guarantee given by the Parent Company to Mediobanca International. The Bank realized a Tier2 capital increase of Euro 10,750,000 on December 30th 2011 in order to support its solvency ratio.
- In October 2011 the Bank started a new Loan Trading activity with a view to dynamically managing credit positions to make profits from possible arbitrage trades. The activity is limited so far to a portfolio of pre-authorized names which are part of the loans where Mediobanca International already participated as original lender (banking book).
- 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).

DEVELOPMENT IN MACROECONOMIC SCENARIO

In the past twelve months the turnover reported by industrial multinationals located in emerging countries doubled its share of the world total, from 10% to 20%, bringing about an equivalent contraction in the share reported by the European and North American multinationals, which fell from 41% to 37% and from 31% to 27% respectively. At the sector level, the oil industry continues to increase its share, up from 24% to 29%, driven by crude oil prices, with the electronics industry resilient at 15.5%. The contraction reported by the other sectors was felt particularly by the automotive industry, whose share fell from 17% to 13%. The share of the global total electronics industry's revenues accounted by Asian firms increased from 52% to 59%, but within this framework Japan declined in importance, its share falling from 36% to 28%, making space for the other Far Eastern economies (whose share rose from 16% to 31%). In the automotive sector, large Asian industry increased its share from 34.5% to 43%, due both to the Japanese consolidating their position (from 30.5% to 33%) and the other countries doubling theirs (from 4% to 10.5%), at the expense of the western producers.

In this scenario, in 2011 the manufacturing multinationals continued their marked recovery which began in 2010. Growth was widespread, affecting both western mature economies (North America 11.2%, Europe 8.8%) and emerging economies in the Russian/Asian area (12.1%) and the "rest of the world" – basically Africa and South America – where it reached 15%. Sales exceeded 2007 levels, by 14% for the European multinationals and by 11% for the North American firms, but it was the eastern and southern regions which saw their volumes outstrip their pre-crisis levels most convincingly, at 75% and 63% higher respectively. Japan was hit by the fallout of the earthquake in March 2011, and large-scale Japanese manufacturing saw sales fall by 5.5% in 2010. The profit margins show more favourable trends for the large western companies, which appear to have benefited from the higher growth by the distant economies more than the Asian groups have, as the latter have to face local GDP growth rates which, while still high, are less impressive than in previous years. EBIT grew by 10% versus 2010 in Europe and North America, but declined by 3% in Asia-Russia and was flat in the rest of the world. These trends have led to higher industrial profitability levels in North America (EBIT/turnover ratio 13%) and Europe (11%) than in the other areas (just under 9.5%). Net profitability too, as measured by ROE, followed the same path. In the energy industry the difference in margins favours the large western international groups.

	North America		Europe		Russia/Asia	
	Energy	*Manufacturing industry*	*Energy*	*Manufacturing industry*	*Energy*	*Manufacturing industry*
	Chg. % 2011/2010					
Total sales	+26.6	+11.2	+23.1	+8.8	+33.4	+12.1
EBIT	+37.9	+10.0	+27.9	+9.9	+9.4	-2.9
Current profit	+38.7	+13.8	+28.6	+14.0	+11.0	-5.5
ROE (as %)	*27.2*	*30.3*	*22.7*	*17.3*	*19.4*	*16.5*

Source : R&S – Multinationals financial aggregates (2012)

The recovery in sales in 2011 went alongside a widespread weakening in the capital structure. The North American and European manufacturing multinationals show leverage ratios (assets vs net equity) which are significantly higher than those of the emerging Asian countries (between 2.7x and 2.8x compared with 2x), where the levels of capitalization are much more solid (net equity equal to more than twice net debt), and cash is more substantial (more than 60% of net debt). These characteristics mean that the Asian firms are better equipped to face the problems posed by the uncertain economic prospects.

	North America		Europe		Russia/Asia	
	Chg. as % of 2010	as % of total assets	Chg. as % of 2010	as % of total assets	Chg. as % of 2010	as % of total assets
Net equity	+3.8	37.7	+4.4	35.8	+8.9	49.9
Net debt	+3.5	19.4	+6.1	27.4	+19.1	23.5
Cash and equivalents	+1.2	13.5	-8.5	8.9	+7.7	14.8
Leverage (times)		*2.7*		*2.8*		*2.0*

Source : R&S – Multinationals financial aggregates (2012), manufacturing companies

Italian manufacturing multinationals show greater fragility as a whole: they have lower nominal productivity (€60,000 net value added per staff member, as opposed to €79,000 for Germany and €74,000 for France), which, while offset by the lower per capita labour costs (€46,000, versus €56,000 for the German companies and €51,000 for the French), still translates to reduced levels of competitiveness. This in turn impacted on 2011 profits, where the figures in terms of industrial margins as a percentage of total sales were far off those recorded in the largest European countries (5.2% in Italy, 9.2% in Germany, 10.3% in France). The financial structure is also made vulnerable by the presence of substantial intangibles which erode the tangible net equity/net debt ratio (0.9% in Italy, 45% in Germany, 27% in France). Net profit was scarce in 2011 (net profit accounting for 0.3% of total sales, against 6.6% in Germany and 6.3% in France). The lack of dynamism in terms of margins and the over-burdened financial structure have left the Italian manufacturing multinationals far off their pre-crisis levels: current profit for 2011 was still 28% behind, whereas the largest French groups were 11% above the respective levels, and the German groups 45%. Apart from the relatively anti-cyclical events affecting Eni and Enel, the leading Italian groups' prospects appear to be linked to the relaunch of the aerospace industry headed up by Finmeccanica (and the events affecting its subsidiary DRS Technologies, which has been hit by the US government's defence cuts), the repositioning of the Fiat group, which, with Chrysler now fully consolidated, has 50% of its total sales concentrated on the US market, the uncertain performance of the steel groups (Riva, Dalmine and Marcegaglia) whose margins are linked, among other things, to the prices of the commodity concerned, the dynamism of the tyre and cables sector (Pirelli and Prysmian), and finally, the role of the large food industry players (Ferrero, Parmalat and Barilla).

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On declining revenues in 2010 (down 1.1%) due primarily to the sharp reduction in trading profits (30.2%), the large European banks have been able to defend their current profits, which were up 2.4%, due to the reduction in loan loss provisions (down 11.5%), with overheads remaining flat (up 0.8%). The system of large European banks achieved a current profit of around 20% of its revenues, some 8 percentage points below the average level for the 2001-2007 period. Extraordinary items affected net profit, however, which fell by 72.8% to reach 3.8% of revenues, the lowest result since 2001 if the 2008 deficit is not included. Before the crisis the European banks generated profits averaging 20.8% of total income. In the United States revenues fell much more heavily year-on-year, down 8.8%. Given that operating costs also increased considerably (up 4.5%), only the even more drastic reduction in loan loss provisions (down 52.4%) protected the current profit which grew 0.4%, to reach 22.6% of revenues. The largest US banks too are still far off their pre-crisis levels, when they recorded an average current profit equal to 32.4% of revenues, a gap of almost 10 percentage points. However, the US banks did not incur such hefty extraordinary charges; indeed, one-off expenses actually fell by 60%, allowing their net profit to increase by 22.1% and reach 15% of total income, still far off the 21.3% recorded in the years prior to

2007. The ROE delivered by European banks fell in 2011 to 1.9%, far below the 7.5% posted by the US banks.

	Europe	United States
	Chg. % 2011/2010	
Revenues	-1.1	-8.8
Loan losses	-11.5	-52.4
Current profit	+2.4	+0.4
Net profit	-72.8	+22.1
ROE (as %)	*1.9*	*7.5*

Source : R&S – Major international banks (2012)

On the asset side, the European banks' assets grew by 4.8%, despite a profound deleveraging of the securities portfolio (down 11.9% vs 2010), due to the higher exposure to derivatives (up 33%) which account for roughly one-quarter of the total assets. Cash and cash equivalents also grew significantly, by 53.1%, including due to the extraordinary refinancing transactions implemented by the ECB, whereas loans and advances to customers declined slightly, by 1%. Conversely, there was a substantial reduction of 9.8% in intangibles: although these items do not impact on the Basel ratios, they nonetheless account for over 21% of European banks' funds and any future writedown may impact on the profitability of the banks. On the liability side, funds raised through debt securities fell by 10% vs 2010, reflecting the rigidity of this funding channel. Leverage increased in 2011, from 28.3x to 28.9x, and shows substantial stability over the last three years. In the United States assets were up 9.8% on 2010, again due to derivatives (up 27.5%, and equal to 37.5% of assets), given a slight contraction in the securities portfolio (down 1.2%) and 1.7% growth in loans and advances to customers. Worthy of note was the 11.6% fall in debt securities, equivalent in terms of intensity to that witnessed in Europe. Leverage stood at 22.7x, a significant reduction from the 26.8x in 2009. The weight of banking activities in the host economies remains considerable: the assets booked on the balance sheets of the largest European banks as at year-end 2011 are equal to more than two times the GDP of the home countries, with the derivatives alone equal to 53.2%. In the United States assets represented 87.4% of GDP, derivatives 32.8%. As for credit quality, the coverage ratio for bad debt increased marginally in Europe to reach 50.7%, still far off the 77% level for the US banks. Accordingly, net bad debts represent 1% of new business in North America, accounting for 6.3% of tangible net equity, compared with 2.6% in Europe where net bad debts account for 30.5% of tangible net equity. The Basel regulatory capital ratios are stable at around 15.1% in Europe (core tier 1 ratio 10.6%) and up slightly in the United States where they reached 15.7% (core tier 1 ratio 10.5%), having benefited from a reduction in RWAs which offset the expansion in total assets.

The scenario for the leading Italian banks in 2011 is distinguished by a number of features: a) a net loss being incurred, owing to the costly impairment charges taken to intangible assets; b) a cost/income ratio which shows a significant gap vs the European panel (68.6%, vs 63.6%); c) an asset composition which, compared to the benchmark, shows a higher proportion of loans and advances to customers (60.6%, compared with 39.5%) and a lower proportion of speculative assets, in particular derivatives, equal to 10% of assets; d) a consequent reduction in terms of risk-weighted assets (equal to approx. 50% of assets, compared with 30% for the European banks) and hence also in solvency margins (total capital ratio 13.5%, compared with 15.1%); e) a greater burden in terms of net bad debts, which account for some 90% of tangible net equity, as opposed to a European average of 30.5%.

RESTATED PROFIT AND LOSS ACCOUNT

Profit and loss account has been restated in the customary manner to provide the most accurate reflection of the Bank's operations.

	12 mths to 30/06/2012	12 mths to 30/06/2011	Y.o.Y. chg.
	€m	€m	%
Net interest income	30,3	34,5	-12,2%
Net trading income	2,9	1,1	163,6%
Net fee and commission income	11,1	16,2	-31,5%
TOTAL INCOME	**44,3**	**51,8**	**-14,5%**
Wages and salaries	-0,9	-0,9	0,0%
Other administrative expenses	-7,9	-6,3	25,4%
OPERATING COST	**-8,8**	**-7,2**	**22,2%**
Loans impairment	-0,3	0,4	-175,0%
Provisions for other financial assets	-	-	-
Other profit (losses)	-	-	-
PROFIT BEFORE TAX	**35,2**	**45,0**	**-21,8%**
Fiscal provision	-6,8	-8,9	-23,6%
NET PROFIT	**28,4**	**36,1**	**-21,3%**

Net interest income – this item decreases by 12,2%, from € 34,5m to € 30,3m.

Reduction in lending volume to corporate clients has been offset by the growth of loans to credit institutions in particular during the first three quarters. Consequently the Bank registers a stable average volume of outstanding credits compared to the previous exercise. Interest received from lending activities rose by 21,7% from € 92,9m to € 113,1 due to average values registered on interest rates which have been higher on an annual basis than the previous exercise (e.g. average fixing registered during the year on the Euribor 3m is almost 11 bps higher compared to the previous fiscal year).

Interest received from corporate bonds decreases by 86,4% from € 16,9m down to € 2,3m due to redemptions and buybacks registered during the year.

Treasury interest receivable increased by 720% from € 1,5m up to € 12,3m. This variation was essentially due to the launch during the month of December of a new short term lending activity in repos with the Parent Bank and the reclassification of € 0,4m from interest margin to net fee and commission income (please refer to Part B – Section 4 – Changes in accounting policies and reclassification of prior year figures).

Interest payable on the other hand correspondingly increases and the cost of carry passes from € 34,6m up to € 49,1m (+41,9%) due to higher average interest rates on different sources used by the Bank. Overnight funding on current accounts registers increasing spreads and volumes. Furthermore in December 2011 the Bank has entered into a secured financing agreement for an outstanding nominal amount of € 400m which has generated nearly €8m of interest payable during the second semester.

Notes issued under the EMTN Programme have registered increasing costs for the Bank as a consequence of the ongoing financial crisis in the eurozone: credit spreads required by investors are in fact considerably higher than in past years for the entire Mediobanca Group; reflected by in particular interest payable on notes issued increasing from € 27,5m to € 49m (+78,2%).

Net interest income from hedging derivatives has normalized passing from a negative balance of € 8,4m to a positive margin of € 4,1m. This change is essentially due to the non-recurrence of an extraordinary component which has been registered during the previous exercise.

Net interest income from trading derivatives increases by 190,3% from € 3,1m up to € 9m, mainly due to credit derivative swaps which were negotiated with the Parent Company whereby the Bank acts as protection seller and receives periodical premiums. The overall credit exposure remains flat since these derivatives are used to neutralize credit linked notes issued by the Bank where the issuer acts as protection buyer.

	12 mths to 30/06/2012	12 mths to 30/06/2011	Y.o.Y. chg.
	€m	€m	%
Interests receivable - lending	113,1	92,9	21,7%
Interests receivable - notes	2,3	16,9	-86,4%
Interests receivable - treasury	12,3	1,5	720,0%
Interests payable - cost of carry	-49,1	-34,6	41,9%
Interests payable - notes issued	-49,0	-27,5	78,2%
Interests payable - treasury	-12,4	-9,4	31,9%
Net interest income from hedging	4,1	-8,4	-148,8%
Net interest income from trading	9,0	3,1	190,3%
Net interest income	**30,3**	**34,5**	**-12,2%**

Net trading income – this heading is made up of € 2,9m (€ 1,1m): dealing profits are € 545,4m (€ 2,9m) realized in the majority due to early cash settlement of derivatives instruments negotiated with the Parent Bank in relation to the restructuring of financial structures linked to notes issued by the Bank; also -€ 543m (-€ 5,8m) reflects unrealized mark-to-market valuations of financial instruments and has to be analyzed in connection with the previous caption; € 0,5m (€ 0,4m) refers to fees received on stock lending activity. The Bank has not registered any significant impact on its forex exposure (last year € 3,6m).

Net fee and commission income – this item, still driven by corporate business, decrease by 31,5% from € 16,2m to € 11,1m due to a slowdown in contribution given by lending transactions (down 31,9% from € 14,4m to € 9,8m) with a stable contribution of commissions realized on capital market transactions (stable at € 1,3m). The strategy followed by the Bank has been determined by the financial crisis and remained focused on a reduction of the financial assets in order to improve the solvability ratio. As a consequence the Bank has registered a slowdown in lending activity with consequent impact on its net commission margin.

	12 mths to 30/06/2012	12 mths to 30/06/2011	Y.o.Y. chg.
	€ m	€ m	%
Net lending fees:	9,8	14,4	-31,9%
- Loans and advances rec (+)	*19,1*	*36,7*	*-48,0%*
- Loans and advances pay (-)	*-7,1*	*-21,0*	*-66,2%*
- Guarantees given rec (+)	*1,2*	*0,8*	*50,0%*
- Guarantees received pay (-)	*-3,4*	*-2,1*	*61,9%*
Other fees (+)	1,3	2,2	-40,9%
Other fees (-)	-	-0,4	-
Net fee income	**11,1**	**16,2**	**-31,5%**

Operating costs – this item rose by 22,2%, from € 7,2m up to € 8,8m, due essentially to a combined effect of the service agreements with the Parent Bank and *una tantum* expenses incurred in connection with the transfer of the head office in the month of April. The various components have performed as follows:

- wages and salaries totaled € 0,9m (the same as in June 2011) and during the fiscal year the staff number remained stable;

- other costs amounting to € 7,9m (€ 6,3m) reflect both an adjustment on the provision made during the previous exercise in connection with the service agreement, and increasing expenses related to the transfer of the head office.

Impairment of loans and advances – this item passed from a positive impact of € 0,4m to a negative impact of € 0,3m (-175%) due to a general worsening of credit ratings of financial assets (in particular with reference to credit exposure towards Euro counterparties) in a scenario which has nevertheless shown decreasing volumes of direct risk exposure during the fiscal year. The majority of loans and advances remains covered by financial guarantees issued by the Parent Bank or public Agencies.

RESTATED STATEMENT OF FINANCIAL POSITION

	30/06/2012	30/06/2011	Y.o.Y. chg.
	€m	€m	%
Net treasury investments	805,0	-308,2	-361,2%
Loans and advances	3.839,7	4.081,0	-5,9%
Equity investments	4,2	-	-
Tangible and intangible assets	-	-	-
Other assets	8,1	9,0	-10,0%
TOTAL ASSETS	**4.657,0**	**3.781,8**	**23,1%**
Funding	4.397,2	3.539,1	24,2%
Other liabilities	28,8	40,0	-28,0%
of which: tax liabilities	20,3	*30,8*	-34,1%
Net equity	202,6	166,5	21,7%
Profit	28,4	36,2	-21,5%
TOTAL LIABILITIES	**4.657,0**	**3.781,8**	**23,1%**

Net treasury investments – the item increases from -€ 308,2m to € 805m and includes:

- financial assets held for trading (other than derivatives) which decrease by 93,5% from € 138,1m to € 19,5m mainly due to the redemption of fixed income securities. During the year the Bank has commenced an activity of secondary market loan trading on counterparties already approved by the Risk Committee of the Bank.
- net application in treasury funds including repos, time deposits, etc. increases from -€ 1.023,1m to € 776,7m compared to the previous exercise. In accordance with the financial situation, the Bank has substantially changed its funding strategy, passing from a certain reliance on short term instruments (such as money market deals and time deposits traded either with the Treasury Dept of the Parent Bank or with institutional clients), to a new strategy that is more focused on long term funding. During the exercise a new activity of investment in term repos has been started with the Bank acting as a lender.
- value adjustments on derivative contracts decreases by 97,9% from € 577m down to € 8,8m due to the unwinding of funded swaps with high amount of net present value which represented the credit exposure of the Bank towards the contractual counterparties (most of the cases the Parent Company).

	30/06/2012	30/06/2011	Y.o.Y. chg.
	€m	€m	%
Financial assets HFT other than derivatives	19,5	138,1	-85,9%
Net application treasury funds	776,7	-1.023,3	-175,9%
Derivatives instruments	8,8	577,0	-98,5%
Net treasury investments	**805,0**	**-308,2**	**-361,2%**

Loans and advances – this item compared to the previous exercise has recorded a decrease of 5,9% from € 4.081m to € 3.839,7m. Credit strategy is managed as part of the broader ALM process; the portfolio is constantly analyzed in order to maintain the accurate balance in terms of risk exposure. Specific reports are generated and reviewed by management to ensure the achievement and the control of the Bank's loan strategy which is constantly focused on long term credit performance and total return. The current strategy followed by the management is focused on the reduction of the credit exposure to corporate clients by maintaining concurrently the right balance in terms of exposure to markets, geographical areas, industrial sectors, ratings and currencies.

Most of loans are covered by financial guarantees issued by the Parent Bank or public Agencies. At the reporting date the Bank has a direct cash exposure for € 394,2m (June 2011: € 442,6m).

In an environment which remains challenging, non performing loans decrease from € 89,1m to € 86,4m representing 2% of total loans. Non performing loans at the reporting date are fully covered by financial guarantees.

	30/06/2012	30/06/2011	Y.o.Y. chg.
	€m	€m	%
Performing	3.770,0	3.996,4	-5,7%
Restructured and non performing	86,4	89,1	-3,0%
FV hedging loans and advances	-16,7	-4,5	271,1%
Loans and advances	**3.839,7**	**4.081,0**	**-5,9%**

Equity investments – In September 2011 the Bank has purchased via a share deal all the 1.000 shares of Jodewa S.à R.L. a real estate company which owns the building where the Bank has moved its head office in April 2012.

Other assets – this item decreases by 10% from € 9m to € 8,1m due to the reduction of accruing commissions on loans and standby letters of credit as well as the write off of upfront premiums associated with payments made on derivatives negotiated on the trading portfolio of the Bank which have been originally capitalized and subsequently reversed to comprehensive income.

Funding – this item increases by 24,2% from € 3.539,1m up to € 4.397,2m. Amounts due to Banks and customers increases by 42,8% due to the combined effect of (a) higher balances of current accounts in foreign currencies (this overnight forex exposure has been temporary since the Bank has already offset the position in July 2012 using forex swaps traded with the Treasury Dept of the Parent Bank) and (b) the closing of a secured financing transaction for an outstanding nominal amount of € 400m in December 2011.

Outstanding balance of notes issued increases by 24% from € 1.354,8m to € 1.679,5m. During the fiscal year the Bank succeeded in replacing expiring notes with new issues for an outstanding nominal amount of € 500m approximately.

Fair Value hedging on notes issued increases by 170,1% from -€ 83,6m up to -€ 225,8m mainly because of the lowering of interest rates curves used for the net present value calculation.

Short term funding debt instruments decreases by 61,5% from € 282,2m to € 108,6m. In the eurozone there are persisting unfavorable liquidity conditions which have been materially reduced by ECB's long term refinancing operations (LTRO). The Bank, and the Mediobanca Group, has not followed an aggressive approach on this type of opportunity since there are no specific liquidity requirements or issues in the medium-short term from a Group perspective.

	30/06/2012	30/06/2011	Y.o.Y. chg.
	€m	€m	%
Amount due to Banks and customers	2.834,9	1.985,7	42,8%
Notes issued	1.679,5	1.354,8	24,0%
FV Hedging on notes issued	-225,8	-83,6	170,1%
Short term funding debt instruments	108,6	282,2	-61,5%
Funding	**4.397,2**	**3.539,1**	**24,2%**

Other liabilities – this item decreases by 28% from € 40m to € 28,8m mainly due to the payment of existing fiscal provisions which has shown the adequacy of the provisioning booked in past exercises.

Net equity – No dividends have been distributed during the exercise and the increase from € 166,5m to € 202,6m is exclusively attributable to the provisioning of 2011's profits. The strategy of the Bank remains focused on deleveraging of assets at risk in order to strengthen own funds.

pp. BOARD OF DIRECTORS
CHAIRMAN
(Mr. M. Di Carlo)

MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.

Statement of Directors’ responsibilities

To the best of our knowledge, the annual 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 year ended 30 June 2012.

Luxembourg, 11 September 2012

The Board of Directors

Massimo Di Carlo	Luca Maccari	Peter W. Gerrard
Silvio Perazzini	Stefano Pellegrino	Federico Potsios
Daniel Cardon de Lichtbuer	Alex Schmitt	

INDEPENDENT AUDITOR'S REPORT

Independent auditor’s report

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

Report on the annual accounts

Following our appointment by the Board of Directors we have audited the accompanying annual accounts of Mediobanca International (Luxembourg) S.A., which comprise the statement of financial position as at 30 June 2012, the statement of comprehensive income, the statement of changes in equity, the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors’ responsibility for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts 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 and presentation of annual accounts that are free from material misstatement, whether due to fraud or error.

Responsibility of the “réviseur d’entreprises agréé”

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

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

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

Opinion

In our opinion, the annual accounts give a true and fair view of the financial position of Mediobanca International (Luxembourg) S.A. as of 30 June 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The management report, which is the responsibility of the Board of Directors, is consistent with the annual accounts.

ERNST & YOUNG
Société Anonyme
Cabinet de révision agréé

Christoph HAAS

Luxembourg, 11 September 2012

ANNUAL ACCOUNTS

STATEMENT OF FINANCIAL POSITION

	Assets	30/06/2012	30/06/2011
		€	€
10.	Cash and cash balances with Central Banks	1.844.341	17.071.978
20.	Financial assets held for trading	340.150.975	934.375.173
60.	Loans and advances to Credit Institutions (*)	1.711.734.131	779.578.841
70.	Loans and advances to Customers (*)	3.217.618.546	3.862.849.113
80.	Hedging derivatives	227.082.436	95.311.388
100.	Equity investments	4.150.000	-
120.	Property, plant and equipment	38.348	2.008
130.	Intangible assets	4.613	-
	of which: goodwill	-	-
140.	Tax assets	38.412	-
	a) current	*38.412*	-
	b) deferred	-	-
160.	Other assets	7.948.889	9.224.710
	TOTAL ASSETS	**5.510.610.691**	**5.698.413.211**

	Liabilities and equity	30/06/2012	30/06/2011
		€	€
10.	Amounts due to Credit Institutions (*)	2.415.871.845	3.053.042.231
20.	Amounts due to Customers (*)	717.077.133	529.735.048
30.	Debt securities in issue	1.788.101.846	1.636.965.273
40.	Trading liabilities	311.825.782	218.427.347
60.	Hedging derivatives	17.962.876	16.193.251
80.	Tax liabilities	20.288.072	28.865.079
	a) current	*19.424.072*	*28.001.079*
	b) deferred	*864.000*	*864.000*
100.	Other liabilities	8.431.702	12.561.982
160.	Reserves	192.623.000	156.518.524
190.	Share capital	10.000.000	10.000.000
200.	Profit of the period	28.428.435	36.104.476
	TOTAL LIABILITIES AND EQUITY	**5.510.610.691**	**5.698.413.211**

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

(*) 2011 figures have been reclassified to conform with changes to the current year's presentation for comparative purpose; for details please refer to Part B – Section 4 – Changes in accounting policies and reclassifications of prior year figures.

STATEMENT OF COMPREHENSIVE INCOME

	Item	30/06/2012	30/06/2011
		€	€
010.	Interests receivable and similar income (*)	156.768.112	137.419.782
020.	Interests payable and similar charges	-135.270.003	-105.735.282
030.	**Net interest income**	**21.498.109**	**31.684.500**
040.	Fee and commission income (*)	22.050.639	39.592.304
050.	Fee and commission expense	-10.549.627	-23.433.358
060.	**Net fee and commission income**	**11.501.012**	**16.158.946**
080.	Net trading income/expense	11.645.372	-15.474.763
090.	Net hedging income/expense	-202.047	195.730
100.	Gain or loss on disposal or repurchase of:	-272.396	18.758.240
	a) loans and receivables	-	-
	b) financial assets available for sale	-	-
	c) financial assets held to maturity	-	-
	d) financial liabilities	*-272.396*	*18.758.240*
120.	**Total income**	**44.170.050**	**51.322.653**
130.	Value adjustments in respect of:	-264.828	423.898
	a) loans and receivables	*-181.204*	*383.932*
	b) financial assets available for sale	-	-
	c) financial assets held to maturity	-	-
	d) other financial operations	*-83.624*	*39.966*
140.	**Net income from the financial management**	**43.905.222**	**51.746.551**
180.	Administrative expenses:	-8.689.637	-7.220.847
	a) personnel costs	*-888.694*	*-949.998*
	b) other administrative expenses	*-7.800.943*	*-6.270.849*
200.	Value adjustments in respect of tangible assets	-5.284	-1.465
210.	Value adjustments in respect of intangible assets	-1.092	-
220.	Other operating income/expense	15.797	439.858
280.	**Profit (loss) of the ordinary activity before tax**	**35.225.006**	**44.964.097**
290.	Income tax on the ordinary activity	-6.796.571	-8.859.621
340.	**Profit (loss) for the year**	**28.428.435**	**36.104.476**
350.	Other comprehensive income, net of tax	-	-
360.	**Total comprehensive income for the year, net of tax**	**28.428.435**	**36.104.476**

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

(*) 2011 figures have been reclassified to conform with changes to the current year's presentation for comparative purpose; for details please refer to Part B – Section 4 - Changes in accounting policies and reclassifications of prior year figures.

STATEMENT OF CHANGES IN EQUITY FROM 01/07/2011 TO 30/06/2012 (in €)

	Balance as of June 30, 2011	Allocation of the profit for the previous period: Reserves	Allocation of the profit for the previous period: Dividends and other fund applications	Changes during the reference period: Changes in reserves	Transactions involving equity: New shares issued	Transactions involving equity: Treasury shares derivatives	Transactions involving equity: Stock options and others	Profit (loss) of the period	Balance as of June 30, 2012
Share capital	**10.000.000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**10.000.000**
a) ordinary shares	10.000.000	-	-	-	-	-	-	-	10.000.000
b) other shares	-	-	-	-	-	-	-	-	-
Profit brought forward	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Reserves	**156.518.524**	**36.104.476**	**-**	**-**	**-**	**-**	**-**	**-**	**192.623.000**
a) legal reserve	1.000.000	-	-	-	-	-	-	-	1.000.000
b) free reserve	143.089.774	31.904.476	-	217.000	-	-	-	-	175.211.250
c) special reserve(1)	12.211.750	4.200.000	-	-	-	-	-	-	16.411.750
d) FTA reserve	217.000	-	-	-217.000	-	-	-	-	-
Valuation reserves	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) AFS securities	-	-	-	-	-	-	-	-	-
b) cash flow hedges	-	-	-	-	-	-	-	-	-
c) special laws – others	-	-	-	-	-	-	-	-	-
Own shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Comprehensive income of the period	**36.104.476**	**-36.104.476**	**-**	**-**	**-**	**-**	**-**	**28.428.435**	**28.428.435**
Total equity	**202.623.000**	**-**	**-**	**-**	**-**	**-**	**-**	**28.428.435**	**231.051.435**

(1) As of 30 June 2012 and 2011 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 annual accounts.

STATEMENT OF CHANGES IN EQUITY FROM 01/07/2010 TO 30/06/2011 (in €)

		Allocation of the profit for the previous period		Changes during the reference period						
					Transactions involving equity					
	Balance as of June 30, 2010	Reserves	Dividends and other fund applications	Changes in reserves	New shares issued	Treasury shares derivatives	Stock options and others	Profit (loss) of the period	Balance as of June 30, 2011
Share capital	**10.000.000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**10.000.000**
a) ordinary shares	10.000.000	-	-	-	-	-	-	-	10.000.000
b) other shares	-	-	-	-	-	-	-	-	-
Profit brought forward	-	-	-	-	-	-	-	-	-
Reserves	**121.226.578**	**35.291.946**	**-**	**-**	**-**	**-**	**-**	**-**	**156.518.524**
a) legal reserve	1.000.000	-	-	-	-	-	-	-	1.000.000
b) free reserve	111.047.828	32.041.946	-	-	-	-	-	-	143.089.774
c) special reserve(1)	8.961.750	3.250.000	-	-	-	-	-	-	12.211.750
d) FTA reserve	217.000	-	-	-	-	-	-	-	217.000
Valuation reserves	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) AFS securities	-	-	-	-	-	-	-	-	-
b) cash flow hedges	-	-	-	-	-	-	-	-	-
c) special laws – others	-	-	-	-	-	-	-	-	-
Own shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Comprehensive income of the period	**35.291.946**	**-35.291.946**	**-**	**-**	**-**	**-**	**-**	**36.104.476**	**36.104.476**
Total equity	**166.518.524**	**-**	**-**	**-**	**-**	**-**	**-**	**36.104.476**	**202.623.000**

(1) As of 30 June 2011 and 2010 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 annual account.

CASH FLOW STATEMENT – Direct Method

(in € k)

		Amount	
A.	**Cash flow from operating activities**	**30/06/2012**	**30/06/2011***
1.	**Operating activities**	**45.857**	**282.155**
	– interest received	188.343	841.208
	– interest paid	-125.531	-553.291
	– net fee and commission received/paid	10.784	-2.057
	– dividends and similar income	58	-
	– net premium income	903	-
	– cash payments to employees	-479	-597
	– other income (expenses)	-11.556	-2.247
	– Tax income (expenses)	-16.665	-861
2.	**Cash generated/absorbed by financial assets**	**596.869**	**686.195**
	– amounts due from customers	752.648	-676.532
	– amounts due from banks: on demand	-36.769	583.570
	– amounts due from banks: other	-889.651	563.176
	– financial assets measured at fair value	770.628	210.018
	– other assets	13	5.963
3.	**Cash generated/absorbed by financial liabilities**	**-649.281**	**-968.351**
	– amounts due to banks: on demand	231.685	35.185
	– amounts due to banks: other	-1.067.969	-547.300
	– amounts due to clients	130.590	-71.516
	– debt securities in issue	61.314	-253.468
	– financial liabilities measured at fair value	-4.901	-130.187
	– other liabilities	-	-1.065
	Net cash flow (outflow) from operating activities	**-6.555**	**-1**
B.	**Investing activities**		
	– equity investment	-4.150	-
	– acquisitions of tangible assets	-39	-
	– acquisitions of intangible assets	-5	-
	Net cash flow (outflow) from investing activities	**-4.194**	**-**
C.	**Financing activities**		
	– issues/purchases of subordinated debts (Tier II)	10.750	-
	Net cash flow (outflow) from financing activities	**10.750**	**-**
	Net cash flow (outflow) during year	**1**	**-1**

RECONCILIATION	Amount	
	30/06/2012	**30/06/2011**
Cash and cash equivalents: balance at 1 July	-	1
Total cash flow (outflow) during year	1	-1
Cash and cash equivalents: balance at 30 June	**1**	**-**

The accompanying notes form an integral part of the annual accounts.
* = Certain 2011 figures have been broken down to provide a higher detail on the presentation of the cash flow statement.

NOTES TO THE ANNUAL ACCOUNTS

PART A – CORPORATE INFORMATION

Corporate matters

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

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

Nature of the Bank's business

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

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

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

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

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

Outsourcing

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

Annual accounts

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

The annual accounts as of 30 June 2012 were authorised for issue by the Board of Directors on 11 September 2012.

Parent company

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

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

PART B – ACCOUNTING POLICIES

Section 1

Statement of conformity with IAS/IFRS

The Bank's annual accounts 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 up to June 30, 2012, pursuant to EU Regulation 1606/2002.

Section 2

General principles

The annual accounts comprise:

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

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

Section 3

Basis of preparation

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

The preparation of annual 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

New amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations:

- IFRS 7 Financial Instruments – Disclosures (amendment): The IASB issued an amendment to IFRS 7 on 7 October 2010. The amendment provides enhanced disclosures regarding "Transferred financial assets that are derecognised in their entirety" and "Transferred assets that are not derecognised in their entirety". The effective date is for annual periods beginning on or after 1 July 2011.
- IAS 24 Related Party – Disclosures (amendment): The amendment to IAS 24 is twofold. The amendment clarified the definition of a related party, however, without changing the fundamental approach to related party disclosures. It emphasizes a symmetrical view on related party relationships and clarifies how a person or key management personnel impacts related party relationships of an entity. The amendment is effective for financial years beginning on or after 1 January 2011. While the adoption of the amendment did not have any current impact on the financial position or performance or disclosures of the Bank, as all required information is currently being appropriately captured and disclosed, it is relevant to the application of the Bank's accounting policy in identifying future potential related party relationships.

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

- IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008));
- IFRS 3 Business Combinations (Unreplaced and voluntarily replaced share-based payment awards);
- IAS 27 Consolidated and Separate Financial Statements;
- IAS 32 Financial Instruments: Presentation (amendment);
- IAS 34 Interim Financial Statements;
- IFRIC 13 Customer Loyalty Programmes (determining the fair value of award credits);
- IFRIC 14 Prepayments of Minimum Funding Requirement (amendment);
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.

Standards issued but not yet effective

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

- Amendment to IAS 1 - Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income
  The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the bank's financial position or performance.

- Amendment to IAS 19 – Employee benefits:
  The amendments to IAS 19 remove the option to defer the recognition of actuarial gains and losses, i.e., the corridor mechanism. All changes in the value of defined benefit plans will be recognised in profit or loss and other comprehensive income. The effective date of the standard is 1 January 2013. The amendment will not affect the financial position since the Bank only operates defined contribution pension plan.

- IFRS 9 – Financial Instruments:
  IFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the Board will address impairment and hedge accounting and expect to complete the project in 2012. The adoption of the first phase of IFRS 9 will primarily have an effect on the classification and measurement of the Bank's financial assets. The Bank is currently assessing the impact of adopting IFRS 9. However, as the impact of adoption depends on the assets held by the Bank at the date of adoption, it is not practical to quantify the effect.

- IFRS 10 – Consolidated Financial Statement:
  The amendment becomes effective for annual periods beginning on or after 1 January 2013. It replaces the requirements of IAS 27 Consolidated and Separate Financial Statements that address the accounting for consolidated financial statements and SIC 12 Consolidation – Special Purpose Entities. What remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. At this stage, the Bank is not impacted by IFRS 10.

- IFRS 11 – Joint Arrangements:
  The amendment becomes effective for annual periods beginning on or after 1 January 2013. It replaces IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. Because IFRS 11 uses the principle of control in IFRS 10 to define control, the determination of whether joint control exists may change. At this stage, the Bank is not impacted by IFRS 11.

- IFRS 12 – Disclosure of Interests in Other Entities:
  The amendment becomes effective for annual periods beginning on or after 1 January 2013. It includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 Interests in Joint Ventures and IAS 28 Investment in Associates. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. One of the most significant changes introduced by IFRS 12 is that an entity is now required to disclose the judgments made to determine whether it controls another entity. Many of these changes were introduced by the IASB in response to the financial crisis.

Now, even if the Bank concludes that it does not control an entity, the information used to make that judgments will be transparent to users of the financial statements to make their own assessment of the financial impact where the Bank to reach a different conclusion regarding consolidation.
The nature of the Bank's investment banking business means it could be involved in various transactions with structured entities that it may or may not have helped to design. The Bank is currently assessing the impact of adopting IFRS 12. However, as the impact of adoption depends on the nature of relationships between the Bank and other entities at the date of adoption, it is not practical to quantify the effect.

- IFRS 13 – Fair Value Measurement:
  The amendment becomes effective for annual periods beginning on or after 1 January 2013. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. There are also additional disclosure requirements.
  In the past the Bank has used various methodologies to measure fair value based on the guidance within the requisite standard and/or industry practice for the type of financial or non-financial item. This standard will require the Bank to review its fair value measurement policies across all asset and liability classes. However, it is not practical to quantify the effect of this review on the financial statements.

- IAS 28 – Investments in Associates and Joint Ventures (as revised in 2011)
  As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

The alignment to these principles by the Bank is subject to transposition by the European Commission.

Summary of significant accounting policy

Financial assets other than derivatives

<u>Cash and cash equivalents</u>

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

<u>Loans and advances</u>

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

Loans and receivables are booked on disbursement at a value equal to the amount drawn plus (less) any income (expenses) directly attributable to individual transactions and determinable from the outset despite being payable at a later date. The item does not, however, include costs subject to separate repayment by the borrower, or which may otherwise be accounted for as ordinary internal administrative costs. Repos and reverse repos are booked as funding or lending transactions for the spot amount received or paid. Non-performing loans acquired are booked at amortized cost on the basis of an internal rate of return calculated using estimates of expected recoverable amounts.

Loans and receivables are stated at amortized cost, i.e. initial values adjusted upwards or downwards to reflect: repayments of principal, amounts written down/back, and the difference between amounts drawn at disbursement and repayable at maturity amortized on the basis of the effective interest rate. The latter is defined as the rate of interest which renders the discounted value of future cash flows deriving from the loan or receivable by way of principal and interest equal to the initial recognition value of the loan or receivable.

Loans and receivables are for managerial purposes classified in three different categories depending on the borrower's financial situations:

- Performing: loans on which payments of interests and principal are less than 90 days past due and without any evidence of financial difficulties from the borrower' side.

- Non performing loans: loans that are in default or close to being in default; a loan is usually classified as non performing when payments of interests and principal are past due by 90 days or more, or payments are less than 90 days overdue but there are reasons to doubt that payments will be made in full.

- Restructured loans: new loan that replaces the outstanding balance on an older loan with a different financial structure that may involve extending the payment arrangements and the agreement of new conditions which have been usually rescheduled to accommodate a borrower in financial difficulty and, thus, to avoid a default. Restructured loans are managed for reporting purposes as non performing exposures; management continually reviews the position to ensure that all criteria are met and that future payments are likely to occur.

Individual items are tested at annual and interim reporting dates to show whether or not there is evidence of impairment. Items reflecting such evidence are then subjected to analytical testing, and, if appropriate, adjusted to reflect the difference between their carrying amount at the time of the impairment test (amortized cost), and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Future cash flows are estimated to take account of anticipated collection times, the presumed value of receivables upon disposal of any collateral, and costs likely to be incurred in order to recover the exposure. Cash flows from loans expected to be recovered in the short term are not discounted.

The original effective interest rate for each loan remains unchanged in subsequent years, even if new terms are negotiated leading to a reduction to below market rates, including non-interest-bearing loans. The relevant value adjustment is taken through the comprehensive income.

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

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

Financial guarantees

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

Held for trading financial assets

These comprise debt securities with fixed or otherwise determinable payments and fixed maturities. At the settlement date such assets are recognized at fair value not including any transaction expenses or income directly attributable to the asset concerned, which are taken through the comprehensive income.

After initial recognition they continue to be measured at fair value, if the assets suffer impairment, they are written down to their current value.

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

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

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

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

Effective from 1 July 2008, the Bank may reclassify, in certain circumstances, non-derivative financial assets out of the held for trading category and into the available-for-sale, loans and advances, or held-to-maturity categories. From this date it may also reclassify, in certain circumstances, financial instruments out of the available-for-sale category and into the loans and advances category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

The Bank may reclassify a non-derivative trading asset out of the held for trading category and into the loans and advances category if it meets the definition of loans and advances and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the effective interest rate from the date of the change in estimate.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to comprehensive income over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired then the amount recorded in equity is recycled to the comprehensive income.

Reclassification is at the election of Management, and is determined on an instrument by instrument basis. The Bank did not reclassify any financial instrument as of 30 June 2012.

Financial liabilities other than derivatives

The Bank classifies its financial liabilities other than derivatives in the following category: Financial liabilities measured at amortised cost.

<u>Financial liabilities measured at amortised cost</u>

These include the items Due to banks, Due to customers and Debt securities in issue less any shares bought back.

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

Derivatives embedded in structured notes are stripped out from the underlying contract and recognized at fair value. Subsequent changes in fair value are recognized through the profit and loss account.

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

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

Derivative financial instruments

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

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable (usually called the 'underlying');

- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;

- it is settled at a future date.

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

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

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

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

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

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

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through comprehensive income. These embedded derivatives are measured at fair value with changes in fair value recognized in the comprehensive income.

(I) Trading

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

(II) Hedging

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

A hedging relationship exists where:

– at the inception of the hedge there is formal documentation of the hedge;
– the hedge is expected to be highly effective;
– the effectiveness of the hedge can be reliably measured;
– the hedge is highly effective throughout the reporting period; and
– for hedges of a forecasted transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect net profit or loss.

<u>Fair value hedge</u>

Where a derivative financial instrument hedges the exposure to changes in the fair value of a recognised asset or liability, the hedged item is stated at fair value in respect of the risk being hedged. Gains or losses on re-measurement of both the hedging instrument and the hedged item are recognised in the comprehensive income. These amounts are included in the caption “Net hedging income/expense”.

<u>Cash flow hedge</u>

Where a derivative financial instrument hedges the exposure to variability in the cash flows of recognised assets or liabilities (or homogeneous groups/portfolios thereof) or anticipated transactions or firm commitments, the effective part of any gain or loss on re-measurement of the hedging instrument is recognised directly in equity. The ineffective part of any gain or loss is recognised in the comprehensive income.

When a hedged anticipated transaction or firm commitment results in the recognition of an asset or liability, the cumulative gain or loss on the hedging instrument recognised in equity is removed from equity and included in the initial measurement of the asset or liability. Otherwise the cumulative gain or loss recognised in equity is transferred to the comprehensive income at the same time that the hedged transaction affects comprehensive income and included in the same line item as the hedged transaction.

When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss recognised in equity remains in equity and is recognised in accordance with the above policy. If the hedged transaction is no longer expected to occur, the cumulative gain or loss recognised in equity is recognised in the comprehensive income immediately.

As at 30 June 2012 and 2011 the Bank does not hold any cash flow hedged transactions.

Fair Value hierarchy

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

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

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

- Linear interest rate and inflation instruments, such as deposits, asset swaps, IRS, inflation swaps, CCS, FX swaps, FRA, repos, are constructed from the interest rate curves via standard bootstrap techniques and interpolation based on the most recent fixings of interest rate and inflation indexes and on the prices of short rate futures, FRA, IRS, CCS, inflation futures and inflation swaps. The inflation curves are also supplemented with information derived from macro-economic analysis of short-term prospects and historical analysis of seasonality effects. These curves are then used to make a projection of future cash flows dependent on interest rate and inflation indexes. Lastly, these flows are discounted using a discount factor, which allows the fair value of linear interest rate and inflation instruments to be calculated in line with the market.
- Non-linear interest rate and inflation instruments, such as caps/floors, caps/floors on inflation and European swaptions: volatility surfaces are constructed using standard techniques based on the market prices of caps/floors and swaptions at standard maturities and strike prices, and using interpolation techniques a suitable volatility is constructed for the unlisted instrument or its components. This volatility combines with the interest rate curve to determine the fair value using standard models.
- Forex instruments such as FX-spot/forwards, FX swaps and FX plain vanilla options: for the simpler instruments it is sufficient to use the interest rate curves to discount future flows and convert these flows in the relevant foreign currency to the equivalent amount in Euros using the market exchange rate. For more complex instruments such as options, volatility surfaces are constructed using the market prices of listed FX options at standard maturities and strike prices using classical interpolation models and methods. These volatility surfaces, along with the interest rate curves and market exchange rates, are used to calculate the fair value of the unlisted plain vanilla FX options in line with the market.

- Equity instruments such as forwards, equity swaps, and plain vanilla options on equities and indexes: volatility surfaces are constructed from the market prices of listed options using standard techniques, and dividend curves are constructed based on estimates of dividends supplied by external providers and compiled internally. The interest rate curves and the dividend curves, together with the current market value of the underlying asset, allows a projection to be made of the underlying asset's future value. This projection, along with the volatility surface for the options, using standard market models allows these financial instruments to be valued in line with the market.
- Credit instruments such as credit default swaps on individual names or credit indexes, or bonds with no liquid market: default probability curves are constructed based on the prices of the CDS at various maturities or on bonds and estimates of recovery rates received from external providers. These probability curves, together with the interest rate curves, allow the fair value of the credit default swaps and bonds to be calculated using models in line with market prices.

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

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

Repurchase agreements and reverse repurchase agreements

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

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

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

Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognised on the statement of financial position, unless they are then sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in 'Net trading income'.

Equity investments

Equity investments are stated at cost, where there is objective evidence that the value of an investment may be impaired, estimates are made of its current value using market prices if possible, and of the present value of estimated cash flows generated by the investment, including its terminal value. Where the value thus calculated is lower than the asset's carrying amount, the difference is taken through the profit and loss account. With reference to its investment in subsidiary, jointly controlled entity or associate the Bank prepares separate financial statements, thus dividends are recognised in the separate comprehensive income when its right to receive the dividend is established.

Tangible assets

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

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

Depreciation is charged to the comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment as follows:

- Computer hardware: 2 years.
- Furniture: 8 to 9 years.
- Alarm systems: 3 to 4 years.
- Air conditioning and other machineries: 6 to 7 years.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The residual value, if not insignificant, and useful lives are reassessed annually and adjusted, if appropriate.

Intangible assets

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year–end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

- Computer software: 2 years.

Other assets

Other assets are stated at cost less impairment.

Pension plans

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

Provisions

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

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

Other liabilities

Other liabilities are stated at cost.

Tax assets and liabilities

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

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

"Day1" profit or loss

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

Offsetting

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

Transfer and derecognition of financial assets

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

Assets or group of assets which are sold continue to be recognized if the risks and benefits associated with them (in the relevant technical form) continue to be attributable to the Bank. A corresponding amount is then entered as a liability to offset any amounts received (as "other amounts due" or "amounts due under repo transactions").

The main forms of activity carried out by the Bank which require underlying assets to be derecognized refer to items received as a part of the depositary Bank activity, the return on which is collected in the form of a commission; these items are not recorded as long as the related risks and benefits continue to accrue entirely to the end-investor.

Impairment of financial assets

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

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

Indicators of impairment include:

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

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

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

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

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

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

Impairment of non financial assets

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

Interest income and expenses

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

Fee and commission income and expenses

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

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

Net trading income/expense

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

Taxes

Income tax on the comprehensive income for the year comprises current and deferred tax. Income tax is recognised in the comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

(I) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

(II) Deferred tax

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

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

– where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except:

– where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

Foreign currency translation

The annual accounts are presented in euro (€), which is the Bank's functional and presentational currency.

Foreign currency transactions are initially recorded at the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in currencies other than euro are re-translated into euro at the exchange rate prevailing at the balance sheet date. The gain or loss arising from such conversion is recorded in the comprehensive income.

Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates prevailing at the balance sheet date.

Changes in accounting policies and reclassifications of prior year figures

For a comparison to be meaningful and where necessary, certain prior year figures have been reclassified to conform with changes to the current year's presentation.

<u>Transferred assets</u>

Securities lending and borrowing transactions are usually collateralised by securities or cash. In prior years the Bank, when acting as transferor, has accounted both receivables and payables upon transfer of financial assets (such as debt or equity instruments) respectively in "loans and advances" and "amounts due". With the new approach commitments to return securities borrowed, or to receive securities lent, are accounted for in the off balance sheet items. Cash advanced or received as collateral remains recorded as an asset or liability. At the same time income from securities lending, formerly accounted for as interest receivable, has been reclassified in commission income. The Bank believes that following this reclassification both the substance and the risks of the underlying operations are more fairly represented.

The following table shows the nature and the amount of reclassification performed on June 2011 figures:

FINANCIAL STATEMENT REOPENING BALANCE AS OF 1ST JULY 2011

	Assets	30/06/2011	Reclassification	01/07/2011
		€	€	€
60.	Loans and advances to Credit Institutions	855.553.860	-75.975.019	779.578.841
70.	Loans and advances to Customers	3.881.812.149	-18.963.036	3.862.849.113

	Liabilities and equity	30/06/2011	Reclassification	01/07/2011
		€	€	€
10.	Amounts due to Credit Institutions	3.129.017.250	-75.975.019	3.053.042.231
20.	Amounts due to Customers	548.698.084	-18.963.036	529.735.048

	Statement of comprehensive income	30/06/2011	Reclassification	01/07/2011
		€	€	€
10.	Interests receivable and similar income	137.847.649	-427.867	137.419.782
40.	Fee and commission income	39.164.437	427.867	39.592.304

No reclassification has been made on the cash flow statement as of 30 June 2011 since stock lending fees were already reported among the caption “net fee and commission”.

Related parties

Related parties are defined by IAS 24 as:

a) Individuals or entities which directly or indirectly:

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

b) associate companies;

c) management with strategic responsibility, that is, those individuals vested with powers and responsibilities, directly or indirectly, in respect of the planning, management and control of the activities of the parent company, including directors and members of the statutory audit committee;

d) subsidiaries, companies controlled jointly and/or subject to significant influence by one of the individuals referred to under the foregoing letter c), or in which the said individuals hold, directly or indirectly, a significant share of the voting rights or are shareholders or hold strategic positions such as Chairman or Managing Director;

e) close relations of the individuals referred to under the foregoing letter c), that is, individuals who might be expected to be able to influence or be influenced by them in their relations with Mediobanca (this category includes partners, children, partners' children, dependents and partners' dependents), and the entities controlled or controlled jointly or otherwise subject to significant influence by one of these individuals, or in which they directly or indirectly hold a significant share of the voting rights;

f) staff pension schemes operated by the parent company or by any other entity related to it.

Section 5

Significant accounting estimates and judgement

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

Going concern

The Bank's Board of Directors has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the Board of Directors is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the annual 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, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilization, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data. The impairment loss on loans and advances is disclosed in more detail in Section 4.

Deferred tax assets

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

PART C – NOTES TO THE STATEMENT OF FINANCIAL POSITION

A**SSETS**

Section 1

Heading 10: Cash and cash balances with Central Banks

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

At 30 June 2012 the item **Cash and cash balances** amounted to € 1.844k, a reduction of € 15.228k (-89%) from 2011 due to combined effect of:

- ECB measures to support bank lending and money market activities: in December 2011 the ECB announced additional enhanced credit support measures to support bank lending in the euro area money market; in particular the Governing Council decided to reduce the reserve ratio from 2% to 1% as of the reserve maintenance period starting on 18 January 2012.
- Decrease of liabilities[1] used for the computation reserve: in particular deposits with agreed maturities made with customers passed from € 452 million to € 191 million.

	30/06/2012	**30/06/2011**
a) Cash	1	—
b) Demand deposit held at Central Banks	1.843	17.072
Total	**1.844**	**17.072**

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

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

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

Section 2

Heading 20: Financial assets held for trading

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

As at June 30, 2012 **Financial assets held for trading** amount to € 340.151k, a decrease of € 594.224k (-64%) compared to June 2011. Non-derivative products decreased from € 138.068k to € 19.504k (-86%) due to redemptions at or above par of debt securities held by the Bank; while derivative products decreased from € 796.307k to € 320.647k (-60%) after the closing and restructuring of existing financial structures.

Item/Value	30/06/2012			30/06/2011		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	—	—	—	122.640	—	—
1.1 Structured	—	—	—	5.100	—	—
1.2 Other debt securities	—	—	—	117.540	—	—
2. Equities	—	—	—	—	—	—
3. OICR units	—	14.324	—	—	15.428	—
4. Loans and advances	—	—	—	—	—	—
4.1 Repos	—	—	—	—	—	—
4.2 Others	—	5.180	—	—	—	—
Total A	**—**	**19.504**	**—**	**122.640**	**15.428**	**—**
B. Derivative products						
1. Financial derivatives	—	171.923	103.274	—	364.882	98.993
1.1 Trading	—	7.177	—	—	301.895	—
1.2 Linked to FV options	—	—	—	—	—	—
1.3 Others	—	164.746	103.274	—	62.987	98.993
2. Credit derivatives	—	45.450	—	—	332.432	—
2.1 Trading	—	45.450	—	—	263.726	—
2.2 Linked to FV options	—	—	—	—	—	—
2.3 Others	—	—	—	—	68.706	—
Total B	**—**	**217.373**	**103.274**	**—**	**697.314**	**98.993**
Total (A+B)	**—**	**236.877**	**103.274**	**122.640**	**712.742**	**98.993**
Total Level 1, Level 2 and Level 3			**340.151**			**934.375**

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

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

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

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

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

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

	30/06/2012	30/06/2011
1. Opening balance	**98.993**	**143.298**
2. Increases	**20.916**	**1.923**
2.1 Issues and purchases	—	240
2.2 Transfers from other levels	—	—
2.3 Other increases	20.916	1.683
3. Decreases	**16.635**	**46.228**
3.1 Sales and settlements	—	42.865
3.2 Transfers to other levels	15.577	—
3.3 Other decreases	1.058	3.363
4. Closing balance	**103.274**	**98.993**

Only one contract has been transferred from level 3 to level 2 during the year without any significant impact to the profit and loss of the Bank since the fair value remained stable (€ 15,6 million at 30 June 2011 and € 16,3 million at 30 June 2012) and the position has been offset by same movement registered on a mirror contract (please refer to Section 4 – Heading 40 – Note 4.2). Change in fair value of existing contracts has been accounted in the comprehensive income of the Bank within “Net trading income” as follows:

	A. Unrealised gains	B. Unrealised losses	Total[2]
Total gains (losses) included in the comprehensive income for the period	20.916	-1.058	19.858

As “level 3” financial instruments the Bank classifies equity options embedded both in structured notes and in financial derivatives; impacts on the fair value of level 3 instruments of using reasonably possible alternative assumptions is considered not significant.

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

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

Item/Value	30/06/2012	30/06/2011
A. CASH ASSETS		
1. Debt securities	—	122.640
a. Governments and central Banks	—	—
b. Other public agencies	—	—
c. Banks	—	—
d. Other issuers	—	122.640
2. Equities	—	—
a. Banks	—	—
b. Other issuers	—	—
- insurances	—	—
- financial companies	—	—
- non-financial companies	—	—
- others	—	—
3. OICR units	14.324	15.428
4. Loans and advances	5.180	—
a. Governments and central Banks	—	—
b. Other public agencies	—	—
c. Banks	—	—
d. Other entities	5.180	—
5. Impaired assets	—	—
a. Governments and central Banks	—	—
b. Other public agencies	—	—
c. Banks	—	—
d. Other entities	—	—
6. Assets sold but not derecognized	—	—
a. Governments and central Banks	—	—
b. Other public agencies	—	—
c. Banks	—	—
d. Other issuers	—	—
Total A	**19.504**	**138.068**
B. DERIVATIVE PRODUCTS		
a. Banks	315.354	791.074
b. Customers	5.293	5.233
Total B	**320.647**	**796.307**
Total A+B	**340.151**	**934.375**

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

Type of derivatives/Underlying assets	Interest rates		Foreign currency/gold		Equities		Credit		30/06/2012		30/06/2011	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
A) Listed derivative products	—	—	—	—	—	—	—	—	—	—	—	—
Total A	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
B) Unlisted derivative products												
1) Financial derivatives:	916.131	154.137	3.999	—	308.112	121.060	—	—	1.228.242	275.197	1.442.597	463.875
– with exchange of principal	—	—	—	—	—	—	—	—	—	—	13.838	124
– options bought	—	—	—	—	—	—	—	—	—	—	—	—
– other derivatives	—	—	—	—	—	—	—	—	—	—	13.838	124
– without exchange of principal	916.131	154.137	3.999	—	308.112	121.060	—	—	1.228.242	275.197	1.428.759	463.751
– options bought	—	—	3.999	—	—	—	—	—	3.999	—	228.740	22.005
– other derivatives	916.131	154.137	—	—	308.112	121.060	—	—	1.224.243	275.197	1.200.019	441.746
2) Credit derivatives:	—	—	—	—	—	—	1.574.012	45.450	1.574.012	45.450	1.400.220	332.432
– with exchange of principal	—	—	—	—	—	—	—	—	—	—	—	—
– without exchange of principal	—	—	—	—	—	—	1.574.012	45.450	1.574.012	45.450	1.400.220	332.432
Total B	**916.131**	**154.137**	**3.999**	**—**	**308.112**	**121.060**	**1.574.012**	**45.450**	**2.802.254**	**320.647**	**2.842.817**	**796.307**
Total (A+B)	**916.131**	**154.137**	**3.999**	**—**	**308.112**	**121.060**	**1.574.012**	**45.450**	**2.802.254**	**320.647**	**2.842.817**	**796.307**

2.5 Cash assets held for trading (excluding assets sold but not derecognized/impaired assets): movements during the period (in € k)

	Debt securities	Equities	OICR units	Loans and advances	30/06/2012	30/06/2011
A. Balance at start of period	**122.640**	**—**	**15.428**	**—**	**138.068**	**282.651**
B. Additions	3.335	—	—	18.551	21.886	38.777
B.1 Acquisitions	2.796	—	—	18.293	21.089	16.300
B.2 Increases in fair value	—	—	—	140	140	12.790
B.3 Other increases	539	—	—	118	657	9.687
C. Reductions	125.975	—	1.104	13.371	140.450	183.360
C.1 Disposals	102.448	—	—	13.366	115.814	19.358
C.2 Redemptions	15.140	—	—	—	15.140	108.502
C.3 Reductions in fair value	50	—	1.104	—	1.154	34.498
C.4 Transfers to other portfolios	—	—	—	—	—	—
C.5 Other reductions	8.337	—	—	5	8.342	21.002
D. Balance at end of period	**—**	**—**	**14.324**	**5.180**	**19.504**	**138.068**

Section 6

Heading 60 – Loans and advances to credit institutions

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

As at June 30, 2012 **Loans and advances to credit institutions** amount to € 1.711.734k, an increase of € 932.187k (120%) compared to June 2011. While the balance of current accounts and demand deposits remained stable during the period, term deposits and other receivables increased respectively by 148% (from € 43.887k up to € 108.646k) and 370% (from € 222.931k to 1.048.805k).

Type of transactions/Value	30/06/2012	30/06/2011[3]
1. Current accounts and demand deposits	554.283	512.729
1.1 current accounts	461.600	419.848
1.2 stock lending deposits	92.683	92.881
1.3 others deposits on demand	—	—
2. Term deposits	108.646	43.887
3. Other receivables:	1.048.805	222.931
3.1 amounts due under repo agreements	409.259	—
3.2 amounts due under finance leases	—	—
3.4 other amounts due	639.546	222.963
4. Debt securities	—	—
4.1 structured	—	—
4.2 other debt securities	—	—
Total book value	**1.711.734**	**779.579**
Total fair value	**1.711.733**	**779.578**

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).

[3] For a comparison to be meaningful 2011 figures have been reclassified as explained in Part B – Section 4 – “Changes in accounting policies and reclassifications of prior year figures”.

Section 7

Heading 70: Loans and advances to customers

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

Type of transactions/Value	30/06/2012	30/06/2011[4]
1. Current accounts	—	—
2. Amounts due under repo agreements	—	—
3. Loans	3.217.611	3.862.841
4. Credit cards, personal loans and salary – guaranteed finance	—	—
5. Amounts due under finance leasing	—	—
6. Factoring	—	—
7. Other transactions	8	8
8. Debt securities	—	—
8.1 structured	—	—
8.2 other debt securities	—	—
9. Assets sold but not derecognized	—	—
Total book value	**3.217.619**	**3.862.849**
Total fair value	**3.088.833**	**3.851.165**

[4] For a comparison to be meaningful 2011 figures have been reclassified as explained in Part B – Section 4 – "Changes in accounting policies and reclassifications of prior year figures".

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

Type of transactions/Value	30/06/2012		30/06/2011[5]	
	Performing	**Non-performing**	**Performing**	**Non-performing**
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:	3.131.187	86.432	3.773.724	89.125
a) Governments	—	—	—	—
b) Other public agencies	—	—	—	—
c) Other issuers	3.131.187	86.432	3.773.724	89.125
- non-financial undertakings	2.040.488	29.799	2.433.940	51.118
- financial companies	1.090.699	56.633	1.339.784	38.007
- insurances	—	—	—	—
- other entities	—	—	—	—
Total	**3.131.187**	**86.432**	**3.773.724**	**89.125**

7.3 Loans and advances to customers: assets subject to specific hedging (in € k)

Type of transactions/Value	30/06/2012	30/06/2011
1. Items subject to specific fair value hedges for:	383.532	371.982
a) interest rate risk	383.532	371.982
b) exchange rate risk	—	—
c) credit risk	—	—
d) more than one risk	—	—
2. Items subject to specific cash flow hedges:	—	—
a) interest rate risk	—	—
b) exchange rate risk	—	—
c) other	—	—
Total	**383.532**	**371.982**

The Bank does not book any receivable under the terms of finance lease (IAS 17).

[5] For a comparison to be meaningful 2011 figures have been reclassified as explained in Part B – Section 4 “Changes in accounting policies and reclassifications of prior year figures”.

Section 8

Heading 80: Hedging derivatives

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

	30/06/2012 *Fair value*			Notional value	30/06/2011 *Fair value*			Notional value
	level 1	level 2	level 3		level 1	level 2	level 3	
A. Financial derivatives	—	227.082	—	540.475	—	95.311	—	326.903
1) Fair value	—	227.082	—	540.475	—	95.311	—	326.903
2) Cash flow	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	—	**227.082**	—	**540.475**	—	**95.311**	—	**326.903**

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 having a significant effect on the recorded fair value are observable, either directly or indirectly;

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

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

8.2 Hedging derivatives: by type of contract and underlying asset (in € k)

Type of derivatives/Underlying assets	Interest rates		Foreign currency/gold		Equities		Credit		30/06/2012		30/06/2011	
	Notional amount	**Fair value**	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**
A) Listed derivative products	—	—	—	—	—	—	—	—	—	—	—	—
Total A	—	—	—	—	—	—	—	—	—	—	—	—
B) Unlisted derivative products												
1) Financial derivatives:	540.475	227.082	—	—	—	—	—	—	540.475	227.082	326.903	95.311
– with exchange of principal	—	—	—	—	—	—	—	—	—	—	—	—
– options bought	—	—	—	—	—	—	—	—	—	—	—	—
– other derivatives	—	—	—	—	—	—	—	—	—	—	—	—
– without exchange of principal	540.475	227.082	—	—	—	—	—	—	540.475	227.082	326.903	95.311
– options bought	—	—	—	—	—	—	—	—	—	—	—	—
– other derivatives	540.475	227.082	—	—	—	—	—	—	540.475	227.082	326.903	95.311
2) Credit derivatives:	—	—	—	—	—	—	—	—	—	—	—	—
– with exchange of principal	—	—	—	—	—	—	—	—	—	—	—	—
– without exchange of principal	—	—	—	—	—	—	—	—	—	—	—	—
Total B	**540.475**	**227.082**	—	—	—	—	—	—	**540.475**	**227.082**	**326.903**	**95.311**
Total (A+B)	**540.475**	**227.082**	—	—	—	—	—	—	**540.475**	**227.082**	**326.903**	**95.311**

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

30/06/2012 Operations/Type of hedging	Fair Value Hedge					Cash Flow Hedge	
	Specific				Generic	Specific	Generic
	Interest risk	Currency risk	Credit risk	Other risks			
1. Financial assets available-for-sale	—	—	—	—	—	—	—
2. Lending portfolio	—	—	—	—	—	—	—
3. Financial assets held-to-maturity	—	—	—	—	—	—	—
4. Portfolio	—	—	—	—	—	—	—
TOTAL ASSETS	**—**	**—**	**—**	**—**	**—**	**—**	**—**
1. Amounts due to Banks/Customers	204.638	—	—	—	—	—	—
2. Debt securities in issue	22.444	—	—	—	—	—	—
3. Portfolio	—	—	—	—	—	—	—
TOTAL LIABILITIES	**227.082**	**—**	**—**	**—**	**—**	**—**	**—**
TOTAL	**227.082**	**—**	**—**	**—**	**—**	**—**	**—**

30/06/2011 Operations/Type of hedging	Fair Value Hedge					Cash Flow Hedge	
	Specific				Generic	Specific	Generic
	Interest risk	Currency risk	Credit risk	Other risks			
1. Financial assets available-for-sale	—	—	—	—	—	—	—
2. Lending portfolio	—	—	—	—	—	—	—
3. Financial assets held-to-maturity	—	—	—	—	—	—	—
4. Portfolio	—	—	—	—	—	—	—
TOTAL ASSETS	**—**	**—**	**—**	**—**	**—**	**—**	**—**
1. Amounts due to Banks/Customers	79.452	—	—	—	—	—	—
2. Debt securities in issue	15.859	—	—	—	—	—	—
3. Portfolio	—	—	—	—	—	—	—
TOTAL LIABILITIES	**95.311**	**—**	**—**	**—**	**—**	**—**	**—**
TOTAL	**95.311**	**—**	**—**	**—**	**—**	**—**	**—**

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[6]	Ownership relationship		Voting rights[7]
			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.	2.142	44	-107	1.707	4.150

The fiscal exercise 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, exceptionally this current fiscal year has started 1 September 2011 and has ended on 30 June 2012.

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

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

Section 12

Heading 120: Property, plant and equipment

12.1 Tangible assets stated at cost (in € k)

Assets/value	30/06/2012	30/06/2011
A. Core assets		
1.1 owned by the Group	38	2
a) land	—	—
b) buildings	—	—
c) furniture and fitting	5	1
d) electronic equipment	—	1
e) other assets	33	—
1.2 acquired under finance leases:	—	—
a) land	—	—
b) buildings	—	—
c) furniture	—	—
d) electronic equipment	—	—
e) other assets	—	—
Total A	38	2
B. Assets held for investment purposes		
2.1 owned by the Group:	—	—
a) land	—	—
b) buildings	—	—
2.2 acquired under finance leases:	—	—
a) land	—	—
b) buildings	—	—
Total B	—	—
Total (A+B)	38	2

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

	Land	Buildings	Furniture	Electronic equipment	Other assets	Total
A. Gross opening balance	—	—	38	50	—	88
A.1 Total net value reductions	—	—	-37	-49	—	-86
A.2 Net opening balance	—	—	1	1	—	2
B. Additions:	—	—	5	—	36	41
B.1 Purchases	—	—	5	—	36	41
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	-1	-3	-5
C.1 Disposals	—	—	—	—	—	—
C.2 Depreciation charges	—	—	-1	—	-3	-4
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	—	—	—	-1	—	-1
D. Net closing balance	—	—	5	—	33	38
D.1 Total net value reductions	—	—	-38	-50	-3	-91
D.2 Gross closing balance	—	—	43	50	36	129

Section 13

Heading 130: Intangible assets

13.1 Intangible assets (in € k)

Assets/ amounts	30/06/2012		30/06/2011	
	Limited useful life	Unlimited useful life	Limited useful life	Unlimited useful life
A.1 Goodwill	—	—	—	—
A.1.1 attributable to the Group[1]	—	—	—	—
A.1.2 attributable to third parties	—	—	—	—
A.2 Other intangible assets	5	—	—	—
A.2.1 Recognized at cost:	5	—	—	—
a) intangible assets generated internally	—	—	—	—
b) other assets	5	—	—	—
A.2.2 Recognized at fair value:	—	—	—	—
a) intangible assets generated internally	—	—	—	—
b) other assets	—	—	—	—
Total	5	—	—	—

13.2 Intangible assets: movements during the period (in € k)

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		Limited useful life	Unlimited useful life	Limited useful life	Unlimited useful life	
A. Balance at start of period	—	—	—	—	—	—
A.1 Total net value reductions	—	—	—	—	—	—
A.2 Net opening balance	—	—	—	—	—	—
B. Additions	—	—	—	6	—	6
B.1 Purchases	—	—	—	6	—	6
B.2 Increases in internally generated assets	—	—	—	—	—	—
B.3 Revaluations	—	—	—	—	—	—
B.4 Increases in fair value taken to:	—	—	—	—	—	—
– net equity	—	—	—	—	—	—
– profit and loss account	—	—	—	—	—	—
B.5 Increases arising on exchange rates	—	—	—	—	—	—
B.6 Other additions	—	—	—	—	—	—
C. Reductions	—	—	—	-1	—	-1
C.1 Disposals	—	—	—	—	—	—
C.2 Value adjustments	—	—	—	-1	—	-1
– amortization	—	—	—	-1	—	-1
– write-downs	—	—	—	—	—	—
+ net equity	—	—	—	—	—	—
+ profit and loss account	—	—	—	—	—	—
C.3 Reductions in fair value charged to:	—	—	—	—	—	—
– net equity	—	—	—	—	—	—
– profit and loss account	—	—	—	—	—	—
C.4 Transfers to non-current assets being sold	—	—	—	—	—	—
C.5 Reductions due to exchange rate differences	—	—	—	—	—	—
C.6 Other reductions	—	—	—	—	—	—
D. Balance at end of period	—	—	—	5	—	5
D.1 Total net value adjustments	—	—	—	-1	—	-1
E. Gross closing balance	—	—	—	6	—	6
F. Stated at cost	—	—	—	—	—	—

Section 14

Heading 140: Tax assets

14.1 Tax assets (in € k)

In Luxembourg taxable person may partially recover VAT charged on goods and services supplied within Luxembourg or self-assessed on intra-Community acquisition. The general principle applicable consists in deducting VAT levied on the goods and services needed to run the business; where the good or service is not allocated exclusively to the business, VAT can be only partially deducted. Nevertheless a pro rata rate of deduction has been established in order to permit to taxable person to partially recover the VAT payables.

	30/06/2012	30/06/2011
- VAT credit	38	—
Total	**38**	**—**

Section 16

Heading 160: Other assets

16.1 Other assets (in € k)

	30/06/2012	30/06/2011
- Gold, silver and precious metal	—	—
- Accrued income other than capitalized income	2.708	2.058
- Trade receivables or invoice to be issued	5.090	7.066
- Amount due from tax revenue Authorities (not recorded under heading 140)	16	—
- Other	135	101
Total	**7.949**	**9.225**

Liabilities

Section 1

Heading 10: Amounts due to credit institutions

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

Type of transaction/amounts	30/06/2012	30/06/2011[8]
1. Due to central Banks	—	—
2. Due to Banks	2.415.872	3.053.042
2.1 Current accounts and demand deposits	306.942	74.385
2.2 Term deposits	13.809	1.052.081
2.3 Borrowings	2.095.121	1.926.576
2.3.1 Leasing & stock lending	—	—
2.3.2 Others	2.095.121	1.926.576
2.4 Amounts due under commitments to buy back own shares	—	—
2.5 Other amounts due	—	—
Total book value	**2.415.872**	**3.053.042**
Total fair value	**2.415.872**	**3.053.042**

1.2 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 Tier2 capital which has been increased in December 2011 from the original nominal amount of € 39.250.000 up to € 50.000.000.

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

	30/06/2012	30/06/2011
1. Items subject to specific fair value hedges for:	237.488	155.727
a) interest rate risk	237.488	155.727
b) exchange rate risk	—	—
c) more than one risk	—	—
2. Items subject to specific cash flow hedges for:	—	—
a) interest rate risk	—	—
b) exchange rate risk	—	—
c) other	—	—
Total	**237.488**	**155.727**

Items subject to micro fair value hedge are Schuldscheins subscribed by third party credit institutions.

[8] For a comparison to be meaningful 2011 figures have been reclassified as explained in Part B – Section 4 "Changes in accounting policies and reclassifications of prior year figures".

Section 2

Heading 20: Amounts due to customers

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

Type of transaction/amounts	30/06/2012	30/06/2011[9]
1. Current accounts and demand deposits	20.633	18.546
2. Term deposits	191.011	452.065
3. Customers' funds managed on a non-discretionary basis	—	—
4. Borrowings	505.433	59.124
4.1 leasing	—	—
4.2 others	505.433	59.124
5. Amounts due under commitments to buyback own shares	—	—
6. Liabilities in respect of assets sold but not derecognized	—	—
6.1 Amounts due under reverse repo agreements	—	—
6.2 Others	—	—
7. Other amounts due	—	—
Total book value	**717.077**	**529.735**
Total fair value	**717.077**	**529.735**

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

	30/06/2012	30/06/2011
1. Items subject to specific fair value hedges for:	97.011	59.124
a) interest rate risk	97.011	59.124
b) exchange rate risk	—	—
c) more than one risk	—	—
2. Items subject to specific cash flow hedges for:	—	—
a) interest rate risk	—	—
b) exchange rate risk	—	—
c) other	—	—
Total	**97.011**	**59.124**

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

[9] For a comparison to be meaningful 2011 figures have been reclassified as explained in Part B – Section 4 "Changes in accounting policies and reclassifications of prior year figures".

Section 3

Heading 30: Debt securities in issue

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

Type of transaction/amounts	30/06/2012		30/06/2011	
	Book value	Fair Value[1]	Book value	Fair Value[1]
A. Listed securities	1.528.406	1.565.043	1.356.049	1.365.641
1. notes	1.419.764	1.456.401	1.073.880	1.083.472
1.1 structured	908.892	915.485	898.466	907.293
1.2 others	510.872	540.916	175.414	176.179
2. other securities [A]	108.642	108.642	282.169	282.169
2.1 structured	—	—	—	—
2.2 others	108.642	108.642	282.169	282.169
B. Unlisted securities	259.696	263.764	280.916	283.281
1. notes	259.696	263.764	280.916	283.281
1.1 structured	218.125	220.257	260.776	260.816
1.2 others	41.571	43.507	20.140	22.465
2. other securities	—	—	—	—
2.1 structured	—	—	—	—
2.2 others	—	—	—	—
Total	**1.788.102**	**1.828.807**	**1.636.965**	**1.648.922**

[1] Fair value does not include issuer risk; if issuer risk was considered, the fair value of debt securities issued would reduce by € 117m approximately.
[A] “Certificats de dépôt” and commercial papers programs obtained the Step Market (short-term euro commercial paper) label.

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

Type of transaction/amounts	30/06/2012	30/06/2011
A. Securities subject to specific fair value hedges	558.058	509.767
1. Interest rate risk	558.058	503.603
2. Currency risk	—	6.164
3. Other risks	—	—
B. Securities subject to specific cash flow hedges	—	—
1. Interest rate risk	—	—
2. Currency risk	—	—
3. Other risks	—	—
Total	**558.058**	**509.767**

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

Type of transaction/amounts	30/06/2012	30/06/2011
A. Debt securities	1.121.402	845.029
1. Structured	720.666	764.356
2. Other	400.736	80.673
B. Other financial instruments	108.642	282.169
1. Structured	—	—
2. Other	108.642	282.169
Total	**1.230.044**	**1.127.198**

Section 4

Heading 40: Financial liabilities held for trading

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

Type of transaction/amounts	30/06/2012			30/06/2011		
	FV			FV		
	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	—	—	—	—	—	—
B. Derivatives instruments	—	208.552	103.274	—	119.435	98.992
1. Financial derivatives	—	168.913	103.274	—	90.319	98.992
1.1 Trading derivatives	—	5.592	—	—	27.653	—
1.2 Linked to FV option	—	—	—	—	—	—
1.3 Other	—	163.321	103.274	—	62.666	98.992
2. Credit derivatives	—	39.639	—	—	29.116	—
2.1 Trading derivatives	—	39.639	—	—	25.209	—
2.2 Linked to FV option	—	—	—	—	—	—
2.3 Other	—	—	—	—	3.907	—
Total	**—**	**208.552**	**103.274**	**—**	**119.435**	**98.992**

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 having a significant effect on the recorded fair value are observable, either directly or indirectly;

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

For more information about fv hierarchy please refer to part B “accounting policies”.

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

	30/06/2012	30/06/2011
1. Opening balance	**98.992**	**143.298**
2. Increases	**20.916**	**1.923**
2.1 Issues and purchases	—	241
2.2 Transfers from other levels	—	—
2.3 Other increases	20.916	1.682
3. Decreases	**16.634**	**46.229**
3.1 Sales and settlements	—	42.865
3.2 Transfers to other levels	15.577	—
3.3 Other decreases	1.057	3.364
4. Closing balance	**103.274**	**98.992**

Only one contract has been transferred from level 3 to level 2 during the year without any significant impact to the profit and loss of the Bank since the fair value remained stable (€ 15,6 million at 30 June 2011 and € 16,3 million at 30 June 2012) and the position has been offset by same movement registered on a mirror contract (please refer to Section 2 – Heading 20 – Note 2.2). Change in fair value of existing contracts has been accounted in the comprehensive income of the Bank within "Net trading income" as follows:

	A. Unrealised gains	B. Unrealised losses	Total
Total gains (losses) included in the comprehensive income for the period	1.057	-20.916	-19.859

As "level 3" financial instruments the Bank classifies equity options embedded both in structured notes and in financial derivatives; impacts on the fair value of level 3 instruments of using reasonably possible alternative assumptions is considered not significant.

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

Type of transaction/amounts	Interest rate		Foreign currency/gold		Equity		Credit		30/06/2012		30/06/2011	
	Notional	**FV**	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**
A. Listed derivative products	—	—	—	—	—	—	—	—	—	—	—	—
B. Unlisted derivative products												
1. Financial derivatives	480.696	152.524	331.335	29	307.954	119.634	—	—	1.119.985	272.187	1.046.715	189.311
1.1 With exchange of principal	—	—	327.336	29	—	—	—	—	327.336	29	—	—
- options issued	—	—	—	—	—	—	—	—	—	—	—	—
- other derivatives	—	—	327.336	29	—	—	—	—	327.336	29	—	—
1.2 Without exchange of principal	480.696	152.524	3.999	—	307.954	119.634	—	—	792.649	272.158	1.046.715	189.311
- options issued	—	—	3.999	—	—	—	—	—	3.999	—	228.739	22.005
- other derivatives	480.696	152.524	—	—	307.954	119.634	—	—	788.650	272.158	817.976	167.306
2. Credit derivatives	—	—	—	—	—	—	1.494.012	39.639	1.494.012	39.639	1.050.915	29.116
2.1 With exchange of principal	—	—	—	—	—	—	—	—	—	—	—	—
2.2 Without exchange of principal	—	—	—	—	—	—	1.494.012	39.639	1.494.012	39.639	1.050.915	29.116
Total	**480.696**	**152.524**	**331.335**	**29**	**307.954**	**119.634**	**1.494.012**	**39.639**	**2.613.997**	**311.826**	**2.097.630**	**218.427**

Section 6

Heading 60: Hedging derivatives

6.1 Hedging derivatives: by type of hedging/underlying levels (in € k)

	30/06/2012 Fair value			Notional value	30/06/2011 Fair value			Notional value
	level 1	level 2	level 3		level 1	level 2	level 3	
A. Financial derivates	—	17.963	—	489.521	—	16.193	—	676.254
1) *Fair value*	—	17.963	—	489.521	—	16.193	—	676.254
2) Cash flow	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) *Fair value*	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	**—**	**17.963**	**—**	**489.521**	**—**	**16.193**	**—**	**676.254**

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 having a significant effect on the recorded fair value are observable, either directly or indirectly;

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

For more information about fv hierarchy please refer to part B “accounting policies”.

6.2 Hedging derivatives: by portfolio hedged/hedge type (in € k)

Hedged items	Fair value hedges					Cash flow hedge			
	Specific								
	Interest Risk	Exchange rate	Credit risk	Other	Generic	Specific	Generic	30/06/2012	30/06/2011
1. AFS Securities	—	—	—	—	—	—	—	—	—
2. Loans and advances	16.731	—	—	—	—	—	—	16.731	4.502
3. Financial assets HTM	—	—	—	—	—	—	—	—	—
4. Portfolio	—	—	—	—	—	—	—	—	—
TOTAL ASSETS	**16.731**	**—**	**—**	**—**	**—**	**—**	**—**	**16.731**	**4.502**
1. Amounts due	—	—	—	—	—	—	—	—	—
2. Financial liabilities	864	368	—	—	—	—	—	1.232	11.691
3. Portfolio	—	—	—	—	—	—	—	—	—
TOTAL LIABILITIES	**864**	**368**	**—**	**—**	**—**	**—**	**—**	**1.232**	**11.691**
TOTAL	**17.595**	**368**	**—**	**—**	**—**	**—**	**—**	**17.963**	**16.193**

Section 8

Heading 80: Tax liabilities

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

	30/06/2012	30/06/2011
Corporate income tax (IRC)	14.545	21.512
Municipal business tax (ICC)	4.673	6.489
Other	206	—
Total	**19.424**	**28.001**

The Bank is liable for all taxes to which the credit institutions are subject to in Luxembourg. The Bank opts for the exoneration of the net wealth tax charge of € 1.002.435 (30 June 2011: € 823.945) provided the following conditions are fulfilled:

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

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

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

8.2 Current tax liabilities: composition (in € k)

	IRC	**ICC**	**Other**	**Total**
Balance at the beginning of the year				
A. Current fiscal liabilities (+)	22.952	6.939	—	29.891
B. Advances paid (-)	1.440	450	—	1.890
A.1 Fiscal liabilities: increase (+)	**5.204**	**1.592**	**406**	**7.202**
- provisions of the year	5.204	1.592	406	7.202
- transfers	—	—	—	—
- others	—	—	—	—
A.2 Fiscal liabilities: decrease (-)	**-9.131**	**-2.783**	**-200**	**-12.114**
- payments of the year (assessments)	-9.131	-2.783	-200	-12.114
- transfers	—	—	—	—
- others	—	—	—	—
B.1 Advances paid: increase (+)	**4.000**	**925**	**—**	**4.925**
- payments/advances	4.000	925	—	4.925
- transfers	—	—	—	—
- others	—	—	—	—
B.2 Advances paid: decrease (-)	**-960**	**-300**	**—**	**-1.260**
- payments of the year (assessments)	-960	-300	—	-1.260
- transfers	—	—	—	—
- others	—	—	—	—
Total A. Fiscal liabilities	**19.025**	**5.748**	**206**	**24.979**
Total B. Advances paid	**4.480**	**1.075**	**—**	**5.555**
Current fiscal liabilities (A-B)	**14.545**	**4.673**	**206**	**19.424**

In 2011 the solidarity surcharge due by companies has been increased by 1%, from 4% to 5%. As a consequence the corporate income tax rate (including the contribution to the employment fund) has been increased from 21,84% to 22,05%. Taking into consideration the municipal business tax, which amounts to 6,75% for the City of Luxembourg, the overall nominal income tax rate for corporations amounts to 28,80%.

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

Deferred tax liabilities	30/06/2012	30/06/2011
1. Initial amount	864	124.740
1.1 Initial amount	864	124.740
2. Additions	—	6
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	—	6
2.3 Other additions	—	—
3. Reductions	—	123.882
3.1 Deferred tax reversed during the period	—	123.882
a) amounts written off as unrecoverable	—	—
b) reverse to comprehensive income	—	123.882
c) due to changes in accounting policies	—	—
3.2 Reduction in tax rates	—	—
3.3 Other reductions	—	—
Total	**864**	**864**

Deferred tax assets and liabilities have been released in 2011 following the assessments received during the fiscal year from the Tax Authority.

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

	30/06/2012			30/06/2011		
	Deferred tax assets	Deferred tax liabilities	Tax rate 28,80%	Deferred tax assets	Deferred tax liabilities	Tax rate 28,80%
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	-864	—	-3.000	-864
Total liabilities	**—**	**-3.000**	**-864**	**—**	**-3.000**	**-864**

Section 10

Heading 100: Other liabilities

10.1 Other liabilities (in € k)

	30/06/2012	30/06/2011
1. Pending invoices	5.642	6.801
2. Wages accrued, contributions and amounts withheld from staff for payment	6	4
3. Impairment guarantees and commitments	431	348
4. Prepaid expenses other than capitalized expenses on related financial assets	—	21
5. Deferred income	—	—
6. Upfront premiums	—	2.912
7. Amounts payable on loans and receivables	2.353	2.476
8. Other items	—	—
Total	**8.432**	**12.562**

Section 16

Heading 160: Reserves

16.1 Reserves (in € k)

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

As of June 30, 2011 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 2010;
- This reserve will be maintained for a minimum period of 5 years.

(in € k)	**30/06/2012**	**30/06/2011**
A. Reserves	192.623	156.519
A.1 legal reserve	1.000	1.000
A.2 free reserve	175.211	143.090
A.3 special reserve(1)	16.412	12.212
A.4 FTA reserve	—	217

(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 2012 and 2011, 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)

	30/06/2012	30/06/2011
1. Financial guarantees given to:	84.762	83.959
a) Banks	-	-
b) Customers	84.762	83.959
2. Commercial guarantees given to:	-	-
a) Banks	-	-
b) Customers	-	-
3. Irrevocable commitments to lend funds:	1.258.874	1.642.511
a) Banks	-	-
b) Customers	1.258.874	1.642.511
4. Commitment underlying credit derivatives: hedge sales	1.518.612	1.634.982
Total	**2.862.248**	**3.361.452**

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

The Bank is a member of the non-profit making organisation "Association pour la Garantie des Dépôts, Luxembourg" (AGDL) that was established on 25 September 1989. The AGDL has as its sole objective the establishment of a mutual system for the guarantee of cash deposits for the benefit of customers of the member credit institutions of the Association and for claims arising from investment transactions in favour of investors with the credit institutions and investment firms which are members of the Association.

The guarantee of cash deposits and of claims arising from investment transactions in favour of clients, individuals and certain companies as defined by the regulations is limited to a maximum amount fixed at the equivalent value in all currencies of € 100.000 per cash deposit and € 20.000 per claim arising out of investment transactions. If the guarantee is called, the annual payment to be made by each member is limited to 5% of Shareholders' equity.

2. Other commitments

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

- € 599.263k of commitment to return at a forward date securities received as collateral under repurchase agreement where the Bank acts as lender.

As of yearend the Bank has placed collateral in form of securities for an amount of € 515.611k in relation to a funding operation which matures in July 2018.

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

Type of service	30/06/2012	30/06/2011
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		
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	599.263	—
1. securities issued by bank drawing up financial statements	—	—
2. other securities	599.263	—
c) customers' securities held on deposit with customers	515.611	—
d) own securities held on deposit with customers	118.977	149.292

PART D – NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

Section 1

Headings 10 and 20: Net interest income

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

	Performing assets			Non Performing assets (1)	30/06/2012	30/06/2011[10]
	Debt securities	Loans	Other financial assets			
1. Financial assets held for trading	2.298	123	—	—	2.421	16.923
2. Financial assets at fair value	—	—	—	—	—	—
3. AFS securities	—	—	—	—	—	—
4. Financial assets held to maturity	—	—	—	—	—	—
5. Loans and advances to credit institutions	—	35.228	—	—	35.228	6.801
6. Loans and advances to customers	—	82.200	—	7.878	90.078	88.083
7. Hedging derivatives	—	—	29.041	—	29.041	25.613
8. Financial assets sold but not derecognized	—	—	—	—	—	—
9. Other assets	—	—	—	—	—	—
Total	**2.298**	**117.551**	**29.041**	**7.878**	**156.768**	**137.420**

(1) Under the caption nonperforming are reported interests attributable to restructured credit exposures. In August 2011 the Bank has executed the financial guarantee on a nonperforming exposure at its book value of € 11m; remaining non performing loans are all restructured positions fully covered by financial guarantees.

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

	30/06/2012	30/06/2011
A. Positive differences on transactions involving:	29.041	25.613
A.1 Specific fair value hedge of assets	7.852	4.829
A.2 Specific fair value hedge of liabilities	21.189	20.784
A.3 General interest rate risk hedges	—	—
A.4 Specific cash flow hedge of assets	—	—
A.5 Specific cash flow hedge of liabilities	—	—
A.6 General cash flow hedge	—	—

10 For a comparison to be meaningful 2011 figures have been reclassified as explained in Part B – Section 4 "Changes in accounting policies and reclassifications of prior year figures".

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

	30/06/2012	30/06/2011
1.3.1 Interests receivable on financial assets denominated in currencies other than Euro	22.412	27.955
1.3.2 Interests receivable in respect of financial leasing transactions	—	—
1.3.3 Interests income on receivables involving customers' funds held on a non discretionary basis	—	—

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

	Payables	Notes	Other liabilities	30/06/2012	30/06/2011
1. Amount due to Banks	-46.812	—	—	-46.812	-40.519
2. Amount due to customers	-14.755	—	—	-14.755	-3.465
3. Debt securities	—	-48.987	—	-48.987	-27.533
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	—	—	-24.716	-24.716	-34.218
Total	**-61.567**	**-48.987**	**-24.716**	**-135.270**	**-105.735**

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

	30/06/2012	30/06/2011
A. Negative differences on transactions involving:	-24.716	-34.218
A.1 Specific fair value hedge of assets	-11.988	-9.357
A.2 Specific fair value hedge of liabilities	-12.728	-24.861
A.3 General interest rate risk hedges	—	—
A.4 Specific cash flow hedge of assets	—	—
A.5 Specific cash flow hedge of liabilities	—	—
A.6 General cash flow hedge	—	—

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

	30/06/2012	30/06/2011
1.6.1 Interests payable on financial liabilities denominated in currencies other than Euro	-15.831	-17.832
1.6.2 Interests payable on liabilities in respect of financial leasing transactions	—	—
1.6.3 Interests payable on customers' funds held on a non discretionary basis	—	—

Section 2

Headings 40 and 50: Net fee and commission income

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

	30/06/2012	30/06/2011[11]
a) guarantees given	1.225	816
b) credit derivates	—	—
c) management, trading and advisory services:	1.281	1.730
1. securities dealing	—	—
2. currency dealing	—	—
3. asset management	—	—
4. securities under custody and non-discretionary	—	—
5. depositary services	1.281	1.257
6. securities placing	—	473
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	—	—
f) factoring servicing	—	—
g) tax collection and receipt services	—	—
h) lending services	19.545	37.046
Total	**22.051**	**39.592**

[11] For a comparison to be meaningful 2011 figures have been reclassified as explained in Part B – Section 4 “Changes in accounting policies and reclassifications of prior year figures”.

2.2 Fee and commission expense (in € k)

	30/06/2012	30/06/2011
a) guarantees received	—	—
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	—	-371
6. door-to-door sales of securities, products and services	—	—
d) collection and payment services	—	—
e) lending services	-10.550	-23.062
Total	**-10.550**	**-23.433**

Section 3

Heading 80: Net trading income (expense)

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

	Value increases	Dealing profits	Value reductions	Dealing losses	30/06/2012	30/06/2011
1. Trading assets	139	793	-1.154	-6.318	**-6.540**	**-9.822**
1.1 Debt securities	—	539	-50	-6.205	**-5.716**	**-9.501**
1.2 Equities	—	—	—	—	—	—
1.3 OICR units	—	—	-1.104	—	**-1.104**	**-321**
1.4 Loans and receivables	139	254	—	-113	**280**	—
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	101.385	—	-102.698	—	**-1.313**	**37.782**
4. Derivative products	216.734	610.217	-758.653	-48.800	**19.498**	**-43.434**
4.1 Financial derivatives:	155.008	286.699	-393.057	-19.716	**28.934**	**-46.898**
– on debt securities/interest rates	1.858	266.818	-241.037	-547	**27.092**	**-12.563**
– on equities/share indexes	153.040	19.174	-151.991	-19.169	**1.054**	**-186**
– on foreign currency/gold	110	707	-29	—	**788**	**-34.149**
– others	—	—	—	—	—	—
4.2 Credit derivatives	61.726	323.518	-365.596	-29.084	**-9.436**	**3.464**
Total	**318.258**	**611.010**	**-862.505**	**-55.118**	**11.645**	**-15.474**

Section 4

Heading 90: Net hedging income (expense)

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

	30/06/2012	30/06/2011
A. Income from:		
A.1 Fair value hedge derivatives	142.214	24.881
A.2 Financial assets hedged (fair value)	11.636	1.516
A.3 Financial liabilities hedged (fair value)	3.198	80.860
A.4 Cash flow hedge financial derivatives	—	—
A.5 Assets and liabilities in foreign currency	—	—
Total hedging income (A)	**157.048**	**107.257**
B. Expenses relating to:		
B.1 Fair value hedge derivatives	-15.464	-65.074
B.2 Financial assets hedged (fair value)	—	-20.015
B.3 Financial liabilities hedged (fair value)	-141.786	-21.972
B.4 Cash flow hedge financial liabilities	—	—
B.5 Assets and liabilities in foreign currency	—	—
Total hedging expenses (B)	**-157.250**	**-107.061**
C. Net hedging income (A-B)	**-202**	**196**

Section 5

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

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

	30/06/2012			30/06/2011		
	Gains	Losses	Net profit (loss)	Gains	Losses	Net profit (loss)
Financial assets						
1. Due from Banks	—	—	—	—	—	—
2. Due from customers	—	—	—	—	—	—
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	—	—	—	—	—	—
Financial liabilities						
1. Due to Banks	—	—	—	—	—	—
2. Due to customers	—	—	—	—	—	—
3. Debt securities in issue	—	-272	-272	18.758	—	18.758
Total liabilities	—	-272	-272	18.758	—	18.758

Section 6

Heading 130: Adjustments for impairment

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

Transactions/Income-linked components	Value adjustments			Amounts recovered				30/06/2012	30/06/2011
	Specific		Portfolio	Specific		Portfolio			
	Write offs	Others		A	B	A	B		
A. Due from Banks	—	—	—	—	—	—	—	—	—
B. Due from customers	—	—	-706	—	—	—	525	-181	384
C. Total	**—**	**—**	**-706**	**—**	**—**	**—**	**525**	**-181**	**384**

Legend

A = interests

B = other amounts recovered

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

Transactions/Income-linked components	Value adjustments			Amounts recovered				30/06/2012	30/06/2011
	Specific		Portfolio	Specific		Portfolio			
	Write offs	Others		A	B	A	B		
A. Guarantees given	—	—	-5	—	—	—	7	2	-18
B. Credit derivatives	—	—	—	—	—	—	—	—	—
C. Commitments	—	—	-198	—	—	—	112	-86	58
D. Other transactions	—	—	—	—	—	—	—	—	—
E. Total	**—**	**—**	**-203**	**—**	**—**	**—**	**119**	**-84**	**40**

Legend

A = interest

B = other amounts recovered

Section 7

Heading 180: Administrative expenses

7.1 Personnel cost: composition (in € k)

	30/06/2012	30/06/2011
1.Employees	-394	-364
a) wages and salaries	-312	-288
b) social security charges	-18	-15
c) severance indemnities	—	—
d) pension contributions	-24	-22
e) transfers to severance indemnity provision	—	—
f) transfers to post-employment and similar benefits:	—	—
– defined contribution	—	—
– defined benefit	—	—
g) payments to outside complementary pension schemes:	-17	-21
– defined contribution	-17	-21
– defined benefit	—	—
h) expenses incurred in connection with share payment schemes	—	—
i) other staff benefits	-23	-18
2. Other staff	-315	-451
3. Board members	-180	-135
Total	**-889**	**-950**

7.2 Other administrative expenses: composition (in € k)

	30/06/2012	30/06/2011
– outside consultants’ fees	-192	-234
– legal fees due in respect of credit recovery	—	—
– share and bond administration	-121	-137
– advertising	-6	-45
– insurance	-1	-1
– rents and leases	-196	-146
– maintenance, repairs and refurbishment	-20	-10
– service providers	-3	-5
– financial information subscriptions	—	—
– stationery and printing	-3	-6
– membership subscriptions	-115	-19
– postal, telephone, fax and telex charges	-32	-21
– newspapers, magazines and library acquisitions	-1	—
– other staff expenses	—	—
– utilities	—	—
– EDP costs	-506	-560
– Bank charges	-21	-15
– travel and secondment	-40	-4
– outsourced activities	-5.779	-4.346
– other expenses	-5	-7
Total other expenses	**-7.041**	**-5.556**
– indirect and other taxes	-760	-715
Total indirect tax	**-760**	**-715**
Total other administrative expenses	**-7.801**	**-6.271**

Section 8

Heading 200: Net adjustments to tangible assets

8.1 Net adjustments to tangible assets: composition (in € k)

	Depreciation and other reduction	Adjustments for impairment	Amounts recovered	30/06/2012	30/06/2011
A. Tangible assets					
A.1 Owned:	-5	—	—	-5	-1
– Core	-5	—	—	-5	-1
– Investment	—	—	—	—	—
A.2 Acquired under finance leases:	—	—	—	—	—
– Core	—	—	—	—	—
– Investment	—	—	—	—	—
Total	**-5**	**—**	**—**	**-5**	**-1**

Section 9

Heading 210: Net adjustments to intangible assets

9.1 Net adjustments to intangible assets (in € k)

Assets/income elements	Amortization	Adjustments for impairment	Amounts recovered	30/06/2012	30/06/2011
A. Intangible assets					
A.1 Owned	-1	—	—	-1	—
– software	—	—	—	—	—
– other	-1	—	—	-1	—
A.2 Acquired under finance leases	—	—	—	—	—
Total	**-1**	**—**	**—**	**-1**	**—**

Section 10

Heading 220: Other operating income (expenses)

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

	30/06/2012	30/06/2011
A. Other income (expenses) – other	-42	440
– Sundry other expense reimbursements	—	—
– Direct debit expense reimbursements	—	—
– Income for services given to third Companies	43	—
– Other income	63	440
– Other charges	-148	—
B. Other income (expenses) – amounts recovered	58	—
– withholding tax	58	—
– Amounts recovered from staff	—	—
– Amounts recovered from clients	—	—
–Other amounts recovered	—	—
Total	**16**	**440**

Section 11

Heading 290: Income tax on the ordinary activity

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

	30/06/2012	30/06/2011
1. Current taxes	-6.797	-8.676
2. Changes in current tax for previous financial years	—	-592
3. Decrease in current tax for period	—	—
4. Changes in deferred tax assets	—	-4.929
4.1 related to previous fiscal exercise (reverse to the comprehensive income)	—	-4.929
4.2 generated in the fiscal exercise	—	—
5. Changes in deferred tax liabilities	—	5.337
5.1 related to previous fiscal exercise (reverse to the comprehensive income)	—	5.343
5.2 generated in the fiscal exercise	—	-6
Total	**-6.797**	**-8.860**

PART E – OPERATING SEGMENT INFORMATION

A. PRIMARY SEGMENT REPORTING

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

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

		CORPORATE LENDING	EXPORT FINANCE	LEVERAGE FINANCE	PROJECT FINANCE	OTHER
10.	Cash and cash equivalent	1.162	37	553	92	—
20.	Financial assets held for trading	45.442	1.443	21.639	3.606	268.021
60.	Loans and advances to credit institutions	1.019.985	32.381	485.707	80.951	92.710
70.	Loans and advances to customers	2.027.095	64.352	965.283	160.881	8
80.	Hedging derivatives	143.062	4.541	68.125	11.354	—
100.	Equity investments	—	—	—	—	4.150
120.	Tangible assets	—	—	—	—	38
130.	Intangible assets	—	—	—	—	5
140.	Tax assets	24	1	12	2	—
160.	Other assets	4.956	157	2.360	393	83
	Total assets at 30/06/2012	**3.241.726**	**102.912**	**1.543.679**	**257.279**	**365.015**
	Total assets at 30/06/2011(*)	**2.974.294**	**26.734**	**1.998.772**	**419.648**	**278.965**
10.	Amount due to Credit institutions	-1.476.608	-46.876	-703.146	-117.191	-72.051
20.	Amount due to customers	-438.760	-13.929	-208.933	-34.822	-20.633
30.	Debt securities in issue	-1.126.504	-35.762	-536.431	-89.405	—
40.	Financial liabilities held for trading	-28.495	-905	-13.569	-2.262	-266.595
60.	Hedging derivatives	-11.317	-359	-5.389	-898	—
80.	Tax liabilities	-12.782	-406	-6.086	-1.014	—
100.	Other liabilities	-5.312	-169	-2.529	-422	—
160.	Shareholders' equity	-127.653	-4.052	-60.787	-10.131	—
	Total liabilities at 30/06/2012	**-3.227.431**	**-102.458**	**-1.536.870**	**-256.145**	**-359.279**
	Total liabilities at 30/06/2011(*)	**-2.954.207**	**-26.554**	**-1.985.274**	**-416.814**	**-279.460**

(*) 2011 figures changed to conform with current year's presentation for comparative purposes; for details please refer to Part B – Section 4 – Changes in accounting policies and reclassification of prior year figures.

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	83.284	1.487	55.027	8.923	8.047
020.	Interests payable and similar charges	-75.448	-1.347	-49.849	-8.084	-542
030.	**Net interest income**	**7.836**	**140**	**5.178**	**839**	**7.505**
040.	Fee and commission income	11.367	203	7.510	1.218	1.753
050.	Fee and commission expense	-5.908	-106	-3.903	-633	0
060.	**Net fee and commission income**	**5.459**	**97**	**3.607**	**585**	**1.753**
080.	Net trading income/expense	6.549	117	4.327	702	-50
090.	Net hedging income/expense	-113	-2	-75	-12	—
100.	Gain or loss on disposal or repurchase of:	-152	-3	-101	-16	—
	a) loans and receivables	—	—	—	—	—
	b) financial assets available for sale	—	—	—	—	—
	c) financial assets held to maturity	—	—	—	—	—
	d) financial liabilities	*-152*	*-3*	*-101*	*-16*	—
120.	**Total income**	**19.579**	**349**	**12.936**	**2.098**	**9.208**
130.	Value adjustments	-148	-3	-98	-16	—
140.	**Net income from the financial management**	**19.431**	**346**	**12.838**	**2.082**	**9.208**
180.	Administrative expenses	-4.866	-87	-3.215	-522	—
200.	Value adjustments in respect of tangible assets	—	—	—	—	-5
210.	Value adjustments in respect of intangible assets	—	—	—	—	-1
220.	Other operating income/expense	—	—	—	—	16
280.	**Profit (loss) of the ordinary activity before tax**	**14.565**	**259**	**9.623**	**1.560**	**9.218**
290.	Income tax on the ordinary activity	-3.806	-68	-2.515	-408	—
340.	**Profit (loss) for the year**	**10.759**	**191**	**7.108**	**1.152**	**9.218**
350.	Other comprehensive income, net of tax	—	—	—	—	—
360.	**Total comprehensive income for the year, net of tax as at 30/06/2012**	**10.759**	**191**	**7.108**	**1.152**	**9.218**
	Total comprehensive income for the year, net of tax as at 30/06/2011	**17.579**	**77**	**13.721**	**2.952**	**1.776**

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 years ended 30 June 2012 and 2011.

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

	LUXEMBOURG	OTHER EUROPEAN COUNTRIES	AMERICAS	ASIA	OCEANIA
Cash and cash balances with Central Banks	1.844	—	—	—	—
Financial assets held for trading	318.745	21.406	—	—	—
Loans and advances to Credit Institutions	344	1.711.391	—	—	—
Loans and advances to Customers	495.716	2.250.082	464.373	—	7.448
Hedging derivatives	—	227.082	—	—	—
Equity investments	4.150	—	—	—	—
Tangible assets	38	—	—	—	—
Intangible assets	5	—	—	—	—
Tax assets	38	—	—	—	—
Other assets	250	7.232	467	—	—
A. Total assets 30/06/2012	**821.130**	**4.217.193**	**464.840**	**—**	**7.448**
A. Total assets 30/06/2011(*)	**779.990**	**4.603.305**	**308.305**	**—**	**6.813**
Amount due to Banks	—	-2.415.872	—	—	—
Amount due to customers	—	-717.026	-51	—	—
Debt securities in issue	-1.466.608	-321.494	—	—	—
Financial liabilities held for trading	-13.821	-298.005	—	—	—
Hedging derivatives	—	-17.963	—	—	—
Tax liabilities	-20.288	—	—	—	—
Other liabilities	-127	-8.018	-287	—	—
Shareholders' equity	-202.623	—	—	—	—
B. Total liabilities 30/06/2012 (1)	**-1.703.467**	**-3.778.378**	**-338**	**—**	**—**
B. Total liabilities 30/06/2011(*)	**-1.830.429**	**-3.831.758**	**-122**	**—**	**—**

(*) 2011 figures changed to conform with current year's presentation for comparative purposes; for details please refer to Part B – Section 4 – Changes in accounting policies and reclassification of prior year figures.

(1) Profit for the period excluded

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

	LUXEMBOURG	OTHER EUROPEAN COUNTRIES	AMERICAS	ASIA	OCEANIA
Net interest income	-31.873	41.472	11.481	—	418
Net fee and commission income	1.896	5.472	4.133	—	—
Net trading income/expense	26.300	-13.026	-1.629	—	—
Net hedging income/expense	-10.373	10.171	—	—	—
Gain or loss on disposal or repurchase	-272	—	—	—	—
Value adjustments - impairment	22	85	-372	—	—
Administrative expenses	-1.884	-6.806	—	—	—
Value adjustments – amortisation	-6	—	—	—	—
Other operating income (expenses)	-23	39	—	—	—
Income tax	-6.797	—	—	—	—
Net profit/loss 2012	**-23.010**	**37.407**	**13.613**	**—**	**418**
Net profit/loss 2011	**-13.531**	**33.905**	**11.780**	**—**	**3.950**

PART F – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

INTRODUCTION

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

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

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

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

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. In accordance with the Bank's policy, its risk profile is assessed before entering into hedge transactions, which are authorised 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.

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 financial statements and a series of other controls (i.e. covenants). Any deterioration in the risk profile of a loan is brought swiftly to the attention of head of the operating unit and management.

Leverage finance

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

Loan impairment provisions

The Bank assumes directly the credit risk for some exposures, under the aim to advance the core business taking into account the positive relation between risk and profitability. The Risk Committee defines the positions and the risks that can be taken based on a credit portfolio analysis in order to pursue an optimal diversification among geographical areas, industry sector and class of rating.

The Bank maintains partial or complete guarantees on certain exposures, depending on the creditworthiness, market sector and nature of each loan. Such guarantees are issued by the Parent Bank or public agencies (i.e. SACE, UFK, Hermes).

According to the IAS 39, the Bank monthly reviews its loan portfolios to assess for impairment. Impairment provisions are established to recognize incurred impairment losses in loan portfolios carried at amortized cost. In determining whether an impairment has occurred at the balance sheet date, the Bank considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows or their timings; such observable data includes whether there has been an adverse change in the payment status of borrowers or changes in economic conditions that correlate with defaults on loan repayment obligations. Collectively assessed impairment allowances cover credit losses inherent in portfolios with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors.

QUANTITATIVE INFORMATION

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

Portfolio/Quality	Non-performing	Performing	30/06/2012	30/06/2011
1. Financial assets held for trading	—	325.827	325.827	918.946
Banks	—	—	—	—
Customers	—	5.180	5.180	122.640
Derivative instruments	—	320.647	320.647	796.306
2. AFS securities	—	—	—	—
Banks	—	—	—	—
Customers	—	—	—	—
3. Financial assets held to maturity	—	—	—	—
Banks	—	—	—	—
Customers	—	—	—	—
4. Due from Banks(*)	—	1.713.578	1.713.578	779.579
5. Due from customers(*)	86.432	3.131.187	3.217.619	3.862.849
6. Financial assets recognized at fair value	—	—	—	—
Banks	—	—	—	—
Customers	—	—	—	—
7. Financial assets being sold	—	—	—	—
Banks	—	—	—	—
Customers	—	—	—	—
8. Hedging derivatives	—	227.082	227.082	95.311
Total	**86.432**	**5.397.674**	**5.484.106**	**5.656.685**

(*) 2011 figures changed to conform with current year's presentation for comparative purposes; for details please refer to Part B – Section 4 – Changes in accounting policies and reclassification of prior year figures.

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	—	—	—	325.827	—	325.827	325.827
2. AFS securities	—	—	—	—	—	—	—
3. Financial assets held to maturity	—	—	—	—	—	—	—
4. Due from Banks	—	—	—	1.713.578	—	1.713.578	1.713.578
5. Due from customers	86.432	—	86.432	3.132.701	-1.514	3.131.187	3.217.619
6. Financial assets recognized at fair value	—	—	—	—	—	—	—
7. Financial assets being sold	—	—	—	—	—	—	—
8. Hedging derivatives	—	—	—	227.082	—	227.082	227.082
Total at 30/06/2012	**86.432**	**—**	**86.432**	**5.399.188**	**-1.514**	**5.397.674**	**5.484.106**
Total at 30/06/2011(*)	**89.125**	**—**	**89.125**	**5.568.893**	**-1.333**	**5.567.560**	**5.656.685**

Impaired assets at 30 June 2012 refer to restructured loans to customers fully covered by letter of credit issued by the Parent Bank.

(*) 2011 figures changed to conform with current year's presentation for comparative purposes; for details please refer to Part B – Section 4 – Changes in accounting policies and reclassification of prior year figures.

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

Type of exposure/Amounts	Gross exposure	Specific value adjustments	Portfolio value adjustments	30/06/2012	30/06/2011
A. CASH EXPOSURES					
a) Non-performing	—	—	—	—	—
e) Other assets	1.713.578	—	—	1.713.578	872.625
Total A	**1.713.578**	**—**	**—**	**1.713.578**	**872.625**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Non-performing	—	—	—	—	—
b) Other assets	423.969	—	—	423.969	2.002.888
Total B	**423.969**	**—**	**—**	**423.969**	**2.002.888**

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

Type of exposure/Amounts	Gross exposure	Specific value adjustments	Portfolio value adjustments	30/06/2012	30/06/2011
A. CASH EXPOSURES					
a) Non-performing	86.432	—	—	86.432	89.125
b) Other assets	3.137.881	—	-1.514	3.136.367	3.915.327
Total A	**3.224.313**	**—**	**-1.514**	**3.222.799**	**4.004.452**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Non-performing	3.575	—	—	3.575	3.973
b) Other assets	1.345.355	—	-431	1.344.924	1.727.729
Total B	**1.348.930**	**—**	**-431**	**1.348.499**	**1.731.702**

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

Description/Category	**30/06/2012**		**30/06/2011**
	Non performing	**Restructured**	
A. Gross exposure at start of period	10.593	78.532	111.160
of which: accounts sold but not derecognized	—	—	—
B. Additions	70	18.271	136.670
B.1 transfers from performing loans	—	—	80.912
B.2 transfer from other categories of impaired assets	—	—	43.646
B.3 other additions	70	18.271	12.112
C. Reductions	-10.663	-10.371	-158.705
C.1 transfer to performing loans	—	—	—
C.2 amounts written off	—	—	—
C.3 amounts collected	—	-3.253	-115.059
C.4 gains realized on disposal	-10.663	—	—
C.5 transfers to other categories of impaired assets	—	—	-43.646
C.6 other reductions	—	-7.118	—
D. Gross exposure at end of period	—	86.432	89.125
of which: accounts sold but not derecognized	—	—	—

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

	Non-performing	Restructured	Performing
A. Adjustments at start of period	—	—	-1.333
of which: accounts sold but not derecognized	—	—	—
B. Additions	—	—	-707
B.1 value adjustments	—	—	-461
B.2 transfers from other categories of impaired assets	—	—	—
B.3 other additions	—	—	-246
C. Reductions	—	—	526
C.1 writebacks based on valuations	—	—	—
C.2 writebacks due to amounts collected	—	—	340
C.3 amounts written off	—	—	—
C.4 transfers to other categories of impaired assets	—	—	—
C.5 other reductions	—	—	186
D. Adjustments at 30/06/2012	—	—	-1.514
of which: accounts sold but not derecognized	—	—	—
D. Adjustments at 30/06/2011	—	—	-1.333
of which: accounts sold but not derecognized	—	—	—

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

		Real guarantees			Personal guarantees							
					Credit derivatives				Financial guarantees			
	Total exposure	**Properties**	**Securities**	**Other assets**	**Governments**	**Other public agencies**	**Banks**	**Others**	**Governments**	**Other public agencies**	**Banks**	**Others**
1. Secured exposures to Banks:												
1.1 completely secured	409.625	—	409.488	—	—	—	—	—	—	—	137	—
- non performing	—	—	—	—	—	—	—	—	—	—	—	—
1.2 partly secured	—	—	—	—	—	—	—	—	—	—	—	—
- non performing	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2012	**409.625**	**—**	**409.488**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**137**	**—**
Total 30/06/2011	**201.043**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**200.012**	**1.031**	**—**
2. Secured exposures to customers:												
2.1 completely secured	1.738.760	—	—	—	—	—	—	—	—	102.299	1.636.461	—
- non performing	*86.432*	—	—	—	—	—	—	—	—	—	*86.432*	—
2.2 partly secured	1.417.943	—	—	—	—	—	—	—	—	—	1.092.106	—
- non performing	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2012	**3.156.703**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**102.299**	**2.728.567**	
Total 30/06/2011	**3.902.447**	**—**	**—**	**—**	**—**	**—**	**106.797**	**—**	**—**	**172.008**	**3.266.904**	**—**

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

	Total exposure	Real guarantees			Personal guarantees							
					Credit derivatives				Endorsements			
		Properties	**Securities**	**Other assets**	**Governments**	**Other public agencies**	**Banks**	**Others**	**Governments**	**Other public agencies**	**Banks**	**Others**
1. Secured exposures to Banks:												
1.1 completely secured	—	—	—	—	—	—	—	—	—	—	—	—
1.2 partly secured	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2012	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total 30/06/2011	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
2. Secured exposures to customers:												
2.1 completely secured	927.996	—	—	—	—	—	—	—	—	99.993	828.003	—
- non performing	*3.575*	—	—	—	—	—	—	—	—	—	*3.575*	—
2.2 partly secured	373.403	—	—	—	—	—	—	—	—	—	288.837	—
- non performing	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2012	**1.301.399**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**99.993**	**1.116.840**	—
Total 30/06/2011	**1.681.142**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**118.762**	**1.456.633**	—

1.1a Credit risk - Excessive risk concentration

Qualitative information

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

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

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

The Bank's concentrations of risk are managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty other than the Parent as of 30th June 2012 was € 425 million (2011: € 422 million) before taking account of collateral or other credit enhancements and € 43 million (2011: € 39 million) net of such protection.

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

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

Quantitative information

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

	Governments and Central Banks	Other Public agencies	Financial companies	Insurances	Non-financial undertakings	Other entities
A. Cash exposures						
A.1 Non-performing						
Gross exposure	—	—	56.633	—	29.799	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	—	—	—	—
Net exposure	—	—	56.633	—	29.799	—
A.2 Other exposures						
Gross exposure	—	—	1.093.447	—	2.044.434	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-568	—	-946	—
Net exposure	—	—	1.092.879	—	2.043.488	—
Total A						
Gross exposure	—	—	1.150.080	—	2.074.233	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-568	—	-946	—
Net exposure	—	—	1.149.512	—	2.073.287	—
B. Off-balance sheet exposures						
B.1 Non-performing						
Gross exposure	—	—	—	—	3.575	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	—	—	—	—
Net exposure	—	—	—	—	3.575	—
B.2 Other exposures						
Net exposure	—	—	135.567	—	1.209.788	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-71	—	-360	—
Net exposure	—	—	135.496	—	1.209.428	—
Total B						
Gross exposure	—	—	135.567	—	1.213.363	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-71	—	-360	—
Net exposure	—	—	135.496	—	1.213.003	—
Total 30/06/2012						
Gross exposure	—	—	1.285.647	—	3.287.596	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-639	—	-1.306	—
Net exposure	—	—	1.285.008	—	3.286.290	—
Net exposure 30/06/2011	—	—	1.505.774	—	4.230.380	—

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

Exposure/geographical areas	Luxembourg		Other European countries[12]		America		Asia		Oceania	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A) Cash exposures										
A.1 Non-performing	38.966	38.966	47.466	47.466	—	—	—	—	—	—
A.2 Performing	456.788	456.750	2.208.858	2.207.796	464.787	464.373	—	—	7.448	7.448
Total A	495.754	495.716	2.256.324	2.255.262	464.787	464.373	—	—	7.448	7.448
B) Off-balance-sheet exposures										
B.1 Non-performing	—	—	3.575	3.575	—	—	—	—	—	—
B.2 Performing	47.318	47.305	1.032.972	1.032.840	265.066	264.779	—	—	—	—
Total B	47.318	47.305	1.036.547	1.036.415	265.066	264.779	—	—	—	—
Total 30/06/2012	**543.072**	**543.021**	**3.292.871**	**3.291.677**	**729.853**	**729.152**	**—**	**—**	**7.448**	**7.448**
Total 30/06/2011	**552.592**	**552.518**	**4.713.638**	**4.712.360**	**464.791**	**464.462**	**—**	**—**	**6.814**	**6.814**

[12] Despite the recent IMF/EU deal to extend further bailout funds to Greece, the Country's debt situation remains in the spotlight, with the other periphery Countries - namely Spain, Ireland, Portugal and Italy – also remaining in the investors' watch list. Along with Greece, Ireland and Portugal were also given bail-out to give them time to repair their economies. The exposure of the Bank at June 30, 2012 (excluding outstanding transactions with the Parent Bank) is limited to Spain and Italy as follow:

Exposure/geographical areas	Italy		Spain	
	Gross exposure	Net exposure	Gross exposure	Net exposure
A) Cash exposures	—	—	56.044	56.044
A.1 Non-performing	—	—	—	—
A.2 Performing	—	—	56.044	56.044
B) Off-balance-sheet exposures	7.034	7.034	14.717	14.717
B.1 Non-performing	—	—	—	—
B.2 Performing	7.034	7.034	14.717	14.717
Total 30/06/2012	**7.034**	**7.034**	**70.761**	**70.761**
Total 30/06/2011	**60.948**	**60.948**	**24.703**	**24.703**

The table shows the exposure to local customers other than sovereigns. At June 30, 2012 the Bank has a long CDS position on Republic of Italy for an outstanding nominal amount of € 30,2m (null at June 30, 2011) completely offset by a symmetric long position on credit linked issuances. Moreover the activity of the Bank remains focused on corporate clients who are less linked to the sovereign risk than retails.

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

Exposure/geographical areas	Luxembourg		Other European countries		United States		Asia		Oceania	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A) Cash exposures										
A.1 Non-performing	—	—	—	—	—	—	—	—	—	—
A.2 Performing	2.187	2.187	1.711.391	1.711.391	—	—	—	—	—	—
Total A	2.187	2.187	1.711.391	1.711.391	—	—	—	—	—	—
B) Off-balance-sheet exposures										
B.1 Non-performing	—	—	—	—	—	—	—	—	—	—
B.2 Performing	—	—	423.969	423.969	—	—	—	—	—	—
Total B	—	—	423.969	423.969	—	—	—	—	—	—
Total 30/06/2012	**2.187**	**2.187**	**2.135.360**	**2.135.360**	—	—	—	—	—	—
Total 30/06/2011	**1.247.217**	**1.247.217**	**1.628.296**	**1.628.296**	—	—	—	—	—	—

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

	30/06/2012	30/06/2011
a) Gross exposure	4.500.372	4.868.143
b) No. large risk exposures	51	56
c) Large risk exposure after CRM	489.537	477.410
d) No. large risk exposures after CRM	19	21
e) Large risk after CRM/regulatory capital	1,94	2,87

In accordance with Circular CSSF 06/273, part XVI, point 7 (as amended by Circulars CSSF 07/317, CSSF 10/450, CSSF 10/475, CSSF 10/496 and CSSF 11/501; version applicable as from 31.12.2011) the Bank reports as large exposures the ones above 10% of regulatory capital. At the request of the Bank the CSSF has granted a total exemption for the exposures towards the Parent Company in the calculation of large exposure limits, in accordance with Part XVI, point 24 of Circular 06/273, as amended. The amount of exposures covered by this exemption is € 5.544.106k as at 30 June 2012 (€ 4.390.733k as at 30 June 2011).

C.1 *Securitizations*

As of 30 June 2012 and 2011 the Bank does not have any exposure deriving from securitizations.

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 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 CSSF Circular 06/273 as amended, the Bank performs semi-annually a "test d'endurance en matière de risque de taux d'intérêt" based on two interest rate curves scenarios (+200 bps and -200 bps) defined by the Regulator.

Interest rate risk is controlled on an ongoing 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 company – 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 VIII of the Circular CSSF 08/338, an "endurance test" of interest rate risk was carried out as at 30 June 2012. The simulation was based on two different scenarios (parallel shift of the interest rate curve +200 and -200 bps). The results achieved are described herein after:

- Scenario +200 bps: - € 4.284.655
- Scenario -200 bps: € 729.435

Fair value hedge

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

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

QUANTITATIVE INFORMATION

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

Type/Residual duration*	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets								
1.1 Debt securities	—	—	—	—	—	—	—	—
– with early redemption option	—	—	—	—	—	—	—	—
– other	—	—	—	—	—	—	—	—
1.2 Loans to Banks	—	—	—	—	—	—	—	—
1.3 Loans to customers	—	2.499	2.401	280	—	—	—	—
Total cash assets at 30/06/2012	—	2.499	2.401	280	—	—	—	—
Total cash assets at 30/06/2011	—	—	—	70.286	52.354	—	—	—
2. Cash liabilities								
2.1 Amounts due to Banks	—	—	—	—	—	—	—	—
2.2 Amounts due to customers	—	—	—	—	—	—	—	—
2.3 Debt securities in issue	—	—	—	—	—	—	—	—
Total cash liabilities at 30/06/2012	—	—	—	—	—	—	—	—
Total cash liabilities at 30/06/2011	—	—	—	—	—	—	—	—
3. Financial derivatives								
3.1 With underlying securities	—	—	—	—	—	—	—	—
– Options	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities	—	953.838	1.412.724	12.815	44.823	—	10.000	—
– Options	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others	—	953.838	1.412.724	12.815	44.823	—	10.000	—
+ Long positions	—	450.000	699.462	12.815	44.823	—	10.000	—
+ Short positions	—	503.838	713.262	—	—	—	—	—
Total financial derivatives at 30/06/2012	—	953.838	1.412.724	12.815	44.823	—	10.000	—
Total financial derivatives at 30/06/2011	—	479.424	729.762	98.019	1.091.091	—	—	—

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

Type/Residual duration*	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets								
1.1 Debt securities	—	—	—	—	—	—	—	—
– with early redemption option	—	—	—	—	—	—	—	—
– other	—	—	—	—	—	—	—	—
1.2 Loans to Banks	554.310	676.615	470.971	—	12.915	—	—	—
1.3 Loans to customers	165	2.427.636	364.130	216.522	167.798	34.278	—	—
Total cash assets at 30/06/2012	554.475	3.104.251	835.101	216.522	180.713	34.278	—	—
Total cash assets at 30/06/2011	596.667	2.887.002	767.365	9	379.350	29.108	—	—
2. Cash liabilities								
2.1 Amounts due to customers	-20.633	-598.892	—	-29.131	—	—	-15.000	-540
2.2 Amounts due to Banks	-306.942	-1.811.953	-13.374	-39.601	—	—	-95.805	—
2.3 Debt securities in issue	—	-1.155.016	-227.969	-76.030	-296.945	—	—	—
Total cash liabilities at 30/06/2012	-327.575	-3.565.861	-241.343	-144.762	-296.945	—	-110.805	-540
Total cash liabilities at 30/06/2011	-305.468	-4.024.409	-175.766	-182.699	-357.989	—	-173.412	—
3. Financial derivatives								
3.1 With underlying securities	—	—	—	—	—	—	—	—
– Options	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities	—	782.622	213.691	290.553	643.151	—	489.496	—
– Options	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others	—	782.622	213.691	290.553	643.151	—	489.496	—
+ Long positions	—	617.761	141.191	23.000	147.000	—	280.805	—
+ Short positions	—	164.861	72.500	267.553	496.151	—	208.691	—
Total financial derivatives at 30/06/2012	—	782.622	213.691	290.553	643.151	—	489.496	—
Total financial derivatives at 30/06/2011	—	379.859	200.857	398.063	912.725	180.000	334.812	—

1.2.2 Exchange rate risk

QUALITATIVE INFORMATION

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

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

As at 30 June 2012 the Bank has not registered any forex capital allowance.

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

QUANTITATIVE INFORMATION

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

Line items	**Currency**				
	US dollars	**Pounds sterling**	**Japanese yen**	**Swiss francs**	**Other**
A. Assets					
A.1 Debt securities	—	—	—	—	—
A.2 Equities	—	—	—	—	—
A.3 Loans and advances to Banks	—	—	—	—	—
A.4 Loans and advances to customers	516.993	356.230	—	40.645	18.289
A.5 Other financial assets	—	—	—	—	—
B. Financial liabilities					
B.1 Due to Banks	- 381.752	-358.348	-8	-40.648	-18.141
B.2 Due to customers	- 32.503	—	—	—	—
B.3 Debt securities	- 104.766	-7.314	—	—	—
B.4 Other financial liabilities	—	—	—	—	—
C. Financial Derivatives					
- Options	—	—	—	—	—
+ long positions	—	—	—	—	—
+ short positions	—	—	—	—	—
- Other	—	9.296	—	—	—
+ long positions	—	9.296	—	—	—
+ short positions	—	—	—	—	—
Total assets 30/06/2012	516.993	365.526	—	40.645	18.289
Total liabilities 30/06/2012	-519.021	-365.662	-8	-40.648	-18.141
Difference (+/-) 30/06/2012	**-2.028**	**-136**	**-8**	**-3**	**148**
Total assets 30/06/2011	432.564	501.151	—	107.310	28.157
Total liabilities 30/06/2011	-434.065	-501.750	-7	-107.300	-28.096
Difference (+/-) 30/06/2011	**-1.501**	**-599**	**-7**	**10**	**61**

1.2.3 Financial derivative products

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

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

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

A. FINANCIAL DERIVATIVES

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

Type of transactions	**30/06/2012**		**30/06/2011**	
	Over-the-counter	**Listed**	**Over-the-counter**	**Listed**
1. Debt securities and interest rates				
a) Options	—	—	—	—
b) Swap	1.217.100	—	1.185.310	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
2. Equities and share indexes				
a) Options	347.835	—	804.328	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Exchange rates and Gold				
a) Options	3.999	—	—	—
b) Swap	—	—	13.838	—
c) Forward	163.676	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	**1.732.610**	—	**2.003.476**	—
Average values	**1.355.431**	—	**1.566.262**	—

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

A.2.1 *Hedging derivatives*

Type of transactions	**30/06/2012**		**30/06/2011**	
	Over-the-counter	**Listed**	**Over-the-counter**	**Listed**
1. Debt securities and interest rates				
a) Options	—	—	—	—
b) Swap	1.020.460	—	994.848	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	180.000	—	200.000	—
2. Equities and share indexes				
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Exchange rates and Gold				
a) Options	—	—	—	—
b) Swap	9.296	—	8.310	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	**1.209.756**	**—**	**1.203.158**	**—**
Average values	**1.178.082**	**—**	**1.083.699**	**—**

A.2.2 *Other derivatives*

Type of transactions	30/06/2012		30/06/2011	
	Over-the-counter	**Listed**	**Over-the-counter**	**Listed**
1. Debt securities and interest rates				
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
2. Equities and share indexes				
a) Options	351.992	—	347.006	—
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	**351.992**	**—**	**347.006**	**—**
Average values	**349.012**	**—**	**343.524**	**—**

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

Type of transactions	Positive fair value			
	30/06/2012		30/06/2011	
	Over-the-counter	**Listed**	**Over-the-counter**	**Listed**
A. Regulatory trading book	8.755	—	304.529	—
a) Options	1.578	—	24.640	—
b) Interest Rate Swap	7.177	—	279.765	—
c) Cross Currency Swap	—	—	124	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
B. Banking book: Hedge derivatives	374.043	—	157.977	—
a) Options	—	—	—	—
b) Interest Rate Swap	227.082	—	95.311	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	146.961	—	62.666	—
C. Banking book: Others derivatives	119.482	—	96.679	—
a) Options	119.482	—	96.679	—
b) Interest Rate Swap	—	—	—	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	**502.280**	**—**	**559.185**	**—**

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

Type of transactions	Negative fair value			
	30/06/2012		**30/06/2011**	
	Over-the-counter	**Listed**	**Over-the-counter**	**Listed**
A. Regulatory trading book	-123.648	—	-124.010	—
a) Options	-118.056	—	-118.362	—
b) Interest Rate Swap	-5.563	—	-5.648	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	-29	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
B. Banking book: Hedge derivatives	-164.924	—	-78.859	—
a) Options	—	—	—	—
b) Interest Rate Swap	-17.595	—	-14.672	—
c) Cross Currency Swap	-368	—	-1.521	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	-146.961	—	-62.666	—
C. Banking book: Others derivatives	-1.578	—	-2.635	—
a) Options	-1.578	—	-2.635	—
b) Interest Rate Swap	—	—	—	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	**-290.150**	**—**	**-205.504**	**—**

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

Contracts not forming part of netting arrangements	**30/06/2012**							**30/06/2011**
	Governments and central Bank	**Other public agencies**	**Banks**	**Financial companies**	**Insurances**	**Non-Financial companies**	**Other counterparties**	
1. Debt securities and interest rates								
- notional value	—	—	749.731	—	—	349.731	—	1.185.310
- positive fair value	—	—	—	—	—	5.293	—	279.766
- negative fair value	—	—	-5.129	—	—	—	—	-5.648
- future exposure[1]	—	—	6.000	—	—	—	—	6.132
2. Equities and share indexes								
- notional value	—	—	—	—	—	—	—	773.743
- positive fair value	—	—	—	—	—	—	—	24.640
- negative fair value	—	—	—	—	—	—	—	-118.362
- future exposure[1]	—	—	—	—	—	—	—	33.813
3. Exchange rates and Gold								
- notional value	—	—	—	—	—	—	—	13.838
- positive fair value	—	—	—	—	—	—	—	124
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	138
4. Other assets								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—

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

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

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

Contracts not forming part of netting arrangements	30/06/2012							30/06/2011
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	117.638	—	—	—	—	—
- positive fair value	—	—	1.883	—	—	—	—	—
- negative fair value	—	—	-434	—	—	—	—	—
2. Equities and share indexes								
- notional value	—	—	347.835	—	—	—	—	—
- positive fair value	—	—	1.578	—	—	—	—	—
- negative fair value	—	—	-118.056	—	—	—	—	—
3. Exchange rates and Gold								
- notional value	—	—	167.675	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	-29	—	—	—	—	—
4. Other assets								
- 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).

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

Contracts not forming part of netting arrangements	**30/06/2012**							**30/06/2011**
	Governments and central Bank	**Other public agencies**	**Banks**	**Financial companies**	**Insurances**	**Non-Financial companies**	**Other counterparties**	
1. Debt securities and interest rates								
- notional value	—	—	90.000	—	—	—	—	1.194.848
- positive fair value	—	—	146.961	—	—	—	—	157.977
- negative fair value	—	—	—	—	—	—	—	-77.338
- future exposure[1]	—	—	—	—	—	—	—	5.983
2. Equities and share indexes								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—
3. Exchange rates and Gold								
- notional value	—	—	—	—	—	—	—	8.310
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	-1.521
- future exposure[1]	—	—	—	—	—	—	—	415
4. Other assets								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—

[1] See table A.5

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

Contracts not forming part of netting arrangements	30/06/2012							30/06/2011
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	1.110.460	—	—	—	—	—
- positive fair value	—	—	227.082	—	—	—	—	—
- negative fair value	—	—	-164.555	—	—	—	—	—
2. Equities and share indexes								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
3. Exchange rates and Gold								
- notional value	—	—	9.296	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	-368	—	—	—	—	—
4. Other assets								
- 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).

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

Underlying/Residual maturity	Up to 1 year	From 1 to 5 years	Over 5 years	Total
A. Regulatory trading book				
A.1 Financial derivatives on debt securities and interest rates	712.277	94.823	410.000	1.217.100
A.2 Financial derivatives on equities and share indexes	56.938	290.897	—	347.835
A.3 Financial derivatives on foreign currency and gold	167.675	—	—	167.675
A.4 Financial derivatives on other assets	—	—	—	—
B. Banking book:				
B.1 Financial derivatives on debt securities and interest rates	390.842	500.123	309.495	1.200.460
B.2 Financial derivatives on equities and share indexes	60.937	291.055	—	351.992
B.3 Financial derivatives on foreign currency and gold	9.296	—	—	9.296
B.4 Financial derivatives on other assets	—	—	—	—
Total at 30/06/2012	**1.397.965**	**1.176.898**	**719.495**	**3.294.358**
Total at 30/06/2011	**633.536**	**1.444.585**	**1.475.517**	**3.553.638**

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	74.214	1.208.800	266.398	—
b) Credit spread products	—	—	—	—
c) Total rate of return swap	—	—	—	—
d) Others	—	—	—	—
Total at 30/06/2012	**74.214**	**1.208.800**	**266.398**	**—**
Average values at 30/06/2012	39.228	796.839	213.847	—
Total at 30/06/2011	**112.799**	**500.000**	**191.854**	**11.500**
2. Hedge sales				
a) Credit default	250.998	—	32.614	1.235.000
b) Credit spread products	—	—	—	—
c) Total rate of return swap	—	—	—	—
d) Others	—	—	—	—
Total at 30/06/2012	**250.998**	**—**	**32.614**	**1.235.000**
Average values at 30/06/2012	198.131	—	32.614	1.055.151
Total at 30/06/2011	**184.768**	**261.500**	**149.914**	**1.038.800**

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

Transaction categories	Positive FV	
	30/06/2012	**30/06/2011**
1. Regulatory trading book		
a) Credit default	7.472	260.530
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
2. Regulatory banking book		
a) Credit default	37.978	71.902
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
Total	45.450	332.432

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

Transaction categories	Negative FV	
	30/06/2012	30/06/2011
1. Regulatory trading book		
a) Credit default	-32.524	-24.841
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
2. Regulatory banking book		
a) Credit default	-7.115	-4.275
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
Total	-39.639	-29.116

B.4 *Credit derivatives: counterparty and financial risks – OTC financial derivatives not included in netting agreements (in € k)*

Contracts not forming part of netting arrangements	30/06/2012							30/06/2011
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
Regulatory trading book								
1. Hedge buys								
- notional value	—	—	—	—	—	—	—	612.799
- positive fair value	—	—	—	—	—	—	—	7.842
- negative fair value	—	—	—	—	—	—	—	-20.862
- future exposure[1]	—	—	—	—	—	—	—	31.538
2. Hedge sales								
- notional value	—	—	—	—	—	—	—	446.268
- positive fair value	—	—	—	—	—	—	—	252.688
- negative fair value	—	—	—	—	—	—	—	-3.979
- future exposure[1]	—	—	—	—	—	—	—	22.313
Banking book								
1. Hedge buys	—	—	—	—	—	—	—	—
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
2. Hedge sales								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—

[1] At June 2011 counterparty credit exposure on OTC derivatives has been 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 of the reference obligation:

- 5% in case of qualified reference obligation;

- 10% in the other cases.

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

Contracts not forming part of netting arrangements	**30/06/2012**							**30/06/2011**
	Governments and central Bank	**Other public agencies**	**Banks**	**Financial companies**	**Insurances**	**Non-Financial companies**	**Other counterparties**	
Regulatory trading book								
1. Hedge buys								
- notional value	—	—	1.283.014	—	—	—	—	—
- positive fair value	—	—	7.115	—	—	—	—	—
- negative fair value	—	—	-22.787	—	—	—	—	—
2. Hedge sales								
- notional value	—	—	250.998	—	—	—	—	—
- positive fair value	—	—	357	—	—	—	—	—
- negative fair value	—	—	-9.737	—	—	—	—	—
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).

B.5 *Credit derivatives: outstanding life – notional values (in € k)*

Transaction categories	Up to 1 year	From 1 to 5 years	Over 5 years	Total
1. Regulatory trading book	551.700	982.312	—	1.534.012
a) CDS with "qualified" reference obligation	—	5.487	—	5.487
b) CDS with "unqualified" reference obligation	551.700	976.825	—	1.528.525
2. Regulatory banking book	551.700	982.312	—	1.534.012
a) CDS with "qualified" reference obligation	—	5.487	—	5.487
b) CDS with "unqualified" reference obligation	551.700	976.825	—	1.528.525
Total at 30/06/2012	**1.103.400**	**1.964.624**	**—**	**3.068.024**
Total at 30/06/2011	**159.519**	**2.291.616**	**—**	**2.451.135**

1.3 Liquidity risk

QUALITATIVE INFORMATION

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. Liquidity risk is measured through indicators based on definite cash inflows and outflows to take place in the months to come, and also on the basis of data which includes estimates of:

- new loans/repayments/renewals for lending;
- new issues/early redemptions for funding;
- any significant extraordinary items.

The Bank completed in July 2011 an update of the previous formal diagnosis of its liquidity risk management techniques, tools and practices to ensure compliance with the requirements set by the Luxembourg regulators and assessed its position with regards to liquidity management leading practices. The analysis followed the regulatory requirements set by the CSSF Circular 09/403 issued on 28 May 2009, the CSSF Circular 11/506 issued on 03 March 2011 and the Règlement 2009/N°4 issued by the Banque Centrale du Luxembourg (BCL) on 29 April 2009.

The Bank has conducted liquidity stress tests following CEBS guidelines to assess the potential impact of extreme but plausible stress scenarios on its liquidity positions and its current or contemplated mitigants. The management of the Bank was highly involved in the discussions of the stress tests. The result has been formalized into the ‘Liquidity stress tests methodology’ document.

The Bank approach regarding liquidity stress tests can be summarized as follows:

- **Analysis of risk factors generating liquidity risk:** as liquidity risk is a ‘consequential risk’ or ‘secondary risk’ generated by other risks types, the Bank performed an analysis assessing the primary risks impacting the liquidity.
- **Liquidity stress testing methodology.**

The Bank has combined the liquidity risk leading practices applicable to its liquidity profile and therefore built a tailor-made approach in line with the nature and complexity of its business activities. The approach consists of:

- The **historical analysis** of cash flows during 2011 and 2012 to identify common patterns;
- The analysis of both **balance and off-balance sheet items** to understand the liquidity generating capacity (inflows) and the liquidity consumption (outflows) as well as any liquidity inter-relation between assets and liabilities;
- The definition of specific **Operating Indicators** which provide an overview of:
  - The liquidity exposure on monthly basis with the Parent Bank;
  - The liquidity exposure caused by third parties;

- The liquidity buffer considering the existing plafond.

  The Operating Indicators are used in combination with additional tools in order to get a comprehensive overview of the Bank's liquidity situation. Management closely monitors the following additional reporting:

  - ALM analysis, which monitor the mismatch between assets and liabilities arising in all the maturity buckets, from overnight to unlimited and the mismatch in the re-pricing of all B/S;
  - Liquidity gap, which provides a daily aggregated view of the scheduled inflows and outflows and a segregated view per type of business i.e. Loans, Funding or Trading;
  - Re-fixing schedule, which shows the re-fixing of rates of all the inflows and outflows for all currencies in the next 12 months;
  - Other regulatory and Group's indicators.

  The evolution of the indicators is monitored on a monthly basis by the Bank's management and discussed with the Parent Company.

- The **liquidity stress testing framework** with different severities "base", "mild", "severe" and "worst" and assessed the impact of each scenario on the liquidity of the Bank. The analysis of these scenarios has been used to define management actions to raise liquidity in contingency circumstances in line with CSSF Circular 11/506 and 09/403. A reverse stress test scenario has been included in the analysis.

The evolution of the indicator is monitored on a monthly basis by the Bank's management and discussed with the Parent company.

Contingency Funding Plan (CFP)

The Bank has elaborated the Contingency Funding Plan (CFP), both for preparing for and dealing with a liquidity crisis. The management of the Bank was highly involved in the discussions of the CFP. The plan is customized to the liquidity risk profile of the Bank (principle of proportionally).

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

QUANTITATIVE INFORMATION

1.a *Financial assets and liabilities by outstanding life as at 30/06/2012 (in € k)*

Type	On demand	From 1 days to 7 days	From 7 days to 15 days	From 15 days to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years
Cash assets	554.282	-5.483	85.600	150.168	306.310	866.857	598.728	2.269.635	198.028
A.1 Government securities	—	—	—	—	—	—	—	—	—
A.2 Listed debt securities	—	—	—	—	—	—	—	—	—
A.3 Other debt securities	—	—	—	—	—	—	—	—	—
A.4 OICR units	—	—	—	—	—	—	—	—	—
A.5 Loans and advances	554.282	-5.483	85.600	150.168	306.310	866.857	598.728	2.269.635	198.028
– to Banks	554.282	—	22.473	12.279	189.889	598.575	4.850	342.915	230
– to customers	—	-5.483	63.127	137.889	116.421	268.282	593.878	1.926.720	197.798
Cash liabilities	-306.948	-174.573	-32.594	-43.240	-183.341	-394.133	-784.271	-2.224.049	-589.495
B.1 Deposits	-306.948	-174.474	-17.021	-22.714	-7.012	-10.196	-643.153	-1.195.171	-589.495
– to Banks	-306.942	-4.745	—	-13.809	-2.210	-10.196	-633.280	-1.174.544	-145.804
– to customers	-6	-169.729	-17.021	-8.905	-4.802	—	-9.873	-20.627	-443.691
B.2 Debt securities	—	-99	-15.573	-20.526	-176.329	-383.937	-141.118	-1.028.878	—
B.3 Other liabilities	—	—	—	—	—	—	—	—	—
Off-balance-sheet transactions	12.733	1.169	62	20.802	161.171	302.401	112.157	1.133.312	180.000
C.1 Financial derivatives with exchange of principal	—	—	—	26	—	20	18.872	151.000	180.000
– long positions	—	—	—	—	—	—	9.296	75.500	90.000
– short positions	—	—	—	26	—	20	9.576	75.500	90.000
C.2 Financial derivatives without exchange of principal	12.733	1.169	62	5.776	3.557	12.381	19.600	—	—
– long positions	7.177	1.000	—	787	2.004	10.474	8.481	—	—
– short positions	5.556	169	62	4.989	1.553	1.907	11.119	—	—
C.3 Financial guarantees given	—	—	—	—	—	—	—	—	—
C.4 Irrevocable commitments to disburse funds	—	—	—	15.000	157.614	290.000	73.685	982.312	—

1.b *Financial assets and liabilities by outstanding life as at 30/06/2011 (in € k)*

Type	On demand	From 1 days to 7 days	From 7 days to 15 days	From 15 days to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years
Cash assets	437.377	77.249	164.539	287.869	136.702	236.073	428.143	2.768.397	384.840
A.1 Government securities	—	—	—	—	—	—	—	—	—
A.2 Listed debt securities	—	—	—	—	1.448	—	67.213	50.580	5.000
A.3 Other debt securities	—	—	—	—	—	—	—	—	—
A.4 OICR units	—	—	—	—	—	—	—	—	—
A.5 Loans and advances	437.377	77.249	164.539	287.869	135.254	236.073	360.930	2.717.817	379.840
– to Banks	436.919	—	93.051	30.048	13.857	3.493	223.436	91	—
– to customers	458	77.249	71.488	257.821	121.397	232.580	137.494	2.717.726	379.840
Cash liabilities	-305.468	-918.142	-159.859	-284.488	-200.403	-77.800	-205.067	-2.927.924	-132.107
B.1 Deposits	-305.468	-918.142	-97.591	-268.340	-17.334	-11.625	-23.138	-1.769.044	-132.107
– to Banks	-45.213	-774.919	-74.340	-238.297	-3.494	-11.625	-19.193	-1.727.090	-132.107
– to customers	-260.255	-143.223	-23.251	-30.043	-13.840	—	-3.945	-41.954	—
B.2 Debt securities	—	—	-62.268	-16.148	-183.069	-66.175	-181.929	-1.158.880	—
B.3 Other liabilities	—	—	—	—	—	—	—	—	—
Off-balance-sheet transactions	285.413	1.127	142	3.507	31.463	13.460	125.292	1.555.528	—
C.1 Financial derivatives with exchange of principal	—	—	40	—	27.824	48	93	17.846	—
– long positions	—	—	—	—	13.838	—	—	8.310	—
– short positions	—	—	40	—	13.986	48	93	9.536	—
C.2 Financial derivatives without exchange of principal	285.413	1.127	102	3.507	3.639	13.412	27.899	—	—
– long positions	279.765	997	—	1.136	1.800	9.664	12.267	—	—
– short positions	5.648	130	102	2.371	1.839	3.748	15.632	—	—
C.3 Financial guarantees given	—	—	—	—	—	—	—	—	—
C.4 Irrevocable commitments to disburse funds	—	—	—	—	—	—	97.300	1.537.682	—

1.4 Operational risk

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

The Bank has decided to adopt the Basic Indicator Approach ("BIA") in order to calculate the capital requirement for covering operational risk, applying a margin of 15% to the average of the last three annual readings of total income. Based on this method of calculation the capital requirement as at 30 June 2012 is € 6,4 million (€ 5,8 million as at 30 June 2011); the increase is due to the improved profitability of the Bank in the last 3 fiscal years.

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

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

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

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

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

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

As at 30 June 2012 and 2011 the Bank does not face any litigation risk.

1.5 Other risks

Risks have been identified by local Management using the materiality concept referred in CSSF Circular 07/301, the materiality threshold has been derived from the assessment of the **frequency** and **severity** of a single event: **severity** represents the maximum financial loss that the Bank can experience, while **frequency** represents the probability that an inherent risk will occur within the next 12 months.

In order to ensure that risks are proportionately and adequately managed, it is important to categorize the material risks the Bank is or could be exposed to. In this respect, the Bank follows the classification recommended by CSSF Circular 07/301 (ICAAP) to ensure the completeness of the risk identification process. Risk identification is the process whereby material risks are detected. In this process, risk sources are linked to events and their potential consequences are also highlighted.

Bank classifies risks in three main categories: “material risks” (identified following the materiality concept), “non quantifiable material risks” (e.g. compliance and reputational) and “others”.

The types of risks described above are the primary risks, but there are others the Bank considers to be significant which include:

- Business risk: is defined as adverse, unexpected changes in business volume and/or margins that are not due to credit, market and operational risks. Business risk can result, above all, from a serious deterioration in the market environment, changes in the competitive situation or customer behavior, but may also result from changes in the legal framework;
- Real estate risk: is defined as the potential losses resulting (directly or indirectly) from market value fluctuations of the Bank’s real estate investment, including real estate companies;
- Strategic risk: is defined as potential losses due to decisions or radical changes in the business environment, improper implementation of decisions, lack of responsiveness to changes in the business environment, which result in negative impacts to the risk profile, capital and earnings as well as the overall direction and scope of a Bank over the long run;
- Reputational Risk: is defined as the risk of a decline in profits as a result of a negative perception of the Bank’s image by customers, counterparties, Bank shareholders, investors or the regulator.

The adequacy of the risk measurement methodologies supporting the ICAAP, including stress testing and risk aggregation, is checked by internal validation. Measuring the risk profile is a fundamental element of the Internal Capital Adequacy Assessment Process under Basel II Pillar II.

The Bank’s approach to ICAAP relies on the definition of the “Risk Governance”, as a preliminary requirement, while the process consists of following phases:

- perimeter definition and risk identification;
- risk profile measurement;
- risk appetite setting and capital allocation; and
- monitoring and reporting.

Capital adequacy is assessed considering the balance between the assumed risk, both Pillar I and Pillar II, and the available capital. The internal economic capital measurements and the resulting Risk Taking Capacity show an adequate capitalization at 30 June 2012.

PART G – CAPITAL MANAGEMENT

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

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

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

Regulatory capital has been calculated on the basis of CSSF Circulars 06/273 as amended and 07/301 as amended which transpose the prudential guidelines for Banks and banking groups introduced by the Basel Capital Accord (Basel II) into the Luxembourg regulatory framework.

During the years ended 30 June 2012 and 2011, the Bank had complied in full with all its externally imposed capital requirements.

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

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

The Bank took part to the periodical impact assessment of the new Basel III liquidity requirement realized by CSSF and BCL on the Luxembourg banking system. The assessment consisted in the early calculation of both the liquidity coverage and net stable funding ratios.

QUANTITATIVE INFORMATION

In €	30/06/2012 (including profit of the fiscal year)	30/06/2012 (excluding profit of the fiscal year)	30/06/2011 (including profit of the fiscal year)	30/06/2011 (excluding profit of the fiscal year)
Original own funds (Tier 1)	231.046.821	202.618.386	202.622.999	166.518.524
Additional own funds (Tier 2)	50.000.000	50.000.000	39.250.000	39.250.000
Total own funds (Tier 1 + Tier 2)	**281.046.821**	**252.618.386**	**241.872.999**	**205.768.524**
Credit/Counterparty risk (Standardized approach)	172.965.666	172.965.666	114.106.601	114.106.601
Market risk (Standardized Approach)	—	—	—	—
Operational risk (Basic Indicator Approach)	6.435.198	6.435.198	5.782.586	5.782.586
Total capital requirements (Pillar 1)	**179.400.864**	**179.400.864**	**119.889.187**	**119.889.187**
Pillar 2 Risk (Internal Assessment)	6.700.000	6.700.000	9.900.000	9.900.000
Total capital requirements (Pillar 1 + Pillar 2)	**186.100.864**	**186.100.864**	**129.789.187**	**129.789.187**
Surplus (+) / Deficit (-) of Own Funds	101.645.957	73.217.522	121.983.812	85.879.337
Solvency ratio (%)	12,53	11,26	16,14	13,73

PART H – RELATED PARTY DISCLOSURES

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

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

The amount of balance sheet and off balance sheet's items as at 30 June 2012 and 2011 concerning related parties are as follows (in € k):

Assets and liabilities	**30/06/2012**		**30/06/2011**
	Parent Bank	Other related parties	
Financial assets held for trading	10.933	—	554.888
Loans and advances	1.789.947	51.273	632.464
Derivatives held for hedging	227.082	—	95.311
Other assets	4.185	39	6.244
Total assets	**2.032.147**	**51.312**	**1.288.907**
Amounts due	-2.070.734	—	-2.797.746
Debt securities	-37.303	-132.145	-69.752
Financial liabilities held for trading	-298.005	—	-189.548
Derivatives held for hedging	-17.963	—	-16.193
Other liabilities	-3.895	—	-6.581
Total liabilities	**-2.427.900**	**-132.145**	**-3.079.820**

Comprehensive income	**30/06/2012**		**30/06/2011**
	Parent Bank	Other related parties	
Interest and similar income	-5.681	733	-11.289
Interest expenses and similar charges	-40.437	—	-68.672
Fee and commission income	—	150	—
Fee and commission expenses	-10.512	—	-22.621
Net gains and losses on financial assets and liabilities hft	-51.151	—	-20.736
Net gains and losses from hedge accounting	126.750	—	-53.315
Administrative expenses	-6.095	-702	-5.210
Other income	—	43	1.137
Total	**12.874**	**224**	**-180.706**

Guarantees and commitments	30/06/2012		30/06/2011
	Parent Bank	Other related parties	
Financial guarantees given	—	—	—
Commercial guarantees given	—	—	—
Irrevocable commitments to disburse funds	—	5.913	—
Commitments underlying cds: hedge sales	250.998	—	446.268
Total	**250.998**	**5.913**	**446.268**

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

	30/06/2012	30/06/2011
Administrative bodies	30	25
Key management personnel	422	561
	452	**586**

As of 30 June 2012 and 2011, neither advances nor guarantees were granted to Directors or Senior Management. In addition, Directors and Senior Management do not benefit from any pension plan contributions.

PART I – OTHER INFORMATION

Audit fees

As of 30 June 2012 and 2011, audit fees are split as follows (in €):

	30/06/2012	30/06/2011
Audit fees	85.000	86.000
Audit related fees	10.500	17.500
Other fees	34.000	53.000
Total	**129.500**	**156.500**

Staff number

As at 30 June 2012 and 2011, the Bank's staff is as follows:

	30/06/2012	30/06/2011
Management–Senior	2	2
Management–Middle	3	3
Other staff	3	3
Total	**8**	**8**

As of 30 June 2012 and 2011, the Bank's Senior Management consists of 2 Managing Directors, who are not included on the Bank's payroll. Also, 1 member of the Middle Management is not included directly on the Bank's payroll but is on secondment from the Parent Company.

PART J – SUBSEQUENT EVENTS

In response to the continuing financial problems facing Italy, on July 12th Moody's Investors Service announced that it was downgrading Italian government bonds by two more notches, from A3 to Baa2. Under the Basel II standardized approach, the downgrade has changed the risk weighting on Italian counterparts from 50% to 100%.

As a consequence the solvency ratio of the Bank, which is 11.26% as at June 30th, 2012, will decrease to approximately 7.95% on September 30th, 2012 based on a management simulation. Taking into consideration the profits that the Bank will likely generate during the fiscal year 2012-2013, management expects the solvency ratio to increase to 8.38% as at December 31st, 2012 and 9.75% as at June 30th, 2013. (10.44% if profits for the period are included).

Management anticipates that the financial deleveraging already started during the fiscal year 2011-2012 should proceed in order to decrease the RWA of the Bank and increase its capital ratios.

Nevertheless, if the Bank should have interesting business opportunities in a changed macroeconomic context, the Parent Company will consider all the necessary actions to support its capital base.