MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.

RCS n. B 112885

Annual Accounts and Report as at June 30, 2016

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 2016

www.mediobancaint.lu

BOARD OF DIRECTORS

		Term expires	Location
PETER W. GERRARD	CHAIRMAN	2017	LUXEMBOURG
STEFANO BIONDI	MANAGING DIRECTOR & CEO	2017	LUXEMBOURG
MASSIMO DI CARLO	DIRECTOR	2017	ITALY
LUCA MACCARI	»	2017	ITALY
MASSIMO BERTOLINI	»	2017	ITALY
ALEX SCHMITT	»	2017	LUXEMBOURG
STEPHANE BOSI	»	2017	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 2016
BOARD OF DIRECTORS' REVIEW OF OPERATIONS

The euro area economy grew by 1.7% in 2015, expanding at its highest rate since 2010. Thanks to supportive policies and exceptional factors, such as very low oil prices, a low euro exchange rate, supportive monetary policies, the euro area's GDP surpassed its pre-crisis peak earlier this year. In 2016 and 2017, the economy should continue to expand roughly at the same rate – staying the course, but not accelerating. In recent months the boost from these factors has been partially offset by external headwinds stemming from the downturn in emerging economies and, more recently, from a slowdown in major advanced economies. As a result, the main impetus for economic growth over the forecast horizon is expected to come from domestic demand. Overall, real GDP growth in the euro area is projected to be roughly stable, falling slightly from 1.7% (2.0% in the EU) last year to 1.6% (1.8% in the EU) this year before increasing marginally to 1.8% (1.9% in the EU) next year. Labour markets are set to continue improving at a moderate pace[1].

In this context, the uncertainty associated with the recent "Brexit" referendum is a major source of concern. While the biggest impact would be on UK, there can be little doubt that there will be also a significant impact on the rest of the EU. Everything depends on how the new relationships between the UK and the EU will be regulated, in any case the path to "Brexit" still looks to be long and uncertain (even in terms of effective implementation).

International Monetary Fund (IMF) has recently highlighted as global growth is forecast slightly above three percent in 2016. While growth in emerging market and developing economies still accounts for the lion's share of projected world growth in 2016, prospects across countries remain uneven and generally weaker than over the past two decades. In particular, a number of large emerging markets – including Brazil and Russia – are still mired in deep recessions. Growth in China and India has been broadly in line with projections, however their economies are expected to move to a more balanced growth path after decades of strong credit and investment growth. Growth in advanced economies is projected to remain modest, in line with 2015. Unfavorable demographic trends, low productivity growth, and legacies from the global financial crisis continue to hamper a more robust pickup in activity. While very accommodative monetary policy and lower oil prices will support domestic demand, still-weak external demand and exchange rate appreciation – especially in the US – will weight on the recovery. The projected pickup in growth in 2017 (3.5 percent) hinges crucially on rising growth in emerging markets and developing economies, as growth in advanced economies is expected to remain modest[2].

In this macro-economic scenario, the Bank has performed well registering a net profit of € 19m (-21% compared to June 2015). A detailed analysis of the performance registered on the main income and financial items will be made further in this report.

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[1] Source: EU spring forecast 2016 (http://ec.europa.eu/economy_finance/publications/eeip/pdf/ip025_en.pdf)

[2] Source: IMF world economic outlook 2016 (http://www.imf.org/external/pubs/ft/weo/2016/01/pdf/text.pdf)

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

- On February 1st, 2016 an extraordinary general meeting of Shareholders appointed a new Board and established the number of Directors at seven (from eight). Mr. Peter W. Gerrard (previously Managing Director) was appointed as Chairman for the entire mandate of the Board (i.e. approval of the annual accounts for the year ending June 30, 2017) while Mr. Stefano Biondi was confirmed as Managing Director.
- The Luxembourg law of 18 December 2015 relating to the automatic exchange of information in tax matters was published in the Official Journal on 24 December 2015. The Luxembourg Law transposes EU Directive 2014/107/EU relating to the mandatory automatic exchange of information in tax matters, and enters into force on 1 January 2016. The latter Directive introduces "Common Reporting Standard" based reporting throughout the EU, and becomes applicable as from 1 January 2016.
- On April 2016 the Single Resolution Board determined the contributions due by credit institutions based on EU Regulation no. 806/2014. The share of Mediobanca International amounted to EUR 0,7m and the payment was done on June 2016 upon instructions received from the CSSF.

DEVELOPMENT IN MACROECONOMIC SCENARIO

In 2015 the GDP of the world's advanced economies grew by 1.9%, while that of the emerging markets and developing economies (EMDE) grew by 4%. Of the former category, GDP in the United States grew by 2.4% and in the Eurozone by 1.7%; within the Eurozone itself, the individual member states reflected differing performances: Spain up 3.2%, the U.K. up 2.2%, Germany up 1.5%, France up 1.3%, and Italy up 0.8%. The picture as a whole is completed by Japan, where GDP growth was sticky, rising just 0.5%. Among the EMDE group, the range of performances is still wider: Russian GDP contracted by 3.7%, and Brazilian GDP shrank by 3.8%, whereas China (GDP up 6.9%) and in particular India (up 7.6%) continue to be the most dynamic regions in the world, along with the ASEAN countries (Indonesia, Malaysia, the Philippines, Thailand and Vietnam) where GDP grew by 4.8%. The rest of the world shows individual regions with buoyant growth: the South American countries as a whole were stagnant (GDP unchanged), despite a certain amount of dynamism in Mexico (up 2.5%), whereas growth in the Middle East was impacted by the adverse trend in crude oil prices (which fell 47.2% in 2015) and non-energy commodities (down 17.5%), restricting the increase to 2.3%; sub-Saharan Africa appears to be losing steam, given that its 3.3% growth in 2015 reflected a considerable slowdown on the 5.1% increase posted in 2014. All the advanced economies continue to remain mired in a deflationary scenario (consumer prices up just 0.3%) which is unable to derive benefit from nominal interest rates being basically zero (six-month USD LIBOR rate 0.5%, EURIBOR 3 months 0%, JPY LIBOR rate 0.1%).

The International Monetary Fund's estimates for the present year bear out the uncertain and uneven scenario reflected in the 2015 data. The estimated global growth for 2016 has been revised downwards slightly from the April estimate, by 0.1%, and is now seen at 3.1%, mirroring the performance delivered in 2015. The first quarter showed a better performance than expected, in part due to the upturn in oil prices as from mid-February. The situation was then jolted by the "Leave" vote recorded in the Brexit referendum held in the U.K. on 23 June. However, the IMF's projections factor in a "soft Brexit" assumption, without substantial barriers to free trade being erected. Accordingly, the advanced economies in 2016 are expected to deliver GDP growth of 1.8% and the EMDE countries growth of 4.1%. The United States are estimated to post 2.2% growth (against a projected 0.2% contraction seen in April), and the Eurozone countries growth of 1.6% (0.1%). The individual EU member states are anticipated to deliver results largely similar to those seen in 2015: Spain again should be the most dynamic economy, with growth of 2.6%, while France and Germany appear to be moving in tandem (growth of 1.5% and 1.6%), with Italy still further behind (GDP up 0.9%). The difference from last year is the United Kingdom, which shows the impact of the decision to exit the European Union: the 2016 estimates see UK GDP growth of 1.7%, 0.2% lower than the April projections, and more substantial still in 2017, when growth is seen at 1.3%, the IFM having revised its April estimate downwards by 0.9%. Between 23 June and 15 July sterling lost 10% of its value, producing a deterioration in the terms of trade of a country with modest manufacturing activity (just 11% of the UK's GDP comes from manufacturing, compared with 15% by the OECD countries) for which it is dependent on imports. The results of the Brexit referendum do not appear to impact directly or significantly on the global prospects, but they undoubtedly have added considerable political and institutional uncertainty, not least in terms of the outcome of the next sets of elections. Expectations of a further, 15.5% contraction in Brent oil prices and a 3.8% reduction in the prices of non-oil commodities should produce uneven effects on the countries most affected: in the Middle East, growth looks set to recover its dynamism, reaching 3.4%, whereas for sub-Saharan Africa the growth would be more limited, at 1.6%. This area in particular has seen a drastic, 1.4% cut in the IMF's estimates since the April release, of 1.4%, which in large part derives from the situation in Nigeria, for which the estimates have been cut by 4.1%, and now point to negative growth for 2016, of minus 1.8%. The contractions reported by Russia and Brazil in 2015 look set to continue, albeit less pronounced, with Russian GDP set to shrink by 1.2% and Brazilian GDP by 3.3%. Brazil in particular, which is presently in the midst of a presidential crisis, is seen as dragging the South American continent as a whole into negative growth (minus 0.4%). The growth prospects for China continue to look positive, with an estimated 6.6% increase in GDP expected on the back of the wide-ranging monetary stimulus programme which has been launched, with five consecutive cuts in the benchmark interest rates in 2015 which have driven an increase in lending and infrastructural investments. Prospects for India also look healthy, with estimated growth of 7.4%.

Consumer prices and interest rates, conversely, are expected to remain absolutely flat.

Manufacturing industry

Against this backdrop, in 2015 the manufacturing multinationals saw their sales increase year-on-year versus 2014. In Europe their sales grew by 5.5%, and in Russia/Asia by 0.5%, while in the southern hemisphere the increase was 10.2%. Only in North America was there a reduction, of 1.3%. Conversely, industrial margins reflected different trends compared to those seen for sales: the EBIT posted by European multinationals declined by 0.5%, while for the North American companies EBIT increased by 9.2%. The most dynamic performances were seen in Russia/Asia (EBIT up 5.4%), and the rest of the world in particular (up 14.1%). Net profitability, as measured by the return on equity (ROE), delivered by the US manufacturing multinationals came in at 28%, comfortably higher than the results achieved by the European companies (15.5%) and the Russian/Asian aggregate (11.5%).

	Europe		North America		Russian-Asian region	
	Energy	*Manufacturing*	*Energy*	*Manufacturing*	*Energy*	*Manufacturing*
			% chg. vs 2015/14			
Revenues	-32,6	+5,5	-36,0	-1,3	-17,8	+0,5
EBIT	-72,1	-0,5	-80,5	+9,2	-27,9	+5,4
ROE (%)	*-3,3*	*15,5*	*-0,6*	*28,0*	*6,4*	*11,5*

Source: R&S – Multinationals: financial aggregates (2016)

The global energy industry in 2015 was affected by a pronounced and substantial contraction seen at the level of sales (which were down 32.6% in Europe, down 36% in North America and down 17.8% in Russia/Asia), but above all at the level of margins which reduced drastically (down 72.1% in Europe, down 80.5% in North America and down 27.9% in Russia/Asia). As in 2014, the ROE posted by the energy industry was below that of the manufacturing companies in 2015, and indeed negative apart from for the Russian/Asian producers.

	Europe		North America		Russian-Asian region	
	% chg. vs 2014	% of capital invested	% chg. vs 2014	% of capital invested	% chg. vs 2014	% of capital invested
Equity	+6,4	56,2	-3,4	57,1	+7,0	68,0
Financial debt	+7,6	43,8	+25,4	42,9	+1,8	32,1
Liquidity	+3,8	14,8	+3,9	23,0	+6,2	25,0
Net debt /Equity (%)		78,0		75,1		47,1
Intangibles/equity (%)		77,1		89,8		14,1

Source: R&S – Multinationals: financial aggregates (2016), manufacturing companies

The financial structure of the manufacturing multinationals showed signs of deterioration in North America, where there was a sharp, 25.4% increase in borrowings while at the same time net equity reduced by 3.4%. This meant that the debt-equity ratio worsened from 59.5% in 2014 to 75.1%, levels which are not far off those recorded by the European companies which are the weakest financially (78%). One potentially fragile area is the presence of intangible assets, which account for some 90% of the net equity in North America (much worse than in 2014 when the figure was 76.5%) and for 77% in Europe. Overall, the Russian/Asian multinationals have a considerably stronger balance-sheet structure, as shown by the lower debt-equity ratio (47.1%) and the low percentage of net equity accounted for by intangibles (14.1%). Roughly one-quarter of the capital invested by the North American and Russian/Asian multinationals is held as cash or cash equivalents, a figure which falls to 15% for the European groups.

Financial industry

The European banking sector remained a major cause for concern throughout 2015 and 2016, concerns which have only in part been dissipated by the generally comforting results of the stress test exercises.

Overall, at end-2015 the European banks reported a CET1 ratio of 13.2%, which would be eroded by 380 basis points in 2018 if the adverse scenario were to materialize.

In 2015 the aggregate revenues posted by the leading international banks reflected different performances on both sides of the Atlantic. The European banks saw their contribution margin rise by 3.3%, on the back of strong growth in trading profits (up 29.2%) and a rise in net interest income (up 0.9%). In a scenario where interest rates are at all-time lows and with customer volumes contracting (down 1.4% on 2014), the resilience of net interest income was due largely to the low cost of funding, as a result of a pronounced reduction in the bond component against the stability of funding raised from customers (down 4% and just 0.2% respectively) and increased use of non-conventional long-term sources of funding, notably the Targeted Long-Term Refinancing Operations (TLTRO) launched by the ECB (whose depositor interest rate lurched into negative territory, at minus -0.4%). Although operating costs were up slightly on last year, by 0.3%, the cost/income ratio improved by 200 basis points as a result of the large increase in the contribution margin. After falling drastically in 2014 (by 42.6%), loan loss provisions decreased by a further 7.1% in 2015 now account for 9.1% of total sales, a major reduction from the 26.9% in 2009. The resulting, 18% growth in current profit was largely offset by extraordinary expenses, which were double the total reported in 2014, mostly due to fines, sanctions and writedowns to assets (goodwill in particular). For this reason the recovery in net profit was confined to just 3.8%. ROE stood at 4%, far from the values recorded in 2006 (20.1%) and again in 2010 (7.7%).

The revenues posted by the leading banks in the United States fell by 0.6% in 2015, on a reduction in net fee and commission income of 0.9%, and in other revenues of 6.6%, despite the resilience of net interest income (up 0.3%) and trading profits (up 0.9%). Operating costs fell by 3.7% versus 2014, due to labour costs being kept under control (down 1.2%) and general expenses falling by 6.3%, with the labour force contracting by 2.1%. The cost/income ratio therefore fell to 62.3%, more than 400 basis points below the ratio for the European banks. Loan loss provisions were up 22.9% on 2014, accounting for 5.6% of revenues, and keeping the increase in current profit down to 2.1%. Net profit was up 32% while ROE stood at 9.8%, due to extraordinary income which in 2015 totalled €5.6bn, compared with charges of €18.5bn in 2014. From as early as 2013 the leading US banks had returned to near pre-crisis levels, considering that current profit stood at 32.1% of total sales in that year, in line with the average figure for the 2005-07 period.

	Europe	United States
	% chg. vs 2015/2014	
Revenues	+3,3	-0,6
of which: interest margin	*+0,9*	*+0,3*
Loan write-downs	-7,1	+22,9
Income	+18,0	+2,1
Net profit	+3,8	+32,0
ROE (%)	*4,1*	*9,8*

Source: R&S –Major international banks (2016)

On the balance-sheet side, in 2015, European banks' assets decreased by 9.5% and those of the US banks by 8.1%. All the main balance-sheet items fell, with the single exception of accounts held by

European banks with the ECB, which were up 4.7%, and net equity (which was up 1.3% in Europe and 5.1% in the United States). Among the highest percentage reductions were the fair value of derivatives (down 30.2% in Europe, down 28.4% in the U.S.): these instruments now account for 18.2% of the aggregate balance sheet in Europe and 20.4% in the U.S. This reduction is due not only to trends in prices, given that the notional value too decreased (by 15% in both areas. Level 3 assets also declined, by 14.3% in Europe (with the exception of Germany) and by 24.9% in the United States. Italy showed the most substantial reduction, including as a result of the investments in the Bank of Italy's share capital moving from level 3 to level 2. Loans and advances to customers followed differing trends in the two geographical areas, falling 1.4% for the leading European institutions, where they accounted for 43.3% of the total assets, and up 4.2% for their US peers (34.5%), while securities fell in both areas but more sharply in Europe than in the United States (down 4.6% and 1.9% respectively). On the liability side, the bond component (including subordinated liabilities) fell in both the United States (by 5.5%) and in Europe (by 4%), accounting for a higher proportion of the European banks' balance sheets than for those of the US banks (14.2%, vs 9.1%), bearing in mind that the latter have greater recourse to deposits (48.3% of total assets, as against 42.9%). The reduction in leverage also continued, down from 22.5x to 19.9x in Europe and from 16.1x to 13.7x in the U.S. Net bad debts fell 12.3% in Europe and 28.9% in the United States, and they also fell as a percentage of the loan book (by 2% and 0.7% respectively), while the coverage ratio, which is calculated including the general reserve for performing loans, rose from 55.7% to 56.8% in Europe and from 63.3% to 68.8% in the U.S.

	Europe	United States
	% chg. vs 2015/14	
Balance sheet total	-9,5	-8,1
Derivatives	-30,2	-28,40
Securities	-4,6	-1,9
Loans to customers	-1,4	+4,2
Deposits from customers	-0,2	+2,1
Debt securities	-4,0	-5,5
Total capital ratio (%)	*18,2*	*14,8*

Source: R&S – Major international banks (2016)

The situation for the two leading Italian banks in 2015 showed the following aspects: a) profitability still low, but ROE above average (4.7%, versus 4.1%); b) asset composition which compared to the European benchmark shows a predominance of loans and advances to customers (50.9%. versus 43.3% for Europe generally) and a lower proportion of risky assets, in particular derivatives (9.3% of total assets, compared to an average of 18.2%) and illiquid assets ("level 3") equal to 8.4% of tangible net equity, compared with an average of 20.3%); c) solvency margins below the average value (total capital ratio 15.4%, versus 18.2% for Europe) but with a gap in part reducing compared to the past; d) net bad debts which account for a higher proportion of tangible net equity, at 74.5% compared with a 17% European average; e) coverage ratio for bad debts in line with the European average at 53.5% (56.8%), and with loan loss provisions still accounting for a higher than average percentage of total revenues (17.1%, vs 9.1%) but below the highs recorded in previous years.

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 30/06/2016	12 mths to 30/06/2015	Y.o.Y. chg.
	€m	€m	%
Net treasury investments	1.185,0	835,3	42%
Securities (HTM & L&R)	60,7	254,6	-76%
Loans and advances	3.733,0	2.965,3	26%
Equity investments	4,2	4,2	0%
Tangible and intangible assets	-	-	-
Other assets	5,9	3,1	91%
TOTAL ASSETS	**4.988,8**	**4.062,5**	**23%**
Funding	4.670,8	3.767,9	24%
Other liabilities	10,2	5,9	74%
of which: tax liabilities	*5,6*	*2,8*	*102%*
Net equity	288,7	264,8	9%
Profit	19,0	23,9	-20%
TOTAL LIABILITIES	**4.988,8**	**4.062,5**	**23%**

ASSETS

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

Net treasury investments – the item increased by 42%, from € 835,3m to € 1.185m and includes:

- financial assets held for trading (other than derivatives) which are substantially stable when compared to June 2015 (-5%, from € 156,1m to € 147,7m).
- net application in treasury funds (including repos, time deposits, etc.) which increased by 43%, from € 812m to € 1.163,2m, 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 which are stable when compared to June 2015 (-5%, from € -132,8m to € -125,9m) reflecting the small volatility registered over the reference market-inputs.

	12 mths to 30/06/2016	12 mths to 30/06/2015	Y.o.Y. chg.
	€m	€m	%
Financial assets HFT other than derivatives	147,7	156,1	-5%
Net applications treasury funds	1.163,2	812,0	43%
Derivatives instruments	-125,9	-132,8	-5%
Net treasury investments	**1.185,0**	**835,3**	**42%**

Securities (HTM & L&R) – this item amounts to € 60,7m and decreased by 76% compared to June 2015 (€ 254,6m) due to redemptions occurred during the period.

Loans and advances – this item increased by 26% (from € 2.731,7m to € 3.733,0m) due to continued recovery in corporate lending. The institution's net credit risk exposure (i.e. excluding the amounts already guaranteed by surety of the Parent and/or third insurers) also increased, passing from € 821,2m to € 895,3m (+9%). It is noteworthy that the quality of the credit portfolio continues to improve, the "watch list ratio" of the Bank has indeed further decreased from 5,5% (June 2015) to 3,6% (June 2016).

In an environment which remains challenging, non-performing loans (which remain fully guaranteed by the Parent Company) went slightly down from € 53,9m to € 52,5m representing approximately 1,5% of corporate loans.

	12 mths to 30/06/2016	12 mths to 30/06/2015	Y.o.Y. chg.
	€m	€m	%
Performing	3.680,4	2.911,4	26%
Restructured and non performing	52,6	53,9	-3%
FV hedging loans and advances	-	-	-
Loans and advances	**3.733,0**	**2.965,3**	**26%**

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. In June 2015 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 increased by 91%, from € 3,1m to € 5,9m. This growth can be considered as "transitory" since is mainly due to receivables originally accounted at the end of June 2016 which were already cleared in July 2016. The balance outstanding at the reference date is composed for the most part by commissions receivables on corporate lending.

LIABILITIES

On the liabilities side the following variations are worth to be noted:

Funding – this item amounts to € 4.670,8m and is increased by 24% when compared to June 2015 (€ 3.767,9m). In particular:

- Amount due to banks and customers increased by 10% (from € 2.640,7m to € 2.892,3m) 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, and (ii) decline in notes issued under the EMTN Programme (see below).
- Notes issued under the existing EMTN Programme decreased by 5% (from € 1.051,8m to € 1.101,8m);
- Fair value valuation of hedging derivatives increased by 48% (from € -284,8m to € -422m) reflecting the volatility arising from the market-based valuation of derivative products;
- € 1.148,7m of short term papers were finally issued under the existing Euro Commercial Paper and French CD Programmes (€ 310,2m issued at the end of June 2015).

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 30/06/2016	12 mths to 30/06/2015	Y.o.Y. chg.
	€m	€m	%
Amount due to banks and customers	2.892,3	2.640,7	10%
Notes issued	1.051,8	1.101,8	-5%
FV hedging of borrowings	-422,0	-284,8	48%
Short term funding debt instruments	1.148,7	310,2	270%
Funding	**4.670,8**	**3.767,9**	**24%**

Other liabilities – this item increased by 74%, from € 5,9m to € 10,2m, mainly due to (i) tax provision of the fiscal year net of the advances paid on quarterly basis to the Tax Authority (+ € 2,8m compared to June 2015), and (ii) invoice receivables from the Parent Company and other amounts payable (+ € 2,0m compared to June 2015).

Net equity – No dividends have been distributed during the exercise and the increase from € 264,8m to € 288,7m is exclusively attributable to the provisioning of the profit from the previous year. The strategy of the Bank remains focused on continuous strengthening of own funds.

RESTATED STATEMENT OF COMPREHENSIVE INCOME

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

	12 mths to 30/06/2016	12 mths to 30/06/2015	Y.o.Y. chg.
	€m	€m	%
Net interest income	30,7	30,8	0%
Net trading income	1,1	-4,0	-128%
Net fee and commission income	1,9	8,2	-77%
TOTAL INCOME	**33,7**	**35,0**	**-4%**
Wages and salaries	-1,1	-0,9	18%
Other administrative expenses	-6,7	-5,2	29%
OPERATING COST	**-7,8**	**-6,1**	**27%**
Loans impairment	1,0	0,9	11%
Provisions for other financial assets	-	-	-
PROFIT BEFORE TAX	**27,0**	**29,8**	**-9%**
Fiscal provision	-7,9	-5,9	35%
NET PROFIT	**19,0**	**23,9**	**-20%**

Net interest income – net interest income is stable at € 30,7m (vs. € 30,8m as of June 2015) by reason of stable interest income coupled with decreasing cost of financing (especially thanks to the increasing borrowing raised through the existing Euro CP and French CD Programmes).

During the reference period, the different components performed as follows (cf. also table below):

- higher interest income registered on corporate lending (+4%, from € 71,6m to € 74,2m) due to increasing volumes negotiated/approved which have been only partially offset by lowering reference interest rates;
- cost of financing slightly decreased (from € -58,3m to € -56,9m) especially by reason of redemptions and/or buybacks of notes issued under the EMTN Programme which have been replaced with cheaper borrowings raised from the Group Treasury or through the existing money market Programmes;
- net interest income from treasury operations decreased by 23%, from € 17,5m to € 13,4m, especially due to minor interests received over "held to maturity" securities issued by the Parent which have redeemed during the reference period.

	12 mths to 30/06/2016	12 mths to 30/06/2015	Y.o.Y. chg.
	€m	€m	%
Interests receivable - lending	74,2	71,6	4%
Interests payable - funding	-56,9	-58,3	-2%
Treasury	13,4	17,5	-23%
Net interest income	**30,7**	**30,8**	**0%**

Net trading income – this category is made up of € 1,1m (€ -4,0m in June 2015) and is composed as follows:

- dealing losses amount to € -0,6m (ex € 4,1m) and are more than compensated (as it was in June 2015) by unrealised profits of € 1,0m (ex € -4,2m);
- impact on forex exposure is positive for € 1,8m by reason especially of the pricing relative to forex and/or cross currency swaps negotiated with the Parent (in this respect it is worth remarking that the Parent Bank remains substantially the only swap counterpart of the institution, and all derivatives contracts are concluded under ISDA Credit Support Annex). This is a significant improvement compared to June 2015, when the impact on forex exposure was negative for € -1,6m equivalent;
- gains on disposals and repurchases are almost nil (€ -2,3m in June 2015);
- Securities lending fees amount to € -1,1m and refer to the borrowings under GMSLA of high quality liquid assets (HQLAs) from the Group Treasury in order to allow the institution to fully comply with the liquidity coverage ratio (LCR) indicator.

	12 mths to 30/06/2016	12 mths to 30/06/2015	Y.o.Y. chg.
	€ m	€ m	%
Realised gains/losses	-0,6	4,1	-115%
Unrealised gains/losses	1,0	-4,2	-125%
Forex exchange gains/losses	1,8	-1,6	-210%
Gains on disposals/repurchases	-0,0	-2,3	-99%
Securities lending	-1,1	-	-
Net trading income	**1,1**	**-4,0**	**-128%**

Net fee and commission income – this item, still driven by corporate lending and treasury services, decreased by 77% when compared to June 2015 (from € 8,2m to € 1,9m).

Net lending fees in particular decreased by 50% (from € 17,9m to € 12,6m) mainly because of a downturn in the so-called "ongoing" fees (e.g. commitment, ticking, utilization fees), coupled with higher commission expenses (+17%, from € -5,5m to € -6,5m).

Treasury expenses decreased by 10% (from € -5,2m to € -4,7m) and represent the costs incurred by the institution in respect of the services received from the Group Treasury (e.g. guarantee over the security and money market Programmes, dealing and structuring of bond issuances, etc.).

	12 mths to 30/06/2016	12 mths to 30/06/2015	Y.o.Y. chg.
	€ m	€ m	%
Net lending fees:	6,4	12,8	-50%
- Loans and advances rec. (+)	*12,6*	*17,9*	-29%
- Loans and advances pay (-)	*-6,5*	*-5,5*	17%
- Guarantees given rec. (+)	*0,2*	*0,4*	-41%
Net treasury fees:	-4,5	-4,6	-2%
- commission income (+)	*0,2*	*0,6*	-72%
- commission expense (-)	*-4,7*	*-5,2*	-10%
Net fee income	**1,9**	**8,2**	**-77%**

Operating costs – this item increased by 27%, from € -6,1m to € -7,8m, by reason of (i) higher contribution to the Single Resolution Fund, and (ii) increasing expenses incurred under the service agreement with the Parent.

Value adjustments in respect of financial assets and other financial operations – this item increased by 11%, from € 0,9m to € 1,0m, reflecting an improvement of the lending portfolio which is, among other factors, ascribable to the early refinancing carried out by a client reported in credit watch list to which the institution did not participate.

CORPORATE GOVERNANCE STATEMENT

The Board and management of Mediobanca International (Luxembourg) S.A. are committed to maintain the highest standards of corporate governance. Decision making and governance comply with the institution's Articles of Association, the law of 5 April 1993 (as amended), and other applicable legislation.

Governing bodies are the following:

- General meeting of Shareholders;
- Board of Directors;
- Risk Committee;
- Authorised managers.

General meeting of Shareholders

The general meeting is the highest decision-making body and is vested with the broadest powers to perform, authorize or ratify all acts concerning the Bank. In accordance with the Articles of Association, the annual general meeting is held in Luxembourg at the registered office of the Bank (or at any other place in the municipality of Luxembourg to be indicated in the notice of meeting) every 5th of October (or the following Monday, in case such date falls on a Saturday or Sunday). Further ordinary or extraordinary general meeting can be held during the year, if necessary, in accordance with the provisions of the bylaws.

The shareholders general meeting resolves – among others – on the following matters:

- Approval of the financial statements and allocation of profit;
- Discharging members of the Board of Directors and the Managing Director from liability;
- Defining the number of Board members and their appointment;
- Appointment of, and termination of the agreement with, external auditors;
- Remuneration of the Board of Directors;
- Transaction required by law to be approved by shareholders in general meeting.

Only holders of registered shares, as recorded in the register of shareholders, are authorized to take part and vote in general meeting; moreover they may choose to be represented in the general meeting under a proxy issued in writing or electronically where this is permitted by the regulations in force and in accordance with them, without prejudice to grounds of incompatibility and within the limits provided by law. Proxies may also be issued free of charge, along with instructions on how to vote on all or some of the items on the agenda.

The Bank has not adopted a specific set of regulations for holding general meetings, as its Articles of Association ensure that proceedings are conducted in an orderly manner, providing for the Chairman of the meeting, who under the Articles is the Chairman of the Board of Directors, the duty of establishing that a quorum has been reached, ascertaining the identity of those in attendance, and assessing their entitlement to be so present, chairing and conducting the proceedings, and checking and announcing the results of any votes taken.

Board of Directors

The Board of Directors is collectively responsible for the long-term success of the Bank. In accordance with the Articles of Associations the Board of Directors is vested with the broadest powers to perform all acts of administration and disposition in the Company’s interest. All powers not expressly reserved by law or by the Articles of Associations to the general meeting of Shareholders are within the competence of the Board of Directors. In particular it has full powers to decide on all transactions pertaining to the object of the Company, as well as on all contributions, transfers, subscriptions, partnership, associations, participations or financial interventions with respect to such operations.

The essential duties and responsibilities of the Board are defined primarily by the Articles of Association and the Luxembourg law(s). According to the Articles of Associations the Board of Directors will be composed of at least three members who need not to be Shareholder and who shall be elected by general meeting of Shareholders for a term of office as determined by the Shareholders but not exceeding six years. Directors can be removed at any time from office by a simple resolution of a majority of Shareholders voting in general meeting. In the event of a vacancy in the office of a Director, the remaining Directors may, under the conditions foreseen by the law, temporarily fill such vacancy. In such a case the first general meeting of Shareholders following the temporary appointment shall ratify such appointment.

The Board's leadership responsibilities involve working with management to set corporate values and to develop strategy, including the definition of the risks it is prepared to take in pursuing its strategic objectives. Its oversight responsibilities involve it in providing constructive challenge to the management team in relation to operational aspects of the business, including approval of budgets, and probing whether risk management and internal controls are sound.

Under the Articles of Associations currently in force, the Board of Directors delegates management of the Bank's current operations to the Risk Committee and the Authorised Managers who exercise such powers in accordance with the strategic guidelines and direction formulated by the Board itself. The following matters, however, remain within the sole jurisdiction of the Board of Directors:

- approval of strategic guidelines and directions, business and financial plans, budgets, and risk management and internal control policies;
- approval of quarterly, semiannual and annual accounts;
- appointment of the Authorised Managers and establishment of powers;
- appointment of the key management personnel (e.g. Chief Compliance Officer, Chief Risk Officer, Chief Internal Auditor);
- appointment of the Risk Committee and establishment of powers;
- approval of or amendment to internal regulations;
- ascertain on at least an annual basis that Directors are in possession of the requisite professional credentials and qualify as fit and proper persons and as independent as required by regulation in force and article of associations.

The Board of Directors of Mediobanca International was appointed by Shareholders in a general meeting held on October 3rd, 2014 for the period ending with the annual general meeting to be called to approve the annual accounts as of June 30, 2017. The number of the Board members was further re-defined in a general meeting held on February 1st, 2016. It consists of seven members (four of whom qualify as independent): Peter W. Gerrard (Chairman), Stefano Biondi (Managing Director), Massimo Bertolini, Massimo Di Carlo, Luca Maccari, Alex Schmitt, Stephane Bosi. The Board includes prominent figures from the banking and legal sectors, which ensures an appropriate degree of professionalism as required by the complexity of the Bank's operations, and given the Board's role in strategic supervision. During the fiscal year the Board of Directors convened no. 7 times and the attendance rate was 91%.

The Board has approved internal regulations in the area of self-assessment to govern the various phases into which the process is structured, identifying the means and instruments by which it is implemented. Such formalization enables a standardized process to be developed over the years meaning that results can also be compared more easily. The process of self assessment of the size, composition and functioning of the Board of Directors and its committee required inter alia by the supervisory instructions for banks in the area of corporate governance was conducted in the months of May and June 2016.

The Board of Directors elects a Chairman from among its members. The Chairman's primary responsibility is to lead the Board, to ensure that it has a common purpose, is effective as a group and at individual Director level. The Chairman also ensures that the Board and the executive management have a full understanding of the views of Shareholders.

Risk Committee

Board of Directors appoints a Risk Committee, which may be either composed by Directors and/or executive management, establishing their powers in accordance with the provisions set forth in the Articles of Association. The Risk Committee presently is composed by four members, namely: Stefano Biondi (Managing Director), Edoardo Reitano (Chief Financial Officer), Antonio Santese (Chief Risk Officer) and Massimo Di Carlo (Director).

The Committee remains in force for the entire duration of the office of the Board of Directors which appointed it. The Board held on February 1st, 2016 has vested the Risk Committee with the following powers:

- assessment and approval of credit, issuer and market risk (within the limits set forth by the Board);
- pass resolutions as regards the declaration of insolvency status of a counterparty, the classification of credit exposures as non performing, restructured or forbearance, and their return to the "performing" status once conditions of solvency have been restored;
- promote effective management of all risk categories and oversee the current risk exposure of the Bank and its future risk strategy;
- pass resolutions on those transactions which are significant in term of structure, number and/or typology of risks involved.

The Risk Committee shall normally meet at least twice per month or whenever necessary for examination of proposed deals/transactions. For strictly advisory purposes persons external to the company and/or Mediobanca S.p.A. may also take part in such meetings without having voting rights.

The members of the Committee with responsibility for the day-to-day management of the Company have a veto right to be exercised individually.

The Committee shall report to the Board of Directors on a regular basis or, without prejudice to the foregoing, at least semiannually regarding the transactions executed and the results of control activity carried out in the period concerned.

Authorised Managers

In accordance with the requirements laid down by the law 5 April 1993 on the financial sector (as amended) the Board of Directors delegate day-to-day management to two (or more) persons who must be empowered effectively to determine the direction of the activity without prejudice to the direct exercise by the Board at any time of its powers. Authorised Managers must possess adequate professional experience having carried on similar activities at high level of responsibility and autonomy.

Authorised Managers are in charge of the management of the Company's business operations and governance in accordance with the Articles of Association, the Luxembourg law and the instructions given by the Board.

The Board of Directors appointed as Authorised Managers Stefano Biondi (Managing Director) and Edoardo Reitano (Chief Financial Officer).

OTHER INFORMATION

During the fiscal year ended on June 30, 2016 the Bank has not purchased own shares nor has undertaken activities in the field of research and development.

ECONOMIC OUTLOOK FOR THE NEXT TWELVE MONTHS

Estimates for the current financial year continue to depend heavily on the interest rate scenario (which will likely remain at historically low levels) and on the expectations of recovery of the European market, also considering the uncertainty recently caused by the Brexit referendum. In this respect, economic trends witnessed during the previous fiscal year are expected to consolidate. Interest margin in particular should remain stable, so as the commission income and the administrative expenses. Cost of risk on the other hand is expected to increase, reflecting a moderate growth of corporate lending.

PROPOSAL FOR ALLOCATION OF DISPOSABLE PROFIT

The Board of Directors of Mediobanca International (Luxembourg) S.A. proposes the following allocation of the net result to the Annual General Meeting:

- Profit of the year	€	19.048.342
- Balance on retained earnings	€	-
- Total profit to be allocated	**€**	**19.048.342**
- To specific reserve for N.W.T.	€	7.537.800
- To free reserves	€	11.510.542

Luxembourg, 12 September 2016

pp. BOARD OF DIRECTORS

CHAIRMAN

(Mr. Peter W. Gerrard)

MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.

Statement of Directors' responsibilities

To the best of our knowledge, the 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 2016.

Luxembourg, 12 September 2016

The Board of Directors

Massimo Di Carlo	Stefano Biondi	Peter W. Gerrard
Massimo Bertolini	Stefano 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 2016, 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.

PricewaterhouseCoopers, Société coopérative, 2 rue Gerhard Mercator, B.P. 1443, L-1014 Luxembourg
T : +352 494848 1, F : +352 494848 2900, www.pwc.lu

Cabinet de révision agréé. Expert-comptable (autorisation gouvernementale n°10028256)
R.C.S. Luxembourg B 65 477 - TVA LU25482518

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 2016, 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, 13 September 2016

B. Ebert

Björn Ebert

FINANCIAL STATEMENTS AS OF 30 JUNE 2016

STATEMENT OF FINANCIAL POSITION

	Assets	30/06/2016	30/06/2015
		€	€
10.	Cash and cash balances with Central Banks	8.569.125	315.509
20.	Financial assets held for trading	581.421.047	542.276.759
50.	Financial assets held to maturity	57.931.477	251.846.653
60.	Loans and advances to Credit Institutions	1.801.711.947	1.271.098.029
70.	Loans and advances to Customers	3.404.309.522	2.635.782.833
80.	Hedging derivatives	421.965.488	284.949.080
100.	Equity investments	4.150.000	4.150.000
120.	Property, plant and equipment	23.311	21.656
160.	Other assets	1.830.476	2.780.325
	TOTAL ASSETS	**6.281.912.393**	**4.993.220.844**

	Liabilities and equity	30/06/2016	30/06/2015
		€	€
10.	Amounts due to Credit Institutions	2.334.388.522	1.778.619.058
20.	Amounts due to Customers	868.730.455	988.182.164
30.	Debt securities in issue	2.200.452.131	1.412.019.711
40.	Trading liabilities	559.638.248	519.004.302
60.	Hedging derivatives	—	132.149
80.	Tax liabilities	5.646.402	2.845.817
	a) current	*4.769.802*	*1.969.217*
	b) deferred	*876.600*	*876.600*
100.	Other liabilities	5.283.436	3.692.787
160.	Reserves	278.724.857	254.812.047
190.	Share capital	10.000.000	10.000.000
200.	Profit for the year	19.048.342	23.912.809
	TOTAL LIABILITIES AND EQUITY	**6.281.912.393**	**4.993.220.844**

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

STATEMENT OF COMPREHENSIVE INCOME

	Item	30/06/2016	30/06/2015
		€	€
010.	Interests and similar income	101.080.327	102.217.523
020.	Interests expense and similar charges	-70.740.770	-74.585.818
030.	**Net interest income**	**30.339.557**	**27.631.705**
040.	Fee and commission income	13.037.313	18.946.599
050.	Fee and commission expense	-12.218.337	-10.788.120
060.	**Net fee and commission income**	**818.976**	**8.158.479**
080.	Net trading income/expense	2.572.585	1.423.435
090.	Net hedging income/expense	-2.781	506
100.	Gain or loss on disposal or repurchase of:	-15.295	-2.262.805
	a) loans and receivables	*73.264*	*-56.876*
	b) financial assets available for sale	—	—
	c) financial assets held to maturity	*-1*	—
	d) financial liabilities	*-88.558*	*-2.205.929*
120.	**Total income**	**33.713.042**	**34.951.320**
130.	Adjustments for impairment to:	994.676	911.676
	a) loans and receivables	*612.251*	*593.888*
	b) financial assets available for sale	—	—
	c) financial assets held to maturity	—	—
	d) other financial operations	*382.425*	*317.788*
140.	**Net income from banking activities**	**34.707.718**	**35.862.996**
180.	Administrative expenses: (1)	-7.737.849	-6.111.033
	a) personnel costs	*-1.054.166*	*-1.013.408*
	b) other administrative expenses	*-6.683.683*	*-5.097.625*
200.	Net adjustments in respect of tangible assets	-12.746	-7.924
220.	Other operating income/expense	30.515	28.591
280.	**Profit (loss) of the ordinary activity before tax**	**26.987.638**	**29.772.630**
290.	Income tax on the ordinary activity	-7.939.296	-5.859.821
340.	**Profit (loss) for the year**	**19.048.342**	**23.912.809**
350.	Other comprehensive income, net of tax	—	—
360.	**Total comprehensive income for the year, net of tax**	**19.048.342**	**23.912.809**

(1) A reclassification has been applied to the Administrative expenses for the financial year 2014/2015, by means of taking out from the other administrative expenses the cost of the employee in secondment and attributing this cost directly to the personnel costs.

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

STATEMENT OF CHANGES IN EQUITY FROM 01/07/2015 TO 30/06/2016 (in €)

	Balance as of June 30, 2015	Allocation of the profit for the previous period		Changes during the reference period					Balance as of June 30, 2016
					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	**254.812.048**	**23.912.809**	—	—	—	—	—	—	**278.724.857**
a) legal reserve	1.000.000	—	—	—	—	—	—	—	1.000.000
b) free reserve	229.811.747	23.437.534	—	-3.811.275	—	—	—	—	249.438.006
c) special reserve[1]	24.000.301	475.275	—	3.811.275	—	—	—	—	28.286.851
d) FTA reserve	—	—	—	—	—	—	—	—	—
Valuation reserves	—	—	—	—	—	—	—	—	—
a) AFS securities	—	—	—	—	—	—	—	—	—
b) cash flow hedges	—	—	—	—	—	—	—	—	—
c) special laws – others	—	—	—	—	—	—	—	—	—
Own shares	—	—	—	—	—	—	—	—	—
Comprehensive income of the period	**23.912.809**	**-23.912.809**	—	—	—	—	—	**19.048.342**	**19.048.342**
Total equity	**288.724.857**	—	—	—	—	—	—	**19.048.342**	**307.773.199**

[1] As of 30 June 2016 and 2015 the Bank has opted for the exoneration of the net wealth tax charge provided that the following conditions have been respected:
- A reserve equivalent to 5 times the net wealth tax charge for each year is recorded following the decision of the Shareholders meeting;
- The reserve will be maintained for a period at least of five years.

The accompanying notes form an integral part of the 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
					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	**235.800.426**	**19.011.622**	—	—	—	—	—	—	**254.812.048**
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	5.881.176	—	—	—	—	—	—	24.000.301
d) FTA reserve	—	—	—	—	—	—	—	—	—
Valuation reserves	—	—	—	—	—	—	—	—	—
a) AFS securities	—	—	—	—	—	—	—	—	—
b) cash flow hedges	—	—	—	—	—	—	—	—	—
c) special laws – others	—	—	—	—	—	—	—	—	—
Own shares	—	—	—	—	—	—	—	—	—
Comprehensive income of the period	**19.011.622**	**-19.011.622**	—	—	—	—	—	**23.912.809**	**23.912.809**
Total equity	**264.812.048**	—	—	—	—	—	—	**23.912.809**	**288.724.857**

[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.

CASH FLOW STATEMENT – Direct Method

(in € k)

A.	Cash flow from operating activities	Amount	
		30/06/2016	30/06/2015
1.	**Operating activities**	**11.214**	**-1.306**
	– interest received	92.350	131.938
	– interest paid	-77.360	-136.532
	– net fee and commission received/paid	9.061	15.553
	– dividends and similar income	—	—
	– net premium income	224	-848
	– cash payments to employees	-736	-804
	– other income (expenses)	-6.342	-4.874
	– Tax income (expenses)	-5.983	-5.739
2.	**Cash generated/absorbed by financial assets**	**-1.117.162**	**258.200**
	– amounts due from customers	-411.258	83.410
	– amounts due from banks: on demand	-82.255	-152
	– amounts due from banks: other	-620.149	262.383
	– financial assets measured at fair value	-3.500	-87.441
	– other assets	—	—
3.	**Cash generated/absorbed by financial liabilities**	**919.212**	**-291.750**
	– amounts due to banks: on demand	1.691	-195.833
	– amounts due to banks: other	427.024	6.938
	– amounts due to clients	-171.471	-260.946
	– debt securities in issue	671.022	174.493
	– financial liabilities measured at fair value	-9.054	-16.402
	– other liabilities	—	—
	Net cash flow (outflow) from operating activities	**-186.736**	**-34.856**
B.	**Investing activities**	—	—
	– equity investment	—	—
	– acquisitions/redemption of held-to-maturity investments	195.000	35.000
	– acquisitions of tangible assets	-11	-16
	– acquisitions of intangible assets	—	—
	Net cash flow (outflow) from investing activities	**194.989**	**34.984**
C.	**Financing activities**	—	—
	– issues/purchases of subordinated debts (Tier II)	—	—
	Net cash flow (outflow) from financing activities	—	—
	Net cash flow (outflow) during year	**8.253**	**128**

	Amount	
RECONCILIATION	**30/06/2016**	**30/06/2015 (1)**
Cash and cash equivalents: balance at 1 July	316	444
Total cash flow (outflow) during year	8.253	-128
Cash and cash equivalents: balance at 30 June	**8.569**	**316**

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

(1) A reclassification has been applied to the financial year 2014/2015, including in "Cash and cash equivalents: balance at 1 July" also the cash balances with the Central Bank.

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 2016 were authorised for issue by the Board of Directors on 12 September 2016.

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, 2016.

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.

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 19 Defined Benefit Plans: Employee Contributions (Amendments) – 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 and endorsed after 1 of February 2015.

- Annual Improvements 2010-2012 Cycle: With the exception of the improvement relating to IFRS 2 Share-based Payment applied to share-based payment transactions with a grant date on or after 1 July 2014, , all other improvements are effective for annual periods beginning on or after 1 July 2014 and endorsed after 1 of February 2015. They include:

    I. IFRS 2 Share-based Payment
    II. IFRS 3 Business Combinations
    III. IFRS 8 Operating Segments
    IV. IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
    V. IFRS 13 Faire Value Measurement
    VI. Consequential amendments to IFRS 9 Financial instruments and IAS 37 Provisions, contingent liabilities and contingent assets
    VII. IAS 39 Financial instruments-recognition and measurement

- Annual Improvements 2011-2013 Cycle: These improvements are effective effective for annual periods beginning on or after 1 July 2014 and endorsed after 1 of February 2015. and they include:
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    I. IFRS 13 Fair Value Measurement
    II. IAS 40 Investment Property
    III. IFRS 1 First Time Adoption
    IV. FRS 3 Business Combinations

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 2016:

- 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 a 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, 2018, 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 16 Leases will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases. The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change. Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows. The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. FRS 16 will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted. The standard has yet to be endorsed by the EU.

- Amendments made to IAS 12 in January 2016 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that:

  I. A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period.
  II. An entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit.
  III. Where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type.
  IV. Tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.

- Amendments to IAS 7 - Going forward, entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (eg drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealised exchange differences. Changes in financial assets must be included in this disclosure if the cash flows were, or will be, included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities. Entities may include changes in other items as part of this disclosure, for example by providing a 'net debt' reconciliation. However, in this case the changes in the other items must be disclosed separately from the changes in liabilities arising from financing activities. The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated.

- IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (Amendments) – The amendments to IFRS 11 provide guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 12 Income Taxes regarding recognition of deferred taxes at the time of acquisition and IAS 36 Impairment of Assets regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation. Effective date Annual periods beginning on or after 1 January 2016.

- IAS 1 Disclosure Initiative (Amendments) – The amendments were a response to comments that there were difficulties in applying the concept of materiality in practice as the wording of some of the requirements in IAS 1 had in some cases been read to prevent the use of judgement. An entity should not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions and it need not to provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material. Effective date Annual periods beginning on or after 1 January 2016.

- IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments) – The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. Effective date Annual periods beginning on or after 1 January 2016.

- IFRS 10, IFRS 12 and IAS 28 (Amendments) – Amendments made to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in associates and joint ventures clarify that the exception from preparing consolidated financial statements is also available to intermediate parent entities which are subsidiaries of investment entities and it should consolidate a subsidiary which is not an investment entity and whose main purpose and activity is to provide services in support of the investment entity's investment activities. Entities which are not investment entities but have an interest in an associate or joint venture which is an investment entity have a policy choice when applying the equity method of accounting. The fair value measurement applied by the investment entity associate or joint venture can either be retained, or a consolidation may be performed at the level of the associate or joint venture, which would then unwind the fair value measurement. Effective date Annual periods beginning on or after 1 January 2016.

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 2016 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, but few minor reclassifications compared to the 30th of June 2015.

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 2016 the item **Cash and cash balances** amounts to € 8.569k, a substantial increase when compared to June 2015 due to the increase of liabilities[3] used for the computation of the minimum reserve (in particular French CD and Commercial Papers made with customers passed from € 28 million to € 1.144 million).

	30/06/2016	30/06/2015
a) Cash	—	1
b) Demand deposit held at Central Banks	8.569	315
Total	**8.569**	**316**

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.

[3] 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, 2016 **Financial assets held for trading** amount to € 581.421k, an increase of € 39.144k (+7%) compared to June 2015. Non-derivative products decreased slightly passing from € 156.109k to € 147.671 (-5%), whilst derivative products increased from € 386.168k to € 433.750k (+12%).

Item/Value	30/06/2016			30/06/2015		
	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	—	132.437	—	—	134.019	—
4. Loans and advances	15.234	—	—	22.090	—	—
4.1 Repos	—	—	—	—	—	—
4.2 Others	15.234	—	—	22.090	—	—
Total A	**15.234**	**132.437**	**—**	**22.090**	**134.019**	**—**
B. Derivative products						
1. Financial derivatives	—	423.168	5.975	—	274.663	102.915
1.1 Trading	—	14.293	5.975	—	10.977	102.915
1.2 Linked to FV options	—	—	—	—	—	—
1.3 Others	—	408.875	—	—	263.686	—
2. Credit derivatives	—	4.017	590	—	7.440	1.150
2.1 Trading	—	4.017	590	—	7.440	1.150
2.2 Linked to FV options	—	—	—	—	—	—
2.3 Others	—	—	—	—	—	—
Total B	**—**	**427.185**	**6.565**	**—**	**282.103**	**104.065**
Total (A+B)	**15.234**	**559.622**	**6.565**	**22.090**	**416.122**	**104.065**
Total Level 1, Level 2 and Level 3	**581.421**			**542.277**		

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)

	30/06/2016	30/06/2015
1. Opening balance	**104.065**	**115.842**
2. Increases	**2.661**	**49.869**
2.1 Issues and purchases	—	—
2.2 Transfers from other levels	—	—
2.3 Other increases	2.661	49.869
3. Decreases	**100.161**	**61.646**
3.1 Sales and settlements	49.752	60.158
3.2 Transfers to other levels	—	—
3.3 Other decreases	50.409	1.488
4. Closing balance	**6.565**	**104.065**

Change in fair value of existing contracts has been accounted in the comprehensive income of the Bank within "Net trading income"[4] as follows:

	A. Unrealised gains	B. Unrealised losses	Total
Total gains (losses) included in the comprehensive income for the period	2.661	-100.161	-97.500

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[5].

[4] 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).

[5] The sensitivity analysis on level 3 is carried out by the Parent Bank on a consolidated basis.

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

Item/Value	30/06/2016	30/06/2015
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	132.437	134.019
4. Loans and advances	15.234	22.090
a. Governments and central Banks	—	—
b. Other public agencies	—	—
c. Banks	—	—
d. Other entities	15.234	22.090
Total A	**147.671**	**156.109**
B. DERIVATIVE PRODUCTS		
a. Banks	433.750	386.168
- Fair value	433.750	386.168
b. Customers	—	—
- Fair value	—	—
Total B	**433.750**	**386.168**
Total A+B	**581.421**	**542.277**

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

Type of derivatives/Underlying assets	Interest rates		Foreign currency/gold		Equities		Credit		30/06/2016		30/06/2015	
	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:	942.735	411.997	178.369	3.876	162.060	13.270	—	—	1.283.164	429.143	1.228.498	377.578
– with exchange of principal	90.000	315.201	178.369	3.876	—	—	—	—	268.369	319.077	182.221	205.618
– options bought	—	—	178.369	3.876	—	—	—	—	178.369	3.876	92.221	80
– other derivatives	90.000	315.201	—	—	—	—	—	—	90.000	315.201	90.000	205.538
– without exchange of principal	852.735	96.796	—	—	162.060	13.270	—	—	1.014.795	110.066	1.046.277	171.960
– options bought	—	—	—	—	—	—	—	—	—	—	—	—
– other derivatives	852.735	96.796	—	—	162.060	13.270	—	—	1.014.795	110.066	1.046.277	171.960
2) Credit derivatives:	—	—	—	—	—	—	498.761	4.607	498.761	4.607	591.279	8.590
– with exchange of principal	—	—	—	—	—	—	414.059	379	414.059	379	464.948	3.755
– without exchange of principal	—	—	—	—	—	—	84.702	4.228	84.702	4.228	126.331	4.835
Total	**942.735**	**411.997**	**178.369**	**3.876**	**162.060**	**13.270**	**498.761**	**4.607**	**1.781.925**	**433.750**	**1.819.777**	**386.168**

Section 5

Heading 50: Financial assets held to maturity

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

	Book value	Fair value 30/06/2016			Book value	Fair value 30/06/2015		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	57.931	—	64.315	—	251.847	—	255.402	—
1.1 Structured	—	—	—	—	—	—	—	—
1.2 Other debt securities	57.931	—	64.315	—	251.847	—	255.402	—
2. Loans and advances	—	—	—	—	—	—	—	—
Total	**57.931**	—	**64.315**	—	**251.847**	—	**255.402**	—

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

Type of transactions/Value	30/06/2016	30/06/2015
1. Debt securities:	57.931	251.847
a) Governments and Central Bank	—	—
b) Other public agencies	—	—
c) Bank	57.931	251.847
d) Other issuers	—	—
2. Loans and advances to:	—	—
a) Governments and Central Bank	—	—
b) Other public agencies	—	—
c) Bank	—	—
d) Others	—	—
Total book value	**57.931**	**251.847**
Total fair value	**64.315**	**255.402**

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, 2016 **Loans and advances to credit institutions** amount to € 1.801.712k, an increase of € 530.614k (42%) compared to June 2015. While the balance of repo and receivable remained stable during the period, current account and deposits increased by 105% (from € 515.726k up to € 1.057.347k).

Type of transactions/Value	30/06/2016				30/06/2015			
		Fair value				Fair value		
	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
B. Loans to banks	**1.801.712**	—	**1.801.712**	—	**1.271.098**	—	**1.271.098**	—
1. Loans	1.798.919	—	1.798.919	—	1.268.307	—	1.268.307	—
1.1 Current accounts and demand deposits	437.148	—	437.148	—	282.486	—	282.486	—
1.2 Time deposits	620.199	—	620.199	—	233.240	—	233.240	—
1.3 Other loans	741.572	—	741.572	—	752.581	—	752.581	—
- Repos	408.136	—	408.136	—	421.674	—	421.674	—
- Finance leases	—	—	—	—	—	—	—	—
- Other	333.436	—	333.436	—	330.907	—	330.907	—
2. Debt securities	**2.793**	—	**2.793**	—	**2.791**	—	**2.791**	—
2.1 Structured	—	—	—	—	—	—	—	—
2.2 Other	2.793	—	2.793	—	2.791	—	2.791	—
Total	**1.801.712**	—	**1.801.712**	—	**1.271.098**	—	**1.271.098**	—

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 (IAS17).

Section 7

Heading 70: Loans and advances to customers

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

Type of transactions/Value	30/06/2016					30/06/2015				
	Book Value		Fair Value			Book Value		Fair Value		
	Performing	Impaired	Level 1	Level 2	Level 3	Performing	Impaired	Level 1	Level 2	Level 3
Loans	**3.351.758**	**52.552**	—	**3.409.375**	—	**2.581.892**	**53.891**	—	**2.642.752**	—
1. Current accounts	—	—	—	—	—	—	—	—	—	—
2. Repos	—	—	—	—	—	—	—	—	—	—
3. Mortgages	—	—	—	—	—	—	—	—	—	—
4. Credit cards, personal loans inc. wage assignment loans	—	—	—	—	—	—	—	—	—	—
5. Finance leasing	—	—	—	—	—	—	—	—	—	—
6. Factoring	939	—	—	939	—	—	—	—	—	—
7. Other loans	3.350.819	52.552	—	3.408.436	—	2.581.892	53.891	—	2.642.752	—
Debt securities	—	—	—	—	—	—	—	—	—	—
8 Structured	—	—	—	—	—	—	—	—	—	—
9 Other	—	—	—	—	—	—	—	—	—	—
Total	**3.351.758**	**52.552**	—	**3.409.375**	—	**2.581.892**	**53.891**	—	**2.642.752**	—

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

Type of transactions/Value	30/06/2016		30/06/2015	
	Performing	**Impaired**	**Performing**	**Impaired**
1. Debt securities:	—	—	—	—
a) Governments	—	—	—	—
b) Other public agencies	—	—	—	—
c) Other issuers	—	—	—	—
- non-financial undertakings	—	—	—	—
- financial companies	—	—	—	—
- insurances	—	—	—	—
- other entities	—	—	—	—
2. Loans and advances to:	3.351.758	52.552	2.581.892	53.891
a) Governments	—	—	—	—
b) Other public agencies	—	—	—	—
c) Other issuers	3.351.758	52.552	2.581.892	53.891
- non-financial undertakings	3.023.995	38.992	2.221.562	40.179
- financial companies	327.763	13.560	360.330	13.712
- insurances	—	—	—	—
- other entities	—	—	—	—
Total	**3.351.758**	**52.552**	**2.581.892**	**53.891**

Section 8

Heading 80: Hedging derivatives

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

	30/06/2016			Notional value	30/06/2015			Notional value
	Fair value				*Fair value*			
	level 1	level 2	level 3		level 1	level 2	level 3	
A. Financial derivatives	—	421.965	—	227.432	—	284.949	—	377.245
1) Fair value	—	421.965	—	227.432	—	284.949	—	377.245
2) Cash flow	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	**—**	**421.965**	**—**	**227.432**	**—**	**284.949**	**—**	**377.245**

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

30/06/2016	Fair Value Hedge						Cash Flow Hedge		Net Investments in foreign subsidiaries
Operations/Type of hedging	Micro					Macro	Specific	Generic	
	Interest risk	Currency risk	Credit risk	Price risk	Multiple risk				
1. Financial assets available-for-sale	—	—	—	—	—	—	—	—	—
2. Lending portfolio	—	—	—	—	—	—	—	—	—
3. Financial assets held-to-maturity	—	—	—	—	—	—	—	—	—
4. Portfolio	—	—	—	—	—	—	—	—	—
5. Other	—	—	—	—	—	—	—	—	—
TOTAL ASSETS	—	—	—	—	—	—	—	—	
1. Financial liabilities	421.965	—	—	—	—	—	—	—	—
2. Portfolio	—	—	—	—	—	—	—	—	—
TOTAL LIABILITIES	**421.965**	—	—	—	—	—	—	—	—
1. Highly probable transactions	—	—	—	—	—	—	—	—	—
2. Financial assets and liabilities portfoglio	—	—	—	—	—	—	—	—	—

30/06/2015	Fair Value Hedge						Cash Flow Hedge		Net Investments in foreign subsidiaries
Operations/Type of hedging	Micro					Macro	Specific	Generic	
	Interest risk	Currency risk	Credit risk	Price risk	Multiple risk				
1. Financial assets available-for-sale	—	—	—	—	—	—	—	—	—
2. Lending portfolio	—	—	—	—	—	—	—	—	—
3. Financial assets held-to-maturity	—	—	—	—	—	—	—	—	—
4. Portfolio	—	—	—	—	—	—	—	—	—
5. Other									
TOTAL ASSETS	—	—	—	—	—	—	—	—	
1. Financial liabilities	284.949	—	—	—	—	—	—	—	—
2. Portfolio	—	—	—	—	—	—	—	—	—
TOTAL LIABILITIES	**284.949**	—	—	—	—	—	—	—	—
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[6]	Ownership relationship		Voting rights[7]
			Investor Company	% Interest	
Mediobanca International Immobilière S.à r.l.	Luxembourg	3	Mediobanca International (Luxembourg) S.A.	100	-

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

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

Name	Total assets	Total revenues	Net profit (loss)	Shareholders' equity	Book value
Mediobanca International Immobilière S.à r.l.	1.970	161	12	1.654	4.150

The financial 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 2016, has decided to not perform any impairment test.

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

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

Section 12

Heading 120: Property, plant and equipment

12.1 Tangible assets stated at cost (in € k)

Assets/value	30/06/2016	30/06/2015
1. Assets owned by Group	23	22
a) land	—	—
b) buildings	—	—
c) furniture and fitting	5	6
d) electronic equipment	—	—
e) other assets	18	16
2. Assets acquired under finance leases:	—	—
a) land	—	—
b) buildings	—	—
c) furniture	—	—
d) electronic equipment	—	—
e) other assets	—	—
Total	**23**	**22**

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

	Land	Buildings	Furniture	Electronic equipment	Other assets	Total
A. Gross opening balance	—	—	46	—	60	106
A.1 Total net value reductions	—	—	-40	—	-44	-84
A.2 Net opening balance	—	—	6	—	16	22
B. Additions:	—	—	—	—	14	14
B.1 Purchases	—	—	—	—	14	14
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	—	-12	-13
C.1 Disposals	—	—	—	—	—	—
C.2 Depreciation charges	—	—	-1	—	-12	-13
C.3 Value adjustments for impairment taken to:	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit and loss account	—	—	—	—	—	—
C.4 Reductions in fair value charged to:	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit and loss account	—	—	—	—	—	—
C.5 Reductions due to exchange rates	—	—	—	—	—	—
C.6 Transfers to:	—	—	—	—	—	—
a) assets held for investment purposes	—	—	—	—	—	—
b) assets being sold	—	—	—	—	—	—
C.7 Other reductions	—	—	—	—	—	—
D. Net closing balance	—	—	5	—	18	23
D.1 Total net value reductions	—	—	-41	—	-56	-97
D.2 Gross closing balance	—	—	46	—	74	120

Section 15

Heading 150: Other assets

15.1 Other assets (in € k)

	30/06/2016	30/06/2015
- Gold, silver and precious metal	—	—
- Accrued income other than capitalized income	1.618	2.568
- Trade receivables or invoice to be issued	2	2
- Amount due from tax revenue Authorities (not recorded under heading 140)	210	210
- Other	—	—
Total	**1.830**	**2.780**

Liabilities

Section 1

Heading 10: Amounts due to credit institutions

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

Type of transaction/amounts	30/06/2016	30/06/2015
1. Due to central Banks	—	—
2. Deposits from banks	2.334.389	1.778.620
2.1 Other current accounts and demand deposits	49.663	73.322
2.2 Time deposits	292.964	—
2.3 Loans	1.991.629	1.704.905
2.3.1 Repos	—	—
2.3.2 Others	1.991.629	1.704.905
2.4 Liabilities in respect of commitments to repurchase treasury shares	—	—
2.5 Other debt	133	393
Total book value	**2.334.389**	**1.778.620**
Fair value - level 1	—	—
Fair value - level 2	2.301.610	1.778.620
Fair value - level 3	—	—
Total fair value	**2.301.610**	**1.778.620**

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)

	30/06/2016	30/06/2015
1. Items subject to specific fair value hedges for:	406.221	303.725
a) interest rate risk	406.221	303.725
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	**406.221**	**303.725**

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	30/06/2016	30/06/2015
1. Current accounts and demand deposits	—	—
2. Term deposits including saving deposits with maturity	—	100.000
3. Loans	868.730	888.182
3.1 Repos	—	—
3.2 Other	868.730	888.182
4. Liabilities in respect of assets sold but not derecognized	—	—
5. Other	—	—
Total book value	**868.730**	**988.182**
Fair value - level 1	—	—
Fair value - level 2	889.341	1.019.369
Fair value - level 3	—	—
Total fair value	**889.341**	**1.019.369**

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

Type of transaction/amounts	30/06/2016	30/06/2015
1. Liability items subject to micro-hedging of fair value	164.919	123.435
a) Interest rate risk	164.919	123.435
b) Currency risk	—	—
c) Other risks	—	—
2. Liability items dubect to micro-hedging of cash flows	—	—
a) Interest rate risk	—	—
b) Currency risk	—	—
c) Other risks	—	—
Total	**164.919**	**123.435**

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	30/06/2016				30/06/2015			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2[1]	Level 3		Level 1	Level 2	Level 3
A. Listed securities	864.184	—	878.222	—	843.412	—	866.097	—
1. notes	864.184	—	878.222	—	843.412	—	866.097	—
1.1 structured	51.608	—	54.333	—	23.367	—	23.551	—
1.2 others	812.576	—	823.889	—	820.045	—	842.546	—
2. other securities	—	—	—	—	—	—	—	—
2.1 structured	—	—	—	—	—	—	—	—
2.2 others	—	—	—	—	—	—	—	—
B. Unlisted securities	1.336.268	—	1.338.016	—	568.608	—	569.043	—
1. notes	187.613	—	189.361	—	258.379	—	258.814	—
1.1 structured	187.613	—	189.361	—	200.764	—	204.384	—
1.2 others	—	—	—	—	57.615	—	54.430	—
2. other securities	1.148.655	—	1.148.655	—	310.229	—	310.229	—
2.1 structured	—	—	—	—	—	—	—	—
2.2 others	1.148.655	—	1.148.655	—	310.229	—	310.229	—
Total	**2.200.452**	**—**	**2.216.238**	**—**	**1.412.020**	**—**	**1.435.140**	**—**

[1] Fair value does not include issuer risk; if issuer risk was considered, the fair value of debt securities issued would decrease by € 25m approximately, as at June 30, 2016.

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

Type of transaction/amounts	30/06/2016	30/06/2015
A. Securities subject to specific fair value hedges	79.636	234.026
1. Interest rate risk	79.636	234.026
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	**79.636**	**234.026**

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

Type of transaction/amounts	30/06/2016	30/06/2015
A. Debt securities	972.161	867.765
1. Structured	178.308	163.549
2. Other	793.853	704.216
B. Other financial instruments	1.148.655	310.229
1. Structured	—	—
2. Other	1.148.655	310.229
Total	**2.120.816**	**1.177.994**

Section 4

Heading 40: Financial liabilities held for trading

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

Type of transaction/amounts	30/06/2016					30/06/2015				
	Nominal value	Fair Value			*Fair Value*	Nominal value	Fair Value			*Fair Value*
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. Cash liabilities										
1. Amount due to Banks	—	—	—	—	—	—	—	—	—	—
2. Amount due to customers	—	—	—	—	—	—	—	—	—	—
3. Debt securities	—	—	—	—	—	—	—	—	—	—
3.1 Bonds	—	—	—	—	—	—	—	—	—	—
3.1.1 Structured	—	—	—	—	—	—	—	—	—	—
3.1.2 Other bonds	—	—	—	—	—	—	—	—	—	—
3.2 Other securities	—	—	—	—	—	—	—	—	—	—
3.2.1 Structured	—	—	—	—	—	—	—	—	—	—
3.2.2 Other	—	—	—	—	—	—	—	—	—	—
Total A	—	—	—	—	—	—	—	—	—	—
B. Derivatives instruments					—					
1. Financial derivatives	1.278.344	—	411.207	6.142	417.349	1.318.596	—	411.149	103.236	514.385
1.1 Trading	1.149.146	—	3.325	6.142	9.467	1.189.398	—	147.684	102.987	250.671
1.2 Related to Fair Value option	—	—	—	—	—	—	—	—	—	—
1.3 Other	129.198	—	407.882	—	407.882	129.198	—	263.465	249	263.714
2. Credit derivatives	531.329	—	142.289	—	142.289	368.282	—	4.619	—	4.619
2.1 Trading	531.329	—	142.289	—	142.289	368.282	—	4.619	—	4.619
2.2 Related to Fair Value option	—	—	—	—	—	—	—	—	—	—
2.3 Other	—	—	—	—	—	—	—	—	—	—
Total B	**1.809.673**	**—**	**553.496**	**6.142**	**559.638**	**1.686.878**	**—**	**415.768**	**103.236**	**778.099**
Total (A+B)	**1.809.673**	**—**	**553.496**	**6.142**	**559.638**	**1.686.878**	**—**	**415.768**	**103.236**	**778.099**

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

	30/06/2016	30/06/2015
1. Opening balance	**103.236**	**113.971**
2. Increases	**2.623**	**49.869**
2.1 Issues and purchases	—	—
2.2 Transfers from other levels	—	—
2.3 Other increases	2.623	49.869
3. Decreases	**99.717**	**60.604**
3.1 Sales and settlements	249	59.867
3.2 Transfers to other levels	—	—
3.3 Other decreases	99.468	737
4. Closing balance	**6.142**	**103.236**

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	99.717	-2.623	97.094

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[8].

[8] The sensitivity analysis on level 3 is carried out by the Parent Bank on a consolidated basis

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

	Interest rate		Foreign currency/gold		Equity		Credit		30/06/2016		30/06/2015	
Type of transaction/amounts	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**
OTC derivative products												
1. Financial derivatives	921.252	409.185	148.418	1.181	208.674	6.983	—	—	1.278.344	417.349	1.318.596	514.385
1.1 With exchange of principal	90.000	315.201	148.418	1.181	—	—	—	—	238.418	316.382	581.861	210.930
- options issued	—	—	148.418	1.181	—	—	—	—	148.418	1.181	491.861	5.403
- other derivatives	90.000	315.201	—	—	—	—	—	—	90.000	315.201	90.000	205.527
1.2 Without exchange of principal	831.252	93.984	—	—	208.674	6.983	—	—	1.039.926	100.967	736.735	303.455
- options issued	—	—	—	—	—	—	—	—	—	—	—	—
- other derivatives	831.252	93.984	—	—	208.674	6.983	—	—	1.039.926	100.967	736.735	303.455
2. Credit derivatives	—	—	—	—	—	—	531.329	142.289	531.329	142.289	368.282	4.619
2.1 With exchange of principal	—	—	—	—	—	—	376.015	2.764	376.015	2.764	363.282	4.615
2.2 Without exchange of principal	—	—	—	—	—	—	155.314	139.525	155.314	139.525	5.000	4
Total	**921.252**	**409.185**	**148.418**	**1.181**	**208.674**	**6.983**	**531.329**	**142.289**	**1.809.673**	**559.638**	**1.686.878**	**519.004**

Section 6

Heading 60: Hedging derivatives

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

	30/06/2016				30/06/2015			
	Fair value			Notional value	*Fair value*			Notional value
	level 1	level 2	level 3		level 1	level 2	level 3	
A. Financial derivates	—	—	—	—	132	—	1.031	16.032
1) *Fair value*	—	—	—	—	132	—	1.031	16.032
2) Cash flow	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) *Fair value*	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	**—**	**—**	**—**	**—**	**132**	**—**	**1.031**	**16.032**

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

Hedged items	Fair value hedges					Cash flow hedge		30/06/2016	30/06/2015
	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
3. Portfolio	—	—	—	—	—	—	—	—	—
TOTAL LIABILITIES	—	—	—	—	—	—	—	—	**132**
TOTAL	—	—	—	—	—	—	—	—	**132**

Section 8

Heading 80: Tax liabilities

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

	30/06/2016	30/06/2015
Corporate income tax (IRC)	3.682	1.576
Municipal business tax (ICC)	992	359
Other	95	34
Total	**4.769**	**1.969**

The Bank is liable for all taxes to which the credit institutions are subject to in Luxembourg. The Bank has opted for the exoneration of the net wealth tax charge of € 1.412.255 (30 June 2015: € 1.292.690) 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 (+)	11.576	3.359	229	15.164
B. Advances paid (-)	10.000	3.000	195	13.195
A.1 Fiscal liabilities: increase (+)	**6.106**	**1.833**	**764**	**8.703**
- provisions of the year	6.106	1.833	764	8.703
- transfers	—	—	—	—
- others	—	—	—	—
A.2 Fiscal liabilities: decrease (-)	**—**	**—**	**-568**	**-568**
- payments of the year (assessments)	—	—	-568	-568
- transfers	—	—	—	—
- others	—	—	—	—
B.1 Advances paid: increase (+)	**4.000**	**1.200**	**135**	**5.335**
- payments/advances	4.000	1.200	135	5.335
- transfers	—	—	—	—
- others	—	—	—	—
B.2 Advances paid: decrease (-)	**—**	**—**	**—**	**—**
- payments of the year (assessments)	—	—	—	—
- transfers	—	—	—	—
- others	—	—	—	—
Total A. Fiscal liabilities	**17.682**	**5.192**	**425**	**23.299**
Total B. Advances paid	**14.000**	**4.200**	**330**	**18.530**
Current fiscal liabilities (A-B)	**3.682**	**992**	**95**	**4.769**

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

Deferred tax liabilities	30/06/2016	30/06/2015
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)

	30/06/2016			30/06/2015		
	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)

	30/06/2016	30/06/2015
1. Payment agreements (IFRS2)	—	—
2. Impaired endorsements	672	1.054
3. Working capital payables and invoices pending receipts	3.590	2.413
4. Prepaid expenses other than capitalized expenses on related financial assets	—	—
5. Amounts due to revenue authorities	—	—
6. Amount due to staff	17	—
7. Other items	1.004	226
- coupons and dividends pending collection	194	—
- available sum payable to third parties	—	—
- premium, grants and other items in respect of lending transactions	810	—
- credit notes to be issued	—	—
- other	—	226
Total	**5.283**	**3.693**

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

Section 16

Heading 160: Reserves

16.1 Reserves (in € k)

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

As of June 30, 2016 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 2016;
- This reserve will be maintained for a minimum period of 5 years.

(in € k)	**30/06/2016**	**30/06/2015**
A. Reserves	278.725	254.812
A.1 legal reserve	1.000	1.000
A.2 free reserve	249.438	229.812
A.3 special reserve(1)	28.287	24.000
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 2016 and 2015, the issued capital of the Bank amounts to € 10.000.000 and is divided into 1 million shares fully paid with a par value of € 10 each.

Authorised capital and issue share capital coincide.

Other information

1. Guarantees and commitments (in € k)

	30/06/2016	30/06/2015
1. Financial guarantees given to:	7.907	51.620
a) Banks	—	—
b) Customers	7.907	51.620
2. Commercial guarantees given to:	—	—
a) Banks	—	—
b) Customers	—	—
3. Irrevocable commitments to lend funds:	1.050.225	1.429.899
a) Banks	—	—
b) Customers	1.050.225	1.429.899
4. Commitment underlying credit derivatives: hedge sales	443.081	484.759
Total	**1.501.213**	**1.966.278**

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

The Bank is a member of “Fonds pour la Garantie des Dépôts, Luxembourg” (FGDL) that was established with the law of 18th December 2015 (the December law). The December law implements two European directives in Luxembourg Law namely:

- Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD).
- Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes (DGSD).

The December law already entered into force and is structured in four parts: Resolution, Reorganisation and winding up, Protection of depositors and investors and Amending, transitional and final provisions, introducing notably the recovery provisions.

The FGDL covers all eligible deposits for each depositor up to a total amount of EUR 100.000. Deposits are covered per depositor per bank, the limit of EUR 100.000 applies to all aggregated accounts at the same bank. A higher protection is foreseen in certain situations. The Law specifies the exclusions of some deposits, such as interbank deposits, UCI’s deposits, insurances deposits, etc.

The FGDL is financed by ex-ante contributions. These contributions are calculated based on the amount of covered deposits and the risk profile of the institution. In this respect the Bank has not accounted for any provision nor contribution to the FGDL, since cash deposits and/or depositors with which the institution is currently dealing belong to categories specifically excluded from the protection scheme.

The Luxembourg Resolution Fund FRL is set-up to finance the implementation of resolution tools. The FRL target level is at least 1 percent of guaranteed deposits and the contribution of each credit institutions is proportional to the ratio of:

- Amount of liabilities of each institution (excluding equity), less guaranteed deposits; and

- Cumulated liabilities (excluding own funds) of all authorised institutions contributing to the FRL, less cumulated guaranteed deposits.

The annual ex-ante contributions is adjusted in proportion to the risk profile of credit institutions. For the financial year, the total amount paid by the Bank was € 833k.

2. Other commitments

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

- € 403.698k 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 € 596.589k in relation to a funding operation which matures in July 2018.

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

Type of service	30/06/2016	30/06/2015
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	1.101.750	1.034.182
a) customers' securities held on deposit: in connection with the Bank's activity as deposit bank (not including asset management)	—	—
1. securities issued by bank drawing up financial statements	—	—
2. other securities	—	—
b) other customers' securities held on deposit (not including asset management): others	—	—
1. securities issued by bank drawing up financial statements	—	—
2. other securities	—	—
c) customers' securities held on deposit with customers	1.095.724	773.181
d) own securities held on deposit with customers	6.026	261.001

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	30/06/2016	30/06/2015
	Debt securities	Loans	Other financial assets			
1. Financial assets held for trading	—	819	—	—	819	1.113
2. Financial assets at fair value	—	—	—	—	—	—
3. AFS securities	—	—	—	—	—	—
4. Financial assets held to maturity	3.697	—	—	—	3.697	6.808
5. Loans and advances to credit institutions	7	16.698	—	—	16.705	17.574
6. Loans and advances to customers	—	66.010	—	435	66.445	61.609
7. Hedging derivatives	—	—	13.414	—	13.414	15.114
8. Financial assets sold but not derecognized	—	—	—	—	—	—
9. Other assets	—	—	—	—	—	—
Total	**3.704**	**83.527**	**13.414**	**435**	**101.080**	**102.218**

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

	30/06/2016	30/06/2015
A. Positive differences on transactions involving:	13.414	15.114
A.1 Specific fair value hedge of assets	—	—
A.2 Specific fair value hedge of liabilities	13.414	15.114
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)

	30/06/2016	30/06/2015
1.3.1 Interests receivable on financial assets denominated in currencies other than Euro	40.757	36.680
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	30/06/2016	30/06/2015
1. Amount due to Banks	-29.809	—	—	-29.809	-25.761
2. Amount due to customers	-15.255	—	—	-15.255	-19.125
3. Debt securities	—	-21.469	—	-21.469	30.755
4. Trading liabilities	—	—	—	—	—
5. Liabilities at fair value	—	—	—	—	—
6. Liabilities in respect of assets sold but not yet derec	—	—	—	—	—
7. Other liabilities	—	—	—	—	—
8. Hedging derivatives	—	—	-4.208	-4.208	-60.455
Total	**-45.064**	**-21.469**	**-4.208**	**-70.741**	**-74.586**

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

	30/06/2016	30/06/2015
A. Negative differences on transactions involving:	-4.208	-60.455
A.1 Specific fair value hedge of assets	—	—
A.2 Specific fair value hedge of liabilities	-4.208	-60.455
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)

	30/06/2016	30/06/2015
1.6.1 Interests payable on financial liabilities denominated in currencies other than Euro	-24.303	-18.908
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)

	30/06/2016	30/06/2015
a) guarantees given	238	435
b) credit derivates	—	—
c) management, trading and advisory services:	169	659
1. securities dealing	—	—
2. currency dealing	—	—
3. asset management	—	—
4. securities under custody and non-discretionary	—	—
5. depositary services	—	—
6. securities placing	169	89
7. procurement of orders	—	570
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	1	—
f) factoring servicing	1	—
g) tax collection and receipt services	—	—
h) lending services	12.628	17.853
Total	**13.037**	**18.947**

2.2 Fee and commission expense (in € k)

	30/06/2016	30/06/2015
a) guarantees received	-3.256	-2.806
b) credit derivatives	—	—
c) management and services:	-140	-719
1. securities dealing	-140	—
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 [1]	-3.672	-5.560
f) others	-5.150	-1.703
Total	**-12.218**	**-10.788**

[1] A reclassification has been applied to the financial year 2014/2015, by subtracting from other lending services the cost paid related to the guarantees issue under EMTN Programme and adding this amount to the guarantees received.

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	30/06/2016	30/06/2015
1. Trading assets	203	—	-2.773	-195	**-2.765**	**431**
1.1 Debt securities	—	—	—	—	—	—
1.2 Equities	—	—	—	—	—	—
1.3 OICR units	—	—	-2.632	—	**-2.632**	**296**
1.4 Loans and receivables	203	—	-141	-195	**-133**	**135**
1.5 Others	—	—	—	—	—	—
2. Trading liabilities	—	—	—	—	—	—
2.1 Debt securities	—	—	—	—	—	—
2.2 Payables	—	—	—	—	—	—
2.3 Other	—	—	—	—	—	—
3. Other financial assets and liabilities: difference arising on exchange rates	454.762	—	-456.466	—	**-1.704**	**24.929**
4. Derivative products	289.893	1.694	-282.378	-2.168	**7.041**	**-23.937**
4.1 Financial derivatives:	276.176	197	-272.713	-192	**3.468**	**-23.559**
– on debt securities/interest rates	15.924	138	-15.313	-192	**557**	**-449**
– on equities/share indexes	247.552	59	-248.072	—	**-461**	**271**
– on foreign currency/gold	12.700	—	-9.328	—	**3.372**	**-23.381**
– others	—	—	—	—	—	—
4.2 Credit derivatives	13.717	1.497	-9.665	-1.976	**3.573**	**-378**
Total	**744.858**	**1.694**	**-741.617**	**-2.363**	**2.572**	**1.423**

Section 4

Heading 90: Net hedging income (expense)

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

	30/06/2016	30/06/2015
A. Income from:		
A.1 Fair value hedge derivatives	139.264	58.945
A.2 Financial assets hedged (fair value)	—	—
A.3 Financial liabilities hedged (fair value)	1.495	5.006
A.4 Cash flow hedge financial derivatives	—	—
A.5 Assets and liabilities in foreign currency	—	—
Total hedging income (A)	**140.759**	**63.951**
B. Expenses relating to:		
B.1 Fair value hedge derivatives	-577	-1.363
B.2 Financial assets hedged (fair value)	—	—
B.3 Financial liabilities hedged (fair value)	-140.185	-62.587
B.4 Cash flow hedge financial liabilities	—	—
B.5 Assets and liabilities in foreign currency	—	—
Total hedging expenses (B)	**-140.762**	**-63.950**
C. Net hedging income (A-B)	**-3**	**1**

Section 5

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

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

	30/06/2016			30/06/2015		
	Gains	**Losses**	**Net profit (loss)**	**Gains**	**Losses**	**Net profit (loss)**
Financial assets						
1. Due from Banks	—	—	—	—	—	—
2. Due from customers	73		73	—	-57	-57
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	**73**	**—**	**73**	**—**	**-57**	**-57**
Financial liabilities						
1. Due to Banks	—	—	—	—	—	—
2. Due to customers	—	—	—	—	—	—
3. Debt securities in issue	—	-89	-89	—	-2.206	-2.206
Total liabilities	**—**	**-89**	**-89**	**—**	**-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				30/06/2016	30/06/2015
	Specific		Portfolio	Specific		Portfolio			
	Write offs	Others		A	B	A	B		
A. Due from Banks	—	—	—	—	—	—	—	—	32
B. Due from customers	—	—	-2.591	—	—	—	3.203	612	562
C. Total	**—**	**—**	**-2.591**	**—**	**—**	**—**	**3.203**	**612**	**594**

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				30/06/2016	30/06/2015
	Specific		Portfolio	Specific		Portfolio			
	Write offs	Others		A	B	A	B		
A. Guarantees given	—	—	-3	—	—	—	36	33	-2
B. Credit derivatives	—	—	—	—	—	—	—	—	—
C. Commitments	—	—	-2.346	—	—	—	2.695	349	320
D. Other transactions	—	—	—	—	—	—	—	—	—
E. Total	**—**	**—**	**-2.349**	**—**	**—**	**—**	**2.731**	**382**	**318**

Legend

A = interest

B = other amounts recovered

Section 7

Heading 180: Administrative expenses

7.1 Personnel cost: composition (in € k)

	30/06/2016	30/06/2015
1.Employees	-745	-697
a) wages and salaries	-614	-575
b) social security charges	-25	-28
c) severance indemnities	—	—
d) pension contributions	-40	-39
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:	-42	-33
– defined contribution	-42	-33
– defined benefit	—	—
h) expenses incurred in connection with share payment schemes	—	—
i) other staff benefits	-24	-22
2. Other staff [1]	-122	-118
3. Board members	-187	-205
Total	**-1.054**	**-1.020**

[1] A reclassification has been applied to the financial year 2014/2015, by subtracting from other costs in table 7.2 "other administrative expenses", the cost of the person in secondment and adding this amount to the other staff in the table 7.1" Personnel costs" (cf. below).

7.2 Other administrative expenses: composition (in € k)

	30/06/2016	30/06/2015
OTHER ADMINISTRATIVE EXPENSES		
– legal, tax and professional services	-266	-240
– loan recovery activity	-88	-86
– marketing and communication	-5	-7
– property	-27	-16
– EDP	-666	-557
– Info-provider	-1	-15
– bank charges, collection and payment fees	-28	-26
– operating expenses [1]	-3.848	-3.237
– other staff expenses	-35	-26
– other costs [2]	-1.004	-467
– indirect and other taxes	-716	-421
Total other administrative expenses	**-6.684**	**-5.098**

[1] A reclassification has been applied to the financial year 2014/2015, by subtracting from other costs in table 7.2 "other administrative expenses", the cost of the person in secondment and adding this amount to the other staff in the table 7.1" Personnel costs" (cf. above).
[2] The items includes the contribution ex-ante of the Single Resolution Fund according to EU Regulation 806/2014

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	30/06/2016	30/06/2015
A. Tangible assets					
A.1 Owned:	-13	—	—	-13	-8
– Core	-13	—	—	-13	-8
– Investment	—	—	—	—	—
A.2 Acquired under finance leases:	—	—	—	—	—
Total	**-13**	**—**	**—**	**-13**	**-8**

Section 10

Heading 220: Other operating income (expenses)

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

Income-based components/values	30/06/2016	30/06/2015
a) Amounts recovered from customers	—	—
b) Other income	31	29
Total	**31**	**29**

Section 11

Heading 290: Income tax on the ordinary activity

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

	30/06/2016	30/06/2015
1. Current taxes	-7.939	-5.860
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	**-7.939**	**-5.860**

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

	30/06/2016		30/06/2015	
	Amounts %	Absolute values	Amounts %	Absolute values
Total profit or loss before tax from current operations		**26.987**		**29.773**
Theoretical income tax expense on pre-tax income	-29,22%	-7.886	-29,60%	-8.813
Tax exempt interest and dividends	0,00%	—	0,00%	—
Income from tax exempt investments	0,00%	—	0,00%	—
Impact of using tax losses for which no deferred tax asset was previously recognised	0,00%	—	0,00%	—
Impact of tax rate adustment on temporary differences	0,00%	—	0,00%	—
Differential effect in tax rates applicable to foreign entities	0,00%	—	0,00%	—
Other items	0,00%	—	7,82%	2.953
Theoretical corporate income tax expense	**-29,22%**	**-7.886**	**-21,78%**	**-5.860**

PART E – OPERATING SEGMENT INFORMATION

A. PRIMARY SEGMENT REPORTING

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

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

		CORPORATE LENDING	EXPORT FINANCE	LEVERAGE FINANCE	PROJECT FINANCE	OTHER
10.	Cash and cash equivalent	5.396	—	2.528	645	—
20.	Financial assets held for trading	100.926	—	47.276	12.064	421.155
50.	Financial assets held to maturity	36.482	—	17.089	4.361	—
60.	Loans and advances to credit institutions	1.134.608	—	531.476	135.628	—
70.	Loans and advances to customers	2.143.826	—	1.004.216	256.267	—
80.	Hedging derivatives	265.728	—	124.473	31.764	—
100.	Equity investments	—	—	—	—	4.150
120.	Tangible assets	—	—	—	—	23
130.	Intangible assets	—	—	—	—	—
140.	Tax assets	—	—	—	—	—
160.	Other assets	1.153	—	540	138	—
	Total assets at 30/06/2016	**3.688.119**	**—**	**1.727.598**	**440.867**	**425.328**
	Total assets at 30/06/2015	**2.701.494**	**215.246**	**1.465.683**	**234.022**	**376.776**
10.	Amount due to Credit institutions	-1.470.055	—	-688.606	-175.727	—
20.	Amount due to customers	-547.073	—	-256.261	-65.396	—
30.	Debt securities in issue	-1.385.710	—	-649.097	-165.644	—
40.	Financial liabilities held for trading	-264.853	—	-124.063	-31.660	-139.063
60.	Hedging derivatives	—	—	—	—	—
80.	Tax liabilities	-3.556	—	-1.666	-425	—
100.	Other liabilities	-3.327	—	-1.559	-398	—
160.	Shareholders' equity	-181.821	—	-85.169	-21.735	—
	Total liabilities at 30/06/2016	**-3.856.395**	**—**	**-1.806.421**	**-460.985**	**-139.063**
	Total liabilities at 30/06/2015	**-2.826.176**	**-225.179**	**-1.533.329**	**-244.823**	**-139.801**

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	14.313	—	9.806	2.385	—
020.	Interests payable and similar charges	-9.046	—	-6.196	-1.509	—
030.	**Net interest income**	**5.267**	**—**	**3.610**	**876**	**—**
040.	Fee and commission income	-75.862	—	-51.979	-12.644	—
050.	Fee and commission expense	75.311	—	51.601	12.551	—
060.	**Net fee and commission income**	**-551**	**—**	**-378**	**-93**	**—**
080.	Net trading income/expense	-878	—	-598	-145	—
090.	Net hedging income/expense	-286	—	-196	-48	—
100.	Gain or loss on disposal or repurchase of:	-49	—	-34	-8	—
	a) loans and receivables	—	—	—	—	—
	b) financial assets available for sale	—	—	—	—	—
	c) financial assets held to maturity	—	—	—	—	—
	d) financial liabilities	-49	—	-34	-8	—
120.	**Total income**	**3.503**	**—**	**2.404**	**582**	**—**
130.	Value adjustments	-93	—	-63	-16	—
140.	**Net income from the financial management**	**3.410**	**—**	**2.341**	**566**	**—**
180.	Administrative expenses	13.396	—	9.178	2.235	1.033
200.	Value adjustments in respect of tangible assets	-8.035	—	-5.505	-1.340	—
210.	Value adjustments in respect of intangible assets	—	—	—	—	—
220.	Other operating income/expense	5.204	—	3.565	867	—
280.	**Profit (loss) of the ordinary activity before tax**	**13.975**	**—**	**9.579**	**2.328**	**1.033**
290.	Income tax on the ordinary activity	-4.248	—	-2.911	-708	—
340.	**Profit (loss) for the year**	**9.727**	**—**	**6.668**	**1.620**	**1.033**
350.	Other comprehensive income, net of tax	—	—	—	—	—
360.	**Total comprehensive income for the year, net of tax as at 30/06/2016**	**9.727**	**—**	**6.668**	**1.620**	**1.033**
	Total comprehensive income for the year, net of tax as at 30/06/2015	**11.714**	**898**	**9.398**	**1.263**	**640**

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 2016 and 2015.

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

	LUXEMBOURG	OTHER EUROPEAN COUNTRIES	AMERICAS	ASIA	OCEANIA
Cash and cash balances with Central Banks	8.569	—	—	—	—
Financial assets held for trading	545.015	21.173	15.234	—	—
Financial assets held to maturity	—	57.931	—	—	—
Loans and advances to Credit Institutions	3.223	1.798.489	—	—	—
Loans and advances to Customers	158.951	2.190.645	1.054.714	—	—
Hedging derivatives	—	421.965	—	—	—
Equity investments	4.150	—	—	—	—
Tangible assets	23	—	—	—	—
Intangible assets	—	—	—	—	—
Tax assets	—	—	—	—	—
Other assets	34	1.634	162	—	—
A. Total assets 30/06/2016	**719.965**	**4.491.837**	**1.070.110**	**—**	**—**
A. Total assets 30/06/2015	**851.809**	**3.293.446**	**842.710**	—	**5.256**
Amount due to Banks	—	-2.334.390	—	—	—
Amount due to customers	—	-868.730	—	—	—
Debt securities in issue	-1.062.490	-1.137.962	—	—	—
Financial liabilities held for trading	-146.097	-413.542	—	—	—
Hedging derivatives	—	—	—	—	—
Tax liabilities	-5.646	—	—	—	—
Other liabilities	-859	-4.394	-29	—	—
Shareholders' equity	-288.725	—	—	—	—
B. Total liabilities 30/06/2016 (1)	**-1.503.817**	**-4.759.018**	**-29**	**—**	**—**
B. Total liabilities 30/06/2015 (1)	**-1.322.499**	**-3.646.782**	**-27**	**—**	**—**

(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	-16.140	22.469	23.725	—	286
Net fee and commission income	1.425	-2.885	2.279	—	—
Net trading income/expense	10.935	-8.229	-133	—	—
Net hedging income/expense	481	-484	—	—	—
Gain or loss on disposal or repurchase	-14	-1	—	—	—
Value adjustments - impairment	-138	704	170	—	259
Administrative expenses	-1.851	-5.887	—	—	—
Value adjustments – amortisation	-13	—	—	—	—
Other operating income (expenses)	6	7	16	—	—
Income tax	-7.939	—	—	—	—
Net profit/loss 2016	**-13.248**	**5.694**	**26.057**	**—**	**545**
Net profit/loss 2015	**23.912**	**-17.858**	**17.631**	—	**228**

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 Parent Bank; 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 90 days	Non-Performing exposures with forbearance measures	Impaired (past due more than 90 days)	Other exposures (performing)	Total
1. Financial assets held for trading	—	—	—	—	—	—
2. Available-for-sale financial assets	—	—	—	—	—	—
3. Held to maturity financial instruments	—	—	—	—	57.931	57.931
4. Loans and receivables with Banks	—	—	—	—	1.801.712	1.801.712
5. Loans and receivables with customers	—	—	52.552	—	3.351.758	3.404.310
6. Financial assets at fair value through profit	—	—	—	—	—	—
7. Financial assets classified as held for	—	—	—	—	—	—
8. Hedging derivatives	—	—	—	—	421.965	421.965
Total 30/06/2016	**—**	**—**	**52.552**	**—**	**5.633.366**	**5.685.918**
Total 30/06/2015	**—**	**—**	**53.891**	**—**	**4.798.358**	**4.852.249**

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	—	—	—	448.984	—	448.984	448.984
2. AFS securities	—	—	—	—	—	—	—
3. Financial assets held to maturity	—	—	—	57.931	—	57.931	57.931
4. Due from Banks	—	—	—	1.801.712	—	1.801.712	1.801.712
5. Due from customers	52.552	—	52.552	3.355.822	-4.064	3.351.758	3.404.310
6. Financial assets recognized at fair value	—	—	—	—	—	—	—
7. Financial assets being sold	—	—	—	—	—	—	—
8. Hedging derivatives	—	—	—	421.965	—	421.965	421.965
Total at 30/06/2015	**52.552**	—	**52.552**	**6.086.414**	**-4.064**	**6.082.350**	**6.134.902**
Total at 30/06/2015	**53.891**	—	**53.891**	**4.803.034**	**-4.676**	**4.798.358**	**4.852.249**

Impaired assets at 30 June 2016 refer to non-performing exposures with forbearance measures 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	30/06/2016	30/06/2015
A. CASH EXPOSURES					
a) Non-performing	—	—	—	—	—
b) Other assets	1.868.213	—	—	1.868.213	1.523.260
Total A	**1.868.213**	**—**	**—**	**1.868.213**	**1.523.260**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Non-performing	—	—	—	—	—
b) Other assets	237.619	—	—	237.619	288.833
Total B	**237.619**	**—**	**—**	**237.619**	**288.833**

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	30/06/2016	30/06/2015
A. CASH EXPOSURES					
a) Non-performing	52.552	—	—	52.552	53.891
b) Other assets	3.371.055	—	-4.064	3.366.991	2.603.982
Total A	**3.423.607**	**—**	**-4.064**	**3.419.543**	**2.657.873**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Non-performing	1.791	—	—	1.791	531
b) Other assets	1.057.013	—	-672	1.056.341	1.480.989
Total B	**1.058.804**	**—**	**-672**	**1.058.132**	**1.481.520**

Non-performing assets at 30 June 2016 refer to non-performing exposures with forbearance measures fully covered by letter of credit issued by the Parent Bank.

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

Description/Category	30/06/2016		30/06/2015
	Non performing	Restructured	
A. Gross exposure at start of period	—	53.891	57.717
of which: accounts sold but not derecognized	—	—	—
B. Additions	—	965	4.669
B.1 transfers from performing loans	—	—	—
B.2 transfer from other categories of impaired assets	—	—	—
B.3 other additions	—	965	4.669
C. Reductions	—	-2.304	-8.495
C.1 transfer to performing loans	—	—	—
C.2 amounts written off	—	—	—
C.3 amounts collected	—	—	—
C.4 gains realized on disposal	—	-1.127	-6.560
C.5 transfers to other categories of impaired assets	—	—	—
C.6 other reductions	—	-1.177	-1.935
D. Gross exposure at end of period	—	52.552	53.891
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	—	—	-4.676
B. Additions	—	—	-2.590
B.1 value adjustments	—	—	-2.535
B.2 transfers from other categories of impaired assets	—	—	—
B.3 other additions	—	—	-55
C. Reductions	—	—	3.202
C.1 writebacks based on valuations	—	—	—
C.2 writebacks due to amounts collected	—	—	2.653
C.3 amounts written off	—	—	—
C.4 transfers to other categories of impaired assets	—	—	—
C.5 other reductions	—	—	549
D. Adjustments at 30/06/2016	**—**	**—**	**-4.064**
D. Adjustments at 30/06/2015	**—**	**—**	**-4.676**

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	408.136	—	408.136	—	—	—	—	—	—	—	—	—
- non performing	—	—	—	—	—	—	—	—	—	—	—	—
1.2 partly secured	—	—	—	—	—	—	—	—	—	—	—	—
- non performing	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2016	**408.136**	**—**	**408.136**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total 30/06/2015	**421.674**	**—**	**421.674**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
2. Secured exposures to customers:												
2.1 completely secured	283.231	58.076	—	—	—	—	15.234	—	—	66.214	143.707	—
- non performing	*52.552*	—	—	—	—	—	—	—	—	—	*52.552*	—
2.2 partly secured [1]	2.979.002	—	—	—	—	—	—	—	—	137.711	2.099.752	—
- non performing	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2016	**3.262.233**	**58.076**	**—**	**—**	**—**	**—**	**15.234**	**—**	**—**	**203.925**	**2.243.459**	**—**
Total 30/06/2015	**2.497.574**	**3.334**	**—**	**—**	**—**	**—**	**22.090**	**—**	**—**	**187.731**	**1.626.604**	**—**

[1] The “Total exposure” is including also the part not cover by real or personal guarantees.

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

	Total exposure	Real guarantees			Personal guarantees							
					Credit derivatives				Endorsements			
		Properties	Securities	Other assets	Governments	Other public agencies	Banks	Others	Governments	Other public agencies	Banks	Others
1. Secured exposures to Banks:												
1.1 completely secured	—	—	—	—	—	—	—	—	—	—	—	—
1.2 partly secured	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2016	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total 30/06/2015	**288.833**	**—**	**—**	**288.833**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
2. Secured exposures to customers:												
2.1 completely secured	215.662	—	—	—	—	—	—	—	—	—	215.662	—
- non performing	—	—	—	—	—	—	—	—	—	—	—	—
2.2 partly secured	838.773	—	—	—	—	—	—	—	—	23.339	575.547	—
- non performing	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2016	**1.054.435**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**23.339**	**791.209**	**—**
Total 30/06/2015	**1.305.790**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**42.830**	**969.206**	**—**

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 2016 was € 497 million (2015: € 300 million) before taking account of collateral or other credit enhancements and € 64 million (2015: € 44 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	—	—	13.560	—	38.992	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	—	—	—	—
Net exposure	—	—	13.560	—	38.992	—
A.2 Other exposures						
Gross exposure	—	—	329.064	—	3.041.991	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-325	—	-3.739	—
Net exposure	—	—	328.739	—	3.038.252	—
Total A						
Gross exposure	—	—	342.624	—	3.080.983	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-325	—	-3.739	—
Net exposure	—	—	342.299	—	3.077.244	—
B. Off-balance sheet exposures						
B.1 Non-performing						
Gross exposure	—	—	—	—	1.791	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	—	—	—	—
Net exposure	—	—	—	—	1.791	—
B.2 Other exposures						
Gross exposure	—	—	136.790	—	920.223	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-74	—	-598	—
Net exposure	—	—	136.716	—	919.625	—
Total B						
Gross exposure	—	—	136.790	—	922.014	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-74	—	-598	—
Net exposure	—	—	136.716	—	921.416	—
Total 30/06/2016						
Gross exposure	—	—	479.414	—	4.002.997	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-399	—	-4.337	—
Net exposure	—	—	479.015	—	3.998.660	—
Net exposure 30/06/2015	—	—	498.223	—	3.641.170	—

Non-performing assets at 30 June 2016 refer to non-performing exposures with forbearance measures fully covered by letter of credit issued by the Parent Bank.

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	—	—	52.552	52.552	—	—	—	—	—	—
A.2 Performing	159.416	158.950	2.140.298	2.138.093	1.071.341	1.069.948	—	—	—	—
Total A	159.416	158.950	2.192.850	2.190.645	1.071.341	1.069.948	—	—	—	—
B) Off-balance-sheet exposures										
B.1 Non-performing	—	—	1.791	1.791	—	—	—	—	—	—
B.2 Performing	13.960	13.929	941.130	940.519	101.922	101.893	—	—	—	—
Total B	13.960	13.929	942.921	942.310	101.922	101.893	—	—	—	—
Total 30/06/2016	**173.376**	**172.879**	**3.135.771**	**3.132.955**	**1.173.263**	**1.171.841**	**—**	**—**	**—**	**—**
Total 30/06/2015	**168.352**	**167.994**	**3.010.712**	**3.007.191**	**960.545**	**958.953**	**—**	**—**	**5.514**	**5.255**

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	11.792	11.792	1.856.421	1.856.421	—	—	—	—	—	—
Total A	11.792	11.792	1.856.421	1.856.421	—	—	—	—	—	—
B) Off-balance-sheet exposures										
B.1 Non-performing	—	—	—	—	—	—	—	—	—	—
B.2 Performing	—	—	237.619	237.619	—	—	—	—	—	—
Total B	—	—	237.619	237.619	—	—	—	—	—	—
Total 30/06/2016	**11.792**	**11.792**	**2.094.040**	**2.094.040**	**—**	**—**	**—**	**—**	**—**	**—**
Total 30/06/2015	**786**	**786**	**1.811.307**	**1.811.307**	**—**	**—**	**—**	**—**	**—**	**—**

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

	30/06/2016	30/06/2015
a) Gross exposure	4.627.010	4.191.217
b) No. large risk exposures	51	51
c) Large risk exposure after CRM	1.113.882	1.127.899
d) No. large risk exposures after CRM	45	43
e) Large risk after CRM/regulatory capital	3,12	3,43

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 €3.425m as at 30 June 2016 (€2.963m as at 30 June 2015).

E.1 *Financial assets sold but not derecognized: book value and full value (in € k)*

Type/Portfolio	Financial assets held for trading	Financial assets carried at fair value	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables with banks	Loans and receivables with customers	Total	Total
	Book Value and Full Value	Book Value and Full Value	Book Value and Full Value	Book Value and Full Value	Book Value and Full Value	Book Value and Full Value	30/06/2016	30/06/2015
A. Balance sheet assets	—	—	—	—	—	435.041	**435.041**	**168.129**
1. Debt securities	—	—	—	—	—	—	—	—
2. Equity securities	—	—	—	—	—	—	—	—
3. UCITS	—	—	—	—	—	—	—	—
4. Loans	—	—	—	—	—	435.041	**435.041**	**168.129**
B. Derivatives	—	—	—	—	—	—	—	—
Total 30/06/2016	—	—	—	—	—	**435.041**	**435.041**	—
of which: impaired	—	—	—	—	—	—	—	—
Total 30/06/2015	—	—	—	—	—	**168.129**	—	**168.129**
of which: impaired	—	—	—	—	—	—	—	—

E.2 *Financial liabilities in respect of financial assets sold but not derecognized: book value (in € k)*

Liabilities/Portfolio assets	Financial assets held for trading	Financial assets carried at fair value	Available for sale financial assets	Held to maturity investments	Loans and receivables with banks	Loans and receivables with customers	Total
1. Deposits from customers	—	—	—	—	—	703.812	703.812
a) Related to fully recognized assets	—	—	—	—	—	703.812	703.812
b) Related to partially recognized assets	—	—	—	—	—	—	—
2. Deposits from banks	—	—	—	—	—	—	—
a) Related to fully recognized assets	—	—	—	—	—	—	—
b) Related to partially recognized assets	—	—	—	—	—	—	—
3. Debt securities in issue	—	—	—	—	—	—	—
a) Related to fully recognized assets	—	—	—	—	—	—	—
b) Related to partially recognized assets	—	—	—	—	—	—	—
Total 30/06/2016	—	—	—	—	—	**703.812**	**703.812**
Total 30/06/2015	—	—	—	—	—	**704.505**	**704.505**

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 2016. 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: - € 24.676.527
- Scenario -200 bps: + € 1.837.450

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 30/06/2016	—	—	—	—	—	—	—	—
Total cash assets at 30/06/2015	—	—	—	—	—	—	—	—
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 30/06/2016	—	—	—	—	—	—	—	—
Total cash liabilities at 30/06/2015	—	—	—	—	—	—	—	—
3. Financial derivatives								
3.1 With underlying securities	—	—	—	—	—	—	—	—
– Options	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities	54.044	1.610.668	110.440	—	528.404	1.200	—	—
– Options	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others	54.044	1.610.668	110.440	—	528.404	1.200	—	—
+ Long positions	27.022	638.014	110.440	—	375.702	1.200	—	—
+ Short positions	27.022	972.654	—	—	152.702	—	—	—
Total financial derivatives at 30/06/2016	**54.044**	**1.610.668**	**110.440**	—	**528.404**	**1.200**	—	—
Total financial derivatives at 30/06/2015	**26.812**	**1.462.261**	**178.452**	**33.153**	**531.300**	**1.200**	**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	—	60.724	—	—	—	—	—	—
– with early redemption option	—	—	—	—	—	—	—	—
– other	—	60.724	—	—	—	—	—	—
1.2 Loans to Banks	437.148	475.253	385.379	509.588	—	—	—	—
1.3 Loans to customers	229.973	2.676.190	488.922	—	44.993	—	—	—
Total cash assets at 30/06/2016	**667.121**	**3.212.167**	**874.301**	**509.588**	**44.993**	**—**	**—**	**—**
Total cash assets at 30/06/2015	**353.445**	**2.971.438**	**827.899**	**—**	**45.109**	**—**	**—**	**—**
2. Cash liabilities								
2.1 Amounts due to customers	—	-703.115	—	-464	—	—	-164.455	—
2.2 Amounts due to Banks	-49.796	-1.472.324	-390.537	-39.597	—	—	-382.135	—
2.3 Debt securities in issue	-27.383	-855.930	-462.588	-616.187	-236.918	-1.446	—	—
Total cash liabilities at 30/06/2016	**-77.179**	**-3.031.369**	**-853.125**	**-656.248**	**-236.918**	**-1.446**	**-546.590**	**—**
Total cash liabilities at 30/06/2015	**-73.713**	**-2.844.532**	**-209.443**	**-177.901**	**-122.962**	**-1.475**	**-747.746**	**—**
3. Financial derivatives								
3.1 With underlying securities	—	—	—	—	—	—	—	—
– Options	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities	—	262.833	46.598	6.305	10.000	—	645.920	—
– Options	—	—	—	—	—	—	516.794	—
+ Long positions	—	—	—	—	—	—	258.397	—
+ Short positions	—	—	—	—	—	—	258.397	—
– Others	—	262.833	46.598	6.305	10.000	—	129.126	—
+ Long positions	—	70.000	12.000	6.305	10.000	—	129.126	—
+ Short positions	—	192.833	34.598	—	—	—	—	—
Total financial derivatives at 30/06/2016	**—**	**262.833**	**46.598**	**6.305**	**10.000**	**—**	**645.920**	**—**
Total financial derivatives at 30/06/2015	**—**	**341.878**	**57.436**	**130.000**	**78.256**	**—**	**662.176**	**—**
4. Other off-balance sheet								
+ Long positions	—	258.366	24.575		732.714	35.237	—	—
+ Short positions	1.050.892	—	—	—	—	—	—	—
Total other off-balance sheet at 30/06/2016	**1.050.892**	**258.366**	**24.575**	**—**	**732.714**	**35.237**	**—**	**—**
Total other off-balance sheet at 30/06/2015	**1.304.144**	**312.789**	**71.787**	**4.870**	**816.388**	**98.310**	**—**	**—**

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 2016 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	49.138	21.792	—	6.161	523
A.4 Loans and advances to customers	1.272.186	505.154	—	72.363	44.302
A.5 Other financial assets	—	—	—	—	—
B. Financial liabilities					
B.1 Due to Banks	-1.068.237	-430.043	-7	—	-31.952
B.2 Due to customers	—	—	—	—	—
B.3 Debt securities	-108.456	—	—	-4.619	—
B.4 Other financial liabilities	—	—	—	—	—
C. Financial Derivatives					
- Options	—	—	—	—	—
+ long positions	—	—	—	—	—
+ short positions	—	—	—	—	—
- Other	-144.118	-96.794	—	-73.617	-12.259
+ long positions	—	—	—	—	—
+ short positions	-144.118	-96.794	—	-73.617	-12.259
Total assets 30/06/2016	1.321.324	526.946	—	78.524	44.825
Total liabilities 30/06/2016	-1.320.811	-526.837	-7	-78.236	-44.211
Difference (+/-) 30/06/2016	**513**	**109**	**-7**	**288**	**614**
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**

1.2.3 Financial derivative products

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

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

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

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

A. FINANCIAL DERIVATIVES

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

	30/06/2016		**30/06/2015**	
Type of transactions	**Over-the-counter**	**Listed**	**Over-the-counter**	**Listed**
1. Debt securities and interest rates	870.627	—	835.759	—
a) Options	—	—	—	—
b) Swap	870.627	—	835.759	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
2. Equities and share indexes	370.734	—	370.673	—
a) Options	370.734	—	370.673	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Exchange rates and Gold	281.751		294.023	
a) Options	—	—	—	—
b) Swap	45.037	—	54.439	—
c) Forward	236.714	—	239.584	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	**1.523.112**	—	**1.500.455**	—

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

A.2.1 *Hedging derivatives*

Type of transactions	**30/06/2016**		**30/06/2015**	
	Over-the-counter	**Listed**	**Over-the-counter**	**Listed**
1. Debt securities and interest rates	485.829	—	630.029	—
a) Options	—	—	—	—
b) Swap	227.432	—	371.632	—
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	**485.829**	**—**	**632.780**	**—**

A.2.2 *Other derivatives*

Type of transactions	30/06/2016		30/06/2015	
	Over-the-counter	Listed	Over-the-counter	Listed
1. Debt securities and interest rates	245.000	—	290.000	—
a) Options	—	—	—	—
b) Swap	245.000	—	290.000	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
2. Equities and share indexes	306.557	—	308.618	—
a) Options	306.557	—	308.618	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Exchange rates and Gold	—	—	2.692	—
a) Options	—	—	—	—
b) Swap	—	—	2.692	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	**551.557**	**—**	**601.310**	**—**

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

Type of transactions	Positive fair value			
	30/06/2016		30/06/2015	
	Over-the-counter	Listed	Over-the-counter	Listed
A. Regulatory trading book	20.268	—	61.189	—
a) Options	12.279	—	59.414	—
b) Interest Rate Swap	4.113	—	1.696	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	3.876	—	79	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
B. Banking book: Hedge derivatives	829.848	—	548.425	—
a) Options	—	—	—	—
b) Interest Rate Swap	421.965	—	284.931	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	18	—
f) Futures	—	—	—	—
g) Others	407.883	—	263.476	—
C. Banking book: Others derivatives	992	—	52.912	—
a) Options	992	—	49.714	—
b) Interest Rate Swap	—	—	3.197	—
c) Cross Currency Swap	—	—	1	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	**851.108**	**—**	**662.526**	**—**

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

Type of transactions	Negative fair value			
	30/06/2016		30/06/2015	
	Over-the-counter	Listed	Over-the-counter	Listed
A. Regulatory trading book	-2.435	—	-57.240	—
a) Options	-1.008	—	-49.994	—
b) Interest Rate Swap	-1.188	—	-1.843	—
c) Cross Currency Swap	-116	—	-2.961	—
d) Equity Swap	—	—	—	—
e) Forward	-123	—	-2.442	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
B. Banking book: Hedge derivatives	-407.883	—	-263.597	—
a) Options	—	—	—	—
b) Interest Rate Swap	—	—	—	—
c) Cross Currency Swap	—	—	-132	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	-407.883	—	-263.465	—
C. Banking book: Others derivatives	-7.031	—	-53.879	—
a) Options	-5.975	—	-53.589	—
b) Interest Rate Swap	-1.056	—	-290	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	**-417.349**	**—**	**-374.716**	**—**

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	30/06/2016							30/06/2015
	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	—	—	—	—	2.000
2. Equities and share indexes								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—
3. Exchange rates and Gold								—
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—
4. Other assets								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—

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

Residual Maturity	Credit Conversion Factor				
	Interest rate contracts	Exchange rate & gold	Equity	Precious metals	Goods other than metals
One year or less	0%	1%	6%	7%	10%
Over one year to five years	0,50%	5%	8%	7%	12%
Over five years	1,50%	7,50%	10%	8%	15%

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

Contracts not forming part of netting arrangements	**30/06/2016**							**30/06/2015**
	Governments and central Bank	**Other public agencies**	**Banks**	**Financial companies**	**Insurances**	**Non-Financial companies**	**Other counterparties**	
1. Debt securities and interest rates								
- notional value	—	—	470.627	—	—	—	—	435.759
- positive fair value	—	—	4.113	—	—	—	—	1.696
- negative fair value	—	—	-1.188	—	—	—	—	-1.843
2. Equities and share indexes								
- notional value	—	—	370.734	—	—	—	—	370.673
- positive fair value	—	—	12.279	—	—	—	—	59.414
- negative fair value	—	—	-1.008	—	—	—	—	-49.994
3. Exchange rates and Gold								
- notional value	—	—	281.751	—	—	—	—	294.023
- positive fair value	—	—	3.876	—	—	—	—	79
- negative fair value	—	—	-239	—	—	—	—	-5.403
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 Bank to allow both entities to reduce the capital absorption from RWA on derivatives products (cross products netting agreement).

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

Contracts not forming part of netting arrangements	30/06/2016							30/06/2015
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	129.199	—	—	—	—	179.199
- positive fair value	—	—	407.883	—	—	—	—	263.484
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—
2. Equities and share indexes								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—
3. Exchange rates and Gold								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—
4. Other assets								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—

[1] See table A.5

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

Contracts not forming part of netting arrangements	**30/06/2016**							**30/06/2015**
	Governments and central Bank	**Other public agencies**	**Banks**	**Financial companies**	**Insurances**	**Non-Financial companies**	**Other counterparties**	
1. Debt securities and interest rates								
- notional value	—	—	356.630	—	—	—	—	450.830
- positive fair value	—	—	421.966	—	—	—	—	284.923
- negative fair value	—	—	-407.883	—	—	—	—	-263.465
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 Bank 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	48.688	820.739	1.200	870.627
A.2 Financial derivatives on equities and share indexes	303.854	66.880	—	370.734
A.3 Financial derivatives on foreign currency and gold	236.714	45.037	—	281.751
A.4 Financial derivatives on other assets	—	—	—	—
B. Banking book:				
B.1 Financial derivatives on debt securities and interest rates	266.702	335.000	129.126	730.828
B.2 Financial derivatives on equities and share indexes	303.854	2.702	—	306.556
B.3 Financial derivatives on foreign currency and gold	—	—	—	—
B.4 Financial derivatives on other assets	—	—	—	—
Total at 30/06/2016	**1.159.812**	**1.270.358**	**130.326**	**2.560.496**
Total at 30/06/2015	**524.681**	**1.452.065**	**156.489**	**2.133.235**

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	12.368	330.000	72.680	8.000
b) Credit spread products	—	—	—	—
c) Total rate of return swap	—	—	—	—
d) Others	—	—	—	—
Total at 30/06/2016	**12.368**	**330.000**	**72.680**	**8.000**
Total at 30/06/2015	**22.343**	**330.000**	**113.459**	**9.000**
2. Hedge sales				
a) Credit default	97.528	8.000	16.200	330.000
b) Credit spread products	—	—	—	—
c) Total rate of return swap	—	—	—	—
d) Others	—	—	—	—
Total at 30/06/2016	**97.528**	**8.000**	**16.200**	**330.000**
Total at 30/06/2015	**129.559**	**9.000**	**16.200**	**330.000**

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

Transaction categories	Positive FV	
	30/06/2016	30/06/2015
1. Regulatory trading book		
a) Credit default	905	3.093
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
2. Regulatory banking book		
a) Credit default	3.702	5.497
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
Total	**4.607**	**8.590**

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

Transaction categories	Negative FV	
	30/06/2016	30/06/2015
1. Regulatory trading book		
a) Credit default	142.285	4.619
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
2. Regulatory banking book		
a) Credit default	4	—
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
Total	**142.289**	**4.619**

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

Contracts not forming part of netting arrangements	30/06/2016							30/06/2015
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
Regulatory trading book								
1. Hedge buys								
- notional value	—	—	342.368	—	—	—	—	352.343
- positive fair value	—	—	5	—	—	—	—	—
- negative fair value	—	—	-1.564	—	—	—	—	-4.580
2. Hedge sales								
- notional value	—	—	105.528	—	—	—	—	138.559
- positive fair value	—	—	900	—	—	—	—	3.093
- negative fair value	—	—	-1.658	—	—	—	—	-39
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 Bank 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	369.681	77.015	1.200	447.896
a) CDS with “qualified” reference obligation	—	—	—	—
b) CDS with “unqualified” reference obligation	369.681	77.015	1.200	447.896
2. Regulatory banking book	369.681	56.000	1.200	426.881
a) CDS with “qualified” reference obligation	—	—	—	—
b) CDS with “unqualified” reference obligation	369.681	56.000	1.200	426.881
Total at 30/06/2016	**739.362**	**133.015**	**2.400**	**874.777**
Total at 30/06/2015	**108.038**	**811.624**	**42.400**	**962.062**

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 2015 and 2016 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 Bank.

- 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 30/06/2016 (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	438.133	9.892	5.655	193.402	269.352	786.990	913.492	1.737.259	1.016.167	8.569
A.1 Government securities	—	—	—	—	—	—	—	—	—	—
A.2 Listed debt securities	—	—	—	—	—	—	—	—	—	—
A.3 Other debt securities	—	—	—	—	20	14	34	60.718	—	—
A.4 OICR units	—	—	—	—	—	—	—	—	—	—
A.5 Loans and advances	438.133	9.892	5.655	193.402	269.332	786.976	913.458	1.676.541	1.016.167	8.569
– to Banks	437.148	—	3.129	55.997	64.262	731.819	509.588	—	—	8.569
– to customers	985	9.892	2.526	137.405	205.070	55.157	403.870	1.676.541	1.016.167	—
Cash liabilities	-77.141	-313.046	-322	-151.661	-62.123	-1.372.779	-630.928	-2.188.284	-222.697	—
B.1 Deposits	-49.795	-313.046	—	-4.182	-3.617	-518.464	-11.188	-1.728.973	-181.355	—
– to Banks	-49.795	-313.046	—	-1.213	-3.472	-518.464	-10.724	-1.028.973	-129.528	—
– to customers	—	—	—	-2.969	-145	—	-464	-700.000	-51.827	—
B.2 Debt securities	-27.346	—	-322	-147.479	-58.506	-854.315	-619.740	-459.311	-41.342	—
B.3 Other liabilities	—	—	—	—	—	—	—	—	—	—
Off-balance-sheet transactions	1.073.256	4.715	72.705	268.845	132	1.328.781	3.905	1.201.687	267.338	—
C.1 Financial derivatives with exchange of principal	—	3.714	72.595	160.405	—	—	—	90.074	180.000	—
– long positions	—	—	—	—	—	—	—	—	90.000	—
– short positions	—	3.714	72.595	160.405	—	—	—	90.074	90.000	—
C.2 Financial derivatives without exch. of principal	17.643	1.001	110	350	132	4.781	3.905	—	—	—
– long positions	16.392	1.000	14	300	84	4.619	3.814	—	—	—
– short positions	1.251	1	96	50	48	162	91	—	—	—
C.3 Irrevocable commitments to disburse funds	1.050.892	—	—	—	—	—	—	981.569	69.323	—
– long positions	—	—	—	—	—	—	—	981.569	69.323	—
– short positions	1.050.892	—	—	—	—	—	—	—	—	—
C.4 Credit derivatives with exchange of principal	—	—	—	108.090	—	1.324.000	—	130.044	18.015	—
– long positions	—	—	—	36.030	—	662.000	—	74.029	18.015	—
– short positions	—	—	—	72.060	—	662.000	—	56.015	—	—
C.5 Credit derivatives without exchange of principal	4.721	—	—	—	—	—	—	—	—	—
– long positions	4.258	—	—	—	—	—	—	—	—	—
– short positions	463	—	—	—	—	—	—	—	—	—

1.b *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	269.624	187.437	263.597	858.433	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	—	—	—	—	—	—	—	—	—

1.4 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 2016 is € 5,2 million (€4,8 million as at 30 June 2015).

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 Bank and Group's IT Consortium entity.

As at 30 June 2016 and 2015 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 (as amended) (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 into four main categories: “material risks” (identified following the materiality concept), “non quantifiable material risks” (e.g. compliance and reputational), risk for which capital may not be the right answer (e.g. liquidity risk) 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 (Mediobanca International Immobiliere Sarl)

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 2016.

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, 2016, the Bank complies with all capital ratios:

1. CET1 Capital ratio: 11,70% (min. 4.5%)
2. T1 Capital ratio: 11,70% (min. 6%)
3. Total Capital ratio: 13,60% (min. 8%)

Therefore the financial year ended with a capital surplus of € 147m (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 (5,7% against 2,50%) that leading to a Total Capital Ratio of 10,5%.

In the aftermath of the financial crisis, the Basel Committee on Banking Supervision (BCBS) published a new set of capital and liquidity standards aiming to strengthen the banking sector's resistance and resilience to economic and financial shocks. As part of these new standards, the Basel III regulatory capital framework introduced the Countercyclical Capital Buffer (CCyB). Binding as from 2016, the CCyB will aim to achieve the broader macro prudential goal of protecting the banking sector during periods of excessive credit growth by maintaining a sufficient capital base to absorb losses in stressed periods. The CCyB regime is fully applicable in Luxembourg from 1st January 2016 onwards through the CSSF Regulation 15-01. The rate applicable to relevant credit exposures located in Luxembourg was set to 0.0% by the CSSF Regulation 15-04. The CCyB should reflect the location of residence of the ultimate obligor of the institution's portfolio of relevant credit exposures, which include credit risk exposures, exposures held in the trading book and securitisation excluding governments and institutions obligors. As a result, CRR institutions which have exposures to counterparties in more than one jurisdiction compute their institution-specific CCyB by applying the CCyB applicable in the country of location of these exposures. Based on this method of calculation the capital requirement as at 30 June 2016 for CCyB is € 1,5 million.

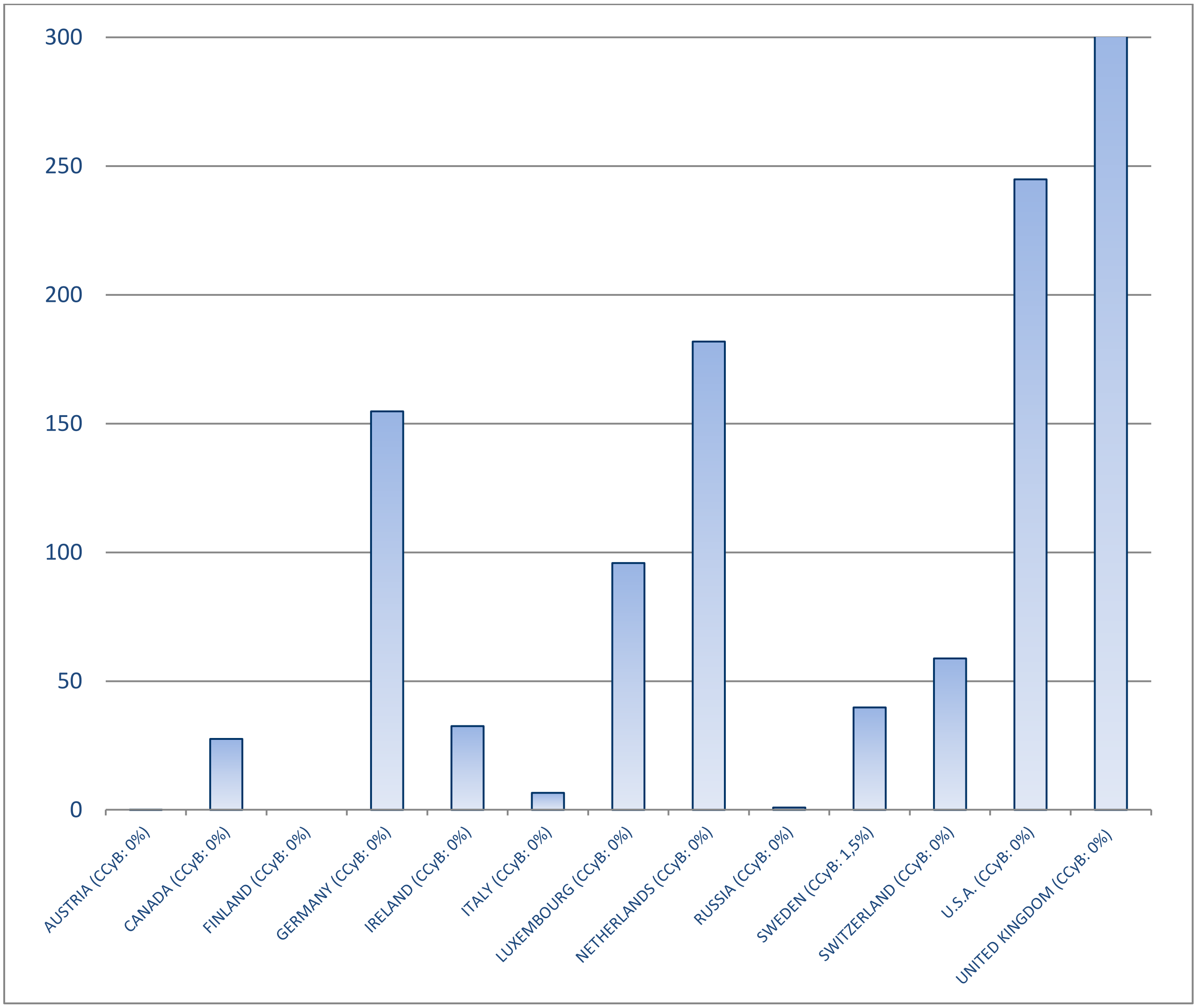
The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

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 €)	**30/06/2016** (including profit of the fiscal year)	**30/06/2015** (including profit of the fiscal year)
Original own funds (Tier 1)	307.372.855	288.724.857
Additional own funds (Tier 2)	50.000.000	50.000.000
Total own funds (Tier 1 + Tier 2)	**357.372.855**	**338.724.857**
Credit/Counterparty risk (Standardized approach)	205.030.234	168.142.199
Market risk (Standardized Approach)	—	—
Operational risk (Basic Indicator Approach)	5.199.127	4.798.445
Total capital requirements (Pillar 1)	**210.229.361**	**172.940.644**
Pillar 2 Risk + Stress test (Internal Assessment)	94.280.426	28.126.322
Total capital requirements (Pillar 1 + Pillar 2)	**304.509.787**	**201.066.966**
Surplus (+) / Deficit (-) of Own Funds	52.863.068	137.657.891
Total capital ratio (%)	13,60	15,67

COUNTERCYCLICAL CAPITAL BUFFER COUNTRIES' BREAKDOWN (in € m)



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 2016 and 2015 concerning related parties are as follows (in € k):

Assets and liabilities	**30/06/2016**		**30/06/2015**
	Parent Bank	**Other related parties**	
Financial assets held for trading	21.258	—	64.660
Financial assets held to maturity	57.931	—	251.847
Loans and advances	1.848.838	280	1.409.026
Derivatives held for hedging	421.965	—	284.949
Other assets	—	2	—
Total assets	**2.349.992**	**282**	**2.010.482**
Amounts due	-1.928.168	—	-1.464.144
Debt securities	-5.026	-238.471	-240.938
Financial liabilities held for trading	-413.541	—	-325.324
Derivatives held for hedging	—	—	-132
Other liabilities	-1.309	—	785
Total liabilities	**-2.348.044**	**-238.471**	**-2.029.753**

Comprehensive income	**30/06/2016**		**30/06/2015**
	Parent Bank	**Other related parties**	
Interest and similar income	6.618	20	6.381
Interest expenses and similar charges	-24.022	—	-65.183
Fee and commission income	677	-2	547
Fee and commission expenses	-11.984	—	-10.507
Net gains and losses on financial assets and liabilities hft	-133.670	—	3.708
Net gains and losses from hedge accounting	138.687	—	57.582
Administrative expenses	-3.762	-802	-4.200
Impairment	—	—	—
Other income	-16	6	-68
Total	**-27.472**	**-778**	**-11.740**

Guarantees and commitments	30/06/2016		30/06/2015
	Parent Bank	Other related parties	
Financial guarantees received	2.324.029		1.624.095
Financial guarantees given	—	—	—
Commercial guarantees given	—	—	—
Irrevocable commitments to disburse funds	—	325	32.114
Commitments underlying cds: hedge sales	96.881	—	138.559
Total	**2.420.910**	**325**	**1.794.768**

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:

	30/06/2016	30/06/2015
Administrative bodies	89	55
Key management personnel	326	314
	415	**369**

As of 30 June 2016 and 2015, 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 2016 and 2015, audit fees (exluding VAT) are split as follows (in €):

	30/06/2016	30/06/2015
Audit fees	99.599	91.170
Audit related fees	36.468	36.468
Other fees	675	—
Total	**136.742**	**127.638**

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

Staff number

As at 30 June 2016 and 2015, the Bank's staff is as follows:

	30/06/2016	30/06/2015
Management–Senior	2	2
Management–Middle	—	2
Other staff	7	5
Total	**9**	**9**

As of 30 June 2016, the Bank's Senior Management consists of the Chief Executive Officer and the Chief Financial Officer. One member of the Other Staff is not included directly on the Bank's payroll but is on secondment from the Parent Bank.

PART J – SUBSEQUENT EVENTS

The Bank is not aware of any other adjusting or not-adjusting event that would have occurred between 30 June 2016 and the date when the present financial statements were authorized for issue.