MEDIOBANCA
International (Luxembourg) S.A.

Annual Accounts and Report
as at June 30, 2013

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
STEFANO BIONDI	MANAGING DIRECTOR	2014[1]	LUXEMBOURG
PETER W. GERRARD	»	2014	LUXEMBOURG
LUCA MACCARI	DIRECTOR	2014	ITALY
STEFANO PELLEGRINO	»	2014	ITALY
SILVIO PERAZZINI	»	2014	ITALY
FEDERICO POTSIOS	»	2014	ITALY
ALEX SCHMITT	»	2014	LUXEMBOURG

LEGAL ADVISOR

BONN & SCHMITT	LUXEMBOURG

INDEPENDENT AUDITOR

PRICEWATERHOUSECOOPERS S.C.	LUXEMBOURG

[1] Co-opted by the Board of 27 June 2013 to be confirmed by the AGM of 4 October 2013.

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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 2013
BOARD OF DIRECTORS' REVIEW OF OPERATIONS

The Bank's results for the twelve months under review show a net profit of €14,8m (€28,4m as at 30 June 2012). Total income decrease by 37,9%, from €44,3m to €27,5m. Main income items performed as follows:

- Interest income shows a decrease of 37,3%, from €30,3m to €19m, involving in particular the area of corporate and investment banking (CIB) due to the increased funding costs, which reflects both the uncertainty in the economic and financial situation within the Eurozone and the gradual deleveraging of the portfolio (banking book). More in particular, the Group Mediobanca remains concerned by the Italian sovereign debt crisis. In this stressed and weak scenario, the Bank decided to maintain a conservative and prudential approach in its business.
- Net fee and commission income decrease by 31,5%, from €11,1m to €7,6m, due to the substantial slowdown in lending activity.

On the balance-sheet side, loans and advances to customers decreased substantially from €3.218m to €2.374m as a result of deleveraging of RWA, while notes worth a total of €361m (€493m in June 2012) were issued against the Bank's Medium Term Notes Programme.

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

- In July 2012, Moody's cut its rating for Italy to Baa2 from A3, citing weak growth prospects and increasing difficulties to slash its debt; the downgrade implied a heavier weighting factor (100% instead of 50%) for exposures towards Italian entities and for the guarantee given by the Parent Company to Mediobanca International (Luxembourg) S.A.
- In December 2012, the Bank has started a new collateralised funding activity in order to take advantage of interesting financing conditions. The activity consists of a more dynamic and efficient management of financial assets which allows the Bank to transfer part of its corporate loans as collateral to external parties. The collateral placed is subject to a defined haircut, valuation and margin calculation. Under the terms and conditions of secured financing, bonds and cash are also, in general, eligible as collateral.
- In April 2013, the Bank has started a new loan basis activity to take advantage of negative basis trades which exploit the arbitrage opportunity created by a difference between the price of a corporate loan and the price of the credit default swap transaction that hedges it. Negative basis trades are subject to legal and operational limits.

For a description of significant subsequent events that have occurred since the end of the financial year please refer to part J of the financial statements.

The financial services industry continues to face significant structural challenges. In an environment of low interest rates and increasing regulatory and capital requirements, the Bank will continue to focus on corporate investment banking.

DEVELOPMENT IN MACROECONOMIC SCENARIO

Global production grew by 3.2% in 2012, slower than the 4% growth recorded in 2011. The slowdown in growth affected both the advanced economies, which grew by 1.2% (vs 1.6% in 2011), and the emerging economies, which grew faster than the advanced ones (by 5.1%), but again slower than in the previous year (6.4% growth in 2011). Two additional factors of uncertainty were triggered in 2012, in an already fragile scenario: the Eurozone sovereign debt crisis, and risk relating to developments in US public finances. Specific problems continue to affect the Greek economy and the Spanish banking system. In the emerging economy, and particularly in China, the two main drivers of growth have lost momentum, namely spending on investments and foreign demand. The stagnant crude oil prices have further reduced the exporting countries' income. China recorded a 7.8% increase in production in 2012, the lowest figure recorded since 1999. In India too, growth of 5.1% was near to the lowest levels reported in the last decade. China is currently grappling with a complex rebalancing procedure with the aim of increasing its internal demand to reduce the excessive dependence on exports and investments. In the European Union GDP declined by 0.3% in 2012, the most pronounced reduction being in the Eurozone itself (down 0.6%): only Germany saw growth in GDP (of just 0.7%), while there was stagnation in France, and both Spain and Italy reported reductions, of 1.4% and 2.4% respectively.

Monetary policy proceeded along two different lines: accommodative in the advanced economies, given the lack of price pressure; prudent in the emerging economies, to limit the inflationary tendencies and to prevent speculative property bubbles from forming. The conditions on financial markets were marked by tensions in the first half of 2012, which increased the risk premium for peripheral Eurozone states; from August onwards the situation was calmed, and the risk premiums returned to settle near the levels seen at the start of the year. This was helped by the measures adopted by the ECB governing council at the start of September, in the shape of the Outright Monetary Transactions, which quelled fears that the Euro itself might be reversed. Bank credit, despite the diversified scenario in terms of countries and borrowers, remained weak overall, reflecting the scarce demand and selective supply. Bank loans to the private sector in the Eurozone fell by 0.2% in 2012, representing the combined effect of a 1.3% reduction in lending to non-financial companies and a slight, 0.7% recovery in loans to households. The risk premiums on bonds issued by private, non-financial companies declined significantly in the second half of 2012, making available to companies with access to international, i.e. larger markets an important alternative source of financing to the banking channel. In 2012 net bond issues by non-financial companies reached volumes four times the size of those posted in 2011.

In this scenario, in 2012 the manufacturing multinationals saw a reduction in their sales' growth rates. This phenomenon was seen across all the macro geographical areas. In Europe sales were up 5% on 2011, compared with 8.8% in 2010, with in North America growth was limited to 2.5% (a more pronounced slowdown compared to the 11.2% posted the previous year). The Russia/Asia area's growth rate fell to 4.6%, from 12.1% in 2011, while in the rest of the world – which in this context means basically Africa and South America – the performance was more buoyant (growth of 9.2%), but still slower than the previous year (15% growth reported in 2011). The recovery in sales saw an improvement on 2008 levels, with the European multinationals beating these levels by 16% and the North American multinationals by 18%; while sales in the eastern and southern macro areas further consolidated their already comfortable margin versus the 2008 levels, beating them by 75% and 68% respectively. Japan, which had suffered the consequences of the earthquake in March 2011, seeing its manufacturing sales retreat by 5.5% vs 2010, reacquired momentum, with sales up 4.6% in 2012. Industrial margins and net profit did not always, however, following the trend in sales: Ebit posted by the European multinationals fell by 3.1% (compared with a 9% increase in 2011) and net profit by 10.7% (having already fallen by 4.8% in 2011), hit by non-recurring charges reflecting the continued uncertainty affecting the economic scenario. In North America Ebit grew by 4.3% (compared with 10% in 2011), but net profit declined, for the same reasons, by 10.3%

(as against 17.8% growth in 2011). The Russian/Asian multinationals saw increases in both their industrial margins (Ebit up 13.9%) and bottom line (net profit up 6.2%), while in the rest of the world the fragile progress reported in operating profitability (Ebit up 1.3%) did not prevent a substantial reduction in net profit (down 16.3%).

	North America		Europe		Russia/Asia	
	Energy	*Manufacturing Industry*	*Energy*	*Manufacturing Industry*	*Energy*	*Manufacturing Industry*
	Chg. % 2012/2011					
Sales	-4.0	+2.5	+3.6	+5.0	+6.5	+4.6
Ebit	-7.2	+4.3	-15.3	-3.1	-12.4	+13.9
Net result	-8.2	-10.3	-32.7	-10.7	-11.9	+6.2
ROE (%)	*22.8*	*24.9*	*13.2*	*14.4*	*16.4*	*14.2*

Source: R&S – Multinationals financial aggregates (2013)

The global energy industry between 2006 and 2010 embarked on a gradual decline in industrial margins (just under 40%), and following a recovery in 2011, saw a further reduction in 2012 due in part to the stable oil prices. The ROE delivered by the energy industry in 2012 was broadly in line with that posted by manufacturing industry.

	North America		Europe		Russia/Asia	
	% chg. vs 2011	as % of capital invested	% chg. vs 2011	as % of capital invested	% chg. vs 2011	as % of capital invested
Net equity	+4.0	65.9	+2.8	55.8	+15,0	64,5
Borrowings	+7.4	34.1	+7.9	44.2	+3,1	35,5
Cash and liquid assets	+6.0	23.3	+10.6	15.5	+14,5	21,0
Net debt/net equity (%)	51.7		79.4		55.0	
Intangibles/net equity (%)	76.3		72.5		12.8	

Source: R&S – Multinationals financial aggregates (2013), manufacturing companies

The financial solidity of the manufacturing multinationals showed no signs of substantial change in 2012. Only the European companies showed an increase in their borrowings, of 7.9%, that was significantly higher than the growth in their net equity (2.8%), with the ratio between the two deteriorating from 75.6% to 79.4%. The North American groups appear to be better capitalized, with the same ratio at 51.7%, in line with the solidity of the Russian/Asian manufacturing industrials (55%). One potentially fragile element are the intangible assets, which make up more than three-quarters of the net equity in both North America and Europe.

As for the large international banking system, 2012 saw different performances on both sides of the Atlantic. Revenues by the largest European banks lost considerable ground versus 2011 (down 9.2% at constant exchange rates), with major reductions in net interest income (6.8%) and fees and commissions (3.9%). Minor savings in terms of operating costs (down 1.9%), made possible inter alia through reductions in headcounts (which were down 3.2%), were more than offset by the 12.8% rise in loan loss provisions, which reached 19.5% of sales, a level without precedent in the last decade excluding the years 2008 (23.1%) and 2009 (27.7%). The cost of risk increased accordingly, from 79 bps to 91 bps. Current profit basically halved (down 49%), and it was only because the extraordinary charges were less severe that net profit fell slightly less, by 41.1%. The ROE of 1.8% delivered in 2012 was roughly half the return posted in 2011 (3.2%) and one-quarter of that posted in 2010 (7.2%). In 2012 the European banking system's margins lost further ground versus their pre-crisis levels: in the 2001-07 period, current profit on average stood at 28% of revenues, falling to 20% in 2011 and 11.4% in 2012. The net profit in 2012 accounted for 4.1% of revenues, whereas prior to the crisis European banks were delivering profits representing in the region of 21% of their total income.

In the United States the performance in 2012 was quite different. Revenues declined slightly, down 0.9% versus 2011: this applied to both net interest income, down 2.7%, and to fees and commissions (down 1.5%), both of which fell by less than in Europe. Operating costs in fact rose, by 0.6%, as the workforce increased slightly too (by 0.2%), while there was a substantial, 26.7% reduction in loan loss provisions which stood at roughly one-third of their 2010 levels (down from 22% to 8.4% of the revenues).

	Europe	United States
	Chg. % 2012/2011	
Revenues	-9.2	-0.9
of which: net interest income	*-6.8*	*-2.7*
Loan loss provisions	+12.8	-26.7
Current profit (loss)	-49.0	+7.5
Net profit (loss)	-41.1	+9.0
ROE (%)	*1.8*	*7.5*

Source: R&S – Major international banks (2013)

The cost of risk showed a marked reduction from 2011, down from 129 bps to 91 bps. This factor was decisive in allowing the US banks' current profit to increase by 7.5% and their net profit by 9%, taking the return on equity to 7.5%, higher than the 6.4% reported in 2010 and roughly four times the return delivered by the European banks. Nonetheless, non-recurring charges also increased by more than 26% as a result of litigation costs, impairment charges and writedowns. Hence the US banks too remain below pre-crisis levels but less markedly so, with current profit having represented 32% of total income in the 2001-07 period, compared with 25% in 2012.

On the balance-sheet side, European banks' assets fell by 2.1% vs 2011 (at constant exchange rates, minus derivatives netting). All asset items declined, with the single exceptions of securities (up 3.3%) and, in particular, cash and liquid assets (up 27.8%). The latter item has doubled in the space of two years, in part due to the extraordinary refinancing transactions launched by the ECB in December 2011 and February 2012 to help recapitalize banks. Securities and cash and liquid assets are the two balance-sheet items to which European banks have allocated their resources, as the other applications of funds have reduced, namely lending both to banks (down 7.8% vs 2011) and to corporates and households (down 1.7%). Derivatives were down 7.5%, while continuing to represent over one-fifth of total assets, and still above 2010 levels (by 23.5%). On the liability side, funding was boosted by funds from customers, largely deposits (1.5% higher than in 2011) which in part offset the 4.9% reduction in debt securities. Leverage declined to 26x, from 28.2x in 2011. As for asset quality, the decline in derivatives went alongside a reduction in so-called “level 3 assets” (24.1% lower than in 2001), down from 34.6% to 24.7% of the tangible net equity. RWAs fell in the last year by more than the reduction in assets (7.6%), and this, combined with a slight interest in regulatory capital (up 0.8%), drove an improvement in the total capital ratio from 14.6% in 2011 to 16.3% in 2012. The higher provisions taken through the profit and loss account reduced the amount of net bad debts (which were down 2.1% on 2011) and helped drive an increase in the coverage ratio (from 50.2% to 51.1%).

In the United States the aggregate assets (and again minus derivatives netting) fell by an equivalent amount to those in Europe (down 1.9%), but this was entirely due to the derivatives portfolio, which reduced by 13.3%. This item is still, however, more significant for the US than for the European banks, taking up one-third of the balance-sheet total.

	Europe	United States
	Chg. % 2012/2011	
Total assets	-2.1	-1.9
Derivatives	-7.5	-13.3
Securities	+3.3	+7.2
Loans to customers	-1.7	+4.1
Customer deposits	+1.5	+7.8
Debt securities	-4.9	-16.8
Total capital ratio (as %)	*16.3*	*15.4*

Source: R&S – Major international banks (2013)

The other balance-sheet items all grew, both the financial ones (securities portfolio up 7.2%) and the lending ones (loans to customers up 4.1%). On the liability side, debt securities suffered more than in Europe (down 16.8% in the last year), but were offset by higher deposits (up 7.8%) and by a strong recovery from the interbank channel (up 18.3%, including accounts with the Federal Reserve). The level of capitalization remains higher than in Europe, with net equity representing 7% of the balance-sheet total (vs 4.7% in Europe). This drove a reduction in leverage which came in at 19.7x in 2012 (vs 22.7x in 2011), more than six points less than in Europe. The US banks have also repaid public funds quicker than their European counterparts, repaying some three-quarters of the amount they have received already (by contrast, the European banks have only repaid one-third). “Level 3” assets fell in the United States too (by 12.7%), but still represent 34.8% of tangible net equity. Bad debts by contrast increased, by 28.4%, in part due to the reduction in provisions. However, the US banks continue to have a better coverage ratio (67.8%) and their bad debts account for a far lower proportion of their tangible net equity (7.2%). Unlike in Europe, the US banks’ RWAs grew by 1.9%, and their total capital ratio fell by 15.4%, lower than the 16.3% posted by the European banks.

The size of the largest banks continues to be a major issue. In Europe their assets in 2012 amounted to 2.3x the GDP of the countries in which they are based; their liabilities totalled 1.7x the same countries’ public debts. In the United States the aggregate assets represent 81% of the nation’s GDP, while the banks’ debt accounts for 41.6% of the public debt.

The situation of the two largest Italian banks in 2012 shows two distinctive features: a) small net profits (ROE 2.2%), but still higher than the European average, which reflects major losses by some UK, French and Swiss banks; b) a different asset composition compared to the European benchmark, with a preponderance of loans to customers (56.3% vs 39.8%) and a lower proportion of speculative assets, in particular derivatives (9.8% of the total assets, compared with a European average of 22.3%); c) consequent penalization in terms of RWAs (which represent 45.4% of total assets, compared with 28.9% for Europe as a whole) and hence also solvency ratios (total capital ratio 14.1%, as against 16.3%); d) a heavier burden in terms of bad debts, reflecting the particularly stringent criteria set by the Bank of Italy, meaning that such debts account for some 77.8% of tangible net equity, versus a European average of 28.3%.

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 30/06/2013	12 mths to 30/06/2012	Y.o.Y. chg.
	€m	€m	%
Net interest income	19,0	30,3	-37,3%
Net trading income	1,0	2,9	-65,5%
Net fee and commission income	7,6	11,1	-31,5%
TOTAL INCOME	**27,6**	**44,3**	**-37,7%**
Wages and salaries	-1,0	-0,9	6,0%
Other administrative expenses	-7,2	-7,9	-8,6%
OPERATING COST	**-8,2**	**-8,8**	**-6,8%**
Loans impairment	-1,0	-0,3	232,4%
Provisions for other financial assets	-	-	-
Other profit (losses)	-	-	-
PROFIT BEFORE TAX	**18,4**	**35,2**	**-47,7%**
Fiscal provision	-3,6	-6,8	-47,1%
NET PROFIT	**14,8**	**28,4**	**-47,9%**

Net interest income – this item decreases by 37,3%, from € 30,3m to € 19m.

Interest received from lending activities decreases by 46,0%, from € 113,1m to € 61,1 due to lower average interest rates and lower volume of financing in connection with the ongoing deleveraging process of the loan portfolio.

Interest received from corporate bonds increases by 131,6%, from € 2,3m to € 5,3m, due to purchases of financial assets HTM (held to maturity) and L&R (loan and receivable) which the Bank made during the year to invest part of its long cash position.

Interest received from money market financial instruments (such as repos, time deposits, etc.) are stable at € 12m (€ 12,3m in June 2012).

On the other hand, both cost of carry and interest payable on notes decrease respectively from € 49,1m to € 34,3m (-30,3%), and from € 49m to € 37,6m (-23,3%), essentially due to lower average interest rates.

Net interest income from hedging derivatives increases by 156,1%, from € 4,1m to € 10,6m, while net interest income from trading derivatives decreases by 70,1%, from € 9m to € 2,7m.

	12 mths to 30/06/2013	12 mths to 30/06/2012	Y.o.Y. chg.
	€m	€m	%
Interests receivable - lending	61,1	113,1	-46,0%
Interests receivable - notes	5,3	2,3	131,6%
Interests receivable - treasury	12,0	12,3	-2,4%
Interests payable - cost of carry	-34,3	-49,1	-30,3%
Interests payable - notes issued	-37,6	-49,0	-23,3%
Interests payable - treasury	-0,8	-12,4	-93,5%
Net interest income from hedging	10,6	4,1	158,5%
Net interest income from trading	2,7	9,0	-70,0%
Net interest income	**19,0**	**30,3**	**-37,3%**

Net trading income – this heading is made up of € 1m (€ 2,9m in June 2012):

- dealing profits are € 1,4m (€ 545,7m in June 2012) which reflect a stabilization after extraordinary early cash settlement of derivatives instruments which were accounted for last year;
- unrealised mark-to-market valuations are nearly null (-€ 543m in June 2012) which also reflects a stabilization of the caption after last year's extraordinary cash settlements on derivative instruments;
- impact on forex exposure amounts to € -2,2m (nearly null in June 2012);
- gains on disposals and repurchase are € 1,8m (€ 0,2m in June 2012).

Net fee and commission income – this item, still driven by corporate business, decreases by 31,5%, from € 11,1m to € 7,6m, due to a slowdown in contribution given by lending transactions (down 29,6% from € 9,8m to € 6,9m) and capital market transactions (down 46,2% from € 1,3m to € 0,7m). The strategy followed by the Bank has been determined by the financial crisis and was focused on a reduction of financial assets in order to improve its capital ratios. As a consequence the Bank has registered a slowdown in lending activity with a resulting impact on its net commission margin.

	12 mths to 30/06/2013	12 mths to 30/06/2012	Y.o.Y. chg.
	€ m	€ m	%
Net lending fees:	6,9	9,8	-29,6%
- Loans and advances rec (+)	*13,5*	*19,1*	-29,3%
- Loans and advances pay (-)	*-4,4*	*-7,1*	-38,0%
- Guarantees given rec (+)	*0,7*	*1,2*	-41,7%
- Guarantees received pay (-)	*-2,9*	*-3,4*	-14,7%
Other fees (+)	0,7	1,3	-46,2%
Other fees (-)	-	-	-
Net fee income	**7,6**	**11,1**	**-31,5%**

Operating costs – this item decreases by 6,8%, from € 8,8m to € 8,2m; the various components have performed as follows:

- wages and salaries totaled € 1,0m (€ 0,9m in June 2012) and during the fiscal year the staff number remained stable;

- other costs amounting to € 7,2m (€ 7,9m in June 2012) reflect a stabilization of administrative costs after extraordinary expenses incurred in the past year due to the move to new premises and adjustments concerning head office charges (service agreement).

Impairment of loans and advances – this item increases by 232,4%, from € 0,3m to € 1,0m, due to higher direct credit risk exposure taken on corporate loans as a consequence of the downgrading of Italy's credit rating. In a scenario which has nevertheless registered decreasing volume of financing, the significant portion of loans remain covered by financial guarantees issued by the Parent Bank or public Agencies. At the reporting date the Bank has a direct credit risk exposure for € 724,3m (June 2012: € 394,2m).

RESTATED STATEMENT OF FINANCIAL POSITION

	30/06/2013	30/06/2012	Y.o.Y. chg.
	€m	€m	%
Net treasury investments	445,2	805,0	-44,7%
Securities (HTM & L&R)	312,4	-	-
Loans and advances	2.743,0	3.839,7	-28,6%
Equity investments	4,2	4,2	-
Tangible and intangible assets	-	-	-
Other assets	6,9	8,1	-14,8%
TOTAL ASSETS	**3.511,7**	**4.657,0**	**-24,6%**
Funding	3.247,0	4.397,2	-26,2%
Other liabilities	18,8	28,8	-34,7%
of which: tax liabilities	4,4	20,3	-78,3%
Net equity	231,1	202,6	14,1%
Profit	14,8	28,4	-47,9%
TOTAL LIABILITIES	**3.511,7**	**4.657,0**	**-24,6%**

Net treasury investments – the item decreases from € 805m to € 445,2m and includes:

- financial assets held for trading (other than derivatives) which increases by 229,6%, from € 19,5m to € 64,3m, mainly due to the purchase of corporate loans (trading book). During the year the Bank has commenced an activity of loan basis purchase which is regulated by a specific risk policy document which establishes limits and procedures.
- net application in treasury funds including repos, time deposits, etc. decreases from € 776,7m to € 372,1m mainly due to lower balances on current accounts and free deposits (from € 461,6m to € 199m). With reference to other short-term financial instruments, the Bank registers a decrease of money market assets (from € 610,6m to € 403,5m), while money market liabilities also decreases (from € 297,5m to € 232,7m).
- value adjustments on derivative contracts is stable at € 8,8m.

	30/06/2013	30/06/2012	Y.o.Y. chg.
	€m	€m	%
Financial assets HFT other than derivatives	64,3	19,5	229,7%
Net application treasury funds	372,1	776,7	-52,1%
Derivatives instruments	8,8	8,8	-
Net treasury investments	**445,2**	**805,0**	**-44,7%**

Loans and advances – compared to the previous exercise, this item has recorded a substantial decrease of 28,6%, from € 3.839,7m to € 2.743m, which is in line with the balanced deleveraging process decided by Management.

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 remain covered by financial guarantees issued by the Parent Bank or public Agencies. At the reporting date the Bank has a direct credit risk exposure for € 724,3m (June 2012: € 394,2m).

In an environment which remains challenging, non performing loans increase from € 86,4m to € 143,1m representing 6% of total loans. Non performing loans at the reporting date are fully covered by financial guarantees.

	30/06/2013	30/06/2012	Y.o.Y. chg.
	€m	€m	%
Performing	2.599,9	3.770,0	-31,0%
Restructured and non performing	143,1	86,4	65,6%
FV hedging loans and advances	-	-16,7	-100,0%
Loans and advances	**2.743,0**	**3.839,7**	**-28,6%**

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 14,8%, from € 8,1m to € 6,9m, due to the reduction of accruing commissions on loans and guarantees, and the lack of depositary bank fees.

Funding – this item decreases by 26,2%, from € 4.397,2m to € 3.247m. In particular amounts due to Banks/customers decreases by 28,3% due to minor overdraft balances on current accounts (from € 234,9m to € 13,7m) and significant reimbursement of existing borrowings with the Parent Bank. This decrease has only been partially offset by the increase of corporate borrowing (up 78,2%, from € 504,9m to € 899,5m) mainly due to the commencement of the collateralised funding activity in December 2012.

Outstanding balance of notes issued decreases by 15,2%, from € 1.679,5m to € 1.423,3m. During the fiscal year the Bank succeeded in replacing expiring notes with new issues for an outstanding nominal amount of € 340m approximately.

Fair Value of hedging derivatives on notes issued decreases by 7,4%, from -€ 225,8m to -€ 209,1m.

Short term funding debt instruments decreases by 100% from the previous balance of € 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 short-medium term from a Group perspective.

	30/06/2013	30/06/2012	Y.o.Y. chg.
	€m	€m	%
Amount due to Banks and customers	2.032,8	2.834,9	-28,3%
Notes issued	1.423,3	1.679,5	-15,2%
FV Hedging on notes issued	-209,1	-225,8	-7,4%
Short term funding debt instruments	-	108,6	-100,0%
Funding	**3.247,0**	**4.397,2**	**-26,2%**

Other liabilities – this item decreases by 34,7%, from € 28,8m to € 18,8m, mainly due to the payment of existing fiscal provisions which demonstrate the adequacy of provisions booked in past exercises.

Net equity – No dividends have been distributed during the exercise and the increase from € 202,6m to € 231,1m is exclusively attributable to the provisioning of 2012's profits. The strategy of the Bank remains focused on strengthening of 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 financial statements of MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A. (the "Bank") give a true and fair view of the assets, liabilities, financial position and profit and loss of the Bank in accordance with applicable accounting standards. The Directors' report includes a fair view of (I) the Bank's development, (II) its position, and (III) a description of the opportunities and risks relevant to the Bank that arose during the year ended 30 June 2013.

Luxembourg, 9 September 2013

The Board of Directors

Massimo Di Carlo	Stefano Biondi	Peter W. Gerrard
Silvio Perazzini	Stefano Pellegrino	Federico Potsios
Luca Maccari	Alex Schmitt	

INDEPENDENT AUDITOR'S REPORT

Audit report

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

Report on the financial statements

We have audited the accompanying financial statements of Mediobanca International (Luxembourg) S.A., which comprise the statement of financial position as at 30 June 2013, and the statement of comprehensive income, statement of changes in equity and 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 financial statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements 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 financial statements 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgment of the "Réviseur d'entreprises agréé" including the assessment of the risks of material misstatement of the financial statements, 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 financial statements 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 financial statements.

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 financial statements give a true and fair view of the financial position of Mediobanca International (Luxembourg) S.A. as of 30 June 2013, 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 financial statements.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 9 September 2013

Pierre Krier

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

	Assets	30/06/2013	30/06/2012
		€	€
10.	Cash and cash balances with Central Banks	1.525.613	1.844.341
20.	Financial assets held for trading	408.238.668	340.150.975
50.	Financial assets held to maturity	309.607.931	-
60.	Loans and advances to Credit Institutions	975.313.712	1.711.734.131
70.	Loans and advances to Customers	2.374.724.030	3.217.618.546
80.	Hedging derivatives	209.467.330	227.082.436
100.	Equity investments	4.150.000	4.150.000
120.	Property, plant and equipment	21.317	38.348
130.	Intangible assets	1.760	4.613
	of which: goodwill	-	-
140.	Tax assets	-	38.412
	a) current	-	*38.412*
	b) deferred	-	-
160.	Other assets	6.672.085	7.948.889
	TOTAL ASSETS	**4.289.722.446**	**5.510.610.691**

	Liabilities and equity	30/06/2013	30/06/2012
		€	€
10.	Amounts due to Credit Institutions	1.216.469.680	2.415.871.845
20.	Amounts due to Customers	1.051.013.988	717.077.133
30.	Debt securities in issue	1.423.273.425	1.788.101.846
40.	Trading liabilities	335.179.075	311.825.782
60.	Hedging derivatives	431.932	17.962.876
80.	Tax liabilities	4.426.809	20.288.072
	a) current	*3.550.209*	*19.424.072*
	b) deferred	*876.600*	*864.000*
100.	Other liabilities	13.127.111	8.431.702
160.	Reserves	221.051.434	192.623.000
190.	Share capital	10.000.000	10.000.000
200.	Profit for the year	14.748.992	28.428.435
	TOTAL LIABILITIES AND EQUITY	**4.289.722.446**	**5.510.610.691**

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

STATEMENT OF COMPREHENSIVE INCOME

	Item	30/06/2013	30/06/2012
		€	€
010.	Interests receivable and similar income	105.307.459	156.768.112
020.	Interests payable and similar charges	-89.179.629	-135.270.003
030.	**Net interest income**	**16.127.830**	**21.498.109**
040.	Fee and commission income	14.744.811	22.050.639
050.	Fee and commission expense	-7.279.643	-10.549.627
060.	**Net fee and commission income**	**7.465.168**	**11.501.012**
080.	Net trading income/expense	1.889.995	11.645.372
090.	Net hedging income/expense	152.872	-202.047
100.	Gain or loss on disposal or repurchase of:	1.799.624	-272.396
	a) loans and receivables	*7.919*	-
	b) financial assets available for sale	-	-
	c) financial assets held to maturity	-	-
	d) financial liabilities	*1.791.705*	*-272.396*
120.	**Total income**	**27.435.489**	**44.170.050**
130.	Value adjustments in respect of:	-997.055	-264.828
	a) loans and receivables	*-678.016*	*-181.204*
	b) financial assets available for sale	-	-
	c) financial assets held to maturity	-	-
	d) other financial operations	*-319.039*	*-83.624*
140.	**Net income from the financial management**	**26.438.434**	**43.905.222**
180.	Administrative expenses:	-8.153.809	-8.689.637
	a) personnel costs	*-954.336*	*-888.694*
	b) other administrative expenses	*-7.199.473*	*-7.800.943*
200.	Value adjustments in respect of tangible assets	-19.087	-5.284
210.	Value adjustments in respect of intangible assets	-2.853	-1.092
220.	Other operating income/expense	109.348	15.797
280.	**Profit (loss) of the ordinary activity before tax**	**18.372.033**	**35.225.006**
290.	Income tax on the ordinary activity	-3.623.041	-6.796.571
340.	**Profit (loss) for the year**	**14.748.992**	**28.428.435**
350.	Other comprehensive income, net of tax	-	-
360.	**Total comprehensive income for the year, net of tax**	**14.748.992**	**28.428.435**

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

STATEMENT OF CHANGES IN EQUITY FROM 01/07/2012 TO 30/06/2013 (in €)

	Balance as of June 30, 2012	Allocation of the profit for the previous period		Changes during the reference period					Balance as of June 30, 2013
					Transactions involving equity				
		Reserves	Dividends and other fund applications	Changes in reserves	New shares issued	Treasury shares derivatives	Stock options and others	Profit (loss) of the period	
Share capital	**10.000.000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**10.000.000**
a) ordinary shares	10.000.000	-	-	-	-	-	-	-	10.000.000
b) other shares	-	-	-	-	-	-	-	**-**	-
Profit brought forward	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Reserves	**192.623.000**	**28.428.435**	**-**	-	**-**	**-**	**-**	**-**	**221.051.434**
a) legal reserve	1.000.000	-	-	-	-	-	-	-	1.000.000
b) free reserve	175.211.250	23.378.435	-	-	-	-	-	-	198.589.684
c) special reserve[1]	16.411.750	5.050.000	-	-	-	-	-	-	21.461.750
d) FTA reserve	-	-	-	-	-	-	-	-	-
Valuation reserves	**-**	**-**	-	-	-	-	-	**-**	**-**
a) AFS securities	-	-	-	-	-	-	-	**-**	**-**
b) cash flow hedges	-	-	-	-	-	-	-	**-**	**-**
c) special laws – others	-	-	-	-	-	-	-	**-**	**-**
Own shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Comprehensive income of the period	**28.428.435**	**-28.428.435**	**-**	**-**	**-**	**-**	**-**	**14.748.992**	**14.748.992**
Total equity	**231.051.435**	**-**	**-**	**-**	**-**	**-**	**-**	**14.748.992**	**245.800.427**

[1] As of 30 June 2013 and 2012 the Bank has opted for the exoneration of the net wealth tax charge provided that the following conditions have been respected:
- A reserve equivalent to 5 times the net wealth tax charge for each year is recorded following the decision of the Shareholders meeting;
- The reserve will be maintained for a period at least of five years.

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

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

		Allocation of the profit for the previous period		Changes during the reference period					
					Transactions involving equity				
	Balance as of June 30, 2011	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, 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 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 financial statements.

CASH FLOW STATEMENT – Direct Method
(in € k)

		Amount	
A.	**Cash flow from operating activities**	**30/06/2013**	**30/06/2012**
1.	**Operating activities**	**-73.478**	**45.857**
	– interest received	101.189	188.343
	– interest paid	-137.766	-125.531
	– net fee and commission received/paid	-11.700	10.784
	– dividends and similar income	-	58
	– net premium income	40	903
	– cash payments to employees	-842	-479
	– other income (expenses)	-4.419	-11.556
	– Tax income (expenses)	-19.980	-16.665
2.	**Cash generated/absorbed by financial assets**	**1.711.476**	**596.869**
	– amounts due from customers	930.738	752.648
	– amounts due from banks: on demand	-107.413	-36.769
	– amounts due from banks: other	422.423	-889.651
	– financial assets measured at fair value	465.681	770.628
	– other assets	47	13
3.	**Cash generated/absorbed by financial liabilities**	**-1.330.492**	**-649.281**
	– amounts due to banks: on demand	8.469	231.685
	– amounts due to banks: other	-759.715	-1.067.969
	– amounts due to clients	262.441	130.590
	– debt securities in issue	-316.141	61.314
	– financial liabilities measured at fair value	-525.546	-4.901
	– other liabilities	-	-
	Net cash flow (outflow) from operating activities	**307.506**	**-6.555**
B.	**Investing activities**		
	– equity investment	-	-
	– acquisitions of held-to-maturity investments	-307.504	-4.150
	– acquisitions of tangible assets	-1	-39
	– acquisitions of intangible assets	-	-5
	Net cash flow (outflow) from investing activities	**-307.505**	**-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	
	30/06/2013	**30/06/2012**
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	**2**	**1**

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

NOTES TO THE FINANCIAL STATEMENTS

PART A – CORPORATE INFORMATION

Corporate matters

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

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

Nature of the Bank’s business

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

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

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

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

The Bank raises funds on international markets, via the issuance of medium-long term or short term financial instruments under the terms of specific programs (Notes, Certificats de Dépôt, Commercial Papers) fully guaranteed by the Parent 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.

Financial statements

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

The financial statements as of 30 June 2013 were authorised for issue by the Board of Directors on 9 September 2013.

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 financial statements of the Bank are included in the consolidated financial statements of Mediobanca S.p.A..

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

PART B – ACCOUNTING POLICIES

Section 1

Statement of conformity with IAS/IFRS

The Bank's financial statements have been drawn up in accordance with the International Financial Reporting Standards (IFRS) including the interpretation documents issued by the SIC and the IFRIC, and endorsed by the European Commission up to June 30, 2013, pursuant to EU Regulation 1606/2002.

Section 2

General principles

The financial statements comprise:

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

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

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

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

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

Section 4

Accounting policies

New amended standards and interpretations

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

- IFRS 7 Disclosures – Transfers of Financial Assets (EU Regulation 1205/2011): These amendments require the disclosure of more information in the Annual Reports about financial assets transferred, but not derecognized, and on continuing involvement. They therefore do not have any impact on the figures in the financial position and performance of the Bank.

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:

- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets;
- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopter.

Standards issued but not yet effective

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

The European Commission endorsed the following accounting principles that have become effective for periods beginning on or after January 1, 2013:

- IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1 (EU Regulation 475/2012): The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gains on hedges of net investments, exchange differences on translation of foreign operations, net movements on cash flow hedges and net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans). The amendment affects presentation only and has no impact on the Bank's financial position or performance.

- IAS 19 Employee Benefits – Amendments (EU Regulation 475/2012): 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 is not expected to have a material impact on the financial position or performance of the Bank.

- Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (EU Regulation 1255/2012): The amendment has no impact for the Bank.

- IFRS 7 Disclosures **-** Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7 (EU Regulation 1256/2012): These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32.
  These amendments do not impact the Bank's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

- IFRS 13 – Fair Value measurement (EU Regulation 1255/2012): The standard 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.
  Adoption of the standard is not expected to have a material impact on the financial position or performance of the Bank.

- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (EU Regulation 1255/2012): This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity.
  The interpretation is effective for annual periods beginning on or after 1 January 2013. The new interpretation will not have an impact on the Bank.

The European Commission endorsed the following accounting principles and interpretations that will be applicable for reporting periods beginning on or after January 1, 2014:

- IFRS 12 – Disclosure of Involvement with Other Entities (EU Regulation 1254/2012): The standard becomes effective for annual periods beginning on or after 1 January 2014. 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 judgment will be transparent to users of the financial statements to make their own assessment of the financial impact were the Bank to reach a different conclusion regarding consolidation.
  The standard will not have any impact on the financial position or performance of the Bank.

- IFRS 11 – Joint Arrangements (EU Regulation 1254/2012) : The standard becomes effective for annual periods beginning on or after 1 January 2014. 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. The adoption of IFRS 11 is not expected to have an impact on the accounting treatment of investments held by the Bank.

- IFRS 10 – Consolidated Financial Statement (EU Regulation 1254/2012): The adoption of IFRS 10 is not expected to have an impact on the Bank.

The following standards, amendments, interpretations or revisions have been issued by the IASB:

- Amendments to IFRS 1 – Government Loans: These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Bank.

- 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 was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the Board will address impairment and hedge accounting. The Bank will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

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.

Loans and advances

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 and loans 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.

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 2013.

<u>Held to maturity financial assets</u>

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

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

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

If the Bank were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

Financial liabilities other than derivatives

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

Financial liabilities measured at amortised cost

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.

Fair value hedge

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".

Cash flow hedge

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 2013 and 2012 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 of the Parent Company checks the validity and accuracy of the market data and model parameters, with the support, among other things, of consensus instruments. The Risk Management - model validation unit of the Parent Company checks that the models function correctly and are consistent with market practices. These instruments may be broken down as follows:

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

- Credit instruments such as credit default swaps on individual names or credit indexes, or bonds with no liquid market: default probability curves are constructed based on the prices of the CDS at various maturities or on bonds and estimates of recovery rates received from external providers. These probability curves, together with the interest rate curves, allow the fair value of the credit default swaps and bonds to be calculated using models in line with market prices.

Level 3: the fair value of financial instruments classified as 3 in the fair value hierarchy is calculated in the same way as for level 2 instruments, with the difference that some model parameters are not directly observable on the market, and are therefore calculated internally using appropriate methodologies. In many cases, for this calculation historical data are analyzed or comparable underlying instruments are used. As for level 2, the model parameters are checked by the Middle Office - Market Data unit of the Parent Company and the models themselves by the Risk management - model validation unit of the Parent Company. 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.
- Other furniture and equipment: 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.

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

Net trading income/expense

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

Administrative expenses

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

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 financial statements 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

There are no changes in accounting policies or reclassification compared to June 30, 2012.

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 financial statements continue to be prepared on the going concern basis.

Fair value of financial instruments

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

Impairment losses on loans and advances

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

Deferred tax assets

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. There are no deferred tax assets as at 30 June 2013.

PART C – NOTES TO THE STATEMENT OF FINANCIAL POSITION

ASSETS

Section 1

Heading 10: Cash and cash balances with Central Banks

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

At 30 June 2013 the item **Cash and cash balances** amounted to € 1.526k, a reduction of € 318k (-17%) from 2012 due to:

- Decrease of liabilities[1] used for the computation of the minimum reserve: in particular deposits with agreed maturities made with customers passed from € 191 million to € 149 million.

	30/06/2013	30/06/2012
a) Cash	2	1
b) Demand deposit held at Central Banks	1.524	1.843
Total	**1.526**	**1.844**

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, 2013 **Financial assets held for trading** amount to € 408.238k, an increase of € 68.088k (+20%) compared to June 2012. Non-derivative products increased from € 19.504k to € 64.283k (230%) due to a boost of trading loan hold by the Bank; while derivative products increased from € 320.647k to € 343.955k (+7%) after the closing of existing financial structures.

Item/Value	30/06/2013			30/06/2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	—	—	—	—	—	—
1.1 Structured	—	—	—	—	—	—
1.2 Other debt securities	—	—	—	—	—	—
2. Equities	—	—	—	—	—	—
3. OICR units	—	—	—	—	14.324	—
4. Loans and advances	—	64.283	—	—	5.180	—
4.1 Repos	—	—	—	—	—	—
4.2 Others	—	64.283	—	—	5.180	—
Total A	—	**64.283**	—	**—**	**19.504**	**—**
B. Derivative products						
1. Financial derivatives	—	208.073	111.624	—	171.923	103.274
1.1 Trading	—	23.698	—	—	7.177	—
1.2 Linked to FV options	—	—	—	—	—	—
1.3 Others	—	184.375	111.624	—	164.746	103.274
2. Credit derivatives	4.368	19.890	—	—	45.450	—
2.1 Trading	4.368	19.890	—	—	45.450	—
2.2 Linked to FV options	—	—	—	—	—	—
2.3 Others	—	—	—	—	—	—
Total B	**4.368**	**227.963**	**111.624**	**—**	**217.373**	**103.274**
Total (A+B)	**4.368**	**292.246**	**111.624**	**—**	**236.877**	**103.274**
Total Level 1, Level 2 and Level 3			**408.238**			**340.151**

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)

	30/06/2013	30/06/2012
1. Opening balance	**103.274**	**98.993**
2. Increases	**20.948**	**20.916**
2.1 Issues and purchases	14.185	—
2.2 Transfers from other levels	—	—
2.3 Other increases	6.763	20.916
3. Decreases	**12.598**	**16.635**
3.1 Sales and settlements	123	—
3.2 Transfers to other levels	—	15.577
3.3 Other decreases	12.475	1.058
4. Closing balance	**111.624**	**103.274**

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	20.948	-12.598	8.350

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	30/06/2013	30/06/2012
A. CASH ASSETS		
1. Debt securities	—	—
a. Governments and central Banks	—	—
b. Other public agencies	—	—
c. Banks	—	—
d. Other issuers	—	—
2. Equities	—	—
a. Banks	—	—
b. Other issuers	—	—
- insurances	—	—
- financial companies	—	—
- non-financial companies	—	—
- others	—	—
3. OICR units	—	14.324
4. Loans and advances	64.283	5.180
a. Governments and central Banks	—	—
b. Other public agencies	—	—
c. Banks	7.629	—
d. Other entities	56.654	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	**64.283**	**19.504**
B. DERIVATIVE PRODUCTS		
a. Banks	343.955	315.354
b. Customers	—	5.293
Total B	**343.955**	**320.647**
Total A+B	**408.238**	**340.151**

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

Type of derivatives/Underlying assets	Interest rates		Foreign currency/gold		Equities		Credit		30/06/2013		30/06/2012	
	Notional amount	**Fair value**	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**
OTC derivative products												
1) Financial derivatives:	1.051.498	189.617	236.374	748	918.891	129.331	665.086	24.259	2.871.849	343.955	1.228.242	275.197
– with exchange of principal	—	—	—	—	—	—	—	—	—	—	—	—
– options bought	—	—	—	—	—	—	—	—	—	—	—	—
– other derivatives	—	—	—	—	—	—	—	—	—	—	—	—
– without exchange of principal	1.051.498	189.617	236.374	748	918.891	129.331	—	—	2.206.763	319.697	1.228.242	275.197
– options bought	—	—	236.374	748	—	—	—	—	236.374	748	3.999	—
– other derivatives	1.051.498	189.617	—	—	918.891	129.331	—	—	1.970.389	318.949	1.224.243	275.197
2) Credit derivatives:	—	—	—	—	—	—	665.086	24.259	665.086	24.259	1.574.012	45.450
– with exchange of principal	—	—	—	—	—	—	—	—	—	—	—	—
– without exchange of principal	—	—	—	—	—	—	665.086	24.259	665.086	24.259	1.574.012	45.450
Total	**1.051.498**	**189.617**	**236.374**	**748**	**918.891**	**129.331**	**665.086**	**24.259**	**2.871.849**	**343.955**	**2.802.254**	**320.647**

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	30/06/2013	30/06/2012
A. Balance at start of period	**—**	**—**	**14.324**	**5.180**	**19.504**	**138.068**
B. Additions	—	—	—	188.956	188.596	21.886
B.1 Acquisitions	—	—	—	187.585	187.585	21.089
B.2 Increases in fair value	—	—	—	955	955	140
B.3 Other increases	—	—	—	56	56	657
C. Reductions	—	—	14.324	129.493	143.817	140.450
C.1 Disposals	—	—	14.324	—	14.324	115.814
C.2 Redemptions	—	—	—	129.164	129.164	15.140
C.3 Reductions in fair value	—	—	—	156	156	1.154
C.4 Transfers to other portfolios	—	—	—	—	—	—
C.5 Other reductions	—	—	—	173	173	8.342
D. Balance at end of period	**—**	**—**	**—**	**64.283**	**64.283**	**19.504**

Section 5

Heading 50: Financial assets held to maturity

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

	Book value	Fair value 30/06/2013			Book value	Fair value 30/06/2012		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	309.608	309.703	—	—	—	—	—	—
1.1 Structured	—	—	—	—	—	—	—	—
1.2 Other debt securities	309.608	309.703	—	—	—	—	—	—
2. Loans and advances	—	—	—	—	—	—	—	—
Total	**309.608**	**309.703**	**—**	**—**	**—**	**—**	**—**	**—**

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

Type of transactions/Value	30/06/2013	30/06/2012
1. Debt securities:	309.608	—
a) Governments and Central Bank	—	—
b) Other public agencies	—	—
c) Bank	309.608	—
d) Other issuers	—	—
2. Loans and advances to:	—	—
a) Governments and Central Bank	—	—
b) Other public agencies	—	—
c) Bank	—	—
d) Others	—	—
	—	—
Total book value	**309.608**	—
Total fair value	**309.703**	—

5.4 Financial assets held to maturity: movements during the period (in €k)

	Debt securities	Loans and advances	30/06/2013	30/06/2012
A. Balance at start of period	—	—	—	—
B. Additions	**309.608**	**—**	**309.608**	—
B.1 Acquisitions	307.174	—	307.174	—
B.2 Writebacks	—	—	—	—
B.3 Transfers from other asset classes	—	—	—	—
B.4 Other increases	2.434	—	2.434	—
C. Reductions	—	—	—	—
C.1 Disposal	—	—	—	—
C.2 Redemptions	—	—	—	—
C.3 Value adjustments	—	—	—	—
C.4 Transfers to other asset classes	—	—	—	—
C.5 Other reductions[1]	—	—	—	—
D. Balance at end of period	**309.608**	**—**	**309.608**	**—**

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, 2013 **Loans and advances to credit institutions** amount to € 975.314k, a decrease of € 736.420k (43%) compared to June 2012. While the balance of repo remained stable during the period, current account and other receivables decreased respectively by 64% (from € 554.283k up to € 199.038k) and 26% (from € 1.048.805k to 776.276k).

Type of transactions/Value	30/06/2013	30/06/2012
1. Current accounts and demand deposits	199.038	554.283
1.1 current accounts	199.038	461.600
1.2 stock lending deposits	—	92.683
1.3 others deposits on demand	—	—
2. Term deposits	—	108.646
3. Other receivables:	773.478	1.048.805
3.1 amounts due under repo agreements	403.709	409.259
3.2 amounts due under finance leases	—	—
3.4 other amounts due	369.769	639.546
4. Debt securities	2.798	—
4.1 structured	—	—
4.2 other debt securities	2.798	—
Total book value	**975.314**	**1.711.734**
Total fair value	**975.318**	**1.711.733**

None of the loans and borrowings of the Bank is hedged with financial instruments. The Bank does not book any receivable under the terms of finance lease (IAS 17).

Section 7

Heading 70: Loans and advances to customers

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

Type of transactions/Value	30/06/2013	30/06/2012
1. Current accounts	—	—
2. Amounts due under repo agreements	—	—
3. Loans	2.373.965	3.217.611
4. Credit cards, personal loans and salary – guaranteed finance	—	—
5. Amounts due under finance leasing	—	—
6. Factoring	—	—
7. Other transactions	759	8
8. Debt securities	—	—
8.1 structured	—	—
8.2 other debt securities	—	—
9. Assets sold but not derecognized	—	—
Total book value	**2.374.724**	**3.217.619**
Total fair value	**2.348.366**	**3.088.833**

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

Type of transactions/Value	30/06/2013		30/06/2012	
	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:	2.231.613	143.111	3.131.187	86.432
a) Governments	—	—	—	—
b) Other public agencies	—	—	—	—
c) Other issuers	2.231.613	143.111	3.131.187	86.432
- non-financial undertakings	1.798.689	82.905	2.040.488	29.799
- financial companies	432.924	60.206	1.090.699	56.633
- insurances	—	—	—	—
- other entities	—	—	—	—
Total	**2.231.613**	**143.111**	**3.131.187**	**86.432**

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

Type of transactions/Value	30/06/2013	30/06/2012
1. Items subject to specific fair value hedges for:	—	383.532
a) interest rate risk	—	383.532
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**

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

Section 8

Heading 80: Hedging derivatives

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

	30/06/2013 Fair value			Notional value	30/06/2012 Fair value			Notional value
	level 1	level 2	level 3		level 1	level 2	level 3	
A. Financial derivatives	—	209.467	—	611.126	—	227.082	—	540.475
1) Fair value	—	209.467	—	611.126	—	227.082	—	540.475
2) Cash flow	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	**—**	**209.467**	**—**	**611.126**	**—**	**227.082**	**—**	**540.475**

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		30/06/2013		30/06/2012	
	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:	611.126	209.467	—	—	—	—	—	—	611.126	209.467	540.475	227.082
– with exchange of principal	—	—	—	—	—	—	—	—	—	—	—	—
– options bought	—	—	—	—	—	—	—	—	—	—	—	—
– other derivatives	—	—	—	—	—	—	—	—	—	—	—	—
– without exchange of principal	611.126	209.467	—	—	—	—	—	—	611.126	209.467	540.475	227.082
– options bought	—	—	—	—	—	—	—	—	—	—	—	—
– other derivatives	611.126	209.467	—	—	—	—	—	—	611.126	209.467	540.475	227.082
2) Credit derivatives:	—	—	—	—	—	—	—	—	—	—	—	—
– with exchange of principal	—	—	—	—	—	—	—	—	—	—	—	—
– without exchange of principal	—	—	—	—	—	—	—	—	—	—	—	—
Total B	**611.126**	**209.467**	—	—	—	—	—	—	**611.126**	**209.467**	**540.475**	**227.082**
Total (A+B)	**611.126**	**209.467**	—	—	—	—	—	—	**611.126**	**209.467**	**540.475**	**227.082**

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

30/06/2013 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	187.313	—	—	—	—	—	—
2. Debt securities in issue	22.154	—	—	—	—	—	—
3. Portfolio	—	—	—	—	—	—	—
TOTAL LIABILITIES	**209.467**	**—**	**—**	**—**	**—**	**—**	**—**
TOTAL	**209.467**	**—**	**—**	**—**	**—**	**—**	**—**

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**	**—**	**—**	**—**	**—**	**—**	**—**

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[3]	Ownership relationship		Voting rights[4]
			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.	2.164	156	9	1.601	4.150

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

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

[4] 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	30/06/2013	30/06/2012
A. Core assets		
1.1 owned by the Group	21	38
a) land	—	—
b) buildings	—	—
c) furniture and fitting	5	5
d) electronic equipment	—	—
e) other assets	16	33
1.2 acquired under finance leases:	—	—
a) land	—	—
b) buildings	—	—
c) furniture	—	—
d) electronic equipment	—	—
e) other assets	—	—
Total A	**21**	**38**
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)	**21**	**38**

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

	Land	Buildings	Furniture	Electronic equipment	Other assets	Total
A. Gross opening balance	—	—	43	—	36	79
A.1 Total net value reductions	—	—	-38	—	-3	-41
A.2 Net opening balance	—	—	5	—	33	38
B. Additions:	—	—	—	—	1	1
B.1 Purchases	—	—	—	—	1	1
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:	—	—	—	—	-18	-18
C.1 Disposals	—	—	—	—	-18	-18
C.2 Depreciation charges	—	—	—	—	—	—
C.3 Value adjustments for impairment taken to:	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit and loss account	—	—	—	—	—	—
C.4 Reductions in fair value charged to:	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit and loss account	—	—	—	—	—	—
C.5 Reductions due to exchange rates	—	—	—	—	—	—
C.6 Transfers to:	—	—	—	—	—	—
a) assets held for investment purposes	—	—	—	—	—	—
b) assets being sold	—	—	—	—	—	—
C.7 Other reductions	—	—	—	—	—	—
D. Net closing balance	—	—	5	—	16	21
D.1 Total net value reductions	—	—	-38	—	-21	-59
D.2 Gross closing balance	—	—	43	—	37	80

Section 13

Heading 130: Intangible assets

13.1 Intangible assets (in €k)

Assets/ value	30/06/2013		30/06/2012	
	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	2	—	5	—
A.2.1 Recognized at cost:	2	—	5	—
a) intangible assets generated internally	—	—	—	—
b) other assets	2	—	5	—
A.2.2 Recognized at fair value:	—	—	—	—
a) intangible assets generated internally	—	—	—	—
b) other assets	—	—	—	—
Total	**2**	**—**	**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	—	—	—	6	—	6
A.1 Total net value reductions	—	—	—	-1	—	-1
A.2 Net opening balance	—	—	—	5	—	5
B. Additions	—	—	—	—	—	—
B.1 Purchases	—	—	—	—	—	—
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	—	—	—	-3	—	-3
C.1 Disposals	—	—	—	—	—	—
C.2 Value adjustments	—	—	—	-3	—	-3
– amortization	—	—	—	-3	—	-3
– 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	—	—	—	2	—	2
D.1 Total net value adjustments	—	—	—	-4	—	-4
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.

	30/06/2013	30/06/2012
- VAT credit	—	38
Total	**—**	**38**

Section 16

Heading 160: Other assets

16.1 Other assets (in € k)

	30/06/2013	30/06/2012
- Gold, silver and precious metal	—	—
- Accrued income other than capitalized income	2.272	2.708
- Trade receivables or invoice to be issued	4.185	5.090
- Amount due from tax revenue Authorities (not recorded under heading 140)	210	16
- Other	5	135
Total	**6.672**	**7.949**

Liabilities

Section 1

Heading 10: Amounts due to credit institutions

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

Type of transaction/amounts	30/06/2013	30/06/2012
1. Due to central Banks	—	—
2. Due to Banks	1.216.470	2.415.872
2.1 Current accounts and demand deposits	13.710	306.942
2.2 Term deposits	82.416	13.809
2.3 Borrowings	1.119.585	2.095.121
2.3.1 Leasing & stock lending	—	—
2.3.2 Others	1.119.585	2.095.121
2.4 Amounts due under commitments to buy back own shares	—	—
2.5 Other amounts due	759	—
Total book value	**1.216.470**	**2.415.872**
Total fair value	**1.216.470**	**2.415.872**

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 which have 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)

	30/06/2013	30/06/2012
1. Items subject to specific fair value hedges for:	228.451	237.488
a) interest rate risk	228.451	237.488
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	**228.451**	**237.488**

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

Section 2

Heading 20: Amounts due to customers

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

Type of transaction/amounts	30/06/2013	30/06/2012
1. Current accounts and demand deposits	—	20.633
2. Term deposits	149.500	191.011
3. Customers' funds managed on a non-discretionary basis	—	—
4. Borrowings	901.514	505.433
4.1 leasing	—	—
4.2 others	901.514	505.433
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	**1.051.014**	**717.077**
Total fair value	**1.051.014**	**717.077**

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

	30/06/2013	30/06/2012
1. Items subject to specific fair value hedges for:	93.497	97.011
a) interest rate risk	93.497	97.011
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	**93.497**	**97.011**

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

Section 3

Heading 30: Debt securities in issue

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

Type of transaction/amounts	30/06/2013		30/06/2012	
	Book value	Fair Value[1]	Book value	Fair Value
A. Listed securities	1.188.101	1.223.199	1.528.406	1.565.043
1. notes	1.188.101	1.223.199	1.419.764	1.456.401
1.1 structured	502.198	505.326	908.892	915.485
1.2 others	685.903	717.873	510.872	540.916
2. other securities [A]	—	—	108.642	108.642
2.1 structured	—	—	—	—
2.2 others	—	—	108.642	108.642
B. Unlisted securities	235.173	237.435	259.696	263.764
1. notes	235.173	237.435	259.696	263.764
1.1 structured	182.196	186.943	218.125	220.257
1.2 others	52.977	50.492	41.571	43.507
2. other securities	—	—	—	—
2.1 structured	—	—	—	—
2.2 others	—	—	—	—
Total	**1.423.274**	**1.460.634**	**1.788.102**	**1.828.807**

[1] Fair value does not include issuer risk; if issuer risk was considered, the fair value of debt securities issued would reduce by € 34,5m 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	30/06/2013	30/06/2012
A. Securities subject to specific fair value hedges	552.214	558.058
1. Interest rate risk	552.214	558.058
2. Currency risk	—	—
3. Other risks	—	—
B. Securities subject to specific cash flow hedges	—	—
1. Interest rate risk	—	—
2. Currency risk	—	—
3. Other risks	—	—
Total	**552.214**	**558.058**

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

Type of transaction/amounts	30/06/2013	30/06/2012
A. Debt securities	871.059	1.121.402
1. Structured	393.088	720.666
2. Other	477.972	400.736
B. Other financial instruments	—	108.642
1. Structured	—	—
2. Other	—	108.642
Total	**871.060**	**1.230.044**

Section 4

Heading 40: Financial liabilities held for trading

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

Type of transaction/amounts	30/06/2013			30/06/2012		
	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	—	222.858	111.624	—	208.552	103.274
1. Financial derivatives	—	208.029	111.624	—	168.913	103.274
1.1 Trading derivatives	—	23.654	—	—	5.592	—
1.2 Linked to FV option	—	—	—	—	—	—
1.3 Other	—	184.375	111.624	—	163.321	103.274
2. Credit derivatives	697	14.829	—	—	39.639	—
2.1 Trading derivatives	697	14.829	—	—	39.639	—
2.2 Linked to FV option	—	—	—	—	—	—
2.3 Other	—	—	—	—	—	—
Total	**697**	**222.858**	**111.624**	**—**	**208.552**	**103.274**

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)

	30/06/2013	30/06/2012
1. Opening balance	**103.274**	**98.992**
2. Increases	20.948	**20.916**
2.1 Issues and purchases	14.185	—
2.2 Transfers from other levels	—	—
2.3 Other increases	6.763	20.916
3. Decreases	12.598	**16.634**
3.1 Sales and settlements	123	—
3.2 Transfers to other levels	—	15.577
3.3 Other decreases	12.475	1.057
4. Closing balance	**111.624**	**103.274**

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	12.598	-20.947	-8.349

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		30/06/2013		30/06/2012	
	Notional	**FV**	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**
OTC derivative products												
1. Financial derivatives	569.410	186.586	253.230	4.881	916.246	128.185	799.831	15.527	2.538.717	335.179	1.119.985	272.187
1.1 With exchange of principal	—	—	4.604	373	—	—	—	—	4.604	373	327.336	29
- options issued	—	—	—	—	—	—	—	—	—	—	—	—
- other derivatives	—	—	4.604	373	—	—	—	—	4.604	373	327.336	29
1.2 Without exchange of principal	569.410	186.586	248.626	4.508	916.246	128.185	—	—	1.734.282	319.279	792.649	272.158
- options issued	—	—	—	—	—	—	—	—	—	—	3.999	—
- other derivatives	569.410	186.586	248.626	4.508	916.246	128.185	—	—	1.734.282	319.279	788.650	272.158
2. Credit derivatives	—	—	—	—	—	—	799.831	15.527	799.831	15.527	1.494.012	39.639
2.1 With exchange of principal	—	—	—	—	—	—	—	—	—	—	—	—
2.2 Without exchange of principal	—	—	—	—	—	—	799.831	15.527	799.831	15.527	1.494.012	39.639
Total	**569.410**	**186.586**	**253.230**	**4.881**	**916.246**	**128.185**	**799.831**	**15.527**	**2.538.717**	**335.179**	**2.613.997**	**311.826**

Section 6

Heading 60: Hedging derivatives

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

	30/06/2013 Fair value			Notional value	30/06/2012 Fair value			Notional value
	level 1	level 2	level 3		level 1	level 2	level 3	
A. Financial derivates	—	432	—	53.751	—	17.963	—	489.521
1) *Fair value*	—	432	—	53.751	—	17.963	—	489.521
2) Cash flow	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) *Fair value*	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	**—**	**432**	**—**	**53.751**	**—**	**17.963**	**—**	**489.521**

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		30/06/2013	30/06/2012
	Specific				Generic	Specific	Generic		
	Interest Risk	Currency rate	Credit risk	Other risks					
1. Financial assets AFS	—	—	—	—	—	—	—	—	—
2. Lending portfolio	—	—	—	—	—	—	—	—	16.731
3. Financial assets HTM	—	—	—	—	—	—	—	—	—
4. Portfolio	—	—	—	—	—	—	—	—	—
TOTAL ASSETS	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**16.731**
1. Amounts due	—	—	—	—	—	—	—	—	—
2. Debt securities in issue	432	—	—	—	—	—	—	432	1.232
3. Portfolio	—	—	—	—	—	—	—	—	—
TOTAL LIABILITIES	**432**	**—**	**—**	**—**	**—**	**—**	**—**	**432**	**1.232**
TOTAL	**432**	**—**	**—**	**—**	**—**	**—**	**—**	**432**	**17.963**

Section 8

Heading 80: Tax liabilities

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

	30/06/2013	30/06/2012
Corporate income tax (IRC)	2.683	14.545
Municipal business tax (ICC)	730	4.673
Other	137	206
Total	**3.550**	**19.424**

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 € 1.123.825 (30 June 2012: € 1.002.435) 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 (+)	19.025	5.748	206	24.979
B. Advances paid (-)	4.480	1.075	38	5.593
A.1 Fiscal liabilities: increase (+)	**2.777**	**833**	**597**	**4.207**
- provisions of the year	2.777	833	597	4.207
- transfers	—	—	—	—
- others	—	—	—	—
A.2 Fiscal liabilities: decrease (-)	**-13.120**	**-4.050**	**-616**	**-17.786**
- payments of the year (assessments)	-13.120	-4.050	-616	-17.786
- transfers	—	—	—	—
- others	—	—	—	—
B.1 Advances paid: increase (+)	**3.999**	**1.201**	**103**	**5.303**
- payments/advances	3.999	1.201	103	5.303
- transfers	—	—	—	—
- others	—	—	—	—
B.2 Advances paid: decrease (-)	**-2.480**	**-475**	**-91**	**-3.046**
- payments of the year (assessments)	-2.480	-475	-91	-3.046
- transfers	—	—	—	—
- others	—	—	—	—
Total A. Fiscal liabilities	**8.862**	**2.531**	**187**	**11.580**
Total B. Advances paid	**5.999**	**1.801**	**50**	**7.850**
Current fiscal liabilities (A-B)	**2.683**	**730**	**137**	**3.550**

In 2013 the solidarity surcharge due by companies has been increased by 2%, from 5% to 7%. As a consequence the corporate income tax rate (including the contribution to the employment fund) has been increased from 22,05% to 22,47%. 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 increased from 28,80% to 29,22%.

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

Deferred tax liabilities	30/06/2013	30/06/2012
1. Initial amount	864	864
1.1 Initial amount	864	864
2. Additions	13	—
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	13	—
2.3 Other additions	—	—
3. Reductions	—	—
3.1 Deferred tax reversed during the period	—	—
a) amounts written off as unrecoverable	—	—
b) reverse to comprehensive income	—	—
c) due to changes in accounting policies	—	—
3.2 Reduction in tax rates	—	—
3.3 Other reductions	—	—
Total	**877**	**864**

The increase in deferred tax liabilities is due to the increase of the IRC solidarity surcharge from 5% to 7% effective from January 1, 2013.

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

	30/06/2013			30/06/2012		
	Deferred tax assets	Deferred tax liabilities	Tax rate 29,22%	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	-877	—	-3.000	-864
Total liabilities	**—**	**-3.000**	**-877**	**—**	**-3.000**	**-864**

Section 10

Heading 100: Other liabilities

10.1 Other liabilities (in €k)

	30/06/2013	30/06/2012
1. Pending invoices	9.817	5.642
2. Wages accrued, contributions and amounts withheld from staff for payment	13	6
3. Impairment guarantees and commitments	750	431
4. Prepaid expenses other than capitalized expenses on related financial assets	—	—
5. Deferred income	—	—
6. Upfront premiums	—	—
7. Amounts payable on loans and receivables	2.547	2.353
8. Other items	—	—
Total	**13.127**	**8.432**

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

Section 16

Heading 160: Reserves

16.1 Reserves (in € k)

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

As of June 30, 2012 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 2011;
- This reserve will be maintained for a minimum period of 5 years.

(in € k)	**30/06/2013**	**30/06/2012**
A. Reserves	221.051	192.623
A.1 legal reserve	1.000	1.000
A.2 free reserve	198.590	175.211
A.3 special reserve(1)	21.461	16.412
A.4 FTA reserve	—	—

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

Section 19

Heading 190: Share capital

19.1 Share capital

As of 30 June 2013 and 2012, 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)

	30/06/2013	**30/06/2012**
1. Financial guarantees given to:	55.993	84.762
a) Banks	—	—
b) Customers	55.993	84.762
2. Commercial guarantees given to:	—	—
a) Banks	—	—
b) Customers	—	—
3. Irrevocable commitments to lend funds:	1.039.753	1.258.874
a) Banks	—	—
b) Customers	1.039. 753	1.258.874
4. Commitment underlying credit derivatives: hedge sales	881.772	1.518.612
Total	**1.977.518**	**2.862.248**

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:

- € 406.159k of commitment to return at a forward date securities received as collateral under repurchase agreement where the Bank acts as lender.

As of year end the Bank has placed collateral in form of securities for an amount of € 432.579k 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	30/06/2013	30/06/2012*
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	883.100	616.320
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	53.275	83.652
1. securities issued by bank drawing up financial statements	—	—
2. other securities	53.275	83.652
c) customers' securities held on deposit with customers	509.412	515.611
d) own securities held on deposit with customers	320.423	17.057

* Compared to last year's financial statements the balances in the table have been revised in order to more accurately reflect the nature of the operations.

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]	30/06/2013	30/06/2012
	Debt securities	Loans	Other financial assets			
1. Financial assets held for trading	57	379	—	—	436	2.421
2. Financial assets at fair value	—	—	—	—	—	—
3. AFS securities	—	—	—	—	—	—
4. Financial assets held to maturity	5.249	—	—	—	5.249	—
5. Loans and advances to credit institutions	15	22.570	—	—	22.588	35.228
6. Loans and advances to customers	—	41.547	—	8.594	50.141	90.078
7. Hedging derivatives	—	—	26.897	—	26.897	29.041
8. Financial assets sold but not derecognized	—	—	—	—	—	—
9. Other assets	—	—	—	—	—	—
Total	**5.321**	**64.496**	**26.897**	**8.594**	**105.308**	**156.768**

[1] In July 2013 the Bank has executed the financial guarantee on a non performing exposure at its book value of € 18,6m; 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)

	30/06/2013	30/06/2012
A. Positive differences on transactions involving:	26.897	29.041
A.1 Specific fair value hedge of assets	3.417	7.852
A.2 Specific fair value hedge of liabilities	23.480	21.189
A.3 General interest rate risk hedges	—	—
A.4 Specific cash flow hedge of assets	—	—
A.5 Specific cash flow hedge of liabilities	—	—
A.6 General cash flow hedge	—	—

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

	30/06/2013	30/06/2012
1.3.1 Interests receivable on financial assets denominated in currencies other than Euro	19.503	22.412
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	30/06/2013	30/06/2012
1. Amount due to Banks	-18.711	—	—	-18.711	-46.812
2. Amount due to customers	-16.347	—	—	-16.347	-14.755
3. Debt securities	—	-37.570	—	-37.570	-48.987
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	—	—	-16.492	-16.492	-24.716
Total	**-35.058**	**-37.570**	**-16.492**	**-89.180**	**-135.270**

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

	30/06/2013	30/06/2012
A. Negative differences on transactions involving:	-16.492	-24.716
A.1 Specific fair value hedge of assets	-7.395	-11.988
A.2 Specific fair value hedge of liabilities	-9.097	-12.728
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)

	30/06/2013	30/06/2012
1.6.1 Interests payable on financial liabilities denominated in currencies other than Euro	-11.211	-15.831
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)

	30/06/2013	30/06/2012
a) guarantees given	726	1.225
b) credit derivates	—	—
c) management, trading and advisory services:	627	1.281
1. securities dealing	—	—
2. currency dealing	—	—
3. asset management	—	—
4. securities under custody and non-discretionary	—	—
5. depositary services	536	1.281
6. securities placing	91	—
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	13.392	19.545
Total	**14.745**	**22.051**

2.2 Fee and commission expense (in €k)

	30/06/2013	30/06/2012
a) guarantees received	—	—
b) credit derivatives	—	—
c) management and services:	-179	—
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	-179	—
6. door-to-door sales of securities, products and services	—	—
d) collection and payment services	—	—
e) lending services	-7.101	-10.550
Total	**-7.280**	**-10.550**

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	30/06/2013	30/06/2012
1. Trading assets	857	592	—	—	**1.449**	**-6.540**
1.1 Debt securities	—	—	—	—	**—**	**-5.716**
1.2 Equities	—	—	—	—	**—**	**—**
1.3 OICR units	58	446	—	—	**504**	**-1.104**
1.4 Loans and receivables	799	146	—	—	**945**	**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	30.279	—	-26.194	—	**4.085**	**-1.313**
4. Derivative products	120.671	6.207	-125.303	-5.219	**-3.644**	**19.498**
4.1 Financial derivatives:	70.084	1.646	-71.548	-3.800	**-3.618**	**28.934**
– on debt securities/interest rates	20.997	243	-17.363	-237	**3.640**	**27.092**
– on equities/share indexes	48.081	1.320	-49.398	-962	**-959**	**1.054**
– on foreign currency/gold	1.006	83	-4.787	-2.601	**-6.299**	**788**
– others	—	—	—	—	**—**	**—**
4.2 Credit derivatives	50.587	4.561	-53.755	-1.419	**-26**	**-9.436**
Total	**151.807**	**6.799**	**-151.497**	**-5.219**	**1.890**	**11.645**

Section 4

Heading 90: Net hedging income (expense)

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

	30/06/2013	30/06/2012
A. Income from:		
A.1 Fair value hedge derivatives	3.905	142.214
A.2 Financial assets hedged (fair value)	—	11.636
A.3 Financial liabilities hedged (fair value)	83.495	3.198
A.4 Cash flow hedge financial derivatives	—	—
A.5 Assets and liabilities in foreign currency	—	—
Total hedging income (A)	**87.400**	**157.048**
B. Expenses relating to:		
B.1 Fair value hedge derivatives	-35.005	-15.464
B.2 Financial assets hedged (fair value)	-1.710	—
B.3 Financial liabilities hedged (fair value)	-50.532	-141.786
B.4 Cash flow hedge financial liabilities	—	—
B.5 Assets and liabilities in foreign currency	—	—
Total hedging expenses (B)	**-87.247**	**-157.250**
C. Net hedging income (A-B)	**153**	**-202**

Section 5

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

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

	30/06/2013			30/06/2012		
	Gains	**Losses**	**Net profit (loss)**	**Gains**	**Losses**	**Net profit (loss)**
Financial assets						
1. Due from Banks	—	—	—	—	—	—
2. Due from customers	8	—	8	—	—	—
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	**8**	**—**	**8**	**—**	**—**	**—**
Financial liabilities						
1. Due to Banks	—	—	—	—	—	—
2. Due to customers	—	—	—	—	—	—
3. Debt securities in issue	1.792	—	1.792	—	-272	-272
Total liabilities	**1.792**	**—**	**1.792**	**—**	**-272**	**-272**

Section 6

Heading 130: Adjustments for impairment

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

Transactions/Income-linked components	Value adjustments			Amounts recovered				30/06/2013	30/06/2012
	Specific		Portfolio	Specific		Portfolio			
	Write offs	Others		A	B	A	B		
A. Due from Banks	—	—	-29	—	—	—	—	-29	—
B. Due from customers	—	—	-1.808	—	—	—	1.159	-649	-181
C. Total	**—**	**—**	**-1.837**	**—**	**—**	**—**	**1.159**	**-678**	**-181**

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				30/06/2013	30/06/2012
	Specific		Portfolio	Specific		Portfolio			
	Write offs	Others		A	B	A	B		
A. Guarantees given	—	—	-4	—	—	—	7	3	2
B. Credit derivatives	—	—	—	—	—	—	—	—	—
C. Commitments	—	—	-382	—	—	—	60	-322	-86
D. Other transactions	—	—	—	—	—	—	—	—	—
E. Total	**—**	**—**	**-386**	**—**	**—**	**—**	**-67**	**-319**	**-84**

Legend

A = interest

B = other amounts recovered

Section 7

Heading 180: Administrative expenses

7.1 Personnel cost: composition (in €k)

	30/06/2013	**30/06/2012**
1.Employees	-786	-394
a) wages and salaries	-618	-312
b) social security charges	-36	-18
c) severance indemnities	—	—
d) pension contributions	-28	-24
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:	-67	-17
– defined contribution	-67	-17
– defined benefit	—	—
h) expenses incurred in connection with share payment schemes	—	—
i) other staff benefits	-37	-23
2. Other staff	—	-315
3. Board members	-168	-180
Total	**-954**	**-889**

7.2 Other administrative expenses: composition (in €k)

	30/06/2013	30/06/2012
– outside consultants' fees	-272	-192
– legal fees due in respect of credit recovery	—	—
– share and bond administration	-90	-121
– advertising	-5	-6
– insurance	-2	-1
– rents and leases	-197	-196
– maintenance, repairs and refurbishment	-17	-20
– service providers	-3	-3
– financial information subscriptions	—	—
– stationery and printing	-5	-3
– membership subscriptions	-150	-115
– postal, telephone, fax and telex charges	-27	-32
– newspapers, magazines and library acquisitions	-4	-1
– other staff expenses	—	—
– utilities	—	—
– EDP costs	-538	-506
– Bank charges	-32	-21
– travel and secondment	-30	-40
– outsourced activities	-5.072	-5.779
– other expenses	-1	-5
Total other expenses	**-6.445**	**-7.041**
– indirect and other taxes	-754	-760
Total indirect tax	**-754**	**-760**
Total other administrative expenses	**-7.199**	**-7.801**

Section 8

Heading 200: Value adjustments in respect of tangible assets

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

	Depreciation and other reduction	Adjustments for impairment	Amounts recovered	30/06/2013	30/06/2012
A. Tangible assets					
A.1 Owned:	-19	—	—	-19	-5
– Core	-19	—	—	-19	-5
– Investment	—	—	—	—	—
A.2 Acquired under finance leases:	—	—	—	—	—
Total	**-19**	**—**	**—**	**-19**	**-5**

Section 9

Heading 210: Value adjustments in respect of intangible assets

9.1 Value adjustments in respect of intangible assets (in € k)

Assets/income elements	Amortization	Adjustments for impairment	Amounts recovered	30/06/2013	30/06/2012
A. Intangible assets					
A.1 Owned	-3	—	—	-3	-1
– software	—	—	—	—	—
– other	-3	—	—	-3	-1
A.2 Acquired under finance leases	—	—	—	—	—
Total	**-3**	**—**	**—**	**-3**	**-1**

Section 10

Heading 220: Other operating income (expenses)

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

	30/06/2013	30/06/2012
A. Other income (expenses) – other	109	-42
– Sundry other expense reimbursements	—	—
– Direct debit expense reimbursements	—	—
– Income for services given to third Companies	—	43
– Other income	110	63
– Other charges	-1	-148
B. Other income (expenses) – amounts recovered	—	58
– withholding tax	—	58
– Amounts recovered from staff	—	—
– Amounts recovered from clients	—	—
– Other amounts recovered	—	—
Total	**109**	**16**

Section 11

Heading 290: Income tax on the ordinary activity

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

	30/06/2013	30/06/2012
1. Current taxes	-3.610	-6.797
2. Changes in current tax for previous financial years	—	—
3. Decrease in current tax for period	—	—
4. Changes in deferred tax assets	—	—
4.1 related to previous fiscal exercise (reverse to the comprehensive income)	—	—
4.2 generated in the fiscal exercise	—	—
5. Changes in deferred tax liabilities	-13	—
5.1 related to previous fiscal exercise (reverse to the comprehensive income)	—	—
5.2 generated in the fiscal exercise	-13	—
Total	**-3.623**	**-6.797**

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	884	46	533	61	2
20.	Financial assets held for trading	64.431	3.333	38.881	4.444	297.150
50.	Financial assets held to maturity	179.573	9.288	108.363	12.383	—
60.	Loans and advances to credit institutions	565.682	29.259	341.360	39.013	—
70.	Loans and advances to customers	1.377.340	71.242	831.153	94.989	—
80.	Hedging derivatives	121.491	6.284	73.314	8.379	—
100.	Equity investments	—	—	—	—	4.150
120.	Tangible assets	—	—	—	—	21
130.	Intangible assets	—	—	—	—	2
140.	Tax assets	—	—	—	—	—
160.	Other assets	3.869	200	2.335	266	—
	Total assets at 30/06/2013	**2.313.270**	**119.652**	**1.395.939**	**159.535**	**301.325**
	Total assets at 30/06/2012	**3.241.726**	**102.912**	**1.543.679**	**257.279**	**365.015**
10.	Amount due to Credit institutions	-705.552	-36.494	-425.764	-48.659	—
20.	Amount due to customers	-609.588	-31.530	-367.855	-42.041	—
30.	Debt securities in issue	-825.499	-42.698	-498.146	-56.931	—
40.	Financial liabilities held for trading	-22.087	-1.142	-13.328	-1.523	-297.097
60.	Hedging derivatives	-251	-13	-151	-17	—
80.	Tax liabilities	-2.568	-133	-1.549	-178	—
100.	Other liabilities	-7.501	-388	-4.526	-517	-194
160.	Shareholders' equity	-134.010	-6.932	-80.868	-9.242	—
	Total liabilities at 30/06/2013	**-2.307.056**	**-119.330**	**-1.392.187**	**-159.108**	**-297.291**
	Total liabilities at 30/06/2012	**-3.227.431**	**-102.458**	**-1.536.870**	**-256.145**	**-359.279**

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	55.813	3.159	40.017	6.318	—
020.	Interests payable and similar charges	-47.242	-2.673	-33.872	-5.349	-40
030.	**Net interest income**	**8.571**	**486**	**6.145**	**969**	**-40**
040.	Fee and commission income	7.545	428	5.409	855	510
050.	Fee and commission expense	-3.858	-218	-2.767	-437	—
060.	**Net fee and commission income**	**3.687**	**210**	**2.642**	**418**	**510**
080.	Net trading income/expense	1.832	104	1.317	205	-1.568
090.	Net hedging income/expense	82	6	59	8	—
100.	Gain or loss on disposal or repurchase of:	954	55	684	109	—
	a) loans and receivables	4	1	3	1	—
	b) financial assets available for sale	—	—	—	—	—
	c) financial assets held to maturity	—	—	—	—	—
	d) financial liabilities	950	54	681	108	—
120.	**Total income**	**15.126**	**861**	**10.847**	**1.709**	**-1.098**
130.	Value adjustments	-528	-30	-379	-60	—
140.	**Net income from the financial management**	**14.598**	**831**	**10.468**	**1.649**	**-1.098**
180.	Administrative expenses	-4.322	-241	-3.099	-485	—
200.	Value adjustments in respect of tangible assets	—	—	—	—	-19
210.	Value adjustments in respect of intangible assets	—	—	—	—	-3
220.	Other operating income/expense	—	—	—	—	110
280.	**Profit (loss) of the ordinary activity before tax**	**10.276**	**590**	**7.369**	**1.164**	**-1.010**
290.	Income tax on the ordinary activity	-1.921	-108	-1.377	-218	—
340.	**Profit (loss) for the year**	**8.355**	**482**	**5.992**	**946**	**-1.010**
350.	Other comprehensive income, net of tax	—	—	—	—	—
360.	**Total comprehensive income for the year, net of tax as at 30/06/2013**	**8.355**	**482**	**5.992**	**946**	**-1.010**
	Total comprehensive income for the year, net of tax as at 30/06/2012	**10.759**	**191**	**7.108**	**1.152**	**9.218**

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 2013 and 2012.

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

	LUXEMBOURG	OTHER EUROPEAN COUNTRIES	AMERICAS	ASIA	OCEANIA
Cash and cash balances with Central Banks	1.526	—	—	—	—
Financial assets held for trading	275.750	132.487	—	—	—
Financial assets held to maturity	—	309.608	—	—	—
Loans and advances to Credit Institutions	349	974.964	—	—	—
Loans and advances to Customers	47.018	1.861.671	383.676	—	82.359
Hedging derivatives	—	209.467	—	—	—
Equity investments	4.150	—	—	—	—
Tangible assets	21	—	—	—	—
Intangible assets	2	—	—	—	—
Tax assets	—	—	—	—	—
Other assets	49	6.261	362	—	1
A. Total assets 30/06/2013	**328.865**	**3.494.458**	**384.038**	—	**82.360**
A. Total assets 30/06/2012	**821.130**	**4.217.193**	**464.840**	**—**	**7.448**
Amount due to Banks	—	-1.216.470	—	—	—
Amount due to customers	—	-1.051.014	—	—	—
Debt securities in issue	-1.423.273	—	—	—	—
Financial liabilities held for trading	-28.990	-306.188	—	—	—
Hedging derivatives	—	-432	—	—	—
Tax liabilities	-4.427	—	—	—	—
Other liabilities	-210	-12.665	-252	—	—
Shareholders' equity	-231.051	—	—	—	—
B. Total liabilities 30/06/2013 (1)	**-1.687.951**	**-2.586.769**	**-252**	**—**	**—**
B. Total liabilities 30/06/2012 (1)	**-1.703.467**	**-3.778.378**	**-338**	**—**	**—**

(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	-31.151	38.977	7.957	—	346
Net fee and commission income	1.139	3.665	2.271	—	389
Net trading income/expense	-67.836	69.726	—	—	—
Net hedging income/expense	14.017	-13.864	—	—	—
Gain or loss on disposal or repurchase	1.792	2.375	-2.367	—	—
Value adjustments - impairment	35	-989	-43	—	—
Administrative expenses	-2.420	-5.734	-1	—	—
Value adjustments – amortisation	—	-22	—	—	—
Other operating income (expenses)	14	87	9	—	—
Income tax	-3.623	—	—	—	—
Net profit/loss 2013	**-88.033**	**94.221**	**7.826**	**—**	**735**
Net profit/loss 2012	**-23.010**	**37.407**	**13.613**	**—**	**418**

PART F – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

INTRODUCTION

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

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

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

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

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

Section 1

1.1 CREDIT RISK

QUALITATIVE INFORMATION

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

• entering into derivative contracts;

• purchasing and selling securities, futures, currencies or commodities.

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

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	30/06/2013	30/06/2012
1. Financial assets held for trading	—	408.238	408.238	325.827
Banks	—	7.629	7.629	—
Customers	—	56.654	56.654	5.180
Derivative instruments	—	343.955	343.955	320.647
2. AFS securities	—	—	—	—
Banks	—	—	—	—
Customers	—	—	—	—
3. Financial assets held to maturity	—	309.608	309.608	—
Banks	—	—	—	—
Customers	—	—	—	—
4. Due from Banks	—	976.837	976.837	1.713.578
5. Due from customers	143.111	2.231.613	2.374.724	3.217.619
6. Financial assets recognized at fair value	—	—	—	—
Banks	—	—	—	—
Customers	—	—	—	—
7. Financial assets being sold	—	—	—	—
Banks	—	—	—	—
Customers	—	—	—	—
8. Hedging derivatives	—	209.467	209.467	227.082
Total	**143.111**	**4.135.763**	**4.278.875**	**5.484.106**

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	—	—	—	408.238	—	408.238	408.238
2. AFS securities	—	—	—	—	—	—	—
3. Financial assets held to maturity	—	—	—	309.608	—	309.608	309.608
4. Due from Banks	—	—	—	976.866	-29	976.837	976.837
5. Due from customers	143.111	—	143.111	2.233.776	-2.163	2.231.613	2.374.724
6. Financial assets recognized at fair value	—	—	—	—	—	—	—
7. Financial assets being sold	—	—	—	—	—	—	—
8. Hedging derivatives	—	—	—	209.467	—	209.467	209.467
Total at 30/06/2013	**143.111**	**—**	**143.111**	**4.137.955**	**-2.192**	**4.135.763**	**4.386.154**
Total at 30/06/2012 (*)	**86.432**	**—**	**86.432**	**5.399.188**	**-1.514**	**5.397.674**	**5.484.106**

Impaired assets at 30 June 2013 refer to non performing and restructured loans fully covered by letter of credit issued by the Parent Bank.

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

Type of exposure/Amounts	Gross exposure	Specific value adjustments	Portfolio value adjustments	30/06/2013	30/06/2012
A. CASH EXPOSURES					
a) Non-performing	—	—	—	—	—
e) Other assets	1.294.104	—	-29	1.294.075	1.713.578
Total A	**1.294.104**	**—**	**-29**	**1.294.075**	**1.713.578**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Non-performing	—	—	—	—	—
b) Other assets	577.190	—	—	577.190	423.969
Total B	**577.190**	**—**	—	**577.190**	**423.969**

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	30/06/2013	30/06/2012
A. CASH EXPOSURES					
a) Non-performing	143.111	—	—	143.111	86.432
b) Other assets	2.290.430	—	-2.163	2.288.267	3.136.367
Total A	**2.433.541**	**—**	**-2.163**	**2.431.378**	**3.222.799**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Non-performing	3.007	—	—	3.007	3.575
b) Other assets	1.142.111	—	-750	1.141.361	1.344.924
Total B	**1.145.118**	**—**	**-750**	**1.144.368**	**1.348.499**

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

Description/Category	30/06/2013		30/06/2012
	Non performing	Restructured	
A. Gross exposure at start of period	—	86.432	89.125
of which: accounts sold but not derecognized	—	—	—
B. Additions	84.607	9.488	18.341
B.1 transfers from performing loans	82.219	—	—
B.2 transfer from other categories of impaired assets	—	—	—
B.3 other additions	2.388	9.488	18.341
C. Reductions	-33.899	-3.517	-21.034
C.1 transfer to performing loans	—	—	—
C.2 amounts written off	—	—	—
C.3 amounts collected	—	-2.817	-3.253
C.4 gains realized on disposal	-30.855	—	-10.663
C.5 transfers to other categories of impaired assets	—	—	—
C.6 other reductions	-3.044	-700	-7.118
D. Gross exposure at end of period	50.708	92.403	86.432
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	—	—	-1.514
B. Additions	—	—	-1.810
B.1 value adjustments	—	—	-1.742
B.2 transfers from other categories of impaired assets	—	—	—
B.3 other additions	—	—	-68
C. Reductions	—	—	1.161
C.1 writebacks based on valuations	—	—	—
C.2 writebacks due to amounts collected	—	—	1.063
C.3 amounts written off	—	—	—
C.4 transfers to other categories of impaired assets	—	—	—
C.5 other reductions	—	—	98
D. Adjustments at 30/06/2013	**—**	**—**	**-2.163**
D. Adjustments at 30/06/2012	**—**	**—**	**-1.514**

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

	Total exposure	Real guarantees			Personal guarantees							
					Credit derivatives				Financial guarantees			
		Properties	Securities	Other assets	Governments	Other public agencies	Banks	Others	Governments	Other public agencies	Banks	Others
1. Secured exposures to Banks:												
1.1 completely secured	417.113	—	403.709	—	—	—	—	—	—	—	13.404	—
- non performing	—	—	—	—	—	—	—	—	—	—	—	—
1.2 partly secured	—	—	—	—	—	—	—	—	—	—	—	—
- non performing	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2013	**417.113**	**—**	**403.709**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**13.404**	—
Total 30/06/2012	**409.625**	**—**	**409.488**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**137**	**—**
2. Secured exposures to customers:												
2.1 completely secured	878.346	—	—	—	—	—	53.653	—	—	120.921	697.772	—
- non performing	*143.112*	—	—	—	—	—	—	—	—	—	*143.112*	—
2.2 partly secured	1.362.506	—	—	—	—	—	—	—	—	—	872.875	—
- non performing	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2013	**2.240.852**	**—**	**—**	**—**	**—**	**—**	**53.653**	**—**	**—**	**120.921**	**1.570.647**	—
Total 30/06/2012	**3.156.703**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**102.299**	**2.728.567**	—

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 30/06/2013	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total 30/06/2012	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
2. Secured exposures to customers:												
2.1 completely secured	575.091	—	—	—	—	—	—	—	—	77.306	497.785	—
- non performing	*3.007*	—	—	—	—	—	—	—	—	—	*3.007*	—
2.2 partly secured	3.405.809	—	—	—	—	—	—	—	—	—	303.940	—
- non performing	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2013	**3.980.900**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**77.306**	**801.725**	—
Total 30/06/2012	**1.301.399**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**99.993**	**1.116.840**	—

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	—	—	60.205	—	82.906	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	—	—	—	—
Net exposure	—	—	60.205	—	82.906	—
A.2 Other exposures						
Gross exposure	—	—	433.517	—	1.856.913	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-592	—	-1.571	—
Net exposure	—	—	432.925	—	1.855.342	—
Total A						
Gross exposure	—	—	493.722	—	1.939.819	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-592	—	-1.571	—
Net exposure	—	—	493.130	—	1.938.248	—
B. Off-balance sheet exposures						
B.1 Non-performing						
Gross exposure	—	—	—	—	3.007	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	—	—	—	—
Net exposure	—	—	—	—	3.007	—
B.2 Other exposures						
Net exposure	—	—	120.493	—	1.021.618	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-110	—	-640	—
Net exposure	—	—	120.383	—	1.020.978	—
Total B						
Gross exposure	—	—	120.493	—	1.024.625	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-110	—	-640	—
Net exposure	—	—	120.383	—	1.023.985	—
Total 30/06/2013						
Gross exposure	—	—	614.215	—	2.964.444	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-702	—	-2.211	—
Net exposure	—	—	613.513	—	2.962.233	—
Net exposure 30/06/2012	—	—	1.285.008	—	3.286.290	—

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

Exposure/geographical areas	Luxembourg		Other European countries[5]		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	42.087	42.087	101.024	101.024	—	—	—	—	—	—
A.2 Performing	4.932	4.932	1.818.972	1.817.300	384.168	383.676	—	—	82.359	82.359
Total A	47.019	47.019	1.919.996	1.918.324	384.168	383.676	—	—	82.359	82.359
B) Off-balance-sheet exposures										
B.1 Non-performing	—	—	3.007	3.007	—	—	—	—	—	—
B.2 Performing	29.730	29.714	833.457	832.975	278.924	278.672	—	—	—	—
Total B	29.730	29.714	836.464	835.982	278.924	278.672	—	—	—	—
Total 30/06/2013	**76.749**	**76.733**	**2.756.460**	**2.754.306**	**663.092**	**662.348**	**—**	**—**	**82.359**	**82.359**
Total 30/06/2012	**543.072**	**543.021**	**3.292.871**	**3.291.677**	**729.853**	**729.152**	**—**	**—**	**7.448**	**7.448**

[5] Despite European sovereign CDS spreads have tightened during the last few months, Greece'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, 2013 (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	—	—	159.038	158.878
A.1 Non-performing	—	—	6.077	6.077
A.2 Performing	—	—	152.961	152.801
Total A 30/06/2012	**—**	**—**	**152.900**	**152.801**
B) Off-balance-sheet exposures	—	—	27.481	27.456
B.1 Non-performing	—	—	—	—
B.2 Performing	—	—	27.481	27.456
Total B 30/06/2012	**1.676**	**1.676**	**180.381**	**180.254**

The table shows the exposure to local customers other than sovereigns. At June 30, 2013 the Bank has a long CDS position on Republic of Italy for an outstanding nominal amount of € 35,2m (30,2m at June 30, 2012) 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	1.873	1.873	1.292.231	1.292.202	—	—	—	—	—	—
Total A	1.873	1.873	1.292.231	1.292.202	—	—	—	—	—	—
B) Off-balance-sheet exposures										
B.1 Non-performing	—	—	—	—	—	—	—	—	—	—
B.2 Performing	—	—	577.190	577.190	—	—	—	—	—	—
Total B	—	—	577.190	577.190	—	—	—	—	—	—
Total 30/06/2012	**1.873**	**1.873**	**1.869.421**	**1.869.392**	**—**	**—**	**—**	**—**	**—**	**—**
Total 30/06/2011	**2.187**	**2.187**	**2.135.360**	**2.135.360**	**—**	**—**	**—**	**—**	**—**	**—**

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

	30/06/2013	**30/06/2012**
a) Gross exposure	3.557.333	4.500.372
b) No. large risk exposures	51	51
c) Large risk exposure after CRM	974.950	489.537
d) No. large risk exposures after CRM	29	19
e) Large risk after CRM/regulatory capital	3,37	1,94

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 smallest between 10% of regulatory capital or € 12,5m. 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 € 4.539m as at 30 June 2013 (€ 5.554m as at 30 June 2012).

C.1 *Securitizations*

As of 30 June 2013 and 2012 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 2013. 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: - € 919.949
- Scenario -200 bps: € 4.898.027

Fair value hedge

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

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

QUANTITATIVE INFORMATION

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

Type/Residual duration*	**On demand**	**Up to 3 months**	**From 3 to 6 months**	**From 6 months to 1 year**	**From 1 year to 5 years**	**From 5 years to 10 years**	**Over 10 years**	**Not specified**
1. Cash assets								
1.1 Debt securities	—	—	—	—	—	—	—	—
– with early redemption option	—	—	—	—	—	—	—	—
– other	—	—	—	—	—	—	—	—
1.2 Loans to Banks	—	—	—	—	—	—	—	—
1.3 Loans to customers	—	—	—	—	—	—	—	—
Total cash assets at 30/06/2013	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total cash assets at 30/06/2012	**—**	**2.499**	**2.401**	**280**	**—**	**—**	**—**	**—**
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 30/06/2013	—	—	—	—	—	—	—	—
Total cash liabilities at 30/06/2012	—	—	—	—	—	—	—	—
3. Financial derivatives								
3.1 With underlying securities	—	—	—	—	—	—	—	—
– Options	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities	—	1.954.488	94.000	—	651.954	10.000	10.000	—
– Options	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others	—	1.954.488	94.000	—	651.954	10.000	10.000	—
+ Long positions	—	979.305	19.000	—	346.916	5.000	10.000	—
+ Short positions	—	975.183	75.000	—	305.038	5.000	—	—
Total financial derivatives at 30/06/2013	—	**1.954.488**	**94.000**	**—**	**661.954**	**10.000**	**10.000**	—
Total financial derivatives at 30/06/2012	—	**953.838**	**1.412.724**	**12.815**	**44.823**	**—**	**10.000**	—

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	—	211.646	100.760	—	—	—	—	—
– with early redemption option	—	—	—	—	—	—	—	—
– other	—	211.646	100.760	—	—	—	—	—
1.2 Loans to Banks	199.038	379.549	403.492	—	—	—	—	216
1.3 Loans to customers	64.920	2.035.595	273.571	1.698	23.766	36.256	4.623	—
Total cash assets at 30/06/2013	**263.958**	**2.626.790**	**777.823**	**1.698**	**23.766**	**36.256**	**4.623**	**216**
Total cash assets at 30/06/2012	**554.475**	**3.104.251**	**835.101**	**216.522**	**180.713**	**34.278**	**—**	**—**
2. Cash liabilities								
2.1 Amounts due to customers	-8.000	-945.695	—	-445	—	—	-93.052	-2.042
2.2 Amounts due to Banks	-14.470	-837.504	-90.067	-39.599	—	—	-234.831	—
2.3 Debt securities in issue	—	-906.463	-111.197	-104.254	-301.360	—	—	—
Total cash liabilities at 30/06/2013	**-22.470**	**-2.689.662**	**-201.264**	**-144.298**	**-301.360**	**—**	**-327.883**	**-2.042**
Total cash liabilities at 30/06/2012	**-327.575**	**-3.565.861**	**-241.343**	**-144.762**	**-296.945**	**—**	**-110.805**	**-540**
3. Financial derivatives								
3.1 With underlying securities	—	—	—	—	—	—	—	—
– Options	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities	—	512.161	134.652	118.294	430.174	—	572.869	—
– Options	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others	—	512.161	134.652	118.294	430.174	—	572.869	—
+ Long positions	—	24.823	79.113	92.294	334.174	—	353.671	—
+ Short positions	—	487.338	55.539	26.000	96.000	—	219.198	—
Total financial derivatives at 30/06/2013	**—**	**512.161**	**134.652**	**118.294**	**430.174**	**—**	**572.869**	**—**
Total financial derivatives at 30/06/2012	**—**	**782.622**	**213.691**	**290.553**	**643.151**	**—**	**489.496**	**—**
4. Other off-balance sheet								
+ Long positions	—	311.589	77.305	53	622.355	29.165	—	—
+ Short positions	1.040.467	—	—	—	—	—	—	—
Total other off-balance sheet at 30/06/2013	**1.040.467**	**311.589**	**77.305**	**53**	**622.355**	**29.165**	**—**	**—**

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 2013 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	742.046	309.853	—	19.066	16.477
A.2 Equities	—	—	—	—	—
A.3 Loans and advances to Banks	—	—	—	—	—
A.4 Loans and advances to customers	83.708	—	—	—	468
A.5 Other financial assets	658.338	309.853	—	19.066	16.009
B. Financial liabilities					
B.1 Due to Banks	-516.354	-192.528	-6	-372	-24.510
B.2 Due to customers	-420.923	-190.485	-6	-372	-9.771
B.3 Debt securities	-25.995	-2.043	—	—	—
B.4 Other financial liabilities	-69.436	—	—	—	-14.739
C. Financial Derivatives					
- Options	—	—	—	—	—
+ long positions	—	—	—	—	—
+ short positions	—	—	—	—	—
- Other	-225.535	-117.825	—	-18.642	7.788
+ long positions	—	—	—	—	7.788
+ short positions	-225.535	-117.825	—	-18.642	—
Total assets 30/06/2013	742.046	309.853	—	19.066	24.265
Total liabilities 30/06/2013	-741.889	-310.353	-6	-19.014	-24.510
Difference (+/-) 30/06/2013	**157**	**-500**	**-6**	**52**	**-245**
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**

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	30/06/2013		30/06/2012	
	Over-the-counter	**Listed**	**Over-the-counter**	**Listed**
1. Debt securities and interest rates	990.878	—	1.217.100	—
a) Options	—	—	—	—
b) Swap	990.878	—	1.217.100	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
2. Equities and share indexes	608.797	—	347.835	—
a) Options	608.797	—	347.835	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Exchange rates and Gold	372.163		167.675	
a) Options	—	—	3.999	—
b) Swap	—	—	—	—
c) Forward	372.163	—	163.676	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	**1.971.838**	—	**1.732.610**	—
Average values	**1.156.427**	—	**1.355.431**	—

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

A.2.1 *Hedging derivatives*

Type of transactions	**30/06/2013**		**30/06/2012**	
	Over-the-counter	**Listed**	**Over-the-counter**	**Listed**
1. Debt securities and interest rates	920.523		1.200.460	
a) Options	—	—	—	—
b) Swap	662.126	—	1.020.460	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	258.397	—	180.000	—
2. Equities and share indexes	—	—	—	—
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Exchange rates and Gold	2.751	—	9.296	—
a) Options	—	—	—	—
b) Swap	2.751	—	9.296	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	**923.274**	**—**	**1.209.756**	**—**
Average values	**783.585**	**—**	**1.178.082**	**—**

A.2.2 *Other derivatives*

Type of transactions	30/06/2013		30/06/2012	
	Over-the-counter	**Listed**	**Over-the-counter**	**Listed**
1. Debt securities and interest rates	395.000	—	—	—
a) Options	—	—	—	—
b) Swap	395.000	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
2. Equities and share indexes	607.552	—	351.992	—
a) Options	607.552	—	351.992	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Exchange rates and Gold	2.302	—	—	—
a) Options	—	—	—	—
b) Swap	2.302	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	**1.004.854**	**—**	**351.992**	**—**
Average values	**546.937**	**—**	**349.012**	**—**

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

Type of transactions	Positive fair value			
	30/06/2013		30/06/2012	
	Over-the-counter	Listed	Over-the-counter	Listed
A. Regulatory trading book	43.010	—	8.755	—
a) Options	15.624	—	1.578	—
b) Interest Rate Swap	26.638	—	7.177	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	748	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
B. Banking book: Hedge derivatives	377.286	—	374.043	—
a) Options	—	—	—	—
b) Interest Rate Swap	209.467	—	227.082	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	167.819	—	146.961	—
C. Banking book: Others derivatives	116.235	—	119.482	—
a) Options	113.707	—	119.482	—
b) Interest Rate Swap	2.528	—	—	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	**536.531**	**—**	**502.280**	**—**

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

Type of transactions	Negative fair value			
	30/06/2013		30/06/2012	
	Over-the-counter	**Listed**	**Over-the-counter**	**Listed**
A. Regulatory trading book	-133.055	—	-123.648	—
a) Options	-113.707	—	-118.056	—
b) Interest Rate Swap	-14.492	—	-5.563	—
c) Cross Currency Swap	-1.458	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	-3.398	—	-29	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
B. Banking book: Hedge derivatives	-168.251	—	-164.924	—
a) Options	—	—	—	—
b) Interest Rate Swap	-282	—	-17.595	—
c) Cross Currency Swap	-150	—	-368	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	-167.819	—	-146.961	—
C. Banking book: Others derivatives	-18.778	—	-1.578	—
a) Options	-14.503	—	-1.578	—
b) Interest Rate Swap	-4.275	—	—	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	**-320.084**	**—**	**-290.150**	**—**

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	30/06/2013							30/06/2012
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	400.000	—	—	—	—	749.731
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	-5.129
- future exposure[1]	—	—	6.000	—	—	—	—	6.000
2. Equities and share indexes								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—
3. Exchange rates and Gold								—
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—
4. Other assets								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—

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

Residual Maturity	Credit Conversion Factor				
	Interest rate contracts	Exchange rate & gold	Equity	Precious metals	Goods other than metals
One year or less	0%	1%	6%	7%	10%
Over one year to five years	0,5%	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	30/06/2013							30/06/2012
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	590.878	—	—	—	—	117.638
- positive fair value	—	—	26.638	—	—	—	—	1.883
- negative fair value	—	—	-14.492	—	—	—	—	-434
2. Equities and share indexes								
- notional value	—	—	608.797	—	—	—	—	347.835
- positive fair value	—	—	15.624	—	—	—	—	1.578
- negative fair value	—	—	-113.707	—	—	—	—	-118.056
3. Exchange rates and Gold								
- notional value	—	—	372.163	—	—	—	—	167.675
- positive fair value	—	—	748	—	—	—	—	—
- negative fair value	—	—	-4.856	—	—	—	—	-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	30/06/2013							30/06/2012
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	129.198	—	—	—	—	90.000
- positive fair value	—	—	167.819	—	—	—	—	146.961
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—
2. Equities and share indexes								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—
3. Exchange rates and Gold								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—
4. Other assets								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—

[1] See table A.5

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	30/06/2013							30/06/2012
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	791.325	—	—	—	—	1.110.460
- positive fair value	—	—	209.467	—	—	—	—	227.082
- negative fair value	—	—	-168.101	—	—	—	—	-164.555
2. Equities and share indexes								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
3. Exchange rates and Gold								
- notional value	—	—	2.751	—	—	—	—	9.296
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	-150	—	—	—	—	-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	69.000	506.878	415.000	990.878
A.2 Financial derivatives on equities and share indexes	124.558	484.240	—	608.798
A.3 Financial derivatives on foreign currency and gold	362.002	10.160	—	372.162
A.4 Financial derivatives on other assets	—	—	—	—
B. Banking book:				
B.1 Financial derivatives on debt securities and interest rates	172.407	745.246	397.870	1.315.523
B.2 Financial derivatives on equities and share indexes	124.558	482.994	—	607.552
B.3 Financial derivatives on foreign currency and gold	—	5.053	—	5.053
B.4 Financial derivatives on other assets	—	—	—	—
Total at 30/06/2013	**852.525**	**2.234.571**	**812.870**	**3.899.966**
Total at 30/06/2012	**1.397.965**	**1.176.898**	**719.495**	**3.294.358**

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	84.987	586.700	192.086	18.000
b) Credit spread products	—	—	—	—
c) Total rate of return swap	—	—	—	—
d) Others	—	—	—	—
Total at 30/06/2013	**84.987**	**586.700**	**192.086**	**18.000**
Average values at 30/06/2013	12.176	586.700	162.231	11.243
Total at 30/06/2012	**74.214**	**1.208.800**	**266.398**	**—**
2. Hedge sales				
a) Credit default	192.086	18.000	84.987	586.700
b) Credit spread products	—	—	—	—
c) Total rate of return swap	—	—	—	—
d) Others	—	—	—	—
Total at 30/06/2013	**192.086**	**18.000**	**84.987**	**586.700**
Average values at 30/06/2013	163.293	11.262	12.176	586.700
Total at 30/06/2012	**250.998**	**—**	**32.614**	**1.235.000**

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

Transaction categories	Positive FV	
	30/06/2013	30/06/2012
1. Regulatory trading book		
a) Credit default	9.878	7.472
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
2. Regulatory banking book		
a) Credit default	14.381	37.978
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
Total	**24.259**	**45.450**

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

Transaction categories	Negative FV	
	30/06/2013	30/06/2012
1. Regulatory trading book		
a) Credit default	-5.310	-32.524
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
2. Regulatory banking book		
a) Credit default	-10.217	-7.115
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
Total	**-15.527**	**-39.639**

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

Contracts not forming part of netting arrangements	30/06/2013							30/06/2012
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
Regulatory trading book								
1. Hedge buys								
- notional value	—	—	671.687	—	—	—	—	1.283.014
- positive fair value	—	—	9.119	—	—	—	—	7.115
- negative fair value	—	—	-881	—	—	—	—	-22.787
2. Hedge sales								
- notional value	—	—	210.086	—	—	—	—	250.998
- positive fair value	—	—	759	—	—	—	—	357
- negative fair value	—	—	-4.429	—	—	—	—	-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.6 *Credit derivatives: outstanding life – notional values (in € k)*

Transaction categories	Up to 1 year	From 1 to 5 years	Over 5 years	Total
1. Regulatory trading book	100.184	763.589	18.000	881.773
a) CDS with "qualified" reference obligation	—	5.421	—	5.421
b) CDS with "unqualified" reference obligation	100.184	758.168	18.000	876.352
2. Regulatory banking book	100.184	763.589	18.000	881.773
a) CDS with "qualified" reference obligation	—	5.421	—	5.421
b) CDS with "unqualified" reference obligation	100.184	758.168	18.000	876.352
Total at 30/06/2013	**200.368**	**1.527.178**	**36.000**	**1.763.546**
Total at 30/06/2012	**1.103.400**	**1.964.624**	**—**	**3.068.024**

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 2012 and 2013 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 30/06/2013 (in €k)*

Type	On demand	From 1 days to 7 days	From 7 days to 15 days	From 15 days to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Unlimited
Cash assets	205.969	5.025	106.797	139.201	282.231	618.228	127.409	2.029.905	276.593	1.524
A.1 Government securities	—	—	—	—	—	—	—	—	—	—
A.2 Listed debt securities	—	—	—	—	27.111	3.585	2.086	282.055	2.788	—
A.3 Other debt securities	—	—	—	—	—	—	—	—	—	—
A.4 OICR units	—	—	—	—	—	—	—	—	—	—
A.5 Loans and advances	205.969	5.025	106.797	139.201	255.120	614.643	125.323	1.747.850	273.805	1.524
– to Banks	199.037	—	—	—	2.335	453.731	4.107	330.000	—	1.524
– to customers	6.932	5.025	106.797	139.201	252.785	160.912	121.216	1.417.850	273.805	—
Cash liabilities	-22.469	-1.956	-147.746	-81.738	-81.609	-402.629	-99.189	-1.764.124	-914.263	-2.043
B.1 Deposits	-22.469	-1.869	-147.437	-81.618	-31.697	-287.744	-14.714	-626.232	-894.473	-2.043
– to Banks	-14.469	-1.869	-5.938	-76.478	-30.118	-285.770	-3.717	-526.232	-148.934	—
– to customers	-8.000	—	-141.499	-5.140	-1.579	-1.974	-10.997	-100.000	-745.539	-2.043
B.2 Debt securities	—	-87	-309	-120	-49.912	-114.885	-84.475	-1.137.892	-19.790	—
B.3 Other liabilities	—	—	—	—	—	—	—	—	—	—
Off-balance-sheet transactions	2.080.934	1.436	188.177	93.911	28.085	77.487	92	772.756	287.561	—
C.1 Financial derivatives with exchange of principal	—	—	—	—	20	182	39	150.401	258.396	—
– long positions	—	—	—	—	—	162	—	88.395	129.198	—
– short positions	—	—	—	—	20	20	39	62.006	129.198	—
C.2 Financial derivatives without exch. of principal	3.966	1.037	135	702	2.716	14.503	10.590	2.645	—	—
– long positions	1.609	1.000	—	19	1.636	12.371	6.856	2.645	—	—
– short positions	2.357	37	135	683	1.080	2.132	3.734	—	—	—
C.3 Irrevocable commitments to disburse funds	1.040.467	1.436	188.177	93.911	28.065	77.305	53	622.355	29.165	—
– long positions	—	1.436	188.177	93.911	28.065	77.305	53	622.355	29.165	—
– short positions	1.040.467	—	—	—	—	—	—	—	—	—
C.4 Credit derivatives with exchange of principal	—	—	—	—	10.000	23.584	50.000	1.236.007	115.223	—
– long positions	—	—	—	—	—	—	—	612.184	105.223	—
– short positions	—	—	—	—	10.000	23.584	50.000	623.823	10.000	—
C.5 Credit derivatives without exchange of principal	4.244	—	—	—	—	—	—	—	—	—
– long positions	340	—	—	—	—	—	—	—	—	—
– short positions	3.904	—	—	—	—	—	—	—	—	—

1.b *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	Unlimited
Cash assets	554.282	-5.483	85.600	150.168	306.310	866.857	598.728	2.269.635	198.028	1.844
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	1.844
– 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 exch. 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 Irrevocable commitments to disburse funds	1.258.874	—	72.728	120.521	2.846	103.011	167.846	745.541	46.381	—
– long positions	—	—	72.728	120.521	2.846	103.011	167.846	745.541	46.381	—
– short positions	1.258.874	—	—	—	—	—	—	—	—	—
C.4 Credit derivatives with exchange of principal	—	—	—	41.400	440.228	415.000	144.771	1.849.242	90.838	—
– long positions	—	—	—	26.400	282.614	125.000	71.085	894.802	90.838	—
– short positions	—	—	—	15.000	157.614	290.000	73.685	954.440	—	—
C.5 Credit derivatives without exchange of principal	1.690	—	—	—	—	—	—	—	—	—
– long positions	—	—	—	—	—	—	—	—	—	—
– short positions	1.690	—	—	—	—	—	—	—	—	—

[*] Compared to last year's financial statement the table has been partially revised in order to more accurately represent the operations.

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 2013 is € 6,3 million (€ 6,4 million as at 30 June 2012).

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 2013 and 2012 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 2013.

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 2013 and 2012, 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 €	30/06/2013 (including profit of the fiscal year)	30/06/2013 (excluding profit of the fiscal year)	30/06/2012 (including profit of the fiscal year)	30/06/2012 (excluding profit of the fiscal year)
Original own funds (Tier 1)	245.800.426	239.204.808	231.046.821	202.618.386
Additional own funds (Tier 2)	50.000.000	50.000.000	50.000.000	50.000.000
Total own funds (Tier 1 + Tier 2)	**295.800.426**	**289.204.808**	**281.046.821**	**252.618.386**
Credit/Counterparty risk (Standardized approach)	248.700.702	248.700.702	172.965.666	172.965.666
Market risk (Standardized Approach)	—	—	—	—
Operational risk (Basic Indicator Approach)	6.330.798	6.330.798	6.435.198	6.435.198
Total capital requirements (Pillar 1)	**255.031.500**	**255.031.500**	**179.400.864**	**179.400.864**
Pillar 2 Risk (Internal Assessment)	5.700.000	5.700.000	6.700.000	6.700.000
Total capital requirements (Pillar 1 + Pillar 2)	**260.731.500**	**260.731.500**	**186.100.864**	**186.100.864**
Surplus (+) / Deficit (-) of Own Funds	35.068.926	28.473.308	101.645.957	73.217.522
Solvency ratio (%)	9,28	9,07	12,53	11,26

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 2013 and 2012 concerning related parties are as follows (in € k):

Assets and liabilities	30/06/2013		30/06/2012
	Parent Bank	Other related parties	
Financial assets held for trading	32.919	—	10.933
Financial assets held to maturity	309.608	—	—
Loans and advances	1.026.334	147.141	1.841.220
Derivatives held for hedging	209.467	—	227.082
Other assets	4.185	55	4.224
Total assets	**1.582.513**	**147.196**	**2.083.459**
Amounts due	-952.530	—	-2.070.734
Debt securities	-58.297	-173.628	-169.448
Financial liabilities held for trading	-309.597	—	-298.005
Derivatives held for hedging	-432	—	-17.963
Other liabilities	-9.541	-28	-3.895
Total liabilities	**-1.330.397**	**-173.656**	**-2.560.045**

Comprehensive income	30/06/2013		30/06/2012
	Parent Bank	Other related parties	
Interest and similar income	10.465	1.508	-4.948
Interest expenses and similar charges	-12.874	—	-40.437
Fee and commission income	53	641	150
Fee and commission expenses	-6.853	—	-10.512
Net gains and losses on financial assets and liabilities hft	23.239	—	-51.151
Net gains and losses from hedge accounting	-31.101	—	126.750
Administrative expenses	-5.073	-805	-6.797
Impairment	—	-127	—
Other income	2	14	43
Total	**-22.142**	**1.231**	**13.098**

Guarantees and commitments	30/06/2013		30/06/2012
	Parent Bank	Other related parties	
Financial guarantees given	—	—	—
Commercial guarantees given	—	—	—
Irrevocable commitments to disburse funds	—	33.379	5.913
Commitments underlying cds: hedge sales	210.086	—	250.998
Total	**210.086**	**33.379**	**256.911**

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:

	30/06/2013	30/06/2012
Administrative bodies	25	30
Key management personnel	466	422
	491	**452**

As of 30 June 2013 and 2012, 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 2013 and 2012, audit fees are split as follows (in €):

	30/06/2013	30/06/2012
Audit fees	141.970	85.000
Audit related fees	10.500	10.500
Other fees	34.983	34.000
Total	**187.093**	**129.500**

The table contains the aggregate fees (paid on the services' state of completion) billed by Ernst&Young and PricewaterhouseCoopers.

Staff number

As at 30 June 2013 and 2012, the Bank's staff is as follows:

	30/06/2013	30/06/2012
Management–Senior	2	2
Management–Middle	3	3
Other staff	3	3
Total	**8**	**8**

As of 30 June 2013 and 2012, the Bank's Senior Management consists of two Managing Directors, only one directly 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

Effective July 1, 2013 Mr. Luca Tiziano Maccari has resigned from his role of Managing Director and member of the Risk Committee of the Bank due to new appointments within the Group. He remained in the Board as Director and Mr. Stefano Biondi, formerly Accounting Officer of the Bank, has been appointed as new Managing Director.

The Bank is not aware of any other adjusting or not-adjusting event that would have occurred between 30 June 2013 and the date when the present financial statements were authorized for issue.