MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.

RCS n. B 112885

Annual Accounts and Report as at June 30, 2018

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
18 October 2018

www.mediobancaint.lu

BOARD OF DIRECTORS

		Term expires	Location
PETER W. GERRARD	CHAIRMAN	2020	LUXEMBOURG
STEFANO BIONDI	MANAGING DIRECTOR & CEO	2020	LUXEMBOURG
MASSIMO DI CARLO	DIRECTOR	2020	ITALY
STEPHANE BOSI	»	2020	LUXEMBOURG
GIOVANNI MANCUSO	»	2020	LUXEMBOURG
PIERO PEZZATI	»	2020	ITALY
PAOLA SCHNEIDER	»	2020	ITALY

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 JUNE 30, 2018

MANAGEMENT REPORT

DEVELOPMENT IN MACROECONOMIC SCENARIO

In 2017, the GDP for the advanced economies grew by 2,4% (1,7% in 2016), while that of the EMDE - Emerging Markets and Developing Economies grew by 4,7% (4,4% in 2016). Among the former, the USA grew by 2,3% (1,5% in 2016) and the Eurozone by 2,4% (from 1,8%). Within the Eurozone, the individual countries reported further diversified dynamics: Spain grew by 3,1%, a similar rate to the 3,3% of 2016 but double the result of 2015; Germany grew by 2,5%, faster than the 1,9% of 2016; France grew by 2,3%, double the result of 2016, while Italy (+1,5%) was less striking but still an improvement on the 0,9% of 2016. The loss of impetus continues for the UK (with a growth of 1,7% compared to 1,8% in 2016 and 2,2% in 2015), while Japan grew by 1,7%, better than the 1% of 2016. In the group of EMDEs, performances are even more differentiated: clear improvements have been made by Russia (+1,5%) and Brazil (+1%) after their downturns of -0,2% and -3,5% in 2016, respectively. China (+6,9%) and India (+6,7%) continue to represent the most dynamic areas of the world, followed by the ASEAN countries (Indonesia, Malaysia, Philippines, Thailand and Vietnam) whose GDP grew by 5,3%. In the rest of the world, different situations are arising: the whole of South America has gained ground, growing by 1,3% (-0,6% in 2016), thanks to the dynamism of Mexico (+2%) and the recovery of Brazil (+1% in 2017 compared to -3,5% in 2016). Growth in the Middle East more than halved, however (from 5% in 2016 to 2,2% in 2017), feeling the dynamics of Saudi Arabia (-0,9%), which has not yet managed to benefit fully from the 23,3% rise in prices of crude after the downward trend of 2016 (-15,7% in USD), while benefiting from the strength of the Iranian economy (+4,3%). Sub-Saharan Africa has shown an improvement, recording a growth in 2017 of +2,8% compared to +1,5% in 2016.

The International Monetary Fund (IMF) forecasts (July 2018) indicate an increase in the expected global growth rate of +3,9%, both for the current year and for 2019. The duties recently announced by USA and the possible retaliation measures by commercial partners could derail the recovery, however, and depress growth prospects in the medium term. The growth forecast for the advanced economies in 2018 stands at 2,4%, while faster growth of 4,9% is forecast for the EMDEs. USA is forecast to grow by 2,9%, in a scenario characterized by the continued standardization of the monetary policy and by an accommodating fiscal policy, together with a constantly improving private demand; growth for the Eurozone is forecast at 2,2%, where the order of the main countries remains essentially the same as in 2017: Spain is confirmed to be the most dynamic economy (+2,8%), followed by Germany (+2,2%) and France (+1,5%), while Italy still lags behind (+1,2%), considering a difficult first six months (-0,3% on the IMF review compared to its forecast in April 2018). Expectations for UK are affected by the repercussions of leaving the EU: 2018 forecasts close with a growth of 1,4%, an estimate revised downwards by 0,2% compared to the April projections, while settling at +1,5% in 2019.

Among the EMDE countries, the prospects of growth differ, considering the effects of the increase in oil prices and several external variables such as the greater returns in USA, increasing international commercial tensions and the broad volatility on the currency markets, particularly for some economies with the weakest fundamentals. The growth projections have been downgraded for Argentina, Brazil and India, while the prospects for several oil exporters have strengthened.

The expectation of a recovery of Brent prices (+33% in 2018) and of the prices of other commodities (+6%) could in fact represent a good prospect of growth for the main producing countries: for the Middle East, growth would gain a further impetus, raising it to 3,5%, while for Sub-Saharan Africa an improvement of +3,4% is forecast. 2018 should be positive for Russia (+1,7%) and Brazil (+1,8%), in both cases after the recent downturns. The prospects of growth for China (6,6%) and India (7,3%) remain positive.

Manufacturing industry

In this scenario, in 2017 the manufacturing multinationals recorded increases in turnover compared to 2016. In Europe, growth amounted to 4,2%, higher than in North America (+2,6%). The industrial margins increased more in Europe than in North America: EBIT for the European multinationals grew by 9,5%, while growth for the North American multinationals amounted to +3,5%. The ROE recorded by the European manufacturing multinationals amounted to 20,2%, just above that of the North Americans (18,6%), whose net profit in 2017 was penalized by the write-downs of deferred tax assets resulting from the US fiscal reform in December 2017.

	Europe		North America	
	Energy	*Manufacturing*	*Energy*	*Manufacturing*
	% chg. vs 2017/16			
Revenues	+12.7	+4.2	+21,2	+2,6
EBIT	+205.9	+9.5	n.d.	+3,5
ROE (%)	8,9	20,2	9,3	18,6

Source: R&S – Multinationals: financial aggregates (2018)

In 2017, the energy industry saw a marked recovery in sales (+12,7% in Europe, +21,2% in North America), but above all in margins which recorded an astonishing increase in North America where they were transformed from negative to positive and in Europe where they recorded a +205,9% growth. As in the previous year, the ROE of the energy industry in 2017 was somewhat lower than that of the manufacturing industry.

	Europe		North America	
	% chg. vs 2016	% of capital invested	% chg. vs 2016	% of capital invested
Equity	+7,4	56,3	+6,2	54,1
Financial debt	+0,7	43,7	+9,9	45,9
Liquidity	-2,3	13,3	+8,3	24,9
Net debt /Equity (%)		77,7		84,8
Intangibles/equity (%)		83,0		102,3

Source: R&S – Multinationals: financial aggregates (2018), manufacturing companies

The capital structure of the manufacturing multinationals has shown slight signs of deterioration in North America where there has been a greater increase in financial payables (+9,9%) than equity (+6,2%). These dynamics brought the debt-equity ratio to 84,8% in 2017, at higher levels than those of the European companies (77,7%) which, on the contrary, have strengthened their capital structure. One aspect of potential weakness is represented by the intangibles which in North America exceed the value of equity and in Europe absorb 83% of it.

Financial industry

With regard to the main international banks, in 2017 the main European banks remained behind their US counterparts but at least partially narrowed the gap in income.

The income made by the major European institutes grew by 1,7% (-6,1% in 2016), the main components showing different dynamics: the interest margin remained substantially unchanged (-0,1%), net commissions and results of trading grew by 4,3% and 22,2%, respectively, while other income fell by around 19%. Despite the fact that receivables grew by 2%, the static interest margin (which represents the main source of income, amounting to 54% of the contribution margin) was due to the continuing scenario of Zero Lower Bound (ZLB) rates. The need to contain the borrowing cost reduced the bond component, one of the most onerous forms of funding, which was reduced by 3,3%, while the deposits grew by 3%. Interbank business grew by 10,8%, benefiting from the fact that the deposit rate at the central bank remained in negative territory and the latter's launch of the last of four long-term non-conventional financing operations (TLTRO II) with which the ECB allocated a total of 740 billion euros (241 billion to the Italian banks, of which 128 billion net of the repayments on the existing financing obtained with the first series of TLTRO).

The cost/income ratio stood at 67,5%, down 130 basis points, thanks to the rise in income and the simultaneous reduction in operating costs which, although limited to 0,2%, is appreciable considering the growing costs of implementation of the new regulations. Following the increase in 2016 (11,4%), in 2017 loan losses started to fall again (-34,6%) amounting to 7,2% of income, the lowest value in the last three years and approaching the figure seen for the main US banks (6,6%).

The combined provisions of the growth income, the modest containment of operating costs and the reduction in the write-down of loans, led to an increase in profits of 28,1% (20,1% in 2016). For the first time since 2010, the balance of extraordinary items is positive, though still weighed down by costs of fines and penalties and by asset write-downs.

The US fiscal reform of December 2017 which, among other things, reduced corporate tax from 35% to 21%, led to write-downs of deferred tax assets and other charges for a total of 8,9 billion for the main

European banks. The net profit thus doubled compared to 2016 (+101,3%), amounting to 15% of the total income. Consequently, the ROE almost doubled as well, amounting to 5,7% (2,9% in 2015), a level still way off the pre-crisis levels (20,1% in 2006) and lower than those reached in 2010 (7,7%), still not enough to provide a return on own equity.

On the other side of the ocean, the income made by the main US banks grew by 3,1% in 2017, thanks to the trading income (+7,2%), net commissions (+5,2%) and the interest margin (+5,4%), in the latter case in the wake of the three rises (each of 25 basis points) in the benchmark rates implemented by the FED over the course of the year. Structural costs rose by 2,7% and the cost/income ratio rose to 60,8%, reducing the advantage over the European banks to 6,7 points (compared to 7,8 points in 2016). Loan losses increased for the third year running (+0,7% in 2017, +22,1% in 2016 and +22,9% in 2015), amounting to 6,6% of income (just below the 7,2% of the European banks). Profits thus improved by 4,2%, representing 32,6% of income (still higher than the level of the European banks). Still in 2017, the balance of the extraordinary items was positive, although down on the values of 2016 and 2015, while the balance of income taxes and third party interest grew by 55% to USD -62,4 billion, mainly owing to the fiscal reform, with write-downs of deferred tax assets of virtually 22 billion overall, bringing the effective tax rate to 44,8% (29,1% in the adjusted version). The net profit therefore fell by 21,6%, down to 17,9% of overall income (23,6% in 2015); the ROE thus fell to 7,3% from 9,4% in 2016. It is recalled that, since 2013, the main US banks have almost returned to pre-crisis levels of profitability, considering that the profit represented 30% of income throughout the period 2013-17, the same average value as in the 2005-2007 three-year period.

	Europe	United States
	% chg. vs 2017/2016	
Revenues	+1,7	+3,1
of which: interest margin	*-0,1*	*+5,4*
Loan write-downs	-34,6	+0,7
Income	+28,1	+4,2
Net profit	+101,3	-21,6
ROE (%)	*5,7*	*7,3*

Source: R&S –Major international banks (2018)

On the capital side, in 2017 the assets of the European banks fell by 2,7% (-5,1% for the US banks) with all financial statement entries down (guided by the fair value of the derivative assets, down by 26,6% in Europe and by 38,5% in USA), with the sole exceptions of the loans to customers (+2%), intangible assets (+1%) and cash and cash equivalents and those at the central bank (+26,1%); the latter, still in Europe, grew by around 360 billion euros, despite the fact that the bank deposit rate at the central bank is fixed at -0,4%. The variation in loans to customers is positive in both areas (+2% in Europe and +2,8% in USA). Despite the continuation of the Asset Purchases Programme (also known as quantitative easing, with which the ECB acquired 1,9 trillion government bonds as well as 242 billion Covered Bonds, 25 billion ABS and 133 billion corporate bonds), the portfolio of government bonds held by the European banks still amounts to almost 9,5% of the total assets (the situation being broadly different in the individual countries). Analysing the stock by technical forms, bond issues in Europe fell by 3,3%, continuing to feel the effect of the plentiful, competitive liquidity placed in the banking system by the ECB via the TLTRO II as well as customers' desire to favour liquidity and/or to replace bonds reaching maturing with forms of asset management, thus feeding the growth in the commission margin. In USA, bond issues increased by 2,4% compared to 2016, but their percentage of the financial statement total is still lower than that of the European banks (9,9% compared to 13,7%), also considering that the US banks mostly collect through deposits (54% of the total assets compared to 46,2% of the European banks).

	Europe	United States
	% chg. vs 2017/16	
Balance sheet total	-2,7	-5,1
Derivative assets	-26,6	-38,5
Securities	-0,2	+2,7
Loans to customers	+2,0	+2,8
Deposits from customers	+3,0	+3,9
Debt securities issued	-3,3	+2,4
Leverage (%)	*18,9*	*12,9*

Source: R&S – Major international banks (2018)

The main US banks are more capitalized, with equity amounting to 9.8% of their total assets, compared to 6% in Europe. The European banks are also continuing to record higher leverage than the US banks (18.9x compared to 12.9x) but the indicator is falling in both areas (in 2010 equal to 27.7x in Europe and 23.8x in USA). With regard to the leverage configuration introduced by the criteria of Basel III which states that, as from 1 January 2018, Tier 1 capital must be equal to at least 3% of total debts, all European Banks comply, with an average value equal to 5.1% at the end of 2017, up on the 3.8% of 2013, the year in which it was first introduced.

The total capital ratio is, however, higher for the main European banks, with an average value at the end of 2017 equal to 19.3% compared to 15.3% in USA.

Net doubtful debts in Europe fell by 15.9% compared to 2016, with the greatest falls being seen in UK (-19.9%), Germany (-19%) and Italy (-18.4%); the marked disparity among the various European countries in terms of impact on net loans to customers ranging from 5.2% for the two main Italian banks (a value which rises to 6.9% if one considers the five leading banks) to 0.8% for the German ones (1.6% being the European average).

GENERAL PRINCIPLES OF DRAWING UP THE MANAGEMENT REPORT

The Bank's financial statements have been drawn up in accordance with the IAS/IFRS international accounting standards and in line with the structure of the Parent Bank as disciplined by the circular of Banca d'Italia no. 262 of 22 December 2005 as amended from time to time (for further details please refer to "Part B – Accounting policies").

Notwithstanding the above, the management report includes a reclassified statement of financial position and a reclassified statement of comprehensive income (cf. below) with a view to support management commentaries and evaluations over the results achieved during the course of the financial year. The reconciliation with the primary statements, as required by the reference regulations, is presented in Annex I.

The management report also contains some Alternative Performance Measures (e.g. ROE, ROA, watch list ratio) which are deemed useful and appropriate to provide additional qualitative and quantitative metrics on the performance achieved by the institution over the financial year. Although some of the above mentioned information are not directly traceable to the official financial statements, a description of their content so as a reconciliation with the method of calculation (in line with the ESMA guidelines on Alternative Performance Measures published on 5 October 2015) is presented in Annex II.

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

In order to further illustrate the result of the period and support management commentaries, the statement of financial position has been reclassified using the same criteria adopted for the previous annual report (for further details please refer to Annex I).

	12 mths to 30/06/2018	12 mths to 30/06/2017	Y.o.Y. chg.
	€m	€m	%
Net treasury investments	2.096,5	1.294,3	62%
Securities (HTM & L&R)	49,2	62,1	-21%
Loans and advances	4.699,4	3.299,5	42%
Equity investments	4,2	4,2	0%
Tangible and intangible assets	-	-	-
Other assets	92,3	10,9	747%
TOTAL ASSETS	**6.941,6**	**4.671,0**	**49%**
Funding	6.584,2	4.323,3	52%
Other liabilities	16,4	19,1	-14%
of which: tax liabilities	*11,2*	*11,1*	*1%*
Net equity	328,6	307,8	7%
Net profit	12,4	20,8	-40%
TOTAL LIABILITIES	**6.941,6**	**4.671,0**	**49%**

ASSETS

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

Net treasury investments – This item of the reclassified statement of financial position increased by 62% (from € 1.294,3m to € 2.096,5m) and includes:

- mark to market value of the derivative contracts negotiated with the Parent Company or embedded in other financial instruments which amounts to € 3,4m (€ -116,8m at the end of June 2017);
- mark to market value of financial instruments other than derivatives, which reduced to zero (€ 128,7m at the end of June 2017);
- net application in treasury funds (including repos, time deposits, etc.) which increased by 63% (from € 1.282,4m to € 2.093,1m) mainly as a consequence of temporary excess liquidity reinvested with the Group Treasury by means of money market instruments.

	12 mths to 30/06/2018	12 mths to 30/06/2017	Y.o.Y. chg.
	€m	€m	%
Derivatives instruments	3,4	-116,8	-103%
Financial assets HFT other than derivatives	-	128,7	-100%
Net applications in treasury funds	2.093,1	1.282,4	63%
Net treasury investments	**2.096,5**	**1.294,3**	**62%**

Securities (HTM & L&R) – This item of the reclassified statement of financial position amounts to € 49,2m (€ 62,1m at the end of June 2017) and is made of debt securities which have been classified as held to maturity (HTM) or loans and receivables (L&R) under IAS 39.

Loans and advances – This item of the reclassified statement of financial position has increased considerably compared to June 2017 (+42%, from € 3.299,5m to € 4.699,4m), notably during the second half of the fiscal year which has been characterized by a number of large-value transactions. The institution's net credit risk exposure (i.e. drawn amount excluding the portions secured by financial guarantees received from the Parent and/or third party insurers) has followed the same trend, with an increase from € 978,4m at the of June 2017 to € 1.175,6m (+20%). Notwithstanding the above, the quality of the credit portfolio has continued to very satisfactory as demonstrated by the value of the "watch list ratio" which amounts to 4,7% (3,6% at the end of June 2017).

In an environment which continues to be very challenging, the carrying value of non-performing loans (which are fully secured by financial guarantees issued by the Parent Company) went considerably down from € 50,6m to € 1,4m representing approximately 0,03% of corporate loans.

	12 mths to 30/06/2018	12 mths to 30/06/2017	Y.o.Y. chg.
	€m	€m	%
Performing	4.698,0	3.248,9	45%
Restructured and non performing	1,4	50,6	-97%
Loans and advances	**4.699,4**	**3.299,5**	**42%**

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 Immobilière) a real estate company which owns the building where the Bank has moved its head office in April 2012. In November 2017, 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 carrying amount.

Other assets – This item of the reclassified statement of financial position increased considerably by 747% (from € 10,9m to € 92,3m) and is composed by transitory accounts and other receivables. These latter in particular amount to € 91,8m (€ 7,6m at the end of June 2017) and refer to receivables generated in the context of the secured borrowing transactions, where payments on the assets posted as collateral are initially collected by the third-party lenders (i.e. the collateral receiver) and subsequently transferred to the Bank (i.e. the collateral giver) in accordance with the contractual arrangements between parties. This kind of transactions create various suspended amounts which are generally cleared in a very short period of time (most of the receivables accounted at the end of June 2018 were already cleared in July 2018).

LIABILITIES

On the liabilities side, the following variations are worth noting:

Funding – This item of the reclassified statement of financial position amounts to € 6.584,2m and increased by +52% when compared to June 2017 (€ 4.323,2m). In detail:

- Amount due to banks and customers decreased by -9% (from € 3.198,4m to € 2.921,4m) primarily because of the early reimbursement of "Schuldshein" financings which occurred during the first semester of the fiscal year. Notwithstanding the growth of the corporate lending portfolio (which we have described above), borrowings from the Group Treasury were substantially stable at € 2.180,3m (€ 2.248,9m in June 2017) as a result of the increased funds collected under the medium-term note programme (see below).
- Notes issued under the existing EMTN Programme increased noticeably by 289% (from € 586,0m to € 2.281,8m) improving the mix of the institution's funding sources;
- Fair value valuation of hedging derivatives amounts to € 9,4m (€ -192,3m at the end of June 2017) reflecting a certain degree of volatility in the market inputs and the early redemption of some existing strategies;
- The carrying value of short term papers issued under the existing "Euro Commercial Paper" and "Negotiable European Commercial Paper" programmes has increased by 88% (from € 731,1m to € 1.371,6m) improving the mix of the institution's funding sources and duration.

	12 mths to 30/06/2018	12 mths to 30/06/2017	Y.o.Y. chg.
	€m	€m	%
Amount due to banks and customers	2.921,4	3.198,4	-9%
Notes issued	2.281,8	586,0	289%
FV hedging of borrowings	9,4	- 192,3	-105%
Short term funding debt instruments	1.371,6	731,1	88%
Funding	**6.584,2**	**4.323,2**	**52%**

Other liabilities – This item decreased by 14% (from € 19,1m to € 16,4m) and consists of (i) tax provision of the fiscal year net of the quarterly advances paid to the Tax Authority (stable at € 11,2m compared to June 2017), and (ii) invoice receivables from the Parent Company and other amounts payable which decrease by 35% (€ -2,8m in absolute term) compared to June 2017.

Net equity – No dividends have been distributed during the fiscal year and the increase from € 307,8m to € 328,6m (+7%) is exclusively attributable to the provisioning of the net profit from the previous fiscal year. The strategy of the Bank remains focused on strengthening of own funds as demonstrated by the resiliency of the regulatory capital ratios: in detail, the Common Equity Tier 1 ratio (CET1) stood at 10,2% at the reporting date, whilst the Total Capital Ratio stood at 11,7%. Both levels are well above the minimum capital requirement for credit institutions as enacted by EU regulations.

Reclassified statement of comprehensive income

In order to further illustrate the result of the period and support management commentaries, the statement of comprehensive income has been reclassified using the same criteria adopted for the previous annual report (for further details please refer to Annex I).

In the reclassified statement of comprehensive income, revenues are indicated without sign whereas costs are preceded by the minus sign.

	12 mths to 30/06/2018	12 mths to 30/06/2017	Y.o.Y. chg.
	€m	€m	%
Net interest income	23,4	37,3	-37%
Net trading loss	-2,9	-3,5	-17%
Net fee and commission income	5,6	2,4	133%
TOTAL INCOME	**26,1**	**36,2**	**-28%**
Wages and salaries	-1,6	-1,3	23%
Other administrative expenses	-7,5	-7,2	4%
OPERATING COST	**-9,1**	**-8,5**	**7%**
Loans impairment	-0,2	0,8	-125%
Provisions for other financial assets	-	-	0%
PROFIT BEFORE TAX	**16,8**	**28,5**	**-41%**
Fiscal provision	-4,4	-7,7	-43%
NET PROFIT	**12,4**	**20,8**	**-40%**

Net interest income – Net interest income decreased by -37% (from € 37,3m to € 23,4m). During the reference period, the different components performed as follows (cf. also table below):

- Notwithstanding the growth of credit exposures (particularly concentrated during the second half of the fiscal year), interest received on corporate lending decreased by -7% (from € 88,3m to € 81,9m) mainly by reason of (i) shrinking margins on the reference markets, and (ii) lower release to the income statement of the amortised cost for those credit facilities which were prepaid and/or refinanced during the period.
- Interest paid on debt financing, on the other hand, increased by +14% (from € -58,4m to € -66,5m) mainly due to the combined effect of (i) higher costs for long term financings (primarily with the Group Treasury) which increased by 5% (from € -54,7m to € -57,4m), and (ii) lower interest income from hedging derivatives which decreased by 82% (from € 7,4m to € 1,3m). Interest paid under the existing funding programmes guaranteed by the Parent Company (e.g. EMTN, NEU CP, CP) remained substantially stable at € -10,5m (€ -11,2 at the end of June 2017).
- Net interest income from treasury operations also remained substantially stable at € 8,0m (€ 7,4m at the end of June 2017).

	12 mths to 30/06/2018	12 mths to 30/06/2017	Y.o.Y. chg.
	€m	€m	%
Interest income - lending	81,9	88,3	-7%
Interest expense - funding	-66,5	-58,4	14%
Treasury	8,0	7,4	8%
Net interest income	**23,4**	**37,3**	**-37%**

Net trading loss – This item of the reclassified statement of comprehensive income is made up of € -2,9m (€ -3,5m at the end of June 2017) and is composed as follows (cf. also table below):

- dealing losses amount to € -1,4m (€ 1,0m in June 2017) and mostly refer to costs incurred (including interests) under swap agreements concluded with the Parent Company;
- unrealised gains amount to € 1,2m (€ -2,3m in June 2017) and reflect the valuation of financial instruments classified as held for trading (principally derivative contracts negotiated with the Parent or embedded in other non-derivative instruments);
- impact on forex exposure, which includes the unrealised gain/loss on change in fair values of forex and/or cross currency swaps negotiated with the Parent, is negative for € -2,1m (€ -1,1m in June 2017);
- Loss on disposals and repurchases amounts to € -0,5m (€ 0,3 in June 2017) and is mainly attributable to the difference between the repurchase proceeds and the net carrying amount of debt securities issued by the Bank which have been repurchased during the financial year;
- Securities lending fees amount to € -0,1m (€ -1,4m in June 2017) and are composed of (i) € 1,3m (€ 0,4m in June 2017) of commissions received for securities lending, and (ii) € -1,4m (€ -1,8m in June 2017) of commissions paid for securities borrowing (mainly to the benefit of the Group Treasury from which the Bank borrows high quality liquid assets under GMSLA in order to comply with the liquidity coverage ratio indicator).

	12 mths to 30/06/2018	12 mths to 30/06/2017	Y.o.Y. chg.
	€m	€m	%
Realised gain/loss	- 1,4	1,0	-240%
Unrealised gain/loss	1,2	- 2,3	-152%
Forex exchange gain/loss	- 2,1	- 1,1	91%
Gain/loss on disposals/repurchases	- 0,5	0,3	-267%
Securities lending/borrowing	- 0,1	- 1,4	-93%
Net trading loss	**- 2,9**	**- 3,5**	**-17%**

Net fee and commission income – This item of the reclassified statement of comprehensive income, which is mostly driven by corporate lending and treasury services, increased by 133% when compared to June 2017 (from € 2,4m to € 5,6m).

Net lending fees in particular increased by 12% (from € 5,9m to € 6,6m). This dynamic was mainly driven by the increase of commission income from corporate lending (+29%, from € 13,8m to € 17,8m), which has been only partially offset by the increase of commission expense under the service agreement with the Parent (+43%, from € -8,0m to € -11,4m). Stable compared to previous financial year the amount of commissions received for the guarantees given to third parties (€ 0,2m vs € 0,1m in June 2017).

Net treasury fees decreased by -71% (from € -3,5m to € -1,0m) and represent for the most part the costs incurred by the institution for the guarantees received from the Group Treasury on the issuance programmes (€ -1,1m vs € -3,7m in June 2017).

	12 mths to 30/06/2018	12 mths to 30/06/2017	Y.o.Y. chg.
	€m	€m	%
Net lending fees:	6,6	5,9	12%
- commission income (+)	*17,8*	*13,8*	29%
- commission expense (-)	- *11,4*	- *8,0*	43%
- guarantees given (+)	*0,2*	*0,1*	100%
Net treasury fees:	- 1,0	- 3,5	-71%
- commission income (+)	*0,1*	*0,2*	-50%
- commission expense (-)	- *0,0*	- *0,0*	-50%
- guarantees rec. (-)	- *1,1*	- *3,7*	-70%
Net fee income	**5,6**	**2,4**	**133%**

Operating costs – This item of the reclassified statement of comprehensive income increased by 7%, from € -8,5m to € -9,1m, mainly by reason of (i) increasing personnel costs (+23%, from € -1,3m to € -1,6m) associated with the staff recruitments of the period, and (ii) increasing administrative expenses (+4%, from € -7,2m to € -7,5m) in connection with the Regulatory and Group projects initiated during the fiscal year (e.g. IFRS 9, Mifid/Mifir, GDPR).

Loan impairment – This item of the reclassified statement of comprehensive income amounts to € -0,2m (€ 0,8m at the end of June 2017).

Fiscal provision – This item decreased by -43% (from € -7,7m to € -4,4m) by reason of the lower taxable base. Tax rate remained stable at 26,01% during the fiscal year.

ALTERNATIVE PERFORMANCE MEASURES

The results achieved at the end of the financial year are accompanied by the soundness of the capital ratios (CET1 ratio is equal to 10,2%), the adequacy of liquidity indicators (in line with Basel 3 requirements) and the low risk profile of our business model (cf. below):

CAPITAL RATIOS

	12 months to	
	30/06/2018	30/06/2017
Common Equity Tier1 Capital Ratio (in %)	10,2	11,4
Total Capital Ratio (in %)	11,7	13,2
Leverage Ratio (in %)	4,2	5,9
Risk Weighted Assets (in Euro million)	3.327	2.885

LIQUIDITY RATIOS

	12 months to	
	30/06/2018	30/06/2017
Liquidity Coverage Ratio (in %)	122,5	362,5
Net Stable Funding Ratio (in %)	112,5	125,0

PROFITABILITY RATIOS

	12 months to	
	30/06/2018	30/06/2017
ROE – Return On Equity (in %)	3,8	6,8
ROA – Return On Asset (in %)	0,2	0,4

SIGNIFICANT EVENTS

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

- Appointment of the new Board of Directors for a term of office of three years (i.e. until the approval of the annual financial statement as at 30 June 2020);
- Authorization by the supervisory Authorities to outsource the IT infrastructure services to an external IT provider (IBM Italia S.p.A.) as part of a wider project that impacts all the IT services provided by Mediobanca Innovation Services (MIS) to the Group;
- Insourcing of the financial accounting and reporting services of the Group's affiliate Mediobanca Management Company S.A. (100% owned by the ultimate Parent) following the merger by acquisition of Banca Esperia S.p.A. with Mediobanca S.p.A.;
- Migration to the new financial accounting application;
- Migration to the upgraded version of the position keeping system.

As regards the Bank's activity and the regulatory agenda, the following top priorities are to be mentioned for the forthcoming months:

- IFRS 9 accounting standard: IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The new standard contains substantial changes from the current financial instruments standard (IAS 39) with regards to the classification, measurement, impairment and hedge accounting requirements which will impact many entities across various industries.
- Analytical credit datasets (Anacredit): In May 2016, the European Central Bank (ECB) adopted Regulation (EU) 2016/867 on the collection of granular credit and credit risk data (Anacredit). The ECB aims to set up a dataset containing granular credit and credit risk data about the exposure of credit institutions and other loan-providing financial firms within the Eurozone. Whenever a customer has an aggregate debt of more than € 25.000 the Bank will need to report details about the client entity and the debt instruments on a loan by loan basis.
- Anti-money laundering directive IV (ALM IV): The Luxembourg Law of 13 February 2018 (the "Amending Law") which entered into force on 18 February 2018, introduces amendments to, amongst others, the Luxembourg Law of 12 November 2004 on the fight against money laundering and terrorist financing (as amended). The Amending Law partially transposes Directives 2015/849 (ALM IV), inter alia aiming at aligning the European regulatory framework with the decisions taken by the Financial Action Task Force (FATF) in 2012.

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 Management.

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) within six (6) months of the end of each financial year. 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;
- 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 Bank'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 (6) years. As at 12 September 2018, the Board is composed of seven Directors who have been appointed for a term of office three 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, semi-annual 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.

The Board of Directors of Mediobanca International was appointed by Shareholders in a general meeting held on 20 October 2017 for the period ending with the annual general meeting to be called to approve the annual accounts as at 30 June 2020. The number of the Board members currently consists of seven members (five of whom qualify as independent): Peter W. Gerrard (Chairman), Stefano Biondi (Managing Director), Massimo Di Carlo, Stephane Bosi, Giovanni Mancuso, Piero Pezzati, Paola Schneider. The Board includes prominent figures from the banking 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. seven (7) times and the attendance rate was 90%.

		Term of office							
Position	**Member**	**Since**	**Until**	**Gender (M/F)**	**Executive**	**Non-executive**	**Independent**	**Attendance FY1718 (%)**	**Other Directorships**
Chairman	Peter W. Gerrard	20 October 2017	Approval of the financial statement as at 30 June 2020	M		X	X	86%	2
Managing Director	Stefano Biondi	20 October 2017	Approval of the financial statement as at 30 June 2020	M	X			100%	2
Director	Massimo Di Carlo	20 October 2017	Approval of the financial statement as at 30 June 2020	M		X	X	100%	2
Director	Stephane Bosi	20 October 2017	Approval of the financial statement as at 30 June 2020	M		X	X	100%	-
Director	Paola Schneider	20 October 2017	Approval of the financial statement as at 30 June 2020	F		X		80%	1
Director	Piero Pezzati	20 October 2017	Approval of the financial statement as at 30 June 2020	M		X	X	80%	1
Director	Giovanni Mancuso	20 October 2017	Approval of the financial statement as at 30 June 2020	M		X	X	100%	3
Director(*)	Massimo Bertolini	1 February 2016	20 October 2017	M		X		100%	n.d.
Director(*)	Luca Maccari	1 February 2016	20 October 2017	M		X		50%	n.d.
Director(*)	Alex Schmitt	1 February 2016	20 October 2017	M		X	X	50%	n.d.

* Directors whose term expired upon the approval of the financial statement as at 30 June 2017.

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 2018.

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 Management have a full understanding of the views of the Shareholders.

Risk Committee

The Board of Directors appoints a Risk Committee, which may be either composed by Directors and/or 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 20 October 2017 has vested the Risk Committee with the following powers:

- release of guidance(s) in respect of the main risk categories faced by the institution;
- 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;
- assessment and approval of new risk's typology and/or operations;
- 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 once per month or whenever necessary for examination of proposed deals/transactions. For strictly advisory purposes persons external to the Bank and/or Mediobanca S.p.A. may also take part in such meetings without having voting rights.

Pursuant to articles 7(2) and 19(2) of the Law 5 April 1993 on the financial sector, the members of the Committee with responsibilities for the day-to-day management (cf. below "Authorised Management") shall be authorised to effectively determine the business direction of the Bank. Consequently, in the context of the Committee decision making process, they are vested with veto power.

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

Authorised Management

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 Bank'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 Mr. Stefano Biondi (Managing Director) and Mr. Edoardo Reitano (Chief Financial Officer).

OTHER INFORMATION

During the fiscal year ended on 30 June 2018, 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

Advanced economies are showing increasing growth divergences between United States on one side, and Europe and Japan on the other. Growth is also becoming more uneven between emerging markets and developing economies, reflecting the diverse impacts of the principal macro trends which are currently observable on the markets, i.e. rising oil prices, escalating trade tensions, domestic political uncertainty, higher yields in the United States. While financial conditions remain (in principle) accommodating, these factors have resulted in capital inflow reductions and higher cost of financing, especially for those countries with weaker fundamentals or higher political risks (as recently highlighted by the International Monetary Fund in its periodic update of the World economic outlook).

Focusing the attention on those economies where the Bank is mostly exposed, the following trends are expected:

In the United States, the Federal Reserve continues the course of gradual policy normalization thanks to the encouraging signals from inflation and employment. It has recently raised the target range for the Federal Funds rate by 25 basis points, while signalling two additional rate hikes during the FY2018. Substantial fiscal stimulus together with the strong private demand shall continue to support the growth in the near-term, creating additional inflationary pressure.

In the Euro Area, the European Central Bank announced in June 2018 that it will tapper its monthly asset purchases from the current €30 billion a month to €15 billion starting from October, with an anticipated end to the program on 31 December 2018. It also indicated that key interest rates are expected to remain at their present levels at least through the summer of 2019, and in any case for as long as necessary to ensure that the evolution of inflation remains aligned with the current expectations of a sustained adjustment path. Growth in the Euro Area is projected to slow gradually in the coming months.

Among the advanced economies, a specific focus shall be dedicated to Italy and United Kingdom. In late May, Italian sovereign spreads widened by their largest amount since FY2012 following difficulties around the formation of a new government. They have since declined, but remain around 270 basis points as of late August on concerns about future fiscal and economic policies. As concerns United Kingdom and its medium-term outlook, this continues to be affected by the high uncertainties about the outcome of Brexit negotiations. Preserving open trade with the European Union and high access for financial services to the EU market must remain a priority of the current discussions.

In this scenario the Bank expects to experience a decline of its net profit due – inter alia – to the combined effect of the following factors:

- decreasing net interest margin (mainly) by reason of the increase in the cost of borrowing as a consequence of (i) the refinancing and top-up of the subordinated loan agreement (which most likely shall take place during the second quarter of the fiscal year, subject to Regulatory approvals), and (ii) the progressive widening of credit spreads on the reference markets;
- increasing administrative expenses by reason of higher spending for (i) the contribution to the Group projects which have a direct/indirect impact on the operations of the institution, and (ii) local projects generated by increasing banking regulations;
- increasing allowance for credit losses by reason of (i) moderate growth of the corporate lending portfolio, and (ii) new accounting principle IFRS 9;
- effective tax rate stable at 26.01% (even though a revision is expected in the near term as a consequence of the upcoming parliamentary elections).

The business model of the Bank is expected to remain unchanged and focused on lending to large and mid-sized corporations established (mostly) in northern Europe and United States. Such investment activity will continue to be financed through the debt issuances made under the existing programs, the secured borrowing transactions concluded inside and outside the Group, and the financings concluded with the Group Treasury.

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	€	12.374.359
- Balance on retained earnings	€	-
- Total profit to be allocated	**€**	**12.374.359**
- To specific reserve for N.W.T.	€	8.363.550
- To free reserves	€	4.010.809

Luxembourg, 12 September 2018

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 2018.

Luxembourg, 12 September 2018

The Board of Directors

Peter W. Gerrard	Stefano Biondi	Massimo Di Carlo
Stephane Bosi	Giovanni Mancuso	Piero Pezzati
Paola Schneider		

INDEPENDENT AUDITOR'S REPORT

Audit report

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

Report on the audit of the financial statements

Our opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Mediobanca International (Luxembourg) S.A. (the "Bank") as at 30 June 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Our opinion is consistent with our additional report to the Board of Directors.

What we have audited

The Bank's financial statements comprise:

The statement of financial position as at 30 June 2018;

The statement of comprehensive income for the year then ended;

The statement of changes in equity for the year then ended;

The statement of cash flows for the year then ended; and

The notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under those Regulation, Law and standards are further described in the "Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the financial statements" section of our report.

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

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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

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements. We have fulfilled our other ethical responsibilities under those ethical requirements.

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

The non-audit services that we have provided to the Bank, in the period from 1 July 2017 to 30 June 2018, are disclosed here below.

Nature of service
Report on review of interim financial information as of 31 December 2017
Report on review of interim financial information as of 31 March 2018
Comfort letter issued on the EMTN programme

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, and include the most significant assessed risks of material misstatement (whether or not due to fraud). These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Valuation of loans to customers (loan loss provisioning process) Customer loans are one of the key items on the Bank's balance sheet representing 58% of total assets. The Bank's customer lending operations primarily consist of loans to corporate clients, including syndicated loans arranged by leading non-Italian banks and high return finance (e.g. mezzanine and subordinated finance). The loans are grouped in different categories (corporate lending, leverage acquisition, project finance, export finance). The major part of corporate loans is guaranteed, in total or partially, by the Parent Bank Mediobanca - Banca di Credito Finanziario S.p.A.. As it relates to its credit activities, there is a considerable inherent risk because measurement of loans and receivables is based on estimates of the borrower's credit risk. However, the Bank has a low record of non-performing loans since its incorporation and in general has maintained a good quality loan portfolio of well recognised international groups. The current market conditions may worsen the quality of credit, with a significant adverse impact on this item. This matter was of particular importance during our audit. The Bank's disclosures on the accounting for loan loss provisions are provided in Part B Section 4 within the notes of the financial statements.	We first tested and assessed the Bank's relevant internal control system with respect to the valuation of loans to customers. We considered the respective business organisation, IT systems and valuation models. We tested for a selection of dates the controls regarding the loan origination, loan monitoring and credit assessment processes. We also tested and assessed the Bank's processes on credit assessment and valuation of loans as part of our credit review testing (please refer below). We involved our specialists in the fields of IT audits to test the relevant IT applications. Regarding test of details, the following audit procedures were performed: • Overall analysis of the loan portfolio by comparison to prior years to identify trends and areas of particular risk; • Comparison on sample basis of internal ratings used in the Bank's credit assessments to external publicly available; • Credit assessment for a sample of 28 items representing groups of related borrowers, covering at least the following: – All non-performing loans (all items in the Watchlist, including those categorised as "black" and considered as non-performing and those categorised as "red", "amber" and "green", which are "de facto" performing); – TOP 15 largest exposures; – Exposures of particular risk identified; – Exposures to new customers. • Assessment of collective impairment approach used by the Bank.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management report but does not include the financial statements and our audit report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and those charged with governance for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs 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.

In preparing the financial statements, the Board of Directors is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the financial statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our audit report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

The Management report is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

The Corporate Governance Statement is included in the Management report. The information required by Article 68bis Paragraph (1) Letters c) and d) of the Law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, which is included in the Corporate Governance Statement, is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

We have been re-appointed as "Réviseur d'Entreprises Agréé" by the Board of Directors on 14 December 2016 for another five years period and the duration of our uninterrupted engagement up to and including 30 June 2018, including previous renewals and reappointments, is six years, starting as from the year ended 30 June 2013.

Other matter

The Corporate Governance Statement includes the information required by Article 68bis Paragraph (1) of the Law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 17 September 2018

Holger von Keutz

FINANCIAL STATEMENTS AS AT 30 JUNE 2018

STATEMENT OF FINANCIAL POSITION

	Assets	30/06/2018	30/06/2017
		€	€
10.	Cash and cash balances with Central Banks	18.991.743	7.221.565
20.	Financial assets held for trading	22.426.337	331.060.716
50.	Financial assets held to maturity	10.000.638	59.324.089
60.	Loans and advances to Credit Institutions	2.774.876.819	1.290.118.564
70.	Loans and advances to Customers	4.090.380.576	3.299.878.078
80.	Hedging derivatives	1.689.398	192.320.798
100.	Equity investments	4.150.000	4.150.000
120.	Property, plant and equipment	10.674	14.323
160.	Other assets	91.808.385	7.581.346
	TOTAL ASSETS	**7.014.334.570**	**5.191.669.479**

	Liabilities and equity	30/06/2018	30/06/2017
		€	€
10.	Amounts due to Credit Institutions	2.180.325.918	2.248.876.976
20.	Amounts due to Customers	792.710.284	962.522.538
30.	Debt securities in issue	3.652.740.949	1.317.432.907
40.	Trading liabilities	19.050.100	319.189.654
60.	Hedging derivatives	11.121.740	—
80.	Tax liabilities	11.167.088	11.100.231
	a) current	*10.386.788*	*10.319.931*
	b) deferred	*780.300*	*780.300*
100.	Other liabilities	6.291.520	3.994.561
160.	Reserves	318.552.612	297.773.199
190.	Share capital	10.000.000	10.000.000
200.	Profit for the year	12.374.359	20.779.413
	TOTAL LIABILITIES AND EQUITY	**7.014.334.570**	**5.191.669.479**

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

STATEMENT OF COMPREHENSIVE INCOME

	Item	30/06/2018	30/06/2017
		€	€
010.	Interests and similar income	92.595.717	105.856.586
020.	Interests expense and similar charges	-69.321.681	-67.304.693
030.	**Net interest income**	**23.274.036**	**38.551.893**
040.	Fee and commission income	19.376.082	14.485.525
050.	Fee and commission expense	-14.135.410	-13.514.458
060.	**Net fee and commission income**	**5.240.672**	**971.067**
080.	Net trading income/expense	-2.059.702	-3.705.319
090.	Net hedging income/expense	-120.457	48.692
100.	Gain or loss on disposal or repurchase of:	-494.815	329.240
	a) loans and receivables	*133.369*	*278.946*
	b) financial assets available for sale	—	—
	c) financial assets held to maturity	—	—
	d) financial liabilities	*-628.184*	*50.294*
120.	**Total income**	**25.839.734**	**36.195.573**
130.	Adjustments for impairment to:	-169.412	787.761
	a) loans and receivables	*-120.708*	*474.501*
	b) financial assets available for sale	—	—
	c) financial assets held to maturity	—	—
	d) other financial operations	*-48.704*	*313.260*
140.	**Net income from banking activities**	**25.670.322**	**36.983.334**
180.	Administrative expenses:	-9.078.701	-8.523.667
	a) personnel costs	*-1.576.189*	*-1.302.826*
	b) other administrative expenses	*-7.502.512*	*-7.220.841*
200.	Net adjustments in respect of tangible assets	-6.235	-11.215
220.	Other operating income/expense	196.175	35.418
280.	**Profit (loss) of the ordinary activity before tax**	**16.781.561**	**28.483.870**
290.	Income tax on the ordinary activity	-4.407.202	-7.704.457
340.	**Profit (loss) for the year**	**12.374.359**	**20.779.413**
350.	Other comprehensive income, net of tax	—	—
360.	**Total comprehensive income for the year, net of tax**	**12.374.359**	**20.779.413**

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

STATEMENT OF CHANGES IN EQUITY FROM 01/07/2017 TO 30/06/2018 (in €)

	Balance as of June 30, 2017	Allocation of the profit for the previous period		Changes during the reference period					Balance as of June 30, 2018
					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	**297.773.199**	**20.779.413**	—	—	—	—	—	—	**318.552.612**
a) legal reserve	1.000.000	—	—	—	—	—	—	—	1.000.000
b) free reserve	260.948.548	12.647.638	—	9.327.226	—	—	—	—	282.923.412
c) special reserve[1]	35.824.651	8.131.775	—	-9.327.226	—	—	—	—	34.629.200
d) FTA reserve	—	—	—	—	—	—	—	—	—
Valuation reserves	—	—	—	—	—	—	—	—	—
a) AFS securities	—	—	—	—	—	—	—	—	—
b) cash flow hedges	—	—	—	—	—	—	—	—	—
c) special laws – others	—	—	—	—	—	—	—	—	—
Own shares	—	—	—	—	—	—	—	—	—
Comprehensive income of the period	**20.779.413**	**-20.779.413**	—	—	—	—	—	**12.374.359**	**12.374.359**
Total equity	**328.552.612**	—	—	—	—	—	—	**12.374.359**	**340.926.971**

[1] As of 30 June 2018 and 2017 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 01/07/2016 TO 30/06/2017 (in €)

	Balance as of June 30, 2016	Allocation of the profit for the previous period		Changes during the reference period					Balance as of June 30, 2017
					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	**278.724.857**	**19.048.342**	—	—	—	—	—	—	**297.773.199**
a) legal reserve	1.000.000	—	—	—	—	—	—	—	1.000.000
b) free reserve	249.438.006	11.510.542	—	—	—	—	—	—	260.948.548
c) special reserve[1]	28.286.851	7.537.800	—	—	—	—	—	—	35.824.651
d) FTA reserve	—	—	—	—	—	—	—	—	—
Valuation reserves	—	—	—	—	—	—	—	—	—
a) AFS securities	—	—	—	—	—	—	—	—	—
b) cash flow hedges	—	—	—	—	—	—	—	—	—
c) special laws – others	—	—	—	—	—	—	—	—	—
Own shares	—	—	—	—	—	—	—	—	—
Comprehensive income of the period	**19.048.342**	**-19.048.342**	—	—	—	—	—	**20.779.413**	**20.779.413**
Total equity	**307.773.199**	—	—	—	—	—	—	**20.779.413**	**328.552.612**

[1] As of 30 June 2017 and 2016 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	
		30/06/2018	30/06/2017
1.	**Operating activities**	**159.546**	**81.740**
	– interest received	74.008	124.180
	– interest paid	-17.438	-28.386
	– net fee and commission received/paid	3.344	-4.300
	– dividends and similar income	—	—
	– net premium income	—	—
	– cash payments to employees	-1.280	-1.101
	– other income (expenses)	106.681	-6.064
	– Tax income (expenses)	-5.769	-2.589
2.	**Cash generated/absorbed by financial assets**	**-2.675.616**	**580.864**
	– amounts due from customers	-784.493	56.293
	– amounts due from banks: on demand	-16.166	99.047
	– amounts due from banks: other	-1.972.132	421.505
	– financial assets measured at fair value	97.174	3.906
	– other assets	1	113
3.	**Cash generated/absorbed by financial liabilities**	**2.477.840**	**-663.951**
	– amounts due to banks: on demand	573.356	-31.959
	– amounts due to banks: other	-230.962	286.573
	– amounts due to clients	-111.483	-43.125
	– debt securities in issue	2.233.592	-881.495
	– financial liabilities measured at fair value	—	—
	– other liabilities	13.337	6.055
	Net cash flow (outflow) from operating activities	**-38.230**	**-1.347**
B.	**Investing activities**	—	—
	– equity investment	—	—
	– disposals/redemptions of financial assets held to maturity	50.000	—
	– acquisitions of tangible assets	—	—
	– acquisitions of intangible assets	—	—
	Net cash flow (outflow) from investing activities	**50.000**	**—**
C.	**Financing activities**	—	—
	– issues/purchases of subordinated debts (Tier II)	—	—
	Net cash flow (outflow) from financing activities	—	—
	Net cash flow (outflow) during year	**11.770**	**-1.347**

RECONCILIATION	Amount	
	30/06/2018	30/06/2017
Cash and cash equivalents: balance at 1 July	7.222	8.569
Total cash flow (outflow) during year	11.770	-1.347
Cash and cash equivalents: balance at 30 June	**18.992**	**7.222**

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

NOTES TO THE FINANCIAL STATEMENTS

PART A – CORPORATE INFORMATION

Corporate matters

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

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

Nature of the Bank's business

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

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

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

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

The Bank raises funds on international markets, via the issuance of medium-long term or short term financial instruments under the terms of specific programs (Notes, Certificats de Dépôt, Commercial Papers) fully guaranteed by the Parent Bank. 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 Bank 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 at 30 June 2018 were authorised for issue by the Board of Directors on 12 September 2018.

Parent Bank

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 in accordance with the procedure laid down in art. 6 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002. The Bank's financial statements of June 30, 2018 have been prepared following the same structure of the Parent Bank (disciplined by the Circular of Banca d'Italia n. 262).

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 as adopted by EU 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 which have integrated the current regulations on the accounting policies, financial position or performance of the Bank:

- Amendments to IAS 7, Statement of cash flows on disclosure initiative (effective for annual periods beginning on or after 1 January 2017): These amendments to IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

- Amendments to IAS 12, 'Income taxes' on Recognition of deferred tax assets for unrealised losses (effective for annual periods beginning on or after 1 January 2017): these amendments on the recognition of deferred tax assets for unrealized losses clarify how to account for deferred tax assets related to debt instruments measured at fair value.

- Annual improvements 2014–2016 – IFRS 12, 'Disclosure of interests in other entities' regarding clarification of the scope of the standard (effective for annual periods beginning on or after 1 January 2017): This amendment clarifies that the disclosures requirement of IFRS 12 are applicable to interest in entities classified as held for sale except for summarized financial information (para B17 of IFRS 12). Previously, it was unclear whether all other IFRS 12 requirements were applicable for these interests.

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 the Bank's reporting period beginning on or after the 1st of July 2018:

- Amendments to IFRS 2, 'Share based payments', on clarifying how to account for certain types of share-based payment transactions (effective 1 January 2018): this amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

- IFRS 9 'Financial instruments': this standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

- Amendment to IFRS 9, Financial instruments', on prepayment features with negative compensation: this amendment confirms that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.

- Amendments to IFRS 4, 'Insurance contracts' regarding the implementation of IFRS 9, 'Financial Instruments': these amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:
  - give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and
  - give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard IAS 39.

- IFRS 15 'Revenue from contracts with customers': These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.

- Amendment to IAS 40, 'Investment property' relating to transfers of investment property: These amendments clarify that to transfer to, or from, investment properties there must be a change in use. If a property has changed use, there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

- Annual improvements 2014–2016: these amendments impact 2 standards:
  - IFRS 1, 'First-time adoption of IFRS', regarding the deletion of short term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10 effective 1 January 2018.
  - IAS 28, 'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value effective 1 January 2018.

- Annual improvements 2015–2017: these amendments include minor changes to:
  • IFRS 3, 'Business combinations', – a company remeasures its previously held interest in a joint operation when it obtains control of the business.
  • IFRS 11, 'Joint arrangements', – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
  • IAS 12, 'Income taxes' – a company accounts for all income tax consequences of dividend payments in the same way.
  • IAS 23, 'Borrowing costs' – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

- Amendments to IAS 28 'Investments in associates', on long term interests in associates and joint ventures: these amendments clarify that companies account for long-term interests in an associate or joint venture to which the equity method is not applied using IFRS 9.

- Amendments to IAS 19, 'Employee benefits' on plan amendment, curtailment or settlement': these amendments require an entity to:
  • use updated assumptions to determine current service cost and net interest for the reminder of the period after a plan amendment, curtailment or settlement; and
  • recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

- IFRS 16 'Leases': this standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular.
  Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. 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.

- IFRS 17, 'Insurance contracts': this standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. See our in brief INT2017-05 'IFRS 17 marks a new epoch for insurance contracts accounting'.

- IFRIC 22, 'Foreign currency transactions and advance consideration': this IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

- IFRIC 23, 'Uncertainty over income tax treatments': this IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

Status of the project

An internal project was launched in 2015, led jointly by Risk Management and Group Financial Reporting, with the involvement of all the other areas affected (in particular Front Office, Group Technology and Operations, Group Organization, Group ALM, Group Treasury). The initiative was organized according to the three areas defined by the new standard (Classification and Measurement, Impairment and Hedge Accounting). The testing phase of the new IFRS 9 systems and processes began in January 2018, in which IAS 39 and IFRS 9 ran in parallel to allow the system of internal regulations (methodologies, processes and procedures) to be updated, and the IT systems to be checked.

The Group has shared the framework for implementation with the external auditors who have not noted any difficulties. In the course of 2017, a Thematic Review of credit institutions was also carried out by the Single Supervisory Mechanism to assess the state of preparation for application of IFRS 9, which resulted in certain limited "recommendations" that have already been addressed in a shared action plan.

The main results, in terms of impacts expected and decisions taken within the Mediobanca Group are set out below, divided according to the main project areas.

Classification and measurement

Among the activities required for classification and measurement of financial instruments, IFRS 9 has introduced new rules for financial assets based on the portfolio management model used and the contractual cash flow characteristics of the instruments concerned, as certified via the SPPI (Solely Payment of Principal and Interest) test.

The standard identifies two main macro models: Hold to collect and Hold to collect and sell, plus a residual business model (Other) which brings together all portfolios held for trading purposes which continue to be recognized at fair value with any changes to it taken through the profit and loss account.

For the purposes of classifying financial instruments, the business model analysis was performed by valuing the Group's entire portfolio of assets in the light of the strategy adopted by senior management, risk management for the portfolios concerned, remuneration mechanisms, reporting methods, and movements (past sales and future expectations). Such considerations are incorporated into the internal management policies, which reiterate the correlation between business model and accounting treatment, and introduce thresholds in terms of frequency and significance for movements in portfolios recognized at cost.

The analysis performed revealed no critical issues. The main results were as follows:

- The loan books – which under IAS 39 were recognized at amortized cost as “Loans and Receivables” have a management strategy which is consistent with a Hold to Collect business model;
- Debt securities held as part of the banking book which constitute “Financial assets held to maturity” under IAS 39, are classified based on a Hold to Collect model;
- Debt securities held as part of the banking book which constitute “Financial assets available for sale” are classified almost entirely on the basis of a Hold to Collect and Sell business models; in some limited cases portfolio reclassifications have been made to reflect the business model as at the date of first-time adoption of the standard;
- Debt securities held as part of the trading book move to the “Other” business model, apart from some limited cases in which portfolios have been reclassified between financial assets measured at Fair Value to Other Comprehensive Income to reflect business model modification;
- As for equities, shares held for trading purposes also move to the “Other” business model, while the Group has exercised its option to recognize AFS equities at fair value against a matching net equity reserve, without the cumulative changes in value being recycled through the profit and loss account (accounting category: “Fair Value to Other Comprehensive Income”, or “FVOCI”). For funds, stock units held over the medium-/long-term horizon are consistent with a Hold to Collect and Sell business model, while those which form part of trading strategies are treated in accordance with the “Other” business model.

It should be noted that although the standard allows the reporting institution to opt, at the initial recognition stage and irrevocably, to measure financial assets which would otherwise be recognized at amortized cost, or FVOCI, at fair value, and to take the effects through the profit and loss account (“Fair Value Through Profit & Loss”, or “FVPL”), the Group has not decided to take up this option for assets but to use it only for a limited number of liability instruments, to eliminate or significantly reduce accounting asymmetries.

To complete the classification phase for financial instruments according to the new categories provided for by IFRS 9, the business model analysis must be accompanied by analysis of the contractual cash flows (the “Solely Payment of Principal and Interest”, or “SPPI”, test).

The SPPI test is performed at the level of the individual financial instrument, product or sub-product, and is based on the contractual features of the asset being tested. To this end, the Group has drawn up a standardized process for performing the test, which involves analysing the loans via a specific tool developed internally (the “SPPI Tool”) structured on the basis of decision-making trees, at the level of individual financial instrument or product based on their differing degrees of customization. If the instrument or product fails the test, the SPPI Tool will suggest recognizing the asset at fair value and taking the effects through the profit and loss account (“Fair Value Through Profit & Loss”, or “FVPL”). The method for testing loans will be distinguished between retail and corporate (at the product level for retail loans, and analytically for each drawdown of corporate loans). For analysis of debt securities, an external info provider will be used; if the test results are unavailable for whatever reason, the instrument will be analysed by the SPPI Tool developed internally.

In addition to the above, specific analysis methodologies have been developed both for instruments which require a benchmark test for the modified time value of money, and to evaluate the credit risk of securitization tranches.

The analysis carried out on the entire portfolio of financial assets has shown that the measurement criteria for the new categories according to which the financial instruments will be classified are substantially in line with the IAS 39 categories.

Impairment

Under IFRS 9, all financial assets not measured at fair value and taken through the profit and loss account, i.e. debt securities and loans as well as off-balance-sheet exposures, are associated with Hold to Collect or Hold to Collect and Sell business models and must be subject to the new forward-looking impairment model. In practice, compared to the previous approach which was based on the "incurred loss", an "expected loss" approach will be adopted, with the loss estimated at twelve months or the end of the instrument's remaining life. For this reason, the losses must be booked to reflect not only the objective loss of value recorded at the reporting date, but also the expected future value losses which have not yet occurred. In view of these factors, IFRS 9 stipulates that financial instruments must be classified in three categories (or stages), reflecting increasing levels of impairment in credit standing.

For separated financial statements purposes, also intercompany positions are subject to the same rules.

In order to comply with the IFRS 9 requirements, the Group has drawn up a stage allocation model for financial instruments, to ensure that performing exposures are correctly allocated to stage 1 or stage 2 if there has been a "Significant Increase in Credit Risk" ("SICR").

For impaired exposures, by contrast, the fact that our practice is aligned with the default accounting and regulatory definitions, which are already used by the Group, means the criteria according to which exposures are classified as "non-performing/impaired" will be the same as those for exposures to be classified within stage 3, albeit with certain very minor differences of valuation (cf. below).

The main methodological choices made on the issue of impairment are summarized below:

- Assessment of significant increase in credit risk: the assessment is based on both qualitative and quantitative criteria to identify whether or not a there has been a significant risk in the credit risk associated with the counterparty for each facility. The recognition of forbearance measures or the "30 days past due" criterion are considered as backstop indicators. As per the supervisory authority's expectations, only limited use will be made of the simplified approach, or "low credit risk exemption". The criteria defined for exposures to transition from stage 2 to stage 1 mirror those for the significant increase in credit risk (i.e. when the aspects which denote the significant deterioration cease to exist, the exposure returns to stage 1);
- Inclusion of forward-looking information in the model used to calculate the expected losses: forward looking information is considered with reference to three scenarios (baseline, mild-positive and mild-negative) which impact on the risk parameters (PD and LGD). The estimates are limited to three years, to ensure a reasonable time horizon is considered. The use of forward-looking scenarios is consistent with the macroeconomic estimating processes adopted by the Group for risk management purposes, and are compiled by a specific unit within Mediobanca S.p.A.;

- Adoption of forward-looking parameters also to calculate the expected loss on exposures which qualify as stage 3. In particular, alternative scenarios have been simulated, including in relation to the different options for managing and recovering defaulted positions (including disposal scenarios);
- Validation and back-testing: in connection with the models based on recording expected losses, a process has been finalized for validation and back-testing. The reference framework adopted means that the unit which develops the model must be independent of the unit which validates it, with a clear definition of the roles and responsibilities between them. Regular testing is also carried out to ensure that the assumptions on which the model is based continue to be valid, and that the any new information which becomes available is factored in accordingly;
- Calculation of expected losses at twelve months and over life-time: the IFRS 9 estimate of the PD, LGD and EAD indicators is based on the existing prudential models (e.g. internal models where present) and on specific models adapted with the necessary adjustments to incorporate the forward-looking information and the multi-period time horizon;
- Calculation of expected losses on intercompany positions (including off-balance exposures) using PD and LGD parameters elaborated with internal models, if available.

Hedge accounting

As for the IFRS 9 requirements on the new hedge accounting model, the new standard seeks to simplify the treatment by ensuring that the representation of the hedges in the accounts is more closely aligned with the risk management criteria on which such representation is based. In particular, the new model expands the hedge accounting rules in terms of the hedge instruments themselves and the related "eligible" risks. Although the new standard does provide for the possibility of using the hedging rules in force under IAS 39, the Group will opt in to the new criteria introduced for general hedging, and does not foresee any significant impact in doing so.

Effects of first-time adoption (FTA)

The changes introduced by IFRS 9 in the areas of "Classification and measurement" and "Impairment" produce their effects at the first-time adoption stage on the amount and composition of Net equity.

With respect to "Classification and measurement", the analysis carried out for the entire portfolio of financial assets has not revealed any significant impact.

The existing business model basically reflects the new IFRS 9 portfolios, as follows:

- Receivables and debt securities are recognized at amortized cost and restated according to the Hold to collect business model;
- Securities held for trading fall within the remit of the "Other" business model;
- Debt securities currently held as "Available for sale" will be treated according to the Hold to Collect and Sell business model;
- Available for sale equities which the Group has elected to recognize at fair value against a matching reserve in net equity, with the existing Available For Sale reserve transferred to the OCI (Other Comprehensive Income) reserve.

The most significant impact of the transition to IFRS 9, however, derives from the changes in relation to "Impairment", which involves the value adjustments to financial assets having to be recalculated based on the expected loss method, and for non-performing loans, the use of forward-looking parameters to calculate the expected losses. Compared to the IAS 39 provisioning, an overall increase of expected losses for approx. € 1,8m, 100% of which related to bonis exposures (stage 1 and stage 2).

The increase in adjustments for bonis exposures is chiefly due to stage 2 exposures (50% of bonis exposures). The item also includes intercompany positions (stage 1) of approx. € 1,8m.

The effects on the net equity is approx. € 3,6m.

These impacts are in line with the leading EU banks, and reflect the good quality of the Bank asset portfolios.

In order to mitigate the impact of the new standards on the prudential ratios, Regulation (E) 2017/2395 of the European Parliament and of the Council as regards "Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds", amending Regulation (EU) 575/2013 (the "CRR"), with the new Article 473-bis "Introduction of IFRS9", offers the possibility for banks to distribute the impact of the introduction of IFRS 9 on own funds for a transitional period of five years, by including a decreasing amount of the impact in CET1. The Group will apply the static approach, to neutralize the effect of the higher provisioning for performing assets, starting from the first-time adoption of IFRS 9 and for the next five years.

With reference in particular to the means by which first-time adoption of the standard will be represented, the Group will take advantage of the possibility provided for by IFRS 9 and IFRS 1 "First-Time Adoption of International Financial Reporting Standards", whereby the comparison data in the FTA financial statements do not have to be restated on a like-for-like basis. According to the guidance contained in the fifth update of Bank of Italy circular no. 262 "Financial statements for banks: tables and rules for compilation" (December 2017), the Bank, in taking advantage of the exemption from the obligation to restate comparative values, must nonetheless include a specific table in its first set of financial statements prepared under the new circular no. 262, illustrating the methodology used and reconciling the data from the most recent set of accounts approved and the first set of accounts drawn up under the new provisions. The form and content of this disclosure is at the discretion of the relevant corporate bodies.

IFRS 15: Revenues from contracts with customers

The new accounting standard introduces a new model for the recognition of revenues coming from contracts with customers. The new standard will replace the current requirements in IFRS for the recognition of revenues: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue - Barter Transaction involving Advertising Services.

The standard is effective from 1 January 2018, for the Mediobanca Group from 1 July 2018. The new IFRS provides for the recognition of revenue on the basis of the following five steps:

- identification of the contract;
- identification of individual bonds;
- determination of the transaction price;

- allocation of the transaction price to the individual bonds, on a "market prices" basis ("stand-alone selling price");
- recognition of the revenues allocated to the single bond when it is settled, i.e. when the customer obtains control of the goods and services.

The implementation of the new standard was centrally coordinated by the Parent Company through a customized working group to extend the analysis to the whole Group involving the subsidiaries where necessary.

The analysis carried out led to the identification of all types of contracts with customers and to the revenues recognition in order to establish an accordance with the principle. No significant impacts arose from the application of the new standard.

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 2018 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 Bank 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 Bank 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 Bank and the models themselves by the Risk management - model validation unit of the Parent Bank. 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

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.

Assets or groups 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 secured financing, repo trading and securities lending.

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.

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. 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 a reclassifications compared to the 30th of June 2017 concerning Schuldschein products (please refer to the table "1.2 Amounts due to credit institutions: items subject to specific hedges" in Section 1 of liabilities side).

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 Bank, 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 Bank 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 2018.

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 2018 the item **Cash and cash balances** amounts to € 18.992k, a considerably increase when compared to June 2017 which has been essentially due to the increase of liabilities[1] used for the computation of the minimum reserve (in particular French CD and Commercial Papers passed from € 731 million at the end of June 2017 to € 1. 372 million at the reporting date).

	30/06/2018	30/06/2017
a) Cash	—	1
b) Demand deposit held at Central Banks	18.992	7.221
Total	**18.992**	**7.222**

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

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

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

Section 2

Heading 20: Financial assets held for trading

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

As at 30 June 2018 **Financial assets held for trading** amount to € 22.426k, a decrease of € 308.635k (-93%) compared to June 2017 when the item stood at € 331.061k. Non-derivative products decreased from € 128.674k to € 0 (-100%), likewise derivative products which have decreased from € 202.387k to € 22.426k (-89%).

Item/Value	30/06/2018			30/06/2017		
	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	—	—	—	—	118.714	—
4. Loans and advances	—	—	—	9.960	—	—
4.1 Repos	—	—	—	—	—	—
4.2 Others	—	—	—	9.960	—	—
Total A	—	—	—	**9.960**	**118.714**	—
B. Derivative products						
1. Financial derivatives	—	11.266	—	—	199.023	—
1.1 Trading	—	11.266	—	—	10.510	—
1.2 Linked to FV options	—	—	—	—	—	—
1.3 Others	—	—	—	—	188.513	—
2. Credit derivatives	—	11.160	—	—	3.231	133
2.1 Trading	—	11.160	—	—	3.231	133
2.2 Linked to FV options	—	—	—	—	—	—
2.3 Others	—	—	—	—	—	—
Total B	—	**22.426**	—	—	**202.254**	**133**
Total (A+B)	—	**22.426**	—	**9.960**	**320.968**	**133**
Total Level 1, Level 2 and Level 3			**22.426**			**331.061**

During the financial year, the Bank has prudentially decided to write off the carrying value of its participation in a SICAV-SIF and to reclassify the investment from level 2 to level 3 due to the absence of a reliable NAV due to the issuance of the disclaimer of the audit opinion for the sub-fund. Any loss was registered in the income statement of the institution since the performance of the sub-fund was originally hedged through the issuance of delta-one certificates (transferred to level 3 accordingly).

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)

	30/06/2018	30/06/2017
1. Opening balance	**133**	**6.565**
2. Increases	**—**	**2**
2.1 Issues and purchases	—	—
2.2 Transfers from other levels	—	—
2.3 Other increases	—	2
3. Decreases	**133**	**6.434**
3.1 Sales and settlements	133	5.974
3.2 Transfers to other levels	—	—
3.3 Other decreases	—	460
4. Closing balance	**—**	**133**

Change in fair value of existing contracts has been accounted in the comprehensive income of the Bank within "Net trading income"[2] as follows:

	A. Gains	B. Losses	Total
Total gains (losses) included in the comprehensive income for the period	—	-133	-133

Impacts on the fair value of level 3 instruments of using reasonably possible alternative assumptions is considered not significant[3].

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

[3] The sensitivity analysis on level 3 financial instruments 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	30/06/2018	30/06/2017
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	—	118.714
4. Loans and advances	—	9.960
a. Governments and central Banks	—	—
b. Other public agencies	—	—
c. Banks	—	—
d. Other entities	—	9.960
Total A	**—**	**128.674**
B. DERIVATIVE PRODUCTS		
a. Banks	22.426	202.387
- Fair value	22.426	202.387
b. Customers	—	—
- Fair value	—	—
Total B	**22.426**	**202.387**
Total A+B	**22.426**	**331.061**

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

Type of derivatives/Underlying assets	Interest rates		Foreign currency/gold		Equities		Credit		30/06/2018		30/06/2017	
	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:	687.630	9.051	168.768	2.215	—	—	—	—	856.398	11.266	2.953.768	199.023
– with exchange of principal	—	—	168.768	2.215	—	—	—	—	168.768	2.215	902.247	188.867
– options bought	—	—	89.874	552	—	—	—	—	89.874	552	862.247	974
– other derivatives	—	—	78.894	1.663	—	—	—	—	78.894	1.663	40.000	187.893
– without exchange of principal	687.630	9.051	—	—	—	—	—	—	687.630	9.051	2.051.521	10.156
– options bought	—	—	—	—	—	—	—	—	—	—	—	—
– other derivatives	687.630	9.051	—	—	—	—	—	—	687.630	9.051	2.051.521	10.156
2) Credit derivatives:	—	—	—	—	—	—	3.895.830	11.160	3.895.830	11.160	1.884.581	3.364
– with exchange of principal	—	—	—	—	—	—	—	—	—	—	55.525	341
– without exchange of principal	—	—	—	—	—	—	3.895.830	11.160	3.895.830	11.160	1.829.056	3.023
Total	**687.630**	**9.051**	**168.768**	**2.215**	**—**	**—**	**3.895.830**	**11.160**	**4.752.228**	**22.426**	**4.838.349**	**202.387**

Section 5

Heading 50: Financial assets held to maturity

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

	Book value	Fair value 30/06/2018			Book value	Fair value 30/06/2017		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	10.001	—	8.844	—	59.324	—	60.052	—
1.1 Structured	—	—	—	—	—	—	—	—
1.2 Other debt securities	10.001	—	8.844	—	59.324	—	60.052	—
2. Loans and advances	—	—	—	—	—	—	—	—
Total	**10.001**	—	**8.844**	—	**59.324**	—	**60.052**	—

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

Type of transactions/Value	30/06/2018	30/06/2017
1. Debt securities:	10.001	59.324
a) Governments and Central Bank	—	—
b) Other public agencies	—	—
c) Bank	—	59.324
d) Other issuers	10.001	—
2. Loans and advances to:	—	—
a) Governments and Central Bank	—	—
b) Other public agencies	—	—
c) Bank	—	—
d) Others	—	—
Total book value	**10.001**	**59.324**
Total fair value	**8.844**	**60.052**

Section 6

Heading 60: Loans and advances to credit institutions

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

As at 30 June 2018 **Loans and advances to credit institutions** amount to € 2.774.877k, an increase of € 1.484.758k (115%) compared to June 2017. Whilst the balance of repos and receivables remained substantially stable over the period, the amount of time deposits and other loans increased by 1.181% (from € 173.815k to € 2.227.049k), essentially by reason of the reinvestments of liquidity collected under the existing issuance Programmes (EMTN). The aforementioned increase was partially compensated by the decrease of the outstanding balance of current account which passed from € 702.316k to € 142.306k (-80%).

Type of transactions/Value	30/06/2018				30/06/2017			
		Fair value				Fair value		
	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
B. Loans to banks	**2.774.877**	—	**2.727.444**	—	**1.290.119**	—	**1.290.119**	—
1. Loans	2.772.081	—	2.724.648	—	1.287.325	—	1.287.325	—
1.1 Current accounts and demand deposits	142.306	—	142.306	—	702.316	—	702.316	—
1.2 Time deposits	1.581.109	—	1.581.109	—	173.604	—	173.604	—
1.3 Other loans	1.048.666	—	1.001.233	—	411.405	—	411.405	—
- Repos	402.726	—	402.726	—	411.194	—	411.194	—
- Finance leases	—	—	—	—	—	—	—	—
- Other	645.940	—	598.507	—	211	—	211	—
2. Debt securities	**2.796**	—	**2.796**	—	**2.794**	—	**2.794**	—
2.1 Structured	—	—	—	—	—	—	—	—
2.2 Other	2.796	—	2.796	—	2.794	—	2.794	—
Total	**2.774.877**	—	**2.727.444**	—	**1.290.119**	—	**1.290.119**	—

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	30/06/2018					30/06/2017				
	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	**4.052.536**	**1.449**	—	**4.050.291**	—	**3.249.272**	**50.606**	—	**3.309.930**	—
1. Current accounts	—	—	—	—	—	—	—	—	—	—
2. Repos	—	—	—	—	—	—	—	—	—	—
3. Mortgages	—	—	—	—	—	—	—	—	—	—
4. Credit cards, personal loans inc. wage assignment loans	—	—	—	—	—	—	—	—	—	—
5. Finance leasing	—	—	—	—	—	—	—	—	—	—
6. Factoring	—	—	—	—	—	—	—	—	—	—
7. Other loans	4.052.536	1.449	—	4.050.291	—	3.249.272	50.606	—	3.309.930	—
Debt securities	**36.396**	—	—	**36.396**	—	—	—	—	—	—
8. Structured	—	—	—	—	—	—	—	—	—	—
9. Other	36.396	—	—	36.396	—	—	—	—	—	—
Total	**4.088.932**	**1.449**	—	**4.086.687**	—	**3.249.272**	**50.606**	—	**3.309.930**	—

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

Type of transactions/Value	30/06/2018		30/06/2017	
	Performing	Impaired	Performing	Impaired
1. Debt securities:	36.396	—	—	—
a) Governments	—	—	—	—
b) Other public agencies	—	—	—	—
c) Other issuers	36.396	—	—	—
- non-financial undertakings	36.396	—	—	—
- financial companies	—	—	—	—
- insurances	—	—	—	—
- other entities	—	—	—	—
2. Loans and advances to:	4.052.536	1.449	3.249.272	50.606
a) Governments	—	—	—	—
b) Other public agencies	—	—	—	—
c) Other issuers	4.052.536	1.449	3.249.272	50.606
- non-financial undertakings	3.148.942	1.449	2.522.727	37.046
- financial companies	903.594	—	686.897	13.560
- insurances	—	—	39.648	—
- other entities	—	—	—	—
Total	**4.088.932**	**1.449**	**3.249.272**	**50.606**

Section 8

Heading 80: Hedging derivatives

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

	30/06/2018				30/06/2017			
	Fair value			Notional value	*Fair value*			Notional value
	level 1	level 2	level 3		level 1	level 2	level 3	
A. Financial derivatives	—	1.689	—	139.657	—	192.321	—	78.503
1) Fair value	—	1.689	—	139.657	—	192.321	—	78.503
2) Cash flow	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	—	**1.689**	—	**139.657**	—	**192.321**	—	**78.503**

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

30/06/2018 Operations/Type of hedging	Fair Value Hedge						Cash Flow Hedge		Net Investments in foreign subsidiaries
	Micro					Macro	Specific	Generic	
	Interest risk	Currency risk	Credit risk	Price risk	Multiple risk				
1. Financial assets available-for-sale	—	—	—	—	—	—	—	—	—
2. Lending portfolio	—	—	—	—	—	—	—	—	—
3. Financial assets held-to-maturity	—	—	—	—	—	—	—	—	—
4. Portfolio	—	—	—	—	—	—	—	—	—
5. Other	—	—	—	—	—	—	—	—	—
TOTAL ASSETS	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
1. Financial liabilities	1.689	—	—	—	—	—	—	—	—
2. Portfolio	—	—	—	—	—	—	—	—	—
TOTAL LIABILITIES	**1.689**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
1. Highly probable transactions	—	—	—	—	—	—	—	—	—
2. Financial assets and liabilities portfoglio	—	—	—	—	—	—	—	—	—

30/06/2017 Operations/Type of hedging	Fair Value Hedge						Cash Flow Hedge		Net Investments in foreign subsidiaries
	Micro					Macro	Specific	Generic	
	Interest risk	Currency risk	Credit risk	Price risk	Multiple risk				
1. Financial assets available-for-sale	—	—	—	—	—	—	—	—	—
2. Lending portfolio	—	—	—	—	—	—	—	—	—
3. Financial assets held-to-maturity	—	—	—	—	—	—	—	—	—
4. Portfolio	—	—	—	—	—	—	—	—	—
5. Other	—	—	—	—	—	—	—	—	—
TOTAL ASSETS	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
1. Financial liabilities	192.321	—	—	—	—	—	—	—	—
2. Portfolio	—	—	—	—	—	—	—	—	—
TOTAL LIABILITIES	**192.321**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
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[4]	Ownership relationship		Voting rights[5]
			Investor Company	% Interest	
Mediobanca International Immobilière S.à r.l.	Luxembourg	3	Mediobanca International (Luxembourg) S.A.	100	-

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

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

Name	Total assets	Total revenues	Net profit (loss)	Shareholders' equity	Book value
Mediobanca International Immobilière S.à r.l.	1.927	165	55	1.690	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, based on the last available evaluation report (November 2017) which showed a market value higher than the carrying amount, and looking at the macro trend of the Luxembourg real market estate, has decided to not perform any impairment test.

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

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

Section 12

Heading 120: Property, plant and equipment

12.1 Tangible assets stated at cost (in € k)

Assets/value	30/06/2018	30/06/2017
1. Assets owned by Bank	11	14
a) land	—	—
b) buildings	—	—
c) furniture and fitting	3	4
d) electronic equipment	—	—
e) other assets	8	10
2. Assets acquired under finance leases:	—	—
a) land	—	—
b) buildings	—	—
c) furniture	—	—
d) electronic equipment	—	—
e) other assets	—	—
Total	**11**	**14**

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

	Land	Buildings	Furniture	Electronic equipment	Other assets	Total
A. Gross opening balance	—	—	46	—	76	122
A.1 Total net value reductions	—	—	-42	—	-66	-108
A.2 Net opening balance	—	—	4	—	10	14
B. Additions:	—	—	—	—	3	3
B.1 Purchases	—	—	—	—	3	3
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	—	-5	-6
C.1 Disposals	—	—	—	—	—	—
C.2 Depreciation charges	—	—	-1	—	-5	-6
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	—	—	3	—	8	11
D.1 Total net value reductions	—	—	-43	—	-71	-114
D.2 Gross closing balance	—	—	46	—	79	125

Section 15

Heading 150: Other assets

15.1 Other assets (in € k)

	30/06/2018	30/06/2017
- Gold, silver and precious metal	—	—
- Accrued income other than capitalized income	937	1.016
- Trade receivables or invoice to be issued	174	1
- Amount due from tax revenue Authorities (not recorded under heading 140)	210	210
- Other	90.487	6.354
Total	**91.808**	**7.581**

The caption “Other” is composed by transitory items arising from a technical mismatch between funds flow forecast and payments received on loans to customer that were given as collateral to secured financing transactions. Since the average time frame of this delay is no longer than 30 business days, than these transitory items were closed within July.

Liabilities

Section 1

Heading 10: Amounts due to credit institutions

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

Type of transaction/amounts	30/06/2018	30/06/2017
1. Due to central Banks	—	—
2. Deposits from banks	2.180.326	2.248.877
2.1 Other current accounts and demand deposits	—	12.823
2.2 Time deposits	51.551	—
2.3 Loans	2.128.652	2.235.879
2.3.1 Repos	—	—
2.3.2 Others	2.128.652	2.235.879
2.4 Liabilities in respect of commitments to repurchase treasury shares	—	—
2.5 Other debt	123	175
Total book value	**2.180.326**	**2.248.877**
Fair value - level 1	—	—
Fair value - level 2	2.174.347	2.272.056
Fair value - level 3	—	—
Total fair value	**2.174.347**	**2.272.056**

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)

	30/06/2018	30/06/2017
1. Items subject to specific fair value hedges for:	—	—
a) interest rate risk	—	—
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	—	—

On October 2017 the Bank exercised its right, as borrower, to early repay the "Schuldscheine" product.

Section 2

Heading 20: Amounts due to customers

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

Type of transaction/amounts	30/06/2018	30/06/2017
1. Current accounts and demand deposits	—	—
2. Term deposits including saving deposits with maturity	—	—
3. Loans	792.710	962.523
3.1 Repos	—	—
3.2 Other	792.710	962.523
4. Liabilities in respect of assets sold but not derecognized	—	—
5. Other	—	—
Total book value	**792.710**	**962.523**
Fair value - level 1	—	—
Fair value - level 2	789.805	979.738
Fair value - level 3	—	—
Total fair value	**789.805**	**979.738**

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

Type of transaction/amounts	30/06/2018	30/06/2017
1. Liability items subject to micro-hedging of fair value	—	259.370
a) Interest rate risk	—	259.370
b) Currency risk	—	—
c) Other risks	—	—
2. Liability items subject to micro-hedging of cash flows	—	—
a) Interest rate risk	—	—
b) Currency risk	—	—
c) Other risks	—	—
Total	—	**259.370**

A reclassification has been applied to the financial year 2016/2017 on “Schuldscheine”, by changing the counterparty from “*credit institution*” to “*non-financial customer*”.

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	30/06/2018				30/06/2017			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2[1]	Level 3		Level 1	Level 21	Level 3
A. Listed securities	2.264.126	—	2.319.830	—	537.333	—	552.729	—
1. notes	2.264.126	—	2.319.830	—	537.333	—	552.729	—
1.1 structured	50.140	—	52.148	—	50.421	—	52.733	—
1.2 others	2.213.986	—	2.267.682	—	486.912	—	499.996	—
2. other securities	—	—	—	—	—	—	—	—
2.1 structured	—	—	—	—	—	—	—	—
2.2 others	—	—	—	—	—	—	—	—
B. Unlisted securities	1.388.615	—	1.388.599	—	780.100	—	781.265	—
1. notes	16.980	—	16.964	—	48.911	—	50.076	—
1.1 structured	16.980	—	16.964	—	48.911	—	50.076	—
1.2 others	—	—	—	—	—	—	—	—
2. other securities	1.371.635	—	1.371.635	—	731.189	—	731.189	—
2.1 structured	—	—	—	—	—	—	—	—
2.2 others	1.371.635	—	1.371.635	—	731.189	—	731.189	—
Total	**3.652.741**	**—**	**3.708.429**	**—**	**1.317.433**	**—**	**1.333.994**	**—**

[1] Fair value does not include issuer risk. If issuer risk was considered, the fair value of debt securities as at June 30, 2018 would have decreased by € 121,7 m approximately.

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

Type of transaction/amounts	30/06/2018	30/06/2017
A. Securities subject to specific fair value hedges	492.323	10.438
1. Interest rate risk	492.323	10.438
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	**492.323**	**10.438**

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

Type of transaction/amounts	30/06/2018	30/06/2017
A. Debt securities	1.788.783	575.806
1. Structured	56.907	88.894
2. Other	1.731.876	486.912
B. Other financial instruments	1.371.635	731.189
1. Structured	—	—
2. Other	1.371.635	731.189
Total	**3.160.418**	**1.306.995**

Section 4

Heading 40: Financial liabilities held for trading

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

Type of transaction/amounts	30/06/2018					30/06/2017				
	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	1.183.747	—	10.004	—	10.004	1.128.150	—	197.881	140	198.021
1.1 Trading	1.183.747	—	10.004	—	10.004	1.088.150	—	9.988	140	10.128
1.2 Related to Fair Value option	—	—	—	—	—	—	—	—	—	—
1.3 Other	—	—	—	—	—	40.000	—	187.893	—	187.893
2. Credit derivatives	3.848.430	—	9.046	—	9.046	1.025.627	—	121.169	—	121.169
2.1 Trading	3.848.430	—	9.046	—	9.046	1.025.627	—	121.169	—	121.169
2.2 Related to Fair Value option	—	—	—	—	—	—	—	—	—	—
2.3 Other	—	—	—	—	—	—	—	—	—	—
Total B	**5.032.177**	**—**	**19.050**	**—**	**19.050**	**2.153.777**	**—**	**319.050**	**140**	**319.190**
Total (A+B)	**5.032.177**	**—**	**19.050**	**—**	**19.050**	**2.153.777**	**—**	**319.050**	**140**	**319.190**

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

	30/06/2018	30/06/2017
1. Opening balance	**140**	**6.142**
2. Increases	**—**	**42**
2.1 Issues and purchases	—	—
2.2 Transfers from other levels	—	—
2.3 Other increases	—	42
3. Decreases	**140**	**6.044**
3.1 Sales and settlements	140	5.975
3.2 Transfers to other levels	—	—
3.3 Other decreases	—	69
4. Closing balance	**—**	**140**

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

	A. Gains	B. Losses	Total
Total gains (losses) included in the comprehensive income for the period	—	-140	-140

Impacts on the fair value of level 3 instruments of using reasonably possible alternative assumptions is considered not significant[6].

[6] The sensitivity analysis on level 3 financial instruments 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		30/06/2018		30/06/2017	
Type of transaction/amounts	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**
OTC derivative products												
1. Financial derivatives	908.570	8.052	275.177	1.952	—	—	—	—	1.183.747	10.004	1.128.150	198.021
1.1 With exchange of principal	—	—	275.177	1.952	—	—	—	—	275.177	1.952	383.246	188.582
- options issued	—	—	275.177	1.952	—	—	—	—	275.177	1.952	343.246	689
- other derivatives	—	—	—	—	—	—	—	—	—	—	40.000	187.893
1.2 Without exchange of principal	908.570	8.052	—	—	—	—	—	—	908.570	8.052	744.904	9.439
- options issued	130.000	112	—	—	—	—	—	—	130.000	112	—	—
- other derivatives	778.570	7.940	—	—	—	—	—	—	778.570	7.940	744.904	9.439
2. Credit derivatives	—	—	—	—	—	—	3.848.430	9.046	3.848.430	9.046	1.025.627	121.169
2.1 With exchange of principal	—	—	—	—	—	—	—	—	—	—	20.525	2.464
2.2 Without exchange of principal	—	—	—	—	—	—	3.848.430	9.046	3.848.430	9.046	1.005.102	118.705
Total	**908.570**	**8.052**	**275.177**	**1.952**	**—**	**—**	**3.848.430**	**9.046**	**5.032.177**	**19.050**	**2.153.777**	**319.190**

Section 6

Heading 60: Hedging derivatives

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

	30/06/2018 Fair value			Notional value	30/06/2017 Fair value			Notional value
	level 1	**level 2**	**level 3**		**level 1**	**level 2**	**level 3**	
A. Financial derivates	—	11.122	—	1.014.234	—	—	—	—
1) *Fair value*	—	11.122	—	1.014.234	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) *Fair value*	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	—	**11.122**	—	**1.014.234**	—	—	—	—

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

Hedged items	Fair value hedges					Cash flow hedge		30/06/2018	30/06/2017
	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	11.122	—	—	—	—	—	—	**11.122**	—
2. Debt securities in issue	—	—	—	—	—	—	—	—	—
3. Portfolio	—	—	—	—	—	—	—	—	—
TOTAL LIABILITIES	**11.122**	—	—	—	—	—	—	**11.122**	—
TOTAL	**11.122**	—	—	—	—	—	—	**11.122**	—

Section 8

Heading 80: Tax liabilities

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

	30/06/2018	30/06/2017
Corporate income tax (IRC)	7.651	7.923
Municipal business tax (ICC)	2.496	2.421
Other	240	-24
Total	**10.387**	**10.320**

The Bank is liable for all taxes to which the credit institutions are subject to in Luxembourg. At the reporting date the Bank has opted for the exoneration of the net wealth tax charge of € 1.610.910 (30 June 2017: € 1.507.495) 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 (+)	17.227	5.223	1.201	23.651
B. Advances paid (-)	9.304	2.802	1.225	13.331
A.1 Fiscal liabilities: increase (+)	**3.264**	**1.143**	**1.955**	**6.362**
- provisions of the year	3.264	1.143	1.955	6.362
- transfers	—	—	—	—
- others	—	—	—	—
A.2 Fiscal liabilities: decrease (-)	**—**	**—**	**—**	**—**
- payments of the year (assessments)	—	—	—	—
- transfers	—	—	—	—
- others	—	—	—	—
B.1 Advances paid: increase (+)	**3.536**	**1.068**	**2.206**	**6.810**
- payments/advances	3.536	1.068	2.206	6.810
- transfers	—	—	—	—
- others	—	—	—	—
B.2 Advances paid: decrease (-)	**—**	**—**	**-515**	**-515**
- payments of the year (assessments)	—	—	-515	-515
- transfers	—	—	—	—
- others	—	—	—	—
Total A. Fiscal liabilities	**20.491**	**6.366**	**3.156**	**30.013**
Total B. Advances paid	**12.840**	**3.870**	**2.916**	**19.626**
Current fiscal liabilities (A-B)	**7.651**	**2.496**	**240**	**10.387**

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

Deferred tax liabilities	30/06/2018	30/06/2017
1. Initial amount	780	877
1.1 Initial amount	780	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	—	97
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	—	97
3.3 Other reductions	—	—
Total	**780**	**780**

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

	30/06/2018			30/06/2017		
	Deferred tax assets	**Deferred tax liabilities**	**Tax rate 26,01%**	**Deferred tax assets**	**Deferred tax liabilities**	**Tax rate 26,01%**
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	780	—	3.000	780
Total liabilities	**—**	**3.000**	**780**	**—**	**3.000**	**780**

Section 10

Heading 100: Other liabilities

10.1 Other liabilities (in € k)

	30/06/2018	30/06/2017
1. Payment agreements (IFRS2)	—	—
2. Impaired endorsements	407	359
3. Working capital payables and invoices pending receipts	4.358	3.406
4. Prepaid expenses other than capitalized expenses on related financial assets	—	—
5. Amounts due to revenue authorities	—	—
6. Amount due to staff	23	23
7. Other items	1.503	207
- coupons and dividends pending collection	194	194
- available sum payable to third parties	—	—
- premium, grants and other items in respect of lending transactions	1.309	13
- credit notes to be issued	—	—
- other	—	—
Total	**6.291**	**3.995**

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, 2018 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 2018;
- This reserve will be maintained for a minimum period of 5 years.

(in € k)	**30/06/2018**	**30/06/2017**
A. Reserves	318.553	297.773
A.1 legal reserve	1.000	1.000
A.2 free reserve	282.924	260.948
A.3 special reserve (1)	34.629	35.825
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 2018 and 2017, 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)

	30/06/2018	30/06/2017
1. Financial guarantees given to:	13.399	13.377
a) Banks	—	—
b) Customers	13.399	13.377
2. Commercial guarantees given to:	—	—
a) Banks	—	—
b) Customers	—	—
3. Irrevocable commitments to lend funds:	1.653.638	1.139.679
a) Banks	—	—
b) Customers	1.653.638	1.139.679
4. Commitment underlying credit derivatives: hedge sales	3.960.408	1.823.150
Total	**5.627.445**	**2.976.206**

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 € 100.000. Deposits are covered per depositor per bank, the limit of € 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 contribution is adjusted in proportion to the risk profile of credit institutions. For the financial year, the total amount paid by the Bank was € 842k.

2. Other commitments

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

- € 402.726k of commitment to return at a forward date securities received as collateral under repurchase agreement where the Bank acts as lender.

As at year-end the Bank has placed collateral in form of securities and loans for an amount of € 1.816m (of which € 731m owned by the Bank, while € 1.085m represents the re-use of collateral acquired from the Parent Bank through repurchase agreement or securities lending) under 4 secured financing operations with a nominal value of € 1.156m.

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

Type of service	30/06/2018	30/06/2017
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	1.650.718	1.669.673
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	1.580.200	1.603.735
d) own securities held on deposit with customers	70.518	65.938

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	30/06/2018	30/06/2017
	Debt securities	Loans	Other financial assets			
1. Financial assets held for trading	—	—	—	—	—	—
2. Financial assets at fair value	—	—	—	—	—	—
3. AFS securities	—	—	—	—	—	—
4. Financial assets held to maturity	693	—	—	—	693	1.428
5. Loans and advances to credit institutions	—	9.422	—	—	9.422	11.414
6. Loans and advances to customers	42	80.914	—	57	81.013	85.354
7. Hedging derivatives	—	—	1.468	—	1.468	7.661
8. Financial assets sold but not derecognized	—	—	—	—	—	—
9. Other assets	—	—	—	—	—	—
Total	**735**	**90.336**	**1.468**	**57**	**92.596**	**101.080**

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

	30/06/2018	30/06/2017
A. Positive differences on transactions involving:	1.468	7.661
A.1 Specific fair value hedge of assets	—	—
A.2 Specific fair value hedge of liabilities	1.468	7.661
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)

	30/06/2018	30/06/2017
1.3.1 Interests receivable on financial assets denominated in currencies other than Euro	54.480	55.624
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	30/06/2018	30/06/2017
1. Amount due to Banks	-47.047	—	—	-47.047	-37.884
2. Amount due to customers	-11.795	—	—	-11.795	-17.939
3. Debt securities	—	-10.479	—	-10.479	-11.202
4. Trading liabilities	—	—	—	—	—
5. Liabilities at fair value	—	—	—	—	—
6. Liabilities in respect of assets sold but not yet derecognized	—	—	—	—	—
7. Other liabilities	—	—	—	—	—
8. Hedging derivatives	—	—	—	—	-280
Total	**-58.842**	**-10.479**	**—**	**-69.321**	**-67.305**

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

	30/06/2018	30/06/2017
A. Negative differences on transactions involving:	—	-280
A.1 Specific fair value hedge of assets	—	—
A.2 Specific fair value hedge of liabilities	—	-280
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)

	30/06/2018	30/06/2017
1.6.1 Interests payable on financial liabilities denominated in currencies other than Euro	-45.805	-36.083
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)

	30/06/2018	30/06/2017
a) guarantees given	181	91
b) credit derivates	—	—
c) management, trading and advisory services:	75	202
1. securities dealing	—	—
2. currency dealing	—	—
3. asset management	—	—
4. securities under custody and non-discretionary	—	—
5. depositary services	—	—
6. securities placing	75	198
7. procurement of orders	—	4
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	—	372
f) factoring servicing	—	—
g) tax collection and receipt services	—	—
h) lending services	19.120	13.821
Total	**19.376**	**14.486**

2.2 Fee and commission expense (in € k)

	30/06/2018	30/06/2017
a) guarantees received	-1.140	-3.664
b) credit derivatives	—	—
c) management and services:	—	—
1. securities dealing	—	—
2. currency dealing	—	—
3. asset management:	—	—
3.1 own portfolio	—	—
3.2 clients' portfolios	—	—
4. securities custody and non-discretionary management	—	—
5. securities placing	—	—
6. door-to-door sales of securities, products and services	—	—
d) collection and payment services	—	—
e) lending services	-8.722	-5.497
f) others	-4.273	-4.353
Total	**-14.135**	**-13.514**

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	30/06/2018	30/06/2017
1. Trading assets	10	—	-28.008	-45	**-28.043**	**-10.024**
1.1 Debt securities	—	—	—	—	—	—
1.2 Equities	—	—	—	—	—	—
1.3 OICR units	—	—	-28.008	—	**-28.008**	**-10.126**
1.4 Loans and receivables	10	—	—	-45	**-35**	**102**
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	622.431	—	-633.337	—	**-10.906**	**1.746**
4. Derivative products	848.583	1.110	-811.462	-1.342	**36.889**	**4.573**
4.1 Financial derivatives:	800.628	132	-791.680	—	**9.080**	**-6.027**
– on debt securities/interest rates	122.911	132	-122.741	—	**302**	**-3.187**
– on equities/share indexes	623	—	-620	—	**3**	**3**
– on foreign currency/gold	677.094	—	-668.319	—	**8.775**	**-2.843**
– others	—	—	—	—	—	—
4.2 Credit derivatives	47.955	978	-19.782	-1.342	**27.809**	**10.600**
Total	**1.471.024**	**1.110**	**-1.472.807**	**-1.387**	**-2.060**	**-3.705**

Section 4

Heading 90: Net hedging income (expense)

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

	30/06/2018	30/06/2017
A. Income from:		
A.1 Fair value hedge derivatives	188.685	—
A.2 Financial assets hedged (fair value)	—	—
A.3 Financial liabilities hedged (fair value)	191.715	227.904
A.4 Cash flow hedge financial derivatives	—	—
A.5 Assets and liabilities in foreign currency	—	—
Total hedging income (A)	**380.400**	**227.904**
B. Expenses relating to:		
B.1 Fair value hedge derivatives	-379.131	-227.468
B.2 Financial assets hedged (fair value)	—	—
B.3 Financial liabilities hedged (fair value)	-1.389	-387
B.4 Cash flow hedge financial liabilities	—	—
B.5 Assets and liabilities in foreign currency	—	—
Total hedging expenses (B)	**-380.520**	**-227.855**
C. Net hedging income (A-B)	**-120**	**49**

Section 5

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

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

	30/06/2018			30/06/2017		
	Gains	**Losses**	**Net profit (loss)**	**Gains**	**Losses**	**Net profit (loss)**
Financial assets						
1. Due from Banks	—	—	—	—	—	—
2. Due from customers	133	—	133	279	—	279
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	**133**	**—**	**133**	**279**	**—**	**279**
Financial liabilities						
1. Due to Banks	—	—	—	—	—	—
2. Due to customers	—	—	—	—	—	—
3. Debt securities in issue	—	-628	-628	50	—	50
Total liabilities	**—**	**-628**	**-628**	**50**	**—**	**50**

Section 6

Heading 130: Adjustments for impairment

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

Transactions/Income-linked components	Value adjustments			Amounts recovered				30/06/2018	30/06/2017
	Specific		Portfolio	Specific		Portfolio			
	Write offs	Others		A	B	A	B		
A. Due from Banks	—	—	-12	—	—	—	—	-12	—
B. Due from customers	—	—	-2.632	—	—	—	2.523	-109	475
C. Total	—	—	**-2.644**	—	—	—	**2.523**	**-121**	**475**

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				30/06/2018	30/06/2017
	Specific		Portfolio	Specific		Portfolio			
	Write offs	Others		A	B	A	B		
A. Guarantees given	—	—	-7	—	—	—	4	-3	-5
B. Credit derivatives	—	—	—	—	—	—	—	—	—
C. Commitments	—	—	-250	—	—	—	205	-45	318
D. Other transactions	—	—	—	—	—	—	—	—	—
E. Total	—	—	**-257**	—	—	—	**209**	**-48**	**313**

Legend

A = interest

B = other amounts recovered

Section 7

Heading 180: Administrative expenses

7.1 Personnel cost: composition (in € k)

	30/06/2018	30/06/2017
1.Employees	-1.363	-1.088
a) wages and salaries	-1.161	-900
b) social security charges	-40	-35
c) severance indemnities	—	—
d) pension contributions	-71	-61
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:	-77	-64
– defined contribution	-77	-64
– defined benefit	—	—
h) expenses incurred in connection with share payment schemes	—	—
i) other staff benefits	-14	-28
2. Other staff	-46	-46
3. Board members	-167	-169
Total	**-1.576**	**-1.303**

7.2 Other administrative expenses: composition (in € k)

	30/06/2018	30/06/2017
OTHER ADMINISTRATIVE EXPENSES		
– legal, tax and professional services	-631	-385
– loan recovery activity	-66	-65
– marketing and communication	-8	-7
– property	-172	-181
– EDP	-1.182	-912
– Info-provider	-12	-4
– bank charges, collection and payment fees	-26	-29
– operating expenses	-3.411	-3.586
– other staff expenses	-18	-12
– other costs (1)	-1.312	-1.463
– indirect and other taxes	-665	-577
Total other administrative expenses	**-7.503**	**-7.221**

(1) The items include 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	30/06/2018	30/06/2017
A. Tangible assets					
A.1 Owned:	-6	—	—	-6	-11
– Core	-6	—	—	-6	-11
– Investment	—	—	—	—	—
A.2 Acquired under finance leases:	—	—	—	—	—
Total	**-6**	**—**	**—**	**-6**	**-11**

Section 10

Heading 220: Other operating income (expenses)

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

Income-based components/values	30/06/2018	30/06/2017
a) Amounts recovered from customers	—	—
b) Other income	196	35
Total	**196**	**35**

Section 11

Heading 290: Income tax on the ordinary activity

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

	30/06/2018	30/06/2017
1. Current taxes	-4.407	-7.704
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	**-4.407**	**-7.704**

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

	30/06/2018		30/06/2017	
	Amounts %	**Absolute values**	**Amounts %**	**Absolute values**
Total profit or loss before tax from current operations		**16.781**		**28.484**
Theoretical income tax expense on pre-tax income	-26,01%	-4.365	-27,06%	-7.708
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%	—	0,00%	—
Theoretical corporate income tax expense	**-26,01%**	**-4.365**	**-27,06%**	**-7.708**

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	—	—	—	—	18.992
20.	Financial assets held for trading	9.743	—	11.511	1.172	—
50.	Financial assets held to maturity	4.345	—	5.133	523	—
60.	Loans and advances to credit institutions	1.205.669	—	1.424.357	144.851	—
70.	Loans and advances to customers	1.777.248	—	2.099.611	213.522	—
80.	Hedging derivatives	734	—	867	88	—
100.	Equity investments	—	—	—	—	4.150
120.	Tangible assets	—	—	—	—	11
130.	Intangible assets	—	—	—	—	—
140.	Tax assets	—	—	—	—	—
160.	Other assets	39.890	—	47.126	4.792	—
	Total assets at 30/06/2018	**3.037.629**	**—**	**3.588.605**	**364.948**	**23.153**
	Total assets at 30/06/2017	**2.136.072**	**—**	**2.273.652**	**582.040**	**199.905**
10.	Amount due to Credit institutions	-947.340	—	-1.119.171	-113.815	—
20.	Amount due to customers	-344.428	—	-406.902	-41.380	—
30.	Debt securities in issue	-1.587.096	—	-1.874.968	-190.677	—
40.	Financial liabilities held for trading	-8.277	—	-9.779	-994	—
60.	Hedging derivatives	-4.832	—	-5.709	-581	—
80.	Tax liabilities	-4.852	—	-5.732	-583	—
100.	Other liabilities	-2.734	—	-3.230	-328	—
160.	Shareholders' equity	-142.754	—	-168.648	-17.151	—
	Total liabilities at 30/06/2018	**-3.042.313**	**—**	**-3.594.139**	**-365.509**	**—**
	Total liabilities at 30/06/2017	**-2.161.927**	**—**	**-2.301.174**	**-589.084**	**-118.705**

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	44.678	—	42.776	7.604	—
020.	Interests payable and similar charges	-33.738	—	-32.303	-5.743	—
030.	**Net interest income**	**10.940**	**—**	**10.473**	**1.861**	**—**
040.	Fee and commission income	9.106	—	8.719	1.549	—
050.	Fee and commission expense	-6.643	—	-6.361	-1.129	—
060.	**Net fee and commission income**	**2.463**	**—**	**2.358**	**420**	**—**
080.	Net trading income/expense	-677	—	-649	-115	-619
090.	Net hedging income/expense	-56	—	-54	-10	—
100.	Gain or loss on disposal or repurchase of:	-233	—	-222	-40	—
	a) loans and receivables	62	—	60	11	—
	b) financial assets available for sale	—	—	—	—	—
	c) financial assets held to maturity	—	—	—	—	—
	d) financial liabilities	-295	—	-282	-51	—
120.	**Total income**	**12.437**	**—**	**11.906**	**2.116**	**-619**
130.	Value adjustments	-80	—	-76	-13	—
140.	**Net income from the financial management**	**12.357**	**—**	**11.830**	**2.103**	**-619**
180.	Administrative expenses	-4.268	—	-4.086	-725	—
200.	Value adjustments in respect of tangible assets	—	—	—	—	-6
210.	Value adjustments in respect of intangible assets	—	—	—	—	—
220.	Other operating income/expense	—	—	—	—	196
280.	**Profit (loss) of the ordinary activity before tax**	**8.089**	**—**	**7.744**	**1.378**	**-429**
290.	Income tax on the ordinary activity	-2.072	—	-1.983	-353	—
340.	**Profit (loss) for the year**	**6.017**	**—**	**5.761**	**1.025**	**-429**
350.	Other comprehensive income, net of tax	—	—	—	—	—
360.	**Total comprehensive income for the year, net of tax as at 30/06/2018**	**6.017**	**—**	**5.761**	**1.025**	**-429**
	Total comprehensive income for the year, net of tax as at 30/06/2017	**10.140**	**—**	**9.295**	**1.690**	**-346**

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, Other EU Countries, Americas and Asia. 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 2018 and 2017.

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

	LUXEMBOURG	OTHER EUROPEAN COUNTRIES	AMERICAS	OTHER EMEA
Cash and cash balances with Central Banks	18.992	—	—	—
Financial assets held for trading	9.950	12.476	—	—
Financial assets held to maturity	10.001	—	—	—
Loans and advances to Credit Institutions	523	2.774.354	—	—
Loans and advances to Customers	575.251	2.652.388	862.742	—
Hedging derivatives	—	1.689	—	—
Equity investments	4.150	—	—	—
Tangible assets	11	—	—	—
Intangible assets	—	—	—	—
Tax assets	—	—	—	—
Other assets	256	5.249	86.303	—
A. Total assets 30/06/2018	**619.134**	**5.446.156**	**949.045**	**—**
A. Total assets 30/06/2017	**595.074**	**3.832.835**	**764.249**	**-489**
Amount due to Banks	—	-2.180.326	—	—
Amount due to customers	-90.007	-702.703	—	—
Debt securities in issue	-3.168.442	-484.299	—	—
Financial liabilities held for trading	-1.356	-17.694	—	—
Hedging derivatives	—	-11.122	—	—
Tax liabilities	-11.167	—	—	—
Other liabilities	-110	-6.135	-47	—
Shareholders' equity	-328.553	—	—	—
B. Total liabilities 30/06/2018 (1)	**-3.599.635**	**-3.402.279**	**-47**	**—**
B. Total liabilities 30/06/2017 (1)	**-1.028.333**	**-4.142.540**	**-17**	**—**

(1) Profit for the period excluded

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

	LUXEMBOURG	OTHER EUROPEAN COUNTRIES	AMERICAS	OTHER EMEA
Net interest income	3.603	-3.287	22.958	—
Net fee and commission income	1.120	1.626	2.368	127
Net trading income/expense	-5.394	3.369	-35	—
Net hedging income/expense	-189	68	—	—
Gain or loss on disposal or repurchase	-734	196	43	—
Value adjustments - impairment	-91	-206	127	—
Administrative expenses	-3.933	-5.133	-12	—
Value adjustments – amortisation	-6	—	—	—
Other operating income (expenses)	63	124	9	—
Income tax	-4.407	—	—	—
Net profit/loss 2018	**-9.968**	**-3.243**	**25.458**	**127**
Net profit/loss 2017	**-6.927**	**-6.038**	**33.701**	**43**

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.

As part of its overall risk management, the Bank uses derivatives and other contracts to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. The Bank also actively uses collateral to mitigate its exposure to single counterparty risk.

The Bank monitors the main risks to which it is exposed with a frequency consistent with the nature of each single risk category. In addition to the foregoing, a quarterly reporting of integrated risks and risk appetite evolution is performed and reported to the Risk Committee and to the Board of Directors, in order to set and implement and efficient and effective risk management strategy.

The Risk Appetite Framework ("RAF"):

- Identifies the risks that the Bank is willing to assume;
- Defines limits and triggers;
- Describes the essential interventions identified to bring back the risk to an acceptable level for the Management.

The RAF is based on the valuation of the principal risk drivers of Mediobanca International, both macro-economic and specifics. In order to correctly assess all the potential impacts related to the identified risk drivers the Bank must carry out specific analysis ("what happens if something goes wrong").

The following assessment should be read in conjunction with the Bank's business strategy and with the Group's RAF (as approved by the Board of Directors of Mediobanca S.p.A.). In order to articulate its risk appetite, the Bank shall first define objectives in terms of markets, products, segments, etc. From there the institution assesses the risk implied in the strategy and determines the level of risk it is willing to assume in executing that strategy.

The RAF process adopted by the institution has been structured as follows:

- Identification of the risks which the Bank is willing to take;
- For each risk, definition of the objective and limits in normal and stressed conditions;
- Identification of the actions which are deemed to be appropriate to bring the risk back within the set objectives.

The RAF is formulated in such a way as to incorporate the stakeholders' expectations (including Supervisory Authorities) and to take into consideration all the significant types of risk encountered in the course of the business, by identifying specific metrics which are simple, easy to communicate, and frequently used as benchmarks at the various stages of the decision-making process.

The target risk profile identified by the Bank incorporates the principles and guiding lines of the Group, and namely consists in:

- maintaining a strong capital and liquidity position in order to protect the Bank solidity even in period of stress;
- preserving a long term profitability in line with the business model and the risk profile of the Bank:
  - limiting the portfolio concentration;
  - keeping high asset quality;
  - reducing exposure to interest rate risk;
- safeguarding the reputational capital of the Bank/Group.

The assessment of the overall risk profile of the institution is conducted annually within the ICAAP, which represents the capital adequacy self-assessment process according to the Group's internal rules. The ICAAP is a process to ensure that the management body:

- adequately identifies, measures, aggregates and monitors the institution's risks;
- ensures that the institution holds adequate internal capital in relation to the institution's risk profile; and
- uses sound risk management systems and develops them further.

The RAF is developed in line with the ICAAP and represents the risk framework in which the budget and the business plan are established. Consistency between the risk-acceptance strategy and policy, and the budget process is thus guaranteed.

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

Loans for which no objective evidence of loss has emerged from individual measurement are subject to collective measurement. Collective measurement occurs for homogeneous loan categories in terms of credit risk and the relative loss percentages are estimated considering past time-series, founded on observable elements at measurement date, that enable to estimate the value of the latent loss in each loan category. Measurement also considers the risk connected to the borrower's country of residence.

The determination of provisions on performing loans is carried out by identifying the highest possible synergies with the supervisory approach contained in the regulations known as "Basel 3". In particular, the parameters of the calculation model set out in the supervisory provisions, namely Probability of Default (PD) and Loss Given Default (LGD), are used – where already available – also for the purposes of financial statement valuation. The relationship between the two aforementioned parameters represents the starting point for loan segmentation, since they summarise the relevant factors considered by IAS/IFRS for the determination of the homogeneous categories and for the calculation of provisions.

The time period of a year used for the determination of the probability of default is considered suitable to approximate the notion of incurred loss, that is, the loss based on current events but not yet included by the entity in the review of the risk of the specific customer, set forth by international accounting standards.

The amount of the provision also reflects the phase of the economic cycle through an appropriate corrective factor: an annually updated adjusting coefficient, estimated on the basis of the economic cycle, made necessary by the fact that ratings, which are calibrated according to the long-term expected average level throughout the economic cycle, only partially reflect current conditions. This coefficient is determined by regulatory segment and is equal to the ratio of the default rates estimated for the following 12 months on the basis of the available scenario.

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	—	—	—	—	22.426	22.426
2. Available-for-sale financial assets	—	—	—	—	—	—
3. Held to maturity financial instruments	—	—	—	—	10.001	10.001
4. Loans and receivables with Banks	—	—	—	—	2.774.887	2.774.887
5. Loans and receivables with customers	—	—	1.449	—	4.088.932	4.090.381
6. Financial assets at fair value through profit	—	—	—	—	—	—
7. Financial assets classified as held for	—	—	—	—	—	—
8. Hedging derivatives	—	—	—	—	1.689	1.689
Total 30/06/2018	**—**	**—**	**1.449**	**—**	**6.897.935**	**6.899.384**
Total 30/06/2017	**—**	**—**	**50.606**	**—**	**5.122.097**	**5.172.703**

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	—	—	—	22.426	—	22.426	22.426
2. AFS securities	—	—	—	—	—	—	—
3. Financial assets held to maturity	—	—	—	10.001	—	10.001	10.001
4. Due from Banks	—	—	—	2.774.899	-12	2.774.887	2.774.887
5. Due from customers	1.449	—	1.449	4.092.630	-3.698	4.088.932	4.090.381
6. Financial assets recognized at fair value	—	—	—	—	—	—	—
7. Financial assets being sold	—	—	—	—	—	—	—
8. Hedging derivatives	—	—	—	1.689	—	1.689	1.689
Total at 30/06/2018	**1.449**	**—**	**1.449**	**6.901.645**	**-3.710**	**6.897.935**	**6.899.384**
Total at 30/06/2017	**50.606**	**—**	**50.606**	**5.125.686**	**-3.589**	**5.122.097**	**5.172.703**

Impaired assets at 30 June 2018 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	30/06/2018	30/06/2017
A. CASH EXPOSURES					
a) Non-performing	—	—	—	—	—
b) Other assets	2.774.889	—	-12	2.774.877	1.349.443
Total A	**2.774.889**	**—**	**-12**	**2.774.877**	**1.349.443**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Non-performing	—	—	—	—	—
b) Other assets	—	—	—	—	
Total B	**—**	**—**	**—**	**—**	**—**

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	30/06/2018	30/06/2017
A. CASH EXPOSURES					
a) Non-performing	1.449	—	—	1.449	50.606
b) Other assets	4.102.631	—	-3.698	4.098.933	3.249.272
Total A	**4.104.080**	**—**	**-3.698**	**4.100.382**	**3.299.878**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Non-performing	—	—	—	—	2.443
b) Other assets	1.667.444	—	-407	1.667.037	1.150.613
Total B	**1.667.444**	**—**	**-407**	**1.667.037**	**1.153.056**

Non-performing assets at 30 June 2018 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	30/06/2018		30/06/2017
	Non performing	Restructured	
A. Gross exposure at start of period	—	50.606	52.552
of which: accounts sold but not derecognized	—	—	—
B. Additions	—	—	763
B.1 transfers from performing loans	—	—	—
B.2 transfer from other categories of impaired assets	—	—	—
B.3 other additions	—	—	763
C. Reductions	—	-49.157	-2.709
C.1 transfer to performing loans	—	—	—
C.2 amounts written off	—	-32.645	—
C.3 amounts collected	—	-16.373	-2.231
C.4 gains realized on disposal	—	—	—
C.5 transfers to other categories of impaired assets	—	—	—
C.6 other reductions	—	-139	-478
D. Gross exposure at end of period	—	1.449	50.606
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	—	—	-3.589
B. Additions	—	—	-2.632
B.1 value adjustments	—	—	-2.493
B.2 transfers from other categories of impaired assets	—	—	—
B.3 other additions	—	—	-139
C. Reductions	—	—	2.523
C.1 writebacks based on valuations	—	—	—
C.2 writebacks due to amounts collected	—	—	2.106
C.3 amounts written off	—	—	—
C.4 transfers to other categories of impaired assets	—	—	—
C.5 other reductions	—	—	417
D. Adjustments at 30/06/2018	**—**	**—**	**-3.698**
D. Adjustments at 30/06/2017	**—**	**—**	**-3.589**

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	402.726	—	402.726	—	—	—	—	—	—	—	—	—
- *non performing*	—	—	—	—	—	—	—	—	—	—	—	—
1.2 partly secured	—	—	—	—	—	—	—	—	—	—	—	—
- *non performing*	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2018	**402.726**	**—**	**402.726**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total 30/06/2017	**411.194**	**—**	**411.194**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
2. Secured exposures to customers:												
2.1 completely secured	419.943	40.506	—	—	—	—	—	—	—	205.541	173.896	—
- *non performing*	*1.449*	—	—	—	—	—	—	—	—	—	*1.449*	—
2.2 partly secured [1]	3.624.437	—	—	1.406	—	—	—	—	—	—	2.565.474	—
- *non performing*	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2018	**4.044.380**	**40.506**	**—**	**1.406**	**—**	**—**	**—**	**—**	**—**	**205.541**	**2.739.370**	**—**
Total 30/06/2017	**3.239.656**	**40.707**	**111.552**	**15.283**	**—**	**—**	**9.960**	**—**	**—**	**217.026**	**2.021.548**	**—**

[1] Values indicated in the column "Total exposure" correspond to the carrying amount (i.e. the value of personal and/or real guarantees has not been deducted).

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 30/06/2018	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2017	—	—	—	—	—	—	—	—	—	—	—	—
2. Secured exposures to customers:												
2.1 completely secured	1.067	—	—	—	—	—	—	—	—	—	1.067	—
- non performing	—	—	—	—	—	—	—	—	—	—	—	—
2.2 partly secured	1.617.717	—	—	—	—	—	—	—	—	—	1.176.722	—
- non performing	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2018	**1.618.784**	—	—	—	—	—	—	—	—	—	**1.177.789**	—
Total 30/06/2017	**1.127.208**	—	—	—	—	—	—	—	—	—	**862.145**	—

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 a single client (or group of connected clients) other than the Parent as at June 30 June 2018 was € 379 million (2017: € 456 million) before taking account of collateral or other credit enhancements and € 58 million (2017: € 68 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 carrying amounts 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)*

Non-performing assets at 30 June 2018 refer to non-performing exposures with forbearance measures fully covered by letter of credit issued by the Parent Bank.

	Governments and Central Banks	Other Public agencies	Financial companies	Insurances	Non-financial undertakings	Other entities
A. Cash exposures						
A.1 Non-performing						
Gross exposure	—	—	—	—	1.449	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	—	—	—	—
Net exposure	—	—	—	—	1.449	—
A.2 Other exposures						
Gross exposure	—	—	914.187	—	3.188.443	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-619	—	-3.079	—
Net exposure	—	—	913.568	—	3.185.364	—
Total A						
Gross exposure	—	—	914.187	—	3.189.892	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-619	—	-3.079	—
Net exposure	—	—	913.568	—	3.186.813	—
B. Off-balance sheet exposures						
B.1 Non-performing						
Gross exposure	—	—	—	—	—	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	—	—	—	—
Net exposure	—	—	—	—	—	—
B.2 Other exposures						
Gross exposure	—	—	224.872	—	1.442.572	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-53	—	-354	—
Net exposure	—	—	224.819	—	1.442.218	—
Total B						
Gross exposure	—	—	224.872	—	1.442.572	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-53	—	-354	—
Net exposure	—	—	224.819	—	1.442.218	—
Total 30/06/2018						
Gross exposure	—	—	1.139.059	—	4.632.464	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-672	—	-3.433	—
Net exposure	—	—	1.138.387	—	4.629.031	—
Net exposure 30/06/2017	—	—	864.822	—	3.558.423	—

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	—	—	1.449	1.449	—	—	—	—	—	—
A.2 Performing	585.698	584.946	2.653.275	2.651.244	863.658	862.743			—	—
Total A	585.698	584.946	2.654.724	2.652.693	863.658	862.743	—	—	—	—
B) Off-balance-sheet exposures										
B.1 Non-performing	—	—	—	—	—	—	—	—	—	—
B.2 Performing	17.963	17.947	1.333.170	1.332.825	316.312	316.265	—	—	—	—
Total B	17.963	17.947	1.333.170	1.332.825	316.312	316.265	—	—	—	—
Total 30/06/2018	**603.661**	**602.893**	**3.987.894**	**3.985.518**	**1.179.970**	**1.179.008**	—	—	—	—
Total 30/06/2017	**276.573**	**275.894**	**3.333.941**	**3.331.760**	**856.817**	**855.728**	**-489**	**-489**	—	—

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	523	523	2.774.366	2.774.354	—	—	—	—	—	—
Total A	523	523	2.774.366	2.774.354	—	—	—	—	—	—
B) Off-balance-sheet exposures										
B.1 Non-performing	—	—	—	—	—	—	—	—	—	—
B.2 Performing	—	—	—	—	—	—	—	—	—	—
Total B	—	—	—	—	—	—	—	—	—	—
Total 30/06/2018	**523**	**523**	**2.774.366**	**2.774.354**	**—**	**—**	**—**	**—**	**—**	**—**
Total 30/06/2017	**2.106**	**2.106**	**1.347.337**	**1.347.337**	**—**	**—**	**—**	**—**	**—**	**—**

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

	30/06/2018	30/06/2017
a) Gross exposure	6.005.946	4.591.036
b) No. large risk exposures	78	61
c) Large risk exposure after CRM	1.637.757	1.260.096
d) No. large risk exposures after CRM	74	54
e) Large risk after CRM/regulatory capital	4,19	3,30

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 € 12,5 million for risks taken on "clients" other than institutions (CSSF Circular 14/593). The CSSF has granted a total exemption for the exposures towards the Parent Bank in the calculation of large exposure limits, in accordance with article 20 point 2 of CSSF Regulation 14-01, as amended. The amount of exposures covered by this exemption is €6.772m as at 30 June 2018 (€4.519m as at 30 June 2017).

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	—	—	—	—	—	702.703	702.703
a) Related to fully recognized assets	—	—	—	—	—	702.703	702.703
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 30/06/2018	—	—	—	—	—	**702.703**	**702.703**
Total 30/06/2017	—	—	—	—	—	**703.153**	**703.153**

1.2 MARKET RISK

1.2.1 Interest rate risk – regulatory banking book

QUALITATIVE INFORMATION

Interest rate risk arises from the possibility that changes in interest rates of non-trading activities 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 CSSF Regulation 15-02, the Bank performs a "test de résistance, en matière de risque de taux d'intérêt" implementing systems to identify, evaluate and manage the risk arising from potential changes in interest rates that affect its non-trading activities. The CSSF determines in particular to which extent the interest rate risk is likely to result in a decline in the economic value of an institution by more than 20% of their own funds.

According to CSSF Circular 12/552 (as amended), the Institution, when implementing the CSSF Regulation 15-02, shall comply with the guidelines published by the European Banking Authority.

According to CSSF Circular 08/338 (as amended), the standard shock interest rate scenario to apply is a sudden +/- 200 basis point shift of all interest rates (parallel shift of yield curves). If +/-200 basis points shift is lower than the actual level of change in interest rates, calculated using the 1st and 99th percentile of observed one-day interest rate changes over a five-year period scaled up to a 240-day year, the higher level of shock arising from the latter calculation should be applied as the standard shock. For this calculation, institutions should apply an appropriate general "risk-free" yield curve. That curve should not include instrument-specific or entity-specific credit risk spreads or liquidity risk spreads. Interest rate risk is controlled on a quarterly 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 Bank – 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 III of the Circular CSSF 08/338 as amended by Circular CSSF 16/642, a "résistance test" of interest rate risk was carried out as at 30 June 2018. The simulation was based on two different scenarios (parallel shift of the interest rate curve +200 and -200 bps, applying a 0% floor). The results achieved are described herein after:

- Scenario +200 bps: - € 2.416.284
- Scenario - 200 bps: - € 8.558.983

Fair value hedge

Hedges are intended to neutralize possible losses that may be incurred on a given asset or liability, due to the volatility of a certain financial risk factor (interest rate, exchange rate, credit or some other risk parameter), through the gains that may be realized on a hedge instrument which allow the changes in fair value to be offset. The Bank uses fair value hedges to neutralize the financial risk on interest rates by bringing the entire interest bearing exposure in line with Euribor/Libor (in general Euribor/Libor 3 months). It is principally the fixed rate, zero coupon and structured financial instruments that are fair-value hedged. During the year there were no significant changes in the Bank's objectives, policies and processes for managing interest rate risks.

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 30/06/2018	—	—	—	—	—	—	—	—
Total cash assets at 30/06/2017	—	—	—	—	—	—	—	—
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 30/06/2018	—	—	—	—	—	—	—	—
Total cash liabilities at 30/06/2017	—	—	—	—	—	—	—	—
3. Financial derivatives								
3.1 With underlying securities	—	—	—	—	—	—	—	—
– Options	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities	—	2.768.285	109.855	200.000	1.571.932	214.280	—	—
– Options	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others	—	2.768.285	109.855	200.000	1.571.932	214.280	—	—
+ Long positions	—	1.292.234	76.372	200.000	756.430	107.140	—	—
+ Short positions	—	1.476.051	33.483	—	815.502	107.140	—	—
Total financial derivatives at 30/06/2018	—	**2.768.285**	**109.855**	**200.000**	**1.571.932**	**214.280**	—	—
Total financial derivatives at 30/06/2017	—	**1.795.529**	**92.835**	**125.926**	**1.553.722**	**1.200**	—	—

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	—	12.797	—	—	—	—	—	—
– with early redemption option	—	—	—	—	—	—	—	—
– other	—	12.797	—	—	—	—	—	—
1.2 Loans to Banks	141.824	1.667.220	169.128	812.965	—	—	—	—
1.3 Loans to customers	—	3.352.301	754.785	—	—	6.924	170	—
Total cash assets at 30/06/2018	**141.824**	**5.032.318**	**923.913**	**812.965**	**—**	**6.924**	**170**	**—**
Total cash assets at 30/06/2017	**783.776**	**2.616.362**	**974.111**	**172.901**	**48.290**	**77.412**	**—**	**—**
2. Cash liabilities								
2.1 Amounts due to customers	—	792.710	—	—	—	—	—	—
2.2 Amounts due to Banks	—	1.903.270	237.806	39.250	—	—	—	—
2.3 Debt securities in issue	—	1.771.245	234.804	1.376.002	269.304	1.387	—	—
Total cash liabilities at 30/06/2018	**—**	**4.467.225**	**472.610**	**1.415.252**	**269.304**	**1.387**	**—**	**—**
Total cash liabilities at 30/06/2017	**8.630**	**2.976.862**	**300.705**	**764.479**	**220.269**	**1.417**	**256.482**	**—**
3. Financial derivatives								
3.1 With underlying securities	—	—	—	—	—	—	—	—
– Options	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities	—	139.657	10.000	958.125	400.000	100.000	—	—
– Options	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others	—	139.657	10.000	958.125	400.000	100.000	—	—
+ Long positions	—	—	10.000	493.891	200.000	100.000	—	—
+ Short positions	—	139.657	—	464.234	200.000	—	—	—
Total financial derivatives at 30/06/2018	**—**	**139.657**	**10.000**	**958.125**	**400.000**	**100.000**	**—**	**—**
Total financial derivatives at 30/06/2017	**—**	**78.503**	**—**	**—**	**10.000**	**—**	**148.503**	**—**
4. Other off-balance sheet								
+ Long positions	—	451.786	94.541	90.255	986.843	30.213	—	—
+ Short positions	1.653.638	—	—	—	—	—	—	—
Total other off-balance sheet at 30/06/2018	**1.653.638**	**451.786**	**94.541**	**90.255**	**986.843**	**30.213**	**—**	**—**
Total other off-balance sheet at 30/06/2017	**1.287.920**	**258.940**	**3.126**	**2.443**	**674.751**	**7.492**	**—**	**—**

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 2018 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**	**Swedish krona**	**Swiss francs**	**Other**
A. Assets					
A.1 Debt securities	—	—	—	—	—
A.2 Equities	—	—	—	—	—
A.3 Loans and advances to Banks	175.844	31.298	399	155.226	713
A.4 Loans and advances to customers	1.179.463	484.826	36.397	58.951	4.500
A.5 Other financial assets	78.871	222	4	1	—
B. Financial liabilities					
B.1 Due to Banks	-1.040.427	-463.526	—	-25.941	—
B.2 Due to customers	—	—	—	—	—
B.3 Debt securities	-443.354	—	—	-129.042	—
B.4 Other financial liabilities	-71	-169	-9	-2	—
C. Financial Derivatives					
- Options	—	—	—	—	—
+ long positions	—	—	—	—	—
+ short positions	—	—	—	—	—
- Other	48.203	-51.667	-36.460	-59.072	-4.497
+ long positions	91.092	56.430	—	—	—
+ short positions	-42.889	-108.097	-36.460	-59.072	-4.497
Total assets 30/06/2018	1.525.270	572.776	36.800	214.178	5.213
Total liabilities 30/06/2018	-1.526.741	-571.792	-36.469	-214.057	-4.497
Difference (+/-) 30/06/2018	**-1.471**	**984**	**331**	**121**	**716**
Total assets 30/06/2017	1.058.465	765.031	73.029	79.138	43.761
Total liabilities 30/06/2017	-1.058.758	-762.610	-72.616	-78.737	-42.929
Difference (+/-) 30/06/2017	**-293**	**2.421**	**413**	**401**	**832**

1.2.3 Financial derivative products

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

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

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

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

A. Financial derivatives

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

Type of transactions	30/06/2018		30/06/2017	
	Over-the-counter	Listed	Over-the-counter	Listed
1. Debt securities and interest rates	1.744.770	—	1.295.899	—
a) Options	—	—	—	—
b) Swap	1.744.770	—	1.295.899	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
2. Equities and share indexes	380.000	—	57.834	—
a) Options	380.000	—	57.834	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Exchange rates and Gold	307.407	—	430.873	—
a) Options	—	—	—	—
b) Swap	89.874	—	87.627	—
c) Forward	217.533	—	343.246	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	**2.432.177**	—	**1.784.606**	—

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

A.2.1 *Hedging derivatives*

Type of transactions	30/06/2018		30/06/2017	
	Over-the-counter	Listed	Over-the-counter	Listed
1. Debt securities and interest rates	803.891	—	118.503	—
a) Options	—	—	—	—
b) Swap	803.891	—	78.503	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	40.000	—
2. Equities and share indexes	—	—	—	—
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Exchange rates and Gold	—	—	—	—
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	**803.891**	**—**	**118.503**	**—**

A.2.2 *Other derivatives*

Type of transactions	30/06/2018		30/06/2017	
	Over-the-counter	Listed	Over-the-counter	Listed
1. Debt securities and interest rates	471.430	—	711.861	—
a) Options	—	—	—	—
b) Swap	471.430	—	671.861	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	40.000	—
2. Equities and share indexes	—	—	2.629	—
a) Options	—	—	2.629	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Exchange rates and Gold	—	—	—	—
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	**471.430**	**—**	**714.490**	**—**

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

Type of transactions	Positive fair value			
	30/06/2018		30/06/2017	
	Over-the-counter	Listed	Over-the-counter	Listed
A. Regulatory trading book	4.197	—	2.225	—
a) Options	—	—	5	—
b) Interest Rate Swap	1.981	—	1.245	—
c) Cross Currency Swap	1.664	—	975	—
d) Equity Swap	552	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
B. Banking book: Hedge derivatives	1.689	—	192.321	—
a) Options	—	—	—	—
b) Interest Rate Swap	1.689	—	192.321	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
C. Banking book: Others derivatives	7.070	—	196.799	—
a) Options	—	—	620	—
b) Interest Rate Swap	7.070	—	8.286	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	187.893	—
Total	**12.956**	**—**	**391.345**	**—**

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

Type of transactions	Negative fair value			
	30/06/2018		30/06/2017	
	Over-the-counter	Listed	Over-the-counter	Listed
A. Regulatory trading book	-10.005	—	-10.128	—
a) Options	-111	—	-627	—
b) Interest Rate Swap	-7.942	—	-8.812	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	-1.952	—	-689	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
B. Banking book: Hedge derivatives	—	—	-187.893	—
a) Options	—	—	—	—
b) Interest Rate Swap	—	—	—	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others		—	-187.893	—
C. Banking book: Others derivatives	-11.122	—	—	—
a) Options	—	—	—	—
b) Interest Rate Swap	-11.122	—	—	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	**-21.127**	—	**-198.021**	—

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	30/06/2018							30/06/2017
	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. 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	30/06/2018							30/06/2017
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	1.344.770	—	—	—	—	895.899
- positive fair value	—	—	1.982	—	—	—	—	1.245
- negative fair value	—	—	-7.942	—	—	—	—	-8.812
2. Equities and share indexes								
- notional value	—	—	380.000	—	—	—	—	57.834
- positive fair value	—	—	—	—	—	—	—	5
- negative fair value	—	—	-111	—	—	—	—	-627
3. Exchange rates and Gold								
- notional value	—	—	307.406	—	—	—	—	430.874
- positive fair value	—	—	2.215	—	—	—	—	975
- negative fair value	—	—	-1.952	—	—	—	—	-689
4. Other assets								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—

The Bank entered into an ISDA Master Agreement and CSA annex 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	30/06/2018							30/06/2017
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	—	300.000	—	—	—	200.000
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	2.500	—	—	—	1.000
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] 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	30/06/2018							30/06/2017
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	503.891	—	—	—	—	118.503
- positive fair value	—	—	1.689	—	—	—	—	192.321
- negative fair value	—	—	-11.122	—	—	—	—	-187.893
2. Equities and share indexes								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
3. Exchange rates and Gold								—
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
4. Other assets								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—

The Bank entered into an ISDA Master Agreement and CSA annex 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	470.000	1.216.430	58.340	1.744.770
A.2 Financial derivatives on equities and share indexes	—	280.000	100.000	380.000
A.3 Financial derivatives on foreign currency and gold	190.322	117.084	—	307.406
A.4 Financial derivatives on other assets	—	—	—	—
B. Banking book:				
B.1 Financial derivatives on debt securities and interest rates	10.000	551.087	414.234	975.321
B.2 Financial derivatives on equities and share indexes	—	—	—	—
B.3 Financial derivatives on foreign currency and gold	—	—	—	—
B.4 Financial derivatives on other assets	—	—	—	—
Total at 30/06/2018	**670.322**	**2.164.601**	**572.574**	**3.407.497**
Total at 30/06/2017	**540.360**	**2.007.536**	**69.703**	**2.617.599**

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	2.135.443	919.540	648.091	171.556
b) Credit spread products	—	—	—	—
c) Total rate of return swap	—	—	—	—
d) Others	—	—	—	—
Total at 30/06/2018	**2.135.443**	**919.540**	**648.091**	**171.556**
Total at 30/06/2017	**140.944**	**876.271**	**33.000**	**7.906**
2. Hedge sales				
a) Credit default	471.535	343.112	2.005.919	1.049.064
b) Credit spread products	—	—	—	—
c) Total rate of return swap	—	—	—	—
d) Others	—	—	—	—
Total at 30/06/2018	**471.535**	**343.112**	**2.005.919**	**1.049.064**
Total at 30/06/2017	**57.612**	**5.208**	**16.200**	**876.271**

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

Transaction categories	Positive FV	
	30/06/2018	30/06/2017
1. Regulatory trading book		
a) Credit default	2.540	1.475
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
2. Regulatory banking book		
a) Credit default	8.620	1.889
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
Total	**11.160**	**3.364**

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

Transaction categories	Negative FV	
	30/06/2018	30/06/2017
1. Regulatory trading book		
a) Credit default	-7.755	-121.169
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
2. Regulatory banking book		
a) Credit default	-1.291	—
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
Total	**-9.046**	**-121.169**

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

Contracts not forming part of netting arrangements	30/06/2018							30/06/2017
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
Regulatory trading book								
1. Hedge buys								
- notional value	—	—	3.054.983	—	—	—	—	888.384
- positive fair value	—	—	2.451	—	—	—	—	—
- negative fair value	—	—	-3.227	—	—	—	—	-1.678
2. Hedge sales								
- notional value	—	—	814.647	—	—	—	—	62.821
- positive fair value	—	—	89	—	—	—	—	1.474
- negative fair value	—	—	-4.528	—	—	—	—	-786
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 Bank 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	—	—	—	—
a) CDS with "qualified" reference obligation	—	—	—	—
b) CDS with "unqualified" reference obligation	—	—	—	—
2. Regulatory banking book	100.778	1.992.759	1.866.872	3.960.409
a) CDS with "qualified" reference obligation	—	—	—	—
b) CDS with "unqualified" reference obligation	100.778	1.992.759	1.866.872	3.960.409
Total at 30/06/2018	**100.778**	**1.992.759**	**1.866.872**	**3.960.409**
Total at 30/06/2017	**119.978**	**1.891.034**	**2.400**	**2.013.412**

1.3 Liquidity risk

Qualitative information

1.3.1 Liquidity

Liquidity risk is defined as the risk that the Bank would encounter difficulties 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.

During the fiscal year, the Bank has performed ongoing monitoring and control of the regulatory and managerial liquidity metrics (cf. below) through the ALM risk management application (which is the same used by the Parent Company).

The liquidity risk management and monitoring model is divided in:

- **Management of short-term liquidity** ("operational liquidity") with the purpose of managing events which might impact the bank's liquidity position over 1-year horizon, and preserving in this way the bank's ability to fulfill its ordinary and/or extraordinary payment obligations while minimizing the related funding costs. The Institution uses both regulatory and managerial liquidity metrics, respectively namely the Liquidity Coverage Ratio (hereinafter also referred to as "LCR") and the Operational Liquidity Ratio (hereinafter also referred to as "OLR").
- **Management of long-term liquidity** ("structural liquidity") focusing on events which might impair the bank's liquidity position beyond 1-year time horizon, with the primary goal of maintaining an adequate and efficient ratio between medium/long term liabilities and assets. The institution uses both regulatory and managerial liquidity metrics, respectively namely the Net Stable Funding Ratio (hereinafter also referred to as "NSFR") and the Structural Liquidity Ratio (hereinafter also referred to as "SLR").

The goal of the Institution is to keep maintaining a level of liquidity that enables the payment of commitments undertaken, being it ordinary or extraordinary. In this regard, the Bank has adopted a specific approach for the short term managerial metrics which foresees the settlement of the cash flows in two analysis scenarios, namely the "Standard" and the "Stressed" scenarios. Stress testing assumes factors such as a) cash outflows and inflows defined based on the underlining contractual maturity, b) incoming flows from corporate loans are weighted based on the internal rating assigned to the counterparty - failure to repay assumption, c) inflows from assets encumbered are weighted differently (less) than in the standard scenario, d) estimates of early repayments prepared by the Lending division (if any) are not incorporated in the analysis, e) higher probability of drawdowns on the outstanding credit commitments compared to the standard scenario, assuming that the revolving-facilities are more liquid than the term-facilities, f) new bond issues communicated by the Treasury Division (if any) are not incorporated in the analysis - failure to issue and g) the available credit limit with the Group Treasury is downsized. The liquidity risk tolerance thresholds are defined as the maximum exposure to risk deemed sustainable by the management in the normal course of business, as well as "stress situations".

The objectives and metrics described above are addressed through the preparation of the Risk Appetite Framework (RAF), which involves defining the Institution's appetite for risk on regulatory indicators (LCR and NSFR) and through the preparation of the Internal Capital Adequacy Assessment Process (ICAAP) for the managerial indicators.

1.3.2 Contingency Funding Plan

The Group Treasury acts as lender of last resort for the Group Companies including Mediobanca International (Luxembourg) S.A., guarantees their solvency in both the short and the medium/long terms, and is responsible for activating the Contingency Funding Plan (CFP) aimed at safeguarding the continuity of ordinary operations during liquidity crisis.

Based on the above, the Bank has not implemented a CFP on an individual basis but relies on the Group's plan.

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 30/06/2018 (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	141.824	1.637	177.374	1.042.210	495.256	606.966	878.168	2.397.654	1.252.458	18.992
A.1 Government securities	—	—	—	—	—	—	—	—	—	—
A.2 Listed debt securities	—	—	—	—	—	—	—	—	—	—
A.3 Other debt securities	—	—	—	—	9	6	15	12.800	—	—
A.4 OICR units	—	—	—	—	—	—	—	—	—	—
A.5 Loans and advances	141.824	1.637	177.374	1.042.210	495.247	606.960	878.153	2.384.854	1.252.458	18.992
– to Banks	141.824	136	20.483	816.705	165.891	169.976	814.654	145.740	500.000	18.992
– to customers	—	1.501	156.891	225.505	329.356	436.984	63.499	2.239.114	752.458	—
Cash liabilities	—	-51.534	-20.181	-721.020	-173.719	-559.680	-1.057.020	-3.100.655	-1.015.434	—
B.1 Deposits	—	-51.534	-161	-706.679	-6.684	-327.815	-19.378	-1.850.220	-50.000	—
– to Banks	—	-51.534	-161	-3.976	-6.677	-327.815	-19.378	-1.760.220	-50.000	—
– to customers	—	—	—	-702.703	-7	—	—	-90.000	—	—
B.2 Debt securities	—	—	-20.020	-14.341	-167.035	-231.865	-1.037.642	-1.250.435	-965.434	—
B.3 Other liabilities	—	—	—	—	—	—	—	—	—	—
Off-balance-sheet transactions	2.133.286	—	—	938.115	495	136.394	626.859	2.277.440	34.751	—
C.1 Financial derivatives with exchange of principal	—	—	—	932.101	—	124.525	521.884	841.951	—	—
– long positions	—	—	—	592.762	—	—	264.550	419.238	—	—
– short positions	—	—	—	339.339	—	124.525	257.334	422.713	—	—
C.2 Financial derivatives without exch. of principal	20.753	—	—	6.014	495	11.869	14.257	—	—	—
– long positions	6.571	—	—	3.007	472	626	9.868	—	—	—
– short positions	14.182	—	—	3.007	23	11.243	4.389	—	—	—
C.3 Irrevocable commitments to disburse funds	1.560.958	—	—	—	—	—	90.718	1.435.489	34.751	—
– long positions	—	—	—	—	—	—	90.718	1.435.489	34.751	—
– short positions	1.560.958	—	—	—	—	—	—	—	—	—
C.4 Credit derivatives with exchange of principal	—	—	—	—	—	—	—	—	—	—
– long positions	—	—	—	—	—	—	—	—	—	—
– short positions	—	—	—	—	—	—	—	—	—	—
C.5 Credit derivatives without exchange of principal	551.575	—	—	—	—	—	—	—	—	—
– long positions	276.845	—	—	—	—	—	—	—	—	—
– short positions	274.730	—	—	—	—	—	—	—	—	—

1.b *Financial assets and liabilities by outstanding life as at 30/06/2017 (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	738.942	5.451	32.219	180.263	292.538	518.248	337.305	1.963.549	632.744	7.222
A.1 Government securities	—	—	—	—	—	—	—	—	—	—
A.2 Listed debt securities	—	—	—	—	—	—	—	—	—	—
A.3 Other debt securities	—	—	—	—	9	59.328	4	2.791	—	—
A.4 OICR units	—	—	—	—	—	—	—	—	—	—
A.5 Loans and advances	738.942	5.451	32.219	180.263	292.529	458.920	337.301	1.960.758	632.744	7.222
– to Banks	699.017	211	3.299	—	8.869	405.811	170.128	—	—	7.222
– to customers	39.925	5.240	28.920	180.263	283.660	53.109	167.173	1.960.758	632.744	—
Cash liabilities	-8.630	-274	-4.193	-5.402	-18.427	-186.866	-846.396	-3.062.570	-247.460	—
B.1 Deposits	-8.630	-274	-4.193	-5.315	-6.412	-171.008	-117.220	-2.538.541	-206.130	—
– to Banks	-8.630	-274	-4.193	-2.649	-6.273	-168.120	-117.220	-1.838.541	-137.627	—
– to customers	—	—	—	-2.666	-139	-2.888	—	-700.000	-68.503	—
B.2 Debt securities	—	—	—	-87	-12.015	-15.858	-729.176	-524.029	-41.330	—
B.3 Other liabilities	—	—	—	—	—	—	—	—	—	—
Off-balance-sheet transactions	1.294.754	—	—	686.495	8	27.559	100.093	1.071.563	198.571	—
C.1 Financial derivatives with exchange of principal	—	—	—	686.492	—	—	87.628	87.628	160.000	—
– long positions	—	—	—	343.246	—	—	43.814	43.814	80.000	—
– short positions	—	—	—	343.246	—	—	43.814	43.814	80.000	—
C.2 Financial derivatives without exch. of principal	3.016	—	—	3	8	4.358	22	—	—	—
– long positions	1.870	—	—	—	—	4.347	—	—	—	—
– short positions	1.146	—	—	3	8	11	22	—	—	—
C.3 Irrevocable commitments to disburse funds	1.288.268	—	—	—	—	3.201	2.443	902.885	38.571	—
– long positions	170.584	—	—	—	—	3.201	2.443	902.885	38.571	—
– short positions	1.117.684	—	—	—	—	—	—	—	—	—
C.4 Credit derivatives with exchange of principal	—	—	—	—	—	20.000	10.000	81.050	—	—
– long positions	—	—	—	—	—	10.000	5.000	40.525	—	—
– short positions	—	—	—	—	—	10.000	5.000	40.525	—	—
C.5 Credit derivatives without exchange of principal	3.470	—	—	—	—	—	—	—	—	—
– long positions	3.018	—	—	—	—	—	—	—	—	—
– short positions	452	—	—	—	—	—	—	—	—	—

1.4 Operational risk

Through the quarterly monitoring of the Risk Appetite Framework, the RM Function reports to the Risk Committee and to the Board of Directors any operational loss recorded during the period. In this respect it is worth noting that the Board of Directors has also defined a specific risk tolerance threshold on operational risk, and in case of breach of the aforementioned trigger the CRO, supported by responsible Functions/Departments of the Bank and/or of the Parent Bank and after discussion with the Risk Committee, shall inform the Board about the reasons for overshooting the pre-established ceiling. Such information shall take place at the first available meeting after that date.

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 2018 and 2017 the Bank does not face any litigation risk.

1.5 Other risks

The implementation of the Internal Capital Adequacy Assessment Process (ICAAP) consists of sound, effective and complete strategies and processes allowing the Bank to assess and maintain, on an on-going basis, the amounts, types and distribution of internal capital that the Bank considers adequate to cover the nature and level of the risk to which they are or might be exposed. The identification of relevant risks of Mediobanca International in the ICAAP is structured into 4 distinct phases.

Phase 1 – Definition of the potential risks: the Bank identifies the risks starting from the regulatory requirements and related guidelines, i.e. the SSM Risk Map which has been locally integrated with additional risk categories valued as appropriate by the management.

Phase 2 – Risk Map definition: the Bank applies a filtering of the potential risk list based on its own peculiarities and business.

Phase 3 – Definition of criteria for relevant risks: where possible, Key Performance Indicator ("KPI"), based on risk indicators adapted to the type of risk, are selected. For each KPI a materiality threshold is defined based on historical observations related to the Bank. The identification of relevant risk is executed comparing the value of KPIs at the reference date with the identified materiality threshold. Where KPIs adoption is not possible, due to non-measurability of the risk itself, assessment is made on a qualitative basis.

Phase 4 – The final materiality assessment is supported by qualitative considerations in order to identify and correct misleading outcomes (if any). Therefore, some risk may be judgmentally considered as "not relevant" even though the identified KPI at the reference date is higher than the materiality threshold.

Following the identification of relevant risk, capital requirement quantification is performed on risks not covered by the Pillar I framework. In case the management shall consider that some risks are underestimated and not entirely covered by the minimum capital requirements of Pillar I, an additional discretionary capital II add-on may be calculated and allocated. 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.

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 showed an adequate capitalization at 30 June 2017. The ICAAP process for the exercise ended 30 June 2018 is currently being implemented.

The Group continues to operate regularly in United Kingdom through a branch of Mediobanca S.p.A. (investment banking services) and the subsidiary Cairn Capital (alternative fund management company). In case of "hard-Brexit" the potential impact for the Group is expected to be contained (i.e. less than 1.5% of revenues), however, the Parent closely monitors the progress of negotiations and potential regulatory impacts through an internal working group.

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 has been monitored on the basis of the reference EU Regulation (i.e. EU Regulation n. 575/2013 – CRR and EU Directive n. 36/2013 – CRD IV) and in conjunction with CSSF Regulation n. 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 22 November 2017 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 the Regulation (EU) No 575/2013 and the national legislation implementing Directive 2013/36/EU.

At the end of June 30, 2018, the Bank complies with all capital ratios:

1. CET1 Capital ratio: 10,23% (min. 4.5%)
2. T1 Capital ratio: 10,23% (min. 6%)
3. Total Capital ratio: 11,74% (min. 8%)

Therefore, the financial year ended with a capital surplus of € 124m (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 (3,7% 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 2017, 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 17-01. 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 2018 for CCyB is € 6,3 million.

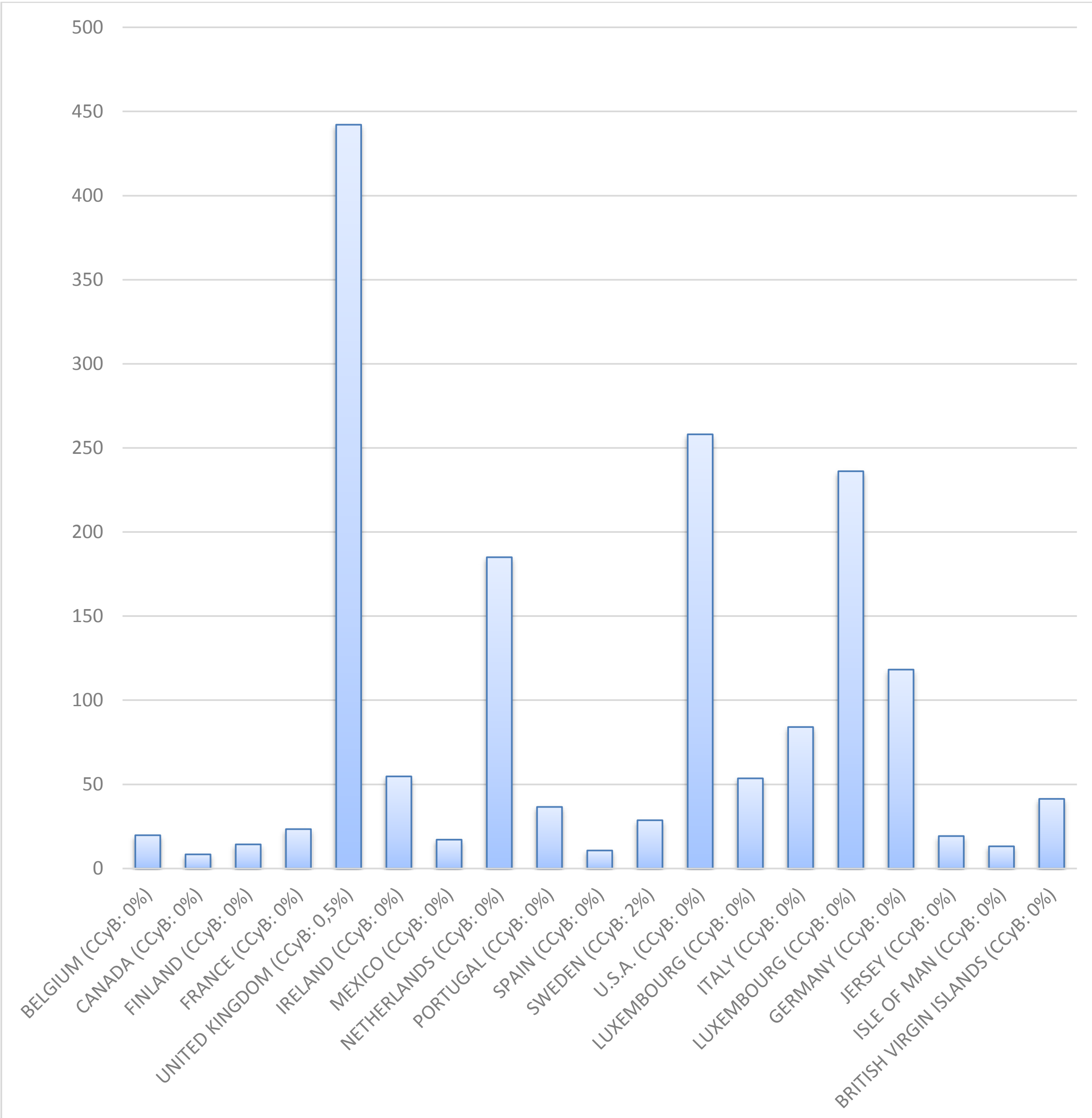
The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

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 €)	**30/06/2018 (including profit of the fiscal year)**	**30/06/2017 (including profit of the fiscal year)**
Original own funds (Tier 1)	340.526.050	328.290.510
Additional own funds (Tier 2)	50.000.000	53.589.301
Total own funds (Tier 1 + Tier 2)	**390.526.050**	**381.879.811**
Credit/Counterparty risk (Standardized approach)	260.013.313	210.865.732
Market risk (Standardized Approach)	1.374.047	14.561.892
Operational risk (Basic Indicator Approach)	4.809.566	5.345.166
Total capital requirements (Pillar 1)	**266.196.926**	**230.772.790**
Specific own fund requirement	—	7.211.650
Combined Buffer Requirement:	89.524.395	74.406.776
Capital conservation buffer	83.186.539	72.116.497
Institution specific countercyclical capital buffer	6.337.856	2.290.279
Total capital requirements (Pillar 1 + Pillar 2)	**355.721.321**	**312.391.216**
Surplus (+) / Deficit (-) of Own Funds	34.804.730	69.488.595
Total capital ratio (%)	11,74	13,24

COUNTERCYCLICAL CAPITAL BUFFER COUNTRIES' BREAKDOWN (credit exposure 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 Bank, 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 2018 and 2017 concerning related parties are as follows (in € k):

Assets and liabilities	30/06/2018		30/06/2017
	Parent Bank	Other related parties	
Financial assets held for trading	6.737	—	4.276
Financial assets held to maturity	—	10.001	59.324
Loans and advances	2.765.426	174	1.339.277
Derivatives held for hedging	1.689	—	192.321
Other assets	173	29	1
Total assets	**2.774.025**	**10.204**	**1.595.199**
			—
Amounts due	-2.180.326	-80.006	-2.247.519
Debt securities	-383.883	-199.890	-491.556
Financial liabilities held for trading	-17.694	—	-200.484
Derivatives held for hedging	-11.122	—	—
Other liabilities	-3.095	-8	-2.638
Total liabilities	**-2.596.120**	**-279.904**	**-2.942.197**

Comprehensive income	30/06/2018		30/06/2017
	Parent Bank	Other related parties	
Interest and similar income	-10.918	11	-11.873
Interest expenses and similar charges	-53.172	-26	-39.543
Fee and commission income	1.002	5	-416
Fee and commission expenses	-13.992	—	-13.346
Net gains and losses on financial assets and liabilities hft	6.844	—	207.865
Net gains and losses from hedge accounting	-2.036	—	-227.468
Administrative expenses	-3.364	-1.188	-4.454
Impairment	—	—	—
Other income	—	36	120
Total	**-75.636**	**-1.162**	**-89.115**

Guarantees and commitments	30/06/2018		30/06/2017
	Parent Bank	Other related parties	
Financial guarantees received	2.800.895	—	2.338.217
Financial guarantees given	—	—	—
Commercial guarantees given	—	—	—
Irrevocable commitments to disburse funds	—	430	380
Commitments underlying cds: hedge sales	819.647	—	930.679
Total	**3.620.542**	**430**	**3.269.276**

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:

	30/06/2018	30/06/2017
Administrative bodies	149	164
Key management personnel	406	357
	555	**521**

As at 30 June 2018 and 2017, 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 at 30 June 2018 and 2017, audit fees (exluding VAT) are split as follows (in €):

	30/06/2018	30/06/2017
Audit fees	28.109	206.089
Audit related fees	36.468	36.468
Other fees	—	—
Total	**64.577**	**242.557**

The table contains the aggregate fees (paid on the services' state of completion) billed by PricewaterhouseCoopers Société coopérative. For the fiscal year 2017-2018, the agreed audit fees are equal to € 96.000, while the audit related fees are equal to € 31.000.

Staff number

As at 30 June 2018 and 2017, the Bank's staff is as follows:

	30/06/2018	30/06/2017
Management–Senior	2	2
Management–Middle	1	1
Other staff	10	9
Total	**13**	**12**

As at 30 June 2018, the Bank's Senior Management consists of the Chief Executive Officer and the Chief Financial Officer.

PART J – SUBSEQUENT EVENTS

The Bank is not aware of any subsequent events (other than those already reflected in the financial statement), that occurred between 30 June 2018 and the date when the present financial statements were authorized for issue.

ANNEX I – RECONCILIATION

RECONCILIATION BETWEEN OFFICIAL AND RESTATED FINANCIAL STATEMENTS

EXECUTIVE SUMMARY

The management report includes a restated statement of financial position and a restated statement of comprehensive income to support management commentary and evaluation over the results achieved during the course of the financial year. A reconciliation between the official and the restated financial statements is set hereunder to facilitate lectors' review and understanding.

Statement of financial position as at 30 June 2018 (in € k)

			Total assets (restated)					Total liabilities (restated)			
30/06/2018			Net treasury investments	Securities	Loans and advances	Equity investments	Other assets	Funding	Other liabilities	Net equity	Net profit
10.	Cash and cash balances with Central Banks	18.992	18.992	-	-	-	-	-	-	-	-
20.	Financial assets held for trading	22.426	22.426	-	-	-	-	-	-	-	-
50.	Financial assets held to maturity	10.001	-	10.001	-	-	-	-	-	-	-
60.	Loans and advances to Credit Institutions	2.774.877	2.125.795[1]	2.796[1]	645.804[1]	-	482[1]	-	-	-	-
70.	Loans and advances to Customers	4.090.381	-	36.396[2]	4.053.985[2]	-	-	-	-	-	-
80.	Hedging derivatives	1.689	-	-	-	-	-	1.689	-	-	-
100.	Equity investments	4.150	-	-	-	4.150	-	-	-	-	-
120.	Property, plant and equipment	11	-	-	-	-	11	-	-	-	-
160.	Other assets	91.808	-	-	-	-	91.808	-	-	-	-
	Total assets	**7.014.335**	**2.167.213**	**49.193**	**4.699.789**	**4.150**	**92.301**	**1.689**	**-**	**-**	**-**
10.	Amounts due to Credit Institutions	-2.180.326	-51.674[3]	-	-	-	-	-2.128.652[3]	-	-	-
20.	Amounts due to Customers	-792.710	-	-	-	-	-	-792.710	-	-	-
30.	Debt securities in issue	-3.652.741	-	-	-	-	-	-3.653.398[4]	657[4]	-	-
40.	Trading liabilities	-19.050	-19.050	-	-	-	-	-	-	-	-
50.	Hedging derivatives	-11.122	-	-	-	-	-	-11.122	-	-	-
80.	Tax liabilities	-11.167	-	-	-	-	-	-	-11.167	-	-
	a) current	*-10.387*	-	-	-	-	-	-	*-10.387*	-	-
	b) deferred	*-780*	-	-	-	-	-	-	*-780*	-	-
100.	Other liabilities	-6.292	-13[5]	-	-407[5]	-	-	-	-5.872[5]	-	-
160.	Reserves	-318.553	-	-	-	-	-	-	-	-318.553	-
190.	Share capital	-10.000	-	-	-	-	-	-	-	-10.000	-
200.	Profit for the year	-12.374	-	-	-	-	-	-	-	-	-12.374
	Total liabilities and equity	**-7.014.335**	**-70.737**	**-**	**-407**	**-**	**-**	**-6.585.882**	**-16.382**	**-328.553**	**-12.374**
			2.096.476	**49.193**	**4.699.382**	**4.150**	**92.301**	**-6.584.193**	**-16.382**	**-328.553**	**-20.779**

Notes to the statement of financial position (Part C)

[1] Cf. section 6: "net treasury investments" include current accounts and money market instruments.

[2] Cf. section 7.

[3] Cf. section 1: "net treasury investments" include current accounts and money market instruments.

[4] Cf. section 3: "other liabilities" include the fair value hedge adjustment of debt securities issued.

[5] Cf. section 10: "loans and advances" include the provisions for losses on loan guarantees and commitments.

Statement of financial position as at 30 June 2017 (in € k)

			Total assets (restated)					Total liabilities (restated)			
30/06/2017			Net treasury investments	Securities	Loans and advances	Equity investments	Other assets	Funding	Other liabilities	Net equity	Net profit
10.	Cash and cash balances with Central Banks	7.222	7.222	-	-	-	-	-	-	-	-
20.	Financial assets held for trading	331.061	331.061	-	-	-	-	-	-	-	-
50.	Financial assets held to maturity	59.324	-	59.324	-	-	-	-	-	-	-
60.	Loans and advances to Credit Institutions	1.290.119	1.284.037[1]	2.794[1]	-	-	3.288[1]	-	-	-	-
70.	Loans and advances to Customers	3.299.878	-	-	3.299.878	-	-	-	-	-	-
80.	Hedging derivatives	192.321	-	-	-	-	-	192.321	-	-	-
100.	Equity investments	4.150	-	-	-	4.150	-	-	-	-	-
120.	Property, plant and equipment	14	-	-	-	-	14	-	-	-	-
160.	Other assets	7.581	-	-	-	-	7.581	-	-	-	-
Total assets		**5.191.669**	**1.622.320**	**62.118**	**3.299.878**	**4.150**	**10.883**	**192.321**	**-**	**-**	**-**
10.	Amounts due to Credit Institutions	-2.248.877	-8.815[2]	-	-	-	-	-2.235.879[2]	-4.183[2]	-	-
20.	Amounts due to Customers	-962.523	-	-	-	-	-	-962.523	-	-	-
30.	Debt securities in issue	-1.317.433	-	-	-	-	-	-1.317.224[3]	-209[3]	-	-
40.	Trading liabilities	-319.190	-319.190	-	-	-	-	-	-	-	-
80.	Tax liabilities	-11.100	-	-	-	-	-	-	-11.100	-	-
	a) current	*-10.320*	-	-	-	-	-	-	*-10.320*	-	-
	b) deferred	*-780*	-	-	-	-	-	-	*-780*	-	-
100.	Other liabilities	-3.995	-13[4]	-	-359[4]	-	-	-	-3.624[4]	-	-
160.	Reserves	-297.773	-	-	-	-	-	-	-	-297.773	-
190.	Share capital	-10.000	-	-	-	-	-	-	-	-10.000	-
200.	Profit for the year	-20.779	-	-	-	-	-	-	-	-	-20.779
Total liabilities and equity		**-5.191.669**	**-328.018**	**-**	**-359**	**-**	**-**	**-4.515.626**	**-19.116**	**-307.773**	**-20.779**
			1.294.302	**62.118**	**3.299.520**	**4.150**	**10.883**	**-4.323.305**	**-19.116**	**-307.773**	**-20.779**

Notes to the statement of financial position (Part C)

[1] Cf. section 6: "net treasury investments" include current accounts and money market instruments.

[2] Cf. section 1: "net treasury investments" include current accounts and money market instruments.

[3] Cf. section 3: "other liabilities" include the fair value hedge adjustment of debt securities issued.

[4] Cf. section 10: "loans and advances" include the provisions for losses on loan guarantees and commitments.

Statement of comprehensive income as at 30 June 2018 (in € k)

			Statement of comprehensive income (restated)						
30/06/2018			Net interest income	Net trading income	Net fee and commission income	Wages and salaries	Other administrative expenses	Loans impairment	Fiscal provision
10.	Interests and similar income	92.596	92.596	-	-	-	-	-	-
20.	Interest expense and similar charges	-69.322	-69.322	-	-	-	-	-	-
30.	**Net interest income**	**23.274**	**23.274**	**-**	**-**	**-**	**-**	**-**	**-**
40.	Fee and commission income	19.376	-	1.302(1)	18.074(1)	-	-	-	-
50.	Fee and commission expense	-14.135	-	-1.412(1)	-12.723(1)	-	-	-	-
60.	**Net fee and commission income**	**5.241**	**-**	**-110**	**5.351**	**-**	**-**	**-**	**-**
80.	Net trading income/expense	-2.060	240(2)	-2.300(2)	-	-	-	-	-
90.	Net hedging income/expense	-120	-120	-	-	-	-	-	-
100.	Gain or loss on disposal or repurchase	-495	-	-495	-	-	-	-	-
120.	**Total income**	**25.840**	**23.394**	**-2.905**	**5.351**	**-**	**-**	**-**	**-**
130.	Adjustments for impairment	-169	-	-	-	-	-	-169	-
140.	**Net income from banking activities**	**25.671**	**23.394**	**-2.905**	**5.351**	**-**	**-**	**-169**	**-**
180.	Administrative expenses	-9.079	-	-	-	-1.576(3)	-7.503(3)	-	-
a)	*personnel costs*	*-1.576*	-	-	-	*-1.576*	-	-	-
b)	*other administrative expenses*	*-7.503*	-	-	-	-	*-7.503*	-	-
200.	Net adjustments in respect of tangible assets	-6	-	-	-	-	-6	-	-
220.	Other operating income/expense	196	-	-	231(4)	-	-35(4)	-	-
280.	**Profit (loss) of the ordinary activity before tax**	**16.782**	**23.394**	**-2.905**	**5.582**	**-1.576**	**-7.544**	**-169**	**-**
290.	Income tax on the ordinary activity	-4.407	-	-	-	-	-	-	-4.407
340.	**Profit (loss) for the year**	**12.374**	**23.394**	**-2.905**	**5.582**	**-1.576**	**-7.544**	**-169**	**-4.407**
350.	Other comprehensive income, net of tax	-	-	-	-	-	-	-	-
360.	**Total comprehensive income for the year, net of tax**	**12.374**	**23.394**	**-2.905**	**5.582**	**-1.576**	**-7.544**	**-169**	**-4.407**

Notes to the statement of comprehensive income (Part D)

[1] Cf. section 2: "net trading income" include the amount of the commissions paid and received respectively for the activities of securities borrowing and lending.

[2] Cf. section 3: "net interest income" include the net interest margin generated by financial derivative instruments classified as held for trading.

[3] Cf. section 7.

[4] Cf. section 10: "net fee and commission income" include the carrying amount of other operating income, whilst other operating expenses are reclassified under the item "other administrative expesenses".

Statement of comprehensive income as at 30 June 2017 (in € k)

30/06/2017			Statement of comprehensive income (restated)						
			Net interest income	**Net trading income**	**Net fee and commission income**	**Wages and salaries**	**Other administrative expenses**	**Loans impairment**	**Fiscal provision**
10.	Interests and similar income	105.857	105.857	-	-	-	-	-	-
20.	Interest expense and similar charges	-67.305	-67.305	-	-	-	-	-	-
30.	**Net interest income**	**38.552**	**38.552**	**-**	**-**	**-**	**-**	**-**	**-**
40.	Fee and commission income	14.485	-	371[1]	14.114[1]	-	-	-	-
50.	Fee and commission expense	-13.514	-	-1.811[1]	-11.703[1]	-	-	-	-
60.	**Net fee and commission income**	**971**	**-**	**-1.440**	**2.411**	**-**	**-**	**-**	**-**
80.	Net trading income/expense	-3.705	-1.326[2]	-2.379[2]	-	-	-	-	-
90.	Net hedging income/expense	49	49	-	-	-	-	-	-
100.	Gain or loss on disposal or repurchase	329	-	329	-	-	-	-	-
120.	**Total income**	**36.196**	**37.275**	**-3.490**	**2.411**	**-**	**-**	**-**	**-**
130.	Adjustments for impairment	788	-	-	-	-	-	788	-
140.	**Net income from banking activities**	**36.984**	**37.275**	**-3.490**	**2.411**	**-**	**-**	**788**	**-**
180.	Administrative expenses	-8.524	-	-	-	-1.303[3]	-7.221[3]	-	-
a)	*personnel costs*	*-1.303*	-	-	-	*-1.303*	-	-	-
b)	*other administrative expenses*	*-7.221*	-	-	-	-	*-7.221*	-	-
200.	Net adjustments in respect of tangible assets	-11	-	-	-	-	-11	-	-
220.	Other operating income/expense	35	-	-	35	-	-	-	-
280.	**Profit (loss) of the ordinary activity before tax**	**28.484**	**37.275**	**-3.490**	**2.446**	**-1.303**	**-7.232**	**788**	**-**
290.	Income tax on the ordinary activity	-7.705	-	-	-	-	-	-	-7.705
340.	**Profit (loss) for the year**	**20.779**	**37.275**	**-3.490**	**2.446**	**-1.303**	**-7.232**	**788**	**-7.705**
350.	Other comprehensive income, net of tax	-	-	-	-	-	-	-	-
360.	**Total comprehensive income for the year, net of tax**	**20.779**	**37.275**	**-3.490**	**2.446**	**-1.303**	**-7.232**	**788**	**-7.705**

Notes to the statement of comprehensive income (Part D)

[1] Cf. section 2: "net trading income" include the amount of the commissions paid and received respectively for the activities of securities borrowing and lending.

[2] Cf. section 3: "net interest income" include the net interest margin generated by financial derivative instruments classified as held for trading.

[3] Cf. section 7.

ANNEX II – GIUDELINES ON ALTERNATIVE PERFOMANCE MEASURES

EXECUTIVE SUMMARY

The management report contains some Alternative Performance Measures (APMs) which are deemed useful and appropriate to provide additional qualitative and quantitative metrics on the performance achieved by the institution over the financial year. Although some of the above mentioned information are not directly traceable to the financial statements, a description of their content is provided hereunder so as a reconciliation with the method of calculation in line with the ESMA guidelines published on 5 October 2015 (ref. ESMA 2015/1415).

ALTERNATIVE PERFORMANCE MEASURES

APMs used in the management report as at June 30th are as follows:

- **Watch List Ratio** (cf. p. 11 of the management report) which compares the exposures reported within the credit watch list of the institution at the reporting date with the total credit exposure amount (drawn and undrawn commitments, always net of any financial guarantee received from the Parent company and/or third party insurers).

(in €)		30/06/2018	30/06/2017
Watch list ratio =	Net credit watch list exposures	76.162.027	44.304.698
	Net credit exposures	1.604.276.839	1.246.811.711
	ratio %	**4,7**	**3,6**

The goal of the credit watch-list process is to highlight potentially problematic clients through the use of an early warning system that identifies counterparties which have manifested or potentially could manifest weaknesses and thus require a closer monitoring. The identified counterparties are then added to the watch-list and classified based on the alert level assigned ("Red", "Amber", "Green" – for performing assets - and "Black" for non-performing assets). Counterparties that have not manifested signs of weakness and/or increased risk are not included within the watch-list, whilst "forborne" exposures are always included within the watch-list.

A low level of the ratio is synonymous with high credit quality and identifies a small contribution of "weak/problematic" exposures to the outstanding credit portfolio.

- **Return On Equity** (ROE, cf. p. 17 of the management report) is the amount of net income returned as a percentage of the shareholders' equity.

(in €)		30/06/2018	30/06/2017
Return on equity =	Net income	12.374.359	20.779.413
	Shareholders' equity	328.552.612	307.773.199
	ratio %	**3,8**	**6,8**

The ROE is a pure profitability metric, which compares the profit available to shareholders with the capital provided by shareholders. It determines how efficiently the institution is turning the cash put into the business by the shareholders into growth for the company and the investors.

The ROE is also useful for comparing the profitability of companies in the same industry.

- **Return On Asset** (ROA, cf. p. 17 of the management report) is the amount of net income returned as a percentage of the average total assets.

(in €)		30/06/2018	30/06/2017
Return on assets =	Net income	12.374.359	20.779.413
	Average total assets	6.103.002.024	5.736.790.936
	ratio %	**0,2**	**0,4**

As with the ROE (cf. above), the ROA is a pure profitability metric which is useful for comparing revenues of companies within the same industry. It shows how profitable a company's assets are in generating income.

ANNEX III - GLOSSARY

EXECUTIVE SUMMARY

A list (not exhaustive) of certain technical terms is provided below in the meaning adopted in the annual accounts and report as at June 30^{th}.

ABS – Asset Backed Security

Financial security whose yield and redemption are guaranteed by a pool of underlying assets (collateral) such as loans, mortgages, leases, royalties or other receivables. This kind of securities are generally issued by a Special Purpose Vehicle and the pool of underlying assets is typically a group of small and illiquid assets which are unable to be sold individually.

APM – Alternative Performance Measures

Cf. Annex II – Guidelines on Alternative Performance Measures

ASF – Available Stable Funding

Available Stable Funding (ASF) is an input to the calculation of the net stable funding ratio (NSFR) for bank prudential management purposes. ASF is the bank's liabilities, weighted according to their expected stability (which is, in turn, determined by the funding tenor, type and counterparty).

Basel 2

Reference prudential regulations based on three pillars:

Pillar 1: set of rules for measuring the typical risks associated with the banking and financial activities (i.e. credit risk, counterparty risk, market risk and operational risk) which provides also for alternative calculation methods characterized by different level of complexity, with the ability to use internally developed models subject to prior authorization from the Supervisory Authority.

Pillar 2: this requires that banks implement processes and instruments to determine the adequate level of total internal capital (Internal Capital Adequacy Assessment Process – ICAAP) which is needed to cover all risks, including risks different from those covered under the "Pillar 1" (cf. above), taking into account the business strategies and the economic environment.

Pillar 3: this introduces obligations to publish information concerning capital adequacy, exposure to risks, and the general characteristics of the systems used for identifying, measuring and managing those risks.

Basel 3

In light of the crisis that in recent years has hit the financial markets, the Basel Committee on Banking Supervision has approved a substantial enhancement of the minimum capital requirements and the changes to the rules on the liquidity of banks.

CEO

Chief Executive Officer.

CET1 Ratio – Common Equity Tier1 Ratio

The ratio of Common Equity Tier 1 capital (CET1) to total risk-weighted assets.

CFO

Chief Financial Officer.

CSSF – Commission de Surveillance du Secteur Financier

The CSSF is a public institution which supervises the professionals and products of the Luxembourg financial sector. It supervises, regulates, authorizes, informs, and, where appropriate, carries out on-site inspections and issues sanctions. Moreover, it is in charge of promoting transparency, simplicity and fairness in the markets of financial products and services and is responsible for the enforcement of laws on financial consumer protection and on the fight against money laundering and terrorist financing (http://www.cssf.lu/en/about-the-cssf/about-the-cssf/).

CRO

Chief Risk Officer.

EBIT – Earnings Before Interest and Taxes

Earnings Before Interest and Taxes (EBIT) is an indicator of a company's profitability.

ECB – European Central Bank

The ECB is the central bank responsible for monetary policy of those European Union member countries which have adopted the euro currency (https://www.ecb.europa.eu/home/html/index.en.html). The European Central Bank is also the European body responsible for banking supervision. In conjunction with national supervisors, it operates what is called the Single Supervisory Mechanism (SSM).

ESMA – European Security and Markets Authority

The ESMA is an independent European Authority that contributes to safeguarding the stability of the European Union's financial system by enhancing the protection of investors and promoting stable and orderly financial markets (https://www.esma.europa.eu/about-esma/who-we-are).

FED – Federal Reserve System

The FED is the central bank of the United States of America. It promotes the effective operation of the U.S. economy and, more generally, the public interest (https://www.federalreserve.gov/aboutthefed.htm).

HQLA – High Quality Liquid Assets

Unencumbered assets which can be included as part of the bank's LCR evaluation thanks to their high liquidity (which is considered to stay preserved also during time of stress). Ideally, HQLA are eligible for discounting with the central bank.

HTM – Held To Maturity

A held-to-maturity investment is a non-derivative financial asset that has either fixed or determinable payments and a fixed maturity, and for which an entity has both the ability and the intention to hold to maturity.

IMF – International Monetary Fund

The IMF is an organization of 189 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. Created in 1945, the IMF is governed by and accountable to the 189 countries that make up its near-global membership (http://www.imf.org/en/About).

IAS/IFRS – International Accounting Standards

The IAS (International Accounting Standards) are issued by the International Accounting Standards Board (IASB). The standards issued after July 2002 are called IFRS (International Financial Reporting Standards).

IASB – International Accounting Standard Board

The IASB is the entity responsible for issuing international accounting standards (IAS/IFRS).

ICAAP – Internal Capital Adequacy Assessment Process

Cf. above "Basel 2 – Pillar 2".

IFRIC – International Financial Reporting Interpretations Committee

A committee within the IASB that establishes official interpretations of international accounting standards (IAS/IFRS).

L&R – Loan and Receivables

Financial assets which meet the definition of L&R under the International Accounting Standard IAS 39.

Leverage Ratio

The ratio of Common Equity Tier 1 capital (CET1) to total assets and certain off-balance sheet exposures. Similarly to CET1 Ratio, the Leverage Ratio is used as indicator of the institution's capital adequacy.

LCR – Liquidity Coverage Ratio

Ratio which refers to the amount of High Quality Liquid Assets (HQLA) held by the institution to meet its short-term liquidity obligations (30 days). LCR is a generic stress test, which aims to ensure that banks have the necessary assets on hand to ride out any short-term liquidity disruptions.

NAV – Net Asset Value

Net asset value is the value of a fund's asset less the value of its liabilities per unit.

NSFR – Net Stable Funding Ratio

The NSFR is defined as the amount of available stable funding (ASF) relative to the amount of required stable funding (RSF).

Non performing

Non performing exposures are debt instruments and off-balance sheet exposures which satisfy either or both of the following criteria: (i) material exposures which are more than 90 days past-due; (ii) the debtor is assessed as unlikely to pay its credit obligations in full without realization of collateral (regardless of the existence of any past-due amount or of the number of days past due).

ROA – Required On Asset

ROA is the amount of net income returned as a percentage of the average total assets.

ROE – Required On Equity

ROE is the amount of net income returned as a percentage of the shareholders' equity.

RWA – Risk Weighted Assets

On-balance sheet assets and off-balance sheet assets classified and weighted by different coefficients referring to risks, following banking rules issued by local Supervisors to calculate solvency ratios.

RSF – Required Stable Funding

Required Stable Funding (RSF) is an input to the calculation of the net stable funding ratio (NSFR) for bank prudential management purposes. A bank's Required Stable Funding is calculated from its assets, weighted according to their maturity, credit quality and liquidity, together with an amount in relation to off balance sheet commitments.

Schuldschein

Debt instruments usually governed by German law. Schuldschein are bilateral loans, privately placed, unlisted and unregistered.

SPV

A legal entity established to facilitate a single transaction or purpose.

Tier 1

Tier 1 equity includes Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1).

Tier 2

Tier 2 capital includes eligible subordinated debt and certain hybrid instruments. Tier 2 is of lower loss-absorbing quality than Tier 1 capital, and its eligible amount for capital adequacy calculation purposes is restricted accordingly.

TLTROs – Targeted Longer Term Refinancing Operation

The Targeted Longer-Term Refinancing Operations (TLTROs) are Eurosystem operations that provide financing to credit institutions for periods of up to four years. They offer long-term funding at attractive conditions to banks in order to further ease private sector credit conditions and stimulate bank lending to the real economy.

Total Capital Ratio

The ratio of the bank's total capital (Tier 1 plus Tier 2) to its RWA.

WL Ratio – Watch List Ratio

Ratio which compares the exposures reported within the credit watch list of the institution at the reporting date with the total credit exposure amount (drawn and undrawn commitments, always net of any financial guarantee received from the Parent company and/or third party insurers).

ZLB – Zero Lower Bound

Macroeconomic problem that occurs when the short-term nominal interest rate is at (or near) zero, causing a liquidity trap and limiting the capacity that the central banks have to stimulate economic growth.