MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.

RCSL n. B112885

Interim Report
for the six months ended 31 December 2018

MEDIOBANCA INTERNATIONAL (Luxembourg)

SOCIÉTÉ ANONYME

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

Board of Directors meeting
30th January 2019

www.mediobancaint.lu

BOARD OF DIRECTORS

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

INDEPENDENT AUDITOR

PRICEWATERHOUSECOOPERS S.C. LUXEMBOURG

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MANAGEMENT REPORT

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 31 DECEMBER 2018
BOARD OF DIRECTORS' REVIEW OF OPERATIONS

The OECD forecasts global economic growth to ease gradually from 3.7 percent in 2018 to 3.5 percent in 2019. Also growth in the OECD area is set to slow gradually from 2.5 percent in 2018 to just under 2 percent by 2020. Global trade has already started to ease, with trade restrictions having adverse effects on confidence and investment plans, and global trade growth appears set to remain at under 4 percent per annum on average over 2018-20. Outcomes could be weaker still if downside risks materialise. Further moves by the United States and China to raise barriers on bilateral trade would hit output in these economies, with adverse effects on global growth and trade. Higher and more volatile oil prices over the past year have added challenges for oil-importing economies. Oil prices have been approx. over 30% higher in 2018 than in 2017. The rise in prices over the past year is already having a mild negative effect on global growth and adding to inflation.

Growth in the euro area is set to moderate slowly from around 2 percent in 2018 to a little over 1.5 percent by 2020. Accommodative monetary policy, solid job growth and favourable financing conditions provide support for domestic demand, but headwinds are appearing from weaker external demand and higher policy uncertainty.

In Italy GDP growth is projected to be 0.9 percent in 2019. Private consumption will moderate, as lower employment growth and rising consumer price inflation temper real household disposable income gains and offset the positive effect of expansionary fiscal policy. Public debt, which has been gradually falling in relation to GDP, will instead stabilize at a high level.

In Luxembourg growth is projected to stay robust in 2019. Domestic demand will support economic activity, with private consumption boosted by a buoyant labour market and lasting effects of tax reform. Reliance on the financial sector exposes Luxembourg to increased financial volatility transmitted by international investment funds.

In United Kingdom economic growth is projected to increase slightly in 2019 before slowing in 2020, on the assumption that there is a smooth exit from the European Union. Some Brexit-related uncertainties will remain until there is clarity about future trading arrangements. Economically, the preferred Brexit option should be to forge an agreement that will ensure the closest possible trading relationship with the European Union and high access for financial services to overseas markets. Temporary measures will be needed to cushion the economy and support displaced workers in the event of a no-deal exit.

In United States growth is projected to slow in the coming two years as macroeconomic policy becomes less supportive. While employment growth slows, consumption growth remains solid, supported by wage growth picking up as the labour market tightens further. Strong business investment in 2019 and 2020 is underpinned by the recent tax reform and supportive financial conditions. The large fiscal stimulus enacted in 2017 and 2018 is continuing, albeit more weakly, in 2019; the budget will have a broadly neutral impact on activity in 2020.

Growth prospects in the emerging-markets and developing economies collectively appear stable over 2018-20, but this masks diverging developments in the major economies. The growth outlook is particularly weak in those economies facing substantial financial market pressures and uncertainty about the future pace of reforms[1].

During the six months under review the Bank has reported a net profit of € 1.4m i.e. a decrease of approximately -81% when compared to December 2017 (€ 7.2m). A detailed analysis of the performance registered on the main income and financial items is made further in this report.

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

- Brexit: transitional period planned to start as of March 2019.
- CRD V/CRR II: a political deal was reached in late 2018 in negotiations on the EU's bank capital legislative package. These regulations, the purpose of which is to implement Basel III within the EU, are currently being reviewed by various EU legislative bodies. Rather than piecemeal regulatory updates, CRD V and CRR II are refinements of reforms that started after the 2008-09 financial crisis. The proposed amendments to the package, implement the most recent international regulatory standards for banks and address some regulatory shortcomings to contribute to sustainable bank financing of the economy.
- NPL management and the new definition of default: in 2019 will entry into force the EBA guidelines on managing non-performing exposures (NPEs). The guidelines aim to ensure that credit institution have adequate prudential tools and framework in place to effectively manage their NPEs and to achieve a sustainable reduction on their balance sheets. They require institutions to establish NPE reduction strategies and introduce governance and operational requirements to support them.
- Changes of reference benchmarks (ESTER): ECB, FCA and European Commission have recently started to reflect on the usage of key benchmarks (Libor, Euribor, Eonia). The new methodology will be aligned on the Benchmark Regulation, switching from judgemental expert contributions to transaction-based data. As a result, the ECB is mandating to switch from Eonia to Ester for short term rates. As regards Euribor and Libor, their future is currently under discussion.

* * *

[1] Source: OECD general assessment of the macroeconomic situation (November 2018).

RESTATED 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 in the customary manner to provide the most accurate reflection of the Bank's operations.

	31/12/2018	30/06/2018	Chg.
	€k	€k	%
Financial assets at FVTPL	55.430	22.426	147,2%
Treasury investments	1.990.857	2.132.904	-6,7%
Debt securities - banking book	12.886	49.193	-73,8%
Loans and advances	4.581.783	4.699.789	-2,5%
Equity investments	4.150	4.150	0,0%
Tangible and intangible assets	12	11	9,1%
Other assets	26.809	110.286	-75,7%
Total Assets	**6.671.927**	**7.018.759**	**-4,9%**
Loans and borrowings	3.569.454	4.292.340	-16,8%
Debt securities issued	2.687.289	2.281.763	17,8%
Treasury borrowings	2.551	39.308	-93,5%
Financial liabilities held for trading	52.534	19.050	175,8%
Other liabilities	19.619	44.964	-56,4%
Provisions for risks and charges	860	407	111,3%
Net equity	338.248	328.553	3,0%
Net profit	1.372	12.374	-88,9%
Total liabilities	**6.671.927**	**7.018.759**	**-4,9%**

Treasury investments – the item decreased by -6,7% from € 2.132,9m to € 1.990,9m and includes:

- Reserve requirement at the Central Bank of Luxembourg which decreased by 9,7% from € 19m to € 17,1m;
- Demand deposits with third party credit institutions which increased by 278,7% from € 129,5m to € 490,2m primarily by reason of the institution's liquidity position which results rather "long" as a consequence of the borrowing transactions concluded during the semester;
- Term deposits with the Group Treasury decreased by -6,2% from € 1.581,1m to € 1.483,3m and represent the reuse of the liquidity in excess collected through the NEU CP and the Euro CP programmes;
- Carrying amount of the repo transactions with the Group Treasury turned to zero during the semester (from € 402,7m) by reason of the contractual maturity of the related secured funding transaction.

	31/12/2018	30/06/2018	Chg.
	€k	**€k**	**%**
Reserve requirement at Central Bank	17.143	18.992	-9,7%
Demand deposits	490.228	129.459	278,7%
Term deposits	1.483.272	1.581.109	-6,2%
Repo transactions	-	402.726	-100,0%
Other money market operations	214	136	57,4%
Others exposures (treasury)	-	482	-100,0%
Treasury investments	**1.990.857**	**2.132.904**	**-6,7%**

Loans and advances – this item decreased by -2,5% from € 4.699,8m to € 4.581,8m due to the reimbursements of the period which have been only partially compensated by the new financings. The institution's net credit risk exposure (i.e. excluding the amounts already guaranteed by financial pledge of the Parent and/or third Insurers/public Agencies) also decreased, passing from € 1.175,6m at the end of June 2018 to € 1.075,7m at the end of December 2018.

In an environment which continues to be very challenging, it is worth mentioning that the carrying value of non-performing exposures remains very close to zero (i.e. € 1,4m stable compared to the end of June 2018). This result confirms the institution' strong commitment to asset quality and risk control.

	31/12/2018	30/06/2018	Chg.
	€k	**€k**	**%**
Loans and receivables (banks)	648.739	645.804	0,5%
of which: non-performing	-	-	-
Loans and receivables (customers)	3.933.044	4.053.985	-3,0%
of which: non-performing	*1.449*	*1.449*	*0%*
Loans and advances	**4.581.783**	**4.699.789**	**-2,5%**

Loans and borrowings – this item decreased by -16,8%, passing from € 4.292,3m to € 3.569,4m. In detail:

- Amount due to banks increased by 10.2% passing from € 2.128,6m to € 2.346,5m mainly as a consequence of the decrease of borrowings from customers (cf. below).
- Amount due to customers decreased by -88,6% from € 792,7m to € 90m by reason of the contractual repayment of two secured funding transaction for a nominal amount of € 400m and € 300m respectively.
- Borrowings under the NEU CP and the Euro CP Programmes decreased by -18% from € 1.371,6m to € 1.125,4m.

	31/12/2018	30/06/2018	Chg.
	€k	€k	%
Loans and borrowings (banks)	2.346.503	2.128.652	10,2%
Loans and borrowings (customers)	90.012	792.710	-88,6%
Negotiable commercial papers	1.125.417	1.371.635	-18,0%
CFV notes issued	7.522	-657	-1244,9%
Loans and borrowings	**3.569.454**	**4.292.340**	**-16,8%**

Debt securities issued – this item increased by 17,8% passing from € 2.281,8m to € 2.687,3m primarily by reason of the decrease of borrowings from customers (cf. above).

	31/12/2018	30/06/2018	Chg.
	€k	€k	%
Debt securities issued - non structured	2.630.510	2.214.706	18,8%
Debt securities issued - structured	56.779	67.057	-15,3%
Debt securities issued	**2.687.289**	**2.281.763**	**17,8%**

RESTATED 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 in the customary manner to provide the most accurate reflection of the Bank’s operations.

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

	6 mths to 31/12/2018	6 mths to 31/12/2017	Chg.
	€k	**€k**	**%**
Net interest income	9.013	12.499	-27,9%
Net trading income	163	-1.513	-110,8%
Net fee and commission income	-377	2.642	-114,3%
TOTAL INCOME	**8.799**	**13.628**	**-35,4%**
Wages and salaries	-1.021	-837	22,0%
Other administrative expenses	-2.892	-3.189	-9,3%
OPERATING COSTS	**-3.913**	**-4.026**	**-2,8%**
Loans impairment	-2.654	170	-1.661,2%
Provisions for other financial assets	-384	–	–
Other profit (losses)	–	–	–
PROFIT BEFORE TAX	**1.848**	**9.772**	**-81,1%**
Fiscal provision	-476	-2.575	-81,5%
TOTAL COMPREHENSIVE INCOME	**1.372**	**7.197**	**-80,9%**

Net interest income – this item decreased by -27,9% from € 12,5m to € 9m) due to the followings:

- higher interest income (+34,4%, from € 39m to € 52,4m) due to the positive dynamic of the interest rates on the corporate lending activity;
- higher interest expense (+41,7%, from € -30,6m to € -43,4m) by reason of increasing cost of borrowings registered in particular on the maturities over 1-year;
- The above, has been worsened by the missing contribution from the treasury activities (€ 4,1m at December 2017).

	6 mths to 31/12/2018	6 mths to 31/12/2017	Chg.
	€k	**€k**	**%**
Interest income - lending	52.437	39.023	34,4%
Interest expense - funding	-43.371	-30.617	41,7%
Net interest income (expense) - Treasury	-53	4.093	-101,3%
Net interest income	**9.013**	**12.499**	**-27,9%**

Net trading income – the contribution of the trading portfolio turned from negative (€ -1,5m at the end of December 2017) into positive (€ 0,2m at the end of December 2018). This category is composed as follows:

	6 mths to 31/12/2018	6 mths to 31/12/2017	Chg.
	€k	€k	%
Derivatives - realised gains and losses	113	-784	-114,4%
Derivatives - unrealised gains and losses (mtm)	-171	277	-161,7%
Forex gains and losses	-112	-806	-86,1%
Other realised gains and losses	333	-200	-266,5%
Net trading income	**163**	**-1.513**	**-110,8%**

- Realized gains and losses on derivatives refer to profits or losses from completed transactions.
- Unrealised mark to market valuations generated a loss of € -0,2m (€ 0,3m at December 2017). In this respect it is worth remarking that the Parent Bank is substantially the only swap counterparty of the institution.
- Forex exposures has generated a loss of € -0,1m (whilst at December 2017 the loss was equal to € -0,8m).
- Other realized gains and losses primarily refer to securities lending transactions which have generated a net contribution of € 0,3m (whilst at December 2017 the contribution was negative for € -0,2m).

Net fee and commission income – this item, still driven by corporate lending and treasury services, decreased by -114,3% when compared to December 2017 (from € 2,6m to € -0,4m) mostly by reason of the increase in the amounts due to the Group Treasury for the structuring of the bond issuances and for the surety granted on the notes issued under the existing Programmes.

	6 mths to 31/12/2018	6 mths to 31/12/2017	Chg.
	€k	€k	%
Fee and commission income	7.265	6.914	5,1%
Fee and commission expense	-7.775	-4.354	78,6%
Other income/expense	133	82	62,2%
Net fee and commission income (expense)	**-377**	**2.642**	**-114,3%**

Operating costs – this item is stable at € -3,9m (€ -4,0m at December 2017) with the main components which performed as follows:

- wages and salaries increased by 22% (from € -0,8m to € -1m) essentially because of the hiring of new personnel.

- other costs decreased by -9,3% (from € -3,2m to € -2,9m) mostly by reason of lower administrative expenses incurred under the service agreement with the Parent Company.

Loans impairment – the contribution of this item turned from positive (€ 0,2m) into negative (€ -2,6m) by reason of the first time adoption of the new accounting standard IFRS9 (for further details please refer to Part A.1 – Section 3 of the Accounting Policies).

pp. BOARD OF DIRECTORS
CHAIRMAN
(Mr. Peter W. Gerrard)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.

Statement of Directors' responsibilities

To the best of our knowledge, the interim accounts 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 31 December 2018.

Luxembourg, 30 January 2019

The Board of Directors

Peter W. Gerrard | Stefano Biondi | Stephane Bosi

Massimo Di Carlo | Giovanni Mancuso | Piero Pezzati

Paola Schneider

INTERIM ACCOUNTS

STATEMENT OF FINANCIAL POSITION (*)

	Assets	31.12.2018 IFRS 9	30.06.2018 IAS 39
		€	€
10.	Cash and cash equivalents	68	
	Cash and cash balances with Central Banks (former heading 10 pursuant IAS 39)		18.991.743
20.	Financial assets valued at FVPL	55.430.300	
	Financial assets held for trading (former heading 20 pursuant IAS 39)		22.426.337
40.	Financial assets valued at amortised cost	6.585.526.235	
	a) Due from banks	*2.642.399.018*	
	b) Due from customers	*3.943.127.217*	
	Financial assets held to maturity (former heading 50 pursuant IAS 39)		10.000.638
	Loans and advances to credit institutions (former heading 60 pursuant IAS 39)		2.774.876.819
	Loans and advances to customers (former heading 70 pursuant IAS 39)		4.090.380.576
50.	Hedging derivatives	3.609.182	1.689.398
70.	Equity investments	4.150.000	4.150.000
90.	Property, plant and equipment	12.499	10.674
110.	Tax assets	941.879	
130.	Other assets	9.869.937	91.808.385
	TOTAL ASSETS	**6.659.540.100**	**7.014.334.570**

The accompanying notes form an integral part of the interim accounts. For further details on the transition to IFRS9 please refer to the Part A.1 – Section 3 of the Accounting policies.

(*) The Group Mediobanca has availed itself of the possibility of not restating the comparative data for the first year of IFRS 9 adoption on a like for like basis. Accordingly, the figures for the FY1718, stated in compliance with IAS 39, are not fully comparable.

	Liabilities and equity	31.12.2018 IFRS 9	30.06.2018 IAS 39
		€	€
10.	Financial liabilities valued at amortised cost	6.260.903.192	
	a) Due to banks	*2.350.663.094*	
	b) Due to customers	*90.012.174*	
	b) Debt securities in issue	*3.820.227.924*	
	Amount due to credit institutions (former heading 10 pursuant IAS 39)		2.180.325.918
	Amount due to customers (former heading 20 pursuant IAS 39)		792.710.284
	Debt securities in issue (former heading 30 pursuant IAS 39)		3.652.740.949
20.	Financial liabilities valued at FVTPL	52.534.206	
	Trading liabilities (former heading 40 pursuant IAS 39)		19.050.100
40.	Hedging derivatives	268.307	11.121.740
60.	Tax liabilities	2.330.574	11.167.088
80.	Other liabilities	3.024.142	6.291.520
100.	Provisions for risks and charges	860.412	
150.	Reserves	328.247.674	318.552.612
160.	Share capital	10.000.000	10.000.000
200.	Profit (Loss) of the year	1.371.593	12.374.359
	Total liabilities and shreholders equity	**6.659.540.100**	**7.014.334.570**

The accompanying notes form an integral part of the interim accounts. For further details on the transition to IFRS9 please refer to the Part A.1 – Section 3 of the Accounting policies.

STATEMENT OF COMPREHENSIVE INCOME

Balance sheet items		31.12.2018 IFRS 9	31.12.2017 IAS 39
		€	€
010.	Interests and similar income	53.405.626	44.875.692
020.	Interest expense and similar charges	-44.408.986	-32.078.269
030.	**Net interest income**	**8.996.640**	**12.797.423**
040.	Fee and commission income	8.128.070	7.475.656
050.	Fee and commission expense	-8.288.385	-5.160.283
060.	**Net fee and commission income**	**-160.315**	**2.315.373**
080.	Net trading income/expense	-163.894	-1.313.271
090.	Net hedging income/expense	10.967	-298.179
100.	Gain or loss on disposal or repurchase of:	-16.233	45.022
	a) financial assets valued at amortised cost	*77.279*	*84.904*
	b) financial assets valued at FVOCI	–	–
	c) financial liabilities	*-93.512*	*-39.882*
120.	**Total income**	**8.667.165**	**13.546.368**
130.	Adjustment for impairment to:	-2.922.141	
	a) financial assets valued at amortised cost	*-2.922.141*	
	b) financial assets valued at FVOCI	–	
	Adjustment for impairment to (former heading 130 pursuant IAS 39):		170.602
	a) loans and receivables		*148.540*
	b) financial assets available for sale		–
	c) financial assets held to maturity		–
	d) other financial operations		*22.062*
150.	**Net income from financial operations**	**5.745.024**	**13.716.971**
190.	Administrative expenses	-3.939.595	-4.022.240
	a) personnel costs	*-1.020.633*	*-837.537*
	b) other administrative expenses	*-2.918.962*	*-3.184.703*
200.	Net provisions for risks and charges	-115.946	
210.	Value adjustments in respect of tangible assets	-2.012	-3.479
230.	Other operating income/expense	160.168	81.247
290.	**Profit (loss) of the ordinary activity before tax**	**1.847.639**	**9.772.499**
300.	Income tax on the ordinary activity	-476.047	-2.575.287
330.	**Profit (loss) for the period**	**1.371.593**	**7.197.212**
340.	Other comprehensive income, net of tax	–	–
350.	**Profit (Loss) of the year**	**1.371.593**	**7.197.212**

The accompanying notes form an integral part of the interim accounts. For further details on the transition to IFRS9 please refer to the Part A.1 – Section 3 of the Accounting policies.

STATEMENT OF CHANGES IN EQUITY FROM 01/07/2018 TO 31/12/2018

Amounts in €	Balance as at 30 June 2018	First time adoption IFRS 9	Allocation of the profit for the previous period		Changes during the reference period					Balance as at 31 December 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	**318.552.612**	**-2.679.296**	**12.374.359**	**—**	**—**	**—**	**—**	**—**	**—**	**328.247.675**
a) legal reserve	1.000.000	—	—	—	—	—	—	—	—	1.000.000
b) free reserve	282.923.412	—	4.010.809	—	—	—	—	—	—	286.934.221
c) special reserve(1)	34.629.200	—	8.363.550	—	—	—	—	—	—	42.992.750
d) FTA reserve	—	-2.679.296	—	—	—	—	—	—	—	-2.679.296
Valuation reserves	**—**	**—**	**—**	—	—	—	—	—	**—**	**—**
a) AFS securities	—	—	—	—	—	—	—	—	**—**	**—**
b) cash flow hedges	—	—	—	—	—	—	—	—	**—**	**—**
c) special laws – others	—	—	—	—	—	—	—	—	**—**	**—**
Own shares	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Comprehensive income of the period	**12.374.359**	**—**	**-12.374.359**	**—**	**—**	**—**	**—**	**—**	**1.371.593**	**1.371.593**
Total equity	**340.926.971**	**-2.679.296**	**—**	**—**	**—**	**—**	**—**	**—**	**1.371.593**	**339.619.268**

(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: (i) a reserve equivalent to five times the net wealth tax charge for the year is recorded following the decision of the Shareholders meeting, and (ii) the reserve will be maintained for a period of at least five years.

The accompanying notes form an integral part of the interim accounts.

STATEMENT OF CHANGES IN EQUITY FROM 01/07/2017 TO 31/12/2017

Amounts in €	Balance as at 30 June 2017	Allocation of the profit for the previous period		Changes during the reference period					Balance as at 31 December 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	**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	9.250.000	—	—	—	—	—	282.846.187
c) special reserve[1]	35.824.651	8.131.775	-9.250.000	—	—	—	—	—	34.706.425
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**	—	—	—	—	—	**7.197.212**	**7.197.212**
Total equity	**328.552.612**	—	—	—	—	—	—	**7.197.212**	**335.749.823**

(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: (i) a reserve equivalent to five times the net wealth tax charge for the year is recorded following the decision of the Shareholders meeting, and (ii) the reserve will be maintained for a period of at least five years.

The accompanying notes form an integral part of the interim accounts.

CASH FLOW STATEMENT - Direct Method (in €k)

		Amount	
		31/12/2018	**31/12/2017**
		IFRS 9	***IAS 39***
A.	**Cash flow from operating activity**	**-15.000**	**-53.575**
1.	Operating activity	-38.223	35.892
	– interest received	50.110	30.426
	– interest paid	-3.124	-5.168
	– net fee and commission received/paid	-3.674	-349
	– dividends and similar income	—	—
	– net premium income	—	—
	– cash payments to employees	-1.121	-694
	– other income (expenses)	-77.617	13.984
	– Tax income (expenses)	-2.797	-2.307
2.	Cash generated/absorbed by financial assets	-1.027.349	-778.751
	– financial assets valued at FVTPL	817	
	– financial assets valued at FVOCI	—	
	– financial assets valued at amortised cost	-1.023.753	
	– other assets	-4.413	-293
	– amounts due from customers (IAS 39)		-212.794
	– amounts due from banks (IAS 39)		-653.734
	– financial assets measured at fair value (IAS 39)		88.070
3.	Cash generated/absorbed by financial liabilities	1.050.572	689.284
	– financial liabilities valued at FVTPL	—	
	– financial liabilities valued at amortised cost	1.113.202	
	– financial liabilities designated at fair value	—	
	– other liabilities	-62.630	3.509
	– amounts due to banks (IAS 39)		-219.742
	– amounts due to customers (IAS 39)		-73.440
	– debt securities in issue (IAS 39)		978.957
	– financial liabilities measured at fair value		—
B.	**Cash flow from investing activity**	**—**	**—**
	– purchase/disposal of shareholdings	—	—
	– purchase/disposal of financial assets held to maturity (IAS 39)	—	—
	– disposal/purchase of tangible assets	—	—
	– disposal/purchase of intangible assets	—	—
C.	**Cash flow from funding activity**	**15.000**	**—**
	– issue/redemption of T1 capital instruments	—	—
	– issue/redemption of subordinated debts (Tier II)	15.000	—
	Net cash flow (outflow) during year	**—**	**-53.575**

	Amount	
	31/12/2018	**31/12/2017**
Cash and cash equivalents: balance at 1 July	—	7.222
Total cash flow (outflow) during year	—	6.425
Cash and cash equivalents: balance at 31 December	**—**	**13.647**

NOTES TO THE INTERIM ACCOUNTS

PART A - ACCOUNTING POLICIES

A.1 – GENERAL PART

Section 1

Statement of compliance with the International Accounting Standards

The interim financial statements of the Bank Group are prepared in accordance with the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) promulgated by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and adopted by the European Commission in accordance with the procedure per Article 6 of the Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002. Accounting standard IAS 34 on interim reports is particularly taken into account.

Section 2

General principles

The interim accounts comprise:

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

All statements, prepared in accordance with the general principles prescribed by the IASB and with the principles set forth in Part A.2, present the data of the reference period compared with the data of the previous year or of the corresponding period of the previous year respectively for the entries of the statement of financial position and of the statement of comprehensive income.

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 interim accounts are presented in € k unless otherwise stated.

The preparation of interim accounts 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.

Hereafter instead the regulations approved by the European Commission during the semester and that will be adopted starting from the next year or thereafter, that supplemented the current regulations pertaining to accounting standards and that will be incorporated in the Group's accounting policies:

EU regulation	Date of adoption by the Group	Subject matter
2018/1595 of 23 October 2018	1 July 2019	Adoption of IFRIC23 - *Uncertainty over Income Tax Treatments*

From the starting date of this financial year onwards, the Mediobanca International has adopted the new accounting standards IFRS9 and IFRS15, previously adopted by the European Commission, respectively in the Regulation (EU) 2016/2067 of 22 November 2016 with regard to IFRS9 and in the Regulation (EU) 2016/1905 of 22 September 2016 with regard to IFRS15.

This interim report was subject to a limited audit of the accounts by PWC Luxembourg, Société cooperative.

Section 3

IFRS16 Leasing

Starting from 1 January 2019 (1 July 2019 for the Mediobanca Group), the new accounting standard IFRS16 - Leasing will enter into force, after being adopted by the European Commission with Regulation (EU) 2017/1986 of 31 October 2017. The standard will replace IAS 17, currently in force for lease agreements, as well as the interpretations IFRIC 4, SIC 15 and SIC 27.

Potential impacts are currently under evaluation; the implementation phase will be launched in the coming months.

Section 4

Events subsequent to the reporting date

After the closing date, no events took place that would induce to adjust the results posted in the interim report as at 31 December 2018.

A.2 – SIGNIFICANT ACCOUNTING POLICIES

Financial assets measured at amortised cost

Financial assets measured at amortised cost include loans to customers and banks, debt securities and repo transactions that meet the following conditions:

– the financial instrument is held and managed on the basis of the *Hold-to-collect* business model, i.e. with the goal of holding it to collect the contractually prescribed cash flows.
– the contractual cash flows represent exclusively the payment of capital and interest (and therefore meet the requirements of the SPPI Test).

The business model of the Bank must reflect the management procedures of the financial assets at the portfolio level and not at the individual instrument level on the basis of the observable factors at the portfolio level and not at the individual instrument level, such as:

- operating procedures adopted by management in the measurement of performance;
- type of risk and procedures for managing the risks undertaken, including portfolio turnover ratios;
- procedures for determining the mechanisms for the remuneration of managers.

The business model is based on reasonable expected scenarios (without considering “worst case’’ or ‘‘stress case’’) and in the presence of different cash flow trends from those expected initially, the Bank is not obligated to change the classification of the financial instruments in the portfolio but uses this information for the purposes of classification of the new financial instruments.

Upon first classification, the Bank also analyses the contractual terms of the financial instruments to verify the passing of the SPPI test; when the contractual cash flows of the instruments are not represented only by the repayment of principle and the payment of interest on the residual value, the Bank mandatorily classifies the instrument at fair value through profit or loss.

At the initial recognition date, the financial assets are recorded at fair value inclusive of the costs/income directly attributable to the individual transactions and determinable from the origin even though they were liquidated at subsequent times. Those costs that, while having the aforesaid characteristics, are separately repaid by the debtor counterparty or can be included among normal internal costs of an administrative nature, are excluded.

The measurement is made at amortised cost (i.e. the initial value minus/plus principal repayments, write-downs/write-backs and amortisation (calculated with the effective interest rate method - of the difference between the amount disbursed and the amount repayable at maturity) adjusted to take into account the expected losses.

The amortised cost method is not used for short-term loans for which the time-discounting effect is negligible; these receivables are measured at the historical cost. The effective interest rate is identified calculating the rate that equals the present value of the future flows of the loan, for principal and interest, to the initial recognition value.

The original effective rate of each loan remains unchanged over time, even if the loan was renegotiated entailing the change of the contractual rate below the market rate, including the case in which the loan becomes non-interest bearing. The value adjustment is recognised in the income statement.

After initial recognition, all financial assets measured at amortised cost are subjected to the impairment model based on the expected loss, the measurement pertains not only to impaired assets but also to performing items.

The impairment pertains to the losses expected to arise in the 12 months following the reporting date or, if there is a significant increase in the credit risk, the losses expected to arise along the residual maturity of the instrument. Both losses expected at 12 months and those over the residual maturity of the instrument can be calculated on an individual or collective basis depending on the nature of the underlying portfolio.

In accordance with IFRS 9, financial assets are divided in three categories:

- *stage 1*: includes exposures at the date of initial recognition in the financial statements and as long as their credit rating does not undergo a significant deterioration; for these instruments, the expected loss is to be calculated on the basis of default events that are possible within 12 months from the reporting date;
- *stage 2*: includes exposures that, while not impaired, underwent a significant deterioration in credit risk with respect to the initial recording date; in passing from Stage 1 to Stage 2, it is necessary to recognise the expected losses along the residual maturity of the instrument;
- *stage 3*: includes impaired exposures according to the regulatory definition. At the time of passing to Stage 3, exposures are evaluated on an individual basis, i.e. the value adjustment is calculated as the difference between the carrying amount at the date (amortised cost) and the present value of the expected cash flows, calculated applying the original effective interest rate. Expected cash flows take into account the expected collection times, the estimated realisable value of any guarantees, the costs expected to be incurred to recover the credit exposure with a forward looking view that factors alternative recovery and economic cycle evolution scenarios.

The Group's policy to establish the significant increase in credit risk takes into consideration qualitative and quantitative elements of each credit transaction or financial instrument and consideration is given in particular to elements determining the recognition of "forbearance measures", the ''30 days past due" criterion or the identification of other backstops like the passage to watch list according to credit risk monitoring rules. Currently, the Bank does not follow the simplified approach of the ''low credit risk exemption''.

Financial assets designated at fair value through profit and loss

Financial assets designated at fair value through profit and loss (FVTPL) include financial assets held for trading and other financial assets mandatorily measured at fair value.

Financial assets held for trading include those financial assets that were acquired mainly for trading.

Financial assets mandatorily measured at fair value include the financial assets that are not held for trading but that are mandatorily measured at fair value through profit or loss because they do not meet the requirements for classification at amortised cost.

At the settlement date for securities and loans and at the date of execution for derivative contracts, they are recognised at fair value without considering the transaction costs or income directly attributed to the instrument itself, which are recognised in the income statement. After the initial recognition, they continue to be measured at fair value and changes in fair value are recognised in the income statement. Interest on instruments mandatorily measured at fair value are recognised using the contractual rate. Dividends deriving from equity instruments are recognised in the income statement when the right to collect them arises.

The profits and losses realised on sale or repayment and the (positive and negative) effects deriving from periodic changes in fair value are recognised in the income statement in the net income from trading activities.

Assets held for trading mandatorily measured at fair value also include loans that do not guarantee repayment of the entire principal in case of financial hardship of the counterparty and dot not pass the SPPI test. The process of impairment of these positions is in line with that of the other loans, since the exposure is essentially ascribable to credit risk, indicating the gross exposure and the related allowance for bad debt.

Write-down of assets

A financial asset must be cancelled from the financial statements if and only if the contractual rights to the cash flows deriving from the asset expire, or the financial asset is transferred in compliance with IFRS9. In this case, the Bank verifies that the contractual rights to receive the cash flows from the asset are transferred or, alternatively, said rights are maintained, but at the same time, there is a contractual obligation to pay them to one or more beneficiaries. It is necessary to verify that substantially all risks and rewards are transferred and any rights and obligations originating from or maintained with the transfer, are, if the case warrants it, recognised separately as an asset or liability. If, on the contrary, the Bank maintains substantially all the risks and rewards, then the financial asset must continue to be recognised.

Lastly, if the Bank has neither transferred, nor maintained, all the risks and rewards, but, nonetheless, it has retained control of the financial asset, said asset continues to be recognised to the extent of the company's continuing involvement therein.

Currently, the main transactions carried out by the Bank that do not determine the elimination of the underlying asset are credit securization, repurchase transactions and securities lending.

In case of renegotiation of the financial assets measured at amortised cost, the Bank eliminates the instrument solely if the renegotiation entails such a change that the initial instrument has substantially become a new instrument. In these cases, the differences between the carrying amount of the original instrument and the fair value of the new instrument is recognised in the income statement, taking into account any previous write-downs. The new instrument is classified in stage 1 for the purposes of the calculation of expected losses (barring those cases in which the new instrument is classified among the POCI).

If the renegotiation is not translated into substantially different cash flows, the Bank does not eliminate the instrument, however it will recognise in the income statement the difference between the original carrying amount and the discounting of the expected cash flows at the original internal rate of return (taking into account any existing impairment provision).

Hedging transactions

With reference to hedging transactions the Bank (consistently with the Group's approach) chose to adopt the provisions of IFRS9 from 1 July 2018 onwards, and not to apply the allowed exception (i.e., continuing to apply the rules of IAS 39 to such transactions).

The types of hedging transactions adopted by the Bank are limited to fair value hedging, directed at neutralising the exposure to the change in the fair value of an entry in the financial statements.

Hedging derivatives are recognised and measured at fair value. The change in the fair value of the hedged item is offset by the change in the fair value of the hedging instrument, both recognised in the income statement, if any partial ineffectiveness of the hedging transaction emerges by difference.

The derivative instrument can be considered a hedge if there is formalised documentation about the unambiguous relationship with the hedged item and if this relationship is effective at the time the hedge starts and, prospectively, for its entire lifetime.

At the start of the hedging relationship, the Bank designates and formally documents the hedging relationship, indicating the risk management objectives and the strategy of the hedge. The documentation includes identification of the hedging instrument, of the hedged item, of the nature of the hedged risk and of how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of the sources of ineffectiveness of the hedge and of how it determines the hedging relationship).

Fair value hedges

As long as the Fair value hedge meets the eligibility criteria, the profit or loss of the hedging instrument is recognised in the income statement. The profit or loss on the hedged element are recognised as adjustments to the carrying amount of the edge with balancing entry in the income statement, even if the hedged element is a financial asset (or a component thereof) measured at fair value with changes in OCI, however, if the hedged item is an equity instrument for which the entity has chosen to present fair value changes in OCI, the amounts remain under other comprehensive income.

If the hedged element is an unrecorded irrevocable commitment (or a component thereof), the cumulative change in the fair value of the hedged item consequent to its designation is recognised as an asset or liability with a corresponding profit or loss recognised in the profit (loss) for the year.

Equity investments

The item includes the interests held in subsidiaries.

The bank uses the equity method to measure these equity investments, therefore equity investments are initially recognised at cost and subsequently adjusted to reflect changes in net assets with respect to the date of purchase.

After applying the equity method, if there are indications that the value of an equity investment may have undergone a reduction, the recoverable value of the equity investment is estimated, taking into account the present value of the future cash flows which the equity investment may generate, including the final disposal value of the investment.

If the recovery value is lower than the carrying amount, the related difference is recognised in the income statement.

If, in a year following the one when an impairment was recorded, there is a change in the estimates used to determine the recoverable value, the carrying amount of the equity investment will be revalued up to the recoverable value and the revaluation will constitute a write-back.

Tangible assets

These include land, business and investment properties, technical plants, furniture, furnishings and equipment of any type as well as assets used within financial lease agreements, although the lessor remains their legal owner.

They are recognised at the cost, which includes, in addition to the price paid, any additional charges directly attributable to the purchase and installation of the asset. Extraordinary maintenance expenses are recognised as increases to the value of the assets: ordinary maintenance expenses are recognised in the income statement.

Fixed assets are depreciation throughout their useful life, on a straight line basis, with the exception of land, which has indefinite useful life.

At the closing date of each set of financial statement or interim report, if it is determined that an asset may have undergone an impairment loss, the carrying amount is compared with the revised value, equal to the higher of the fair value, net of any selling costs, and the related value in use. Any adjustments are recognised in the income statement. If subsequently the reasons that led to the recognition of the loss cease to apply, a write-back is applied, which may not exceed the value the asset would have had net of depreciation calculated in the absence of previous impairment losses.

Provisions for risks and charges

These pertain to risks tied to the operations of the Bank, not necessarily connected with the missed repayment of receivables, which may entail future costs, that can be estimated reliably. If the time element is significant, allocations are discounted using current market rates. The allocation is recognised in the income statement.

Allocated provisions are periodically reviewed and if it becomes improbable that possible costs may be incurred, allocations are wholly or partly reversed to the benefit of the income statement.

An allocation is used only in view of the costs for which it was originally provided.

It also includes credit risk provisions recognised in view of commitments to grant finance and of guarantees provided that fall within the scope of IFRS 9 impairment rules. For these cases, the same criteria for *staging* and calculating the expected loss used for financial assets measured at amortised cost are adopted.

Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost include Payables to banks, Trade payables, Outstanding securities net of any repurchased amounts.

The initial recognition - upon collecting the amounts raised or issuing the debt securities - is carried out at fair value, equal to the amount collected net of the transaction costs directly attributable to the financial liabilities. After initial recognition, liabilities are measured at amortised cost on the basis of the effective interest rate, with the exception of short-term liabilities, which remain recognised for the collected value.

Any derivatives incorporated in structured debt securities are separated from the primary contract and recognised at fair value when they are not closely correlated with the host instrument. Any changes in fair value are attributed to the income statement.

Financial liabilities are eliminated from the financial statements when they are found to be expired or extinguished even in the presence of buy-backs of previously issued securities. The difference between the carrying amount of the liabilities and the amount paid to buy them back is recorded in the income statement.

The sale on the market of own securities bought back (also through repurchase transactions and securities lending) is considered as a new issue with recognition at the new sale price, without effects on the income statement.

Financial liabilities held for trading

They include the negative value of derivatives held for trading and of embedded derivatives present in any complex contracts. All liabilities held for trading are measured at fair value and changes are recognised in the income statement.

Foreign currency transactions

Foreign currency transactions are recorded applying to the foreign currency amount the exchange rate prevailing on the date of the transaction.

Assets and liabilities denominated in currencies other than the Euro are valued at the exchange rates prevailing on the reporting date. Exchange rates differences relating to monetary items are recognised in the income statement; those relating to non-monetary elements are recognised consistently with the criterion for measuring the category to which they belong (cost, income statement or shareholders' equity).

Tax assets and liabilities

Income taxes are recognised in the income statement, with the exception of those relating to items debited or credited directly to shareholders' equity. The allocation for income taxes is determined on the basis of a prudential forecast of the current, advanced and deferred tax charge. In particular, deferred tax assets and liabilities are determined on the basis of the temporary differences - without time limits - between the value attributed to an asset or a liability according to statutory criteria and the corresponding values assumed for tax purposes.

Deferred tax assets are recorded in the financial statements to the extent to which there is a probability that they will be recovered.

Deferred tax liabilities are recorded in the financial statements, if the amount of available reserves already subjected to taxation reasonably allows to deem that no transactions will be carried out that would lead to their taxation.

Tax assets and liabilities are adjusted in view of any changes in the rules or in the measure of the rates applied and to meet the costs that could derive from assessments or pending disputes with the tax authorities.

Contributions to deposit guarantee systems and resolution schemes are reported in accordance with IFRIC 21.

Fees from services

Fees from services include all revenues deriving from services rendered to customers.

Revenue from contracts with customers are recognised in the income statement when control over the service is transferred to the customer and for an amount that reflects the price to which the Group deems to be entitled in exchange for the service offered.

For revenue recognition purposes, the Bank analyses contracts in order to determine whether they contain more than one performance obligation to which the transaction price is to be allocated. Revenue is then recognised along the time interval of performance of the service, using appropriate method to determine the extent to which the service was rendered. The Bank also takes into consideration the effects of any variable prices and the existence of a significant financial component.

In the presence of incremental costs incurred to close the contract or to perform the contract, when such costs meet the requirements of IFRS 15, the Bank Group determines whether to capitalise them and then amortise them throughout the duration of the contract or to apply the exemplification provided by IFRS 15 to immediately expense such costs if the amortisation period of the aforesaid costs would take place within 12 months.

Cost recognition

Costs are recognised in the income statement consistently with the accounting of the related revenue with the exception of the cases in which the capitalisation requirements are met and when it is prescribed for the measurement of amortised cost. Any other costs that cannot be associated with revenue are recorded immediately in the income statement.

Related parties

The related parties defined on the basis of the IAS24 are:

a) entities that are directly or indirectly subject to the Bank’s control, parties to the shareholders’ agreement of Mediobanca with restricted interest exceeding 3% of the capital of Mediobanca, the related subsidiaries and parent companies;

b) associated companies, joint ventures and their subsidiaries;

c) key managers, i.e. persons vested with powers and responsibilities, directly or indirectly, for planning, managing and controlling the activities, including directors and members of the board of statutory auditors;

d) the subsidiaries, jointly controlled and associated entities of one of the parties per letter c) above;

e) the close relatives of the parties per letter c) above, i.e. those parties expected to be able to influence, or to be influenced, in their dealings with Mediobanca (this category can include the live-in partner, the children, the live-in partner's children, the dependents of the party and of the live-in partner) as well as the subsidiaries, jointly controlled entities and associated entities of one of these parties;

f) pension funds for employees of the parent company, or of any other related entity related to it;

g) transactions with respect to special purpose vehicles even if they are not directly attributable to related Parties, but whose benefits pertain to related Parties.

A.3 – SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENT

The interim accounts 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.

In the process of applying the Bank's accounting policies, management makes estimates and assumptions concerning the future and the amounts recognized in the interim accounts. 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 interim accounts 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 A.2.

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, risk 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 assumption about a number of factors and actual results may differ, resulting in future changes to the allowance. Impairment of financial assets takes account of data from the portfolio (such as level of arrears, credit utilization, loan to collateral ratio, etc.) and judgments to the effect of concentration of risk and economic data. The impairment loss on loans and advances is disclosed in more detail in section A.2.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the loss can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

PART B - TRANSITION TO IFRS 9

Introduction

In July 2014, the *International Accounting Standards Board* (IASB) promulgated the new accounting standard IFRS9 "*Financial Instruments"* with the objective of introducing new rules on (i) the classification and measurement of financial instruments, (ii) the logic and on the procedures for calculating valuation adjustments, and (iii) the *hedge accounting* model. The ratification process was completed with the promulgation of the Regulation (EU) 2016/2067 of the Commission of 22 November 2016, published in the Official Journal of the European Union L. 323 of 29 November 2016.

The Mediobanca Group adopted the new accounting standard IFRS9 as of 1 July 2018.

In compliance with the indications of the European Securities and Markets Authority (ESMA), included within the "*European common enforcement priorities for 2017 financial statements*" of 27 October 2017, and in relation to the requirements of IAS8 (par. 30 and 31), disclosure about the implementation of the new accounting standard is provided hereunder.

IFRS9 Financial Instruments comprises three different areas: "*Classification and Measurement*", "*Impairment*" and "*Hedge Accounting*". The main changes pertaining to "*Classification and Measurement*" and "*Impairment*", while the changes introduced on "*Hedge Accounting*" are less impactful. In particular:

– the classification and the consequent method of valuation of financial assets (with the exception of shares) is affected by two tests: one on the business model and the other one on the contractual characteristics of the cash flows (Solely Payment of Principal and Interest – SPPI test). It will be possible to recognise under amortised cost only the instruments that pass both tests, otherwise the assets will have to be recognised at fair value through profit or loss (this category thus becomes the residual portfolio). In addition, there remains an intermediate portfolio (Held to collect and sell) which, like the preceding Available for sale portfolio, provides for measurement at fair value through Shareholders' Equity (or the Other Comprehensive Income). Shares shall always be measured at fair value with the possibility, for those not held for trading, to record the effects of the fair value in an Equity reserves (instead of through profit or loss), however eliminating recycling, i.e. the effects of disposals will no longer be recognised in the income statement. Financial liabilities do not undergo particular changes in terms of classification and measurement, as the current rules are confirmed, with the exception of the accounting treatment of own credit risk: for financial liabilities designated at fair value (liabilities in fair value option) the Standard prescribes that changes in fair value due to changes in own credit risk are recognised in Shareholders' Equity, unless this treatment creates or expands an accounting mismatch in the profit or loss for the period, while the residual amount of changes in fair value of the liabilities has to be recognised in the income statement.

– With regard to "Impairment", for instruments measured at amortised cost and at fair value with balancing entry in the Shareholders' Equity (other than capital instruments), the new Standards marks the shift from a module of calculating the loss incurred to expected; provisioning shall be carried out on the entire portfolio (including the unimpaired portfolio) on the basis of forecast information that discount microeconomic factors (expected losses). In particular, at the time of initial recognition (stage 1) the instrument shall already discount an expected loss on a time horizon of 12 months; when a significant increase of credit risk occurs, the asset is classified in the portfolio under-performing (c.d. stage 2), which shall discount an expected loss over the entire life time; in case of further impairment, the shift to the performing segment shall be made (stage 3), where the final recovery value will be estimated. The expected loss shall be based on point in time data that reflect the internal credit models.

- With reference to Hedge Accounting, the new model rewrites the rules for the designation of a hedging relationship and for the verification of its effectiveness, with the goal of aligning the accounting representation with risk management activities and to enhance the disclosure of the risk management activities carried out by the reporting entity.

The Group project

The internal project of the Mediobanca Group was launched in 2015 under the joint leadership of the *Risk Management* and the *Accounting* Functions, with the participation of the other involved Functions (in particular *Front Office, Group Technology and Operations, Group Organization, Group ALM, Group Treasury*). Starting in January 2018, the testing phase of the new IFRS9 systems and processes was started ("parallel run" between IAS39 and IFRS9) which allowed to revise the organisational structure and the framework of the internal regulations (methodology, processes and procedures), as well as to test the information systems.

In 2017, the implementation framework was analysed ("*Thematic Review*") by the Single Supervisory Mechanism (SSM) on credit institutions, to assess the status of preparation of the Group to the adoption of IFRS9, whereupon some limited recommendations emerged, which have all been addressed in an action plan shared with the Supervisory Authority.

The main records, in terms of impacts and decisions made within the Mediobanca Group, are set forth below, broken down according to the main project area.

Classification and measurement

Within the scope of the activities for the "Classification and Measurement" of financial instruments, IFRS9 introduced new rules for financial assets, based on the portfolio management model and on the characteristics of the contractual cash flows of the instruments, ascertained through 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*, to which is added a residual (*Other*) business model, which includes all portfolios held for trading flow that continue to be measured at fair value with its changes booked to the profit and loss.

For the purposes of the classification of the financial instruments, the analysis of the business model was carried out assessing the portfolio of financial assets in light of the senior management's strategy, of the management of the portfolio risks, of the remuneration mechanisms, of the reporting procedures, as well as of the changes (past sales and future expectations). These considerations were incorporated in the internal management policies which, in addition to confirming the connection between business model and accounting treatment, introduce frequency and significance thresholds for changes in the portfolios recognised at amortised cost.

From the analyses carried out – with reference only to the portfolio of Mediobanca International - it emerged that:

- the loan portfolios - recognised per IAS39 at amortised cost in the Loans & Receivables category - have a management strategy consistent with a Hold to Collect business model;
- the debt securities of the banking book included among "assets held to maturity" in accordance with IAS39, are classified according to a Hold to Collect model.

It should be pointed out that the new accounting standard allows to opt, at the time of initial recognition and irrevocably, for measurement at FVPL (Fair Value Through Profit & Loss) of financial assets which otherwise would be measured at amortised cost or at FVOCI (Fair Value Through Other Comprehensive Income). However, the Bank decided not to choose this option.

To complete the phase of classifying the financial instruments in the new categories provided by IFRS9, the analysis of the business model shall be accompanying by the analysis of contractual cash flows (*Solely Payment of Principal and Interest* – SPPI test).

The SPPI test is performed at financial instrument, product or sub-product level, and takes into consideration the contractual characteristics of the asset. In this regard, the Group has devised a standardised process for the performance of the test, providing for the analysis of the loans through a dedicated tool developed internally and structured on decision-making trees, at the level of individual financial instrument or product on the basis of the different degree of tailoring. If the test is failed, the tool shall provide the indication of the classification of the assets at Fair Value Through Profit & Loss (FVPL). The loan testing procedure is carried out line by line at the individual loan level. To analyse debt securities, an external info provider is employed; if the results of the test are not present, the instrument will be analysed through the SPPI Tool.

To supplement what has already been reported, specific analysis methodologies were devised for instruments needing a benchmark test for the modified time value of money, and for the assessment of the credit risk of securitisation tranches.

Impairment

Based on the IFRS9, all financial assets not measured at FVTPL, represented by debt securities and loans, as well as off-balance-sheet exposures, associated with Hold to Collect or Hold to Collect & Sell business models, shall be subjected to the new "*forward looking*" impairment model. Adopting an expected loss approach at 12 months or the residual maturity of the instrument. Losses shall be recorded not only with reference to the objective impairment losses already manifested at the reporting date, but also on the basis of the expectation of future impairment losses that have not yet manifested themselves. In consideration of the aforementioned elements, IFRS9 provides for the classification of financial instruments in three categories (stages), according to a growing order of impairment of the credit rating.

To comply with the provisions of the IFRS9, the Group set up a financial instrument stage allocation model for the correct allocation of performing exposures in stage 1 or stage 2 if in the presence of a "Significant Increase in Credit Risk" (SICR).

With reference, instead, to non-performing exposures, the alignment of the definitions of accounting default to regulatory default allows to consider identical the current logic for classification of exposures among "non-performing" with respect to those of exposures in stage 3, albeit with some small measurement differences (see below).

The main methodological choices in terms of impairment are set forth below:

- valuation of the significant increase in credit risk: takes into consideration qualitative and quantitative elements directed at identifying the significant impairment of the credit rating of the counterparty for each facility. Moreover, the recognition of forbearance measures or the 30 days past due criterion are considered backstop indicators. According to the expectations of the Supervisory Authorities, the simplified "low credit risk exemption" approach is used to a very limited extent. The criteria defined for the purposes of shifting the exposures from stage 2 to stage 1 are symmetrical to those of the significant increase in credit risk (i.e. when the elements of significant impairment no longer hold true, the exposure returns to stage 1);

- inclusion of forward looking information in the model for calculating expected losses: forward looking information is considered with reference to three scenarios (baseline, mild-positive and mild-negative), which impact the risk parameter (PD and LGD). Forecasts are limited to three years, to assure a time horizon deemed reasonable. The use of forward looking scenarios is consistent with the macroeconomic forecast processes adopted by the Group for risk management purposes and carried out by a specific function of the Parent Company;

- adoption of forward looking parameters also for the calculation of the expected loss relating to stage 3 exposures: the impacts of alternative scenarios were simulated, including those connected with the different options for managing and recovering default positions (including sale scenarios);

- validation and back-testing: within the scope of the models based on the recognition of expected losses, a process was defined for validation and back-testing. The reference framework adopted determines the independence between the development unit and the model validation unit, taking into account a clear definition of roles and responsibilities. In addition, periodic analyses are carried out to assure that the assumptions on which the model is based are still valid and that the new information available is taken into consideration;

- calculation of 12-month and life-time expected losses: the IFRS9 estimate of the PD, LGD and EAD parameters is based on existing prudential models, adapted to incorporate the forward looking information and the multi-period horizon.

Hedge Accounting

With reference to the provisions of the IFRS9 on the new hedge model, the standard aims to simplify hedge accounting, assuring better alignment between the accounting representation of hedges and the underlying management logic (risk management). In particular, the new model entails an expansion of hedge accounting rules with reference to hedging instruments and to the related “eligible” risks. The standard provides the possibility of continuing to apply the hedge accounting rules of IAS39; however, the Group decided to adopt the new general hedge criteria (opt-in), without significant impacts.

The effects of “First Time Adoption” (FTA)

The changes introduced by IFRS9 on “Classification and Measurement” and “Impairment” produce their effects upon first adoption on the amount and on the breakdown of Shareholders’ Equity.

On the “Classification and Measurement” front, the analyses carried out on the portfolio of financial assets did not uncover any significant impacts. Also with reference to financial liabilities, no impacts of relevance were noted, with the exception of a reclassification of the provisions for credit risks recorded on the commitments to disburse funds and on the financial guarantees issued: in accordance with the new Group provisions, these imports shall be reclassified under “Provisions for risks and charges” instead of “Other Liabilities”.

The adoption of the new rules for the classification of financial instruments has no effect on the shareholders' equity of the Bank.

The most significant impacts of the transition to IFRS9 are tied to the changes in “Impairment”. With respect to IAS39 provisions, expected losses increased by approximately 3.6 million overall, entirely due to performing exposures (i.e. stage 1 and stage 2).

The increase in value adjustments on performing exposures is mainly due to the portion of exposures classified in stage 2 and to the value adjustments on exposures (direct and/or indirect) with respect to the Parent Company.

The higher value adjustments listed above led to an increase of 0.9 million of the Deferred Tax Assets (DTA).

All together, the changes affected the Shareholders' Equity of the Bank by 3.6 million (2.7 million net of the tax effect) with a total impact on the CET1 ratio estimated in approximately 7bps.

To mitigate the effect of the new standards on the prudential ratios, the Regulation (EU) 2017/2395 “transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds”, revising Regulation 575/2013 CRR with the addition of the new Article 473*a* “Introduction of IFRS 9”, allows banks to distribute the impacts on own funds deriving from the introduction of IFRS9 in a transitional period of 5 years, including a progressively decreasing amount of the impact in the CET1. At the individual level, the Bank did not deem it necessary to exploit this option granted by the transitional provisions.

With specific reference to the procedures for representing the effects of the first adoption of the standard, the institution will take advantage of the option allowed by IFRS9 and by IFRS1 (First-Time Adoption of International Financial Reporting Standards) which do not prescribe the mandatory reposting, on a consistent basis, of comparison data in the financial statements of first adoption of the new standard. Therefore, according to Group indications, the Bank, while invoking the exemption from the obligation to re-determine the comparison values shall, nevertheless, include in the first financial statements prepared according to the new accounting standard IFRS 9 a reconciliation statement showing the method that was used and providing a reconciliation between the data of the last approved financial statements and the first financial statements prepared according to the new provisions. The form and the content of this report are left up to the competent corporate bodies.

IAS39/IFRS9 – Statement of financial position reconciliation statements

The bridging tables between the statement of financial position published in the annual accounts as at 30 June 2018 and the new statement of financial position, as modified following the introduction of the accounting standard IFRS9, are shown below. Carrying amounts as at 30 June 2018 - determined in accordance with IAS39 - are reattributed to the new accounting items, without taking into consideration any impact arising from the classification and measurement rules prescribed by IFRS9 and, therefore, for equal total assets and total liabilities.

Table 1: reconciliation IAS 39-IFRS 9 - Total assets (in € k)

IAS 39 / IFRS9	10. Cash and cash balance with Central Banks	20. Financial assets held for trading	50. Financial assets held to maturity	60. Loans and advances to credit institutions	70. Loans and advances to customers	80. Hedging derivatives	100. Equity investments	120. Property, plant and equipment	160. Other assets	Total assets
10. Cash and cash balances	—	—	—	—	—	—	—	—	—	**—**
20. Financial assets valued at FVPL	—	22.426	—	—	—	—	—	—	—	**22.426**
40. Financial assets valued at amortised cost	18.992	—	10.001	2.774.877	4.090.381	—	—	—	—	**6.894.251**
50. Hedging derivatives	—	—	—	—	—	1.689	—	—	—	**1.689**
70. Equity investments	—	—	—	—	—	—	4.150	—	—	**4.150**
90. Tangible assets	—	—	—	—	—	—	—	11	—	**11**
110. Tax assets	—	—	—	—	—	—	—	—	—	—
130. Other assets	—	—	—	—	—	—	—	—	91.808	**91.808**
Total assets	**18.992**	**22.426**	**10.001**	**2.774.877**	**4.090.381**	**1.689**	**4.150**	**11**	**91.808**	**7.014.335**

Table 2: reconciliation IAS 39-IFRS 9 - Total liabilities (in € k)

IAS 39 / IFRS9	10. Amounts due to credit institutions	20. Amounts due to customers	30. Debt securities in issue	40. Trading liabilities	60. Hedging derivatives	80. Tax liabilities	100. Other liabilities	160. Reserves	190. Share capital	200. Profit (Loss) of the year	Total liabilities and Shareholders' equity
10. Financial liabilities valued at amortised cost	2.180.326	792.710	3.652.741	—	—	—	—	—	—	—	**6.625.777**
20. Financial liabilities valued at FVTPL	—	—	—	19.050	—	—	—	—	—	—	**19.050**
40. Hedging derivatives	—	—	—	—	11.122	—	—	—	—	—	**11.122**
60. Tax liabilities	—	—	—	—	—	11.167	—	—	—	—	**11.167**
80. Other liabilities	—	—	—	—	—	—	5.885	—	—	—	**5.885**
100. Provisions for risks and charges	—	—	—	—	—	—	407	—	—	—	**407**
150. Reserves	—	—	—	—	—	—	—	318.553	—	—	**318.553**
160. Share capital	—	—	—	—	—	—	—	—	10.000	—	**10.000**
200. Profit (Loss) of the year	—	—	—	—	—	—	—	—	—	12.374	**12.374**
Total liabilities and shareholders' equity	**2.180.326**	**792.710**	**3.652.741**	**19.050**	**11.122**	**11.167**	**6.292**	**318.553**	**10.000**	**12.374**	**7.014.335**

Reconciliation of Assets and Liabilities

The statement highlights, with respect to the statement of financial position, the impact of the application of IFRS 9, in terms of “Classification and Measurement” and “Impairment”.

The “Classification and Measurement” column shows the value changes due to a different measurement criterion. The “Impairment” column shows the value changes due to the adoption of the new impairment model introduced by IFRS 9.

Balance sheet items		30.06.2018	First time adoption		IFRS 9 01.07.2018
			Classification and measurement	**Impairment**	
10.	Cash and cash balances	—	—	—	—
20.	Financial assets valued at FVPL	22.426	—	—	22.426
40.	Financial assets valued at amortised cost	6.894.251	—	-3.284	6.890.967
50.	Hedging derivatives	1.689	—	—	1.689
70.	Equity investments	4.150	—	—	4.150
90.	Tangible assets	11	—	—	11
110.	Tax assets	—	—	942	942
130.	Other assets	91.808	—	—	91.808
	Total assets	**7.014.335**	**—**	**-2.342**	**7.011.993**

Balance sheet items		30.06.2018	First time adoption		IFRS 9 01.07.2018
			Classification and measurement	**Impairment**	
10.	Financial liabilities valued at amortised cost	6.625.777	—	—	6.625.777
20.	Financial liabilities valued at FVTPL	19.050	—	—	19.050
40.	Hedging derivatives	11.122	—	—	11.122
60.	Tax liabilities	11.167	—	—	11.167
80.	Other liabilities	5.885	—	—	5.885
100.	Provisions for risks and charges	407	—	337	744
150.	Reserves	318.553	—	-2.679	315.874
160.	Share capital	10.000	—	—	10.000
200.	Profit (Loss) of the year	12.374	—	—	12.374
	Total liabilities and shareholders’ equity	**7.014.335**	**—**	**-2.342**	**7.011.993**

Reconciliation of Shareholders equity

Provided below is the statement of reconciliation between the Shareholders' equity as at 30 June 2018 - determined in accordance with IAS39 - and the corresponding items determined considering the effects of the new classification, measurement and impairment rules introduced by IFRS9.

	Amounts
Equity as at 30 June 2018	**340.927**
IFRS9 transition impacts	**-2.679**
of which: classification	—
of which: measurement	
- stage 1 & 2	-3.621
- stage 3	—
of which: tax impact	942
Equity (IFRS9) as at 30 June 2018	**338.248**

Transition to the new accounting standard IFRS15

The new accounting standard introduces a new model for the recognition of revenues from contracts with customers. The standard will replace the current requirements set forth in the IFRS that deal with revenue recognition: i.e. IAS11 Construction Contracts, IAS18 Revenue, IFRIC13 Customer Loyalty Programmes, IFRIC15 Agreements for the Construction of Real Estate, IFRIC18 Transfers of Assets from Customers e SIC-31 Revenue – Barter Transaction involving Advertising Services.

The standard has been in force since 1 January 2018 (since 1 July 2018 for the Mediobanca Group). The new IFRS prescribes revenue recognition on the basis of the following five steps:

- identifying the contract;
- identifying all the individual performance obligations;
- determining the transaction price;
- allocating the price to the performance obligations, based on their "market prices" ("stand-alone selling price");
- recognizing the revenue allocated to the individual obligation when it is fulfilled, i.e. when the customer gains control over the good and the services.

The implementation of the new standard was coordinated centrally by the Parent Company through an ad hoc working group to extend the analysis to the entire group, involving the subsidiaries when necessary.

The analyses carried out led to the identification of all types of contracts with customers and to the procedures for recognizing revenue to establish their compliance with the provisions of the new standard. At the local level, no impacts from the application of the new accounting standard have emerged.

PART C - NOTES TO THE STATEMENT OF FINANCIAL POSITION

ASSETS

Section 1

Heading 10 – Cash and cash equivalents

1.1 Cash and cash equivalents: composition (in € k)

	31/12/2018
a) Cash	—
b) Demand deposit held at Central Banks	—
Total	**—**

The table below shows the amounts as at 30 June 2018 stated in accordance with IAS 39 for comparative purposes:

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

Section 2

Heading 20 – Financial assets valued at FVTPL

2.1 Financial assets valued at FVTPL: composition (in € k)

Item/Value	31/12/2018		
	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	—	—	—
4. Loans and advances	—	—	—
4.1 Repos	—	—	—
4.2 Others	—	—	—
Total A	**—**	**—**	**—**
B. Derivative products			
1. Financial derivatives	—	14.596	—
1.1 Trading	—	14.596	—
1.2 Linked to FV options	—	—	—
1.3 Others	—	—	—
2. Credit derivatives	—	40.834	—
2.1 Trading	—	40.834	—
2.2 Linked to FV options	—	—	—
2.3 Others	—	—	—
Total B	**—**	**55.430**	**—**
Total (A+B)	**—**	**55.430**	**—**
Total Level 1, Level 2 and Level 3			**55.430**

The table below shows the amounts as at 30 June 2018 stated in accordance with IAS 39 for comparative purposes:

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

Section 4

Heading 40 – Financial assets valued at amortised cost

4.1 Financial assets valued at amortised cost: composition of due from banks (in € k)

Type of transactions/Values	**31/12/2018**					
	Carrying value			**Fair Value**		
	First and second stage	**Third stage**	**of which: non performing acquired or originated**	**Level 1**	**Level 2**	**Level 3**
A. Due from Central Banks	17.143	—	—	X	X	X
1. Term deposits	—	—	—	X	X	X
2. Compulsory reserve	17.143	—	—	X	X	X
3. Repos	—	—	—	X	X	X
4. Others	—	—	—	X	X	X
B. Due from banks	2.625.255	—	—	—	2.603.872	—
1. Loans and advances	2.622.453	—	—	—	2.601.070	—
1.1 Current accounts and demand deposits	489.822	—	—	X	X	X
1.2 Term deposits	1.483.272	—	—	X	X	X
1.3 Other financings:	649.359	—	—	—	627.976	—
- Repos	—	—	—	X	X	X
- Finance leases	—	—	—	—	—	—
- Others	649.359	—	—	—	627.976	—
2. Debt securities	2.802	—	—	—	2.802	—
2.1 Structured debt securities	2.802	—	—	—	2.802	—
2.2 Other debt securities	—	—	—	—	—	—
Total	**2.642.398**	**—**	**—**	**—**	**2.621.015**	**—**

4.2 Financial assets valued at amortised cost: composition of due from customers (in € k)

Type of transactions/Values	**31/12/2018**					
	Carrying value			**Fair Value**		
	First and second stage	**Third stage**	**of which: non performing acquired or originated**	**Level 1**	**Level 2**	**Level 3**
1. Loans and advances	3.931.595	1.449	—	3.955.366	1.449	—
1.1 Current accounts	—	—	—	—	—	—
1.2 Repos	—	—	—	—	—	—
1.3 Term loans	3.931.595	1.449	—	3.955.366	1.449	—
1.4 Credit cards and personal loans	—	—	—	—	—	—
1.5 Finance leases	—	—	—	—	—	—
1.6 Factoring	—	—	—	—	—	—
1.7 Other loans	—	—	—	—	—	—
2. Debt securities	10.084	—	—	10.084	—	—
2.1 Structured debt securities	—	—	—	—	—	—
2.2 Other debt securities	10.084	—	—	10.084	—	—
Total	**3.941.679**	**1.449**	**—**	**3.965.450**	**1.449**	**—**

The table below shows the amounts as at 30 June 2018 stated in accordance with IAS 39 for comparative purposes:

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

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

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

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

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

Type of transactions/Value	30/06/2018				
	Book Value		Fair Value		
	Performing	Impaired	Level 1	Level 2	Level 3
Loans	**4.052.536**	**1.449**	**—**	**4.050.291**	**—**
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	—
Debt securities	**36.396**	**—**	**—**	**36.396**	**—**
8. Structured	—	—	—	—	—
9. Other	36.396	—	—	36.396	—
Total	**4.088.932**	**1.449**	**—**	**4.086.687**	**—**

Section 5

Heading 50 – Hedging derivatives

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

	31/12/2018			Notional value
	Fair value			
	level 1	level 2	level 3	
A. Financial derivatives	—	3.609	—	503.959
1) Fair value	—	3.609	—	503.959
2) Cash flow	—	—	—	—
B. Credit derivatives	—	—	—	—
1) Fair value	—	—	—	—
2) Cash flow	—	—	—	—
Total	**—**	**3.609**	**—**	**503.959**

The table below shows the amounts as at 30 June 2018 stated in accordance with IAS 39 for comparative purposes:

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

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

Section 7

Heading 70 – Equity investments

7.1 Equity investments: disclosure on shareholdings

Company Name	Registered office	Control type[2]	Ownership		Voting rights (%)
			Controlling entity	% shareholding	
Mediobanca International Immobiliere S.à r.l.	Luxembourg	3	Mediobanca International (Luxembourg) S.A.	100.0	100.0

Section 9

Heading 90 – Property, plant and equipment

9.1 Property, plant and equipment: composition (in € k)

Assets/value	31/12/2018	30/06/2018
1. Assets owned by Bank	12	11
a) lands	—	—
b) buildings	—	—
c) furnitures and fittings	2	3
d) electronic equipments	—	—
e) other assets	10	8
2. Assets acquired under finance leases:	—	—
a) lands	—	—
b) buildings	—	—
c) furnitures and fittings	—	—
d) electronic equipments	—	—
e) other assets	—	—
Total	**12**	**11**

[2] Type of relationship:
1 = controlled and consolidated
2 = subject to significant influence
3 = controlled and not consolidated

Section 11

Heading 110 – Deferred tax assets

11.1 Deferred tax assets: composition (in € k)

	31/12/2018	30/06/2018
- deferred tax assets recognised in the income statement	—	—
- deferred tax assets recognised in the net equity	942	—
Total	**942**	**—**

Deferred tax assets reflect the effects of IFRS 9 first-time adoption, for further details please refer to Part A.1 – Section 3 of the Notes to the Accounts.

Section 13

Heading 130 – Other assets

13.1 Other assets: composition (in € k)

Assets/value	31/12/2018	30/06/2018
1. Gold, silver and precious metals	—	—
2. Accrued income other than capitalized income from financial assets	770	937
3. Trade receivables or invoice to be issued	177	174
4. Amount due from Tax Authorities	208	210
5. Other items	8.715	90.487
- transitory accounts	8.708	90.487
- prepayments	7	—
Total	**9.870**	**91.808**

LIABILITIES

Section 1

Heading 10 – Financial liabilities valued at amortised cost

1.1 Financial liabilities valued at amortised cost: composition of due to banks (in € k)

Type of transactions/Values	31/12/2018				30/06/2018			
	Carrying value	Fair value			Carrying value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Due to Central Banks	—	—	—	—	—	—	—	—
2. Due to banks	2.350.663	—	2.350.663	—	2.180.326	—	2.174.347	—
2.1 Current accounts and demand deposits	—	—	—	—	—	—	—	—
2.2 Term deposits	—	—	—	—	51.551	—	51.551	—
2.3 Loans	2.346.503	—	2.346.503	—	2.128.652	—	2.122.673	—
2.3.1 Repos	—	—	—	—	—	—	—	—
2.3.2 Others	2.346.503	—	2.346.503	—	2.128.652	—	2.122.673	—
2.4 Liabilities in respect of commitments to repurchase own equity instruments	—	—	—	—	—	—	—	—
2.5 Other liabilities	4.160	—	4.160	—	123	—	123	—
Total	**2.350.663**	**—**	**2.350.663**	**—**	**2.180.326**	**—**	**2.174.347**	**—**

1.2 Financial liabilities valued at amortised cost: composition of due to customers (in € k)

Type of transactions/Values	**31/12/2018**				**30/06/2018**			
	Carrying value	**Fair value**			**Carrying value**	**Fair value**		
		Level 1	**Level 2**	**Level 3**		**Level 1**	**Level 2**	**Level 3**
1. Current accounts and demand deposits	—	—	—	—	—	—	—	—
2. Term deposits	—	—	—	—	—	—	—	—
3. Loans	90.012	—	90.012	—	792.710	—	789.805	—
3.1 Repos	—	—	—	—	—	—	—	—
3.2 Others	90.012	—	90.012	—	792.710	—	789.805	—
4. Liabilities in respect of commitments to repurchase own equity instruments	—	—	—	—	—	—	—	—
5. Other liabilities	—	—	—	—	—	—	—	—
Total	**90.012**	**—**	**90.012**	**—**	**792.710**	**—**	**789.805**	**—**

1.3 Financial liabilities valued at amortised cost: composition of debt securities in issue (in € k)

Type of transactions/Values	**31/12/2018**				**30/06/2018**			
	Carrying value	**Fair value**			**Carrying value**	**Fair value**		
		Level 1	**Level 2**	**Level 3**		**Level 1**	**Level 2**	**Level 3**
A. Debt securities								
1. Bonds	2.694.811	—	2.694.811	—	2.281.106	—	2.336.794	—
1.1 Structured	56.779	—	56.779	—	67.120	—	69.112	—
1.Other	2.638.032	—	2.638.032	—	2.213.986	—	2.267.682	—
2. Other securities	1.125.417	—	1.125.417	—	1.371.635	—	1.371.635	—
1.1 Structured	—	—	—	—	—	—	—	—
1.Other	1.125.417	—	1.125.417	—	1.371.635	—	1.371.635	—
Total	**3.820.228**	**—**	**3.820.228**	**—**	**3.652.741**	**—**	**3.708.429**	**—**

Section 2

Heading 20 – Financial liabilities valued at FVTPL

2.1 Financial liabilities valued at FVTPL: composition (in € k)

Transaction type/Values	31/12/2018				
	Nominal value	Fair Value			Fair Value
		Level 1	Level 2	Level 3	
A. Cash liabilities					
1. Due to banks	—	—	—	—	—
2. Due to customers	—	—	—	—	—
3. Debt securities	—	—	—	—	X
3.1 Bonds	—	—	—	—	X
3.1.1 Structured	—	—	—	—	X
3.1.2 Other bonds	—	—	—	—	X
3.2 Other securities	—	—	—	—	X
3.2.1 Structured	—	—	—	—	X
3.2.2 Other	—	—	—	—	X
Total (A)	**—**	**—**	**—**	**—**	**—**
B. Derivative instruments					
1. Financial derivatives	X	—	13.575	—	X
1.1 Trading	X	—	13.575	—	X
1.2 Related to the fair value option	X	—	—	—	X
1.3 Others	X	—	—	—	X
2. Credit derivatives	X	—	38.959	—	X
2.1 Trading	X	—	38.959	—	X
2.2 Related to the fair value option	X	—	—	—	X
2.3 Others	X	—	—	—	X
Total (B)	**X**	**—**	**52.534**	**—**	**X**
Total (A+B)	**—**	**—**	**52.534**	**—**	**—**

The table below shows the amounts as at 30 June 2018 stated in accordance with IAS 39 for comparative purposes:

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

Type of transaction/amounts	**30/06/2018**				
	Nominal value	**Fair Value**			***Fair Value***
		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
1.1 Trading	1.183.747	—	10.004	—	10.004
1.2 Related to Fair Value option	—	—	—	—	—
1.3 Other	—	—	—	—	—
2. Credit derivatives	3.848.430	—	9.046	—	9.046
2.1 Trading	3.848.430	—	9.046	—	9.046
2.2 Related to Fair Value option	—	—	—	—	—
2.3 Other	—	—	—	—	—
Total B	**5.032.177**	**—**	**19.050**	**—**	**19.050**
Total (A+B)	**5.032.177**	**—**	**19.050**	**—**	**19.050**

Section 4

Heading 40 – Hedging derivatives

4.1 Hedging derivatives: composition by hedge type and level (in € k)

Items/Values	31/12/2018				30/06/2018			
	Notional value	Fair value			Notional value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Financial derivatives	1.129.288	—	268	—	1.014.234	—	11.122	—
1) Fair value hedges	1.129.288	—	268	—	1.014.234	—	11.122	—
2) Cash flow hedges	—	—	—	—	—	—	—	—
3) Foreign investments	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value hedges	—	—	—	—	—	—	—	—
2) Cash flow hedges	—	—	—	—	—	—	—	—
Total	**1.129.288**	**—**	**268**	**—**	**1.014.234**	**—**	**11.122**	**—**

Section 6

Heading 60 – Tax liabilities

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

	31/12/2018	30/06/2018
Corporate income tax (IRC)	1.134	7.651
Municipal business tax (ICC)	217	2.496
Other	-5	240
Total	**1.346**	**10.387**

6.2 Tax liabilities: deferred tax liabilities (in € k)

	31/12/2018	30/06/2018
- deferred tax assets recognised in the income statement	780	780
- deferred tax assets recognised in the net equity	—	—
Total	**780**	**780**

Section 8

Heading 80 – Other liabilities

8.1 Other liabilities: composition (in € k)

	31/12/18	30/06/2018
1. Payment agreements (IFRS 2)	—	—
2. Impaired endorsements	—	407
3. Working capital payables and invoices pending receipt	2.778	4.358
4. Prepaid expenses other than capitalized expenses on related financial assets	—	—
5. Amounts due to revenue authorities	—	—
6. Amounts due to staff	41	23
7. Other items:	205	1.503
- bills for collection	—	—
- coupons and dividends pending collection	192	194
- available sums payable to third parties	13	—
- premiums, grants and other items in respect of lending transactions	—	1.309
- credit notes to be issued	—	—
- other	—	—
Total	**3.024**	**6.291**

Section 10

Heading 100 – Provisions for risks and charges

10.1 Provisions for risks and charges: composition (in € k)

		Items / Values	**31/12/2018**
1.		Provisions for credit risk related to financial obligations and warranties	860
2.		Provisions on other obligations and warranties release	—
3.		Provisions of business retirement	—
4.		Other provisions for risks and obligations	—
	4.1.	legal and fiscal controversies	—
	4.2.	obligations for employees	—
	4.3.	others	—
Total			**860**

10.3 Provisions for risks and charges: provisions for credit risk (in € k)

	Provisions for credit risk related to financial obligation and warranties release			
	First stage	**Second stage**	**Third stage**	**Total**
1. Obligation to distribute funds	672	188	—	860
2. Financial warranties release	—	—	—	—
Total	**672**	**188**	**—**	**860**

Section 15

Heading 150 - Reserves

15.1 Reserves: composition (in € k)

(in € k)	**31/12/2018**	**30/06/2018**
A. Reserves	328.248	318.553
A.1 Legal reserve	1.000	1.000
A.2 Free reserve	295.298	282.924
A.3 NWT reserve	34.629	34.629
A.4 FTA reserve	-2.679	—

Section 16

Heading 160 – Share capital

16.1 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 pair value of € 10 each.

Authorised capital and issue share capital coincide.

Other information

1. Guarantees and commitments

	Nominal value of commitments and financial guarantees			31/12/2018
	Stage 1	Stage 2	Stage 3	
1. Commitments to disburse funds	1.352.768	35.773	—	1.388.541
a) Central Banks	—	—	—	—
b) Public Administrations	—	—	—	—
c) Banks	—	—	—	—
d) Other financial companies	176.901	—	—	176.901
e) Non-financial companies	1.175.867	35.773	—	1.211.640
f) Retail clients	—	—	—	—
2. Financial guarantees given	13.750	—	—	13.750
a) Central Banks	—	—	—	—
b) Public Administrations	—	—	—	—
c) Banks	—	—	—	—
d) Other financial companies	2.900	—	—	2.900
e) Non-financial companies	10.850	—	—	10.850
f) Retail clients	—	—	—	—

The table below shows the amounts as at 30 June 2018 stated in accordance with IAS 39 for comparative purposes:

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

2. Other commitments

As at December 2018 the Bank has pledged collateral in form of securities and loans for an amount of € 1.042m of which € 1.012m originated by the Bank itself, whereas € 30m represents the re-use of collateral borrowed from the Parent Bank.

Among the secured financing operations which are outstanding as at 31 December 2018 it might be reported the issue of a senior unsecured floating rate note due 10 March 2022 for a nominal value of USD 100mln guaranteed by the Parent, Mediobanca S.p.A. (ISIN XS1496191864). This note has been issued in contemplation of its subsequent sale by Mediobanca S.p.A. to Titanium DAC (an Irish special purpose vehicle) in the context of a total return swap transaction whereby, inter alia, Mediobanca S.p.A. has undertaken to repurchase the note from Titanium DAC upon contractual maturity. Mediobanca S.p.A.'s obligation to repurchase the note is collateralised by a portfolio of assets (mostly originated by Mediobanca International) with a market value on any day greater than the principal amount of the note. The market value of the collateral pool at the reporting date is equal to approx. USD 128m (EUR 112m).

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)

Items/Technical forms	Debt securities	Loans	Other operations	6 mths to 31/12/2018
1. Financial assets at fair value with impact taken to P&L:	—	—	—	—
1.1. Financial assets held for trading	—	—	—	—
1.2. Financial assets designated at fair value	—	—	—	—
1.3. Other financial assets mandatorly at fair value	—	—	—	—
2. Financial assets at fair value with impact taken to comprehensive income	—	—	X	—
3. Financial assets at amortized cost	-17	53.422	X	53.405
3.1 Due from banks	—	3.372	X	3.372
3.2 Due from customers	-17	50.050	X	50.033
4. Hedging derivatives	X	X	—	—
5. Other assets	X	X	—	—
6. Financial liabilities	X	X	X	—
Total	**-17**	**53.422**	**—**	**53.405**

The table below shows the amounts as at 31 December 2017 stated in accordance with IAS 39 for comparative purposes:

1.1 Interest and similar income: composition (in € k)

	Performing assets			Non-Performing assets	6 mths to 31/12/17
	Debt securities	Loans	Other financial assets		
1. Financial assets held for trading	—	296	—	—	296
2. Financial assets at fair value	—	—	—	—	—
3. AFS securities	—	—	—	—	—
4. Financial assets held to maturity	685	—	—	—	685
5. Loans and advances to credit institutions	5	3.619	—	—	3.624
6. Loans and advances to customers	—	38.642	—	57	38.699
7. Hedging derivatives	—	—	1.572	—	1.572
8. Financial assets sold but not derecognized	—	—	—	—	—
9. Other assets	—	—	—	—	—
Total	**690**	**42.557**	**1.572**	**57**	**44.876**

1.2 Interest expense and similar charges: composition (in € k)

Items/Technical forms	Debts	Securities	Other operations	6 mths to 31/12/2018
1. Financial liabilities at amortized cost	31.665	11.544	X	43.209
1.1 Due to central banks	—	X	X	—
1.2 Due to banks	30.835	X	X	30.835
1.3 Due to customers	830	X	X	830
1.4 Debt securities in issue	X	11.544	X	11.544
2. Trading financial liabilities	—	—	—	—
3. Financial liabilities designated at fair value	—	—	—	—
4. Other liabilities and funds	X	X	—	—
5. Hedging derivatives	X	X	1.201	1.201
6. Financial assets	X	X	X	—
Total	**31.665**	**11.544**	**1.201**	**44.410**

The table below shows the amounts as at 31 December 2017 stated in accordance with IAS 39 for comparative purposes:

1.4 Interest expense and similar charges: composition (in € k)

	Payables	Notes	Other liabilities	6 mths to 31/12/17
1. Amount due to Banks	-21.759	—	—	-21.759
2. Amount due to customers	-6.599	—	—	-6.599
3. Debt securities	—	-3.720	—	-3.720
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	—	—	—	—
Total	**-28.358**	**-3.720**	**—**	**-32.078**

Section 2

Headings 40 and 50 – Net fee and commission income

2.1 Fee and commission income: composition (in € k)

Type of service/Values				6 mths to 31/12/2018	6 mths to 31/12/2017
a)	guarantees given			79	99
b)	credit derivatives			—	—
c)	management, brokerage and consultancy income:			—	75
	1.	securities trading		—	—
	2.	currency trading		—	—
	3.	individual portfolio management		—	—
	4.	custody and administration of securities		—	—
	5.	custodian bank		—	—
	6.	placement of securities		—	75
	7.	reception and transmission of orders		—	—
	8.	advisory services		—	—
		8.1.	related to investments	—	—
		8.2.	related to financial structure	—	—
	9.	distribution of third parties services		—	—
		9.1.	porfolio management	—	—
			9.1.1. individual	—	—
			9.1.2. collective	—	—
		9.2.	insurance products	—	—
		9.3.	other products	—	—
d)	collection and payment services			—	—
e)	securitization servicing			—	561
f)	factoring services			—	—
g)	tax collection services			—	—
h)	management of multilateral trading facilities			—	—
i)	management of current account			—	—
j)	other services			8.049	6.741
Total				**8.128**	**7.476**

2.2 Fee and commission expense: composition (in € k)

Services/Amounts		6 mths to 31/12/2018	6 mths to 31/12/2017
a)	guarantees received	-1.899	-502
b)	credit derivatives	—	—
c)	management and brokerage services	-1.014	—
	1. trading in financial instruments	—	—
	2. currency trading	—	—
	3. portfolios management:	—	—
	3.1 own portfolio	—	—
	3.2 third parties portfolio	—	—
	4. custody and administration securities	—	—
	5. financial instruments placement	-1.014	—
	6. off-site distribution of financial instruments, products and services	—	—
d)	collection and payment services	—	—
e)	stock borrowing	-514	-806
f)	other services	-4.862	-3.852
Total		**-8.289**	**-5.160**

Section 3

Heading 80 – Net trading income (expense)

3.1 Net trading income (expense): composition (in € k)

Transactions / Income	**Unrealized profit (A)**	**Realized profit (B)**	**Unrealized losses (C)**	**Realized losses (D)**	**Net Profit [(A+B) - (C+D)]**
1. Financial assets held for trading	—	—	—	—	—
1.1 Debt securities	—	—	—	—	—
1.2. Equity	—	—	—	—	—
1.3. Units in investments funds	—	—	—	—	—
1.4. Loans	—	—	—	—	—
1.5. Others	—	—	—	—	—
2. Financial liabilities held for trading	—	—	—	—	—
2.1. Debt securities	—	—	—	—	—
2.2. Deposits	—	—	—	—	—
2.3. Other	—	—	—	—	—
3. Financial assets and liabilities in foreign currency: exchange differences	X	X	X	X	339
4. Derivatives	43.499	119	-43.668	—	-502
4.1 Financial derivatives:	8.303	29	-8.374	—	-494
- on debt securities and interest rates	8.303	137	-8.374	—	66
- on equity securities and shares indexes	—	—	—	—	—
- on currencies and gold	X	X	X	X	-452
- other	—	-108	—	—	-108
4.2. Credit derivatives	35.196	90	-35.294	—	-8
Total	**43.499**	**119**	**-43.668**	**—**	**-163**

Section 4

Heading 90 – Net hedging income (expense)

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

	6 mths to 31/12/18	**6 mths to 31/12/17**
A. Income from:		
A.1 Fair value hedge derivatives	8.827	187.980
A.2 Financial assets hedged (fair value)	—	—
A.3 Financial liabilities hedged (fair value)	—	189.306
A.4 Cash flow hedge financial derivatives	—	—
A.5 Assets and liabilities in foreign currency	—	—
Total hedging income (A)	8.827	377.286
B. Expenses relating to:		
B.1 Fair value hedge derivatives	-836	-377.442
B.2 Financial assets hedged (fair value)	—	—
B.3 Financial liabilities hedged (fair value)	-7.980	-142
B.4 Cash flow hedge financial liabilities	—	—
B.5 Assets and liabilities in foreign currency	—	—
Total hedging expenses (B)	-8.816	-377.584
C. Net hedging income (A-B)	**11**	**-298**

Section 5

Heading 100 – Net gain (loss) on disposals/repurchases

5.1 Gain (loss) on disposals/repurchases: composition (in € k)

Items / Income	**6 mths to 31/12/2018**		
	Gains	**Losses**	**Net profit**
A. Financial assets			
1. Financial assets at amortized cost	343	-266	77
1.1 Loans and receivables with banks	-15	-116	-131
1.2 Loans and receivables with customers	358	-150	208
2. Financial assets at fair value with impact taken to comprehensive income	—	—	—
2.1 Debt securities	—	—	—
2.2 Loans	—	—	—
Total assets (A)	343	-266	77
B. Financial liabilities at amortized cost			
1. Deposits with banks	—	—	—
2. Deposits with customers	—	—	—
3. Debt securities in issue	25	-119	-94
Total liabilities (B)	25	-119	-94

The table below shows the amounts as at 31 December 2017 stated in accordance with IAS 39 for comparative purposes:

5.1 Gain (loss) on disposals/repurchases: composition (in € k)

	6 mths to 31/12/17		
	Gains	**Losses**	**Net profit (loss)**
Financial assets			
1. Due from Banks	—	—	—
2. Due from customers	85	—	85
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	**85**	**—**	**85**
Financial liabilities			
1. Due to Banks	—	—	—
2. Due to customers	—	—	—
3. Debt securities in issue	—	-40	-40
Total liabilities	**—**	**-40**	**-40**

Section 6

Heading 130 – Net value adjustments for credit risk

6.1 Adjustment for impairment: breakdown (in € k)

Transactions/Income	**Write-downs (1)**			**Write backs (2)**		**6 mths to 31/12/18**
	First and second stage	**Third stage**		**First and second stage**	**Third stage**	
		Write-off	**Others**			
A. Loans and receivables with banks	-120	—	—	—	—	-120
- Loans	-120	—	—	—	—	-120
- Debt receivables	—	—	—	—	—	—
of which: financial assets purchased or originated credit impaired	—	—	—	—	—	—
B. Loans and receivables with customers	-2.802	—	—	—	—	-2.802
- Loans	-2.802	—	—	—	—	-2.802
- Debt receivables	—	—	—	—	—	—
of which: financial assets purchased or originated credit impaired	—	—	—	—	—	—
Total	**-2.922**	**—**	**—**	**—**	**—**	**-2.922**

The table below shows the amounts as at 31 December 2017 stated in accordance with IAS 39 for comparative purposes:

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

Transactions/Income-linked components	Value adjustments			Amounts recovered				6 mths to 31/12/17
	Specific		Portfolio	Specific		Portfolio		
	Write offs	Others		A	B	A	B	
A. Due from Banks	—	—	-10	—	—	—	—	-10
B. Due from customers	—	—	-1.736	—	—	—	1.895	159
C. Total	**—**	**—**	**-1.746**	**—**	**—**	**—**	**1.895**	**149**

Section 7

Heading 190 – Administrative expenses

7.1 Personnel costs: breakdown (in € k)

Type of expense/Amounts	6 mths to 31/12/18	6 mths to 31/12/17
1.Employees	-773	-739
a) wages and salaries	-679	-651
b) social security contributions	-68	-58
c) severance indemnities	—	—
d) pension contributions	—	—
e) transfers to severance indemnity provision	—	—
f) transfers to post-employment and similar benefits:	—	—
– defined contribution	-3	-7
– defined benefit	—	—
g) payments to outside complementary pension schemes:	—	—
– defined contribution	—	—
– defined benefit	—	—
h) expenses incurred in connection with share payment schemes	—	—
i) other staff benefits	-23	—
2. Other staff	-64	—
3. Board members	-184	-98
Total	**-1.021**	**-837**

7.2 *Average number of employees by category*

	6 mths to 31/12/18	6 mths to 31/12/17
Employees	15	11
a) senior executives	2	2
b) executives	1	1
c) other employees	12	8
Other staff	—	—
Total	**15**	**11**

7.3 *Other administrative expenses: composition (in € k)*

Type of expense/Amounts	**6 mths to 31/12/18**	**6 mths to 31/12/17**
– legal, tax and professional services	-528	-165
– loan recovery activity	—	—
– marketing and communication	-5	-4
– property	-106	-100
– EDP	-731	-633
– Info-provider	-19	-1
– bank charges, collection and payment fees	-10	-13
– operating expenses	-1.029	-1.838
– other staff expenses	-33	-13
– other costs	-179	-80
– indirect and other taxes	-279	-338
Total	**-2.919**	**-3.185**

Section 8

Heading 200 – Net provisions for risks and charges

8.1 *Net provisions for risks and charges: breakdown (in € k)*

	6 mths to 31/12/18		
	Provisions	**Reallocation surplus**	**Total**
Loan commitments	-114	—	-114
Financial guarantees	-2	—	-2
Total	**-116**	**—**	**-116**

Section 9

Heading 210 – Net adjustments to tangible assets

9.1 Value adjustments in respect of tangible assets: breakdown (in € k)

Asset/Income	**Depreciation (a)**	**Impairment (b)**	**Write-back (c)**	**Net result (a+b-c)**
A. Property, equipment and investment properties	-2	—	—	-2
A.1 Owned	-2	—	—	-2
- For operational use	-2	—	—	-2
- For investment	—	—	—	—
- Inventories	—	—	—	—
B. Acquired through finance lease(s)	—	—	—	—
- For operational use	—	—	—	—
- For investment	—	—	—	—
Total	**-2**	**—**	**—**	**-2**

Section 10

Heading 230 – Other operating income (expense)

10.1 Other operating income: breakdown (in € k)

	6 mths to 31/12/18	**6 mths to 31/12/17**
a) Amounts received from customers	—	—
b) Leasing activity	—	—
c) Other income	160	81
Total	**160**	**81**

Section 11

Heading 300 – Income tax on the ordinary activity

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

	6 mths to 31/12/18	**6 mths to 31/12/17**
1. Current tax expenses	-476	-2.575
2. Changes in current tax expenses of the previous years	—	—
3. Changes of deferred tax assets	—	—
4. Changes of deferred tax liabilities	—	—
Total	**-476**	**-2.575**

PART E – OPERATING SEGMENT REPORTING

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	—	—	—	—	17.143
20.	Financial assets FVOCI	21.547	—	30.992	2.892	—
40.	Financial assets at amortized costs	2.553.265	—	3.672.463	342.656	—
50.	Hedging derivatives	1.403	—	2.018	188	—
70.	Equity Investments	—	—	—	—	4.150
100.	Property, Plant and Equipmnet	—	—	—	—	12
110.	Tax assets	366	—	527	47	—
130.	Other assets	3.837	—	5.518	515	—
	Total assets at 31/12/2018	**2.580.418**	**—**	**3.711.518**	**346.300**	**21.305**
10.	Financial liabilities at amortized cost	-2.433.741	—	-3.500.547	-326.615	—
20.	Financial liabilities held for trading	-20.421	—	-29.373	-2.741	—
40.	Hedging derivatives	-104	—	-150	-14	—
60.	Tax liabilities	-906	—	-1.303	-122	—
80.	Other liabilities	-1.176	—	-1.691	-158	—
100.	Other liabilities - Impairment	-334	—	-481	-45	—
150.	Reserves	-127.597	—	-183.527	-17.124	—
160.	Shareholders' equity	-3.887	—	-5.591	-522	—
	Total liabilities at 31/12/2018	**-2.588.166**	**—**	**-3.722.663**	**-347.341**	**—**

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	27.039	—	21.614	4.755	—
020.	Interests payable and similar charges	-22.483	—	-17.974	-3.956	—
030.	**Net interest income**	**4.556**	**—**	**3.640**	**799**	**—**
040.	Fee and commission income	4.115	—	3.290	724	—
050.	Fee and commission expense	-4.196	—	-3.354	-738	—
060.	**Net fee and commission income**	**-81**	**—**	**-64**	**-14**	**—**
080.	Net trading income/expense	-84	—	-65	-11	—
090.	Net hedging income/expense	6	—	4	1	—
100.	Gain or loss on disposal or repurchase of:	-9	—	-6	-2	—
	a) loans and receivables	-9	—	-6	2	—
	b) financial assets available for sale	—	—	—	—	—
	c) financial assets held to maturity	—	—	—	—	—
	d) financial liabilities	—	—	—	—	—
120.	**Total income**	**4.388**	**—**	**3.509**	**773**	**—**
130.	Value adjustments	-1.479	—	-1.182	-260	—
140.	**Net income from the financial management**	**2.909**	**—**	**2.327**	**513**	—
180.	Administrative expenses	-1.995	—	-1.594	-351	—
200.	Value adjustments in respect of tangible assets	-59	—	-47	-10	—
210.	Value adjustments in respect of intangible assets	—	—	—	—	-2
230.	Other operating income/expense	—	—	—	—	160
280.	**Profit (loss) of the ordinary activity before tax**	**855**	**—**	**686**	**152**	**158**
290.	Income tax on the ordinary activity	-242	—	-195	-42	—
340.	**Profit (loss) for the year**	**613**	**—**	**491**	**110**	**158**
350.	Other comprehensive income, net of tax	—	—	—	—	—
360.	**Total comprehensive income for the mid-year, net of tax as at 31/12/2018**	**613**	**—**	**491**	**110**	**158**

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 mid years ended 31 December 2018

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

	LUXEMBOURG	OTHER EUROPEAN COUNTRIES	AMERICAS	OTHER EMEA
Cash and cash balances with Central Banks	17.143	—	—	—
Financial assets FVOCI	46.244	9.187	—	—
Financial Assets at amortized cost	437.680	5.057.846	1.051.088	21.769
Hedging Derivatives	—	3.609	—	—
Hedging derivatives	—	—	—	—
Equity investments	4.150	—	—	—
Tangible assets	12	—	—	—
Intangible assets	—	—	—	—
Tax assets	942	—	—	—
Other assets	38	5.785	4.047	—
A. Total assets 31/12/2018	**506.209**	**5.076.427**	**1.055.135**	**21.769**
Financial liabilities at amortized cost	-3.914.685	-2.346.219	—	—
Financial liabilities held for trading	-186	-52.348	—	—
Hedging derivatives	—	268	—	—
Tax liabilities	-2.331	—	—	—
Other liabilities	- 96	-2.924	—	—
Other liabilities - Impairment	-32	-713	-116	—
Reserves	-328.517	-270	—	—
Shareholders' equity	-10.000	—	—	—
B. Total liabilities 31/12/2018 (1)	**-4.255.847**	**-2.402.206**	**-116**	**—**

(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	-2.290	-8.316	19.403	200
Net fee and commission income	2	-2.098	1.937	-1
Net trading income/expense	50.293	-50.477	22	-1
Net hedging income/expense	-8.816	8.827	—	—
Gain or loss on disposal or repurchase	-158	81	60	—
Value adjustments - impairment	43	-575	-2.491	-15
Administrative expenses	-1.777	-2.144	-19	—
Value adjustments – amortisation	-2	—	—	—
Other operating income (expenses)	20	118	22	—
Income tax	-476	—	—	—
Net profit/loss 31/12/2018	**36.839**	**-54.584**	**18.934**	**183**

PART F - SUBSEQUENT EVENTS

The bank is not aware of any subsequent events (other than those already reflected in the financial statement), that occurred between 31 December 2018 and the date when the present financial statements were authorised for issue.