MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.

RCS n. B 112885

Annual Accounts and Report
as at June 30, 2015

MEDIOBANCA INTERNATIONAL (Luxembourg) S.A.

SOCIÉTÉ ANONYME

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

Annual General Meeting
5 October 2015

BOARD OF DIRECTORS

		Term expires	Location
MASSIMO DI CARLO	CHAIRMAN	2017	ITALY
STEFANO BIONDI	MANAGING DIRECTOR	2017	LUXEMBOURG
PETER W. GERRARD	»	2017	LUXEMBOURG
LUCA MACCARI	DIRECTOR	2017	ITALY
MASSIMO BERTOLINI	»	2017	ITALY
LIVIO WINTELER	»	2017	ITALY
ALEX SCHMITT	»	2017	LUXEMBOURG
STEPHANE BOSI	»	2017	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 2015
MANAGEMENT REPORT

The outlook for economic growth in the EU has brightened. Recent hard and soft indicators confirm that a cyclical upswing driven by private consumption is underway and most data suggest that growth may still strengthen in the near term, as the economy receives an extra boost from tailwind factors such as low oil prices, a weaker euro and quantitative easing (QE) from the European Central Bank (ECB). EU has recently announced an upward revision to the GDP growth forecast this year, which is now expected to pick up from 0,9% last year to 1,5% in 2015 and 1,9% in 20161. On the other hand, geopolitical tension with Russia together with speculation about a Greek exit from the eurozone and persisting high unemployment rates in some Member States, continue to weaken the medium-term outlook.

International Monetary Fund (IMF) has recently highlighted as global growth is forecast at 3.5 percent in 2015 and 3.8 percent in 2016, with uneven prospects across the main countries and regions of the world2. Growth in emerging market economies is softening, reflecting an adjustment to diminished medium-term growth expectations and lower revenues from commodity exports, as well as country-specific factors. The outlook for advanced economies is showing signs of improvement, owing to the boost to disposable incomes from lower oil prices, continued support from accommodative monetary policy stances, and more moderate fiscal adjustment.

In this macro-economic scenario, the Bank has performed well showing a significant increase of net profit compared to June 2014 (+26%, from € 19m to € 23,9m). A detailed analysis of the performance registered on the main income and financial items will be made further in this report.

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

- Shareholder’s appointment of a new Board of Directors having previously established their number at eight (original Board of Directors’ mandate expired with the Annual General Meeting held on October 3, 2014). Mr. Massimo Di Carlo has been confirmed as Chairman for the entire mandate of the Board (therefore for the next three financial years ending June 30, 2017), while Mr. Stefano Biondi and Mr. Peter W. Gerrard have been confirmed as Managing Directors;
- approval by the Board of Directors of the strategies and policy for the institution’s risk governance and monitoring, including finalization of the Risk Appetite Framework (RAF) and adaptation of the internal controls system;
- further strengthening of the internal control systems, in accordance with the requirements set forth by the CSSF Circular 14/597 (update of Circular CSSF 12/552 on central administration, internal governance and risk management);
- on December 18, 2014, Standard & Poor's (S&P’s) lowered its long- and short-term rating on Mediobanca S.p.A. to “BBB-/A-3” from “BBB/A-2” in conjunction with the same action taken on December 5, 2014 on Italy sovereign credit rating;

[1] Source: EU Spring 2015 Economic Forecast (http://ec.europa.eu/economy_finance/eu/forecasts/2015_spring_forecast_en.htm)
[2] Source: IMF World Economic Outlook, April 2015 (http://www.imf.org/external/pubs/ft/weo/2015/01/)

- on April 16, 2015, Fitch Ratings has assigned for the first time to Mediobanca S.p.A. a long- and short-term Issuer Default Rating (IDR) respectively of “BBB+” and “F2”. The Outlook on the long-term IDR is stable;
- On 30 July 2014 Regulation (EU) No 806/2014 establishing a Single Resolution Mechanism (SRM) for the Banking Union was published into the Official Journal of the EU. The SRM will complement the Single Supervisory Mechanism (SSM) and will ensure that – notwithstanding stronger supervision – if a bank subject to the SSM faces serious difficulties, its resolution can be managed efficiently with minimal costs to taxpayers and the real economy. In the cases when banks fail despite stronger supervision, the mechanism will allow bank resolution to be managed effectively through a Single Resolution Board and a Single Resolution Fund, directly financed by the banking sector. Its purpose is to ensure an orderly resolution of failing banks with minimal costs for taxpayers and to the real economy;
- on July 1, 2015 the Luxembourg Parliament approved the draft law pertaining to the ratification of the intergovernmental agreement on FATCA signed between Luxembourg and the United States. The Luxembourg Tax Authority confirmed that the deadline for the reporting of the information related to 2014 by Luxembourg financial institutions is July 31, 2015.

DEVELOPMENT IN MACROECONOMIC SCENARIO

According to data released last July by the International Monetary Fund, in the first quarter of 2015 global growth slowed down to 2,2% from 3% in the second half of 2014. Global growth expectations for 2015 have been revised downwards to 3,3% or 0,2 points lower than April projection. The world economy is expected to grow 3,8% in 2016. The latest forecasts for 2015 confirm a marked divergence between the different regions of the planet. According to estimates, advanced economies will grow by 2,1% (+2,4% in 2016), with the United States at 2,5%, improving marginally compared to 2,2% in 2013 and 2,4% in 2014. 2016 is expected to bring a stronger recovery, estimated at 3%. In the Eurozone, growth should stand at 1,5% (1,7% in 2016), with Spain and Germany among the most dynamic economies (+3,1% and 1,6% respectively), France at +1,2%, and Italy showing a more moderate +0,7%, a better performance than was projected in April (+0,5%). Improvements are forecast in the United Kingdom, expected to end 2015 with a 2,4% growth rate, Canada (+1,5%) and Japan with a more modest +0,8%. While still expected to end 2015 with a stronger growth (4,2%) than their developed counterparties, emerging economies show a more subdued performance compared to +5% in 2013 and +4,6% in 2014, reflecting the challenges encountered by Russia (whose decline for 2015 is estimated at -3,4%) and other regions, against a backdrop of still very high growth rates in China (+6,8%) albeit slower than in the recent past and steady growth in India (+7,5%). Also for 2015, it is worth mentioning the vigorous growth of sub-Saharan Africa (4,4%), the 2,9% growth rate of Eastern Europe, and the slowdown of Latin America, growing moderately by 0,5% in the wake of the downturn foreseen for Brazil (-1,5%).

Back to the most recent figures, 2015 has been influenced by a number of partly temporary factors. The United States was affected by adverse winter weather conditions that slowed demand and led to the closure of several commercial ports, and by the downsizing of investment in the oil sector due to low oil prices (which however are marginally recovering from the lows of 2014, with the estimated average price for 2015 at US$59 per barrel). While on the one hand low oil prices entail clear economic benefits to importing countries, on the other they have undermined the ability of oil and gas companies to repay the debts incurred, and have impacted industry sales in countries like Argentina, Brazil, Nigeria, South Africa and Venezuela. In China, after a strong rally in the Shanghai Stock Exchange, which rose by 150%, with peaks in mid-June, the sudden plunge that caused a 30% loss in just a few days has aroused some concern, with local authorities deciding to adopt measures aimed at containing losses and volatility.

Moreover, the Asian country continues to experience clear difficulties in implementing a new economic growth model based on an expansion of domestic demand, which is still relatively weak.

In Greece, non-repayment of some expiring loans, the subsequent referendum and increasing uncertainty on the possibility of concluding new agreements with the international financial community, have led to a sharp rise in interest rates on Greek bonds, especially in the short term, with a direct impact on the prices of risky assets and a moderate rise in sovereign bond spreads of financially weaker countries. Geopolitical tensions continue to run high in the Ukraine, the Middle East and some regions of Africa. At least some of these factors are expected to let up quickly, allowing growth to recover in the second half of the year.

Positive factors include the strong monetary policy measures taken in the euro area and Japan to fight deflationary pressure, through the adoption of quantitative easing, some of the effects of which can already be observed: credit spreads dropping in the Euro Area, equities prices rising, and a marked depreciation of the euro and the yen concomitantly with an appreciation of the US dollar, reflecting divergent monetary policies. These currency movements are expected to foster economic growth in the Eurozone and Japan in 2015-16, with positive net effects for the global economy.

Improved prospects for the Eurozone are driven in particular by the expected favourable currency impact, moderate interest rates (attributable to the ECB's measures, in contrast to the expected tightening of monetary policy in the US), and the positive effects on income of lower energy prices, resulting in an expansion of private consumption expenditure and business investments. According to forecasts, these will gradually increase, albeit at a lower rate than in pre-crisis years, driven by cyclical recovery and the easing in some countries of supply-side credit constraints (as a direct result of improved conditions for banks to access the deposit markets, thanks to declining credit risk premiums and increasing bond issues). Factors that held back investments included the sovereign debt crisis in the Euro Area, low profitability, and a considerable margin of unused productive capacity. In addition, capital expenditure would benefit from strengthening domestic and external demand, from the need to modernize capital assets after several years of under-investment, and from improved profit margins.

However, in the Euro Area external demand was weaker than recently expected, reflecting the slowdown in emerging markets, but should record a moderate increase with the recovery of global economic activity.

Manufacturing industry

Against this backdrop, 2014 saw a global trend towards a slight rise in the sales growth rates of manufacturing multinationals compared to the previous year. This was observed in all world regions, with the exception of North America, where sales were stagnant, and a stronger recovery in Japan and the rest of the world, mainly Africa and South America. In Europe, sales revenues grew by 1,4% over 2013 (with a slight improvement from +0,3% in the previous year); in North America, revenues were in line with those of 2013 (+1,1% in the previous year), while Japan stands out with a 4,9% growth, despite a significant decline from 2013 (+13,4%). The Russian-Asian region recorded the same growth rates as in the previous year: +1,6% (+1,5% in 2013), while the southern hemisphere showed the most dynamic growth, with a rise of 10,4%, up from 6,9% in 2013. Manufacturing sales further recovered, with 2009 levels exceeded by 29% by European multinationals and by 27% and 25% by Japanese and North American multinationals respectively. The east and south of the world have strengthened their wide margin over 2009 by 79% and 40% respectively. Gross margin grew at the same rates as revenues: the EBIT of European manufacturing multinationals recorded a 1,7% increase (from 0,1%); North American corporations performed worse, with a 1,4% decline (vs -0,8% in 2013). In Europe, the more favourable net result was supported by extraordinary gains of 6,9%, while the opposite occurred in North America (-

5,3%), partly due to higher non-recurring charges for goodwill impairments. Russian-Asian corporations saw a decline in both their industrial margins, with the EBIT decreasing by 13,9% and net profits decreasing by 4,8%, while the rest of the world performed very positively, with a 25,1% increase in operating margins and net profits of 38,3%. There have been also positive signs from Japanese multinationals, whose EBIT and net income rose by 10% and 12,1% respectively.

	Europe		North America		Russian-Asian region	
	Energy	Manufacturing	Energy	Manufacturing	Energy	Manufacturing
			% chg. vs 2013/14			
Revenues	-6,1	+1,4	-6,0	0,0	+2,6	+1,6
EBIT	-28,3	+1,7	-19,6	-1,4	-9,8	-13,9
Net result	-49,3	+6,9	-17,1	-5,3	-38,2	-4,8
ROE (%)	5,9	16,2	15,1	27,5	8,5	15,0

Source: R&S – Multinationals: financial aggregates (2015)

Between 2006 and 2010, the global energy industry started on a trend of progressively eroding gross margins; after the 2011 recovery, 2014 once again saw a significant downturn (-28,3% in Europe, -19,6% in North America), caused among other factors by dropping oil prices and consequent pressure on sales (down by 6% both in Europe and in North America). In 2014, the energy sector had a lower ROE than the manufacturing industry.

	Europe		North America		Russian-Asian region	
	% chg. vs 2013	% of capital invested	% chg. vs 2013	% of capital invested	% chg. vs 2013	% of capital invested
Equity	+0,4	55,1	-9,1	62,7	+8,9	71,6
Financial debt	+4,1	44,9	+5,8	37,3	-1,2	28,4
Liquidity	-3,3	15,1	-5,9	24,1	+3,4	24,4
Net debt /Equity (%)		81,4		59,5		39,8
Intangibles/equity (%)		76,6		76,5		10,6

Source: R&S – Multinationals: financial aggregates (2015), manufacturing companies

The financial soundness of manufacturing multinationals showed signs of slight deterioration in 2014 in Europe and North America. Only Russian-Asian businesses reduced their financial debt by 1,2% which, along with an 8,9% equity increase, led to an improvement from 63,8% to 39,8% of the ratio between the two measures, placing the Russian-Asian groups among the most capitalized, followed by North American corporations ranking in the intermediate bracket at 59,5%, while the European manufacturing industry confirms its weakness in terms of equity. One factor of potential vulnerability is intangibles, which account for approximately 76% of equity both in North America and in Europe (70% in the previous year).

Financial industry

In 2014, the total revenues of the major international banks decreased on both sides of the Atlantic. For large European institutions, the contribution margin has dropped by 1,6% (compared to -0,8% in 2013), as a result of the simultaneous reduction of all its components (net trading income: -19,6%; other revenues: -11,7%; net commissions: -0,5%), except for interest margin which, after the 6,6% dip in 2013, improved by 2,6% in 2014. With rates at historic lows, this performance was due to the recovery of customer deposits the concomitant containment of funding costs. Considering that structural costs decreased slightly (-0,6%) from the previous year as a result of opposite factors: on the one hand, labour costs down 1% and a 3,9% workforce reduction, on the other overheads remained essentially stable (-0,1%), the 46,5% improvement in the current result is to be attributed to a drastic reduction in credit losses (-43,4%), whose incidence as a proportion of revenues now stands at 10,3%, significantly lower than the peaks of the last five years (e.g. 22,8% in 2008 and 27,6% in 2009) but still higher than that of major US banks. Consequently, the cost of risk was almost halved, from 86 to 48 bps. Despite the still high level of extraordinary expenses, mainly consisting of fines and penalties, the net result improved by over 130%. The ROE for 2014 was 3,9%, more than double compared to 2013 (1,8%) but far from the levels reached in the 2005-2007 period (over 15% in each of those years) and in 2010 (7,6%). In 2014 the margins of the European banking system partly recovered compared to pre-crisis levels: in the 2004-2007 period the current result before tax was on average 31% of revenues; it plummeted to 2,3% in 2008 and to 11,5% in 2012, then rose to 20,5% in 2014. The net result also confirms a partial recovery of European banks, considering that its incidence as a percentage of revenues (4,1% in 2013) was just under 10% in 2014, which however is still significantly below pre-crisis levels (21%).

In 2014 the leading US institutions performed slight worse, with net profits down 8,9% from 2013. Revenues declined by 0,9% due to lower net trading income (-8,4%) and other revenues (-11,2%), while net commissions held up fairly well (+2,9%) with net interest margins remaining stable (-0,4%). Structural costs, which decreased by 1,2% from 2013 (with a workforce reduction of 2,7%, still less than in Europe), accounted for 64,2% of total revenues, with a more sustainable cost-to-income ratio than that of Europe (68,5%). While measures to reduce credit loss continued, their effects (-5,2%) were much less dramatic than in 2013 (-47,6%), when they produced a 33,6% increase in operating income from 2012; the incidence of loan write-downs as a percentage of revenues is now 4,6% (well below 9,3% in 2012), with the cost of risk now at 47,7 bps , virtually identical to that of the major European institutions. The strong rise (+97%) of extraordinary charges, mainly due to litigation costs and impairments was the major cause of the 9% reduction in net income, with ROE declining to 7,7% (9% in 2013) but still in line with the 2011-12 period (higher than 7% in each year) and twice as high as European levels. The leading US banks returned to pre-crisis levels already in 2013, considering that their income to revenues ratio was 31% both in 2013 and in 2014, i.e. the same average percentage as in the 2004-2007 period.

	Europe	United States
	% chg. vs 2014/2013	
Revenues	-1,6	-0,9
of which: interest margin	+2,6	-0,4
Loan write-downs	-43,4	-5,2
Income	+46,5	+0,2
Net profit	+133,2	-8,9
ROE (%)	3,9	7,7

Source: R&S –Major international banks (2015)

On the assets side, 2014 saw the end of the deleveraging process that took place in 2013, with European banks' assets catching up on past losses and growing by 4,4%; however, the various balance sheet items show a mix of positive and negative signs. Reductions are observed in receivables from banks (-7,2%), intangible assets (-4,3%, with an incidence of 14,2% as a proportion of total assets for European banks, vs. 25,9% for US banks) and cash and receivables from central banks (-2,2%); the latter is partly attributable to the ECB's expansive monetary policy which, during 2014, reduced the rate on banks' deposits with the central bank by 20 basis points, turning the rate negative (-0,20%).

Conversely, loans to customers and portfolio securities grew by 1,4% and 2,5% respectively. After a sharp downturn of 30,8% in 2013, the fair value of derivative assets increased by 18,1% in 2014 (despite a simultaneous 9,8% decline in notionals), and the item continues to account for a significant portion of total assets (23,4% vs. 20,7% in 2013). On the liabilities side, all entries show marginal increases, with the exception of payables to banks, which are stable despite continuing partial advance repayment of the funds received through the long-term refinancing operations (LTRO) implemented by the ECB in December 2011 and February 2012; these were partly replaced by funds arising from the first two new TLTRO auctions with which the ECB allocated funds totaling €212,4 billion (€82,6 billion to 255 counterparties on 18 September and €129,8 billion to 306 counterparties on 11 December).

With regard to risk profile, leverage continued to decrease and now stands at 22,7x (from 23,9x in 2013 and 27,1x in 2012). Conversely, according to early data on the new leverage indicator according to Basel III criteria, which require banks to hold Tier 1 capital of at least 3% of total exposures from 1 January 2018, all European institutions appear to be compliant amply in advance, with an aggregate value of 4% at the end of 2014.

By contrast, Tier 3 assets show an upward trend both in absolute terms (+17,7% over 2013) and in relative terms, considering that their incidence as a percentage of tangible equity in the 2012-14 period rose from 23,8% to 25% in 2014; this was only partially offset by an 8% increase in total equity over the last year. At the end of 2014 the total capital ratio, calculated in accordance with the transitional version of the new Basel III criteria, was 16,9%, down by 30 basis points from 2013 although the comparison is not perfectly homogeneous (considering the adoption of the new standards from 1 January 2014, with the exception of Swiss banks, which applied them in 2013).

Net doubtful loans (including forbearances) decreased by 4,4% compared to 2013, although there were strong disparities between the various European countries; their incidence as a proportion of receivables from customers and of tangible equity was down from 3,6% to 3,4% and from 36% to 31,2% respectively, while the coverage rate declined by about 30 bps (from 45,8% to 45,5%).

In the United States, assets have increased more than in Europe (+5,4%), again partly due to the derivatives portfolio, up 11% in terms of fair value (but down 4,8% in notional amounts) and still accounting for more than a quarter of the total. Both loans to banks and portfolio securities grew significantly, with the former up by 6,8% (including accounts with the Federal Reserve) and the latter by 7,8%, while loans to customers from major US institutions only rose by 1,4%, the same growth rate recorded in Europe. On the liabilities side, the bonds market grew by 5% (including subordinated debts), deposits by 2.5% and equity by 6% (vs. 7.9% for European banks).

	Europe	United States
	% chg. vs 2013/14	
Balance sheet total	+4,4	+5,4
Derivatives	+18,1	+11,0
Securities	+2,5	+7,8
Loans to customers	+1,4	+1,4
Deposits from customers	+0,3	+2,5
Debt securities	+1,4	+5,0
Total capital ratio (%)	16,9	14,6

Source: R&S – Major international banks (2015)

Capitalisation remains higher than that of European banks, with the equity accounting for 8,2% of total assets in 2014 (5,1% in Europe). This allowed a reduction in leverage, which was down to 16,1x in 2014 (16,8x in 2013) and was lower by almost seven percentage points compared to Europe. Contrary to what happened in Europe, Tier 3 assets declined sharply (-21% from 2013 and -39,6% from 2012), with an incidence as a percentage of tangible equity of 18,5% in 2014 (compared to 25,8% in 2013), lower than the current levels of major European banks. Net doubtful loans decreased by 22% in a positive macroeconomic environment (the 2014 US GDP grew by 3,9% at current prices), and the leading American institutions maintain a higher coverage rate (63%) and a significantly lower incidence of impaired loans as a percentage of tangible equity (5,3%) compared to major European banks. Both risk-weighted assets (RWAs) and supervisory assets of US banks were up, 9,7% and 5,6% respectively, compared to 2013, with the incidence of the former as a percentage of total assets equal to 50,2% in 2014 for US banks and 30,8% for European institutions; the average total capital ratio of the former, equal to 14,6% in 2014, is still lower than the level of European banks (16,9%).

Lastly, an important aspect to be discussed is the size of the major banking institutions. In Europe, their overall assets in 2014 amounted to twice the GDP of the countries in which they are based, with higher values for Switzerland (4 times), France and England (3 times); in the United States the total assets of major banks is only 73% of GDP.

The situation of the two leading Italian institutions in 2014 was marked by the following key aspects: a) the year ended with a profit, after the loss of 2013 due mainly to significant write-downs and impairments of intangibles and other assets; b) compared to the European benchmark, the asset composition sees a prevalence of loans to customers (52,6% vs. 39,9% in the European benchmark) and moderate speculative activities, particularly with regard to derivatives (9,4% of assets compared to a total of 23,4%) and illiquid assets (Tier 3 at 15,4% of tangible equity versus an average of 25%); c) solvency ratios below the average level, with a progressive partial reduction of the gap compared to the past (total capital ratio at 15,3% vs. 16,9%); d) greater incidence of bad debts as a percentage of tangible equity, equal to 81,8% vs. 31% of the EU average; e) coverage of non-performing loans higher than the European average (52,7% vs. 45,5%), with losses on loans as a percentage of total revenues still well above average values (21,9% compared to 10,3%); f) higher levels of Basel III's new leverage ratio.

RESTATED STATEMENT OF FINANCIAL POSITION

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

	12 mths to 30/06/2015	12 mths to 30/06/2014	Y.o.Y. chg.
	€m	€m	%
Net treasury investments	835,3	459,8	82%
Securities (HTM & L&R)	254,6	287,8	-12%
Loans and advances	2.965,3	2.731,7	9%
Equity investments	4,2	4,2	0%
Tangible and intangible assets	-	-	-
Other assets	3,1	8,7	-64%
TOTAL ASSETS	**4.062,5**	**3.492,2**	**16%**
Funding	3.767,9	3.224,1	17%
Other liabilities	5,9	3,3	78%
of which: tax liabilities	2,8	2,3	24%
Net equity	264,8	245,8	8%
Profit	23,9	19,0	26%
TOTAL LIABILITIES	**4.062,5**	**3.492,2**	**16%**

Assets

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

Net treasury investments – the item increased by 82%, from € 459,8m to € 835,3m, and includes:

- financial assets held for trading (other than derivatives) which increased by 39%, from € 112,5m to € 156,1m, mainly due to the purchase of SICAVs carried out in the context of financial structures where the referred risks remain substantially hedged.
- net application in treasury funds (including repos, time deposits, etc.) which increased by 118%, from € 371,9m to € 812m, mainly as a consequence of time deposits negotiated with the Parent in order to re-invest the excess of liquidity deriving from the notes issued under the existing Euro Commercial Paper and French CDs Programmes.
- value adjustments on derivative contracts on the other hand decreased by 440%, from € -24,6m to € -132,8m, reflecting the volatility arising from the market-based valuation of derivative products.

	12 mths to 30/06/2015	12 mths to 30/06/2014	Y.o.Y. chg.
	€m	€m	%
Financial assets HFT other than derivatives	156,1	112,5	39%
Net applications treasury funds	812,0	371,9	118%
Derivatives instruments	-132,8	-24,6	440%
Net treasury investments	**835,3**	**459,8**	**82%**

Securities (HTM & L&R) – this item amounts to € 254,6m and decreased by 12% compared to June 2014 (€ 287,8m) due to redemptions occurred during the period.

Loans and advances – this item increased by 9% (+€ 233,6m, from € 2.731,7m to € 2.965,3m) due to continued recovery in corporate lending. The institution's net credit risk exposure (i.e. excluding the amounts already guaranteed by financial pledge of the Parent) remains stable at € 821,2m (€ 829,3m at June 2014). Finally it is noteworthy that the quality of the credit portfolio has improved, with the "watch list ratio3" of the Bank passing from 6,5% (June 2014) to 5,5% (June 2015).

In an environment which continues to stay challenging, non performing loans decreased from € 57,7m to € 53,9m representing approximately 2% of corporate loans, and remains fully guaranteed by the Parent Company.

	12 mths to 30/06/2015	12 mths to 30/06/2014	Y.o.Y. chg.
	€m	€m	%
Performing	2.911,4	2.674,0	9%
Restructured and non performing	53,9	57,7	-7%
FV hedging loans and advances	-	-	-
Loans and advances	**2.965,3**	**2.731,7**	**9%**

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

Other assets – this item decreased by 64%, from € 8,7m to € 3,1m. This reduction is mainly due to € 6,3m of transitory receivables originally accounted at the end of June 2014, and that were already cleared

[3] Exposures reported in watch-list as a percentage of the total credit portfolio (net of the guarantees eventually received from the Parent and/or other third parties).

in July 2014. The amount outstanding at the end of June 2015 is mainly composed of commissions receivables on corporate lending.

Liabilities

On the liabilities side the followings variations are to be noted:

Funding – this item amounts to € 3.767,9m and is increased when compared to June 2014 (€ 3.224,1m). In particular:

- Amount due to banks and customers increased by 18% (from € 2.232,3m to € 2.640,7m) mainly due to higher long term borrowings negotiated with the Parent Company to replace (and compensate) the liquidity needs arising from: (i) growth of corporate lending, (ii) early redemption of some outstanding corporate borrowings, and (iii) decline in notes issued under the EMTN Programme (see below).
- Notes issued under the existing EMTN Programme decreased by 10% (from € 1.218,6m to € 1.101,8m);
- Fair value valuation of hedging derivatives increased by 26% (from € -226,8m to € -284,8m);
- € 310,2m of short term papers were finally issued under the existing Euro Commercial Paper and French CD Programmes (while the outstanding amount was nil in June 2014).

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 in the TLTRO group lead by the Parent Company.

	12 mths to 30/06/2015	12 mths to 30/06/2014	Y.o.Y. chg.
	€m	€m	%
Amount due to banks and customers	2.640,7	2.232,3	18%
Notes issued	1.101,8	1.218,6	-10%
FV hedging of borrowings	-284,8	-226,8	26%
Short term funding debt instruments	310,2	-	-
Funding	**3.767,9**	**3.224,1**	**17%**

Other liabilities – this item increased by 78%, from € 3,3m to € 5,9m, mainly due to invoice receivables from the Parent Company. Also tax liabilities grew € 0,5m by reason of provisions accounted for during the period, net of the advances already paid to the Tax Authority.

Net equity – No dividends have been distributed during the exercise and the increase from € 245,8m to € 264,8m 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 statement of comprehensive income account

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

	12 mths to 30/06/2015	12 mths to 30/06/2014	Y.o.Y. chg.
	€m	€m	%
Net interest income	30,8	24,4	26%
Net trading income	-4,0	1,4	-385%
Net fee and commission income	8,2	7,4	11%
TOTAL INCOME	**35,0**	**33,2**	**6%**
Wages and salaries	-0,9	-0,8	12%
Other administrative expenses	-5,2	-5,1	2%
OPERATING COST	**-6,1**	**-5,9**	**4%**
Loans impairment	0,9	-3,7	-125%
Provisions for other financial assets	-	-	-
PROFIT BEFORE TAX	**29,8**	**23,6**	**26%**
Fiscal provision	-5,9	-4,6	28%
NET PROFIT	**23,9**	**19,0**	**26%**

Net interest income – net interest income increased by 26%, from € 24,4m to € 30,8m, due to:

- higher interest income registered in particular on corporate lending (+7%, from € 66,6m to € 71,6m) by reason of increasing volumes negotiated/approved;
- stable cost of financing (which passed from € -58,1m to € -58,3m) especially on interest payables over notes issued under the EMTN Programme, which have partially matured during the fiscal year, being substituted by cheaper long term borrowings;
- net interest income from treasury operations which have increased by 10%, from € 15,9m to € 17,5m.

The different components performed as follows:

	12 mths to 30/06/2015	12 mths to 30/06/2014	Y.o.Y. chg.
	€m	€m	%
Interests receivable - lending	71,6	66,6	7%
Interests payable - funding	-58,3	-58,1	0%
Treasury	17,5	15,9	10%
Net interest income	**30,8**	**24,4**	**26%**

Net trading income – this category is made up of € -4,0m (€ +1,4m in June 2014):

- dealing profits are € 4,1m (€ 2,8m in June 2014) which mainly reflect an increase in the amounts collected on: (i) the early unwinds at fair market values of credit/financial derivatives, and (ii) loan trading;
- unrealised mark-to-market valuations of OTC derivatives generated a loss of € -4,2m (€ -1,5m in June 2014). In this respect it is worth remarking that the Parent Bank is substantially the only swap counterpart of the institution, and all derivatives contracts are concluded under Credit Support Annex;
- impact on forex exposure amounts to € -1,6m (€ -0,1m in June 2014);
- gains on disposals and repurchases turned into a loss of € -2,3m (€ +0,2m in June 2014). In this regard it is important to highlight that this loss is substantially compensated by the increase of dealing profits (see above).

	12 mths to 30/06/2015	12 mths to 30/06/2014	Y.o.Y. chg.
	€ m	€ m	%
Realised gains/losses	4,1	2,8	45%
Unrealised gains/losses	-4,2	-1,5	181%
Forex exchange gains/losses	-1,6	-0,1	1477%
Gains on disposals/repurchases	-2,3	0,2	-1231%
Net trading income	**-4,0**	**1,4**	**-386%**

Net fee and commission income – this item, still driven by corporate business, increased by 11% when compared to June 2014 (from € 7,4m to € 8,2m). Net lending fees in particular increased by 50% (from € 6,6m to € 9,9m) as a consequence of the recovery in corporate lending.

Other commissions payable on the other hand are € -2,4m (while the amount was nil in June 2014) and represents fees which are due to the Parent Company for services received under the existing EMTN Programme (e.g. dealing and/or structuring fees).

	12 mths to 30/06/2015	12 mths to 30/06/2014	Y.o.Y. chg.
	€ m	€ m	%
Net lending fees:	9,9	6,6	50%
- Loans and advances rec. (+)	17,9	11,7	53%
- Loans and advances pay (-)	-5,6	-2,4	132%
- Guarantees given rec. (+)	0,4	0,4	0%
- Guarantees received pay (-)	-2,8	-3,1	-9%
Other fees (+)	0,7	0,8	-12%
Other fees (-)	-2,4	-	-
Net fee income	**8,2**	**7,4**	**11%**

Operating costs – this item slightly increased by 4%, from € -5,9m to € -6,1m, with the main components that have performed as follows:

- wages and salaries are stable at € -0.9m (€ -0,8m in June 2014). At the end of June 2015 the staff number is stable compared to the previous year.
- other costs are also stable at € -5,2m (€ -5,1m in June 2014).

Impairment of loans and advances – this item decreased by 125%, from € -3.7m to € +0,9m, reflecting the improved credit quality of the lending portfolio. Significant portion of loans remains covered by financial guarantees issued either by the Parent or other public Agencies/Insurers. At the reporting date the Bank has a direct credit risk exposure for € 821,2m (June 2014: € 829,3m).

Proposal for allocation of disposable profit

The Board of Directors of Mediobanca International (Luxembourg) S.A. proposes to the Annual General Meeting to be held in Luxembourg on October 5, 2015 the following allocation of the net result:

- Profit of the year	€	23.912.809
- Balance on retained earnings	€	-
- Total profit to be allocated	€	23.912.809
- To specific reserve for N.W.T.	€	6.356.450
- To free reserves	€	17.556.359

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 period ended 30 June 2015.

Luxembourg, 14 September 2015

The Board of Directors

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

INDEPENDENT AUDITOR’S REPORT

Audit report

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

Report on the 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 2015, 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 2015, and of its financial performance and its cash flows for the year then ended in accordance 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, 14 September 2015

Björn Ebert

FINANCIAL STATEMENTS AS OF 30 JUNE 2015

STATEMENT OF FINANCIAL POSITION

	Assets	30/06/2015	30/06/2014
		€	€
10.	Cash and cash balances with Central Banks	315.509	443.873
20.	Financial assets held for trading	542.276.759	453.683.767
50.	Financial assets held to maturity	251.846.653	285.057.267
60.	Loans and advances to Credit Institutions	1.271.098.029	1.008.060.416
70.	Loans and advances to Customers	2.635.782.833	2.366.132.399
80.	Hedging derivatives	284.949.080	226.960.831
100.	Equity investments	4.150.000	4.150.000
120.	Property, plant and equipment	21.656	11.546
130.	Intangible assets	—	—
	of which: goodwill	—	—
140.	Tax assets	—	—
	a) current	—	—
	b) deferred	—	—
160.	Other assets	2.780.325	2.266.382
	TOTAL ASSETS	**4.993.220.844**	**4.346.766.481**

	Liabilities and equity	30/06/2015	30/06/2014
	Net income from banking activities	€	€
10.	Amounts due to Credit Institutions	1.778.619.058	1.261.589.640
20.	Amounts due to Customers	988.182.164	1.231.191.493
30.	Debt securities in issue	1.412.019.711	1.218.568.520
40.	Trading liabilities	519.004.302	365.778.952
60.	Hedging derivatives	132.149	148.136
80.	Tax liabilities	2.845.817	2.307.236
	a) current	*1.969.217*	*1.430.636*
	b) deferred	*876.600*	*876.600*
100.	Other liabilities	3.692.787	2.370.457
160.	Reserves	254.812.047	235.800.426
190.	Share capital	10.000.000	10.000.000
200.	Profit for the year	23.912.809	19.011.621
	TOTAL LIABILITIES AND EQUITY	**4.993.220.844**	**4.346.766.481**

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

STATEMENT OF COMPREHENSIVE INCOME

	Item	30/06/2015	30/06/2014
		€	€
010.	Interests receivable and similar income	102.217.523	105.045.094
020.	Interests payable and similar charges	-74.585.818	-82.002.380
030.	**Net interest income**	**27.631.705**	**23.042.714**
040.	Fee and commission income	18.946.599	12.798.024
050.	Fee and commission expense	-10.788.120	-5.496.612
060.	**Net fee and commission income**	**8.158.479**	**7.301.412**
080.	Net trading income/expense	1.423.435	2.723.359
090.	Net hedging income/expense	506	-146.362
100.	Gain or loss on disposal or repurchase of:	-2.262.805	217.763
	a) loans and receivables	*-56.876*	*217.763*
	b) financial assets available for sale	—	—
	c) financial assets held to maturity	—	—
	d) financial liabilities	*-2.205.929*	—
120.	**Total income**	**34.951.320**	**33.138.886**
130.	Value adjustments in respect of:	911.676	-3.699.097
	a) loans and receivables	*593.888*	*-3.077.629*
	b) financial assets available for sale	—	—
	c) financial assets held to maturity	—	—
	d) other financial operations	*317.788*	*-621.469*
140.	**Net income from banking activities**	**35.862.996**	**29.439.789**
180.	Administrative expenses:	-6.111.033	-5.820.220
	a) personnel costs	*-902.137*	*-727.977*
	b) other administrative expenses	*-5.208.896*	*-5.092.243*
200.	Value adjustments in respect of tangible assets	-7.924	-17.286
210.	Value adjustments in respect of intangible assets	—	-1.761
220.	Other operating income/expense	28.591	59.842
280.	**Profit (loss) of the ordinary activity before tax**	**29.772.630**	**23.660.364**
290.	Income tax on the ordinary activity	-5.859.821	-4.648.743
340.	**Profit (loss) for the year**	**23.912.809**	**19.011.621**
350.	Other comprehensive income, net of tax	—	—
360.	**Total comprehensive income for the year, net of tax**	**23.912.809**	**19.011.621**

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

STATEMENT OF CHANGES IN EQUITY FROM 01/07/2014 TO 30/06/2015 (in €)

	Balance as of June 30, 2014	Allocation of the profit for the previous period		Changes during the reference period					Balance as of June 30, 2015
				Changes in reserves	Transactions involving equity			Profit (loss) of the period	
		Reserves	Dividends and other fund applications		New shares issued	Treasury shares derivatives	Stock options and others		
Share capital	**10.000.000**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**10.000.000**
a) ordinary shares	10.000.000	—	—	—	—	—	—	—	10.000.000
b) other shares	—	—	—	—	—	—	—	—	—
Profit brought forward	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Reserves	**235.800.426**	**19.011.621**	**—**	**—**	**—**	**—**	**—**	**—**	**254.812.047**
a) legal reserve	1.000.000	—	—	—	—	—	—	—	1.000.000
b) free reserve	216.681.301	13.130.446	—	—	—	—	—	—	229.811.747
c) special reserve[1]	18.119.125	5.881.175	—	—	—	—	—	—	24.000.300
d) FTA reserve	—	—	—	—	—	—	—	—	—
Valuation reserves	**—**	**—**	—	—	—	—	—	**—**	**—**
a) AFS securities	—	—	—	—	—	—	—	—	—
b) cash flow hedges	—	—	—	—	—	—	—	—	—
c) special laws – others	—	—	—	—	—	—	—	—	—
Own shares	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Comprehensive income of the period	**19.011.621**	**-19.011.621**	**—**	**—**	**—**	**—**	**—**	**23.912.809**	**23.912.809**
Total equity	**264.812.047**	**—**	**—**	**—**	**—**	**—**	**—**	**23.912.809**	**288.724.856**

[1] As of 30 June 2015 and 2014 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 01/07/2013 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	—	8.961.750[2]	—	—	—	—	216.681.301[2]
c) special reserve[1]	21.461.750	5.619.125	—	-8.961.750[2]	—	—	—	—	18.119.125[2]
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.

[2] Compared to the annual accounts as at June 30, 2014 the amount of the reserves has been restated in order to incorporate the re-classification made on provisions originally accounted for to reduce the tax burden on net wealth tax from "special reserve" to "free reserve" (after 5 years as currently allowed by Luxembourg law).

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	
		30/06/2015	**30/06/2014**
1.	**Operating activities**	**-1.306**	**-87.705**
	– interest received	131.938	204.682
	– interest paid	-136.532	-222.737
	– net fee and commission received/paid	15.553	-67.788
	– dividends and similar income	—	—
	– net premium income	-848	12.088
	– cash payments to employees	-804	-597
	– other income (expenses)	-4.874	-5.955
	– Tax income (expenses)	-5.739	-7.398
2.	**Cash generated/absorbed by financial assets**	**258.072**	**-98.567**
	– amounts due from customers	83.410	192.554
	– amounts due from banks: on demand	-280	-52.713
	– amounts due from banks: other	262.383	173
	– financial assets measured at fair value	-87.441	-238.581
	– other assets	—	—
3.	**Cash generated/absorbed by financial liabilities**	**-291.750**	**186.275**
	– amounts due to banks: on demand	-195.833	48.985
	– amounts due to banks: other	6.938	-70.413
	– amounts due to clients	-260.946	-2.959
	– debt securities in issue	174.493	62.945
	– financial liabilities measured at fair value	-16.402	147.717
	– other liabilities	—	—
	Net cash flow (outflow) from operating activities	**-34.984**	**3**
B.	**Investing activities**	—	—
	– equity investment	—	—
	– acquisitions/redemption of held-to-maturity investments	35.000	—
	– acquisitions of tangible assets	-16	-4
	– acquisitions of intangible assets	—	—
	Net cash flow (outflow) from investing activities	**34.984**	**-4**
C.	**Financing activities**	—	—
	– issues/purchases of subordinated debts (Tier II)	—	—
	Net cash flow (outflow) from financing activities	—	—
	Net cash flow (outflow) during year	**—**	**-1**

RECONCILIATION	Amount	
	30/06/2015	**30/06/2014**
Cash and cash equivalents: balance at 1 July	1	2
Total cash flow (outflow) during year	—	-1
Cash and cash equivalents: balance at 30 June	**1**	**1**

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

NOTES TO THE FINANCIAL STATEMENTS

PART A – CORPORATE INFORMATION

Corporate matters

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

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

Nature of the Bank's business

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

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

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

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

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

Outsourcing

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

Financial statements

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

The financial statements as of 30 June 2015 were authorised for issue by the Board of Directors on 14 September 2015.

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, 2015.

Section 2

General principles

The financial statements comprise:

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

All the statements have been drawn up in conformity with the general principles provided for under IFRS 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:

- IFRIC 21 Levies clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21.

- 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.

- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27): these amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

- Annual Improvements 2010-2012 Cycle: in the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial.

- Annual Improvements 2011-2013 Cycle: in the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Bank, since the Bank is an existing IFRS preparer.

- Amendments to IAS 19 Defined Benefit Plans - Employee Contributions: IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 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 EU endorsed the following accounting principles that will become effective for periods beginning on or after the 1st of July 2015:

- 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 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 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 Bank is currently assessing the impact of IFRS 15. 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.

- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38): these amendments explicitly prohibit revenue-based depreciation for property, plant and equipment. Depreciation should reflect the expected pattern of consumption of the future economic benefits of the asset. A depreciation method based on revenue allocates an asset's depreciable amount based on revenues generated in an accounting period as a proportion of total expected revenues during the asset's useful life. The amendments apply prospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

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

Summary of significant accounting policy

Cash and cash equivalents

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

Financial assets held for trading

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

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

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

Financial assets held to maturity

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

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

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

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

Loans and receivables

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

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

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

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

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

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

Financial guarantees

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

Derivative financial instruments

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

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

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

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

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

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

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

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

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

Trading

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

Hedges

There are two types of hedge:

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

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

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

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

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

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

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

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

As at 30 June 2015 the Bank does not hold any cash flow hedged transaction.

Fair Value hierarchy

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

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

Level 2: the fair value of financial instruments classified as level 2 in the fair value hierarchy is calculated by using standard valuation models calibrated to the market prices of liquid instruments or market prices provided by brokers. The Middle Office - Market Data unit of the Parent 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

This heading consists of investments in:

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

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

Property, plant and equipment

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

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

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

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

Intangible assets

These chiefly comprise long-term computer software applications.

Other intangible assets are recognized at cost, adjusted to reflect ancillary charges only where it is likely that future earnings will derive from the asset and the cost of the asset itself may be reliably determined. Otherwise the cost of the asset is booked to the statement of comprehensive income account in the year in which the expense was incurred.

The cost of intangible assets is amortized on the straight-line basis over the useful life of the asset concerned. If useful life is not determinable the cost of the asset is not amortized, but the value at which it is initially recognized is tested for impairment on a regular basis.

At annual and interim reporting dates, where there is evidence of impairment the realizable value of the asset is estimated, and the impairment is recognized in the statement of comprehensive income account as the difference between the carrying amount and the recoverable value of the asset concerned.

Provisions

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

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

Pension plans

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

Payables, debt securities in issue and subordinated liabilities

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

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

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

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

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

Derecognition of assets

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

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

Impairment of financial assets

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

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

Indicators of impairment include:

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

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

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

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

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

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

Impairment of non financial assets

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

Interest income and expenses

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

Fee and commission income and expenses

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

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

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

Net trading income/expense

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

Administrative expenses

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

Foreign currency transactions

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

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

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

Tax assets and liabilities

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

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

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

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

Changes in accounting policies and reclassifications of prior year figures

There are no changes in accounting policies or reclassification compared to the 30th of June 2014.

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 judgment

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

Going concern

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

Fair value of financial instruments

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

Impairment losses on loans and advances

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

Deferred tax assets

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. There are no deferred tax assets as at 30 June 2015.

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 2015 the item **Cash and cash balances** amounts to € 316k, a reduction of € 128k (-29%) compared to June 2014 due to:

- Decrease of liabilities[4] used for the computation of the minimum reserve: in particular deposits with agreed maturities made with customers passed from € 11 million to nil.

	30/06/2015	30/06/2014
a) Cash	1	1
b) Demand deposit held at Central Banks	315	443
Total	**316**	**444**

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.

[4] 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, 2015 **Financial assets held for trading** amount to € 542.277k, an increase of € 88.593k (+20%) compared to June 2014. Non-derivative products increased from € 112.477k to € 156.109k (+39%) due to underwrite of OICR units; while derivative products increased from € 341.206k to € 386.168k (+13%) after the closing of existing financial structures.

Item/Value	30/06/2015			30/06/2014		
	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	—	134.019	—	—	36.332	—
4. Loans and advances	22.090	—	—	76.145	—	—
4.1 Repos	—	—	—	—	—	—
4.2 Others	22.090	—	—	76.145	—	—
Total A	**22.090**	**134.019**	**—**	**76.145**	**36.332**	**—**
B. Derivative products						
1. Financial derivatives	—	274.663	102.915	—	214.530	112.782
1.1 Trading	—	10.977	102.915	—	12.650	53.046
1.2 Linked to FV options	—	—	—	—	—	—
1.3 Others	—	263.686	—	—	201.880	59.736
2. Credit derivatives	—	7.440	1.150	—	10.834	3.060
2.1 Trading	—	7.440	1.150	—	10.834	3.060
2.2 Linked to FV options	—	—	—	—	—	—
2.3 Others	—	—	—	—	—	—
Total B	**—**	**282.103**	**104.065**	**—**	**225.364**	**115.842**
Total (A+B)	**22.090**	**416.122**	**104.065**	**76.145**	**261.696**	**115.842**
Total Level 1, Level 2 and Level 3			**542.277**			**453.683**

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)

	30/06/2015	30/06/2014
1. Opening balance	**115.842**	**111.624**
2. Increases	**49.869**	**55.963**
2.1 Issues and purchases	—	—
2.2 Transfers from other levels	—	55.963
2.3 Other increases	49.869	—
3. Decreases	**61.646**	**51.745**
3.1 Sales and settlements	60.158	36.309
3.2 Transfers to other levels	—	7.451
3.3 Other decreases	1.488	7.985
4. Closing balance	**104.065**	**115.842**

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[5]
Total gains (losses) included in the comprehensive income for the period	49.869	-61.646	-11.777

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].

[5] 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).
[6] 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	30/06/2015	30/06/2014
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	134.019	36.332
4. Loans and advances	22.090	76.145
a. Governments and central Banks	—	—
b. Other public agencies	—	—
c. Banks	—	—
d. Other entities	22.090	76.145
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	**156.109**	**112.477**
B. DERIVATIVE PRODUCTS		
a. Banks	386.168	341.206
b. Customers	—	—
Total B	**386.168**	**341.206**
Total A+B	**542.277**	**453.683**

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

Type of derivatives/Underlying assets	Interest rates		Foreign currency/gold		Equities		Credit		30/06/2015		30/06/2014	
	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:	973.836	268.370	92.221	80	162.441	109.128	—	—	1.228.498	377.578	1.774.877	327.312
– with exchange of principal	90.000	205.538	92.221	80	—	—	—	—	182.221	205.618	891.246	159.666
– options bought	—	—	92.221	80	—	—	—	—	92.221	80	425.604	1.248
– other derivatives	90.000	205.538	—	—	—	—	—	—	90.000	205.538	465.642	158.418
– without exchange of principal	883.836	62.832	—	—	162.441	109.128	—	—	1.046.277	171.960	883.631	167.646
– options bought	—	—	—	—	—	—	—	—	—	—	—	—
– other derivatives	883.836	62.832	—	—	162.441	109.128	—	—	1.046.277	171.960	883.631	167.646
2) Credit derivatives:	—	—	—	—	—	—	591.279	8.590	591.279	8.590	997.234	13.894
– with exchange of principal	—	—	—	—	—	—	464.948	3.755	464.948	3.755	401.693	5.782
– without exchange of principal	—	—	—	—	—	—	126.331	4.835	126.331	4.835	595.541	8.112
Total	**973.836**	**268.370**	**92.221**	**80**	**162.441**	**109.128**	**591.279**	**8.590**	**1.819.777**	**386.168**	**2.772.111**	**341.206**

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	30/06/2015	30/06/2014
A. Balance at start of period	**—**	**—**	**36.332**	**76.145**	**112.477**	**64.283**
B. Additions	—	—	97.687	76.436	174.123	186.824
B.1 Acquisitions	—	—	75.409	70.010	145.419	181.703
B.2 Increases in fair value	—	—	296	529	825	259
B.3 Other increases	—	—	21.982	5.897	27.879	4.862
C. Reductions	—	—	—	130.491	130.491	138.630
C.1 Disposals	—	—	—	205	205	411
C.2 Redemptions	—	—	—	126.118	126.118	134.495
C.3 Reductions in fair value	—	—	—	1.866	1.866	331
C.4 Transfers to other portfolios	—	—	—	—	—	—
C.5 Other reductions	—	—	—	2.302	2.302	3.393
D. Balance at end of period	**—**	**—**	**134.019**	**22.090**	**156.109**	**112.477**

Section 5

Heading 50: Financial assets held to maturity

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

	Book value	Fair value 30/06/2015			Book value	Fair value 30/06/2014		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	251.847	—	255.402	—	285.057	—	290.732	—
1.1 Structured	—	—	—	—	—	—	—	—
1.2 Other debt securities	251.847	—	255.402	—	285.057	—	290.732	—
2. Loans and advances	—	—	—	—	—	—	—	—
Total	**251.847**	**—**	**255.402**	**—**	**285.057**	**—**	**290.732**	**—**

The Fair Value of June 2014 was reclassified from level 1 to level 2 following a joint in depth analysis carried out by both the Bank and the Parent Company.

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

Type of transactions/Value	30/06/2015	30/06/2014
1. Debt securities:	251.847	285.057
a) Governments and Central Bank	—	—
b) Other public agencies	—	—
c) Bank	251.847	285.057
d) Other issuers	—	—
2. Loans and advances to:	—	—
a) Governments and Central Bank	—	—
b) Other public agencies	—	—
c) Bank	—	—
d) Others	—	—
Total book value	**251.847**	**285.057**
Total fair value	**255.402**	**285.057**

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

	Debt securities	Loans and advances	30/06/2015	30/06/2014
A. Balance at start of period	**285.057**	—	**285.057**	**309.608**
B. Additions	**2.017**	**—**	**2.017**	**2.249**
B.1 Acquisitions	—	—	—	—
B.2 Writebacks	—	—	—	—
B.3 Transfers from other asset classes	—	—	—	—
B.4 Other increases	2.017	—	2.017	2.249
C. Reductions	**35.227**	**—**	**35.227**	**26.800**
C.1 Disposal	35.000	—	35.000	25.000
C.2 Redemptions	—	—	—	—
C.3 Value adjustments	—	—	—	—
C.4 Transfers to other asset classes	—	—	—	—
C.5 Other reductions	227	—	227	1.800
D. Balance at end of period	**251.847**	**—**	**251.847**	**285.057**

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, 2015 **Loans and advances to credit institutions** amount to € 1.271.098k, an increase of € 263.038k (26%) compared to June 2014. While the balance of repo and receivable remained stable during the period, current account and deposits increased by 109% (from € 235.770k up to € 515.726k).

Type of transactions/Value	30/06/2015				30/06/2014			
	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
1. Current accounts and demand deposits	515.726	—	515.726	—	235.770	—	235.770	—
1.1 current accounts	282.486	—	282.486	—	205.950	—	205.950	—
1.2 stock lending deposits	—	—	—	—	—	—	—	—
1.3 others deposits on demand	233.240	—	233.240	—	29.820	—	29.820	—
2. Term deposits	—	—	—	—	—	—	—	—
3. Other receivables:	752.581	—	752.581	—	769.490	—	769.581	—
3.1 amounts due under repo agreements	421.674	—	421.674	—	402.534	—	402.534	—
3.2 amounts due under finance leases	—	—	—	—	—	—	—	—
3.4 other amounts due	330.907	—	330.907	—	366.956	—	367.047	—
4. Debt securities	2.791	—	2.631	—	2.800	—	2.800	—
4.1 structured	—	—	—	—	—	—	—	—
4.2 other debt securities	2.791	—	2.631	—	2.800	—	2.800	—
Total book value	**1.271.098**	**—**	**—**	**—**	**1.008.060**	**—**	**—**	**—**
Total fair value	**—**	**—**	**1.270.938**	**—**	**—**	**—**	**1.008.151**	**—**

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	30/06/2015					30/06/2014				
	Book Value		Fair Value			Book Value		Fair Value		
	Performing	Impaired	Level 1	Level 2	Level 3	Performing	Impaired	Level 1	Level 2	Level 3
Loans	**2.581.892**	**53.891**	**—**	**2.642.752**	**—**	**2.308.416**	**57.717**	**—**	**2.366.133**	**—**
1. Current accounts	—	—	—	—	—	—	—	—	—	—
2. Repos	—	—	—	—	—	—	—	—	—	—
3. Mortgages	—	—	—	—	—	—	—	—	—	—
4. Credit cards, personal loans inc. wage assignment loans	—	—	—	—	—	—	—	—	—	—
5. Finance leasing	—	—	—	—	—	—	—	—	—	—
6. Factoring	—	—	—	—	—	—	—	—	—	—
7. Other loans	2.581.892	53.891	—	2.642.752	—	2.308.416	57.717	—	2.366.133	—
Debt securities	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
8 Structured	—	—	—	—	—	—	—	—	—	—
9 Other	—	—	—	—	—	—	—	—	—	—
Total	**2.581.892**	**53.891**	**—**	**2.642.752**	**—**	**2.308.416**	**57.717**	**—**	**2.366.133**	**—**

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

Type of transactions/Value	30/06/2015		30/06/2014	
	Performing	Impaired	Performing	Impaired
1. Debt securities:	—	—	—	—
a) Governments	—	—	—	—
b) Other public agencies	—	—	—	—
c) Other issuers	—	—	—	—
- non-financial undertakings	—	—	—	—
- financial companies	—	—	—	—
- insurances	—	—	—	—
- other entities	—	—	—	—
2. Loans and advances to:	2.581.892	53.891	2.308.416	57.717
a) Governments	—	—	—	—
b) Other public agencies	—	—	—	—
c) Other issuers	2.581.892	53.891	2.308.416	57.717
- non-financial undertakings	2.221.562	40.179	1.827.466	44.005
- financial companies	360.330	13.712	480.950	13.712
- insurances	—	—	—	—
- other entities	—	—	—	—

Section 8

Heading 80: Hedging derivatives

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

	30/06/2015				30/06/2014			
	Fair value			Notional value	*Fair value*			Notional value
	level 1	level 2	level 3		level 1	level 2	level 3	
A. Financial derivatives	—	284.949	—	377.245	—	226.961	—	415.632
1) Fair value	—	284.949	—	377.245	—	226.961	—	415.632
2) Cash flow	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	**—**	**284.949**	**—**	**377.245**	**—**	**226.961**	**—**	**415.632**

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

30/06/2015 Operations/Type of hedging	Fair Value Hedge						Cash Flow Hedge		Net Investments in foreign subsidiaries
	Micro					Macro	Specific	Generic	
	Interest risk	Currency risk	Credit risk	Price risk	Multiple risk				
1. Financial assets available-for-sale	—	—	—	—	—	—	—	—	—
2. Lending portfolio	—	—	—	—	—	—	—	—	—
3. Financial assets held-to-maturity	—	—	—	—	—	—	—	—	—
4. Portfolio	—	—	—	—	—	—	—	—	—
TOTAL ASSETS	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	
1. Amounts due to Banks/Customers	281.660	—	—	—	—	—	—	—	—
2. Debt securities in issue	3.289	—	—	—	—	—	—	—	—
TOTAL LIABILITIES	**284.949**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
1. Highly probable transactions	—	—	—	—	—	—	—	—	—
2. Financial assets and liabilities portfoglio	—	—	—	—	—	—	—	—	—

30/06/2014 Operations/Type of hedging	Fair Value Hedge						Cash Flow Hedge		Net Investments in foreign subsidiaries
	Micro					Macro	Specific	Generic	
	Interest risk	Currency risk	Credit risk	Price risk	Multiple risk				
1. Financial assets available-for-sale	—	—	—	—	—	—	—	—	—
2. Lending portfolio	—	—	—	—	—	—	—	—	—
3. Financial assets held-to-maturity	—	—	—	—	—	—	—	—	—
4. Portfolio	—	—	—	—	—	—	—	—	—
TOTAL ASSETS	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	
1. Amounts due to Banks/Customers	222.600	—	—	—	—	—	—	—	—
2. Debt securities in issue	4.321	40	—	—	—	—	—	—	—
TOTAL LIABILITIES	**226.921**	**40**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
1. Highly probable transactions	—	—	—	—	—	—	—	—	—
2. Financial assets and liabilities portfoglio	—	—	—	—	—	—	—	—	—

Section 10

Heading 100: Equity investments

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

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

Name	Registerd Office	Type of relationship[7]	Ownership relationship		Voting rights[8]
			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.	2.000	161	31	1.623	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 2015, has decided not to make any impairment test.

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

[8] 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	30/06/2015	30/06/2014
A. Core assets		
1.1 owned by the Group	22	12
a) land	—	—
b) buildings	—	—
c) furniture and fitting	6	7
d) electronic equipment	—	—
e) other assets	16	5
1.2 acquired under finance leases:	—	—
a) land	—	—
b) buildings	—	—
c) furniture	—	—
d) electronic equipment	—	—
e) other assets	—	—
Total A	**22**	**12**
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)	**22**	**12**

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

	Land	**Buildings**	**Furniture**	**Electronic equipment**	**Other assets**	**Total**
A. Gross opening balance	—	—	46	—	42	88
A.1 Total net value reductions	—	—	-39	—	-37	-76
A.2 Net opening balance	—	—	7	—	5	12
B. Additions:	—	—	—	—	18	18
B.1 Purchases	—	—	—	—	18	18
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	—	-7	-8
C.1 Disposals	—	—	—	—	—	—
C.2 Depreciation charges	—	—	-1	—	-7	-8
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	—	—	6	—	16	22
D.1 Total net value reductions	—	—	-40	—	-44	-84
D.2 Gross closing balance	—	—	46	—	60	106

Section 15

Heading 150: Other assets

15.1 Other assets (in €k)

	30/06/2015	30/06/2014
- Gold, silver and precious metal	—	—
- Accrued income other than capitalized income	2.568	2.054
- Trade receivables or invoice to be issued	2	2
- Amount due from tax revenue Authorities (not recorded under heading 140)	210	210
- Other	—	—
Total	**2.780**	**2.266**

Liabilities

Section 1

Heading 10: Amounts due to credit institutions

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

Type of transaction/amounts	30/06/2015	30/06/2014
1. Due to central Banks	—	—
2. Due to Banks	1.778.620	1.261.589
2.1 Current accounts and demand deposits	73.322	9.606
2.2 Term deposits	—	—
2.3 Borrowings	1.704.905	1.251.505
2.3.1 Leasing & stock lending	—	—
2.3.2 Others	1.704.905	1.251.505
2.4 Amounts due under commitments to buy back own shares	—	—
2.5 Other amounts due	393	478
Total book value	**1.778.620**	**1.261.589**
Fair value - level 1	—	—
Fair value - level 2	1.778.620	1.261.589
Fair value - level 3	—	—
Total fair value	**1.778.620**	**1.261.589**

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

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

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

	30/06/2015	30/06/2014
1. Items subject to specific fair value hedges for:	303.725	257.599
a) interest rate risk	303.725	257.599
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	**303.725**	**257.599**

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	30/06/2015	30/06/2014
1. Current accounts and demand deposits	—	—
2. Term deposits	100.000	260.010
3. Customers’ funds managed on a non-discretionary basis	—	—
4. Borrowings	888.182	971.181
4.1 leasing	—	—
4.2 others	888.182	971.181
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	**988.182**	**1.231.191**
Fair value - level 1	—	—
Fair value - level 2	1.019.369	1.231.191
Fair value - level 3	—	—
Total fair value	**1.019.369**	**1.231.191**

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

	30/06/2015	30/06/2014
1. Items subject to specific fair value hedges for:	123.435	105.029
a) interest rate risk	123.435	105.029
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	**123.435**	**105.029**

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	30/06/2015				30/06/2014			
	Book value	Level 1	Level 2[1]	Level 3	Book value	Level 1	Level 2	Level 3
A. Listed securities	843.412	—	866.097	—	1.018.055	—	1.042.332	—
1. notes	843.412	—	866.097	—	1.018.055	—	1.042.332	—
1.1 structured	23.367	—	23.551	—	375.593	—	376.573	—
1.2 others	820.045	—	842.546	—	642.462	—	665.759	—
2. other securities	—	—	—	—	—	—	—	—
2.1 structured	—	—	—	—	—	—	—	—
2.2 others	—	—	—	—	—	—	—	—
B. Unlisted securities	568.608	—	569.043	—	200.513	—	204.140	—
1. notes	258.379	—	258.814	—	200.513	—	204.140	—
1.1 structured	200.764	—	204.384	—	147.712	—	153.307	—
1.2 others	57.615	—	54.430	—	52.801	—	50.833	—
2. other securities	310.229	—	310.229	—	—	—	—	—
2.1 structured	—	—	—	—	—	—	—	—
2.2 others	310.229	—	310.229	—	—	—	—	—
Total	**1.412.020**	**—**	**1.435.140**	**—**	**1.218.568**	**—**	**1.246.472**	**—**

[1] Fair value does not include issuer risk; if issuer risk was considered, the fair value of debt securities issued would decrease by € 19m approximately, as at June 30, 2015.

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

Type of transaction/amounts	30/06/2015	30/06/2014
A. Securities subject to specific fair value hedges	234.026	295.846
1. Interest rate risk	234.026	295.846
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	**234.026**	**295.846**

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

Type of transaction/amounts	30/06/2015	30/06/2014
A. Debt securities	867.765	922.722
1. Structured	163.549	407.850
2. Other	704.216	514.872
B. Other financial instruments	310.229	—
1. Structured	—	—
2. Other	310.229	—
Total	**1.177.994**	**922.722**

Section 4

Heading 40: Financial liabilities held for trading

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

Type of transaction/amounts	30/06/2015				30/06/2014			
	Nominal value	Fair Value			Nominal value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Cash liabilities								
1. Amount due to Banks	—	—	—	—	—	—	—	—
2. Amount due to customers	—	—	—	—	—	—	—	—
3. Debt securities	—	—	—	—	—	—	—	—
3.1 Bonds	—	—	—	—	—	—	—	—
3.1.1 Structured	—	—	—	—	—	—	—	—
3.1.2 Other bonds	—	—	—	—	—	—	—	—
3.2 Other securities	—	—	—	—	—	—	—	—
3.2.1 Structured	—	—	—	—	—	—	—	—
3.2.2 Other	—	—	—	—	—	—	—	—
Total A	—	—	—	—	—	—	—	—
B. Derivatives instruments								
1. Financial derivatives	1.318.596	—	411.149	103.236	1.203.212	—	246.808	113.971
1.1 Trading	1.189.398	—	147.684	102.987	807.222	—	44.928	54.047
1.2 Related to Fair Value option	—	—	—	—	—	—	—	—
1.3 Other	129.198	—	263.465	249	395.990	—	201.880	59.924
2. Credit derivatives	368.282	—	4.619	—	1.077.116	—	5.000	—
2.1 Trading	368.282	—	4.619	—	1.077.116	—	5.000	—
2.2 Related to Fair Value option	—	—	—	—	—	—	—	—
2.3 Other	—	—	—	—	—	—	—	—
Total B	**1.686.878**	**—**	**415.768**	**103.236**	**2.280.328**	**—**	**251.808**	**113.971**
Total (A+B)	**1.686.878**	—	**415.768**	**103.236**	**2.280.328**	—	**251.808**	**113.971**

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

	30/06/2015	30/06/2014
1. Opening balance	**113.971**	**111.624**
2. Increases	**49.869**	**54.093**
2.1 Issues and purchases	—	—
2.2 Transfers from other levels	—	54.046
2.3 Other increases	49.869	47
3. Decreases	**60.604**	**51.746**
3.1 Sales and settlements	59.867	36.309
3.2 Transfers to other levels	—	7.453
3.3 Other decreases	737	7.984
4. Closing balance	**103.236**	**113.971**

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	60.604	-49.869	10.735

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[9].

[9] 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		30/06/2015		30/06/2014	
Type of transaction/amounts	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**
OTC derivative products												
1. Financial derivatives	407.639	265.448	494.542	5.553	416.415	243.384	—	—	1.318.596	514.385	1.203.212	360.780
1.1 With exchange of principal	90.000	205.527	491.861	5.403	—	—	—	—	581.861	210.930	238.694	160.391
- options issued	—	—	491.861	5.403	—	—	—	—	491.861	5.403	—	—
- other derivatives	90.000	205.527	—	—	—	—	—	—	90.000	205.527	238.694	160.390
1.2 Without exchange of principal	317.639	59.921	2.681	150	416.415	243.384	—	—	736.735	303.455	964.518	200.389
- options issued	—	—	—	—	—	—	—	—	—	—	—	—
- other derivatives	317.639	59.921	2.681	150	416.415	243.384	—	—	736.735	303.455	964.518	200.389
2. Credit derivatives	—	—	—	—	—	—	368.282	4.619	368.282	4.619	1.077.116	4.999
2.1 With exchange of principal	—	—	—	—	—	—	363.282	4.615	363.282	4.615	1.031.229	4.616
2.2 Without exchange of principal	—	—	—	—	—	—	5.000	4	5.000	4	45.887	383
Total	**407.639**	**265.448**	**494.542**	**5.553**	**416.415**	**243.384**	**368.282**	**4.619**	**1.686.878**	**519.004**	**2.280.328**	**365.779**

Section 6

Heading 60: Hedging derivatives

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

	30/06/2015 *Fair value*			Notional value	30/06/2014 *Fair value*			Notional value
	level 1	level 2	level 3		level 1	level 2	level 3	
A. Financial derivates	—	132	—	1.031	—	148	—	16.032
1) *Fair value*	—	132	—	1.031	—	148	—	16.032
2) Cash flow	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) *Fair value*	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	**—**	**132**	**—**	**1.031**	**—**	**148**	**—**	**16.032**

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

Hedged items	Fair value hedges					Cash flow hedge		30/06/2015	30/06/2014
	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	132	—	—	—	—	—	—	132	148
3. Portfolio	—	—	—	—	—	—	—	—	—
TOTAL LIABILITIES	**132**	—	—	—	—	—	—	**132**	**148**
TOTAL	**132**	—	—	—	—	—	—	**132**	**148**

Section 8

Heading 80: Tax liabilities

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

	30/06/2015	30/06/2014
Corporate income tax (IRC)	1.576	1.086
Municipal business tax (ICC)	359	212
Other	34	134
Total	**1.969**	**1.432**

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 € 1.292.690 (30 June 2014: € 1.197.635) 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 (+)	7.086	2.012	161	9.259
B. Advances paid (-)	6.000	1.800	74	7.874
A.1 Fiscal liabilities: increase (+)	**4.490**	**1.347**	**560**	**6.397**
- provisions of the year	4.490	1.347	560	6.397
- transfers	—	—	—	—
- others	—	—	—	—
A.2 Fiscal liabilities: decrease (-)	**—**	**—**	**-492**	**-492**
- payments of the year (assessments)	—	—	-492	-492
- transfers	—	—	—	—
- others	—	—	—	—
B.1 Advances paid: increase (+)	**4.000**	**1.200**	**121**	**5.321**
- payments/advances	4.000	1.200	121	5.321
- transfers	—	—	—	—
- others	—	—	—	—
B.2 Advances paid: decrease (-)	**—**	**—**	**—**	**—**
- payments of the year (assessments)	—	—	—	—
- transfers	—	—	—	—
- others	—	—	—	—
Total A. Fiscal liabilities	**11.576**	**3.359**	**229**	**15.164**
Total B. Advances paid	**10.000**	**3.000**	**195**	**13.195**
Current fiscal liabilities (A-B)	**1.576**	**359**	**34**	**1.969**

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

Deferred tax liabilities	30/06/2015	30/06/2014
1. Initial amount	877	877
1.1 Initial amount	877	877
2. Additions	—	—
2.1 Deferred tax originating during the period	—	—
a) for previous years	—	—
b) due to changes in accounting policies	—	—
c) amounts written back	—	—
d) other addition	—	—
2.2 New taxes or increases in tax rates	—	—
2.3 Other additions	—	—
3. Reductions	—	—
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)

	30/06/2015			30/06/2014		
	Deferred tax assets	**Deferred tax liabilities**	**Tax rate 29,22%**	**Deferred tax assets**	**Deferred tax liabilities**	**Tax rate 29,22%**
Cash and cash equivalent	—	—	—	—	—	—
Financial assets hft	—	—	—	—	—	—
Loans and advances	—	—	—	—	—	—
Hedging derivatives	—	—	—	—	—	—
Other assets	—	—	—	—	—	—
Total assets	**—**	**—**	**—**	**—**	**—**	**—**
Amounts due	—	—	—	—	—	—
Debt securities	—	—	—	—	—	—
Financial liabilities hft	—	—	—	—	—	—
Hedging derivatives	—	—	—	—	—	—
Other liabilities	—	—	—	—	—	—
Shareholders' equity	—	-3.000	-877	—	-3.000	-877
Total liabilities	**—**	**-3.000**	**-877**	**—**	**-3.000**	**-877**

Section 10

Heading 100: Other liabilities

10.1 Other liabilities (in €k)

	30/06/2015	**30/06/2014**
1. Payment agreements (IFRS2)	—	—
2. Impaired endorsements	1.054	1.372
3. Working capital payables and invoices pending receipts	2.413	779
4. Prepaid expenses other than capitalized expenses on related financial assets	—	—
5. Amounts due to revenue authorities	—	—
6. Amount due to staff	—	—
7. Other items	226	219
- coupons and dividends pending collection	—	—
- available sum payable to third parties	—	—
- premium, grants and other items in respect of lending transactions	—	—
- credit notes to be issued	—	—
- other	226	219
Total	**3.693**	**2.370**

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

At the reference date, the Bank has accounted for € 96k as provision for the contribution to be paid to the future national resolution fund as provided for by EU Directive 2014/59 and Commission Delegated Regulation 2015/63 establishing a framework for the recovery and resolution of credit institutions.

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, 2015 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 2015;
- This reserve will be maintained for a minimum period of 5 years.

(in € k)	**30/06/2015**	**30/06/2014**
A. Reserves	254.812	235.800
A.1 legal reserve	1.000	1.000
A.2 free reserve	229.812	216.681
A.3 special reserve[(1)]	24.000	18.119
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 2015 and 2014, 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)

	30/06/2015	30/06/2014
1. Financial guarantees given to:	51.620	47.895
a) Banks	—	—
b) Customers	51.620	47.895
2. Commercial guarantees given to:	—	—
a) Banks	—	—
b) Customers	—	—
3. Irrevocable commitments to lend funds:	1.429.899	1.161.936
a) Banks	—	—
b) Customers	1.429.899	1.106.415
4. Commitment underlying credit derivatives: hedge sales	484.759	1.188.125
Total	**1.966.278**	**2.397.956**

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.

Intervention by the deposit guarantee scheme is notably financed by the prior constitution of reserve by associates. In this respect the Bank has not accounted for any provision nor contribution to the AGDL, since cash deposits and/or depositors with which the institution is currently dealing belong to categories specifically excluded from the protection scheme. Furthermore the Bank has analysed the EU-Directive 2014/49 on deposit guarantee scheme. Based on the current business model, the management estimates that no particular impact will occur from the implementation of this Directive into Luxembourg Law.

2. Other commitments

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

- € 417.496k 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 € 587.555k 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	30/06/2015	30/06/2014
1. Securities traded on behalf of customers		
a) Purchases	—	—
1. settled	—	—
2. pending settlement	—	—
b) Disposals	—	—
1. settled	—	—
2. pending settlement	—	—
2. Asset management		
a) individuals	—	—
b) groups	—	—
3. Securities under custody/managed on a non-discretionary basis	1.034.182	883.432
a) customers' securities held on deposit: in connection with the Bank's activity as deposit bank		
(not including asset management)	—	—
1. securities issued by bank drawing up financial statements	—	—
2. other securities	—	—
b) other customers' securities held on deposit (not including asset management): others	—	—
1. securities issued by bank drawing up financial statements	—	—
2. other securities	—	—
c) customers' securities held on deposit with customers	773.181	588.052
d) own securities held on deposit with customers	261.001	295.380

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]	30/06/2015	30/06/2014
	Debt securities	Loans	Other financial assets			
1. Financial assets held for trading	—	1.113	—	—	1.113	1.918
2. Financial assets at fair value	—	—	—	—	—	—
3. AFS securities	—	—	—	—	—	—
4. Financial assets held to maturity	6.808	—	—	—	6.808	8.177
5. Loans and advances to credit institutions	17	17.557	—	—	17.574	17.491
6. Loans and advances to customers	—	61.298	—	311	61.609	55.269
7. Hedging derivatives	—	—	15.114	—	15.114	22.190
8. Financial assets sold but not derecognized	—	—	—	—	—	—
9. Other assets	—	—	—	—	—	—
Total	**6.825**	**79.968**	**15.114**	**311**	**102.218**	**105.045**

[1] During the fiscal year the Bank has executed 1 time the financial guarantee on a non performing exposure; anyway 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)

	30/06/2015	30/06/2014
A. Positive differences on transactions involving:	15.114	22.190
A.1 Specific fair value hedge of assets	—	—
A.2 Specific fair value hedge of liabilities	15.114	22.190
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)

	30/06/2015	30/06/2014
1.3.1 Interests receivable on financial assets denominated in currencies other than Euro	36.680	27.332
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	30/06/2015	30/06/2014
1. Amount due to Banks	-25.761	—	—	-25.761	-19.723
2. Amount due to customers	-19.125	—	—	-19.125	-21.020
3. Debt securities[1]	—	30.755	—	30.755	3.717
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	—	—	-60.455	-60.455	-44.976
Total	**-44.886**	**30.755**	**-60.455**	**-74.586**	**-82.002**

[1] The positive amount is due to release of premium discount of 3 buy back with the total amounts of € 57 mio.

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

	30/06/2015	30/06/2014
A. Negative differences on transactions involving:	-60.455	-44.976
A.1 Specific fair value hedge of assets	—	—
A.2 Specific fair value hedge of liabilities	-60.455	-44.976
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)

	30/06/2015	**30/06/2014**
1.6.1 Interests payable on financial liabilities denominated in currencies other than Euro	-18.908	-14.787
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)

	30/06/2015	30/06/2014
a) guarantees given	435	438
b) credit derivates	—	—
c) management, trading and advisory services:	659	651
1. securities dealing	—	—
2. currency dealing	—	—
3. asset management	—	—
4. securities under custody and non-discretionary	—	—
5. depositary services	—	—
6. securities placing	89	278
7. procurement of orders	570	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	17.853	11.709
Total	**18.947**	**12.798**

2.2 Fee and commission expense (in € k)

	30/06/2015	30/06/2014
a) guarantees received	—	—
b) credit derivatives	—	—
c) management and services:	-719	—
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	-719	—
6. door-to-door sales of securities, products and services	—	—
d) collection and payment services	—	—
e) lending services	-8.366	-5.497
f) others	-1.703	—
Total	**-10.788**	**-5.497**

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	30/06/2015	30/06/2014
1. Trading assets	296	1.557	-1.338	-84	**431**	**817**
1.1 Debt securities	—	—	—	—	**—**	**—**
1.2 Equities	—	—	—	—	**—**	**—**
1.3 OICR units	296	—	—	—	**296**	**-276**
1.4 Loans and receivables	—	1.557	-1.338	-84	**135**	**1.093**
1.5 Others	—	—	—	—	**—**	**—**
2. Trading liabilities	—	—	—	—	**—**	276
2.1 Debt securities	—	—	—	—	**—**	**—**
2.2 Payables	—	—	—	—	**—**	**—**
2.3 Other	—	—	—	—	**—**	**276**
3. Other financial assets and liabilities: difference arising on exchange rates	486.767	—	-461.838	—	**24.929**	**-1.602**
4. Derivative products	259.567	18.929	-289.253	-13.180	**-23.937**	**3.232**
4.1 Financial derivatives:	252.534	16.077	-280.243	-11.927	**-23.559**	**2.623**
– on debt securities/interest rates	5.691	12.514	-7.055	-11.599	**-449**	**906**
– on equities/share indexes	246.282	243	-246.251	-3	**271**	**336**
– on foreign currency/gold	561	3.320	-26.937	-325	**-23.381**	**1.345**
– others	—	—	—	—	**—**	**36**
4.2 Credit derivatives	7.033	2.852	-9.010	-1.253	**-378**	**609**
Total	**746.630**	**20.486**	**-752.429**	**-13.264**	**1.423**	**2.723**

Section 4

Heading 90: Net hedging income (expense)

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

	30/06/2015	30/06/2014
A. Income from:		
A.1 Fair value hedge derivatives	58.945	36.969
A.2 Financial assets hedged (fair value)	—	—
A.3 Financial liabilities hedged (fair value)	5.006	18.343
A.4 Cash flow hedge financial derivatives	—	—
A.5 Assets and liabilities in foreign currency	—	—
Total hedging income (A)	**63.951**	**55.312**
B. Expenses relating to:		
B.1 Fair value hedge derivatives	-1.363	-6.728
B.2 Financial assets hedged (fair value)	—	—
B.3 Financial liabilities hedged (fair value)	-62.587	-48.730
B.4 Cash flow hedge financial liabilities	—	—
B.5 Assets and liabilities in foreign currency	—	—
Total hedging expenses (B)	**-63.950**	**-55.458**
C. Net hedging income (A-B)	**1**	**-146**

Section 5

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

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

	30/06/2015			30/06/2014		
	Gains	**Losses**	**Net profit (loss)**	**Gains**	**Losses**	**Net profit (loss)**
Financial assets						
1. Due from Banks	—	—	—	—	—	—
2. Due from customers	—	-57	-57	218	—	218
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	**—**	**-57**	**-57**	**218**	**—**	**218**
Financial liabilities						
1. Due to Banks	—	—	—	—	—	—
2. Due to customers	—	—	—	—	—	—
3. Debt securities in issue	—	-2.206	-2.206	—	—	—
Total liabilities	**—**	**-2.206**	**-2.206**	**—**	**—**	**—**

Section 6

Heading 130: Adjustments for impairment

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

Transactions/Income-linked components	Value adjustments			Amounts recovered				30/06/2015	30/06/2014
	Specific		Portfolio	Specific		Portfolio			
	Write offs	Others		A	B	A	B		
A. Due from Banks	—	—	—	—	—	—	32	32	-7
B. Due from customers	—	—	-3.536	—	—	—	4.098	562	-3.071
C. Total	**—**	**—**	**-3.536**	**—**	**—**	**—**	**4.130**	**594**	**-3.078**

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				30/06/2015	30/06/2014
	Specific		Portfolio	Specific		Portfolio			
	Write offs	Others		A	B	A	B		
A. Guarantees given	—	—	-2	—	—	—	—	-2	—
B. Credit derivatives	—	—	—	—	—	—	—	—	—
C. Commitments	—	—	—	—	—	—	320	320	-621
D. Other transactions	—	—	—	—	—	—	—	—	—
E. Total	**—**	**—**	**-2**	**—**	**—**	**—**	**320**	**318**	**-621**

Legend

A = interest

B = other amounts recovered

Section 7

Heading 180: Administrative expenses

7.1 Personnel cost: composition (in €k)

	30/06/2015	30/06/2014
1.Employees	-697	-588
a) wages and salaries	-575	-484
b) social security charges	-28	-30
c) severance indemnities	—	—
d) pension contributions	-39	-23
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	-33
– defined contribution	-33	-33
– defined benefit	—	—
h) expenses incurred in connection with share payment schemes	—	—
i) other staff benefits	-22	-18
2. Other staff	—	—
3. Board members	-205	-140
4. Early retirement costs	—	—
5. Recovery of expenses for employees seconded to other companies	—	—
Total	**-902**	**-728**

7.2 Other administrative expenses: composition (in €k)

	30/06/2015	30/06/2014
OTHER ADMINISTRATIVE EXPENSES		
– legal, tax and professional services	-240	-207
– loan recovery activity	-86	-97
– marketing and communication	-7	-4
– property	-16	-17
– EDP	-557	-571
– Info-provider	-15	—
– bank charges, collection and payment fees	-26	-29
– operating expenses	-3.348	-3.163
– other staff expenses	-26	-42
– other costs	-467	-489
– indirect and other taxes	-421	-473
Total other administrative expenses	**-5.209**	**-5.092**

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	30/06/2015	30/06/2014
A. Tangible assets					
A.1 Owned:	-8	—	—	-8	-17
– Core	-8	—	—	-8	-17
– Investment	—	—	—	—	—
A.2 Acquired under finance leases:	—	—	—	—	—
Total	-8	**—**	**—**	**-8**	**-17**

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	30/06/2015	30/06/2014
A. Intangible assets					
A.1 Owned	—	—	—	—	-2
– software	—	—	—	—	—
– other	—	—	—	—	-2
A.2 Acquired under finance leases	—	—	—	—	—
Total	**—**	**—**	**—**	**—**	**-2**

Section 10

Heading 220: Other operating income (expenses)

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

Income-based components/values	30/06/2015	30/06/2014
a) Amounts recovered from customers	—	—
b) Other income	29	60
Total	**29**	**60**

Section 11

Heading 290: Income tax on the ordinary activity

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

	30/06/2015	30/06/2014
1. Current taxes	-5.860	-4.650
2. Changes in current tax for previous financial years	—	—
3. Decrease in current tax for period	—	—
4. Changes in deferred tax assets	—	—
4.1 related to previous fiscal exercise (reverse to the comprehensive income)	—	—
4.2 generated in the fiscal exercise	—	—
5. Changes in deferred tax liabilities	—	—
5.1 related to previous fiscal exercise (reverse to the comprehensive income)	—	—
5.2 generated in the fiscal exercise	—	—
Total	**-5.860**	**-4.650**

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	184	15	100	16	1
20.	Financial assets held for trading	99.291	7.911	53.870	8.601	372.603
50.	Financial assets held to maturity	147.378	11.743	79.959	12.767	—
60.	Loans and advances to credit institutions	743.833	59.266	403.563	64.436	—
70.	Loans and advances to customers	1.542.432	122.895	836.839	133.616	—
80.	Hedging derivatives	166.749	13.286	90.469	14.445	—
100.	Equity investments	—	—	—	—	4.150
120.	Tangible assets	—	—	—	—	22
130.	Intangible assets	—	—	—	—	—
140.	Tax assets	—	—	—	—	—
160.	Other assets	1.627	130	883	141	—
	Total assets at 30/06/2015	**2.701.494**	**215.246**	**1.465.683**	**234.022**	**376.776**
	Total assets at 30/06/2014	**2.155.401**	**119.745**	**1.476.849**	**239.489**	**355.284**
10.	Amount due to Credit institutions	-1.040.829	-82.929	-564.697	-90.164	—
20.	Amount due to customers	-578.274	-46.075	-313.740	-50.094	—
30.	Debt securities in issue	-826.299	-65.836	-448.304	-71.580	—
40.	Financial liabilities held for trading	-221.906	-17.681	-120.394	-19.223	-139.801
60.	Hedging derivatives	-77	-6	-42	-7	—
80.	Tax liabilities	-1.665	-133	-904	-144	—
100.	Other liabilities	-2.161	-172	-1.172	-187	—
160.	Shareholders' equity	-154.965	-12.347	-84.076	-13.424	—
	Total liabilities at 30/06/2015	**-2.826.176**	**-225.179**	**-1.533.329**	**-244.823**	**-139.801**
	Total liabilities at 30/06/2014	**-2.314.671**	**-128.593**	**-1.585.979**	**-257.184**	**-41.329**

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	51.472	3.933	41.270	5.532	—
020.	Interests payable and similar charges	-37.563	-2.871	-30.115	-4.037	—
030.	**Net interest income**	**13.909**	**1.062**	**11.155**	**1.495**	**—**
040.	Fee and commission income	9.542	729	7.650	1.027	—
050.	Fee and commission expense	-5.434	-416	-4.356	-584	—
060.	**Net fee and commission income**	**4.108**	**313**	**3.294**	**443**	**—**
080.	Net trading income/expense	404	32	327	41	619
090.	Net hedging income/expense	—	—	1	—	—
100.	Gain or loss on disposal or repurchase of:	-1.140	-87	-913	-122	—
	a) loans and receivables	-29	-2	-23	-3	—
	b) financial assets available for sale	—	—	—	—	—
	c) financial assets held to maturity	—	—	—	—	—
	d) financial liabilities	-1.111	-85	-890	-119	—
120.	**Total income**	**17.281**	**1.320**	**13.864**	**1.857**	**619**
130.	Value adjustments	459	35	368	49	—
140.	**Net income from the financial management**	**17.740**	**1.355**	**14.232**	**1.906**	**619**
180.	Administrative expenses	-3.074	-231	-2.468	-326	—
200.	Value adjustments in respect of tangible assets	—	—	—	—	-8
210.	Value adjustments in respect of intangible assets	—	—	—	—	—
220.	Other operating income/expense	—	—	—	—	29
280.	**Profit (loss) of the ordinary activity before tax**	**14.666**	**1.124**	**11.764**	**1.580**	**640**
290.	Income tax on the ordinary activity	-2.952	-226	-2.366	-317	—
340.	**Profit (loss) for the year**	**11.714**	**898**	**9.398**	**1.263**	**640**
350.	Other comprehensive income, net of tax	—	—	—	—	—
360.	**Total comprehensive income for the year, net of tax as at 30/06/2015**	**11.714**	**898**	**9.398**	**1.263**	**640**
	Total comprehensive income for the year, net of tax as at 30/06/2014	**7.474**	**288**	**6.304**	**588**	**4.358**

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 2015 and 2014.

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

	LUXEMBOURG	OTHER EUROPEAN COUNTRIES	AMERICAS	ASIA	OCEANIA
Cash and cash balances with Central Banks	316	—	—	—	—
Financial assets held for trading	455.904	64.282	22.090	—	—
Financial assets held to maturity	—	251.847	-	—	—
Loans and advances to Credit Institutions	276.636	960.967	33.494	—	—
Loans and advances to Customers	114.741	1.729.016	786.771	—	5.256
Hedging derivatives	—	284.949	—	—	—
Equity investments	4.150	—	—	—	—
Tangible assets	22	-1	—	—	—
Intangible assets	—	—	—	—	—
Tax assets	—	—	—	—	—
Other assets	40	2.386	355	—	—
A. Total assets 30/06/2015	**851.809**	**3.293.446**	**842.710**	**—**	**5.256**
A. Total assets 30/06/2014	**371.353**	**3.591.842**	**378.170**	—	**5.401**
Amount due to Banks	—	-1.778.619	—	—	—
Amount due to customers	-100.000	-888.182	—	—	—
Debt securities in issue	-761.029	-650.991	—	—	—
Financial liabilities held for trading	-193.680	-325.324	—	—	—
Hedging derivatives	—	-132	—	—	—
Tax liabilities	-2.846	—	—	—	—
Other liabilities	-132	-3.534	-27	—	—
Shareholders' equity	-264.812	—	—	—	—
B. Total liabilities 30/06/2015 (1)	**-1.322.499**	**-3.646.782**	**-27**	**—**	**—**
B. Total liabilities 30/06/2014 (1)	**-1.721.889**	**-2.605.606**	**-259**	**—**	**—**

(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	33.909	-22.381	15.725	—	368
Net fee and commission income	1.182	4.286	2.690	—	—
Net trading income/expense	-2.420	4.046	-203	—	—
Net hedging income/expense	1.176	-1.175	-	—	—
Gain or loss on disposal or repurchase	-2.205	-57	-	—	—
Value adjustments - impairment	-359	1.991	-581	—	-140
Administrative expenses	-1.509	-4.590	-	—	—
Value adjustments – amortisation	-8	-	-	—	—
Other operating income (expenses)	7	22	-	—	—
Income tax	-5.861	-	-	—	—
Net profit/loss 2015	**23.912**	**-17.858**	**17.631**	**—**	**228**
Net profit/loss 2014	**-17.219**	**7.353**	**-8.172**	—	**-974**

PART F – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

INTRODUCTION

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

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

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

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

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

Section 1

1.1 CREDIT RISK

QUALITATIVE INFORMATION

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

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

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

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

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

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical, industry, rating and currency concentrations, and by monitoring exposures in relation to such limits.

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

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

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

Corporate banking

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

Leverage finance

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

Loan impairment provisions

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	Defaulted	Performing past due below 90days	Restructured exposures	Impaired (past due more than 90 days)	Fully performing	Other assets	Total
1. Financial assets held for trading	—	—	—	—	—	408.257	408.257
2. Available-for-sale financial assets	—	—	—	—	—	—	—
3. Held to maturity financial instruments	—	—	—	—	—	251.847	251.847
4. Loans and receivables with Banks	—	—	—	—	—	1.271.413	1.271.413
5. Loans and receivables with customers	—	—	53.891	—	—	2.581.892	2.635.783
6. Financial assets at fair value through profit	—	—	—	—	—	—	—
7. Financial assets classified as held for	—	—	—	—	—	—	—
8. Hedging derivatives	—	—	—	—	—	284.949	284.949
Total 30/06/2015	**—**	**—**	**53.891**	**—**	**—**	**4.798.358**	**4.852.249**
Total 30/06/2014	**—**	**—**	**57.717**	**—**	**—**	**4.246.288**	**4.304.005**

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

Portfolio/Quality	Impaired assets			Other assets			Total net exposure
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
1. Financial assets held for trading	—	—	—	408.257	—	408.257	408.257
2. AFS securities	—	—	—	—	—	—	—
3. Financial assets held to maturity	—	—	—	251.847	—	251.847	251.847
4. Due from Banks	—	—	—	1.271.413	—	1.271.413	1.271.413
5. Due from customers	53.891	—	53.891	2.586.568	-4.676	2.581.892	2.635.783
6. Financial assets recognized at fair value	—	—	—	—	—	—	—
7. Financial assets being sold	—	—	—	—	—	—	—
8. Hedging derivatives	—	—	—	284.949	—	284.949	284.949
Total at 30/06/2015	**53.891**	**—**	**53.891**	**4.803.034**	**-4.676**	**4.798.358**	**4.852.249**
Total at 30/06/2014	**57.717**	**—**	**57.717**	**4.024.597**	**-5.270**	**4.246.288**	**4.304.005**

Impaired assets at 30 June 2015 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	30/06/2015	30/06/2014
A. CASH EXPOSURES					
a) Non-performing	—	—	—	—	—
b) Other assets	1.523.260	—	—	1.523.260	1.293.560
Total A	**1.523.260**	**—**	**—**	**1.523.260**	**1.293.560**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Non-performing	—	—	—	—	—
b) Other assets	288.833	—	—	288.833	499.075
Total B	**288.833**	**—**	**—**	**288.833**	**499.075**

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	30/06/2015	30/06/2014
A. CASH EXPOSURES					
a) Non-performing	53.891	—	—	53.891	57.717
b) Other assets	2.608.658	—	-4.676	2.603.982	2.384.561
Total A	**2.662.549**	**—**	**-4.676**	**2.657.873**	**2.442.278**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Non-performing	531	—	—	531	2.667
b) Other assets	1.482.043	—	-1.054	1.480.989	1.185.200
Total B	**1.482.574**	**—**	**-1.054**	**1.481.520**	**1.187.867**

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

Description/Category	30/06/2015		30/06/2014
	Non performing	Restructured	
A. Gross exposure at start of period	6.687	51.030	143.111
of which: accounts sold but not derecognized	—	—	—
B. Additions	—	4.669	16.980
B.1 transfers from performing loans	—	—	6.561
B.2 transfer from other categories of impaired assets	—	—	—
B.3 other additions	—	4.669	10.419
C. Reductions	-6.687	-1.808	-102.374
C.1 transfer to performing loans	—	—	—
C.2 amounts written off	—	—	—
C.3 amounts collected	—	—	-46.392
C.4 gains realized on disposal	-6.560	—	-50.792
C.5 transfers to other categories of impaired assets	—	—	—
C.6 other reductions	-127	-1.808	-5.190
D. Gross exposure at end of period	—	53.891	57.717
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	—	—	-5.238
B. Additions	—	—	-3.536
B.1 value adjustments	—	—	-2.662
B.2 transfers from other categories of impaired assets	—	—	—
B.3 other additions	—	—	-874
C. Reductions	—	—	4.098
C.1 writebacks based on valuations	—	—	—
C.2 writebacks due to amounts collected	—	—	3.741
C.3 amounts written off	—	—	—
C.4 transfers to other categories of impaired assets	—	—	—
C.5 other reductions	—	—	357
D. Adjustments at 30/06/2015	**—**	**—**	**-4.676**
D. Adjustments at 30/06/2014	**—**	**—**	**-5.238**

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	421.674	—	421.674	—	—	—	—	—	—	—	—	—
- non performing	—	—	—	—	—	—	—	—	—	—	—	—
1.2 partly secured	—	—	—	—	—	—	—	—	—	—	—	—
- non performing	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2015	**421.674**	**—**	**421.674**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total 30/06/2014	**403.475**	**—**	**396.139**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**7.336**	**—**
2. Secured exposures to customers:												
2.1 completely secured	447.026	3.334	—	—	—	—	22.090	—	—	187.731	233.871	—
- non performing	*53.891*	—	—	—	—	—	—	—	—	—	*53.891*	—
2.2 partly secured	2.050.548	—	—	—	—	—	—	—	—	—	1.392.733	—
- non performing	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2015	**2.497.574**	**3.334**	**—**	**—**	**—**	**—**	**22.090**	**—**	**—**	**187.731**	**1.626.604**	**—**
Total 30/06/2014	**2.227.798**	**—**	**—**	**110.698**	**—**	**—**	**76.145**	**—**	**—**	**153.117**	**1.358.864**	**—**

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

	Total exposure	Real guarantees			Personal guarantees							
					Credit derivatives				Endorsements			
		Properties	Securities	Other assets	Governments	Other public agencies	Banks	Others	Governments	Other public agencies	Banks	Others
1. Secured exposures to Banks:												
1.1 completely secured	288.833	—	—	288.833	—	—	—	—	—	—	—	—
1.2 partly secured	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2015	**288.833**	**—**	**—**	**288.833**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total 30/06/2014	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
2. Secured exposures to customers:												
2.1 completely secured	297.954	—	—	—	—	—	—	—	—	42.830	255.124	—
- non performing	*531*	—	—	—	—	—	—	—	—	—	*531*	—
2.2 partly secured	1.007.836	—	—	—	—	—	—	—	—	—	714.082	—
- non performing	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2015	**1.305.790**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**42.830**	**969.206**	**—**
Total 30/06/2014	**1.029.728**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**55.292**	**739.916**	**—**

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 2015 was € 300 million (2014: € 315 million) before taking account of collateral or other credit enhancements and € 44 million (2014: € 73 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	—	40.179	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	—	—	—	—
Net exposure	—	—	13.712	—	40.179	—
A.2 Other exposures						
Gross exposure	—	—	361.581	—	2.247.077	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-1.251	—	-3.425	—
Net exposure	—	—	360.330	—	2.243.652	—
Total A						
Gross exposure	—	—	375.293	—	2.287.256	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-1.251	—	-3.425	—
Net exposure	—	—	374.042	—	2.283.831	—
B. Off-balance sheet exposures						
B.1 Non-performing						
Gross exposure	—	—	—	—	531	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	—	—	—	—
Net exposure	—	—	—	—	531	—
B.2 Other exposures						
Gross exposure	—	—	124.347	—	1.357.696	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-166	—	-888	—
Net exposure	—	—	124.181	—	1.356.808	—
Total B						
Gross exposure	—	—	124.347	—	1.358.227	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-166	—	-888	—
Net exposure	—	—	124.181	—	1.357.339	—
Total 30/06/2015						
Gross exposure	—	—	499.640	—	3.645.483	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-1.417	—	-4.313	—
Net exposure	—	—	498.223	—	3.641.170	—
Net exposure 30/06/2014	—	—	706.986	—	2.923.159	—

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	—	—	53.891	53.891	—	—	—	—	—	—
A.2 Performing	115.063	114.741	1.677.655	1.675.125	810.426	808.861	—	—	5.514	5.255
Total A	115.063	114.741	1.731.546	1.729.016	810.426	808.861	—	—	5.514	5.255
B) Off-balance-sheet exposures										
B.1 Non-performing	—	—	531	531	—	—	—	—	—	—
B.2 Performing	53.289	53.253	1.278.635	1.277.644	150.119	150.092	—	—	—	—
Total B	53.289	53.253	1.279.166	1.278.175	150.119	150.092	—	—	—	—
Total 30/06/2015	**168.352**	**167.994**	**3.010.712**	**3.007.191**	**960.545**	**958.953**	**—**	**—**	**5.514**	**5.255**
Total 30/06/2014	**35.334**	**35.334**	**3.005.583**	**3.000.105**	**590.317**	**589.305**	**—**	**—**	**5.520**	**5.401**

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	786	786	1.522.474	1.522.474	—	—	—	—	—	—
Total A	786	786	1.522.474	1.522.474	—	—	—	—	—	—
B) Off-balance-sheet exposures										
B.1 Non-performing	—	—	—	—	—	—	—	—	—	—
B.2 Performing	—	—	288.833	288.833	—	—	—	—	—	—
Total B	—	—	288.833	288.833	—	—	—	—	—	—
Total 30/06/2015	**786**	**786**	**1.811.307**	**1.811.307**	**—**	**—**	**—**	**—**	**—**	**—**
Total 30/06/2014	**1.099**	**1.099**	**1.791.569**	**1.791.536**	**—**	**—**	**—**	**—**	**—**	**—**

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

	30/06/2015	30/06/2014 [1]
a) Gross exposure	4.191.217	3.563.486
b) No. large risk exposures	51	47
c) Large risk exposure after CRM	1.127.899	1.137.402
d) No. large risk exposures after CRM	43	36
e) Large risk after CRM/regulatory capital	3,43	2,66

In accordance with EU Regulation n. 575/2013 of the European Parliament and of the Council of 26 June 2013, the Bank's exposures to a client or group of connected clients shall be considered a large exposure where the amount is greater than or equal to the lower of the two following amounts: 10% of own funds or EUR 12,5 million for risks taken on "clients" other than institutions (CSSF Circular 14/593). 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 €2.963m as at 30 June 2015 (€2.451m as at 30 June 2014).

[1] Certain prior year amounts have been reclassified for consistency with the current period presentation.

C.1 *Securitizations*

As of 30 June 2015 and 2014 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 2015. 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: - € 15.431.835
- Scenario -200 bps: + € 878.038

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 30/06/2015	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total cash assets at 30/06/2014	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
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 30/06/2015	—	—	—	—	—	—	—	—
Total cash liabilities at 30/06/2014	—	—	—	—	—	—	—	—
3. Financial derivatives								
3.1 With underlying securities	—	—	—	—	—	—	—	—
– Options	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities	26.812	1.462.261	178.452	33.153	531.300	1.200	10.000	—
– Options	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others	26.812	1.462.261	178.452	33.153	531.300	1.200	10.000	—
+ Long positions	—	706.584	99.352	33.153	271.300	1.200	10.000	—
+ Short positions	26.812	755.677	79.100	—	260.000	—	—	—
Total financial derivatives at 30/06/2015	**26.812**	**1.462.261**	**178.452**	**33.153**	**531.300**	**1.200**	**10.000**	—
Total financial derivatives at 30/06/2014	—	**1.969.265**	**96.088**	**—**	**894.424**	**11.200**	**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	—	189.271	65.367	—	—	—	—	—
– with early redemption option	—	—	—	—	—	—	—	—
– other	—	189.271	65.367	—	—	—	—	—
1.2 Loans to Banks	282.822	552.292	433.122	—	—	—	—	—
1.3 Loans to customers	70.623	2.229.875	329.410	—	45.109	—	—	—
Total cash assets at 30/06/2015	**353.445**	**2.971.438**	**827.899**	**—**	**45.109**	**—**	**—**	**—**
Total cash assets at 30/06/2014	**320.434**	**2.582.285**	**804.721**	**—**	**31.489**	**—**	**—**	**—**
2. Cash liabilities								
2.1 Amounts due to customers	—	-863.699	—	—	—	—	-123.435	—
2.2 Amounts due to Banks	-73.713	-1.225.682	-125.891	-39.250	—	—	-314.082	—
2.3 Debt securities in issue	—	-755.151	-83.552	-138.651	-122.962	-1.475	-310.229	—
Total cash liabilities at 30/06/2015	**-73.713**	**-2.844.532**	**-209.443**	**-177.901**	**-122.962**	**-1.475**	**-747.746**	**—**
Total cash liabilities at 30/06/2014	**-210.083**	**-2.776.007**	**-53.722**	**-63.933**	**-236.257**	**-1.501**	**-368.416**	**—**
3. Financial derivatives								
3.1 With underlying securities	—	—	—	—	—	—	—	—
– Options	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities	—	341.878	57.436	130.000	78.256	—	662.176	—
– Options	—	—	—	—	—	—	516.794	—
+ Long positions	—	—	—	—	—	—	258.397	—
+ Short positions	—	—	—	—	—	—	258.397	—
– Others	—	341.878	57.436	130.000	78.256	—	145.382	—
+ Long positions	—	—	22.838	130.000	78.256	—	145.382	—
+ Short positions	—	341.878	34.598	—	—	—	—	—
Total financial derivatives at 30/06/2015	**—**	**341.878**	**57.436**	**130.000**	**78.256**	**—**	**662.176**	**—**
Total financial derivatives at 30/06/2014	**—**	**336.820**	**144.505**	**104.600**	**987.641**	**10.000**	**656.556**	**—**
4. Other off-balance sheet								
+ Long positions	—	312.789	71.787	4.870	816.388	98.310	—	—
+ Short positions	1.304.144	—	—	—	—	—	—	—
Total other off-balance sheet at 30/06/2015	**1.304.144**	**312.789**	**71.787**	**4.870**	**816.388**	**98.310**	**—**	**—**
Total other off-balance sheet at 30/06/2014	**1.085.786**	**181.780**	**67.712**	**20.232**	**771.962**	**44.100**	**—**	**—**

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 2015 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	197.437	85.018	—	28.810	1.425
A.4 Loans and advances to customers	954.939	344.705	—	76.889	84.763
A.5 Other financial assets	—	—	—	—	—
B. Financial liabilities					
B.1 Due to Banks	-624.230	-429.241	-6	-4.691	-482
B.2 Due to customers	—	—	—	—	—
B.3 Debt securities	-394.712	—	—	-28.809	-14.190
B.4 Other financial liabilities	—	—	—	—	—
C. Financial Derivatives					
- Options	—	—	—	—	—
+ long positions	—	—	—	—	—
+ short positions	—	—	—	—	—
- Other	-134.060	—	—	-72.025	-71.194
+ long positions	—	—	—	—	—
+ short positions	-134.060	—	—	-72.025	-71.194
Total assets 30/06/2015	1.152.376	429.723	—	105.699	86.188
Total liabilities 30/06/2015	-1.153.002	-429.241	-6	-105.525	-85.866
Difference (+/-) 30/06/2015	**-626**	**482**	**-6**	**174**	**322**
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**

1.2.3 Financial derivative products

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

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

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

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

A. FINANCIAL DERIVATIVES

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

Type of transactions	30/06/2015		30/06/2014	
	Over-the-counter	**Listed**	**Over-the-counter**	**Listed**
1. Debt securities and interest rates	835.759	—	997.673	—
a) Options	—	—	—	—
b) Swap	835.759	—	997.673	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
2. Equities and share indexes	370.673	—	577.356	—
a) Options	370.673	—	577.356	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Exchange rates and Gold	294.023		501.033	
a) Options	—	—	—	—
b) Swap	54.439	—	—	—
c) Forward	239.584	—	501.033	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	**1.500.455**	—	**2.076.062**	—
Average values	**1.149.129**	—	**1.414.294**	—

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

A.2.1 *Hedging derivatives*

Type of transactions	**30/06/2015**		**30/06/2014**	
	Over-the-counter	**Listed**	**Over-the-counter**	**Listed**
1. Debt securities and interest rates	630.029	—	687.263	—
a) Options	—	—	—	—
b) Swap	371.632	—	428.866	—
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	**632.780**	**—**	**687.263**	**—**
Average values	**586.517**	**—**	**669.476**	**—**

A.2.2 *Other derivatives*

Type of transactions	30/06/2015		30/06/2014	
	Over-the-counter	Listed	Over-the-counter	Listed
1. Debt securities and interest rates	290.000	—	430.000	—
a) Options	—	—	—	—
b) Swap	290.000	—	430.000	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
2. Equities and share indexes	308.618	—	478.821	—
a) Options	308.618	—	478.821	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Exchange rates and Gold	2.692	—	5.003	—
a) Options	—	—	—	—
b) Swap	2.692	—	5.003	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	**601.310**	**—**	**913.824**	**—**
Average values	**598.988**	**—**	**862.824**	**—**

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

Type of transactions	Positive fair value			
	30/06/2015		30/06/2014	
	Over-the-counter	Listed	Over-the-counter	Listed
A. Regulatory trading book	61.189	—	33.059	—
a) Options	59.414	—	27.032	—
b) Interest Rate Swap	1.696	—	4.778	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	79	—	1.249	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
B. Banking book: Hedge derivatives	548.425	—	427.526	—
a) Options	—	—	—	—
b) Interest Rate Swap	284.931	—	226.921	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	18	—	—	—
f) Futures	—	—	—	—
g) Others	263.476	—	200.605	—
C. Banking book: Others derivatives	52.912	—	93.689	—
a) Options	49.714	—	87.152	—
b) Interest Rate Swap	3.197	—	6.497	—
c) Cross Currency Swap	1	—	40	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	**662.526**	**—**	**554.274**	**—**

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

Type of transactions	Negative fair value			
	30/06/2015		30/06/2014	
	Over-the-counter	Listed	Over-the-counter	Listed
A. Regulatory trading book	-57.240	—	-94.948	—
a) Options	-49.994	—	-87.456	—
b) Interest Rate Swap	-1.843	—	-5.545	—
c) Cross Currency Swap	-2.961	—	-1.801	—
d) Equity Swap	—	—	—	—
e) Forward	-2.442	—	-146	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
B. Banking book: Hedge derivatives	-263.597	—	-201.810	—
a) Options	—	—	—	—
b) Interest Rate Swap	—	—	-1.205	—
c) Cross Currency Swap	-132	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	-263.465	—	-200.605	—
C. Banking book: Others derivatives	-53.879	—	-27.844	—
a) Options	-53.589	—	-26.726	—
b) Interest Rate Swap	-290	—	-961	—
c) Cross Currency Swap	—	—	-157	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	**-374.716**	**—**	**-324.602**	**—**

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	30/06/2015							30/06/2014
	Governments and central Bank	**Other public agencies**	**Banks**	**Financial companies**	**Insurances**	**Non-Financial companies**	**Other counterparties**	
1. Debt securities and interest rates								
- notional value	—	—	400.000	—	—	—	—	400.000
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	2.000	—	—	—	—	800
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	30/06/2015							30/06/2014
	Governments and central Bank	**Other public agencies**	**Banks**	**Financial companies**	**Insurances**	**Non-Financial companies**	**Other counterparties**	
1. Debt securities and interest rates								
- notional value	—	—	435.759	—	—	—	—	597.673
- positive fair value	—	—	1.696	—	—	—	—	4.778
- negative fair value	—	—	-1.843	—	—	—	—	-5.545
2. Equities and share indexes								
- notional value	—	—	370.673	—	—	—	—	577.356
- positive fair value	—	—	59.414	—	—	—	—	27.032
- negative fair value	—	—	-49.994	—	—	—	—	-87.456
3. Exchange rates and Gold								
- notional value	—	—	294.023	—	—	—	—	501.033
- positive fair value	—	—	79	—	—	—	—	1.249
- negative fair value	—	—	-5.403	—	—	—	—	-1.947
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	30/06/2015							30/06/2014
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	179.199	—	—	—	—	129.198
- positive fair value	—	—	263.484	—	—	—	—	200.605
- 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	30/06/2015							30/06/2014
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	450.830	—	—	—	—	558.065
- positive fair value	—	—	284.923	—	—	—	—	226.921
- negative fair value	—	—	-263.465	—	—	—	—	-200.621
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	—	—	18	—	—	—	—	—
- negative fair value	—	—	-132	—	—	—	—	—
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	120.425	702.134	13.200	835.759
A.2 Financial derivatives on equities and share indexes	2.082	368.591	—	370.673
A.3 Financial derivatives on foreign currency and gold	249.336	44.687	—	294.023
A.4 Financial derivatives on other assets	—	—	—	—
B. Banking book:				
B.1 Financial derivatives on debt securities and interest rates	150.087	336.653	143.289	630.029
B.2 Financial derivatives on equities and share indexes	—	—	—	—
B.3 Financial derivatives on foreign currency and gold	2.751	—	—	2.751
B.4 Financial derivatives on other assets	—	—	—	—
Total at 30/06/2015	**524.681**	**1.452.065**	**156.489**	**2.133.235**
Total at 30/06/2014	**835.623**	**2.420.167**	**421.359**	**3.677.149**

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	22.343	330.000	113.459	9.000
b) Credit spread products	—	—	—	—
c) Total rate of return swap	—	—	—	—
d) Others	—	—	—	—
Total at 30/06/2015	**22.343**	**330.000**	**113.459**	**9.000**
Average values at 30/06/2015	7.113	330.000	113.459	9.000
Total at 30/06/2014	**130.665**	**586.700**	**117.034**	**18.000**
2. Hedge sales				
a) Credit default	129.559	9.000	16.200	330.000
b) Credit spread products	—	—	—	—
c) Total rate of return swap	—	—	—	—
d) Others	—	—	—	—
Total at 30/06/2015	**129.559**	**9.000**	**16.200**	**330.000**
Average values at 30/06/2015	129.559	9.000	16.200	330.000
Total at 30/06/2014	**162.955**	**18.000**	**77.127**	**586.700**

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

Transaction categories	Positive FV	
	30/06/2015	30/06/2014
1. Regulatory trading book		
a) Credit default	3.093	6.078
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
2. Regulatory banking book		
a) Credit default	5.497	7.816
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
Total	**8.590**	**13.894**

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

Transaction categories	Negative FV	
	30/06/2015	**30/06/2014**
1. Regulatory trading book		
a) Credit default	-4.619	-5.000
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
2. Regulatory banking book		
a) Credit default	—	—
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
Total	**-4.619**	**-5.000**

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

Contracts not forming part of netting arrangements	30/06/2015							30/06/2014
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
Regulatory trading book								
1. Hedge buys								
- notional value	—	—	352.343	—	—	—	—	717.365
- positive fair value	—	—	—	—	—	—	—	60
- negative fair value	—	—	-4.580	—	—	—	—	-4.641
2. Hedge sales								
- notional value	—	—	138.559	—	—	—	—	180.955
- positive fair value	—	—	3.093	—	—	—	—	6.018
- negative fair value	—	—	-39	—	—	—	—	-359
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	53.969	415.734	21.200	490.903
a) CDS with “qualified” reference obligation	5.711	1.341	—	7.052
b) CDS with “unqualified” reference obligation	48.258	414.393	21.200	483.851
2. Regulatory banking book	54.069	395.890	21.200	471.159
a) CDS with “qualified” reference obligation	5.711	1.341	—	—
b) CDS with “unqualified” reference obligation	48.358	394.549	21.200	464.107
Total at 30/06/2015	**108.038**	**811.624**	**42.400**	**962.062**
Total at 30/06/2014	**704.129**	**950.652**	**42.400**	**1.697.181**

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 2014 and 2015 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

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

1.a *Financial assets and liabilities by outstanding life as at 30/06/2015 (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	282.885	171.923	296.624	187.437	263.597	859.443	119.836	1.378.266	737.095	315
A.1 Government securities	—	—	—	—	—	—	—	—	—	—
A.2 Listed debt securities	—	—	—	—	—	—	—	—	—	—
A.3 Other debt securities	—	—	—	—	945	195.596	104	60.000	2.800	—
A.4 OICR units	—	—	—	—	—	—	—	—	—	—
A.5 Loans and advances	282.885	171.923	269.624	187.437	262.652	662.837	119.732	1.318.266	734.295	315
– to Banks	282.821	—	44.694	105.654	75.206	434.987	3.751	330.000	—	315
– to customers	64	171.923	224.930	81.783	187.446	227.850	115.981	988.266	734.295	—
Cash liabilities	-73.321	-101.358	-286	-5.445	-8.391	-474.954	-184.540	-2.473.874	-626.312	—
B.1 Deposits	-73.321	-101.358	—	-5.134	-4.579	-302.902	-19.293	-1.719.085	-294.756	—
– to Banks	-73.321	-1.358	—	-968	-3.187	-301.216	-9.002	-959.085	-245.158	—
– to customers	—	-100.000	—	-4.166	-1.392	-1.686	-10.291	-760.000	-49.598	—
B.2 Debt securities	—	—	-286	-311	-3.812	-172.052	-165.247	-754.789	-331.556	—
B.3 Other liabilities	—	—	—	—	—	—	—	—	—	—
Off-balance-sheet transactions	1.318.182	1.022	239.843	186	1.179	72.205	111.501	2.483.716	379.900	—
C.1 Financial derivatives with exchange of principal	—	—	239.584	—	18	7.514	—	44.687	180.000	—
– long positions	—	—	—	—	—	505	—	—	90.000	—
– short positions	—	—	239.584	—	18	7.009	—	44.687	90.000	—
C.2 Financial derivatives without exch. of principal	9.207	1.022	259	186	1.161	11.458	8.250	—	—	—
– long positions	61.111	1.000	—	—	84	9.996	5.959	—	—	—
– short positions	-51.904	22	259	186	1.077	1.462	2.291	—	—	—
C.3 Irrevocable commitments to disburse funds	1.304.144	—	—	—	—	6.345	4.870	1.097.029	195.900	—
– long positions	—	—	—	—	—	6.345	4.870	1.097.029	195.900	—
– short positions	1.304.144	—	—	—	—	—	—	—	—	—
C.4 Credit derivatives with exchange of principal	—	—	—	—	—	46.888	98.381	1.342.000	4.000	—
– long positions	—	—	—	—	—	—	3.039	660.000	—	—
– short positions	—	—	—	—	—	46.888	95.342	682.000	4.000	—
C.5 Credit derivatives without exchange of principal	4.831	—	—	—	—	—	—	—	—	—
– long positions	4.835	—	—	—	—	—	—	—	—	—
– short positions	-4	—	—	—	—	—	—	—	—	—

1.b *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	—

1.4 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 2015 is € 4,8 million (€5,2 million as at 30 June 2014).

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 2015 and 2014 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, for instance, real estate risk that 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;

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 2015.

PART G – CAPITAL MANAGEMENT

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

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

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

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

At the end of June 30, 2015, the Bank complies with all capital ratios:

1. CET1 Capital ratio: 13,36% (min. 4.5%)
2. T1 Capital ratio: 13,36% (min. 6%)
3. Total Capital ratio: 15,67% (min. 8%)

Therefore the fiscal year ended with a capital surplus of € 160m (with regards to the total capital ratio). Also including the Tier I Capital Conservation Buffer (as required by the CSSF Regulation 14-01), the Bank is fully above the standard (7,36% against 2,50%).

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 €)	30/06/2015 (including profit of the fiscal year)	30/06/2014 (including profit of the fiscal year)
Original own funds (Tier 1)	288.724.857	264.626.376
Additional own funds (Tier 2)	50.000.000	50.000.000
Total own funds (Tier 1 + Tier 2)	**338.724.857**	**314.626.376**
Credit/Counterparty risk (Standardized approach)	168.142.199	235.939.561
Market risk (Standardized Approach)	—	—
Operational risk (Basic Indicator Approach)	4.798.445	5.160.386
Total capital requirements (Pillar 1)	**172.940.644**	**241.099.947**
Pillar 2 Risk + Stress test (Internal Assessment)	28.126.322	5.900.000
Total capital requirements (Pillar 1 + Pillar 2)	**201.066.966**	**246.999.947**
Surplus (+) / Deficit (-) of Own Funds	137.657.891	67.626.429
Total capital ratio (%)	15,67	10,44

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 2015 and 2014 concerning related parties are as follows (in € k):

Assets and liabilities	30/06/2015		30/06/2014
	Parent Bank	Other related parties	
Financial assets held for trading	64.660	—	39.141
Financial assets held to maturity	251.847	—	285.057
Loans and advances	1.313.992	95.034	1.114.037
Derivatives held for hedging	284.949	—	226.961
Other assets	—	—	42
Total assets	**1.915.448**	**95.034**	**1.665.238**
Amounts due	-1.464.144	—	-993.629
Debt securities	-21.720	-219.218	-208.507
Financial liabilities held for trading	-325.324	—	-300.553
Derivatives held for hedging	-132	—	-148
Other liabilities	809	-24	-1.445
Total liabilities	**-1.810.511**	**-219.242**	**-1.504.282**

Comprehensive income	30/06/2015		30/06/2014
	Parent Bank	Other related parties	
Interest and similar income	3.478	2.903	11.275
Interest expenses and similar charges	-65.183	—	-36.805
Fee and commission income	88	459	1.160
Fee and commission expenses	-10.507	—	-5.169
Net gains and losses on financial assets and liabilities hft	3.708	—	-11.112
Net gains and losses from hedge accounting	57.582	—	30.258
Administrative expenses	-3.348	-852	-3.786
Impairment	—	—	-39
Other income	—	-68	6
Total	**-14.182**	**2.442**	**-14.212**

Guarantees and commitments	30/06/2015		30/06/2014
	Parent Bank	Other related parties	
Financial guarantees given	—	—	—
Commercial guarantees given	—	—	—
Irrevocable commitments to disburse funds	—	32.114	24.958
Commitments underlying cds: hedge sales	138.559	—	524.299
Total	**138.559**	**32.114**	**549.257**

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:

	30/06/2015	30/06/2014
Administrative bodies	55	—
Key management personnel	314	315
	369	**315**

As of 30 June 2015 and 2014, 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 2015 and 2014, audit fees are split as follows (in €):

	30/06/2015	30/06/2014
Audit fees	91.170	94.209
Audit related fees	36.468	25.325
Other fees	—	20.280
Total	**127.638**	**139.814**

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

Staff number

As at 30 June 2015 and 2014, the Bank's staff is as follows:

	30/06/2015	30/06/2014
Management–Senior	2	2
Management–Middle	2	2
Other staff	5	5
Total	**9**	**9**

As of 30 June 2015 and 2014, 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 is not included directly on the Bank's payroll but is 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 2015 and the date when the present financial statements were authorized for issue.