MEDIOBANCA INTERNATIONAL
(LUXEMBOURG)

Annual Accounts and Report
as at June 30, 2014

MEDIOBANCA INTERNATIONAL (Luxembourg)

SOCIÉTÉ ANONYME

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

Annual General Meeting
3 October 2014

BOARD OF DIRECTORS

		Term expires	Location
MASSIMO DI CARLO	CHAIRMAN	2014	ITALY
STEFANO BIONDI	MANAGING DIRECTOR	2014	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
STEPHANE BOSI	»	2014	LUXEMBOURG

LEGAL ADVISOR

BONN & SCHMITT	LUXEMBOURG

INDEPENDENT AUDITOR

PRICEWATERHOUSECOOPERS S.C.	LUXEMBOURG

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Mediobanca International (Luxembourg) S.A.
Head Office: 4, Boulevard Joseph II, L-1840 Luxembourg
Mediobanca Banking Group
Share capital: € 10.000.000 fully paid up

FINANCIAL SITUATION AT 30 JUNE 2014
BOARD OF DIRECTORS' REVIEW OF OPERATIONS

The twelve months under review were characterized by continued difficult market conditions that affected the sales, employment, profits and credit standing of corporates focused on the EU markets. Notwithstanding historically low interest rates, the refinancing cost for financial institutions remained at high levels. Despite this difficult scenario, the Bank has performed well during the twelve months under review showing a significant increase of net profit (+24,8%, from € 14,8m to € 19m).

The main income items have performed as follows:

- Net interest income shows an increase of 28,9%, from € 19m to € 24,5m, due to stable interest income, stable cost of funding and decreasing cost of protection over the guarantees received from the Parent (as a consequence of the major direct credit risk exposure taken by the Bank).
- Net trading income is stable at € 1,2m (compared to € 1m in June 2013).
- Net fee and commission income is also stable at € 7,4m (slight decrease from € 7,6m in June 2013).

The process on controlling costs associated with the activity of the Bank continued, with operating costs down 29,3%, from € 8,2m to € 5,8m, helped by the reduction both in labour cost (down 30%, from € 1m to € 0,7m), and administrative expenses (down 29,2%, from € 7,2m to € 5,1m).

Loans impairment and provision grew from € 1m to € 3,7m (+270%), reflecting an increased portion of credit risk taken directly by the Bank.

The Bank's main capital ratios are increasing compared to June 2013, with the Common Equity Tier 1 capital ratio at 8,47% and the Total Capital ratio at 10,13%.

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

- The approval by the Board of Directors of the business plan based on a simplified model, focused on corporate and investment banking with the potential to generate increasing and geographically diversified revenues, as well as offering greater efficiency in terms of risks and associated costs.
- In January 2014 the Bank has signed a Credit Support Annex (CSA) to the ISDA Master Agreement with the Parent Company. The CSA defines the terms or rules under which collateral is posted or transferred between swap counterparties to mitigate the credit risk arising from the "in the money" derivative positions.
- In June 2014 Mediobanca International has been notified by the Parent Company Mediobanca S.p.A. about the European Central Bank's intention to include the institution within the list of supervised entities considered as significant within the meaning of article 6(4) of Council Regulation (EU) No 1024/2013 and (EU) Regulation No 575/2013. The official list has been published on the 4th September 2014 and confirms the presence of Mediobanca International within the EBC supervised entities.
- CSSF Circular 12/552 on central administration, internal governance and risk management (as amended by CSSF Circular 13/563) gathers all (multiple) former circulars dealing with central administration, internal audit and control, compliance, risk and governance in one single circular. The

circular also transposes the guidelines on internal governance of the European Banking Authority and the guidelines from the Basel Committee on Banking Supervision on the Internal audit function in banks of June 2012. The purpose of this Circular is to ensure that financial institutions have a robust and formalized internal governance framework, allowing a sound and prudent management of risks. In view of the entry into force of this Circular, the Management of the Bank has analysed the gaps, derived an action plan for implementation, duly documented in writing all strategic and operational process, enlarged the scope of trainings.

- Basel III (or the third Basel accord) is a global, voluntary regulatory standard on bank capital adequacy, stress testing and market liquidity risk. This third installment of the Basel accords has been developed in response to the deficiencies in financial regulation revealed by the late-2000s financial crisis. Unlike Basel I and Basel II which are primarily related to required level of reserves that must be held by banks for various classes of financial assets, Basel III is primarily related to the risk of a ”run on the bank” by requiring different level of reserves for different form of bank deposit and other borrowings. The implementation of Basel III in Europe has been realized through the Capital Requirement Directive IV (CRD IV – EU Directive 36/2013) and the Capital Requirement Regulation (CRR – EU Regulation 575/2013) both valid from 1 January 2014. Whilst they primarily represent the European Commission’s implementation of Basel III, they also introduce a number of important changes to the banking regulatory framework that were not provided for under the Basel proposals.

DEVELOPMENT IN MACROECONOMIC SCENARIO

Based on the data released by the International Monetary Fund in July of this year, global growth has slowed in the first quarter of 2014 versus 2H 2013, down from 3,8% to 2,8%. Estimates of global growth for FY 2014 have been revised to 3,4%, 0,3 percentage points down on the projections previously released in April. For 2015 growth of 4% is expected. Based on current estimates, 2014 will continue to show a marked divergence between the different areas of the planet. The advanced economies are expected to grow by 1,8% (2,4% in 2015), with the United States growing by 1,7%, weaker than the 2,8% growth recorded in 2012 and the 1,9% seen in 2013, but then recovering to post 3% growth in 2015. The Eurozone should grow by 1,1% in 2014, rising to 1,5% in 2015, with Germany and Spain the most buoyant (up 1,9% and 1,2% respectively), France showing more modest 0,7% growth, and Italy close to stagnation with 0,3% (down from the 0,6% projection in April). Both the Japanese and the UK economies are expected to grow in 2014, by 1,6%, and 3,2% respectively. The emerging economies should record growth in 2014 of 4,6%, an aggregate result which reflects the sluggish Russian economy (up 0,2%), growth rates by China which, while still high, are now slowing (7,4%), and further progress by India (5,4%). Estimates worth noting for 2014 include the 2,8% growth forecast for Eastern Europe, 2% growth for Latin America, and a buoyant performance by sub-Saharan Africa, with growth anticipated of 5,4%.

Returning to the scenario for 1Q 2014, this was impacted by a series of factors, some of which were temporary. In the United States the main factor was an excess of stocks, the decumulation of which was slowed by the adverse weather conditions last winter which dampened demand. Chinese domestic demand was quite weak, in part due to initiatives taken by the local authorities to control credit (the country’s substantial shadow banking sector has raised concerns) and to regulate the real estate market. Russia, meanwhile, was affected by geopolitical tensions. It is anticipated that at least some of these factors will cease to have an effect fairly rapidly, boosting growth in the second half of the year.

The backdrop, however, continues to reflect significant elements of downside risk: the global geopolitical instability, rising US interest rates as a result of the reduction of the Fed’s tapering policies, the US and EU sanctions to Russia, the fragile nature of some emerging economies marked by strong fiscal imbalances and dependence on external financing (still highly vulnerable to disruptions to the flows of finance triggered by tensions or reductions in the climate of confidence), and the effectiveness and sustainability of the most heavily indebted nations' repayment schedules.

In the Eurozone, the financial system has continued to regain strength as a result of the ECB's intervention. The measures launched have benefited the banks' conditions for accessing funding markets, with the premiums for credit risk reducing and an increase in debt security placements. The poor credit quality continues, with a widespread reduction in loans to corporates, despite interest rates remaining unchanged since 2013. The Eurozone's growth prospects appear to be linked to expansion in global demand, especially if the performance of the emerging economies should continue to be less remarkable, and to the low inflation phase being limited in terms of duration. With reference to the Fed's decisions, it is estimated that in recent years quantitative easing has reduced the expiry premium on the ten-year duration by 1,6 percentage points in the United States and by around one point in Germany and France. The effect of tapering has been tempered by the Fed's forward guidance (which moderates short-term interest rates) and by demand for government securities from investors exiting the emerging economies. An increase in long-term rates would make it more expensive for the most indebted countries to refinance their sovereign debt, and would obstruct the recovery in lending to, and investments in, corporates.

In this scenario, in 2013 the manufacturing multinationals saw a more pronounced reduction in their sales' growth rates than the previous year. This phenomenon was seen across all the macro geographical areas, with the exception of Japan, which witnessed a marked recovery. In Europe the growth in sales was limited to 0,3% versus 2012 (representing a clear slowdown from the 5% growth posted in 2012), to 1,1% in North America (vs 2,5% the previous year). Growth in Russia/Asia slowed to 1,5%, compared with 4,6% in 2012, while in the rest of the world - largely Africa and South America – the performance was more robust (up 6,9%), but still down on the previous year (with growth of 9,2% having been reported in 2012). Sales slightly improved their recovery from 2008 levels, closing at 16% higher for the European multinationals and 10% higher for the North American firms. The world's eastern and southern regions consolidated their recoveries versus 2008 levels, by 78% and 73% respectively. Japan, which had suffered the consequences of the earthquake in March 2011, saw a major upturn in 2013, recording growth of 14,5% (4,6% in 2012). The growth rates in industrial margins were unable to match those in sales: Ebit posted by the European multinationals did not exceed 0,1% (still better than the 2012 performance, when it fell by 3,1%), while North America fared even worse, declining by 0,8% (vs the 4,3% growth recorded in 2012). The trend in net profit was more favourable in both macro-areas, helped by the positive balance of one-off items: up 3,4% in Europe and up 14,6% in North America. The Russian/Asian area saw increases in both their industrial margins (Ebit up 8,2%) and net profit (up 10,6%), while in the rest of the world the trend was more healthy, with operating profits up 18% and net profit up 56,9%. The Japanese multinationals performed even better, with Ebit up 77% and net profit virtually trebling, in this case as a result of non-recurring income.

	Europe		North America		Russia/Asia	
	Energy	Manufacturing	Energy	Manufacturing	Energy	Manufacturing
	% chg. vs 2013/12					
Sales	-4,0	+0,3	-3,6	+1,1	+7,3	+1,5
Ebit	-8,4	+0,1	-16,8	-0,8	+4,5	+8,2
Net result	-12,3	+3,4	-12,1	+14,6	+6,4	+10,6
ROE (%)	13,1	14,6	23,9	25,0	11,7	14,5

Source: R&S – Multinationals: financial aggregates (2014)

The global energy industry between 2006 and 2010 embarked on a gradual decline in industrial margins, and following a recovery in 2011, saw a further reduction in 2013 (8,4% in Europe and 16,8% in the United States), due in part to the reduction in oil prices which depressed sales (down 4% in Europe, 3,6% in the United States). The ROE delivered by the energy industry in 2013 was broadly in line with that posted by manufacturing industry.

	Europe		North America		Russia/Asia	
	% chg. vs 2012	% of invested capital	% chg. vs 2012	as % of capital invested	% chg. vs 2012	as % of capital invested
Net equity	+4,2	55,9	+10,5	66,2	+9,5	61,0
Borrowings	-0,3	44,1	+6,4	33,8	+4,8	39,0
Cash and liquid assets	+4,4	15,8	+13,1	24,4	+12,9	22,0
Net debt/net equity (%)		79,0		51,0		63,8
Intangibles/net equity (%)		72,5		68,7		14,6

Source: R&S – Multinationals: financial aggregates (2014), manufacturing companies

The financial solidity of the manufacturing multinationals showed no signs of substantial change in 2013. Only the European companies showed a slight decrease in their borrowings, of 0,3%, which, together with the 4,2% increase in their net equity, drove an improvement in their debt/equity ratios from 82,5% to 79%. The North American groups appear to be better capitalized, with the same ratio at 51%, with Russian/Asian manufacturing industry ranking midway between them (63,8%). One potentially fragile element is the intangible assets, which make up approx. 70% of the net equity in both North America and Europe.

As for the large international banking system, 2013 saw different performances on both sides of the Atlantic. Revenues by the largest European banks contracted by 1,3%, the decline at least slowing compared to the 9,8% fall in 2012, reflecting a major reduction in net interest income of 6,7%. Minor savings in terms of operating costs (which were down 2,1%), derived chiefly from labour costs falling by 3,2% as a result of a 4,7% headcount reduction, were accompanied by an 8,5% fall in loan loss provisions, which accounted for 18,3% of sales, still high albeit lower than the peaks recorded in the last five years (23,1% in 2008 and 27,7% in 2009). The cost of risk declined accordingly, from 91 bps to 87 bps, and current profit improved by 16,5%. Due to higher extraordinary charges linked chiefly to writedowns to intangibles, net profit fell by 15,4%. The ROE of 1,6% delivered in 2013 was slightly below the figure recorded in 2012 (1,8%), but still half of the 3,2% reported in 2011 and far off the result posted in 2010 (7,2%). In 2013 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 11,6% in 2011 and 9% in 2012-13. At the level of net profit, too, the sharp decline experienced by the European banks was clear, in that their aggregate net profit in 2013 accounted for just 3,6% of their revenues, 2013 whereas prior to the crisis European banks were delivering profits representing in the region of 21% of their total income.

The leading banks in the United States performed better in 2013, with net profit up 22,1%. Revenues made up the ground lost in 2012, climbing 2% as a result of trading and fee income which rose by 44% and 5% respectively, with net interest income basically flat (down 0,1%). Operating costs were down 2,2%, with the workforce decreasing by 2,3% which was less than in Europe. There was, however, a substantial reduction of 47,6% in loan loss provisions, driving a 33,6% increase in current profit compared to 2012; loan loss provisions now account for 4,8% of the revenues (versus 11,5% in 2011), with the cost of risk declining sharply (from 98 bps to 51 bps). Even considering the 34,5% increase in extraordinary charges following costs for litigation, impairment and writedowns, there was still an improvement of more than 20%, at the net profit level, taking the ROE to 9%, higher than the figures recorded in the 2011-12 period (7,6% in both the two years) and more than four times the European levels. In 2013 the largest US banks returned to near their pre-crisis, given that in this year the current profit earned by them represented 30.9% of their revenues, compared to a 32% average in the 2001-07 period.

	Europe	United States
	% chg. vs 2013/12	
Revenues	-1,3	+2,0
of which: net interest income	*-6,7*	*-0,1*
Loan loss provisions	-8,5	-47,6
Current profit (loss)	+16,5	+33,6
Net profit (loss)	-15,4	+22,1
ROE (%)	1,6	9,0

Source: R&S –Major international banks (2014)

On the balance-sheet side the intensive deleveraging activity continued, with the European banks' assets falling by 10,4% compared to 2012. All asset items declined, with the highest percentage reductions being for intangibles (14,9%) and derivatives (31,5%) which nonetheless still account for a substantial share of total assets (17,3%, vs 23,8% in 2011). Loans and advances to customers also reduced substantially, by 3,7%. The 10,8% reduction in cash and liquid assets is in part due to repayments of some of the extraordinary refinancing transactions launched by the ECB in December 2011 and February 2012, with direct repercussions on amounts due to banks which too were down sharply (by 18,5%). Still on the liability side, funding was boosted by funds from customers, largely deposits (0,5% higher than in 2012) which in part offset the 10,7% reduction in debt securities. With reference to the risk profile, it is worth noting the reduction in leverage to 23,6x (vs 26,2x in 2012 and 28,3x in 2011). So-called "level 3 assets" also declined, down 2,3% on 2012 and 25,9% on 2011, having fallen from 34,6% of tangible net equity to 24,6% over the 2011-13 three-year period. The total capital ratio rose by almost 100 bps in the last year, following a 4,3% reduction in RWAs and the resulting 2,9% increase in regulatory capital. Net bad debts (including forborne items) were down 7,8% on 2012, and down also in relative terms, from 3,8% to 3,6%

as a percentage of total customer loans and from 39,8% to 37% of tangible net equity. Meanwhile, the coverage ratio increased by approx. 3 percentage points (from 42,4% to 45,3%).

In the United States the aggregate assets fell by an equivalent amount to those in Europe (down 8,8%), a reduction which was again chiefly due to the derivatives portfolio, down 30,1% but still representing one-quarter of the total assets. Unlike in Europe, for the US banks loans and advances to customers and banks both increased, by 1,2% in the former case and by 15% in the latter (including accounts with the Fed). On the liability side, meanwhile, debt securities decreased but far less sharply than in Europe (down 2,6% in the last year), while deposits rose more markedly (by 4,9%).

	Europe	United States
	% chg. vs 2013/12	
Total assets	-10,4	-8,8
Derivatives	-31,5	-30,1
Securities	-2,5	-4,7
Loans to customers	-1,7	+1,2
Customer deposits	+0,5	+4,9
Debt securities	-10,7	-2,6
Total capital ratio (as %)	17,2	15,3

Source: R&S – Major international banks (2014)

The level of capitalization remains higher than in Europe, with net equity up 3,8%, representing 8,2% of the balance-sheet total (vs 5% in Europe). This drove a reduction in leverage, which closed at 16,8x in 2013 (vs 19,4x in 2012), almost seven percentage points lower than in Europe. "Level 3" assets fell in the United States too (by 23,5%), accounting for 25,8% of tangible net equity in 2013 (as against 36,8% in 2012), now virtually the same level as for the European banks. Bad debts were down 3,4%, despite lower provisioning to the profit and loss account, but the large US banks still have a better coverage ratio (57%) and their bad debts account for a far lower proportion of their tangible net equity (7,9%). Both RWAs and regulatory capital increased for the US banks, by 7,8% and 6,2% vs 2012 respectively, with the total capital ratio stable at an average value of approx. 15%, still lower than the level shown by the European banks (17,2%).

The size of the largest banks continues to be a major issue. In Europe their assets in 2013 amounted to twice the size of the GDP of the countries in which they are based, while in the United States the aggregate assets represent 72% of GDP.

The situation of the two largest Italian banks in 2013 shows some distinctive features: a) negative net profits, due chiefly to substantial writedowns and impairment charges; b) a different asset composition compared to the European benchmark, with a preponderance of loans to customers (58,4 vs 39,7%) and a lower proportion of speculative assets, in particular derivatives (6,6% of the total assets, compared with a European average of 17,3%), and of illiquid assets ("level 3" assets represent 16,7% of net equity compared to a 24,4% average); c) consequent penalization in terms of RWAs (which represent 47,6% of total assets, compared with 30,7% for Europe as a whole) and hence also solvency ratios (total capital ratio 14,2%, as against 17,2%); 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 78,8% of tangible net equity, versus a European average of 37%; e) a coverage ratio for bad debts higher than the European average (53,6%, vs 45,3%), as a result of the efforts made in 2013, with loan losses recorded in the last year equal to 52% of total revenues compared with an 18,3% European average, in preparation for the ECB asset quality review prior to the single banking supervision directive coming into force.

RESTATED STATEMENT OF FINANCIAL POSITION

	12 mths to 30/06/2014	12 mths to 30/06/2013	Y.o.Y. chg.
	€m	€m	%
Net treasury investments	459,8	445,2	3,3%
Securities (HTM & L&R)	287,8	312,4	-7,9%
Loans and advances	2.731,7	2.743,0	-0,4%
Equity investments	4,2	4,2	-
Tangible and intangible assets	-	-	-
Other assets	8,7	6,9	26,1%
TOTAL ASSETS	**3.492,2**	**3.511,7**	**-0,6%**
Funding	3.224,1	3.247,0	-0,7%
Other liabilities	3,3	18,8	-82,4%
of which: tax liabilities	*2,3*	*4,4*	*-47,7%*
Net equity	245,8	231,1	6,4%
Profit	19,0	14,8	28,4%
TOTAL LIABILITIES	**3.492,2**	**3.511,7**	**-0,6%**

Net treasury investments – the item increased from € 445,2m to € 459,8m and includes:

- Financial assets held for trading (other than derivatives) which increased by 75%, from € 64,3m to € 112,5m, due to (i) purchase of shares in sicav funds for an equivalent amount of € 36,3m (linked to Delta1 certificates issued by the Bank), and (ii) increase of the corporate loans trading portfolio from € 64,3m to € 76,1m.
- Net application in treasury funds (including repos, time deposits, etc.) amounts to € 371,9m and is stable compared to June 2013 (€ 372,1m).
- Value adjustments on derivative contracts on the other hand decreased by 379,5%, from € 8,8m to € - 24,6m, reflecting the volatility arising from the market-based valuation of derivative products.

	12 mths to 30/06/2014	12 mths to 30/06/2013	Y.o.Y. chg.
	€m	€m	%
Financial assets HFT other than derivatives	112,5	64,3	75,0%
Net applications treasury funds	371,9	372,1	-0,1%
Derivatives instruments	-24,6	8,8	-379,5%
Net treasury investments	**459,8**	**445,2**	**3,3%**

Loans and advances – this item amounts to € 2.731,7m and is stable compared to June 2013 (€ 2.743m). The process of balanced deleveraging and risk control started during the previous exercises has been continued throughout the current fiscal year with significant improvements in terms of regulatory capital requirements.

Most of the outstanding corporate 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 € 829,3m (June 2013: € 724,3m).

In an environment which remains challenging, non performing loans decreased from € 143,1m to € 57,7m representing approximately 2% of corporate loans. This reduction has been principally realized through secondary market sales agreed with the guarantor Mediobanca S.p.A. These transactions took place in most of the cases below the nominal value of the asset. However, the Bank did not account for any loss since non performing loans were (and still are) fully guaranteed by financial pledge of the Parent Company.

	12 mths to 30/06/2014	12 mths to 30/06/2013	Y.o.Y. chg.
	€m	€m	%
Performing	2.674,0	2.599,9	2,9%
Restructured and non performing	57,7	143,1	-59,7%
FV hedging loans and advances	-	-	-
Loans and advances	**2.731,7**	**2.743,0**	**-0,4%**

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 increased by 26,1%, from € 6,9m to € 8,7m. This growth is due to € 6,3m of transitory accounts which have been already cleared in July 2014; net of this component the item would have decreased from € 6,9m to € 2,3m mainly as a consequence of the settlement of accrued commissions.

Funding – this item amounts to € 3.224,1m and is stable compared to June 2013 (€ 3.247m). In particular the decrease of outstanding notes issued (which declined about 14,4%, from € 1.423,3m to € 1.218,6m) has been substantially offset by the increase of long-term borrowings from banks and customers (which grew about 9,8%, from € 2.032,8m to € 2.232,3m).

Fair value hedge of borrowing fixed interest rate risk increased by 8,5%, from -€ 209,1m to -€ 226,8m.

In the Eurozone there are persisting unfavorable liquidity conditions which have been materially reduced by ECB's targeted long term refinancing operations (TLTRO). In this context the Board of Mediobanca International in August 2014 has adopted a resolution to participate to the TLTRO group lead by the Parent Company.

	12 mths to 30/06/2014	12 mths to 30/06/2013	Y.o.Y. chg.
	€m	€m	%
Amount due to Banks and customers	2.232,3	2.032,8	9,8%
Notes issued	1.218,6	1.423,3	-14,4%
FV Hedging of borrowings	-226,8	-209,1	8,5%
Short term funding debt instruments	-	-	-
Funding	**3.224,1**	**3.247,0**	**-0,7%**

Other liabilities – this item decreased by 82,4%, from € 18,8m to € 3,3m. This reduction is mainly due to the following factors: (i) release of existing fiscal provisions subsequent to the assessment received from the Tax Authority, (ii) payment of accrued fees and commissions.

Net equity – No dividends have been distributed during the exercise and the increase from € 231,1m to € 245,8m is exclusively attributable to the provisioning of the profit from the previous year. The strategy of the Bank remains focused on strengthening of own funds.

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 30/06/2014	12 mths to 30/06/2013	Y.o.Y. chg.
	€m	€m	%
Net interest income	24,5	19,0	28,9%
Net trading income	1,2	1,0	20,0%
Net fee and commission income	7,4	7,6	-2,6%
TOTAL INCOME	**33,1**	**27,6**	**19,9%**
Wages and salaries	-0,7	-1,0	-30,0%
Other administrative expenses	-5,1	-7,2	-29,2%
OPERATING COST	**-5,8**	**-8,2**	**-29,3%**
Loans impairment	-3,7	-1,0	270,0%
Provisions for other financial assets	-	-	-
Other profit (losses)	0,2	-	-
PROFIT BEFORE TAX	**23,6**	**18,4**	**28,3%**
Fiscal provision	-4,6	-3,6	27,8%
NET PROFIT	**19,0**	**14,8**	**28,4%**

Net interest income – this item increases by 28,9%, from € 19m to € 24,5m.

	12 mths to 30/06/2014	12 mths to 30/06/2013	Y.o.Y. chg.
	€m	€m	%
Interests receivable - lending	66,6	57,1	16,6%
Interests payable - funding	-58,1	-57,2	1,6%
Treasury	16,0	19,1	-16,2%
Net interest income	**24,5**	**19,0**	**28,9%**

Interest received from lending activities increased by 16,6%, from € 57,1m to € 66,6. This variation is the combined effect of (i) stable interests received from corporate lending (-1,3%, from € 84,6m to € 83,5m), and (ii) decreasing fees paid over the financial guarantees received from the Parent company (-39,2%, from € -27,6m to € -16,9m) as a consequence of the increasing direct credit risk taken by Mediobanca International.

Cost of funding is stable at € 58,1m (€ 57,2m at June 2013), while net interest income from treasury operations decreased by 16,2%, from € 19,1m to € 16m, mainly due to minor interest income on repo transactions.

Net trading income – this category is made up of € 1,2m (€ 1m in June 2013):

- Dealing profits are € 2,8m (€ 1,4m in June 2013) which mainly reflect an increase in the amounts collected on (i) the early unwinds at fair market values of credit derivatives, and (ii) on loan trading;
- Unrealised mark-to-market valuations generated a loss of € -1,5m (nil in June 2013) and is essentially a consequence of the overexposed increase in realized gain over credit derivatives instruments;
- Impact on forex exposure is almost nil (€ -0,1m vs € -2,2m in June 2013);
- Gain on disposal and repurchase is nil (€ 1,8m in June 2013).

	12 mths to 30/06/2014	12 mths to 30/06/2013	Y.o.Y. chg.
	€ m	€ m	%
Realised gains/losses	2,8	1,4	100,0%
Unrealised gains/losses	-1,5	-	-
Forex exchange gains/losses	-0,1	-2,2	-95,5%
Gains on disposals/repurchases	-	1,8	-100,0%
Net trading income	**1,2**	**1,0**	**20,0%**

Net fee and commission income – this item, still driven by corporate business, is stable compared to June 2013 (slight decrease of 2,6%, from € 7,6m to € 7,4m). Net lending fees in particular amount to € 6.6m (€ 6.9m in June 2013) reflecting the strategy which has been followed by the Bank during previous financial years focused on assets quality and strong control of risks (improvement of the capital ratios via the reduction/deleveraging of corporate loans).

	12 mths to 30/06/2014	12 mths to 30/06/2013	Y.o.Y. chg.
	€ m	€ m	%
Net lending fees:	6,6	6,9	-4,3%
- Loans and advances rec (+)	*11,7*	*13,5*	-13,3%
- Loans and advances pay (-)	*-2,4*	*-4,4*	-45,5%
- Guarantees given rec (+)	*0,4*	*0,7*	-42,9%
- Guarantees received pay (-)	*-3,1*	*-2,9*	6,9%
Other fees (+)	0,8	0,7	14,3%
Other fees (-)	-	-	-
Net fee income	**7,4**	**7,6**	**-2,6%**

Operating costs – this item decreased by 29,3%, from € 8,2m to € 5,8m, with the main components that have performed as follows:

- wages and salaries decreased by 30%, from € 1m to € 0,7m due to a general restructuring process which involved both the senior management and the employees of the Bank. At the end of June 2014 the staff number is stable compared to previous year.

- other costs also decreased from € 7,2m to € 5,1m mainly due to the reduction of fees charged by the Parent Company under the service agreement (reflecting the slowdown of volumes/activity registered during the last financial years as a consequence of the financial crisis, and of the focus on risk control and asset quality followed by Management).

Impairment of loans and advances – this item increased by 270%, from € 1m to € 3,7m, still driven by the higher direct credit risk exposure taken on corporate loans as a consequence of the downgrading of Italy's credit rating. Significant portion of loans still remains 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 € 829,3m (June 2013: € 724,3m).

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 2014.

Luxembourg, 8 September 2014

The Board of Directors

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

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 2014, 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 2014, 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, 08 September 2014

Pierre Krier

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

	Assets	30/06/2014	30/06/2013
		€	€
10.	Cash and cash balances with Central Banks	443.873	1.525.613
20.	Financial assets held for trading	453.683.767	408.238.668
50.	Financial assets held to maturity	285.057.267	309.607.931
60.	Loans and advances to Credit Institutions	1.008.060.416	975.313.712
70.	Loans and advances to Customers	2.366.132.399	2.374.724.030
80.	Hedging derivatives	226.960.831	209.467.330
100.	Equity investments	4.150.000	4.150.000
120.	Property, plant and equipment	11.546	21.317
130.	Intangible assets	—	1.760
	of which: goodwill	—	—
140.	Tax assets	—	—
	a) current	—	—
	b) deferred	—	—
160.	Other assets	2.266.382	6.672.085
	TOTAL ASSETS	**4.346.766.481**	**4.289.722.446**

	Liabilities and equity	30/06/2014	30/06/2013
	Net income from banking activities	€	€
10.	Amounts due to Credit Institutions	1.261.589.640	1.216.469.680
20.	Amounts due to Customers	1.231.191.493	1.051.013.988
30.	Debt securities in issue	1.218.568.520	1.423.273.425
40.	Trading liabilities	365.778.952	335.179.075
60.	Hedging derivatives	148.136	431.932
80.	Tax liabilities	2.307.236	4.426.809
	a) current	*1.430.636*	*3.550.209*
	b) deferred	*876.600*	*876.600*
100.	Other liabilities	2.370.457	13.127.111
160.	Reserves	235.800.426	221.051.434
190.	Share capital	10.000.000	10.000.000
200.	Profit for the year	19.011.621	14.748.992
	TOTAL LIABILITIES AND EQUITY	**4.346.766.481**	**4.289.722.446**

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

STATEMENT OF COMPREHENSIVE INCOME

	Item	30/06/2014	30/06/2013
		€	€
010.	Interests receivable and similar income	105.045.094	105.307.459
020.	Interests payable and similar charges	-82.002.380	-89.179.629
030.	**Net interest income**	**23.042.714**	**16.127.830**
040.	Fee and commission income	12.798.024	14.744.811
050.	Fee and commission expense	-5.496.612	-7.279.643
060.	**Net fee and commission income**	**7.301.412**	**7.465.168**
080.	Net trading income/expense	2.723.359	1.889.995
090.	Net hedging income/expense	-146.362	152.872
100.	Gain or loss on disposal or repurchase of:	217.763	1.799.624
	a) loans and receivables	*217.763*	*7.919*
	b) financial assets available for sale	—	—
	c) financial assets held to maturity	—	—
	d) financial liabilities	—	*1.791.705*
120.	**Total income**	**33.138.886**	**27.435.489**
130.	Value adjustments in respect of:	-3.699.097	-997.055
	a) loans and receivables	*-3.077.629*	*-678.016*
	b) financial assets available for sale	—	—
	c) financial assets held to maturity	—	—
	d) other financial operations	*-621.469*	*-319.039*
140.	**Net income from banking activities**	**29.439.789**	**26.438.434**
180.	Administrative expenses:	-5.820.220	-8.153.809
	a) personnel costs	*-727.977*	*-954.336*
	b) other administrative expenses	*-5.092.243*	*-7.199.473*
200.	Value adjustments in respect of tangible assets	-17.286	-19.087
210.	Value adjustments in respect of intangible assets	-1.761	-2.853
220.	Other operating income/expense	59.842	109.348
280.	**Profit (loss) of the ordinary activity before tax**	**23.660.364**	**18.372.033**
290.	Income tax on the ordinary activity	-4.648.743	-3.623.041
340.	**Profit (loss) for the year**	**19.011.621**	**14.748.992**
350.	Other comprehensive income, net of tax	—	—
360.	**Total comprehensive income for the year, net of tax**	**19.011.621**	**14.748.992**

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

STATEMENT OF CHANGES IN EQUITY FROM 01/07/2013 TO 30/06/2014 (in €)

	Balance as of June 30, 2013	Allocation of the profit for the previous period		Changes during the reference period					Balance as of June 30, 2014
					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	**221.051.435**	**14.748.991**	—	—	—	—	—	—	**235.800.426**
a) legal reserve	1.000.000	—	—	—	—	—	—	—	1.000.000
b) free reserve	198.589.685	9.129.866	—	—	—	—	—	—	207.719.551
c) special reserve[1]	21.461.750	5.619.125	—	—	—	—	—	—	27.080.875
d) FTA reserve	—	—	—	—	—	—	—	—	—
Valuation reserves	—	—	—	—	—	—	—	—	—
a) AFS securities	—	—	—	—	—	—	—	—	—
b) cash flow hedges	—	—	—	—	—	—	—	—	—
c) special laws – others	—	—	—	—	—	—	—	—	—
Own shares	—	—	—	—	—	—	—	—	—
Comprehensive income of the period	**14.748.991**	**-14.748.991**	—	—	—	—	—	**19.011.621**	**19.011.621**
Total equity	**245.800.426**	—	—	—	—	—	—	**19.011.621**	**264.812.047**

[1] As of 30 June 2014 and 2013 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 01/07/2012 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**	—	—	—	—	—	—	**221.051.435**
a) legal reserve	1.000.000	—	—	—	—	—	—	—	1.000.000
b) free reserve	175.211.250	23.378.435	—	—	—	—	—	—	198.589.685
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.

CASH FLOW STATEMENT – Direct Method

(in € k)

A.	Cash flow from operating activities	Amount	
		30/06/2014	30/06/2013
1.	**Operating activities**	**-87.705**	**-73.478**
	– interest received	204.682	101.189
	– interest paid	-222.737	-137.766
	– net fee and commission received/paid	-67.788	-11.700
	– dividends and similar income	—	—
	– net premium income	12.088	40
	– cash payments to employees	-597	-842
	– other income (expenses)	-5.955	-4.419
	– Tax income (expenses)	-7.398	-19.980
2.	**Cash generated/absorbed by financial assets**	**-98.567**	**1.711.476**
	– amounts due from customers	192.554	930.738
	– amounts due from banks: on demand	-52.713	-107.413
	– amounts due from banks: other	173	422.423
	– financial assets measured at fair value	-238.581	465.681
	– other assets	—	47
3.	**Cash generated/absorbed by financial liabilities**	**186.275**	**-1.330.492**
	– amounts due to banks: on demand	48.985	8.469
	– amounts due to banks: other	-70.413	-759.715
	– amounts due to clients	-2.959	262.441
	– debt securities in issue	62.945	-316.141
	– financial liabilities measured at fair value	147.717	-525.546
	– other liabilities	—	—
	Net cash flow (outflow) from operating activities	**3**	**307.506**
B.	**Investing activities**	—	—
	– equity investment	—	—
	– acquisitions of held-to-maturity investments	—	-307.504
	– acquisitions of tangible assets	-4	-1
	– acquisitions of intangible assets	—	—
	Net cash flow (outflow) from investing activities	**-4**	**-307.505**
C.	**Financing activities**	—	—
	– issues/purchases of subordinated debts (Tier II)	—	—
	Net cash flow (outflow) from financing activities	—	—
	Net cash flow (outflow) during year	**-1**	**1**

RECONCILIATION	Amount	
	30/06/2014	30/06/2013
Cash and cash equivalents: balance at 1 July	2	1
Total cash flow (outflow) during year	-1	1
Cash and cash equivalents: balance at 30 June	**1**	**2**

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 2014 were authorised for issue by the Board of Directors on 8 September 2014.

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, 2014, 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:

- IAS 32 and IFRS 7 (Amendment) – These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. The amendments to IAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of currently has a legally enforceable right of set‑off and simultaneous realisation and settlement. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

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

- IAS 39 Novation of Derivatives and Continuation of Hedge Accounting (Amendment) – Relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendment states that the novation of a hedging instrument should not be considered an expiration or termination giving rise to the discontinuation of hedge accounting when a hedging derivative is novated:

  A. As a consequence of laws and regulations, or the introduction of laws and regulations, one or more clearing counterparties replace the original counterparty; and
  B. Any changes in terms of the novated derivative are limited to those necessary to effect the replacement of the counterparty (for example, changes in all collateral requirements, rights to offset receivables and payables balances, and charges levied).

  Any changes to the derivative's fair value arising from the novation would be reflected in its measurement and therefore in the measurement and assessment of hedge effectiveness. There are no additional disclosures introduced by this amendment. The amendment shall be applied retrospectively for annual periods beginning on or after 1 January 2014 with early application permitted.

- IAS 36 Recoverable Amount Disclosures for Non-Financial Assets (Amendment) – Removal of the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. In issuing IFRS 13 Fair Value Measurement, the International Accounting Standards Board (IASB) made some consequential amendments to the disclosure requirements in IAS 36. Those changes had a broader impact than the IASB had intended..

In removing the requirement to disclose recoverable amounts when there has been no impairment or reversal of impairment, the amendments require the following disclosures (in addition to the others already required by IAS 36) when an impairment is recognised or reversed and recoverable amount is based on fair value less costs of disposal:

A. The level of the IFRS 13 ‘fair value hierarchy’ within which the fair value measurement of the asset or CGU has been determined.
B. For fair value measurements at Level 2 or Level 3 of the fair value hierarchy:

   1. A description of the valuation techniques used and any changes in that valuation technique.
   2. Key assumptions used in the measurement of fair value, including the discount rate(s) used in the current measurement and previous measure if fair value less costs of disposal is measured using a present value technique.

The disclosure requirements for impairments and reversals based on the value in use of an asset or CGU have not been amended. The amendment shall be applied for annual period beginning from 1 January 2014.

- IAS 19 Employee benefits (2011) - The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the corridor approach permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. Another significant change to IAS 19 relates to the presentation of changes in defined benefit obligations and plan assets with changes being split into the following components:

A. Service cost – recognised in profit or loss and includes current and past service cost as well as gains or losses on settlements.
B. Net interest – recognised in profit or loss and calculated by applying the discount rate at the beginning of the reporting period to the net defined benefit liability or asset at the beginning of each reporting period.
C. Remeasurement – recognised in other comprehensive income and comprises actuarial gains and losses on the defined benefit obligation, the excess of the actual return on plan assets over the change in plan assets due to the passage of time and the changes, if any, due to the impact of the asset ceiling.

As a result, profit or loss will no longer include an expected return on plan assets. Instead, finance income on the plan assets is recognised as part of the net interest cost. Any actual return above or below the imputed finance income on plan assets is recognised as part of remeasurement in other comprehensive income. The amendment shall be applied for annual period beginning from 1 July 2014.

Standards issued but not yet effective

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

The European Commission endorsed the following accounting principles that have become effective for periods beginning on or after January 1, 2014:

- **IFRS 10, IFRS 12 and IAS 27 (Amendment):** Consolidation requirement for an investment entities to account for subsidiaries at fair value through profit or loss; the amended IAS 27 allows an entity to use the equity method to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements. Consequently, an entity is permitted to account for these investments either:

  A. at cost; or
  B. in accordance with IFRS 9 (or IAS 39); or
  C. using the equity method.

  An entity shall disclose the date when the financial statements were authorised for issue and who gave that authorisation. If the entity's owners or others have the power to amend the financial statements after issue, the entity shall disclose that fact.The amendments also clarify that when a parent entity ceases to be an investment entity, it should account for an investment in a subsidiary either at cost, using the equity method or in accordance with IFRS 9.

- **Improvements to IFRS 2010-2012 and 2011-2013 Cycles**: in December 2013, the IASB issued amendments to multiple IFRS standards, which resulted from the IASB's annual improvement projects for the 2010-2012 and 2011-2013 cycles. They comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments impact the following standards:

  1. FRS 1 First-time Adoption of International Financial Reporting Standards –Clarification of the meaning of "effective IFRS";
  2. IFRS 2 Share based payments – Definition of vesting condition;
  3. IFRS 3 Business Combinations – Accounting for contingent consideration in a business combination and clarification of the scope exclusion for joint ventures;
  4. IFRS 8 Operating Segments – (i) Aggregation of operating segments and (ii) Reconciliation of the total of the reportable segments' assets to the entity's assets;
  5. IFRS 13 Fair Value Measurement – Short-term receivables and payables and clarification of the scope of the portfolio exception;
  6. IAS 16 Property, Plant and Equipment – Revaluation method: proportionate restatement of accumulated depreciation;
  7. IAS 24 Related Party Disclosures – Key management personnel;
  8. IAS 38 Intangible Assets – Revaluation method: proportionate re statement of accumulated amortization;
  9. IFRS 3 and IAS 40 AS 40 Investment Property – Clarification of the interrelationship between IFRS 3 and IAS 40.

The amendments will be effective for annual periods beginning on or after July 1, 2014, with earlier application permitted. The amendments are not expected to have a material impact on the financial statement. The amendments have yet to be endorsed by the EU.

- **IFRS 9 Classification and Measurement, Impairment and Hedge Accounting**: in July 2014, the IASB issued IFRS 9, which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new requirements for how an entity should classify and measure financial assets and financial liabilities, replaces the current rules for impairment of financial assets and amends the requirements for hedge accounting. Shown below, is the summary of the main changes will fall with these new amendments:

  1. It's amends classification and measurement of financial assets and introduces a new expected loss impairment model.
  2. A new measurement category of fair value trough other comprehensive income (FVTOCI) will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.
  3. The standard has more guidance on how sales of financial assets arising other than as a result of credit deterioration should impact the business model assessment.
  4. Guidance is provided as to how debt instruments are classified when the time value of money element is modified. Also the criteria for assessing prepayment features are modified.
  5. A new impairment model based on expected credit losses will apply to debt instruments measured at amortised cost or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contracts.
  6. The loans loss allowance will be for either 12-month expected losses or lifetime expected losses. The latter applies if credit risk has increase significantly since initial recognition of the financial instrument. A different approach applies for purchased or originated credit-impaired financial assets.
  7. The Standard adds detailed guidance on impairment –related presentation and disclosure.
  8. Changes to the types of transactions eligible for hedge accounting, in particular the risk of spreading non-financial assets /liabilities eligible to be managed in hedge accounting.
  9. The change in accounting method for derivative forward contracts and options when included in an hedge accounting relationship in order to reduce the volatility of the P/L.
  10. Fundamental difference to the IAS 39 hedge accounting model is the lack of the 80-125 per cent bright line threshold for effective hedges and the requirement to perform retrospective hedge effectiveness testing. Under the IFRS 9 model, it is necessary for there to be an economic relationship between the hedged item and hedging instrument, with no quantitative threshold. This will allow flexibility in how an economic relationship is demonstrated and for qualifying hedges actual hedge ineffectiveness will be reported.
  11. The trade off to increased hedge accounting possibilities is increased disclosures about an entity's risk management strategy, cash flows from hedging activities and the impact of hedge accounting on the financial statements.
  12. Those entities that currently apply the requirements in IAS 39.81A (the application of fair value hedge accounting to portfolio hedges of interest rate risk) may continue doing so under the new requirements. In that case, the requirements in IFRS 9 would apply to hedges in general, whereas portfolio hedges would continue to be accounted for according to IAS 39. Additionally, entities would be given an accounting policy choice to account for all hedges under either IAS 39 or IFRS 9. That option would be all inclusive, i.e. entities could not pick and choose (e.g., entities wishes to continue applying IAS 39 would have to continue testing effectiveness in the narrow 80-125 per cent corridor, could not benefit from the increased eligibility of hedge items and hedging instruments.

IFRS 9 will be effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Group is currently assessing the impact of IFRS 9. The standard has yet to be endorsed by the EU.

- **IFRS 14 Regulatory Deferral Accounts:** the Standard requires separate presentation of regulatory deferral account balances in the statement of financial position and of movements in those balances in the statement of profit or loss and other comprehensive income. Disclosures are required to identify the nature of, and risk associated with, the form of rate regulation that has given rise to the recognition of regulatory deferral account balances. IFRS 14 is effective for an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016, with earlier application permitted.

- **IFRS 15 Revenue from Contracts with Customers**: in May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers", which specifies how and when revenue is recognised, but does not impact income recognition related to financial instruments in scope of IFRS 9/ IAS 39. IFRS 15 replaces several other IFRS standards and interpretations that currently govern revenue recognition under IFRS and provides a single, principle based five-step model to be applied to all contracts with customers. The new revenue model applies to all contracts with customers except those that are within the scope of other IFRSs, such as leases, insurance contracts and financial instruments. Transfers of assets that are not related to the entity's ordinary activities (such as the sale of property, plant and equipment, real estate or intangible assets) will also be required to follow some of the recognition and measurement requirements of the new model. The recognition of interest and dividend income are not in the scope of the new Standard. Furthermore, the new Standard does not apply to non-monetary exchanges between entities in the same line of business where this is done to facilitate sales to customers, or potential customers. When a contract includes multiple performance obligations (deliverables), some of which are within the scope of other IFRSs, any separation and initial measurement requirements of the other Standards are applied first, and the deliverables within the scope of the revenue model are ascribed any residual amount. If there are no separation or initial measurement requirements in those other Standards, the requirements of IFRS 15 are applied. An entity may contract with a counterparty to participate in an activity or process in which the parties to the contract share the risks and benefits resulting from that activity or process, often referred to as a "collaborative arrangement". Where this is the case, the entity will have to assess whether the other entity is its 'customer' in order to establish whether the transactions with the other entity are within the scope of the new Standard. The standard also requires entities to provide users of financial statements with more informative and relevant disclosures. IFRS 15 will be effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The Group is currently assessing the impact of IFRS 15. The standard has yet to be endorsed by the EU.

- **IFRIC 21** is effective for annual periods beginning on or after 1 January 2014 and is applied retrospectively. The Interpretation defines a levy as "an outflow of resources embodying future economic benefits that is imposed by governments on entities in accordance with legislation". Taxes within the scope of IAS 12 Income Taxes are excluded as are fines and penalties. Payments to governments for services or the acquisition of an asset under a contractual arrangement are also outside the scope. That is, the levy must be a non-reciprocal transfer to a government where the entity paying the levy does not receive specific goods and services in exchange. For the purposes of the Interpretation, a "government" is defined in accordance with IAS 20 Accounting for Government Grants and Disclosures of Government Assistance. When an entity acts as an agent for a government to collect a levy, the agency cash flows collected are outside the scope of the Interpretation. The interpretation clarifies that an entity recognises a liability for a levy no earlier than when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, no liability is recognized before the specified minimum threshold is reached. An entity with a financial year that commences from 1 July and ends on 30 June must apply IFRIC 21 for the first time in the annual financial statements beginning on 1 July 2014.

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

Cash and cash equivalents

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

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.

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 all derivatives (except those designated hedging instruments) and financial assets acquired or held for the purpose of selling in the short term or for which there is a recent pattern of short-term profit taking. 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 2014.

Held to maturity financial assets

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.

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.

<u>Fair value hedge</u>

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

<u>Cash flow hedge</u>

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

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

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

As at 30 June 2014 and 2013 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.

“Day1” profit or loss

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

Offsetting

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

Repurchase agreements and reverse repurchase agreements

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

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

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

Securities lending and borrowing

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.

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, 2013.

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 2014.

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 2014 the item **Cash and cash balances** amounted to € 444k, a reduction of € 1.081k (-71%) from 2013 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 € 149 million to € 11 million.

	30/06/2014	30/06/2013
a) Cash	1	2
b) Demand deposit held at Central Banks	443	1.524
Total	**444**	**1.526**

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, 2014 **Financial assets held for trading** amount to € 453.683k, an increase of € 45.445k (+11%) compared to June 2013. Non-derivative products increased from € 64.283k to € 112.477k (+75%) due to a boost of trading loan hold by the Bank and underwrite of OICR units; while derivative products increased from € 343.955k to € 341.206k (+1%) after the closing of existing financial structures.

Item/Value	30/06/2014			30/06/2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	—	—	—	—	—	—
1.1 Structured	—	—	—	—	—	—
1.2 Other debt securities	—	—	—	—	—	—
2. Equities	—	—	—	—	—	—
3. UCITS units	—	36.332	—	—	—	—
4. Loans and advances	76.145	—	—	—	64.283	—
4.1 Repos	—	—	—	—	—	—
4.2 Others	76.145	—	—	—	64.283	—
Total A	**112.477**	**—**	**—**	**—**	**64.283**	**—**
B. Derivative products						
1. Financial derivatives	—	214.530	112.782	—	208.073	111.624
1.1 Trading	—	12.650	53.046	—	23.698	—
1.2 Linked to FV options	—	—	—	—	—	—
1.3 Others	—	201.880	59.736	—	184.375	111.624
2. Credit derivatives	—	10.834	3.060	4.368	19.890	—
2.1 Trading	—	10.834	3.060	4.368	19.890	—
2.2 Linked to FV options	—	—	—	—	—	—
2.3 Others	—	—	—	—	—	—
Total B	**—**	**225.364**	**115.842**	**4.368**	**227.963**	**111.624**
Total (A+B)	**112.477**	**225.364**	**115.842**	**4.368**	**292.246**	**111.624**
Total Level 1, Level 2 and Level 3			**453.683**			**408.238**

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)

	30/06/2014	30/06/2013
1. Opening balance	**111.624**	**103.274**
2. Increases	**55.963**	**20.948**
2.1 Issues and purchases	—	14.185
2.2 Transfers from other levels	55.963	—
2.3 Other increases	—	6.763
3. Decreases	**51.745**	**12.598**
3.1 Sales and settlements	36.309	123
3.2 Transfers to other levels	7.451	—
3.3 Other decreases	7.985	12.475
4. Closing balance	**115.842**	**111.624**

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	55.963	-51.745	4.218

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[3].

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

[3] The sensitivity analysis on level 3 is carried out by the Mother Company on a consolidated basis

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

Item/Value	30/06/2014	30/06/2013
A. CASH ASSETS		
1. Debt securities	—	—
a. Governments and central Banks	—	—
b. Other public agencies	—	—
c. Banks	—	—
d. Other issuers	—	—
2. Equities	—	—
a. Banks	—	—
b. Other issuers	—	—
- insurances	—	—
- financial companies	—	—
- non-financial companies	—	—
- others	—	—
3. UCITS units	36.332	—
4. Loans and advances	76.145	64.283
a. Governments and central Banks	—	—
b. Other public agencies	—	—
c. Banks	—	7.629
d. Other entities	76.145	56.654
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	**112.477**	**64.283**
B. DERIVATIVE PRODUCTS		
a. Banks	341.206	343.955
b. Customers	—	—
Total B	**341.206**	**343.955**
Total A+B	**453.683**	**408.238**

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

Type of derivatives/Underlying assets	Interest rates		Foreign currency/gold		Equities		Credit		30/06/2014		30/06/2013	
	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:	1.072.728	211.880	425.604	1.248	276.545	114.184	—	—	1.774.877	327.312	2.871.849	343.955
– with exchange of principal	454.430	157.813	425.604	1.248	11.212	605	—	—	891.246	159.666	—	—
– options bought	—	—	425.604	1.248	—	—	—	—	425.604	1.248	—	—
– other derivatives	454.430	157.813	—	—	11.212	605	—	—	465.642	158.418	—	—
– without exchange of principal	618.298	54.067	—	—	265.333	113.579	—	—	883.631	167.646	2.206.763	319.696
– options bought	—	—	—	—	—	—	—	—	—	—	236.374	748
– other derivatives	618.298	54.067	—	—	265.333	113.579	—	—	883.631	167.646	1.970.389	318.948
2) Credit derivatives:	—	—	—	—	—	—	997.234	13.894	997.234	13.894	665.086	24.259
– with exchange of principal	—	—	—	—	—	—	401.693	5.782	401.693	5.782	—	—
– without exchange of principal	—	—	—	—	—	—	595.541	8.112	595.541	8.112	665.086	24.259
Total	**1.072.728**	**211.880**	**425.604**	**1.248**	**276.545**	**114.184**	**997.234**	**13.894**	**2.772.111**	**341.206**	**2.871.849**	**343.955**

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	30/06/2014	30/06/2013
A. Balance at start of period	**—**	**—**	**—**	**64.283**	**64.283**	**19.504**
B. Additions	—	—	36.608	150.216	186.824	188.596
B.1 Acquisitions	—	—	36.608	145.095	181.703	187.585
B.2 Increases in fair value	—	—	—	259	259	955
B.3 Other increases	—	—	—	4.862	4.862	56
C. Reductions	—	—	276	138.354	138.630	143.817
C.1 Disposals	—	—	—	411	411	14.324
C.2 Redemptions	—	—	—	134.495	134.495	129.164
C.3 Reductions in fair value	—	—	276	55	331	156
C.4 Transfers to other portfolios	—	—	—	—	—	—
C.5 Other reductions	—	—	—	3.393	3.393	173
D. Balance at end of period	**—**	**—**	**36.332**	**76.145**	**112.477**	**64.283**

Section 5

Heading 50: Financial assets held to maturity

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

	Book value	Fair value 30/06/2014			Book value	Fair value 30/06/2013		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	285.057	290.732	—	—	309.608	309.703	—	—
1.1 Structured	—	—	—	—	—	—	—	—
1.2 Other debt securities	285.057	290.732	—	—	309.608	309.703	—	—
2. Loans and advances	—	—	—	—	—	—	—	—
Total	**285.057**	**290.732**	**—**	**—**	**309.608**	**309.703**	**—**	**—**

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

Type of transactions/Value	30/06/2014	30/06/2013
1. Debt securities:	285.057	309.703
a) Governments and Central Bank	—	—
b) Other public agencies	—	—
c) Bank	285.057	309.703
d) Other issuers	—	—
2. Loans and advances to:	—	—
a) Governments and Central Bank	—	—
b) Other public agencies	—	—
c) Bank	—	—
d) Others	—	—
	—	—
Total book value	**285.057**	**309.703**
Total fair value	**285.057**	**309.608**

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

	Debt securities	Loans and advances	30/06/2014	30/06/2013
A. Balance at start of period	**309.608**	—	**309.608**	—
B. Additions	**2.249**	—	**2.249**	**309.608**
B.1 Acquisitions	—	—	—	307.174
B.2 Writebacks	—	—	—	—
B.3 Transfers from other asset classes	—	—	—	—
B.4 Other increases	2.249	—	2.249	2.434
C. Reductions	**26.800**	—	**26.800**	—
C.1 Disposal	25.000	—	25.000	—
C.2 Redemptions	—	—	—	—
C.3 Value adjustments	—	—	—	—
C.4 Transfers to other asset classes	—	—	—	—
C.5 Other reductions[1]	1.800	—	1.800	—
D. Balance at end of period	**285.057**	—	**285.057**	**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, 2014 **Loans and advances to credit institutions** amount to € 1.008.060k, an increase of € 32.746k (3%) compared to June 2013. While the balance of repo and receivable remained stable during the period, current account increased by 3% (from € 199.038k up to € 205.958k).

Type of transactions/Value	30/06/2014				30/06/2013			
	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
1. Current accounts and demand deposits	235.770	—	235.770	—	199.038	—	199.038	—
1.1 current accounts	205.950	—	205.950	—	199.038	—	199.038	—
1.2 stock lending deposits	—	—	—	—	—	—	—	—
1.3 others deposits on demand	29.820	—	29.820	—	—	—	—	—
2. Term deposits	—	—	—	—	—	—	—	—
3. Other receivables:	769.490	—	769.581	—	773.478	—	773.478	—
3.1 amounts due under repo agreements	402.534	—	402.534	—	403.709	—	403.709	—
3.2 amounts due under finance leases	—	—	—	—	—	—	—	—
3.4 other amounts due	366.956	—	367.047	—	369.769	—	369.769	—
4. Debt securities	2.800	—	2.800	—	2.798	—	2.798	—
4.1 structured	—	—	—	—	—	—	—	—
4.2 other debt securities	2.800	—	2.800	—	2.798	—	2.798	—
Total book value	**1.008.060**	—	—	—	**975.314**	—	—	—
Total fair value	—	—	**1.008.151**	—	—	—	**975.318**	—

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	30/06/2014	30/06/2013
1. Current accounts	—	—
2. Amounts due under repo agreements	—	—
3. Loans	2.366.133	2.373.965
4. Credit cards, personal loans and salary – guaranteed finance	—	—
5. Amounts due under finance leasing	—	—
6. Factoring	—	—
7. Other transactions	—	759
8. Debt securities	—	—
8.1 structured	—	—
8.2 other debt securities	—	—
9. Assets sold but not derecognized	—	—
Total book value	**2.366.133**	**2.374.724**
Total fair value	**2.371.418**	**2.348.366**

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

Type of transactions/Value	30/06/2014					30/06/2013				
	Performing	**Non-performing**	**Level 1**	**Level 2**	**Level 3**	**Performing**	**Non-performing**	**Level 1**	**Level 2**	**Level 3**
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:	2.308.416	57.717	—	2.366.133	—	2.231.613	143.111	—	2.374.724	—
a) Governments	—	—	—	—	—	—	—	—	—	—
b) Other public agencies	—	—	—	—	—	—	—	—	—	—
c) Other issuers	2.308.416	57.717	—	2.366.133	—	2.231.613	143.111	—	2.374.724	—
- non-financial undertakings	1.827.466	44.005	—	1.871.471	—	1.798.689	82.905	—	1.881.594	—
- financial companies	480.950	13.712	—	494.662	—	432.924	60.206	—	493.130	—
- insurances	—	—	—	—	—	—	—	—	—	—
- other entities	—	—	—	—	—	—	—	—	—	—
Total	**2.308.416**	**57.717**	**—**	**2.366.133**	**—**	**2.231.613**	**143.111**	**—**	**2.374.724**	**—**

Section 8

Heading 80: Hedging derivatives

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

	30/06/2014			Notional value	30/06/2013			Notional value
	Fair value				*Fair value*			
	level 1	level 2	level 3		level 1	level 2	level 3	
A. Financial derivatives	—	226.961	—	415.632	—	209.467	—	611.126
1) Fair value	—	226.961	—	415.632	—	209.467	—	611.126
2) Cash flow	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	—	**226.961**	—	**415.632**	—	**209.467**	—	**611.126**

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		30/06/2014		30/06/2013	
	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:	413.866	226.921	1.766	40	—	—	—	—	415.632	226.961	611.126	209.467
– with exchange of principal	—	—	1.766	40	—	—	—	—	1.766	40	—	—
– options bought	—	—	—	—	—	—	—	—	—	—	—	—
– other derivatives	—	—	—	—	—	—	—	—	—	—	—	—
– without exchange of principal	413.866	226.921	—	—	—	—	—	—	413.866	226.921	611.126	209.467
– options bought	—	—	—	—	—	—	—	—	—	—	—	—
– other derivatives	413.866	226.921	—	—	—	—	—	—	413.866	226.921	611.126	209.467
2) Credit derivatives:	—	—	—	—	—	—	—	—	—	—	—	—
– with exchange of principal	—	—	—	—	—	—	—	—	—	—	—	—
– without exchange of principal	—	—	—	—	—	—	—	—	—	—	—	—
Total B	**413.866**	**226.921**	**1.766**	**40**	—	—	—	—	**415.632**	**226.961**	**611.126**	**209.467**
Total (A+B)	**413.866**	**226.921**	**1.766**	**40**	—	—	—	—	**415.632**	**226.961**	**611.126**	**209.467**

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

30/06/2014 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	222.600	—	—	—	—	—	—
2. Debt securities in issue	4.321	40	—	—	—	—	—
3. Portfolio	—	—	—	—	—	—	—
TOTAL LIABILITIES	**226.921**	**40**	**—**	**—**	**—**	**—**	**—**
TOTAL	**226.921**	**40**	**—**	**—**	**—**	**—**	**—**

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

Section 10

Heading 100: Equity investments

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

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

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

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

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

Name	Total assets	Total revenues	Net profit (loss)	Shareholders' equity	Book value
Mediobanca International Immobilière S.à r.l.	2.072	160	16	1.607	4.150

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

The Bank, looking at the Luxembourg real estate trend market of 2014, has decided not to make any impairment test.

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

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

Section 12

Heading 120: Property, plant and equipment

12.1 Tangible assets stated at cost (in € k)

Assets/value	30/06/2014	30/06/2013
A. Core assets		
1.1 owned by the Group	12	21
a) land	—	—
b) buildings	—	—
c) furniture and fitting	7	5
d) electronic equipment	—	—
e) other assets	5	16
1.2 acquired under finance leases:	—	—
a) land	—	—
b) buildings	—	—
c) furniture	—	—
d) electronic equipment	—	—
e) other assets	—	—
Total A	**12**	**21**
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)	**12**	**21**

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

	Land	**Buildings**	**Furniture**	**Electronic equipment**	**Other assets**	**Total**
A. Gross opening balance	—	—	43	—	37	80
A.1 Total net value reductions	—	—	-38	—	-21	-59
A.2 Net opening balance	—	—	5	—	16	21
B. Additions:	—	—	3	—	5	8
B.1 Purchases	—	—	3	—	5	8
B.2 Improvement expenses, capitalized	—	—	—	—	—	—
B.3 Write-backs	—	—	—	—	—	—
B.4 Increases in fair value recognized in:	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit and loss account	—	—	—	—	—	—
B.5 Increases arising due to exchange rates	—	—	—	—	—	—
B.6 Transfers from properties held for investment purposes	—	—	—	—	—	—
B.7 Other additions	—	—	—	—	—	—
C. Reductions:	—	—	-1	—	-16	-17
C.1 Disposals	—	—	—	—	—	—
C.2 Depreciation charges	—	—	-1	—	-16	-17
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	—	—	7	—	5	12
D.1 Total net value reductions	—	—	-39	—	-37	-76
D.2 Gross closing balance	—	—	46	—	42	88

Section 13

Heading 130: Intangible assets

13.1 Intangible assets (in € k)

Assets/ value	30/06/2014		30/06/2013	
	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	—
A.2.1 Recognized at cost:	—	—	2	—
a) intangible assets generated internally	—	—	—	—
b) other assets	—	—	2	—
A.2.2 Recognized at fair value:	—	—	—	—
a) intangible assets generated internally	—	—	—	—
b) other assets	—	—	—	—
Total	**—**	**—**	**2**	**—**

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	—	—	—	-4	—	-4
A.2 Net opening balance	—	—	—	2	—	2
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	—	—	—	-2	—	-2
C.1 Disposals	—	—	—	—	—	—
C.2 Value adjustments	—	—	—	-2	—	-2
– amortization	—	—	—	-2	—	-2
– 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	—	—	—	—	—	—
D.1 Total net value adjustments	—	—	—	-6	—	-6
E. Gross closing balance	—	—	—	6	—	6
F. Stated at cost	—	—	—	—	—	—

Section 16

Heading 160: Other assets

16.1 Other assets (in € k)

	30/06/2014	30/06/2013
- Gold, silver and precious metal	—	—
- Accrued income other than capitalized income	2.054	2.272
- Trade receivables or invoice to be issued	2	4.185
- Amount due from tax revenue Authorities (not recorded under heading 140)	210	210
- Other	—	5
Total	**2.266**	**6.672**

Liabilities

Section 1

Heading 10: Amounts due to credit institutions

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

Type of transaction/amounts	30/06/2014				30/06/2013			
	Book value	**Level 1**	**Level 2**	**Level 3**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
1. Due to central Banks	—	—	—	—	—	—	—	—
2. Due to Banks	1.261.589	—	1.261.589	—	1.216.470	—	1.216.470	—
2.1 Current accounts and demand deposits	9.606	—	9.606	—	13.710	—	13.710	—
2.2 Term deposits	—	—	—	—	82.416	—	82.416	—
2.3 Borrowings	1.251.505	—	1.251.505	—	1.119.585	—	1.119.585	—
2.3.1 Leasing & stock lending	—	—	—	—	—	—	—	—
2.3.2 Others	1.251.505	—	1.251.505	—	1.119.585	—	1.119.585	—
2.4 Amounts due under commitments to buy back own shares	—	—	—	—	—	—	—	—
2.5 Other amounts due	478	—	478	—	759	—	759	—
Total book value	**1.261.589**	—	**1.261.589**	—	**1.216.470**	—	**1.216.470**	—
Total fair value	**1.261.589**	—	**1.261.589**	—	**1.216.470**	—	**1.216.470**	—

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.

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

	30/06/2014	30/06/2013
1. Items subject to specific fair value hedges for:	257.599	228.451
a) interest rate risk	257.599	228.451
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	**257.599**	**228.451**

Items subject to micro fair value hedge are “Schuldscheine” 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	30/06/2014				30/06/2013			
	Book value	**Level 1**	**Level 2**	**Level 3**	**Book value**	**Level 1**	**Level 2**	**Level 3**
1. Current accounts and demand deposits	—	—	—	—	—	—	—	—
2. Term deposits	260.010	—	260.010	—	149.500	—	149.500	—
3. Customers' funds managed on a non-discretionary basis	—	—	—	—	—	—	—	—
4. Borrowings	971.181	—	971.181	—	901.514	—	901.514	—
4.1 leasing	—	—	—	—	—	—	—	—
4.2 others	971.181	—	971.181	—	901.514	—	901.514	—
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	**1.231.191**	**—**	**1.231.191**	**—**	**1.051.014**	**—**	**1.051.014**	**—**
Total fair value	**1.231.191**	**—**	**1.231.191**	**—**	**1.051.014**	**—**	**1.051.014**	**—**

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

	30/06/2014	30/06/2013
1. Items subject to specific fair value hedges for:	105.029	93.497
a) interest rate risk	105.029	93.497
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	**105.029**	**93.497**

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

Section 3

Heading 30: Debt securities in issue

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

Type of transaction/amounts	30/06/2014		30/06/2013	
	Book value	**Fair Value[1]**	**Book value**	**Fair Value[1]**
A. Listed securities	1.018.055	1.042.332	1.188.101	1.223.199
1. notes	1.018.055	1.042.332	1.188.101	1.223.199
1.1 structured	375.593	376.573	502.198	505.326
1.2 others	642.462	665.759	685.903	717.873
2. other securities	—	—	—	—
2.1 structured	—	—	—	—
2.2 others	—	—	—	—
B. Unlisted securities	200.513	204.140	235.173	237.435
1. notes	200.513	204.140	235.173	237.435
1.1 structured	147.712	153.307	182.196	186.943
1.2 others	52.801	50.833	52.977	50.492
2. other securities	—	—	—	—
2.1 structured	—	—	—	—
2.2 others	—	—	—	—
Total	**1.218.568**	**1.246.472**	**1.423.274**	**1.460.634**

[1] Fair value does not include issuer risk; if issuer risk was considered, the fair value of debt securities issued would increase by € 1,8m approximately, as at June 30, 2014.

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

Type of transaction/amounts	30/06/2014	30/06/2013
A. Securities subject to specific fair value hedges	295.846	552.214
1. Interest rate risk	295.846	552.214
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	**295.846**	**552.214**

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

Type of transaction/amounts	30/06/2014	30/06/2013
A. Debt securities	922.722	871.059
1. Structured	407.850	393.088
2. Other	514.872	477.972
B. Other financial instruments	—	—
1. Structured	—	—
2. Other	—	—
Total	**922.722**	**871.060**

Section 4

Heading 40: Financial liabilities held for trading

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

Type of transaction/amounts	30/06/2014			30/06/2013		
	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	—	251.808	113.971	697	222.858	111.624
1. Financial derivatives	—	246.808	113.971	—	208.029	111.624
1.1 Trading derivatives	—	44.928	54.047	—	23.654	—
1.2 Linked to FV option	—	—	—	—	—	—
1.3 Other	—	201.880	59.924	—	184.375	111.624
2. Credit derivatives	—	5.000	—	697	14.829	—
2.1 Trading derivatives	—	5.000	—	697	14.829	—
2.2 Linked to FV option	—	—	—	—	—	—
2.3 Other	—	—	—	—	—	—
Total	**—**	**251.808**	**113.971**	**697**	**222.858**	**111.624**
Total Level 1, Level 2 and Level 3			**365.779**			**335.179**

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)

	30/06/2014	30/06/2013
1. Opening balance	**111.624**	**103.274**
2. Increases	**54.093**	**20.948**
2.1 Issues and purchases	—	14.185
2.2 Transfers from other levels	54.046	—
2.3 Other increases	47	6.763
3. Decreases	**51.746**	**12.598**
3.1 Sales and settlements	36.309	123
3.2 Transfers to other levels	7.453	—
3.3 Other decreases	7.984	12.475
4. Closing balance	**113.971**	**111.624**

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	51.746	-54.093	-2.347

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[6].

[6] The sensitivity analysis on level 3 is carried out by the Mother Company on a consolidated basis

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

	Interest rate		Foreign currency/gold		Equity		Credit		30/06/2014		30/06/2013	
Type of transaction/amounts	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**
OTC derivative products												
1. Financial derivatives	586.497	208.165	150.938	2.107	465.777	150.508	—	—	1.203.212	360.780	2.538.717	335.179
1.1 With exchange of principal	90.000	157.813	144.094	1.972	4.600	606	—	—	238.694	160.391	4.604	373
- options issued	—	—	—	—	—	—	—	—	—	—	—	—
- other derivatives	90.000	157.813	144.094	1.972	4.600	605	—	—	238.694	160.390	4.604	373
1.2 Without exchange of principal	496.497	50.352	6.844	135	461.177	149.902	—	—	964.518	200.389	1.734.282	319.279
- options issued	—	—	—	—	—	—	—	—	—	—	—	—
- other derivatives	496.497	50.352	6.844	135	461.177	149.902	—	—	964.518	200.389	1.734.282	319.279
2. Credit derivatives	—	—	—	—	—	—	1.077.116	4.999	1.077.116	4.999	799.831	15.527
2.1 With exchange of principal	—	—	—	—	—	—	1.031.229	4.616	1.031.229	4.616	—	—
2.2 Without exchange of principal	—	—	—	—	—	—	45.887	383	45.887	383	799.831	15.527
Total	**586.497**	**208.165**	**150.938**	**2.107**	**465.777**	**150.508**	**1.077.116**	**4.999**	**2.280.328**	**365.779**	**2.538.717**	**335.179**

Section 6

Heading 60: Hedging derivatives

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

	30/06/2014 *Fair value*			Notional value	30/06/2013 *Fair value*			Notional value
	level 1	**level 2**	**level 3**		**level 1**	**level 2**	**level 3**	
A. Financial derivates	—	148	—	16.032	—	432	—	53.751
1) *Fair value*	—	148	—	16.032	—	432	—	53.751
2) Cash flow	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) *Fair value*	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	—	**148**	—	**16.032**	—	**432**	—	**53.751**

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		30/06/2014	30/06/2013
	Specific				Generic	Specific	Generic		
	Interest Risk	Currency rate	Credit risk	Other risks					
1. Financial assets AFS	—	—	—	—	—	—	—	—	—
2. Lending portfolio	—	—	—	—	—	—	—	—	—
3. Financial assets HTM	—	—	—	—	—	—	—	—	—
4. Portfolio	—	—	—	—	—	—	—	—	—
TOTAL ASSETS	—	—	—	—	—	—	—	—	—
1. Amounts due	—	—	—	—	—	—	—	—	—
2. Debt securities in issue	148	—	—	—	—	—	—	148	432
3. Portfolio	—	—	—	—	—	—	—	—	—
TOTAL LIABILITIES	**148**	—	—	—	—	—	—	**148**	**432**
TOTAL	**148**	—	—	—	—	—	—	**148**	**432**

Section 8

Heading 80: Tax liabilities

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

	30/06/2014	30/06/2013
Corporate income tax (IRC)	1.086	2.683
Municipal business tax (ICC)	212	730
Other	134	137
Total	**1.432**	**3.550**

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 € 1.197.635 (30 June 2013: € 1.123.825) 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 (+)	8.682	2.531	187	11.580
B. Advances paid (-)	5.999	1.801	50	7.850
A.1 Fiscal liabilities: increase (+)	**3.576**	**1.074**	**822**	**5.472**
- provisions of the year	3.576	1.074	822	5.472
- transfers	—	—	—	—
- others	—	—	—	—
A.2 Fiscal liabilities: decrease (-)	**-5.173**	**-1.592**	**-848**	**-7.613**
- payments of the year (assessments)	-5.173	-1.592	-848	-7.613
- transfers	—	—	—	—
- others	—	—	—	—
B.1 Advances paid: increase (+)	**4.000**	**1.200**	**168**	**5.368**
- payments/advances	4.000	1.200	168	5.368
- transfers	—	—	—	—
- others	—	—	—	—
B.2 Advances paid: decrease (-)	**-4.000**	**-1.200**	**-144**	**-5.344**
- payments of the year (assessments)	-4.000	-1.200	-144	-5.344
- transfers	—	—	—	—
- others	—	—	—	—
Total A. Fiscal liabilities	**7.085**	**2.013**	**161**	**9.259**
Total B. Advances paid	**5.999**	**1.801**	**74**	**7.874**
Current fiscal liabilities (A-B)	**1.086**	**212**	**134**	**1.384**

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

Deferred tax liabilities	30/06/2014	30/06/2013
1. Initial amount	877	864
1.1 Initial amount	877	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**	**877**

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

	30/06/2014			30/06/2013		
	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	-877
Total liabilities	**—**	**-3.000**	**-877**	**—**	**-3.000**	**-877**

Section 10

Heading 100: Other liabilities

10.1 Other liabilities (in € k)

	30/06/2014	30/06/2013
1. Pending invoices	779	9.817
2. Wages accrued, contributions and amounts withheld from staff for payment	12	13
3. Impairment guarantees and commitments	1.372	750
4. Prepaid expenses other than capitalized expenses on related financial assets	—	—
5. Deferred income	—	—
6. Upfront premiums	—	—
7. Amounts payable on loans and receivables	207	2.547
8. Other items	—	—
Total	**2.370**	**13.127**

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, 2014 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)	**30/06/2014**	**30/06/2013**
A. Reserves	235.800	221.051
A.1 legal reserve	1.000	1.000
A.2 free reserve	216.681	198.590
A.3 special reserve(1)	18.119	21.461
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 2014 and 2013, 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)

	30/06/2014	30/06/2013
1. Financial guarantees given to:	47.895	55.993
a) Banks	—	—
b) Customers	47.895	55.993
2. Commercial guarantees given to:	—	—
a) Banks	—	—
b) Customers	—	—
3. Irrevocable commitments to lend funds:	1.161.936	1.039.753
a) Banks	—	—
b) Customers	1.106.415	1.039. 753
4. Commitment underlying credit derivatives: hedge sales	1.188.125	881.772
Total	**2.397.956**	**1.977.518**

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:

- € 398.130k 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 € 417.673k 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	30/06/2014	30/06/2013
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	883.432	883.100
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
1. securities issued by bank drawing up financial statements	—	—
2. other securities	—	53.275
c) customers' securities held on deposit with customers	588.052	509.412
d) own securities held on deposit with customers	295.380	320.423

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)	30/06/2014	30/06/2013
	Debt securities	Loans	Other financial assets			
1. Financial assets held for trading	—	1.918	—	—	1.918	436
2. Financial assets at fair value	—	—	—	—	—	—
3. AFS securities	—	—	—	—	—	—
4. Financial assets held to maturity	8.177	—	—	—	8.177	5.249
5. Loans and advances to credit institutions	27	17.464	—	—	17.491	22.588
6. Loans and advances to customers	—	52.176	—	3.093	55.269	50.141
7. Hedging derivatives	—	—	22.190	—	22.190	26.897
8. Financial assets sold but not derecognized	—	—	—	—	—	—
9. Other assets	—	—	—	—	—	—
Total	**8.204**	**71.558**	**22.190**	**3.093**	**105.045**	**105.308**

(1) During the fiscal year the Bank has executed 3times the financial guarantee on a non performing exposure at its book value of € 60,5m; 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)

	30/06/2014	30/06/2013
A. Positive differences on transactions involving:	22.190	26.897
A.1 Specific fair value hedge of assets	—	3.417
A.2 Specific fair value hedge of liabilities	22.190	23.480
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)

	30/06/2014	30/06/2013
1.3.1 Interests receivable on financial assets denominated in currencies other than Euro	27.332	19.503
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	30/06/2014	30/06/2013
1. Amount due to Banks	-19.723	—	—	-19.723	-18.711
2. Amount due to customers	-21.020	—	—	-21.020	-16.347
3. Debt securities	—	3.717	—	3.717	-37.570
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	—	—	-44.976	-44.976	-16.492
Total	**-40.743**	**3.717**	**-44.976**	**-82.002**	**-89.180**

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

	30/06/2014	30/06/2013
A. Negative differences on transactions involving:	-44.976	-16.492
A.1 Specific fair value hedge of assets	—	-7.395
A.2 Specific fair value hedge of liabilities	-44.976	-9.097
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)

	30/06/2014	30/06/2013
1.6.1 Interests payable on financial liabilities denominated in currencies other than Euro	-14.787	-11.211
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)

	30/06/2014	30/06/2013
a) guarantees given	438	726
b) credit derivates	—	—
c) management, trading and advisory services:	651	627
1. securities dealing	—	—
2. currency dealing	—	—
3. asset management	—	—
4. securities under custody and non-discretionary	—	—
5. depositary services	—	536
6. securities placing	278	91
7. procurement of orders	373	—
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	11.709	13.392
Total	**12.798**	**14.745**

2.2 Fee and commission expense (in € k)

	30/06/2014	30/06/2013
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	-5.497	-7.101
Total	**-5.497**	**-7.280**

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	30/06/2014	30/06/2013
1. Trading assets	204	889	-276	—	**817**	**1.449**
1.1 Debt securities	—	—	—	—	**—**	**—**
1.2 Equities	—	—	—	—	**—**	**—**
1.3 OICR units	—	—	-276	—	**-276**	**504**
1.4 Loans and receivables	204	889	—	—	**1.093**	**945**
1.5 Others	—	—	—	—	**—**	**—**
2. Trading liabilities	276	—	—	—	**276**	—
2.1 Debt securities	—	—	—	—	**—**	**—**
2.2 Payables	—	—	—	—	**—**	**—**
2.3 Other	276	—	—	—	**276**	—
3. Other financial assets and liabilities: difference arising on exchange rates	2.974	—	-4.576	—	**-1.602**	**4.085**
4. Derivative products	256.745	4.963	-255.150	-3.326	**3.232**	**-3.644**
4.1 Financial derivatives:	232.570	2.667	-229.697	-2.917	**2.623**	**-3.618**
– on debt securities/interest rates	13.783	1.264	-14.141	—	**906**	**3.640**
– on equities/share indexes	213.875	1.472	-213.915	-1.096	**336**	**-959**
– on foreign currency/gold	4.727	—	-1.561	-1.821	**1.345**	**-6.299**
– others	185	-69	-80	—	**36**	**—**
4.2 Credit derivatives	24.175	2.296	-25.453	-409	**609**	**-26**
Total	**260.199**	**5.852**	**-260.002**	**-3.326**	**2.723**	**1.890**

Section 4

Heading 90: Net hedging income (expense)

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

	30/06/2014	30/06/2013
A. Income from:		
A.1 Fair value hedge derivatives	36.969	3.905
A.2 Financial assets hedged (fair value)	—	—
A.3 Financial liabilities hedged (fair value)	18.343	83.495
A.4 Cash flow hedge financial derivatives	—	—
A.5 Assets and liabilities in foreign currency	—	—
Total hedging income (A)	**55.312**	**87.400**
B. Expenses relating to:		
B.1 Fair value hedge derivatives	-6.728	-35.005
B.2 Financial assets hedged (fair value)	—	-1.710
B.3 Financial liabilities hedged (fair value)	-48.730	-50.532
B.4 Cash flow hedge financial liabilities	—	—
B.5 Assets and liabilities in foreign currency	—	—
Total hedging expenses (B)	**-55.458**	**-87.247**
C. Net hedging income (A-B)	**-146**	**153**

Section 5

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

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

	30/06/2014			30/06/2013		
	Gains	**Losses**	**Net profit (loss)**	**Gains**	**Losses**	**Net profit (loss)**
Financial assets						
1. Due from Banks	—	—	—	—	—	—
2. Due from customers	218	—	218	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	**218**	**—**	**218**	**8**	**—**	**8**
Financial liabilities						
1. Due to Banks	—	—	—	—	—	—
2. Due to customers	—	—	—	—	—	—
3. Debt securities in issue	—	—	—	1.792	—	1.792
Total liabilities	**—**	**—**	**—**	**1.792**	**—**	**1.792**

Section 6

Heading 130: Adjustments for impairment

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

Transactions/Income-linked components	Value adjustments			Amounts recovered				30/06/2014	30/06/2013
	Specific		Portfolio	Specific		Portfolio			
	Write offs	Others		A	B	A	B		
A. Due from Banks	—	—	-32	—	—	—	25	-7	-29
B. Due from customers	—	—	-4.574	—	—	—	1.503	-3.071	-649
C. Total	**—**	**—**	**-4.606**	**—**	**—**	**—**	**1.528**	**-3.078**	**-678**

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				30/06/2014	30/06/2013
	Specific		Portfolio	Specific		Portfolio			
	Write offs	Others		A	B	A	B		
A. Guarantees given	—	—	-9	—	—	—	9	—	3
B. Credit derivatives	—	—	—	—	—	—	—	—	—
C. Commitments	—	—	-827	—	—	—	206	-621	-322
D. Other transactions	—	—	—	—	—	—	—	—	—
E. Total	**—**	**—**	**-836**	**—**	**—**	**—**	**215**	**-621**	**-319**

Legend

A = interest

B = other amounts recovered

Section 7

Heading 180: Administrative expenses

7.1 Personnel cost: composition (in € k)

	30/06/2014	**30/06/2013**
1.Employees	-588	-786
a) wages and salaries	-484	-618
b) social security charges	-30	-36
c) severance indemnities	—	—
d) pension contributions	-23	-28
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:	-33	-67
– defined contribution	-33	-67
– defined benefit	—	—
h) expenses incurred in connection with share payment schemes	—	—
i) other staff benefits	-18	-37
2. Other staff	—	—
3. Board members	-140	-168
Total	**-728**	**-954**

7.2 Other administrative expenses: composition (in € k)

	30/06/2014	30/06/2013
– outside consultants' fees	-207	-272
– legal fees due in respect of credit recovery	—	—
– share and bond administration	-97	-90
– advertising	-4	-5
– insurance	-1	-2
– rents and leases	-188	-197
– maintenance, repairs and refurbishment	-16	-17
– service providers	-2	-3
– financial information subscriptions	—	—
– stationery and printing	-5	-5
– membership subscriptions	-257	-150
– postal, telephone, fax and telex charges	-35	-27
– newspapers, magazines and library acquisitions	-1	-4
– other staff expenses	—	—
– utilities	—	—
– EDP costs	-571	-538
– Bank charges	-29	-32
– travel and secondment	-42	-30
– outsourced activities	-3.163	-5.072
– other expenses	-1	-1
Total other expenses	**-4.619**	**-6.445**
– indirect and other taxes	-473	-754
Total indirect tax	**-473**	**-754**
Total other administrative expenses	**-5.092**	**-7.199**

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	30/06/2014	30/06/2013
A. Tangible assets					
A.1 Owned:	-17	—	—	-17	-19
– Core	-17	—	—	-17	-19
– Investment	—	—	—	—	—
A.2 Acquired under finance leases:	—	—	—	—	—
Total	-17	**—**	**—**	**-17**	**-19**

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	30/06/2014	30/06/2013
A. Intangible assets					
A.1 Owned	-2	—	—	-2	-3
– software	—	—	—	—	—
– other	-2	—	—	-2	-3
A.2 Acquired under finance leases	—	—	—	—	—
Total	**-2**	**—**	**—**	**-2**	**-3**

Section 10

Heading 220: Other operating income (expenses)

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

	30/06/2014	30/06/2013
A. Other income (expenses) – other	60	109
– Sundry other expense reimbursements	—	—
– Direct debit expense reimbursements	—	—
– Income for services given to third Companies	—	—
– Other income	60	110
– Other charges	—	-1
B. Other income (expenses) – amounts recovered	—	—
– withholding tax	—	—
– Amounts recovered from staff	—	—
– Amounts recovered from clients	—	—
– Other amounts recovered	—	—
Total	**60**	**109**

Section 11

Heading 290: Income tax on the ordinary activity

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

	30/06/2014	30/06/2013
1. Current taxes	-4.650	-3.610
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	**-4.650**	**-3.623**

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	239	13	164	27	1
20.	Financial assets held for trading	55.384	3.077	37.948	6.154	351.121
50.	Financial assets held to maturity	153.931	8.552	105.471	17.103	—
60.	Loans and advances to credit institutions	544.353	30.242	372.982	60.484	—
70.	Loans and advances to customers	1.277.711	70.984	875.469	141.968	—
80.	Hedging derivatives	122.559	6.809	83.976	13.617	—
100.	Equity investments	—	—	—	—	4.150
120.	Tangible assets	—	—	—	—	12
130.	Intangible assets	—	—	—	—	—
140.	Tax assets	—	—	—	—	—
160.	Other assets	1.224	68	839	136	—
	Total assets at 30/06/2014	**2.155.401**	**119.745**	**1.476.849**	**239.489**	**355.284**
	Total assets at 30/06/2013	**2.313.270**	**119.652**	**1.395.939**	**159.535**	**301.325**
10.	Amount due to Credit institutions	-681.258	-37.848	-466.788	-75.695	—
20.	Amount due to customers	-664.843	-36.936	-455.541	-73.871	—
30.	Debt securities in issue	-658.027	-36.557	-450.870	-73.114	—
40.	Financial liabilities held for trading	-175.205	-9.734	-120.048	-19.467	-41.329
60.	Hedging derivatives	-80	-4	-55	-9	—
80.	Tax liabilities	-1.246	-69	-854	-138	—
100.	Other liabilities	-1.280	-71	-877	-142	—
160.	Shareholders' equity	-132.732	-7.374	-90.946	-14.748	—
	Total liabilities at 30/06/2014	**-2.314.671**	**-128.593**	**-1.585.979**	**-257.184**	**-41.329**
	Total liabilities at 30/06/2013	**-2.307.056**	**-119.330**	**-1.392.187**	**-159.108**	**-297.291**

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	53.570	2.099	45.168	4.201	—
020.	Interests payable and similar charges	-41.821	-1.638	-35.262	-3.281	—
030.	**Net interest income**	**11.749**	**461**	**9.906**	**920**	**—**
040.	Fee and commission income	6.337	247	5.343	495	373
050.	Fee and commission expense	-2.803	-111	-2.363	-220	—
060.	**Net fee and commission income**	**3.534**	**136**	**2.980**	**275**	**373**
080.	Net trading income/expense	-623	-28	-524	-46	3.944
090.	Net hedging income/expense	-74	-3	-63	-5	—
100.	Gain or loss on disposal or repurchase of:	111	4	94	9	—
	a) loans and receivables	—	—	—	—	—
	b) financial assets available for sale	—	—	—	—	—
	c) financial assets held to maturity	—	—	—	—	—
	d) financial liabilities	111	-4	94	9	—
120.	**Total income**	**14.697**	**570**	**12.393**	**1.153**	**4.317**
130.	Value adjustments	-1.887	-74	-1.590	-148	—
140.	**Net income from the financial management**	**12.810**	**496**	**10.803**	**1.005**	**4.317**
180.	Administrative expenses	-2.965	-115	-2.500	-231	—
200.	Value adjustments in respect of tangible assets	—	—	—	—	-17
210.	Value adjustments in respect of intangible assets	—	—	—	—	-2
220.	Other operating income/expense	—	—	—	—	60
280.	**Profit (loss) of the ordinary activity before tax**	**9.845**	**381**	**8.303**	**774**	**4.358**
290.	Income tax on the ordinary activity	-2.371	-93	-1.999	-186	—
340.	**Profit (loss) for the year**	**7.474**	**288**	**6.304**	**588**	**4.358**
350.	Other comprehensive income, net of tax	—	—	—	—	—
360.	**Total comprehensive income for the year, net of tax as at 30/06/2014**	**7.474**	**288**	**6.304**	**588**	**4.358**
	Total comprehensive income for the year, net of tax as at 30/06/2013	**8.355**	**482**	**5.992**	**946**	**-1.010**

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 2014 and 2013.

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

	LUXEMBOURG	OTHER EUROPEAN COUNTRIES	AMERICAS	ASIA	OCEANIA
Cash and cash balances with Central Banks	444	—	—	—	—
Financial assets held for trading	338.402	115.281	—	—	—
Financial assets held to maturity	—	285.057	—	—	—
Loans and advances to Credit Institutions	15.970	992.090	—	—	—
Loans and advances to Customers	12.342	1.970.484	377.905	—	5.401
Hedging derivatives	—	226.961	—	—	—
Equity investments	4.150	—	—	—	—
Tangible assets	12	—	—	—	—
Intangible assets	—	—	—	—	—
Tax assets	—	—	—	—	—
Other assets	33	1.969	265	—	—
A. Total assets 30/06/2014	**371.353**	**3.591.842**	**378.170**	**—**	**5.401**
A. Total assets 30/06/2013	**328.865**	**3.494.458**	**384.038**	**—**	**82.360**
Amount due to Banks	—	-1.261.590	—	—	—
Amount due to customers	-200.000	-1.031.191	—	—	—
Debt securities in issue	-1.208.531	-10.037	—	—	—
Financial liabilities held for trading	-65.226	-300.553	—	—	—
Hedging derivatives	—	-149	—	—	—
Tax liabilities	-2.307	—	—	—	—
Other liabilities	-25	-2.086	-259	—	—
Shareholders' equity	-245.800	—	—	—	—
B. Total liabilities 30/06/2014 (1)	**-1.721.889**	**-2.605.606**	**-259**	**—**	**—**
B. Total liabilities 30/06/2013 (1)	**-1.687.951**	**-2.586.769**	**-252**	**—**	**—**

(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	-4.931	-8.236	-8.789	—	-1.087
Net fee and commission income	-801	-4.638	-1.858	—	-6
Net trading income/expense	-12.742	10.019	—	—	—
Net hedging income/expense	-4.840	4.986	—	—	—
Gain or loss on disposal or repurchase	—	-2.425	2.207	—	—
Value adjustments - impairment	-16	3.328	268	—	119
Administrative expenses	1.456	4.365	—	—	—
Value adjustments – amortisation	19	—	—	—	—
Other operating income (expenses)	-13	-46	—	—	—
Income tax	4.649	—	—	—	—
Net profit/loss 2014	**-17.219**	**7.353**	**-8.172**	**—**	**-974**
Net profit/loss 2013	**-88.033**	**94.221**	**7.826**	—	**735**

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, Coface).

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	30/06/2014	30/06/2013
1. Financial assets held for trading	—	417.351	417.351	408.238
Banks	—	—	—	7.629
Customers	—	76.145	76.145	56.654
Derivative instruments	—	341.206	341.206	343.955
2. AFS securities	—	—	—	—
Banks	—	—	—	—
Customers	—	—	—	—
3. Financial assets held to maturity	—	285.057	285.057	309.608
Banks	—	285.057	285.057	309.608
Customers	—	—	—	—
4. Due from Banks	—	1.008.503	1.008.503	976.837
5. Due from customers	57.717	2.308.416	2.366.133	2.374.724
6. Financial assets recognized at fair value	—	—	—	—
Banks	—	—	—	—
Customers	—	—	—	—
7. Financial assets being sold	—	—	—	—
Banks	—	—	—	—
Customers	—	—	—	—
8. Hedging derivatives	—	226.961	226.961	209.467
Total	**57.717**	**4.246.288**	**4.304.005**	**4.278.875**

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	—	—	—	417.351	—	417.351	417.351
2. AFS securities	—	—	—	—	—	—	—
3. Financial assets held to maturity	—	—	—	285.057	—	285.057	285.057
4. Due from Banks	—	—	—	1.008.535	-32	1.008.503	1.008.503
5. Due from customers	57.717	—	57.717	2.313.654	-5.238	2.308.416	2.366.133
6. Financial assets recognized at fair value	—	—	—	—	—	—	—
7. Financial assets being sold	—	—	—	—	—	—	—
8. Hedging derivatives	—	—	—	—	—	226.961	226.961
Total at 30/06/2014	**57.717**	**—**	**57.717**	**4.024.597**	**-5.270**	**4.246.288**	**4.304.005**
Total at 30/06/2013	**143.111**	**—**	**143.111**	**4.137.955**	**-2.192**	**4.135.763**	**4.386.154**

Impaired assets at 30 June 2014 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	30/06/2014	30/06/2013
A. CASH EXPOSURES					
a) Non-performing	—	—	—	—	—
e) Other assets	1.293.592	—	-32	1.293.560	1.294.075
Total A	**1.293.592**	**—**	**-32**	**1.293.560**	**1.294.075**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Non-performing	—	—	—	—	—
b) Other assets	499.075	—	—	499.075	577.190
Total B	**499.075**	**—**	**—**	**499.075**	**577.190**

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	30/06/2014	30/06/2013
A. CASH EXPOSURES					
a) Non-performing	57.717	—	—	57.717	143.111
b) Other assets	2.389.799	—	-5.238	2.384.561	2.288.267
Total A	**2.447.516**	**—**	**-5.238**	**2.442.278**	**2.431.378**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Non-performing	2.667	—	—	2.667	3.007
b) Other assets	1.186.572	—	-1.372	1.185.200	1.141.361
Total B	**1.189.239**	**—**	**-1.372**	**1.187.867**	**1.144.368**

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

Description/Category	30/06/2014		30/06/2013
	Non performing	**Restructured**	
A. Gross exposure at start of period	50.708	92.403	86.432
of which: accounts sold but not derecognized	—	—	—
B. Additions	7.845	9.135	94.095
B.1 transfers from performing loans	6.561	—	82.219
B.2 transfer from other categories of impaired assets	—	—	—
B.3 other additions	1.284	9.135	11.876
C. Reductions	-51.866	-50.508	-37.416
C.1 transfer to performing loans	—	—	—
C.2 amounts written off	—	—	—
C.3 amounts collected	—	-46.392	-2.817
C.4 gains realized on disposal	-50.792	—	-30.855
C.5 transfers to other categories of impaired assets	—	—	—
C.6 other reductions	-1.074	-4.116	-3.744
D. Gross exposure at end of period	6.687	51.030	143.111
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	—	—	-2.163
B. Additions	—	—	-4.573
B.1 value adjustments	—	—	-4.052
B.2 transfers from other categories of impaired assets	—	—	—
B.3 other additions	—	—	-521
C. Reductions	—	—	1.498
C.1 writebacks based on valuations	—	—	—
C.2 writebacks due to amounts collected	—	—	1.293
C.3 amounts written off	—	—	—
C.4 transfers to other categories of impaired assets	—	—	—
C.5 other reductions	—	—	205
D. Adjustments at 30/06/2014	**—**	**—**	**-5.238**
D. Adjustments at 30/06/2013	**—**	**—**	**-2.163**

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	403.475	—	396.139	—	—	—	—	—	—	—	7.336	—
- *non performing*	—	—	—	—	—	—	—	—	—	—	—	—
1.2 partly secured	—	—	—	—	—	—	—	—	—	—	—	—
- *non performing*	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2014	**403.475**	**—**	**396.139**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**7.336**	**—**
Total 30/06/2013	**417.113**	**—**	**403.709**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**13.404**	**—**
2. Secured exposures to customers:												
2.1 completely secured	577.842	—	—	—	—	—	76.145	—	—	153.117	348.580	—
- *non performing*	*57.717*	—	—	—	—	—	—	—	—	—	*57.717*	—
2.2 partly secured	1.649.956	—	—	110.698	—	—	—	—	—	—	1.010.284	—
- *non performing*	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2014	**2.227.798**	**—**	**—**	**110.698**	**—**	**—**	**76.145**	**—**	**—**	**153.117**	**1.358.864**	**—**
Total 30/06/2013	**2.240.852**	**—**	**—**	**—**	**—**	**—**	**53.653**	**—**	**—**	**120.921**	**1.570.647**	**—**

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

		Real guarantees			Personal guarantees							
					Credit derivatives				Endorsements			
	Total exposure	**Properties**	**Securities**	**Other assets**	**Governments**	**Other public agencies**	**Banks**	**Others**	**Governments**	**Other public agencies**	**Banks**	**Others**
1. Secured exposures to Banks:												
1.1 completely secured	—	—	—	—	—	—	—	—	—	—	—	—
1.2 partly secured	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2014	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2013	—	—	—	—	—	—	—	—	—	—	—	—
2. Secured exposures to customers:												
2.1 completely secured	366.506	—	—	—	—	—	—	—	—	55.292	311.214	—
- *non performing*	—	—	—	—	—	—	—	—	—	—	—	—
2.2 partly secured	663.222	—	—	—	—	—	—	—	—	—	428.702	—
- *non performing*	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2014	**1.029.728**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**55.292**	**739.916**	**—**
Total 30/06/2013	**3.980.900**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**77.306**	**801.725**	**—**

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 2014 was € 315 million (2013: € 191 million) before taking account of collateral or other credit enhancements and € 73 million (2013: € 29 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	—	—	13.712	—	44.005	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	—	—	—	—
Net exposure	—	—	13.712	—	44.005	—
A.2 Other exposures						
Gross exposure	—	—	484.057	—	1.905.742	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-3.107	—	-2.131	—
Net exposure	—	—	480.950	—	1.903.611	—
Total A						
Gross exposure	—	—	497.769	—	1.949.747	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-3.107	—	-2.131	—
Net exposure	—	—	494.662	—	1.947.616	—
B. Off-balance sheet exposures						
B.1 Non-performing						
Gross exposure	—	—	—	—	2.667	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	—	—	—	—
Net exposure	—	—	—	—	2.667	—
B.2 Other exposures						
Gross exposure	—	—	212.697	—	973.874	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-373	—	-999	—
Net exposure	—	—	212.324	—	972.876	—
Total B						
Gross exposure	—	—	212.697	—	976.541	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-373	—	-999	—
Net exposure	—	—	212.324	—	975.543	—
Total 30/06/2014						
Gross exposure	—	—	710.466	—	2.926.288	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-3.480	—	-3.130	—
Net exposure	—	—	706.986	—	2.923.159	—
Net exposure 30/06/2013	—	—	613.513	—	2.962.233	—

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

Exposure/geographical areas	Luxembourg		Other European countries		America		Asia		Oceania	
	Gross exposure	**Net exposure**	**Gross exposure**	**Net exposure**	**Gross exposure**	**Net exposure**	**Gross exposure**	**Net exposure**	**Gross exposure**	**Net exposure**
A) Cash exposures										
A.1 Non-performing	—	—	57.717	57.718	—	—	—	—	—	—
A.2 Performing	12.342	12.342	1.993.279	1.988.912	378.658	377.905	—	—	5.520	5.401
Total A	12.342	12.342	2.050.996	2.046.630	378.658	377.905	—	—	5.520	5.401
B) Off-balance-sheet exposures										
B.1 Non-performing	—	—	2.667	2.667	—	—	—	—	—	—
B.2 Performing	22.992	22.992	951.920	950.808	211.659	211.400	—	—	—	—
Total B	22.992	22.992	954.587	953.475	211.659	211.400	—	—	—	—
Total 30/06/2014	**35.334**	**35.334**	**3.005.583**	**3.000.105**	**590.317**	**589.305**	**—**	**—**	**5.520**	**5.401**
Total 30/06/2013	**76.749**	**76.733**	**2.756.460**	**2.754.306**	**663.092**	**662.348**	**—**	**—**	**82.359**	**82.359**

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	1.099	1.099	1.292.494	1.292.461	—	—	—	—	—	—
Total A	1.099	1.099	1.292.494	1.292.461	—	—	—	—	—	—
B) Off-balance-sheet exposures										
B.1 Non-performing	—	—	—	—	—	—	—	—	—	—
B.2 Performing	—	—	499.075	499.075	—	—	—	—	—	—
Total B	—	—	499.075	499.075	—	—	—	—	—	—
Total 30/06/2014	**1.099**	**1.099**	**1.791.569**	**1.791.536**	—	—	—	—	—	—
Total 30/06/2013	**1.873**	**1.873**	**1.869.421**	**1.869.392**	—	—	—	—	—	—

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

	30/06/2014	30/06/2013
a) Gross exposure	3.484.561	3.557.333
b) No. large risk exposures	36	51
c) Large risk exposure after CRM	810.828	974.950
d) No. large risk exposures after CRM	25	29
e) Large risk after CRM/regulatory capital	2,66	3,37

In accordance with EU Regulation n. 575/2013 of the European Parliament and of the Council of 26 June 2013, the Bank’s exposures to a client or group of connected clients shall be considered a large exposure where its value is equal to or exceeds 10 % of its eligible capital (Article 392). 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 €2.451m as at 30 June 2014 (€4.539m as at 30 June 2013).

C.1 *Securitizations*

As of 30 June 2014 and 2013 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 2014. 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: - € 6.850.760
- Scenario -200 bps: - € 1.894.192

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 30/06/2014	—	—	—	—	—	—	—	—
Total cash assets at 30/06/2013	—	—	—	—	—	—	—	—
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 30/06/2014	—	—	—	—	—	—	—	—
Total cash liabilities at 30/06/2013	—	—	—	—	—	—	—	—
3. Financial derivatives								
3.1 With underlying securities	—	—	—	—	—	—	—	—
– Options	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities	—	1.969.265	96.088	—	894.424	11.200	10.000	—
– Options	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others	—	1.969.265	96.088	—	894.424	11.200	10.000	—
+ Long positions	—	975.076	21.088	—	478.124	6.200	10.000	—
+ Short positions	—	994.189	75.000	—	416.300	5.000	—	—
Total financial derivatives at 30/06/2014	—	**1.969.265**	**96.088**	—	**894.424**	**11.200**	**10.000**	—
Total financial derivatives at 30/06/2013	—	**1.954.488**	**94.000**	—	**661.954**	**10.000**	**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	—	187.475	100.382	—	—	—	—	—
– with early redemption option	—	—	—	—	—	—	—	—
– other	—	187.475	100.382	—	—	—	—	—
1.2 Loans to Banks	235.770	382.857	380.533	—	—	—	—	6.396
1.3 Loans to customers	84.664	2.011.953	323.806	—	31.489	—	—	—
Total cash assets at 30/06/2014	**320.434**	**2.582.285**	**804.721**	**—**	**31.489**	**—**	**—**	**6.396**
Total cash assets at 30/06/2013	**263.958**	**2.626.790**	**777.823**	**1.698**	**23.766**	**36.256**	**4.623**	**216**
2. Cash liabilities								
2.1 Amounts due to customers	-200.000	-924.733	—	-451	—	—	-104.578	—
2.2 Amounts due to Banks	-10.083	-934.495	-13.575	-39.598	—	—	-263.838	—
2.3 Debt securities in issue	—	-916.779	-40.147	-23.884	-236.257	-1.501	—	—
Total cash liabilities at 30/06/2014	**-210.083**	**-2.776.007**	**-53.722**	**-63.933**	**-236.257**	**-1.501**	**-368.416**	**—**
Total cash liabilities at 30/06/2013	**-22.470**	**-2.689.662**	**-201.264**	**-144.298**	**-301.360**	**—**	**-327.883**	**-2.042**
3. Financial derivatives								
3.1 With underlying securities	—	—	—	—	—	—	—	—
– Options	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities	—	336.820	144.505	104.600	987.641	10.000	656.556	—
– Options	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others	—	336.820	144.505	104.600	987.641	10.000	656.556	—
+ Long positions	—	18.661	61.000	64.600	572.641	5.000	398.159	—
+ Short positions	—	336.820	83.505	40.000	415.000	5.000	258.397	—
Total financial derivatives at 30/06/2014	**—**	**336.820**	**144.505**	**104.600**	**987.641**	**10.000**	**656.556**	**—**
Total financial derivatives at 30/06/2013	**—**	**512.161**	**134.652**	**118.294**	**430.174**	**—**	**572.869**	**—**
4. Other off-balance sheet								
+ Long positions	—	181.780	67.712	20.232	771.962	44.100	—	—
+ Short positions	1.085.786	—	—	—	—	—	—	—
Total other off-balance sheet at 30/06/2014	**1.085.786**	**181.780**	**67.712**	**20.232**	**771.962**	**44.100**	**—**	**—**
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, Forex Swap). Forex exposure is constantly monitored by management through dedicated ALM reports; corrective actions are dealt if necessary.

As at 30 June 2014 the Bank has not registered any forex capital allowance.

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

QUANTITATIVE INFORMATION

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

Line items	Currency				
	US dollars	**Pounds sterling**	**Japanese yen**	**Swiss francs**	**Other**
A. Assets					
A.1 Debt securities	—	—	—	—	—
A.2 Equities	—	—	—	—	—
A.3 Loans and advances to Banks	45.881	—	—	—	1.011
A.4 Loans and advances to customers	638.932	496.459	—	3.953	71.997
A.5 Other financial assets	—	—	—	—	—
B. Financial liabilities					
B.1 Due to Banks	-366.223	-295.689	-6	-171	-823
B.2 Due to customers	—	—	—	—	—
B.3 Debt securities	-98.712	—	—	—	-14.470
B.4 Other financial liabilities	—	—	—	—	—
C. Financial Derivatives					
- Options	—	—	—	—	—
+ long positions	—	—	—	—	—
+ short positions	—	—	—	—	—
- Other	-219.651	-199.626	—	-3.702	-57.916
+ long positions	—	—	—	—	7.181
+ short positions	-219.651	-199.626	—	-3.702	-65.097
Total assets 30/06/2014	684.813	496.459	—	3.953	80.189
Total liabilities 30/06/2014	-684.586	-495.315	-6	-3.873	-80.390
Difference (+/-) 30/06/2014	**227**	**1.144**	**-6**	**80**	**-201**
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**

1.2.3 Financial derivative products

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

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

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

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

A. FINANCIAL DERIVATIVES

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

	30/06/2014		**30/06/2013**	
Type of transactions	**Over-the-counter**	**Listed**	**Over-the-counter**	**Listed**
1. Debt securities and interest rates	997.673	—	990.878	—
a) Options	—	—	—	—
b) Swap	997.673	—	990.878	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
2. Equities and share indexes	577.356	—	608.797	—
a) Options	577.356	—	608.797	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Exchange rates and Gold	501.033		372.163	
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	501.033	—	372.163	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	**2.076.062**	—	**1.971.838**	—
Average values	**1.414.294**	—	**1.156.427**	—

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

A.2.1 *Hedging derivatives*

Type of transactions	**30/06/2014**		**30/06/2013**	
	Over-the-counter	**Listed**	**Over-the-counter**	**Listed**
1. Debt securities and interest rates	687.263	—	920.523	—
a) Options	—	—	—	—
b) Swap	428.866	—	662.126	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	258.397	—	258.397	—
2. Equities and share indexes	—	—	—	—
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Exchange rates and Gold	—	—	2.751	—
a) Options	—	—	—	—
b) Swap	—	—	2.751	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	**687.263**	**—**	**923.274**	**—**
Average values	**669.476**	**—**	**783.585**	**—**

A.2.2 *Other derivatives*

Type of transactions	30/06/2014		30/06/2013	
	Over-the-counter	**Listed**	**Over-the-counter**	**Listed**
1. Debt securities and interest rates	430.000	—	395.000	—
a) Options	—	—	—	—
b) Swap	430.000	—	395.000	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
2. Equities and share indexes	478.821	—	607.552	—
a) Options	478.821	—	607.552	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Exchange rates and Gold	5.003	—	2.302	—
a) Options	—	—	—	—
b) Swap	5.003	—	2.302	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	**913.824**	**—**	**1.004.854**	**—**
Average values	**862.824**	**—**	**546.937**	**—**

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

Type of transactions	Positive fair value			
	30/06/2014		30/06/2013	
	Over-the-counter	Listed	Over-the-counter	Listed
A. Regulatory trading book	33.059	—	43.010	—
a) Options	27.032	—	15.624	—
b) Interest Rate Swap	4.778	—	26.638	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	1.249	—	748	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
B. Banking book: Hedge derivatives	427.526	—	377.286	—
a) Options	—	—	—	—
b) Interest Rate Swap	226.921	—	209.467	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	200.605	—	167.819	—
C. Banking book: Others derivatives	93.689	—	116.235	—
a) Options	87.152	—	113.707	—
b) Interest Rate Swap	6.497	—	2.528	—
c) Cross Currency Swap	40	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	**554.274**	**—**	**536.531**	**—**

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

Type of transactions	Negative fair value			
	30/06/2014		30/06/2013	
	Over-the-counter	Listed	Over-the-counter	Listed
A. Regulatory trading book	-94.948	—	-133.055	—
a) Options	-87.456	—	-113.707	—
b) Interest Rate Swap	-5.545	—	-14.492	—
c) Cross Currency Swap	-1.801	—	-1.458	—
d) Equity Swap	—	—	—	—
e) Forward	-146	—	-3.398	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
B. Banking book: Hedge derivatives	-201.810	—	-168.251	—
a) Options	—	—	—	—
b) Interest Rate Swap	-1.205	—	-282	—
c) Cross Currency Swap	—	—	-150	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	-200.605	—	-167.819	—
C. Banking book: Others derivatives	-27.844	—	-18.778	—
a) Options	-26.726	—	-14.503	—
b) Interest Rate Swap	-961	—	-4.275	—
c) Cross Currency Swap	-157	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	**-324.602**	**—**	**-320.084**	**—**

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	30/06/2014							30/06/2013
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	400.000	—	—	—	—	400.000
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	800	—	—	—	—	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	0,50%	5%	8%	7%	12%
Over five years	1,50%	7,50%	10%	8%	15%

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

Contracts not forming part of netting arrangements	30/06/2014							30/06/2013
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	597.673	—	—	—	—	590.878
- positive fair value	—	—	4.778	—	—	—	—	26.638
- negative fair value	—	—	-5.545	—	—	—	—	-14.492
2. Equities and share indexes								
- notional value	—	—	577.356	—	—	—	—	608.797
- positive fair value	—	—	27.032	—	—	—	—	15.624
- negative fair value	—	—	-87.456	—	—	—	—	-113.707
3. Exchange rates and Gold								
- notional value	—	—	501.033	—	—	—	—	372.163
- positive fair value	—	—	1.249	—	—	—	—	748
- negative fair value	—	—	-1.947	—	—	—	—	-4.856
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	**30/06/2014**							**30/06/2013**
	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	—	—	—	—	129.198
- positive fair value	—	—	200.605	—	—	—	—	167.819
- negative fair value	—	—	-1.189	—	—	—	—	—
- 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	30/06/2014							30/06/2013
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	558.065	—	—	—	—	791.325
- positive fair value	—	—	226.921	—	—	—	—	209.467
- negative fair value	—	—	-200.621	—	—	—	—	-168.101
2. Equities and share indexes								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
3. Exchange rates and Gold								
- notional value	—	—	—	—	—	—	—	2.751
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	-150
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	21.088	958.384	18.200	997.672
A.2 Financial derivatives on equities and share indexes	100.600	476.756	—	577.356
A.3 Financial derivatives on foreign currency and gold	489.074	11.960	—	501.034
A.4 Financial derivatives on other assets	—	—	—	—
B. Banking book:				
B.1 Financial derivatives on debt securities and interest rates	124.261	589.843	403.159	1.117.263
B.2 Financial derivatives on equities and share indexes	100.600	378.221	—	478.821
B.3 Financial derivatives on foreign currency and gold	—	5.003	—	5.003
B.4 Financial derivatives on other assets	—	—	—	—
Total at 30/06/2014	**835.623**	**2.420.167**	**421.359**	**3.677.149**
Total at 30/06/2013	**852.525**	**2.234.571**	**812.870**	**3.899.966**

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	130.665	586.700	117.034	18.000
b) Credit spread products	—	—	—	—
c) Total rate of return swap	—	—	—	—
d) Others	—	—	—	—
Total at 30/06/2014	**130.665**	**586.700**	**117.034**	**18.000**
Average values at 30/06/2014	96.448	586.700	115.147	18.000
Total at 30/06/2013	**84.987**	**586.700**	**192.086**	**18.000**
2. Hedge sales				
a) Credit default	162.955	18.000	77.127	586.700
b) Credit spread products	—	—	—	—
c) Total rate of return swap	—	—	—	—
d) Others	—	—	—	—
Total at 30/06/2014	**162.955**	**18.000**	**77.127**	**586.700**
Average values at 30/06/2014	128.969	18.000	66.947	586.700
Total at 30/06/2013	**192.086**	**18.000**	**84.987**	**586.700**

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

Transaction categories	Positive FV	
	30/06/2014	30/06/2013
1. Regulatory trading book		
a) Credit default	6.078	9.878
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
2. Regulatory banking book		
a) Credit default	7.816	14.381
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
Total	**13.894**	**24.259**

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

Transaction categories	Negative FV	
	30/06/2014	30/06/2013
1. Regulatory trading book		
a) Credit default	-5.000	-5.310
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
2. Regulatory banking book		
a) Credit default	—	-10.217
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
Total	**-5.000**	**-15.527**

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

Contracts not forming part of netting arrangements	30/06/2014							30/06/2013
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
Regulatory trading book								
1. Hedge buys								
- notional value	—	—	717.365	—	—	—	—	671.687
- positive fair value	—	—	60	—	—	—	—	9.119
- negative fair value	—	—	-4.641	—	—	—	—	-881
2. Hedge sales								
- notional value	—	—	180.955	—	—	—	—	210.086
- positive fair value	—	—	6.018	—	—	—	—	759
- negative fair value	—	—	-359	—	—	—	—	-4.429
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	375.414	501.706	21.200	898.320
a) CDS with "qualified" reference obligation	—	5.348	—	5.348
b) CDS with "unqualified" reference obligation	375.414	496.358	21.200	892.972
2. Regulatory banking book	328.715	448.946	21.200	798.861
a) CDS with "qualified" reference obligation	—	—	—	—
b) CDS with "unqualified" reference obligation	328.715	448.946	21.200	798.861
Total at 30/06/2014	**704.129**	**950.652**	**42.400**	**1.697.181**
Total at 30/06/2013	**200.368**	**1.527.178**	**36.000**	**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 2013 and 2014 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 30/06/2014 (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	272.852	16.447	54.450	203.395	131.125	574.871	179.086	2.079.039	306.492	443
A.1 Government securities	—	—	—	—	—	—	—	—	—	—
A.2 Listed debt securities	—	—	—	—	—	—	—	—	—	—
A.3 Other debt securities	—	—	—	—	980	36.882	1.959	249.497	—	—
A.4 OICR units	—	—	—	—	—	—	—	—	—	—
A.5 Loans and advances	272.852	16.447	54.450	203.395	130.145	537.989	177.127	1.829.542	306.492	443
– to Banks	235.770	6.389	8.714	—	16.561	412.053	4.121	330.000	2.789	443
– to customers	37.082	10.058	45.736	203.395	113.584	125.936	173.006	1.499.542	303.703	—
Cash liabilities	-209.606	-54.888	-316	-18.129	-134.135	-406.564	-74.773	-2.416.652	-222.822	—
B.1 Deposits	-209.606	-54.888	—	-12.554	-4.239	-181.960	-18.598	-1.620.839	-199.761	—
– to Banks	-9.606	-1.881	—	-210	-2.621	-179.480	-6.352	-760.839	-152.256	—
– to customers	-200.000	-53.007	—	-12.344	-1.618	-2.480	-12.246	-860.000	-47.505	—
B.2 Debt securities	—	—	-316	-5.575	-129.896	-224.604	-56.175	-795.813	-23.061	—
B.3 Other liabilities	—	—	—	—	—	—	—	—	—	—
Off-balance-sheet transactions	1.086.369	1.129	-251	-271	249.306	303.210	96.115	2.331.777	434.367	—
C.1 Financial derivatives with exchange of principal	—	—	—	—	-20	88	15	-1.204	180.000	—
– long positions	—	—	—	—	—	100	63	12.160	90.000	—
– short positions	—	—	—	—	-20	-12	-48	-13.364	90.000	—
C.2 Financial derivatives without exch. of principal	583	956	-251	-271	-674	7.144	1.587	2.800	78.396	—
– long positions	2.489	1.000	—	18	393	8.697	4.498	1.400	39.198	—
– short positions	-1.906	-44	-251	-289	-1.067	-1.553	-2.911	1.400	39.198	—
C.3 Irrevocable commitments to disburse funds	1.085.786	—	—	—	—	15.500	55.226	859.570	155.490	—
– long positions	—	—	—	—	—	15.500	55.226	859.570	155.490	—
– short positions	1.085.786	—	—	—	—	—	—	—	—	—
C.4 Credit derivatives with exchange of principal	—	—	—	—	250.000	280.313	39.287	1.467.836	20.100	—
– long positions	—	—	—	—	125.000	131.700	39.287	714.681	18.100	—
– short positions	—	—	—	—	125.000	148.613	—	753.155	2.000	—
C.5 Credit derivatives without exchange of principal	—	173	—	—	—	165	—	2.775	381	—
– long positions	—	223	—	—	—	165	—	2.815	674	—
– short positions	—	-50	—	—	—	—	—	-40	-293	—

1.b *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	1.048.677	2.473	188.312	94.613	40.801	115.574	60.682	2.011.408	402.784	—
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	—	—	—	—	—	—	—	—	—

1.4 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 2014 is € 5,2 million (€ 6,3 million as at 30 June 2013).

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 2014 and 2013 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 2014.

PART G – CAPITAL MANAGEMENT

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

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

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

Regulatory capital has been calculated on the basis of the Regulation n. 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR and CRD IV) in conjunction with CSSF Regulation 14-01 about the implementation of certain discretions contained in Regulation (EU) No 575/2013.

At the end of June 30, 2014, the Bank complies with all capital ratios:

1. CET1 Capital ratio: 8,47% (min. 4.5%)
2. T1 Capital ratio: 8,47% (min. 6%)
3. Total Capital ratio: 10,13% (min. 8,5%)

Therefore the fiscal year ended with a capital surplus of € 64m (with regards to the total capital ratio). However considering the Tier I Capital Conservation Buffer (required by the CSSF Regulation 14-01), the Bank is slightly below the standard (2,47% against 2,50%). Taking into consideration the fact that the profit of the second half of the year was not included in the calculation (being unaudited), the Management of the Bank believes that in September 2014 the Bank will be compliant with Capital Conservation Buffer.

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

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

QUANTITATIVE INFORMATION

(In €)	30/06/2014 (including profit of the fiscal year)	30/06/2014 (excluding profit of the fiscal year)	30/06/2013 (including profit of the fiscal year)	30/06/2013 (excluding profit of the fiscal year)
Original own funds (Tier 1)	264.626.376	255.394.338	245.800.426	239.204.808
Additional own funds (Tier 2)	50.000.000	50.000.000	50.000.000	50.000.000
Total own funds (Tier 1 + Tier 2)	**314.626.376**	**305.394.338**	**295.800.426**	**289.204.808**
Credit/Counterparty risk (Standardized approach)	235.939.561	235.939.561	248.700.702	248.700.702
Market risk (Standardized Approach)	—	—	—	—
Operational risk (Basic Indicator Approach)	5.160.386	5.160.386	6.330.798	6.330.798
Total capital requirements (Pillar 1)	**241.099.947**	**241.099.947**	**255.031.500**	**255.031.500**
Pillar 2 Risk (Internal Assessment)	5.900.000	5.900.000	5.700.000	5.700.000
Total capital requirements (Pillar 1 + Pillar 2)	**246.999.947**	**246.999.947**	**260.731.500**	**260.731.500**
Surplus (+) / Deficit (-) of Own Funds	67.626.429	58.394.391	35.068.926	28.473.308
Total capital ratio (%)	10,44	10,13	9,28	9,07

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 2014 and 2013 concerning related parties are as follows (in € k):

Assets and liabilities	30/06/2014		30/06/2013
	Parent Bank	Other related parties	
Financial assets held for trading	39.141	—	32.919
Financial assets held to maturity	285.057	—	309.608
Loans and advances	1.013.775	100.262	1.173.475
Derivatives held for hedging	226.961	—	209.467
Other assets	—	42	4.240
Total assets	**1.564.934**	**100.304**	**1.729.709**
Amounts due	-993.629	—	-952.530
Debt securities	-14.881	-193.626	-231.925
Financial liabilities held for trading	-300.553	—	-309.597
Derivatives held for hedging	-148	—	-432
Other liabilities	-1.413	-32	-9.569
Total liabilities	**-1.310.624**	**-193.658**	**-1.504.053**

Comprehensive income	30/06/2014		30/06/2013
	Parent Bank	Other related parties	
Interest and similar income	8.004	3.271	11.973
Interest expenses and similar charges	-36.805	—	-12.874
Fee and commission income	777	383	694
Fee and commission expenses	-5.169	—	-6.853
Net gains and losses on financial assets and liabilities hft	-11.112	—	23.239
Net gains and losses from hedge accounting	30.258	—	-31.101
Administrative expenses	-3.163	-623	-5.878
Impairment	—	-39	-127
Other income	—	6	16
Total	**-17.210**	**2.998**	**-20.911**

Guarantees and commitments	30/06/2014		30/06/2013
	Parent Bank	Other related parties	
Financial guarantees given	—	—	—
Commercial guarantees given	—	—	—
Irrevocable commitments to disburse funds	—	24.958	33.379
Commitments underlying cds: hedge sales	524.299	—	210.086
Total	**524.299**	**24.958**	**243.465**

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:

	30/06/2014	30/06/2013
Administrative bodies	—	25
Key management personnel	315	466
	315	**491**

As of 30 June 2014 and 2013, neither advances nor guarantees were granted to Directors or Senior Management. Remuneration to key management personnel includes salary, benefit, tantieme and bonus. One member of key management benefits of a pension plan and supplementary insurances, as do all employed staff.

PART I – OTHER INFORMATION

Audit fees

As of 30 June 2014 and 2013, audit fees are split as follows (in €):

	30/06/2014	30/06/2013
Audit fees	94.209	141.970
Audit related fees	25.325	10.500
Other fees	20.280	34.983
Total	**139.814**	**187.453**

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

Staff number

As at 30 June 2014 and 2013, the Bank's staff is as follows:

	30/06/2014	30/06/2013
Management–Senior	2	2
Management–Middle	2	3
Other staff	5	3
Total	**9**	**8**

As of 30 June 2014 and 2013, the Bank's Senior Management consists of two Managing Directors, only one directly included on the Bank's payroll. Also, one member of the Middle Management and one staff are not included directly on the Bank's payroll but are on secondment from the Parent Company.

PART J – SUBSEQUENT EVENTS

The Bank is not aware of any other adjusting or not-adjusting event that would have occurred between 30 June 2014 and the date when the present financial statements were authorized for issue.