Mediobanca International (Luxembourg) S.A.
Société Anonyme

R.C.S. Luxembourg B 112.885

Directors' report
and
Annual accounts as at 30 June 2011
and
Independent Auditor's report

MEDIOBANCA INTERNATIONAL
(LUXEMBOURG) S.A.
A wholly-owned subsidiary of Mediobanca Group

Annual Accounts and Report
as at June 30, 2011

MEDIOBANCA INTERNATIONAL (LUXEMBOURG)

SOCIÉTÉ ANONYME

SHARE CAPITAL € 10,000,000.00

HEAD OFFICE: 14, BOULEVARD ROOSEVELT – L-2450 LUXEMBOURG www.mediobancaint.lu

BOARD OF DIRECTORS

		Term expires	Location
MASSIMO DI CARLO	CHAIRMAN	2011	ITALY
LUCA MACCARI	MANAGING DIRECTOR	2011	LUXEMBOURG
PETER W. GERRARD	»	2011	LUXEMBOURG
DANIEL CARDON DE LICHTBUER	DIRECTOR	2011	BELGIUM
STEFANO PELLEGRINO	»	2011	ITALY
SILVIO PERAZZINI	»	2011	ITALY
FEDERICO POTSIOS	»	2011	ITALY
ALEX SCHMITT	»	2011	LUXEMBOURG

LEGAL ADVISOR

BONN SCHMITT STEICHEN	LUXEMBOURG

INDEPENDENT AUDITOR

ERNST & YOUNG S.A.	LUXEMBOURG

CONTENTS

Mediobanca International (Luxembourg) S.A.
Head Office: 14, Boulevard Roosevelt, L-2450 Luxembourg
Mediobanca Banking Group
Share capital: € 10,000,000 fully paid up

FINANCIAL SITUATION AT 30 JUNE 2011
BOARD OF DIRECTORS' REVIEW OF OPERATIONS

The Bank's results for the twelve months under review show a net profit of €36,1m (30/06/10: €35,3m). This improvement reflects a 5,3% increase in total income, from €49,2m to €51,8m. Main income items performed as follows:

- Interest income shows an increase of 21,2%, from €28,8m to €34,9m, involving in particular the area of corporate and investment banking (CIB) due to a combination of higher gross returns and reduced funding costs, despite the uncertainty and the volatility which are still marking the scenario;
- net fee and commission income decrease by 9%, from €17,8m to €16,2m, due to a slight drop in lending activity.

On the balance-sheet side, loan and advances to customers remained substantially stable from €3.856m up to €3.863m as a result of the sluggish demand, while notes worth a total of €118m from €733m were issued against the Bank's Medium Term Notes Programme and €2.172m from €2.483m were issued against its Short Term Programme.

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

- In May 2011 Standard & Poor's cut its rating outlook for Italy to negative from stable, citing weak growth prospects and increasing difficulties to slash its debt;
- In December 2010 the Basel Committee issue a reform package to strengthen global capital and liquidity rules with the goal of promoting a more resilient banking sector. The objective of the reforms is to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spillover from the financial sector to the real economy.
- The Foreign Account Tax Compliance Act (FATCA), enacted in 2010 as part of the Hiring Incentives to Restore Employment (HIRE) Act, is an important development in U.S. efforts to combat tax evasion by U.S. persons holding investments in offshore accounts. Under FATCA, U.S. taxpayers holding financial assets outside the United States will report those assets to the IRS. In addition, FATCA will require foreign financial institutions to report directly to the IRS certain information about financial accounts held by U.S. taxpayers, or by foreign entities in which U.S. taxpayers hold a substantial ownership interest. However the FATCA law brings problems to financial players worldwide due to its very broad scope and close timeline for implementation (with an effective date of 1 January 2014).

DEVELOPMENT IN CAPITAL MARKETS

In 2010 industrial multinationals saw a marked recovery in their revenues, which rose 15.2%. This phenomenon involved both North America (up 13.8%), and in more pronounced fashion Europe (up 15.4%). The growth was even more aggressive in Russia/Asia (27.6%) and the "rest of the world" – chiefly Africa and South America – where it reached 20.5%. In Europe and North America sales in 2010 were not far off the levels seen in 2008, between 5% and 7% below them. In Russia/Asia the buoyant performance in 2010 offset the slight downturn seen in 2009 and took revenues to approx. 25% above the level reported in 2008. Profits have on average been realigned to pre-crisis levels. The recovery in sales volumes in 2010 was driven largely by the energy industry, boosted by the increase in crude oil prices (up approx. 29% in dollar terms). However, manufacturing activities showed better profitability (measured in terms of ROE), and in both Europe and Asia a better trend in terms of margins as well. The manufacturing sectors which showed the highest growth were, in Europe, tyres and cables (2010 total sales up 25%), chemicals (up 20%), iron and steel and automotive (up 16%); while less buoyant were food (up 6.3%) and beverages (up 2.3%), cement (up 3%) and pharmaceuticals (up 6%).

	North America		Europe		Russia/Asia	
	Energy	*Manufacturing industry*	*Energy*	*Manufacturing industry*	*Energy*	*Manufacturing industry*
	Chg. % 2010/2009					
Total sales	23.5	10.4	24.6	11.4	32.5	22.3
EBIT	52.0	35.3	38.7	47.7	33.3	61.5
Current profit	54.0	41.7	40.3	70.8	36.9	70.3
ROE (as %)	*20.7*	*25.1*	*16.0*	*18.9*	*19.4*	*20.5*

Source : R&S – Multinationals financial aggregates (2011)

The recovery in sales volumes in 2010 went alongside a strengthening in the capital structure, as a result of strong growth in net equity and slower growth in borrowings (which actually fell in Europe). The North American multinationals are the best capitalized and least indebted, with a debt/equity ratio of 0.4, compared with 0.6 for the European firms. The size of the cash pile is also considerable, part of which derives from fund-raising activity on markets with historically low growth rates: cash and cash equivalents account for 3% of the total assets and 70% of the net debt of the North American multinationals, and 9.4% and 38% respectively for the European groups. The Russian/Asian multinationals are also very solid, where the energy industry is very important. Capital spending recovered everywhere, but more so in North America than in Europe (7.9%, versus 3.1%), as did staff levels (4%, versus 0.6%).

	North America		Europe		Russia/Asia	
	Chg. as % of 2009	as % of total assets	Chg. as % of 2009	as % of total assets	Chg. as % of 2009	as % of total assets
Net equity	10.4	41.8	14.7	39.0	13.6	60.2
Net debt	2.3	17.7	-3.1	24.7	3.9	17.9
Cash and equivalents	10.7	12.3	14.6	9.4	10.0	9.8
Investments	7.9	4.2	3.1	4.7	21.9	10.8
Debt/equity ratio	*0.4*		*0.6*		*0.3*	

Source : R&S – Multinationals financial aggregates (2011)

The manufacturing multinationals were slightly more fragile. The growth in total sales (9.3%) was below the European average (11.4%) and below the average for Germany (17.6%) and France (11.8%). The improvement in margins, too, was less impressive (EBIT up 30.3%, compared with a European average of 47.7%) and account for a lower proportion of total sales (5.4% in Italy, versus a European average of 10.5%). Net profitability is approximately one-quarter of that posted by the European companies as a percentage of total sales, and less than half in terms of net equity (ROE). The financial structure of Italian

multinationals continues to feature a higher use of borrowing, with debt equal to 1.2x net equity (0.7x being the European average).
The trends seen in 2010 were consolidated in the first three months of 2011, with total sales increasing by 11.7% (not far off the 15% recorded for FY 2010). Europe again seems more buoyant: up 17.2%, compared with 13.4% in North America. Margins as a percentage of total sales also held up at 2010: EBIT reached 12% of total sales in Europe (11.4% in FY 2010) and 16% in North America (13% in FY 2010); net profit stood at 8% of total sales in Europe (7.4% in FY 2010) and 10% in North America (9.5% in FY 2010). The sectors which saw the highest growth in sales were: food (up 25.3% on 1Q 2010), energy (up 24.4%), tyres and cables (up 19.8%) and iron and steel (up 17.5%). There was a slight increase in mechanical engineering (up 2.3%), while electronics saw a reduction in sales (down 1.4%). The financial structure continues to strengthen versus end-2010, with net debt reducing again in relation to net equity.

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The international banking system ended 2010 with a slight increase in revenues, marginally higher in Europe (up 4.6%) than in the United States (up 1.6%), which was accompanied by a drastic reduction in loan loss provisions (down 31% and 41% respectively), and allowed current profit to grow by 90% in Europe and to treble in the United States. A reduced contribution from extraordinary items (with a strongly negative balance in the United States) and the upturn in tax charges kept growth at the net profit level down to 37% in Europe and 47% in the United States.

	Europe	United States
	Chg. % 2010/2009	
Revenues	4.6	1.6
Loan losses	-30.7	-40.6
Current profit	88.3	226.3
Net profit	37.1	46.8
ROE (as %)	*7.2*	*4.5*

Source : R&S – Major international banks (2011)

Unlike the industrial companies, the banking multinationals remained at profitability levels which were far below those prior to the crisis: current profit, which in 2010 stood at around 20% of total sales, is approx. 10 percentage points lower than the figures reported in the 2000-2007 period. Despite the reduction in 2010, loan loss provisions, again as a percentage of total sales, were still some ten points above the long-term average. The deleveraging process, which began in 2009, has taken the US banks to multiples that are below their own historical average (approx. 15x), as with the European banks as well, which have far higher readings (27x) due *inter alia* to their different accounting practices. The large European banks show a higher weight of net bad debts, which represent 2.4% of loans and advances to customers and 29% of tangible net equity, compared to 0.9% and 6.2% respectively for the US banks. The latter, by contrast, show a higher exposure to illiquid financial assets ("Level 3 assets"), which account for 53% of tangible net equity compared to 42% for the European banks. The turmoil on financial markets does not appear to have led to a significant reduction in the cost/income ratio, which on both sides of the Atlantic is in line with the pre-crisis period (64% in Europe, 59% in the United States). The largest Italian banks at end-2010 showed a ROE that was significantly below the European average (3.6%, compared with 7.2%), lower levels of leverage (21.5x, versus 27.5x), including as a result of their higher concentration in traditional lending activities (loans and advances to customers account for 61.5% of total assets, compared with the European average of 43.5%). Such asset composition is a disadvantage in terms of regulatory capital (core tier 1 ratio 7.4%, against for the 10.2% European banks), a gap which has been made up in part through the major recapitalizations completed in the first six months of 2011.

The profile in terms of net bad debts as a percentage of total loans continues to be less satisfactory (6%, compared with a European average of 2.4%) and also as a percentage of tangible net equity (81.6%, compared with a European average of 29.4%).
In May 2011 the international banking system was still substantially propped up by government aid intervention. In Europe the current aggregate commitment between guarantees issued and recapitalizations has been estimated at approx. €1,200bn, approx. €650bn of which by the UK government, with over 170 banks involved. Almost €960bn in repayments and waived guarantees take the original commitment to over €2,000bn. In the United States the total is $2,000bn, with repayments and waived guarantees of just under $800bn. Most of the current exposure is accounted for by the two agencies Fannie Mae and Freddie Mac, which have benefited from approx. $1,650bn in aid.

RESTATED PROFIT AND LOSS ACCOUNT

Profit and loss account has been restated in the customary way to provide the most accurate reflection of the Bank's operations.

	12 mths to 30/06/2011	12 mths to 30/06/2010	Y.o.Y. chg.
	€m	€m	%
Net interest income	34,9	28,8	21,2%
Net trading income	0,7	2,6	-73,1%
Net fee and commission income	16,2	17,8	-9,0%
TOTAL INCOME	**51,8**	**49,2**	**5,3%**
Wages and salaries	-0,9	-0,8	12,5%
Other administrative expenses	-6,3	-1,5	320,0%
OPERATING COST	**-7,2**	**-2,3**	**213,0%**
Loans impairment	0,4	-1,7	-123,5%
Provisions for other financial assets	-	-0,4	-100,0%
Other profit (losses)	-	-	-
PROFIT BEFORE TAX	**45,0**	**44,8**	**0,4%**
Fiscal provision	-8,9	-9,5	-6,3%
NET PROFIT	**36,1**	**35,3**	**2,3%**

Net interest income – this item rose by 21,2%, from €28,8m to €34,9m due to increasing spreads realized on the structured finance and corporate lending's activity. During the year the Bank has observed stable volume in lending operations, increasing gross spreads on loans and advances to customers and lower cost of funding mainly as a consequence of a more balanced and efficient proportion between short and long term products.

Net trading income – this heading is made up of € 0,7m (€ 2,6m): dealing profits are € 2,9m (€ 1,9m) realized in the majority on buyback of notes issued by the Bank; -€ 5,8m (-€ 3,5m) reflect unrealized mark-to-market valuations of financial instruments; while € 3,6m (€ 4,2m) reflect the net result of the Bank's currency exposure.

	12 mths to 30/06/2011	12 mths to 30/06/2010	Y.o.Y. chg.
	€m	€m	%
Dealing profits	2,9	1,9	52,6%
Mark to market as at reporting date	-5,8	-3,5	65,7%
Forex	3,6	4,2	-14,3%
NET TRADING INCOME	**0,7**	**2,6**	**-73,1%**

Net fee and commission income – this item, still driven by corporate business, decrease by 9% from € 17,8m to € 16,2m due to a slowdown in contribution given by lending transactions (down 15,3% from € 17m to € 14,4m) which has been only partially offset by the increase of commissions realized on capital market transactions (up 45%, from € 0,9m to € 1,4m).

	12 mths to 30/06/2011	12 mths to 30/06/2010	Y.o.Y. chg.
	€ m	€ m	%
Net lending fees:	14,4	17,0	-15,3%
- Loans and advances rec (+)	*36,6*	*47,3*	-22,6%
- Loans and advances pay (-)	*-21,0*	*-30,4*	-30,8%
- Guarantees given rec (+)	*0,8*	*0,4*	113,0%
- Guarantees received pay (-)	*-2,1*	*-0,4*	473,9%
Other fees (+)	1,7	0,9	84,6%
Other fees (-)	-0,4	0,0	0,0%
Net fee income	15,7	17,9	-12,2%

Operating costs – this item rose by 213%, from € 2,3m to € 7,2m, chiefly due to the revision and renewal of service agreements with the Parent Bank; the various components have performed as follows:
- wages and salaries totaled € 0,9m (€ 0,8m), during the fiscal year the staff number remained stable;
- other costs amounting to € 6,3m (€ 1,5m) reflect both the increasing volume of business managed by the Bank and the mentioned renegotiation of contracts and service agreements which has been carried out during the exercise.

Impairment of loans and advances – from a negative impact of € 1,7m (which was corresponding to the first time provision recorded in the previous fiscal year) the Bank has registered a positive impact of € 0,4m which mainly reflects a decrease of direct credit risk's exposure (which in terms of cash exposure, excluding financial guarantees and commitments, passed from € 535,8m to € 442,6m); the majority of loans and advances remains covered by financial guarantees issued by the Parent Bank or public Agencies.

RESTATED BALANCE SHEET

	30/06/2011	30/06/2010	Y.o.Y. chg.
	€m	€m	%
Net treasury investments	-308,2	957,4	-132,2%
Loans and advances	4.081	4.076,7	0,1%
Tangible and intangible assets	-	-	-
Other assets	9	131,7	-93,2%
TOTAL ASSETS	**3.781,8**	**5.165,8**	**-26,8%**
Funding	3.539,1	4.850,7	-27,0%
of which: debt securities in issue	*1.553,3*	2.491,5	-37,7%
Other liabilities	40	148,6	-73,1%
of which: tax liabilities	*30,8*	*146*	*-78,9%*
Net equity	166,5	131,2	26,9%
Profit	36,2	35,3	2,5%
TOTAL LIABILITIES	**3.781,8**	**5.165,8**	**-18,2%**

Net treasury investments – the item decreases from € 957,4m to -€ 308,2m and includes:

- financial assets held for trading which decrease by 6% from € 995,5m to € 936,4m mainly due to the redemption of some fixed income securities;
- net application in treasury funds such as repos, time deposits, etc. which decrease from -€ 445,7m to -€ 2.483,6m boosted by medium term funding time deposits which passes from -€ 323,3m to € 1.202,4m;
- negative value adjustments to derivative contracts which decrease from -€ 116,8m to -€ 221,3m.

Loans and advances – this item is stable compared to the previous exercise and has registered a 0,1% increase from € 4.076,7 to € 4.081m. Credit strategy is managed as part of the broader ALM process; the portfolio is constantly analyzed in order to maintain the accurate balance in terms of risks' exposure. Specific reports are generated and reviewed by management to ensure the achievement and the control of the Bank's loan strategy which is constantly focused on long term credit performance and total return. The goal is adding value through a disciplined approach to credit selection by investing in best risk-weighted opportunities and maintaining the right balance in terms of exposure to markets, geographical areas, industrial sectors, ratings and currencies.
Most of loans are covered by financial guarantees issued by the Parent Bank or public Agencies, while at the reporting date the Bank has a direct cash exposure for € 442,6m.
In a scenario that remains challenging non performing loans decreases from € 111m to € 89m representing 2% of total loans. Since the balance sheet date, a financial guarantee on a nonperforming exposure has been fully executed at the book value of € 11m permitting the Bank to recover the entire position without any loss; nonperforming loans at the reporting date are fully covered by financial guarantees.

Other assets – this item decreases by 93% from € 131,7m to € 9m due to the write-off of deferred tax assets which has followed the assessments received from the Tax Authority during the fiscal year.

Funding – this item decreases from € 4.850,7m to € 3.539,1m mainly driven by the diminution registered in long term funding debt securities (which passes from € 1.893,6m to € 1.354,8m), in short term funding

Commercial Papers and French Cd (which passes from € 741,4m to € 282.2m), and in short term overdraft on current accounts (which passes from €542,5m to € 0.05m). The variation has been partially offset by the increase registered by loans due to Banks which rose from € 1.744,2m to € 1.926,6m.

Other liabilities – this item decreases from € 148,6m to € 40m due to the write-off of deferred tax liabilities which has followed the assessments received from the Tax Authority during the fiscal year.

Net equity – No dividends have been distributed during the exercise and the increase from € 131,2m to € 166,5 is exclusively ascribable to the provisioning of 2010's profits.

pp. BOARD OF DIRECTORS
CHAIRMAN
(Mr. M. Di Carlo)

MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.

Statement of Directors' responsibilities

To the best of our knowledge, the annual 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 year ended 30 June 2011.

Luxembourg, 9 September 2011

The Board of Directors

Massimo Di Carlo	Luca Maccari	Peter W Gerrard
Silvio Perazzini	Stefano Pellegrino	Federico Potsios
Daniel Cardon de Lichtbuer	Alex Schmitt	

INDEPENDENT AUDITOR'S REPORT

ERNST & YOUNG

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Independent auditor's report

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

Report on the annual accounts

Following our appointment by the Board of Directors, we have audited the accompanying annual accounts of Mediobanca International (Luxembourg) S.A., which comprise the balance sheet as at 30 June 2011, the statement of comprehensive income, the statement of changes in equity, the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the Board of Directors determines is necessary to enable the preparation and presentation of annual accounts that are free from material misstatement, whether due to fraud or error.

Responsibility of the "réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the judgement of the "réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the "réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

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

Opinion

In our opinion, the annual accounts give a true and fair view of the financial position of Mediobanca International (Luxembourg) S.A.as of 30 June 2011 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The management report, which is the responsibility of the Board of Directors, is consistent with the annual accounts.

ERNST & YOUNG
Société Anonyme
Cabinet de révision agréé

Christoph HAAS

Luxembourg, 9 September 2011

ANNUAL ACCOUNTS

BALANCE SHEET

	Assets	30/06/2011	30/06/2010
		€	€
10.	Cash and cash balances with Central Banks	17.071.978	25.450.327
20.	Financial assets held for trading	934.375.173	1.165.995.867
60.	Loans and advances to Credit Institutions (*)	855.553.860	1.097.940.298
70.	Loans and advances to Customers (*)	3.881.812.149	3.846.652.299
80.	Hedging derivatives	95.311.388	153.308.960
120.	Property, plant and equipment	2.008	3.474
130.	Tax assets	-	123.469.021
	a) current	-	-
	b) deferred	-	*123.469.021*
150.	Other assets	9.224.710	13.956.117
	TOTAL ASSETS	**5.793.351.266**	**6.426.776.362**

	Liabilities and equity	30/06/2011	30/06/2010
		€	€
10.	Amounts due to Credit Institutions	3.129.017.250	2.609.899.418
20.	Amounts due to Customers	548.698.084	539.805.788
30.	Debt securities in issue	1.636.965.273	2.635.071.353
40.	Trading liabilities	218.427.347	290.193.008
60.	Hedging derivatives	16.193.251	33.243.193
80.	Tax liabilities	28.865.079	144.196.217
	a) current	*28.001.079*	*19.456.196*
	b) deferred	*864.000*	*124.740.021*
100.	Other liabilities (*)	12.561.982	7.848.861
160.	Reserves	156.518.524	121.226.578
190.	Share capital	10.000.000	10.000.000
200.	Profit of the period	36.104.476	35.291.946
	TOTAL LIABILITIES AND EQUITY	**5.793.351.266**	**6.426.776.362**

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

(*) 2010 figures have been reclassified to conform with changes to the current year's presentation for comparative purpose; for details please refer to Part B - Section 4 - Reclassifications of prior year figures.

STATEMENT OF COMPREHENSIVE INCOME

	CAPTION	30/06/2011	30/06/2010
		€	€
010.	Interests receivable and similar income	137.847.649	173.492.193
020.	Interests payable and similar charges	-105.735.282	-138.946.212
030.	**Net interest income**	**32.112.367**	**34.545.981**
040.	Fee and commission income	39.164.437	48.480.075
050.	Fee and commission expense	-23.433.358	-30.709.150
060.	**Net fee and commission income**	**15.731.079**	**17.770.925**
080.	Net trading income/expense	-15.474.763	-3.191.621
090.	Net hedging income/expense	195.730	-65.562
100.	Gain or loss on disposal or repurchase of:	18.758.240	65.917
	a) loans and receivables	-	-
	b) financial assets available for sale	-	-
	c) financial assets held to maturity	-	-
	d) financial liabilities	*18.758.240*	*65.917*
120.	**Total income**	**51.322.653**	**49.125.640**
130.	Value adjustments in respect of:	423.898	-2.104.602
	a) loans and receivables	*383.932*	*-1.717.025*
	b) financial assets available for sale	-	-
	c) financial assets held to maturity	-	-
	d) other financial operations	*39.966*	*-387.577*
140.	**Net income from the financial management**	**51.746.551**	**47.021.038**
180.	Administrative expenses:	-7.220.847	-2.311.159
	a) personnel costs	*-949.998*	*-735.061*
	b) other administrative expenses	*-6.270.849*	*-1.576.098*
200.	Value adjustments in respect of tangible assets	-1.465	-17.668
220.	Other operating income/expense	439.858	126.421
280.	**Profit (loss) of the ordinary activity before tax**	**44.964.097**	**44.818.632**
290.	Income tax on the ordinary activity	-8.859.621	-9.526.686
340.	**Profit (loss) for the year**	**36.104.476**	**35.291.946**
350.	Other comprehensive income, net of tax	-	-
360.	**Total comprehensive income for the year, net of tax**	**36.104.476**	**35.291.946**

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

STATEMENT OF CHANGES IN EQUITY FROM 01/07/2010 TO 30/06/2011 (in €)

	Balance as of June 30, 2010	Allocation of the profit for the previous period		Changes during the reference period					Balance as of June 30, 2011
				Changes to valuation reserves	Transactions involving equity			Profit (loss) of the period	
		Reserves	Dividends and other fund applications		New shares issued	Treasury shares derivatives	Stock options and others		
Share capital	**10.000.000**	-	-	-	-	-	-	-	**10.000.000**
a) ordinary shares	10.000.000	-	-	-	-	-	-	-	10.000.000
b) other shares	-	-	-	-	-	-	-	-	-
Profit brought forward	-	-	-	-	-	-	-	-	-
Reserves	**121.226.578**	**35.291.946**	-	-	-	-	-	-	**156.518.524**
a) legal reserve	1.000.000	-	-	-	-	-	-	-	1.000.000
b) free reserve	111.047.828	32.041.946	-	-	-	-	-	-	143.089.774
c) special reserve[1]	8.961.750	3.250.000	-	-	-	-	-	-	12.211.750
d) FTA reserve	217.000	-	-	-	-	-	-	-	217.000
Valuation reserves	-	-	-	-	-	-	-	-	-
a) AFS securities	-	-	-	-	-	-	-	-	-
b) cash flow hedges	-	-	-	-	-	-	-	-	-
c) special laws – others	-	-	-	-	-	-	-	-	-
Own shares	-	-	-	-	-	-	-	-	-
Comprehensive income of the period	**35.291.946**	**-35.291.946**	-	-	-	-	-	**36.104.476**	**36.104.476**
Total equity	**166.518.524**	-	-	-	-	-	-	**36.104.476**	**202.623.000**

[1] As of 30 June 2011 and 2010 the Bank has opted for the exoneration of the net wealth tax charge provided that the following conditions have been respected:
- A reserve equivalent to 5 times the net wealth tax charge is recorded following the decision of the Shareholders meeting;
- The reserve will be maintained for a period at least of five years.

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

STATEMENT OF CHANGES IN EQUITY FROM 01/07/2009 TO 30/06/2010 (in €)

	Balance as of June 30, 2009	Allocation of the profit for the previous period		Changes during the reference period					Balance as of June 30, 2010
					Transactions involving equity				
		Reserves	Dividends and other fund applications	Changes to valuation 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	91.989.750	29.236.828	-	-	-	-	-	-	121.226.578
a) legal reserve	1.000.000	-	-	-	-	-	-	-	1.000.000
b) free reserve	84.411.000	26.636.828	-	-	-	-	-	-	111.047.828
c) special reserve[1]	6.361.750	2.600.000	-	-	-	-	-	-	8.961.750
d) FTA reserve	217.000	-	-	-	-	-	-	-	217.000
Valuation reserves	-	-	-	-	-	-	-	-	-
a) AFS securities	-	-	-	-	-	-	-	-	-
b) cash flow hedges	-	-	-	-	-	-	-	-	-
c) special laws – others	-	-	-	-	-	-	-	-	-
Own shares	-	-	-	-	-	-	-	-	-
Comprehensive income of the period	29.236.828	-29.236.828	-	-	-	-	-	35.291.946	35.291.946
Total equity	131.226.578	-	-	-	-	-	-	35.291.946	166.518.524

[1] As of 30 June 2010 and 2009 the Bank has opted for the exoneration of the net wealth tax charge provided that the following conditions have been respected:
- A reserve equivalent to 5 times the net wealth tax charge is recorded following the decision of the Shareholders meeting;
- The reserve will be maintained for a period at least of five years.

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

CASH FLOW STATEMENT
(Amount expressed in € k)

		Amount	
A.	**Cash flow from operating activities**	**30/06/2011**	**30/06/2010**
1.	**Operating activities**	**282.155**	**-410.437**
	– interest received	841.208	216.816
	interest paid	-553.291	-133.045
	– net fee and commission received/paid	-2.057	-491.500
	cash payments to employees	-597	-822
	– other expenses paid	-3.109	-1.886
2.	**Cash generated/absorbed by financial assets**	**686.195**	**5.296.033**
	– amounts due from customers	-676.532	-1.668.945
	– amounts due from banks: on demand	583.570	4.442.220
	– amounts due from banks: other	563.176	2.437.729
	– other assets	215.981	85.029
3.	**Cash generated/absorbed by financial liabilities**	**-968.351**	**-4.885.595**
	– amounts due to banks: on demand	35.185	-4.849.393
	– amounts due to banks: other	-547.300	191.728
	– amounts due to clients	-71.516	-2.014.195
	– debt securities in issue	-253.468	1.892.974
	– other liabilities	-131.252	-106.709
	Net cash flow (outflow) from operating activities	**-1**	**1**
B.	**Cash flow from investing activities**		
	Cash absorbed by	-	-
	– acquisitions of tangible assets	-	-
	acquisitions of intangible assets	-	-
	Net cash flow (outflow) from investing activities	-	-
C.	**Financing activities**		
	issues/purchases of subordinated debts	-	-
	Net cash flow (outflow) from financing activities	-	-
	Net cash flow (outflow) during year	**-1**	**1**

RECONCILIATION	Amount	
	30/06/2011	**30/06/2010**
Cash and cash equivalents: balance at 1 July	1	-
Total cash flow (outflow) during year	-1	1
Cash and cash equivalents: exchange rate effect	-	-
Cash and cash equivalents: balance at 30 June	-	1

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

NOTES TO THE ANNUAL ACCOUNTS

PART A – CORPORATE INFORMATION

Corporate matters

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

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

Nature of the Bank's business

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

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

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

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

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

Outsourcing

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

Annual accounts

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

The annual accounts as of 30th June 2011 were authorised for issue by the Board of Directors on 9th September 2011.

Parent company

The Bank is a wholly-owned subsidiary of Mediobanca Banca di Credito Finanziario S.p.A. (hereafter "Mediobanca S.p.A."), having its registered office in Piazzetta Enrico Cuccia n.1, Milan, Italy. The annual accounts of the Bank are included in the consolidated financial statements of Mediobanca S.p.A..

Mediobanca S.p.A. is the leading investment bank in Italy and helped for over 60 years clients grow, offering high-quality advisory services and providing finance in all its various forms, from more traditional bank credit to the most sophisticated solutions available on capital markets.

PART B – ACCOUNTING POLICIES

Section 1

Statement of conformity with IAS/IFRS

The Bank's annual accounts for the period ended 30 June 2011 have been drawn up in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standard (IAS) issued by the International Accounting Standards Board (IASB) which were adopted by the European Commission in accordance with the procedure laid down in Article 6 of Regulation CE 1606/02 issued by the European Council and Commission on 19 July 2002.

Section 2

General principles

The annual accounts comprise:

- balance sheet;
- statement of comprehensive income;
- statement of changes in equity;
  cash flow statement (direct method);
- notes to the annual accounts.

All the statements have been drawn up in conformity with the general principles provided for under IAS and the accounting policies illustrated in section 4, and show data for the period under review compared with that for the previous financial period.

Section 3

Basis of preparation

The annual accounts are prepared on the historical cost basis except for financial instruments held for trading and for derivatives concluded for hedging purposes, which are measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The balance sheet, statement of comprehensive income and the statement of changes in equity are presented in Euro (€). Cash flow statement and notes to the annual accounts are presented in € k unless otherwise stated.

The preparation of annual 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.

Section 4

Accounting policies

New amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year. Amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Bank:

- IFRS 2 *Share-based payment: Group Cash-settled Share-based Payment Transactions* effective 1 January 2010;
- IFRS 3 *Business Combinations (Revised)* and *IAS 27 Consolidated and Separate Financial Statements (Amended)* effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39:
- IAS 39 *Financial Instruments: Recognition and Measurement – Eligible* Hedged Items effective 1 July 2009;
- IFRIC 17 *Distributions of Non-cash Assets* to Owners effective 1 July 2009;
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* effective 1 July 2010.

Improvements to IFRSs

Issued in May 2008

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* effective 1 January 2010.

Issued in April 2009

- IFRS 2 *Share-based Payment;*
- IAS 1 *Presentation of Financial Statements;*
- IAS 17 *Leases;*
- IAS 38 *Intangible Assets;*
- IAS 39 *Financial Instruments: Recognition and Measurement;*
- IFRIC 9 Reassessment of Embedded Derivatives.

Standards issued but not yet effective

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

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Bank does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the Board will address impairment and hedge accounting. The completion of this project is expected in mid 2011. The adoption of the first phase of IFRS 9 will primarily have an effect on the classification and measurement of the Bank's financial assets. The Bank is currently assessing the impact of adopting IFRS 9, however, the impact of adoption depends on the assets held by the Bank at the date of adoption, it is not practical to quantify the effect.

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is expected to have no impact on the financial statements of the Bank.

Improvements to IFRSs (issued in May 2010)

The IASB issued *Improvements to IFRSs*, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after 1 January 2011. The amendments are listed below:

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IFRIC 13 Customer Loyalty Programmes

The Bank, however, expects no impact from the adoption of the amendments on its financial position or performance.

Summary of significant accounting policy

Financial assets other than derivatives

Loans and advances

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

Loans and advances are booked on disbursement at a value equal to the amount drawn plus (less) any income (expenses) directly attributable to individual transactions and determinable from the outset despite being payable at a later date. The item does not, however, include costs subject to separate repayment by the borrower, or which may otherwise be accounted for as ordinary internal administrative costs. Repos and reverse repos are booked as funding or lending transactions for the spot amount received or paid. Non-performing loans acquired are booked at amortized cost on the basis of an internal rate of return calculated using estimates of expected recoverable amounts.

Loans and receivables are stated at amortized cost, i.e. initial values adjusted upwards or downwards to reflect: repayments of principal, amounts written down/back, and the difference between amounts drawn at disbursement and repayable at maturity amortized on the basis of the effective interest rate. The latter is defined as the rate of interest which renders the discounted value of future cash flows deriving from the loan or receivable by way of principal and interest equal to the initial recognition value of the loan or receivable.

Loans and receivables are for managerial purposes classified in three different categories depending on the borrower's financial situations:

- Performing: loans on which payments of interests and principal are less than 90 days past due and without any evidence of financial difficulties from the borrower' side.

- Non performing loans: loans that are in default or close to being in default; a loan is usually classified as nonperforming when payments of interests and principal are past due by 90 days or more, or payments are less than 90 days overdue but there are reasons to doubt that payments will be made in full.

- Restructured loans: new loan that replaces the outstanding balance on an older loan with a different financial structure that may involve extending the payment arrangements and the agreement of new conditions which have been usually rescheduled to accommodate a borrower in financial difficulty and, thus, to avoid a default. Restructured loans are managed for reporting purposes as non performing exposures; management continually reviews the position to ensure that all criteria are met and that future payments are likely to occur.

Individual items are tested at annual and interim reporting dates to show whether or not there is evidence of impairment. Items reflecting such evidence are then subjected to analytical testing, and, if appropriate, adjusted to reflect the difference between their carrying amount at the time of the impairment test (amortized cost), and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Future cash flows are estimated to take account of anticipated collection times, the presumed value of receivables upon disposal of any collateral, and costs likely to be incurred in order to recover the exposure. Cash flows from loans expected to be recovered in the short term are not discounted.

The original effective interest rate for each loan remains unchanged in subsequent years, even if new terms are negotiated leading to a reduction to below market rates, including non-interest-bearing loans. The relevant value adjustment is taken through the comprehensive income.

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

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

Financial guarantees

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

Fair Value hierarchy

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

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

Level 2: the fair value of financial instruments classified as level 2 in the fair value hierarchy is calculated by using standard valuation models calibrated to the market prices of liquid instruments or market prices provided by brokers. The Middle Office - market data unit checks the validity and accuracy of the market data and model parameters, with the support, among other things, of consensus instruments. The Risk Management - model validation unit checks that the models function correctly and are consistent with market practices. These instruments may be broken down as follows:

- Linear interest rate and inflation instruments, such as deposits, asset swaps, IRS, inflation swaps, CCS, FX swaps, FRA, repos, are constructed from the interest rate curves via standard bootstrap techniques and interpolation based on the most recent fixings of interest rate and inflation indexes and on the prices of short rate futures, FRA, IRS, CCS, inflation futures and inflation swaps. The inflation curves are also supplemented with information derived from macro-economic analysis of short-term prospects and historical analysis of seasonality effects. These curves are then used to make a projection of future cash flows dependent on interest rate and inflation indexes. Lastly, these flows are discounted using a discount factor, which allows the fair value of linear interest rate and inflation instruments to be calculated in line with the market.
- Non-linear interest rate and inflation instruments, such as caps/floors, caps/floors on inflation and European swaptions: volatility surfaces are constructed using standard techniques based on the market prices of caps/floors and swaptions at standard maturities and strike prices, and using interpolation techniques a suitable volatility is constructed for the unlisted instrument or its components. This volatility combines with the interest rate curve to determine the fair value using standard models.
- Forex instruments such as FX-spot/forwards, FX swaps and FX plain vanilla options: for the simpler instruments it is sufficient to use the interest rate curves to discount future flows and convert these flows in the relevant foreign currency to the equivalent amount in Euros using the market exchange rate. For more complex instruments such as options, volatility surfaces are constructed using the market prices of listed FX options at standard maturities and strike prices using classical interpolation models and methods. These volatility surfaces, along with the interest rate curves and market exchange rates, are used to calculate the fair value of the unlisted plain vanilla FX options in line with the market.
- Equity instruments such as forwards, equity swaps, and plain vanilla options on equities and indexes: volatility surfaces are constructed from the market prices of listed options using standard techniques, and dividend curves are constructed based on estimates of dividends supplied by external providers and compiled internally. The interest rate curves and the dividend curves, together with the current market value of the underlying asset, allows a projection to be made of the underlying asset's future value. This projection, along with the volatility surface for the options, using standard market models allows these financial instruments to be valued in line with the market.
- Credit instruments such as credit default swaps on individual names or credit indexes, or bonds with no liquid market: default probability curves are constructed based on the prices of the CDS at various maturities or on bonds and estimates of recovery rates received from external providers. These probability curves, together with the interest rate curves, allow the fair value of the credit default swaps and bonds to be calculated using models in line with market prices.

Level 3: the fair value of financial instruments classified as 3 in the fair value hierarchy is calculated in the same way as for level 2 instruments, with the difference that some model parameters are not directly observable on the market, and are therefore calculated internally using appropriate methodologies. In many cases, for this calculation historical data are analyzed or comparable underlying instruments are used. As for level 2, the model parameters are checked by the Middle Office - market data unit and the models themselves by the Risk management - model validation unit. The fair values thus calculated, if necessary, are then adjusted to reflect the uncertainty of the model or the specific market data. Examples of model parameters calculated internally are as follows:

- Equity options: the market prices of the options do not allow a volatility surface to be constructed beyond a certain expiry. If it is necessary to value an option beyond this limit, extrapolation methods are applied, supported by analysis of the volatility surfaces of other comparable underlying assets (peers).

- Equity options on baskets: standard market models are used, along with estimated correlation data. For this estimate, historical analyses of yields on the basket's components are used. taking into consideration the historical difference between listed and historical correlation.

Held for trading financial assets

These comprise debt securities with fixed or otherwise determinable payments and fixed maturities. At the settlement date such assets are recognized at fair value not including any transaction expenses or income directly attributable to the asset concerned, which are taken through the comprehensive income.

After initial recognition they continue to be measured at fair value, if the assets suffer impairment, they are written down to their current value.

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

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Effective from 1 July 2008, the Bank may reclassify, in certain circumstances, non-derivative financial assets out of the held for trading category and into the available-for-sale, loans and advances, or held-to-maturity categories. From this date it may also reclassify, in certain circumstances, financial instruments out of the available-for-sale category and into the loans and advances category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

The Bank may reclassify a non-derivative trading asset out of the held for trading category and into the loans and advances category if it meets the definition of loans and advances and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the effective interest rate from the date of the change in estimate.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to comprehensive income over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired then the amount recorded in equity is recycled to the comprehensive income.

Reclassification is at the election of Management, and is determined on an instrument by instrument basis. The Bank did not reclassify any financial instrument as of 30 June 2011.

Financial liabilities other than derivatives

The Bank classifies its financial liabilities other than derivatives in the following category: Financial liabilities measured at amortised cost.

<u>Financial liabilities measured at amortised cost</u>

These include the items Due to banks, Due to customers and Debt securities in issue less any shares bought back.

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

Derivatives embedded in structured notes are stripped out from the underlying contract and recognized at fair value. Subsequent changes in fair value are recognized through the profit and loss account.

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the comprehensive income.

Derivative financial instruments

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

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

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

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

(I) Trading

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

(II) Hedging

The Bank uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. Where there is a hedging relationship between a derivative instrument and a related item being hedged, the hedged instrument is measured at fair value. The treatment of any resulting gains and losses is set out below.

A hedging relationship exists where:

- at the inception of the hedge there is formal documentation of the hedge;
- the hedge is expected to be highly effective;
- the effectiveness of the hedge can be reliably measured;
- the hedge is highly effective throughout the reporting period; and
- for hedges of a forecasted transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect net profit or loss.

Fair value hedge

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

Cash flow hedge

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

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

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

As at 30 June 2011 and 2010 the Bank does not hold any cash flow hedged transactions.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand and short-term highly liquid investments with maturities of three months or less when purchased.

Repurchase agreements and reverse repurchase agreements

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

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

As at 30 June 2011 and 2010 the Bank did not enter into repurchase agreements or reverse repurchase agreements.

Tangible assets

The Bank recognises the cost of replacing part of a property, plant and equipment item at incurrence in the carrying amount of this item if that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Bank and the cost of the item can be measured reliably. All other costs are recognised in the comprehensive income as an expense as incurred.

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Depreciation is charged to the comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Taken into consideration the nature of the Bank's tangible assets, depreciation rate used is 20%.

The residual value, if not insignificant, and useful lives are reassessed annually and adjusted, if appropriate.

Other assets

Other assets are stated at cost less impairment.

Pension plans

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

Provisions

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

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

Other liabilities

Other liabilities are stated at cost.

Tax assets and liabilities

Income taxes are recorded in the comprehensive income, with the exception of tax payable on items debited or credited directly to net equity. Provisions for income tax are calculated on the basis of current, advance and deferred obligations. Deferred taxes are calculated on the basis of temporary differences – without time limits – between the carrying amount of an asset or liability and its tax base.

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

"Day1" profit or loss

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

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Bank has a legally enforceable right to offset the recognised amounts and the transactions are intended to be settled on a net basis or realise the asset and settle the liability simultaneously.

Transfer and derecognition of financial assets

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

Assets or group of assets which are sold continue to be recognized if the risks and benefits associated with them (in the relevant technical form) continue to be attributable to the Bank. A corresponding amount is then entered as a liability to offset any amounts received (as "other amounts due" or "amounts due under repo transactions").

The main forms of activity carried out by the Bank which require underlying assets to be derecognized refer to items received as a part of the depositary Bank activity, the return on which is collected in the form of a commission; these items are not recorded as long as the related risks and benefits continue to accrue entirely to the end-investor.

Impairment of financial assets

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

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

Indicators of impairment include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Bank has granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties.

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

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

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

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

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

Impairment of non financial assets

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

Interest income and expenses

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

Fee and commission income and expenses

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

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

Net trading income/expense

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

Taxes

Income tax on the comprehensive income for the year comprises current and deferred tax. Income tax is recognised in the comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

(I) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

(II) Deferred tax

Deferred income tax is provided using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Foreign currency translation

The annual accounts are presented in euro (€), which is the Bank's functional and presentational currency.

Foreign currency transactions are initially recorded at the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in currencies other than euro are re-translated into euro at the exchange rate prevailing at the balance sheet date. The gain or loss arising from such conversion is recorded in the comprehensive income.

Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates prevailing at the balance sheet date.

Reclassifications of prior year figures

For a comparison to be meaningful and where necessary, certain prior year figures have been reclassified to conform with changes to the current year's presentation.

More specifically 2010 figures have been reclassified to conform with changes to the current year's presentation for comparative purpose: in line with the approach applied by the Bank in the statement of comprehensive income, where commission payable for guarantees received are classified in the interest margin as a component of the effective yield, the Bank has netted respective accrued commission payables with the accrued interest receivables from loans and advances. The following table shows the nature and the amount of reclassification related to the 2010 amounts:

FINANCIAL STATEMENT REOPENING BALANCE AS OF 1[ST] JULY 2010

	Assets	30/06/2010	Reclassification	01/07/2010
		€	€	€
60.	Loans and advances to Credit Institutions	1.097.940.367	-69	1.097.940.298
70.	Loans and advances to Customers	3.856.006.468	-9.354.169	3.846.652.299

	Liabilities and equity	30/06/2010	Reclassification	01/07/2010
		€	€	€
100.	Other liabilities	17.203.100	-9.354.238	7.848.861

Related parties

Related parties are defined by IAS 24 as:

a) Individuals or entities which directly or indirectly:

1. are subject to joint control by the Bank (including parent companies, subsidiaries and associates);

2. own an interest in the Bank which enables them to exert a significant influence over it: "significant influence" is presumed to exist in cases where an individual or entity owns a shareholding of more than 5% of the share capital of Mediobanca International (Luxembourg) S.A., along with the entitlement to appoint at least one member of the Board of Directors;

b) associate companies;

c) management with strategic responsibility, that is, those individuals vested with powers and responsibilities, directly or indirectly, in respect of the planning, management and control of the activities of the parent company, including directors and members of the statutory audit committee;

d) subsidiaries, companies controlled jointly and/or subject to significant influence by one of the individuals referred to under the foregoing letter c), or in which the said individuals hold, directly or indirectly, a significant share of the voting rights or are shareholders or hold strategic positions such as Chairman or Managing Director;

e) close relations of the individuals referred to under the foregoing letter c), that is, individuals who might be expected to be able to influence or be influenced by them in their relations with Mediobanca (this category includes partners, children, partners' children, dependents and partners' dependents), and the entities controlled or controlled jointly or otherwise subject to significant influence by one of these individuals, or in which they directly or indirectly hold a significant share of the voting rights;

f) staff pension schemes operated by the parent company or by any other entity related to it.

Section 5

Significant accounting estimates and judgement

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

Going concern

The Bank's Board of Directors has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the Board of Directors is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the annual 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 balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for structured securities. The valuation of financial instruments is described in more detail in Section 4.

Impairment losses on loans and advances

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

Deferred tax assets

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

PART C – NOTES TO THE BALANCE SHEET

ASSETS

Section 1

Heading 10: Cash and cash balances with Central Banks

1.1 Cash and cash balances with Central Banks (in € k)

	30/06/2011	30/06/2010
a) Cash		1
b) Demand deposit held at Central Banks	17.072	25.449
Total	**17.072**	**25.450**

Credit institutions established in Luxembourg are required to hold a minimum reserve with the Luxembourg Central Bank. These deposits represent 2% of some of their liabilities. Compliance with the reserve requirement is determined on the basis of the institutions' average daily reserve holdings over the maintenance period, thus reserves of credit institutions can vary from one day to another following their treasury management, the money market or their expectations in interest rates.

Mandatory reserve deposits with the central Bank are not used in the Bank's day to day operations.

Section 2

Heading 20: Financial assets held for trading

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

Item/Value	30/06/2011			30/06/2010		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	122.640			282.651		
1.1 Structured	5.100	—	—	—	—	—
1.2 Other debt securities	117.540		—	282.651	—	
2. Equities	—		—	—	—	
3. OICR units	—	15.428	—	—	—	—
4. Loans and advances	—	—	—	—	—	—
4.1 Repos	—	—	—		—	—
4.2 Others			—			
Total A	**122.640**	**15.428**	—	**282.651**	—	—
B. Derivative products						
1. Financial derivatives		364.882	98.993		414.351	141.928
1.1 Trading	—	301.895	—		322.044	—
1.2 Linked to FV options						
1.3 Others		62.987	98.993	—	92.307	141.928
2. Credit derivatives		332.432			325.696	1.370
2.1 Trading	—	263.726	—	—	294.875	
2.2 Linked to FV options	—	—	—	—	—	—
2.3 Others		68.706	—	—	30.821	1.370
Total B	—	**697.314**	**98.993**	—	**740.047**	**143.298**
Total (A+B)	**122.640**	**712.742**	**98.993**	**282.651**	**740.047**	**143.298**

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For more information about fv hierarchy please refer to part B "accounting policies".

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

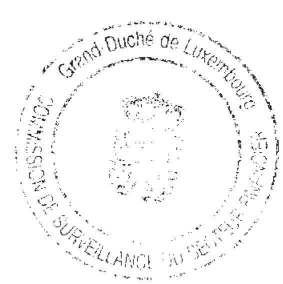
	30/06/2011	30/06/2010
1. Opening balance	**143.298**	**133.996**
2. Increases	**1.923**	**11.025**
2.1 Issues and purchases	240	1.838
2.2 Transfers from other levels	—	-
2.3 Other increases	1.683	9.187
3. Decreases	**46.228**	**1.723**
3.1 Sales and settlements	42.865	663
3.2 Transfers to other levels	-	—
3.3 Other decreases	3.363	1.060
4. Closing balance	**98.993**	**143.298**

No transfers between level 3 and level 2 have been registered in the year.

Gains or losses on level 3 financial instruments included in the profit or loss for the period are as follows (in € k):

	A. Unrealised gains	**B. Unrealised losses**	**Total**
Total gains (losses) included in the comprehensive income for the period	6.341	-6.447	-106

As "level 3" financial instruments the Bank classifies equity options embedded both in structured notes and in financial derivatives; impacts on the fair value of level 3 instruments of using reasonably possible alternative assumptions is considered not significant.



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

Item/Value	**30/06/2011**	**30/06/2010**
A. CASH ASSETS		
1. Debt securities	122.640	282.651
a. Governments and central Banks		
b. Other public agencies		
c. Banks		24.960
d. Other issuers	122.640	257.691
2. Equities		—
a. Banks	—	—
b. Other issuers	—	—
- insurances	—	—
- financial companies	—	—
- non-financial companies	—	—
- others		—
3. OICR units	15.428	—
4. Loans and advances	—	
a. Governments and central Banks	—	—
b. Other public agencies	—	—
c. Banks	—	—
d. Other entities	—	
5. Impaired assets		—
a. Governments and central Banks	—	—
b. Other public agencies	—	—
c. Banks		
d. Other entities		
6. Assets sold but not derecognized	—	—
a. Governments and central Banks	—	—
b. Other public agencies	—	—
c. Banks	—	
d. Other issuers	—	—
Total A	**138.068**	**282.651**
B. DERIVATIVE PRODUCTS		
a. Banks	791.074	614.382
b. Customers	5.233	268.963
Total B	**796.307**	**883.345**
Total A+B	**934.375**	**1.165.996**

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

Type of derivatives/Underlying assets	Interest rates		Foreign currency/gold		Equities		Credit		30/06/2011		30/06/2010	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
A) Listed derivative products	—	—	—	—	—	—	—	—	—	—	—	—
Total A	—	—	—	—	—	—	—	—	—	—	—	—
B) Unlisted derivative products												
1) Financial derivatives:	883.598	342.432	13 838	124	545.161	121.319	—	—	1.442.597	463.875	1.649.399	556.279
– with exchange of principal	—	—	13 838	124	—	—	—	—	13.838	124	338.196	20.695
– options bought	—	—	—	—	—	—	—	—	—	—	—	—
– other derivatives	—	—	13.838	124	—	—	—	—	13.838	124	338.196	20.695
– without exchange of principal	883.598	342.432	—	—	545.161	121.319		—	1.428.759	463.751	1.311.203	535.584
– options bought	—	—	—	—	228.740	22.005	—	—	228.740	22.005	—	—
– other derivatives	883.598	342.432	—	—	316.421	99.314	—	—	1.200.019	441.746	1.311.203	535 584
2) Credit derivatives:	—	—	—	—	—	—	1.400.220	332.432	1.400.220	332.432	1.154.169	327 066
– with exchange of principal	—	—	—	—	—	—	—	—	—	—	—	—
– without exchange of principal	—	—	—	—	—	—	1.400.220	332.432	1.400.220	332.432	1.154.169	327.066
Total B	**883.598**	**342.432**	**13.838**	**124**	**545.161**	**121.319**	**1.400.220**	**332.432**	**2.842.817**	**796.307**	**2.803.568**	**883.345**
Total (A+B)	**883.598**	**342.432**	**13.838**	**124**	**545.161**	**121.319**	**1.400.220**	**332.432**	**2.842.817**	**796.307**	**2.803.568**	**883.345**

2.5 Cash assets held for trading (excluding assets sold but not derecognized/impaired assets): movements during the period (in € k)

	Debt securities	Equities	OICR units	Loans and advances	30/06/2011	30/06/2010
A. Balance at start of period	**282.651**	—	—	—	**282.651**	**265.409**
B. Additions	22.476	—	16.301	—	38.777	42.371
B.1 Acquisitions	—	—	16.300	—	16.300	10.780
B.2 Increases in fair value	12.790				12.790	17.855
B.3 Other increases	9.686	—	1	—	9.687	13.736
C. Reductions	182.487		873		183.360	25.129
C.1 Disposals	18.807		551		19.358	7.904
C.2 Redemptions	108.502	—	—	—	108.502	14.786
C.3 Reductions in fair value	34.176	—	322	—	34.498	2.436
C.4 Transfers to other portfolios			—			—
C.5 Other reductions	21.002	—	—	—	21.002	3
D. Balance at end of period	**122.640**	—	**15.428**	—	**138.068**	**282.651**

Section 6

Heading 60 – Loans and advances to credit institutions

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

Type of transactions/Value	30/06/2011	30/06/2010
1. Current accounts and demand deposits	512.729	655.513
1.1 current accounts	419.848	577.684
1.2 stock lending deposits[1]	92.881	77.829
1.3 others deposits on demand	—	—
2. Term deposits	43.887	96.029
3. Other receivables:	298.938	346.398
3.1 amounts due under repo agreements	—	—
3.2 amounts due under finance leases	—	—
3.3 amounts due under stock lending transactions	76.007	92.097
3.4 other amounts due	222.931	254.301
4. Debt securities	—	—
4.1 structured		—
4.2 other debt securities		
Total book value	**855.554**	**1.097.940**
Total fair value	**855.553**	**1.097.173**

None of the loans and borrowings of the Bank is hedged with financial instruments. The Bank does not book any receivable under the terms of finance lease (IAS 17).

[1] As a part of the securities lending agreement, the Bank has received cash as collateral.

Section 7

Heading 70: Loans and advances to customers

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

Type of transactions/Value	30/06/2011	30/06/2010 (*)
1. Current accounts	—	—
2. Amounts due under repo agreements	—	—
3. Loans	3.862.841	3.846.652
4. Credit cards, personal loans and salary – guaranteed finance	—	—
5. Amounts due under finance leasing		—
6. Factoring	—	
7. Other transactions	18.971	
8. Debt securities	—	
8.1 structured	—	
8.2 other debt securities		—
9. Assets sold but not derecognized	—	—
Total book value	**3.881.812**	**3.846.652**
Total fair value	**3.870.128**	**3.805.977**

(*) For a comparison to be meaningful, 2010 figures have been reclassified as explained in Part B – Section 4 "Reclassification of prior year figures".

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

Type of transactions/Value	30/06/2011		30/06/2010 (*)	
	Performing	Non-performing	Performing	Non-performing
1. Debt securities:	—			
a) Governments	—	—	—	—
b) Other public agencies	—	—	—	—
c) Other issuers	—	—		—
- non-financial undertakings				
- financial companies	—	-	—	—
- insurances	—	—	—	
- other entities	—	—	—	—
2. Loans and advances to:	3.792.687	89.125	3.753.492	111.160
a) Governments	—	—	—	—
b) Other public agencies	—	—	—	—
c) Other issuers	3.792.687	89.125	3.753.492	111.160
- non-financial undertakings	2.452.903	51.118	3.753.492	111.160
- financial companies	1.339.784	38.007		—
- insurances	—	—	—	—
- other entities			-	
Total	**3.792.687**	**89.125(•)**	**3.753.492**	**111.160**

(•) *subsequent event: In August 2011 the Bank has executed the financial guarantee on a nonperforming exposure at its book value of € 11m; remaining non performing loans are fully covered by financial guarantees.*

(*) For a comparison to be meaningful, 2010 figures have been reclassified as explained in Part B – Section 4 "Reclassification of prior year figures".

7.3 Loans and advances to customers: assets subject to specific hedging (in € k)

Type of transactions/Value	30/06/2011	30/06/2010 (*)
1. Items subject to specific fair value hedges for:	371.982	440.079
a) interest rate risk	371.982	440.079
b) exchange rate risk	—	—
c) credit risk	—	—
d) more than one risk	—	—
2. Items subject to specific cash flow hedges:	—	—
a) interest rate risk		
b) exchange rate risk	—	—
c) other	—	—
Total	**371.982**	**440.079**

The Bank does not book any receivable under the terms of finance lease (IAS 17).

(*) For a comparison to be meaningful, 2010 figures have been reclassified as explained in Part B – Section 4 "Reclassification of prior year figures".

Section 8

Heading 80: Hedging derivatives

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

	30/06/2011 Fair value			Notional value	30/06/2010 Fair value			Notional value
	level 1	level 2	level 3		level 1	level 2	level 3	
A. Financial derivatives	—	95.311	—	326.903	—	153.309	—	341.497
1) Fair value	—	95.311	—	326.903	—	153.309	—	341.497
2) Cash flow	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	—	95.311	—	326.903	—	153.309	—	341.497

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs having a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques using inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For more information about fair value hierarchy please refer to part B "accounting policies".

Grand Duché de Luxembourg ... Surveillance du Secteur Financier

8.2 Hedging derivatives: by type of contract and underlying asset (in € k)

Type of derivatives/Underlying assets	Interest rates		Foreign currency/gold		Equities		Credit		30/06/2011		30/06/2010	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
A) Listed derivative products	—	—	—	—	—	—	—	—	—	—	—	—
Total A	—	—	—	—	—	—	—	—	—	—	—	—
B) Unlisted derivative products												
1) Financial derivatives:	326.903	95.311	—	—	—	—	—	—	326.903	95.311	341.497	153.309
– with exchange of principal	—	—	—	—	—	—	—	—	—	—	16.299	2.712
– options bought	—	—	—	—	—	—	—	—	—	—	—	—
– other derivatives	—	—	—	—	—	—	—	—	—	—	16.299	2.712
– without exchange of principal	326.903	95.311	—	—	—	—	—	—	326.903	95.311	325.198	150.597
– options bought	—	—	—	—	—	—	—	—	—	—	—	—
– other derivatives	326.903	95.311	—	—	—	—	—	—	326.903	95.311	325.198	150.597
2) Credit derivatives:	—	—	—	—	—	—	—	—	—	—	—	—
– with exchange of principal	—	—	—	—	—	—	—	—	—	—	—	—
– without exchange of principal	—	—	—	—	—	—	—	—	—	—	—	—
Total B	**326.903**	**95.311**	—	—	—	—	—	—	**326.903**	**95.311**	**341.497**	**153.309**
Total (A+B)	**326.903**	**95.311**	—	—	—	—	—	—	**326.903**	**95.311**	**341.497**	**153.309**

COMMISSION DE SURVEILLANCE DU SECTEUR FINANCIER - Grand-Duché de Luxembourg

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

30/06/2011 Operations/Type of hedging	Fair Value Hedge					Cash Flow Hedge	
	Specific				Generic	Specific	Generic
	Interest risk	Currency risk	Credit risk	Other risks			
1. Financial assets available-for-sale	—	—	—	—	—	—	
2. Lending portfolio	—	—	—	—	—	—	—
3. Financial assets held-to-maturity	—	—	—	—	—	—	—
4. Portfolio			—	—	—	—	—
TOTAL ASSETS	—	—	—	—	—	—	—
1. Amounts due to Banks/Customers	79.452	—	—		—	—	—
2. Debt securities in issue	15.859	—	—	—	—	—	—
3. Portfolio	—	—	—	—		—	
TOTAL LIABILITIES	**95.311**	—	—	—	—	—	—
TOTAL	**95.311**	—	—	—	—	—	—

30/06/2010 Operations/Type of hedging	Fair Value Hedge					Cash Flow Hedge	
	Specific				Generic	Specific	Generic
	Interest risk	Currency risk	Credit risk	Other risks			
1. Financial assets available-for-sale	—	—	—	—	—		—
2. Lending portfolio	—	—	—	—	—	—	—
3. Financial assets held-to-maturity	—	—	—		—	—	—
4. Portfolio							
TOTAL ASSETS	—	—	—	—	—	—	—
1. Amounts due to Banks/Customers	129.802	—	—	—	—	—	—
2. Debt securities in issue	20.795	2.712	—	—	—	—	—
3. Portfolio	—		—	—			—
TOTAL LIABILITIES	**150.597**	**2.712**	—	—	—	—	—
TOTAL	**150.597**	**2.712**	—	—	—	—	—

Section 12

Heading 120: Property, plant and equipment

12.1 Movements in tangible assets (in € k)

Tangible assets	Gross value at the beginning of the financial year	Additions	Disposals	Gross value at the end of the financial year	Accumulated depreciation	Net carrying amount as at 30/06/2011	Net carrying amount as at 30/06/2010
Tangible assets	88			88	-86	2	3
<u>of which</u>:							
Other fixtures and fittings, tools and equipment	88	—	—	88	-86	2	3

12.2 Breakdown of tangible assets (in € k)

	30/06/2011			30/06/2010		
A. Core assets	**Gross**	**Amortisation**	**Net**	**Gross**	**Amortisation**	**Net**
1.1 owned	**88**	**-86**	**2**	**88**	**-85**	**3**
a) lands	—		—	—		
b) buildings	—	—		—	—	
c) furniture	38	-37	1	38	-36	2
d) electronic equipments	50	-49	1	50	-49	1
e) others	—	—		—	—	—
1.2 acquired under finance leases	—	—	—	—	—	—
a) lands	—	—	—	—	—	—
b) buildings						
c) furniture	—	—	—	—	—	—
d) electronic equipments	—	—	—	—	—	—
e) others	—	—	—	—	—	—
TOTAL A	**88**	**-86**	**2**	**88**	**-85**	**3**
B. Assets held for investment purposes						
2.1 owned	—	—	—	—	—	—
a) lands			—			—
b) buildings	—		—	—		—
2.2 acquired under finance leases	—	—	—	—	—	—
a) lands	—		—	—		—
b) buildings	—	—	—	—	—	—
TOTAL B		—	—			—
TOTAL (A+B)	**88**	**-86**	**2**	**88**	**-85**	**3**

Section 13

Heading 130: Tax assets

13.1 Changes in deferred tax assets during the period (in € k)

Deferred tax assets	30/06/2011	30/06/2010
1. Initial amount	123.469	96.533
1.1 Initial amount	123.469	96.533
2. Additions		123.469
2.1 Deferred tax originating during the period		123.469
a) for previous years		
b) due to changes in accounting policies	—	—
c) amounts written back	—	—
d) other addition	—	123.469
2.2 New taxes or increases in tax rates		
2.3 Other additions	—	—
3. Reductions	123.469	96.533
3.1 Deferred tax reversed during the period	123.469	96.533
a) amounts written off as unrecoverable		
b) reverse to comprehensive income	123.469	96.533
c) due to changes in accounting policies		
3.2 Reduction in tax rates	—	—
3.3 Other reductions	—	—
Total	—	**123.469**

The decrease in deferred tax provisioning is due to a different approach followed by the Bank in defining and calculating timing differences; such changes are consequent to the tax assessments received during the fiscal year which led to a substantial re-definition and improvement of the approach to the reference legislation.

The Bank wrote off the deferred taxes that have been provisioned during the previous exercises in order to align the amounts on the basis of the new fiscal position.

Readers should bear in mind that the difference between June 2011 and June 2010 has to be considered in its wholeness, regardless to deferred tax assets and liabilities separately.

Section 15

Heading 150: Other assets

15.1 Other assets (in € k)

	30/06/2011	30/06/2010
- Withholding tax	—	—
- Value added tax	—	—
- Upfront premiums	2.058	7.476
- Commissions receivable	7.066	6.429
- Other	101	51
Total	**9.225**	**13.956**

Upfront premiums refer to payments made on derivatives negotiated on the trading portfolio of the Bank, which have been capitalized and will be reversed on a *prorata* basis to the comprehensive income.

Commissions receivable refer to amounts due from third parties in connection with the corporate lending and the depositary Bank activities.

Liabilities

Section 1

Heading 10: Amounts due to credit institutions

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

Type of transaction/amounts	30/06/2011	30/06/2010
1. Due to central Banks	—	—
2. Due to Banks	3.129.017	2.609.899
2.1 Current accounts and demand deposits	74.385	620.287
2.2 Term deposits	1.052.081	153.329
2.3 Borrowings	2.002.551	1.836.283
2.3.1 Leasing & stock lending	75.975	92.097
2.3.2 Others	1.926.576	1.744.186
2.4 Amounts due under commitments to buy back own shares	—	
2.5 Other amounts due	—	—
Total book value	**3.129.017**	**2.609.899**
Total fair value	**3.129.017**	**2.609.899**

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

Subordinated liabilities included - under the heading *Due to Banks* – nominal amount of € 39.250.000 referring to subordinated debt assimilated to Tier2 capital; if Basel III's criteria will be maintained in the final version, subordinated debt will be reclassified as Additional Tier1.

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

	30/06/2011	30/06/2010
1. Items subject to specific fair value hedges for:	155.727	187.673
a) interest rate risk	155.727	187.673
b) exchange rate risk	—	—
c) more than one risk	—	—
2. Items subject to specific cash flow hedges for:	—	
a) interest rate risk	—	—
b) exchange rate risk	—	—
c) other	—	
Total	**155.727**	**187.673**

Items subject to micro fair value hedge are Schuldscheins subscribed by third credit institutions.

Section 2

Heading 20: Amounts due to customers

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

Type of transaction/amounts	30/06/2011	30/06/2010
1. Current accounts and demand deposits	18.546	
2. Term deposits	452.065	467.129
3. Customers' funds managed on a non-discretionary basis	—	—
4. Borrowings	78.087	72.677
4.1 leasing	18.963	—
4.2 others	59.124	72.677
5. Amounts due under commitments to buyback own shares		—
6. Liabilities in respect of assets sold but not derecognized	—	—
6.1 Amounts due under reverse repo agreements	—	—
6.2 Others	—	
7. Other amounts due	—	—
Total book value	**548.698**	**539.806**
Total fair value	**548.698**	**539.806**

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

	30/06/2011	30/06/2010
1. Items subject to specific fair value hedges for:	59.124	72.677
a) interest rate risk	59.124	72.677
b) exchange rate risk		—
c) more than one risk	—	—
2. Items subject to specific cash flow hedges for:	—	—
a) interest rate risk	—	—
b) exchange rate risk	—	—
c) other	—	—
Total	**59.124**	**72.677**

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

Section 3

Heading 30: Debt securities in issue

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

Type of transaction/amounts	30/06/2011		30/06/2010	
	Book value	Fair Value[1]	Book value	Fair Value
A. Listed securities	1.356.049	1.365.641	2.206.019	2.187.729
1. notes	1.073.880	1.083.472	1.464.579	1.446.289
1.1 structured	898.466	907.293	955.856	935.979
1.2 others	175.414	176.179	508.723	510.310
2. other securities [A]	282.169	282.169	741.440	741.440
2.1 structured	—	—	—	—
2.2 others	282.169	282.169	741.440	741.440
B. Unlisted securities	280.916	283.281	429.052	420.349
1. notes	280.916	283.281	429.052	420.349
1.1 structured	260.776	260.816	290.494	290.872
1.2 others	20.140	22.465	138.558	129.477
2. other securities	—	—	—	—
2.1 structured	—	—	—	—
2.2 others	—	—	—	—
Total	**1.636.965**	**1.648.922**	**2.635.071**	**2.608.078**

[1] Fair value does not include issuer risk; if issuer risk was considered, the fair value of debt securities issued would reduce by € 31m approximately.

[A] "Certificats de dépôt" and commercial papers programs obtained the Step Market (short-term euro commercial paper) label.

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

Type of transaction/amounts	30/06/2011	30/06/2010
A. Securities subject to specific fair value hedges	509.767	573.714
1. Interest rate risk	503.603	550.472
2. Currency risk	6.164	23.242
3. Other risks	—	—
B. Securities subject to specific cash flow hedges	—	—
1. Interest rate risk	—	—
2. Currency risk	—	—
3. Other risks	—	—
Total	**509.767**	**573.714**

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

Type of transaction/amounts	30/06/2011	30/06/2010
A. Debt securities	845.029	1.319.917
1. Structured	764.356	852.972
2. Other	80.673	466.945
B. Other financial instruments	282.169	741.440
1. Structured	—	—
2. Other	282.169	741.440
Total	**1.127.198**	**2.061.357**

Section 4

Heading 40: Financial liabilities held for trading

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

Type of transaction/amounts	30/06/2011			30/06/2010		
	FV			FV		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash liabilities				—		—
1. Amount due to Banks	—	—	—	—	—	—
2. Amount due to customers	—	—	—	—	—	—
3. Debt securities	—	—	—	—	—	—
B. Derivatives instruments	—	119.435	98.992	—	146.895	143.298
1. Financial derivatives	—	90.319	98.992	—	117.327	141.928
1.1 Trading derivatives	—	27.653	—	—	25.020	—
1.2 Linked to FV option	—	—	—	—	—	—
1.3 Other	—	62.666	98.992	—	92.307	141.928
2. Credit derivatives	—	29.116	—	—	29.568	1.370
2.1 Trading derivatives	—	25.209	—	—	15.033	—
2.2 Linked to FV option	—	—	—	—	—	—
2.3 Other	—	3.907	—	—	14.535	1.370
Total	—	**119.435**	**98.992**	—	**146.895**	**143.298**

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs having a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques using inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For more information about fv hierarchy please refer to part B "accounting policies".

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

	30/06/2011	30/06/2010
1. Opening balance	**143.298**	**133.996**
2. Increases	**1.923**	**11.025**
2.1 Issues and purchases	241	468
2.2 Transfers from other levels		
2.3 Other increases	1.682	10.557
3. Decreases	**46.229**	**1.723**
3.1 Sales and settlements	42.865	663
3.2 Transfers to other levels	—	—
3.3 Other decreases	3.364	1.060
4. Closing balance	**98.992**	**143.298**

No transfers between level 3 and level 2 have been registered in the year.

Gains or losses on level 3 financial instruments included in the profit or loss for the period are as follows (in € k):

	A. Unrealised gains	**B. Unrealised losses**	**Total**
Total gains (losses) included in the comprehensive income for the period	6.341	-6.447	-106

As "level 3" financial instruments the Bank classifies equity options embedded both in structured notes and in financial derivatives; impacts on the fair value of level 3 instruments of using reasonably possible alternative assumptions is considered not significant.

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

Type of transaction/amounts	Interest rate		Foreign currency/gold		Equity		Credit		30/06/2011		30/06/2010	
	Notional	FV	Notional	FV	Notional	FV	Notional	FV	Notional	FV	Notional	FV
A. Listed derivative products	—	—	—	—	—	—	—	—	—	—	—	—
B. Unlisted derivative products												
1. Financial derivatives	501.712	68.314	—	—	545.003	120.997	—	—	1.046.715	189.311	978.765	259.255
1.1 With exchange of principal	—	—	—	—	—	—	—	—	—	—	89.642	9.786
- options issued	—	—	—	—	—	—	—	—	—	—	—	—
- other derivatives	—	—	—	—	—	—	—	—	—	—	89.642	9.786
1.2 Without exchange of principal	501.712	68.314	—	—	545.003	120.997		—	1.046.715	189.311	889.123	249.469
- options issued	—	—	—	—	228.739	22.005	—	—	228.739	22.005	—	—
- other derivatives	501.712	68.314	—	—	316.264	98.992	—	—	817.976	167.306	889.123	249.469
2. Credit derivatives	—	—	—	—	—	—	1.050.915	29.116	1.050.915	29.116	664.779	30.938
2.1 With exchange of principal	—	—	—	—	—	—	—	—	—	—	—	—
2.2 Without exchange of principal	—	—	—	—	—	—	1.050.915	29.116	1.050.915	29.116	664.779	30.938
Total	501.712	68.314	—	—	545.003	120.997	1.050.915	29.116	2.097.630	218.427	1.643.544	290.193

Section 6

Heading 60: Hedging derivatives

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

	30/06/2011 *Fair value*			Notional value	30/06/2010 *Fair value*			Notional value
	level 1	level 2	level 3		level 1	level 2	level 3	
A. Financial derivates	—	16.193	—	676.254	—	33.243	—	1.159.790
1) *Fair value*	—	16.193	—	676.254	—	33.243	—	1.159.790
2) Cash flow	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) *Fair value*	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	—	16.193	—	676.254	—	33.243	—	1.159.790

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs having a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques using inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For more information about fv hierarchy please refer to part B "accounting policies".

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

Hedged items	Fair value hedges					Cash flow hedge			
	Specific								
	Interest Risk	Exchange rate	Credit risk	Other	Generic	Specific	General	30/06/2011	30/06/2010
1. AFS Securities			—	—	—	—	—	—	—
2. Loans and advances	4.502	—	—	—	—	—	—	4.502	23.558
3. Financial assets HTM	—	—	—	—		—	—	—	—
4. Portfolio	—	—	—	—	—	—	—	—	—
TOTAL ASSETS	**4.502**	—	—	—	—	—	—	**4.502**	**23.558**
1. Amounts due	—	—		—	—	—	—	—	—
2. Financial liabilities	10.170	1.521	—	—	—	—	—	11.691	9.685
3. Portfolio	—	—	—	—	—	—	—	—	—
TOTAL LIABILITIES	**10.170**	**1.521**	—	—	—	—	—	**11.691**	**9.685**
TOTAL	**14.672**	**1.521**	—	—	—	—	—	**16.193**	**33.243**

Section 8

Heading 80: Tax liabilities

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

	30/06/2011	30/06/2010
Corporate income tax (IRC)	21.512	14.894
Municipal business tax (ICC)	6.489	4.562
Other	—	—
Total	**28.001**	**19.456**

The Bank is liable for all taxes to which the credit institutions are subject to in Luxembourg. The Bank opts for the exoneration of the net wealth tax charge of € 823.945 (30 June 2010: € 645.000) provided the following conditions are fulfilled:

(1) A reserve equivalent to 5 times the net wealth tax liability is created. A new reserve has to be created each year. This requires a decision of the general shareholders' meeting and this reserve has to appear in the balance sheet. If the profit of the year is not sufficient to create the reserve, it is possible to transfer the profit of the preceding years to create such reserve.

(2) This reserve is maintained for a period of at least 5 years after the year of the credit.

The amount of net wealth tax that can be reduced is the lower of net wealth tax and corporate income tax before tax credits, and the reduction will be equalled to one fifth of the reserve booked.

8.2 Current tax liabilities: composition (in € k)

	IRC	ICC	Total
Balance at the beginning of the year			
A. Current fiscal liabilities (+)	16.314	4.912	21.226
B. Advances paid (-)	1.420	350	1.770
A.1 Fiscal liabilities: increase (+)	**7.101**	**2.166**	**9.267**
- provisions of the year	6.644	2.032	8.676
- transfers			
- others	457	134	591
A.2 Fiscal liabilities: decrease (-)	**-463**	**-139**	**-602**
- payments of the year	-463	-139	-602
- transfers	—	—	—
- others	—	—	—
B.1 Advances paid: increase (+)	**320**	**100**	**420**
- payments/advances	320	100	420
- transfers	—		—
- others	—	—	
B.2 Advances paid: decrease (-)	**-300**	—	**-300**
- payments of the year	-300	—	-300
- transfers	—	—	—
- others		—	—
Total A. Fiscal liabilities	**22.952**	**6.939**	**29.891**
Total B. Advances paid	**1.440**	**450**	**1.890**
Current fiscal liabilities (A-B)	**21.512**	**6.489**	**28.001**

Adjustments in respect of current income tax of prior years have been done for € 591 k.

During the year the solidarity surcharge due by companies has been increased by 1%, from 4% to 5%. As a consequence the corporate income tax rate (including the contribution to the employment fund) has been increased from 21,84% to 22,05%. Taking into consideration the municipal business tax, which amounts to 6,75% for the City of Luxembourg, the overall nominal income tax rate for corporations amounts to 28,80% (28,59% in 2010).

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

Deferred tax liabilities	30/06/2011	30/06/2010
1. Initial amount	124.740	96.577
1.1 Initial amount	124.740	96.577
2. Additions	6	124.740
2.1 Deferred tax originating during the period		124.740
a) for previous years	—	—
b) due to changes in accounting policies	—	—
c) amounts written back	—	—
d) other addition		124.740
2.2 New taxes or increases in tax rates	6	—
2.3 Other additions		
3. Reductions	123.882	96.577
3.1 Deferred tax reversed during the period	123.882	96.577
a) amounts written off as unrecoverable	—	
b) reverse to comprehensive income	123.882	96.577
c) due to changes in accounting policies	—	—
3.2 Reduction in tax rates		—
3.3 Other reductions	—	
Total	**864**	**124.740**

The decrease in deferred tax provisioning is due to a different approach followed by the Bank in defining and calculating timing differences; such changes are consequent to the tax assessments received during the fiscal year which led to a substantial re-definition and improvement of the approach to the reference legislation.

The Bank wrote off the deferred taxes that have been provisioned during the previous exercises in order to align the amounts on the basis of the new fiscal position.

Readers should bear in mind that the difference between June 2011 and June 2010 has to be considered in its wholeness, regardless to deferred tax assets and liabilities separately.

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

	30/06/2011			30/06/2010		
	Deferred tax assets	Deferred tax liabilities	Tax rate 28,80%	Deferred tax assets	Deferred tax liabilities	Tax rate 28,59%
Cash and cash equivalent	—		—	—	—	—
Financial assets hft	—	—	—		-355.618	-101.671
Loans and advances	—	—		1.284	-10.671	-2.684
Hedging derivatives	—		—		-67.018	-19.160
Other assets	—	—	—	—	—	—
Total assets	—	—	—	**1.284**	**-433.307**	**-123.515**
Amounts due	—		—	125.910		35.998
Debt securities		—	—	3.492	—	998
Financial liabilities hft	—	—	—	268.760		76.838
Hedging derivatives				32.198		9.205
Other liabilities	—	—		—	—	—
Shareholders' equity		-3.000	-864	217	-3.000	-796
Total liabilities	—	**-3.000**	**-864**	**430.577**	**-3.000**	**122.244**

Section 10

Heading 100: Other liabilities

10.1 Other liabilities (in € k)

	30/06/2011	30/06/2010 (*)
1. Pending invoices	6.801	47
2. Wages accrued, contributions and amounts withheld from staff for payment	4	2
3. Impairment guarantees and commitments	348	388
4. Prepaid income other than capitalized on related financial assets	21	
5. Deferred income		350
6. Upfront premiums	2.912	4.557
7. Amounts payable on loans and receivables	2.476	2.348
8. Other items	—	157
Total	**12.562**	**7.849**

Upfront premiums refer to payments received on derivatives negotiated among the trading portfolio of the Bank, which have been capitalized and will be reversed on a prorate basis to the comprehensive income.

(*) For a comparison to be meaningful, 2010 figures have been reclassified as explained in Part B – Section 4 "Reclassification of prior year figures".

Section 16

Heading 160: Reserves

16.1 Reserves (in € k)

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

As of June 30, 2010 the Bank has taken up the option to credit net wealth tax against the tax itself, provided that the following conditions have been respected:

- The IRC (corporate income tax) charge must be at least equal to the IF (net wealth tax) charge in order to credit the entire amount of the IF, if not only the amount of IF equivalent to the IRC charge can be credited;
- The Bank has to book a reserve for an amount at least 5 times the IF tax charge due for the financial year 2010;
- This reserve will be maintained for a minimum period of 5 years.

(in € k)	**30/06/2011**	**30/06/2010**
A. Reserves	156.519	121.227
A.1 legal reserve	1.000	1.000
A.2 free reserve	143.090	111.048
A.3 special reserve(1)	12.212	8.962
A.4 FTA reserve	217	217

(1) Reserve linked to the exoneration of net wealth tax charge.

Section 19

Heading 190: Share capital

19.1 Share capital

As of 30 June 2011 and 2010, the issued capital of the Bank amounts to EUR 10.000.000 and is divided into 1 million shares with a par value of EUR 10 each.

Authorised capital and issue share capital coincide.

Other information

1. Guarantees and commitments (in € k)

	30/06/2011	30/06/2010
1. Financial guarantees given to:	83.959	44.980
a) Banks	-	-
b) Customers	83.959	44.980
2. Commercial guarantees given to:	-	-
a) Banks	-	-
b) Customers	-	-
3. Irrevocable commitments to lend funds:	1.642.511	1.286.621
a) Banks	-	-
b) Customers	1.642.511	1.286.621
4. Commitment underlying credit derivatives: hedge sales	1.634.982	1.217.217
Total	**3.361.452**	**2.548.818**

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

The Bank is a member of the non-profit making organisation "Association pour la Garantie des Dépôts. Luxembourg" (AGDL) that was established on 25 September 1989. The AGDL has as its sole objective the establishment of a mutual system for the guarantee of cash deposits for the benefit of customers of the member credit institutions of the Association and for claims arising from investment transactions in favour of investors with the credit institutions and investment firms which are members of the Association.

The guarantee of cash deposits and of claims arising from investment transactions in favour of clients, individuals and certain companies as defined by the regulations is limited to a maximum amount fixed at the equivalent value in all currencies of € 100.000 per cash deposit and € 20.000 per claim arising out of investment transactions. If the guarantee is called, the annual payment to be made by each member is limited to 5% of Shareholders' equity.

PART D – NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

Section 1

Headings 10 and 20: Net interest income

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

	Performing assets			Non performing assets (1)	30/06/2011	30/06/2010
	Debt securities	Loans	Other financial assets			
1. Financial assets held for trading	16.923	—	—	—	16.923	25.980
2. Financial assets at fair value	—	—	—	—	—	—
3. AFS securities	—	—	—		—	—
4. Financial assets held to maturity	—	—	—		—	—
5. Loans and advances to credit institutions	—	6.790	439	—	7.229	11.380
6. Loans and advances to customers		82.382		5.701	88.083	107.546
7. Hedging derivatives			25.613	—	25.613	28.586
8. Financial assets sold but not derecognized		—				
9. Other assets	—	—	—	—	—	—
Total	16.923	89.172	26.052	5.701	137.848	173.492

(1) Under the caption *non-performing* are reported interests attributable to credit exposures both restructured and under restructuring. In August 2011 the Bank has executed the financial guarantee on a nonperforming exposure at its book value of € 11m; remaining non performing loans are fully covered by financial guarantees.

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

	30/06/2011	30/06/2010
A. Positive differences on transactions involving:	25.613	28.586
A.1 Specific fair value hedge of assets	4.829	1.322
A.2 Specific fair value hedge of liabilities	20.784	27.264
A.3 General interest rate risk hedges	—	—
A.4 Specific cash flow hedge of assets	—	—
A.5 Specific cash flow hedge of liabilities	—	—
A.6 General cash flow hedge	—	

1.3 Interest and similar income: other information (in € k)

	30/06/2011	30/06/2010
1.3.1 Interests receivable on financial assets denominated in currencies other than Euro	27.955	44.710
1.3.2 Interests receivable in respect of financial leasing transactions		
1.3.3 Interests income on receivables involving customers' funds held on a non discretionary basis		

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

	Payables	Notes	Other liabilities	30/06/2011	30/06/2010
1. Amount due to Banks	-40.519	—	—	-40.519	-72.663
2. Amount due to customers	-3.465	—	—	-3.465	-2.322
3. Debt securities	—	-27.533	—	-27.533	-51.958
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	—	—	-34.218	-34.218	-12.003
Total	**-43.984**	**-27.533**	**-34.218**	**-105.735**	**-138.946**

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

	30/06/2011	30/06/2010
A. Negative differences on transactions involving:	-34.218	-29.020
A.1 Specific fair value hedge of assets	-9.357	
A.2 Specific fair value hedge of liabilities	-24.861	-29.020
A.3 General interest rate risk hedges		—
A.4 Specific cash flow hedge of assets	—	—
A.5 Specific cash flow hedge of liabilities	—	—
A.6 General cash flow hedge	—	-

1.6 Interest expense and similar charges: other information (in € k)

	30/06/2011	30/06/2010
1.6.1 Interests payable on financial liabilities denominated in currencies other than Euro	-17.832	-29.508
1.6.2 Interests payable on liabilities in respect of financial leasing transactions	—	
1.6.3 Interests payable on customers' funds held on a non discretionary basis	—	—

Section 2

Headings 40 and 50: Net fee and commission income

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

	30/06/2011	30/06/2010
a) guarantees given	816	383
b) credit derivates	—	—
c) management, trading and advisory services:	1.730	800
1. securities dealing	—	—
2. currency dealing		—
3. asset management	—	—
4. securities under custody and non-discretionary	—	—
5. depositary services	1.257	800
6. securities placing	473	
7. procurement of orders	—	—
8. advisory services	—	—
9. agency fees	—	—
9.1 asset management		—
9.2 insurance products	—	—
9.3 other products	—	—
d) collection and payment services	—	—
e) securitization servicing	—	—
f) factoring servicing		
g) tax collection and receipt services		
h) lending services	36.618	47.297
Total	**39.164**	**48.480**

2.2 Fee and commission expense (in € k)

	30/06/2011	30/06/2010
a) guarantees received	—	—
b) credit derivatives		
c) management and services:		
1. securities dealing		—
2. currency dealing	—	—
3. asset management:	—	—
3.1 own portfolio	—	—
3.2 clients' portfolios		—
4. securities custody and non-discretionary management		
5. securities placing	-371	—
6. door-to-door sales of securities, products and services	—	—
d) collection and payment services	—	—
e) lending services	-23.062	-30.709
Total	**-23.433**	**-30.709**

Section 3

Heading 80: Net trading income (expense)

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

	Value increases	Dealing profits	Value reductions	Dealing losses	30/06/2011	30/06/2010
1. Trading assets	5.987	1.696	-17.504	-1	**-9.822**	**5.93**
1.1 Debt securities	5.987	1.695	-17.182	-1	**-9.501**	**5.93**
1.2 Equities	—	—		—	—	—
1.3 OICR units	—	1	-322	—	**-321**	—
1.4 Loans and receivables	—	—	—		—	—
1.5 Others	—	—	—	—	—	—
2. Trading liabilities	—	—	—	—	—	—
2.1 Debt securities	—	—	—	—	—	—
2.2 Payables					—	—
2.3 Other	—	—		—	—	—
3. Other financial assets and liabilities: difference arising on exchange rates	176.027		-138.245		**37.782**	**-33.06**
4. Derivative products	96.829	14.843	-106.920	-48.186	**-43.434**	**23.93**
4.1 Financial derivatives:	91.313	5.110	-106.920	-36.401	**-46.898**	**43.05**
on debt securities/interest rates	340	5.102	—	-18.005	**-12.563**	**43.14**
– on equities/share indexes	90.973	—	-91.159	—	**-186**	**-1.38**
– on foreign currency/gold	—	8	-15.761	-18.396	**-34.149**	**1.29**
– others	—	—	—	—	**—**	**—**
4.2 Credit derivatives	5.516	9.733	—	-11.785	**3.464**	**-19.12**
Total	**278.843**	**16.539**	**-262.669**	**-48.187**	**-15.474**	**-3.19**

Section 4

Heading 90: Net hedging income (expense)

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

	30/06/2011	30/06/2010
A. Income from:		
A.1 Fair value hedge derivatives	24.881	78.298
A.2 Financial assets hedged (fair value)	1.516	22.521
A.3 Financial liabilities hedged (fair value)	80.860	—
A.4 Cash flow hedge financial derivatives		
A.5 Assets and liabilities in foreign currency	—	—
Total hedging income (A)	**107.257**	**100.819**
B. Expenses relating to:		
B.1 Fair value hedge derivatives	-65.074	-22.536
B.2 Financial assets hedged (fair value)	-20.015	—
B.3 Financial liabilities hedged (fair value)	-21.972	-78.348
B.4 Cash flow hedge financial liabilities	—	—
B.5 Assets and liabilities in foreign currency		
Total hedging expenses (B)	**-107.061**	**-100.884**
C. Net hedging income (A-B)	**196**	**-65**

Section 5

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

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

	30/06/2011			30/06/2010		
	Gains	Losses	Net profit (loss)	Gains	Losses	Net profit (loss)
Financial assets						
1. Due from Banks	—	—	—	—	—	—
2. Due from customers	—	—	—	—	—	—
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		—	—	—	—	—
Financial liabilities						
1. Due to Banks		—	—	—	—	—
2. Due to customers	—	—	—	—	—	—
3. Debt securities in issue	18.758	—	18.758	394	-328	66
Total liabilities	18.758	—	18.758	394	-328	66

Section 6

Heading 130: Adjustments for impairment

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

Transactions/Income-linked components	Value adjustments			Amounts recovered				30/06/2011	30/06/2010
	Specific		Portfolio	Specific		Portfolio			
	Write offs	Others		A	B	A	B		
A. Due from Banks	—	—	—	—	—	—	—	—	—
B. Due from customers	—		-291	—	—	—	675	384	-1.717
C. Total	**—**	**—**	**-291**	**—**	**—**	**—**	**675**	**384**	**-1.717**

Legend

A – interests

B = other amounts recovered

6.2 Adjustments for impairment: other financial transactions (in € k)

Transactions/Income-linked components	Value adjustments			Amounts recovered				30/06/2011	30/06/2010
	Specific		Portfolio	Specific		Portfolio			
	Write offs	Others		A	B	A	B		
A. Guarantees given	—	—	-33	—	—		15	-18	-22
B. Credit derivatives	—	—	—	—	—	—	—	—	—
C. Commitments	—		-174	—	—	—	232	58	-366
D. Other transactions	—	—	—	—	—	—	—	—	—
E. Total	**—**	**—**	**-207**	**—**	**—**	**—**	**247**	**40**	**-388**

Legend

A = interest

B – other amounts recovered

Section 7

Heading 180: Administrative expenses

7.1 Personnel cost: composition (in € k)

	30/06/2011	30/06/2010
1.Employees	-364	-341
a) wages and salaries	-288	-306
b) social security charges	-15	-15
c) severance indemnities		
d) pension contributions	-22	-18
e) transfers to severance indemnity provision		
f) transfers to post-employment and similar benefits:	—	—
– defined contribution	—	—
– defined benefit	—	—
g) payments to outside complementary pension schemes:	-21	-2
– defined contribution	-21	-2
– defined benefit	—	—
h) expenses incurred in connection with share payment schemes		
i) other staff benefits	-18	—
2. Other staff	-451	-259
3. Board members	-135	-135
Total	**-950**	**-735**

7.2 Other administrative expenses: composition (in € k)

	30/06/2011	30/06/2010
– outside consultants' fees	-234	-155
– legal fees due in respect of credit recovery	—	—
– share and bond administration	-137	-84
advertising	-45	-5
– insurance	-1	-2
rents and leases	-146	-151
maintenance, repairs and refurbishment	-10	-1
– service providers	-5	-3
– financial information subscriptions	—	-1
stationery and printing	-6	-2
membership subscriptions	-19	-78
postal, telephone, fax and telex charges	-21	-25
newspapers, magazines and library acquisitions		
– other staff expenses	—	-35
utilities	—	—
- EDP costs	-560	-500
– Bank charges	-15	-16
– travel and secondment	-4	-39
– outsourced activities	-4.346	-260
other expenses	-7	-17
Total other expenses	**-5.556**	**-1.374**
indirect and other taxes	-715	-202
Total indirect tax	**-715**	**-202**
Total other administrative expenses	**-6.271**	**-1.576**

Section 8

Heading 200: Net adjustments to tangible assets

8.1 Net adjustments to tangible assets: composition (in € k)

	Depreciation	Adjustments for impairment	Amounts recoveries	30/06/2011	30/06/2010
A. Tangible assets					
A.1 Owned:	-1			-1	-18
– Core	-1	—	—	-1	-18
– Investment		—		—	—
A.2 Acquired under finance leases:	—		—	—	—
Core					
– Investment	—	—	—	—	
Total	**-1**	—	—	**-1**	**-18**

Section 9

Heading 220: Other operating income (expenses)

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

	30/06/2011	30/06/2010
A. Other income (expenses) – other	—	88
Sundry other expense reimbursements	—	—
– Direct debit expense reimbursements	—	
Release provision		18
- Other income	440	81
Other charges		-11
B. Other income (expenses) amounts recovered		38
withholding tax		38
– Amounts recovered from staff	—	—
- Amounts recovered from clients	—	—
-Other amounts recovered	—	—
Total	**440**	**126**

Section 10

Heading 290: Income tax on the ordinary activity

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

	30/06/2011	30/06/2010
1. Current taxes	-8.676	-8.300
2. Changes in current tax for previous financial years	-592	
3. Decrease in current tax for period	—	—
4. Changes in deferred tax assets	-4.929	26.936
4.1 related to previous fiscal exercise (reverse to the comprehensive income)	-4.929	-96.533
4.2 generated in the fiscal exercise	—	123.469
5. Changes in deferred tax liabilities	5.337	-28.163
5.1 related to previous fiscal exercise (reverse to the comprehensive income)	5.343	96.577
5.2 generated in the fiscal exercise	-6	-124.740
Total	**-8.860**	**-9.527**

PART E – OPERATING SEGMENT INFORMATION

A. PRIMARY SEGMENT REPORTING

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

Corporate lending: handles loans to corporates with a view to meeting clients' financial needs connected to specific investments or generated by growth. Financing solutions are offered to large or mid-size domestic and international corporate clients, whether industrial or service-oriented. The corporate lending segment includes, among the others, the following products: club-deal loans, syndicated loans.

Export finance: provides financial support to exporters of goods and services to counterparties usually located in emerging markets, including with the support of government organizations granting the insurance cover and/or interest rate subsidy (such as SIMEST, SACE or other European export credit agencies). Structuring of transactions, often syndicated, goes hand-in-hand with advisory services provided to clients in respect of negotiations with commercial counterparties and financial or sovereign institutions. The export finance segment includes, among the others, the following products: export credit (buyers' credit, suppliers' credit), trade finance, pre-export finance, commercial loans, and Islamic finance.

Leverage finance: provides financial support to corporate and institutional investors on leveraged transaction involving acquisition of stakes of listed or non-listed companies. Develops, arranges, structures, underwrites and executes a full array of financial solutions arranged in complex fashion and, because of their size, often syndicated on the international market. The leverage finance segment includes, among the others, the following products: acquisition finance, leverage buyout (LBO), and management buyout (MBO).

Project finance: advices clients on the whole structure of transactions involving industrial or infrastructure investment/projects, including bid strategy, selection of most efficient type of debt instrument, hedging techniques, contractual structuring and financial modelling. The project finance segment includes, among the others, the following products: project finance, infrastructure finance, and real estate finance.

Other: residual segment that contains products and operations other than the above.

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

		CORPORATE LENDING	EXPORT FINANCE	LEVERAGE FINANCE	PROJECT FINANCE	OTHER
10.	Cash and cash equivalent	9.369	84	6.296	1.322	-
20.	Financial assets held for trading	411.828	3.702	276.755	58.105	183.985
60.	Loans and advances to credit institutions	376.856	3.387	253.252	53.171	168.888
70.	Loans and advances to customers	2.119.999	19.055	1.424.673	299.114	18.971
80.	Hedging derivatives	52.309	470	35.152	7.380	-
120.	Tangible assets	-	-	-	-	2
150.	Other assets	3.933	35	2.643	555	2.058
	Total assets	**2.974.294**	**26.734**	**1.998.772**	**419.648**	**373.904**
10.	Amount due to Banks	-1.634.767	-14.694	-1.098.589	-230.652	-150.315
20.	Amount due to customers	-280.550	-2.522	-188.534	-39.583	-37.509
30.	Debt securities in issue	-898.397	-8.075	-603.737	-126.756	-
40.	Financial liabilities held for trading	-19.079	-171	-12.822	-2.692	-183.663
60.	Hedging derivatives	-8.887	-80	-5.972	-1.254	-
80.	Tax liabilities	-15.842	-142	-10.646	-2.235	-
100.	Other liabilities	-5.296	-48	-3.559	-747	-2.912
160.	Shareholders' equity	-91.388	-821	-61.414	-12.894	-
	Total liabilities	**-2.954.207**	**-26.554**	**-1.985.274**	**-416.814**	**-374.399**

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	70.028	306	54.658	11.758	1.097
020.	Interests payable and similar charges	-53.833	-235	-42.017	-9.039	-611
030.	**Net interest income**	**16.195**	**71**	**12.641**	**2.719**	**486**
040.	Fee and commission income	19.170	84	14.963	3.220	1.730
050.	Fee and commission expense	-11.810	-53	-9.218	-1.983	-371
060.	**Net fee and commission income**	**7.360**	**31**	**5.745**	**1.236**	**1.359**
080.	Net trading income/expense	-7.664	-33	-5.982	-1.287	-508
090.	Net hedging income/expense	100	—	78	17	—
100.	Gain or loss on disposal or repurchase of:	9.606	43	7.497	1.613	—
	a) loans and receivables	—	—	—	—	—
	b) financial assets available for sale	—	—	—	—	—
	c) financial assets held to maturity					
	d) financial liabilities	9.606	43	7.497	1.613	—
120.	**Total income**	**25.597**	**112**	**19.979**	**4.298**	**1.337**
130.	Value adjustments	218	1	169	36	—
140.	**Net income from the financial management**	**25.815**	**113**	**20.148**	**4.334**	**1.337**
180.	Administrative expenses	-3.698	-16	-2.886	-621	
200.	Value adjustments in respect of tangible assets	—	—	—	—	-1
220.	Other operating income/expense	—	—	—	—	440
280.	**Profit (loss) of the ordinary activity before tax**	**22.116**	**97**	**17.262**	**3.714**	**1.776**
290.	Income tax on the ordinary activity	-4.537	-20	-3.541	-762	—
340.	**Profit (loss) for the year**	**17.579**	**77**	**13.721**	**2.952**	**1.776**
350.	Other comprehensive income, net of tax					
360.	**Total comprehensive income for the year, net of tax**	**17.579**	**77**	**13.721**	**2.952**	**1.776**

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

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

	LUXEMBOURG	EUROPE	AMERICA	ASIA	OCEANIA
Net interest income	-3.570	21.874	12.545	—	1.264
Net fee and commission income	2.561	3.191	6.726	—	3.253
Net trading income/expense	-21.431	13.977	-7.454	—	-567
Net hedging income/expense	2.065	-1.869	—		—
Gain or loss on disposal or repurchase	17.621	1.137			
Value adjustments	112	449	-137		
Administrative expenses	-2.027	-5.194		—	
Value adjustments on tangible assets	-1	—		—	
Other operating income (expenses)	-1	340	100	—	—
Income tax	-8.860	—	—	—	—
Net profit/loss 2011	**-13.531**	**33.905**	**11.780**	**—**	**3.950**
Net profit/loss 2010	**26.492**	**-21.581**	**24.618**	**3.570**	**2.193**

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

	LUXEMBOURG	EUROPE	AMERICA	ASIA	OCEANIA
Cash and cash balances with Central Banks	17.072	—	—	—	—
Financial assets held for trading	265.297	627.887	41.192	—	—
Loans and advances to Credit Institutions	176	855.377	—		—
Loans and advances to Customers	497.191	3.111.046	266.762		6.813
Hedging derivatives		95.311	—		
Property, plant and equipment	2	-			
Tax assets	—	—	—	—	—
Other assets	252	8.622	351	—	—
A. Total assets 30/06/2011	**779.990**	**4.698.243**	**308.305**	**—**	**6.813**
Amount due to Banks	—	-3.129.017		—	—
Amount due to customers	-395.175	-153.523			
Debt securities in issue	-1.228.013	-408.952			
Financial liabilities held for trading	-11.813	-206.614			
Hedging derivatives	—	-16.193		—	—
Tax liabilities	-28.865				
Other liabilities	-44	-12.397	-122	—	
Shareholders' equity	-166.519		—	—	—
B. Total liabilities 30/06/2011 (1)	**-1.830.429**	**-3.926.696**	**-122**		
Total assets 30/06/2010	**1.297.075**	**4.461.093**	**469.532**	**200.744**	**7.688**
Total liabilities 30/06/2010 (1)	**-3.433.456**	**-2.967.348**	**-35**	**—**	**—**

(1) Profit for the period excluded

PART F – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

Section 1

1.1 CREDIT RISK

QUALITATIVE INFORMATION

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

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

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

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

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

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

Corporate banking

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

Leverage finance

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

Loan impairment provisions

The Bank assumes directly the credit risk for some exposures, under the aim to advance the core business taking into account the positive relation between risk and profitability. The Risk Committee defines the positions and the risks that can be taken based on a credit portfolio analysis in order to pursue an optimal diversification among geographical areas, industry sector and class of rating.

The Bank maintains partial or complete guarantees on certain exposures, depending on the creditworthiness, market sector and nature of each loan. Such guarantees are issued by the Parent Bank or public agencies (i.e. SACE, UFK, Hermes).

According to the IAS 39, the Bank regularly reviews its loan portfolios to assess for impairment. Impairment provisions are established to recognize incurred impairment losses in loan portfolios carried at amortized cost. In determining whether an impairment has occurred at the balance sheet date, the Bank considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows or their timings; such observable data includes whether there has been an adverse change in the payment status of borrowers or changes in economic conditions that correlate with defaults on loan repayment obligations. Collectively assessed impairment allowances cover credit losses inherent in portfolios with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors.

QUANTITATIVE INFORMATION

A.1.1 *Financial assets by portfolio and credit quality (in € k)*

Portfolio/Quality	Non-performing	Performing	30/06/2011	30/06/2010
1. Financial assets held for trading	—	918.946	918.946	1.165.996
Banks	—		—	24.960
Customers	—	122.640	122.640	257.691
Derivative instruments		796.306	796.306	883.345
2. AFS securities				
Banks				
Customers	—	—	—	—
3. Financial assets held to maturity	—	—	—	—
Banks	—	—	—	—
Customers	—	—	—	—
4. Due from Banks	—	855.554	855.554	1.097.940
5. Due from customers	89.125	3.792.687	3.881.812	3.856.006
6. Financial assets recognized at fair value	—	—	—	—
Banks	—			
Customers	—	—	—	—
7. Financial assets being sold				—
Banks	—	—	—	—
Customers				
8. Hedging derivatives	—	95.311	95.311	153.309
Total	**89.125**	**5.662.498**	**5.751.623**	**6.273.251**

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

Portfolio/Quality	Impaired assets			Other assets			Total
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
1. Financial assets held for trading	—	—	—	918.946	—	918.946	918.946
2. AFS securities			—	—	—	—	—
3. Financial assets held to maturity							
4. Due from Banks	—	—	—	872.625	—	872.625	872.625
5. Due from customers	89.125	—	89.125	3.794.020	-1.333	3.792.687	3.881.812
6. Financial assets recognized at fair value	—	—	—	—	—	—	—
7. Financial assets being sold							
8. Hedging derivatives	—	—	—	95.311	—	95.311	95.311
Total at 30/06/2011	**89.125**	—	**89.125**	**5.680.902**	-1.333	**5.679.569**	**5.768.694**
Total at 30/06/2010	**111.160**	—	**111.160**	**6.163.808**	-1.717	**6.162.091**	**6.273.251**

A.1.3 *Cash and off balance sheet exposures to credit institutions (in € k)*

Type of exposure/Amounts	Gross exposure	Specific value adjustments	Portfolio value adjustments	30/06/2011	30/06/2010
A. CASH EXPOSURES					
a) Non-performing					
e) Other assets	872.625	—	—	872.625	1.122.900
Total A	**872.625**	—	—	**872.625**	**1.122.900**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Non-performing	—	—	—	—	—
b) Other assets	2.002.888	—	—	2.002.888	—
Total B	**2.002.888**	—	—	**2.002.888**	—

A.1.4 *Cash and off balance sheet exposures to customers (in € k)*

Type of exposure/Amounts	Gross exposure	Specific value adjustments	Portfolio value adjustments	30/06/2011	30/06/2010
A. CASH EXPOSURES					
a) Non-performing	89.125	—	—	89.125	111.160
c) Other assets	3.916.660	—	-1.333	3.915.327	4.002.537
Total A	**4.005.785**	—	**-1.333**	**4.004.452**	**4.113.697**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Non-performing	3.973			3.973	8.000
b) Other assets	1.728.077	—	-348	1.727.729	1.323.601
Total B	**1.732.050**	—	**-348**	**1.731.702**	**1.331.601**

COMMISSION DE SURVEILLANCE DU SECTEUR FINANCIER Grand-Duché de Luxembourg

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

Description/Category	30/06/2011		30/06/2010
	Non performing	Restructured	
A. Gross exposure at start of period	111.160	—	152.671
of which: accounts sold but not derecognized	—	—	—
B. Additions	54.780	81.890	—
B.1 transfers from performing loans	47.611	33.301	—
B.2 transfer from other categories of impaired assets	—	43.646	—
B.3 other additions	7.169	4.943	10.266
C. Reductions	-155.347	-3.358	—
C.1 transfer to performing loans	—	—	29.356
C.2 amounts written off	—	—	
C.3 amounts collected	-111.701	-3.358	17.500
C.4 gains realized on disposal			—
C.5 transfers to other categories of impaired assets	-43.646	—	—
C.6 other reductions			4.921
D. Gross exposure at end of period	10.593	78.532	111.160
of which: accounts sold but not derecognized	—	—	—

A.1.6 *Cash exposure to customers: trends in value adjustments (in € k)*

	Non-performing	Restructured	Performing
A. Adjustments at start of period	—	—	-1.717
of which: accounts sold but not derecognized			—
B. Additions	—	—	-509
B.1 value adjustments	—	—	-503
B.2 transfers from other categories of impaired assets	–	—	—
B.3 other additions	—	—	-6
C. Reductions	—	—	893
C.1 writebacks based on valuations	—	—	—
C.2 writebacks due to amounts collected	—	—	681
C.3 amounts written off	—	—	—
C.4 transfers to other categories of impaired assets		—	—
C.5 other reductions	—	—	212
D. Adjustments at end of period	—	—	-1.333
of which: accounts sold but not derecognized	—	—	

A.3.1 *Secured cash exposure to Banks and customers (in € k)*

	Total exposure	Real guarantees			Personal guarantees							
					Credit derivatives				Financial guarantees			
		Properties	Securities	Other assets	Governments	Other public agencies	Banks	Others	Governments	Other public agencies	Banks	Others
1. Secured exposures to Banks:												
1.1 completely secured	201.043	—	—	—	—	—	—	—	—	200.012	1.031	—
- *non performing*	—	—	—	—	—	—	—	—	—	—	—	—
1.2 partly secured	—	—	—		—	—	—	—		—	—	—
- *non performing*	—	—		—	—	—	—	—	—	—		—
Total 30/06/2011	**201.043**	—	—	—	—	—	—	—	—	**200.012**	**1.031**	—
Total 30/06/2010	**226.992**	—	—	—	—	—	**24.960**	—	—	**202.032**	—	—
2. Secured exposures to customers:												
2.1 completely secured	2.495.221	—	—	—	—	—	106.797	—	—	172.008	2.216.416	—
- *non performing*	*89.125*										*89.125*	
2.2 partly secured	1.407.226	—	—	—	—	—	—	—		—	1.050.488	—
- *non performing*	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2011	**3.902.447**	—	—	—	—	—	**106.797**	—	—	**172.008**	**3.266.904**	—
Total 30/06/2010	**3.863.332**	—	—	—	—	—	**252.426**	—	—	**73.463**	**3.118.379**	—

COMMISSION DE SURVEILLANCE DU SECTEUR FINANCIER · Grand-Duché de Luxembourg

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

	Amount	Real guarantees			Personal guarantees							
					Credit derivatives				Endorsements			
		Properties	Securities	Other assets	Governments	Other public agencies	Banks	Others	Governments	Other public agencies	Banks	Others
1. Secured exposures to Banks:												
1.1 completely secured		—		—	—	—	—	—	—	—		—
1.2 partly secured	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2011	—	—	—	—	—	—	—	—	—	—	—	—
Total 30/06/2010	—	—	—	—	—	—	—	—	—	—	—	—
2. Secured exposures to customers:												
2.1 completely secured	1.320.889	—	—	—	—	—	—	—	—	118.762	1.202.127	—
- non performing	*3.973*	—	—	—	—	—	—	—	—	—	*3.973*	—
2.2 partly secured	360.253	—			—	—	—	—	—	—	254.506	—
- non performing	—	—		—	—	—	—	—	—	—	—	—
Total 30/06/2011	**1.681.142**	—	—	—	—	—	—	—	—	**118.762**	**1.456.633**	—
Total 30/06/2010	**1.327.469**	—	—	—	—	—	—	—	—	**82.091**	**1.179.363**	—

1.1a Credit risk - Excessive risk concentration

Qualitative information

Concentrations arise when a number of customers/counterparties operate on business activities in the same geographical region or in the same market, or have similar economic features that would question their capability to meet contractual obligations to be similarly undermined by changes in economic, political or other conditions. The Bank's performance may be affected by developments concerning a particular industry or geographical area. In order to avoid excessive concentrations of risk, the Bank's monitors on a monthly basis the concentration of his loan portfolio based on the following items: geographical, economic sector, class of rating, currencies. Identified concentrations of credit risks are controlled and managed accordingly and are always considered as strategic guidelines in the Risk Committee resolutions in order to achieve an improved diversification.

Risk concentrations: maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The Bank's concentrations of risk are managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 30th June 2011 was Euro 422 million (2010: Euro 620 million) before taking account of collateral or other credit enhancements and Euro 39 million (2010: Euro 44 million) net of such protection.

The following tables show the maximum exposure to credit risk for the components of the statement of financial position, including derivatives, guarantees and commitments by geography of counterparty and by industry before the effect of any mitigation.

Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Quantitative information

B.1 *Cash and off balance sheet exposure to customers by sector (in € k)*

	Governments and Central Banks	Other Public agencies	Financial companies	Insurances	Non-financial undertakings	Other entities
A. Cash exposures						
A.1 Non-performing						
Gross exposure	—	—	38.007	—	51.118	—
Value adjustments to gross exposure	—	—	—	—		—
Value adjustments to portfolio	—	—	—	—	—	—
Net exposure	—	—	38.007	—	51.118	
A.2 Other exposures						
Gross exposure			1.363.841	—	2.552.819	—
Value adjustments to gross exposure				—	—	—
Value adjustments to portfolio			-336	—	-997	
Net exposure		—	1.363.505	—	2.551.822	
Total A						
Gross exposure	—	—	1.401.848	—	2.603.937	—
Value adjustments to gross exposure						
Value adjustments to portfolio			-336	—	-997	
Net exposure	—	—	1.401.512	—	2.602.940	—
B. Off-balance sheet exposures						
B.1 Non-performing						
Gross exposure	—	—	—	—	3.973	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio						
Net exposure	—	—	—	—	3.973	—
B.2 Other exposures						
Gross exposure	—	—	104.289	—	1.623.788	
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-27	—	-321	—
Net exposure	—	—	104.262	—	1.623.467	—
Total B						
Gross exposure			104.289	—	1.627.761	—
Value adjustments to gross exposure				—	—	—
Value adjustments to portfolio	—	—	-27	—	-321	—
Net exposure			104.262	—	1.627.440	—
Total 30/06/2011						
Gross exposure			1.506.137	—	4.231.698	
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio			-363	—	-1.318	—
Net exposure	—	—	1.505.774	—	4.230.380	—
Net exposure 30/06/2010	—	—	1.222.899	—	5.445.298	

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

Exposure/geographical areas	Luxembourg		Other European countries		America		Asia		Oceania	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A) Cash exposures										
A.1 Non-performing	36.017	36.017	53.107	53.107	—	—	—	—	—	—
A.2 Performing	479.833	479.794	3.121.853	3.120.766	308.161	307.954			6.814	6.814
Total A	515.850	515.811	3.174.960	3.173.873	308.161	307.954	—	—	6.814	6.814
B) Off-balance-sheet exposures										
B.1 Non-performing		—	3.973	3.973	—		—	—		
B.2 Performing	36.742	36.707	1.534.705	1.534.514	156.630	156.508	—	—	—	—
Total B	36.742	36.707	1.538.678	1.538.487	156.630	156.508			—	—
Total 30/06/2011	**552.592**	**552.518**	**4.713.638**	**4.712.360**	**464.791**	**464.462**	—	—	**6.814**	**6.814**
Total 30/06/2010	**931.010**	**930.673**	**3.891.808**	**3.890.109**	**594.640**	**594.571**	—	—	**29.945**	**29.945**

B.3 *Cash and off balance sheet exposure to Banks by geography (in € k)*

Exposure/geographical areas	Luxembourg		Other European countries		United States		Asia		Oceania	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A) Cash exposures										
A.1 Non-performing	—	—	—	—	—	—	—	—	—	—
A.2 Performing	17.248	17.248	855.377	855.377						
Total A	17.248	17.248	855.377	855.377	—	—	—	—	—	—
B) Off-balance-sheet exposures										
B.1 Non-performing		—	—	-				—	—	—
B.2 Performing	1.229.969	1.229.969	772.919	772.919	—	—	—	—	—	—
Total B	1.229.969	1.229.969	772.919	772.919	—	—	—	—	—	—
Total 30/06/2011	**1.247.217**	**1.247.217**	**1.628.296**	**1.628.296**	—	—	—	—	—	—
Total 30/06/2010(*)	**25.151**	**25.151**	**1.097.748**	**1.097.748**	—	—	—	—	—	—

(*) Outstanding cash and off balance sheet exposures with Russian clients as at 30 June 2010 have been reclassified from "Asia" into "Other European countries".

Grand-Duché de Luxembourg COMMISSION DE SURVEILLANCE DU SECTEUR FINANCIER

B.4 *Large risk credit exposures (in € k)*

	30/06/2011	30/06/2010
a) Gross exposure	4.868.143	5.678.133
b) No. large risk exposures	56	66
c) Large risk exposure after CRM	477.410	644.891
d) No. large risk exposures after CRM	21	23
e) Large risk after CRM/regulatory capital	2,87%	4,91%

In accordance with Circular CSSF 06/273, part XVI, point 7 (as modified from the Circular 10/475) the Bank reports as large exposures the ones above 10% of regulatory capital. At the request of the Bank the CSSF has granted a total exemption for the exposures towards the Parent Company in the calculation of large exposure limits, in accordance with Part XVI, point 24 of Circular 06/273, as amended. The amount of exposures covered by this exemption is € 4.390.733k as at 30 June 2011.

COMMISSION DE SURVEILLANCE DU SECTEUR FINANCIER · Grand-Duché de Luxembourg

C.1 *Securitizations*

As of 30 June 2011 and 2010 the Bank does not have any exposure deriving from securitizations.

1.2 MARKET RISK

1.2.1 Interest rate risk – regulatory trading book

QUALITATIVE INFORMATION

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Bank's policy is to monitor positions on a regular basis and to offset the overall risk exposure using appropriate hedging and ALM strategies.

According to the CSSF Circular 06/273 as amended, the Bank performs semi-annually a "test d'endurance en matière de risque de taux d'intérêt" based on two interest rate curves scenarios (+200 bps and -200 bps) defined by the Regulator.

Interest rate risk is controlled on an ongoing basis by the Management using peculiar risk management reports. The gap analysis report is available every day, showing the sensitivity of the balance sheet for a 1 basis point shift of the interest rate curve. A monthly ALM Report points out the mismatching of the balance sheet in terms of maturity and rate re-fixing. Based on reporting evidences, the Management of the Bank – in coordination with the Treasury Department of the Parent company – decides on possible remedial measures (if needed) concerning the "mix" of funding (Notes, overdraft on current account, time deposits, loans, etc) in order to obtain a better matching with the lending.

According to the part VIII of the Circular CSSF 08/338, an "endurance test" of interest rate risk was carried out as at 30 June 2011. The simulation was based on two different scenarios (parallel shift of the interest rate curve +200 and -200 bps). The results achieved are described herein after:

- Scenario +200 bps: - € 23.130.280
- Scenario -200 bps: € 19.135.887

Fair value hedge

Fair value hedges are used to neutralize exposure to interest rate or price risk for particular asset or liability positions, via derivative contracts entered into with leading counterparties; all structured notes issues are fair value hedged as to the interest rate component. Fair value hedges are also used in corporate finance for certain bilateral, fixed rate transactions.

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

1. *Regulatory trading book by outstanding maturity (repricing date) of cash assets and liabilities and financial derivative products (in € k)*

Type/Residual duration*	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets	—	—	—	70.286	52.354	—	—	—
1.1 Debt securities	—	—	—	70.286	52.354	—	—	—
– with early redemption option	—	—	—	—	—	—	—	—
– other	—	—	—	70.286	52.354	—	—	—
1.2 Loans to Banks	—	—	—			—	—	—
1.3 Loans to customers	—	—	—	—	—	—	—	—
Total 30/06/2010	—		24.960	112.356	145.335			
2. Cash liabilities	—	—	—	—	—	—	—	—
2.1 Amounts due to Banks	—	—	—	—	—	—	—	—
2.2 Amounts due to customers	—	—	—	—	—	—	—	—
2.3 Debt securities in issue	—	—	—	—	—	—	—	—
Total 30/06/2010	—	-784.327	—	-13.845	-53.937			—
3. Financial derivatives		479.424	729.762	98.019	1.091.091		—	—
3.1 With underlying securities	—	—	—	—	—	—	—	—
– Options	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities	—	479.424	729.762	98.019	1.091.091		—	—
– Options	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others	—	479.424	729.762	98.019	1.091.091	—	—	—
+ Long positions	—	362.972	349.731	34.100	452.345	—	—	—
+ Short positions		116.452	380.031	63.919	638.746			
Total 30/06/2010	—	493.804	42.950	116.293	409.861	—	—	—

*All amounts refer to 30 June 2011 except for subtotals which refer to 30 June 2010 and have been included only for comparative purposes.

COMMISSION DE SURVEILLANCE DU SECTEUR FINANCIER - Grand-Duché de Luxembourg

2. *Regulatory banking book by outstanding maturity (repricing date) of cash assets and liabilities and financial derivative products (in € k)*

Type/Residual duration*	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets	596.667	2.887.002	767.365	9	379.350	29.108		—
1.1 Debt securities	—	—	—	—	—	-	—	—
with early redemption option								
– other	—	—	—	—	—	—	—	—
1.2 Loans to Banks	529.801	66.386	200.012	—	453	—	—	—
1.3 Loans to customers	66.866	2.820.616	567.353	9	378.897	29.108		
Total 30/06/2011	713.988	2.495.156	809.591	471.709	434.902	28.600	—	—
2. Cash liabilities	-305.468	-4.024.409	-175.766	-182.699	-357.989	—	-173.412	—
2.1 Amounts due to customers	-260.255	-210.356	—	-41.439	—	—	-17.685	—
2.2 Amounts due to Banks	-45.213	-2.743.490	-69.359	-39.253			-155.727	
2.3 Debt securities in issue	—	-1.070.563	-106.407	-102.007	-357.989	—	—	—
Total 30/06/2011	-974.039	-3.166.194	-78.656	-6.566	-446.863		-260.349	
3. Financial derivatives	—	379.859	200.857	398.063	912.725	180.000	334.812	—
3.1 With underlying securities								
– Options	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others	—	—	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities	—	379.859	200.857	398.063	912.725	180.000	334.812	—
– Options	—	—	—	—	—	—	—	—
+ Long positions	-	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
Others								
– Long positions	—	341.400	38.000	190.000	318.946	180.000	134.812	—
– Short positions	—	38.459	162.857	208.063	593.779	—	200.000	—
Total 30/06/2011	—	1.166.483	1.023.280	382.972	1.621.940	180.000	330.404	—

*All amounts refer to 30 June 2011 except for subtotals which refer to 30 June 2010 and have been included only for comparative purposes.

COMMISSION DE SURVEILLANCE DU SECTEUR FINANCIER - Grand-Duché de Luxembourg

1.2.2 Exchange rate risk

QUALITATIVE INFORMATION

Forex risk exposure is minimal. A continuous monitoring and a dynamic management of the liquidity allow the offsetting of the financial structure in terms of currency risk exposure.

Forex exposures are funded with financial liabilities in the same currencies and, whenever this kind of strategy results unrealizable in terms of costs/opportunity, specific hedging transactions are negotiated with the treasury dept of the Parent Bank (i.e. CCS, ICS). Forex exposure is constantly monitored by management through dedicated ALM reports; corrective actions are dealt if necessary.

As at 30 June 2011 the Bank has not registered any forex capital allowance.

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

QUANTITATIVE INFORMATION

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

Line items	Currency				
	US dollars	**Pounds sterling**	**Japanese yen**	**Swiss francs**	**Other**
A. Assets					
A.1 Debt securities	7.459	—	—	—	
A.2 Equities	—				
A.3 Loans and advances to Banks	17.872	4.262	—	62.904	1.478
A.4 Loans and advances to customer	393.395	488.580		44.406	26.679
A.5 Other financial assets	—		—	—	—
B. Financial liabilities					
B.1 Due to Banks	-311.713	-490.048	-7	-45.168	-28.096
B.2 Due to customers	-26.847		—		—
B.3 Debt securities	-95.505	-11.702	—	-62.132	—
B.4 Other financial liabilities			—		
C. Financial Derivatives					
- Options		—	—	—	—
+ long positions					
+ short positions	—	—		—	—
- Other	13.838	8.309	—		—
+ long positions	13.838	8.309	—	—	
+ short positions					
Total assets 30/06/2011	432.564	501.151	—	107.310	28.157
Total liabilities 30/06/2011	-434.065	-501.750	-7	-107.300	-28.096
Difference (+/-) 30/06/2011	**-1.501**	**-599**	**-7**	**10**	**61**
Total assets 30/06/2010	1.199.561	461.741	17	85.963	27.949
Total liabilities 30/06/2010	-1.199.911	-461.626	-16	-86.785	-27.933
Difference (+/-) 30/06/2010	**-350**	**115**	**1**	**-822**	**16**

1.2.3 Financial derivative products

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

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

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

A. FINANCIAL DERIVATIVES

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

Type of transactions	30/06/2011		30/06/2010	
	Over the counter	Listed	Over the counter	Listed
1. Debt securities and interest rates				
a) Options		—	—	
b) Swap	1.185.310		441.812	—
c) Forward	—	—		—
d) Futures	—	—	—	—
e) Others			—	
2. Equities and share indexes				
a) Options	804.328	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—		—
d) Futures			—	
e) Others	—	—	—	
3. Exchange rates and Gold				
a) Options	—	—	—	—
b) Swap	13.838		89.642	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others		—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	**2.003.476**	—	**531.454**	—
Average values	**1.566.262**	—	**403.797**	—

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

A.2.1 *Hedging derivatives*

Type of transactions	30/06/2011		30/06/2010	
	Over the counter	Listed	Over the counter	Listed
1. Debt securities and interest rates				
a) Options	—	—	—	—
b) Swap	994.848	—	1.475.813	
c) Forward		—	—	—
d) Futures	—	—	—	—
e) Others[(*)]	200.000	—	200.000	—
2. Equities and share indexes				
a) Options	—	—	—	
b) Swap		—	—	—
c) Forward				
d) Futures		—	—	—
e) Others	—	—	—	—
3. Exchange rates and Gold				
a) Options	—	—	—	—
b) Swap	8.310		25.473	
c) Forward		—	—	—
d) Futures	—	—	—	
e) Others	—			
4. Commodities				
5. Other assets	—		—	—
Total	**1.203.158**	—	**1.701.286**	—
Average values	**1.083.699**	—	**1.274.769**	—

[(*)] Notional values of swap options as at 30 June 2010 have been reclassified from "a) Options" into "e) Others".

A.2.2 *Other derivatives*

Type of transactions	30/06/2011		30/06/2010	
	Over the counter	Listed	Over the counter	Listed
1. Debt securities and interest rates				
a) Options				
b) Swap	—	—	700.000	—
c) Forward				
d) Futures				
e) Others				
2. Equities and share indexes				
a) Options	347.006	—	822.315	—
b) Swap				
c) Forward				
d) Futures	—	—	—	—
e) Others	—		—	—
3. Exchange rates and Gold				
a) Options				
b) Swap			338.196	
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—		—
4. Commodities	—	—		
5. Other assets	—	—	—	—
Total	**347.006**	**—**	**1.860.511**	**—**
Average values	**343.524**	**—**	**1.540.223**	**—**

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

Type of transactions	Positive fair value			
	30/06/2011		30/06/2010(*)	
	Over the counter	Listed	Over the counter	Listed
A. Regulatory trading book	304.529	—	296.162	—
a) Options	24.640			
b) Interest Rate Swap	279.765	—	296.162	
c) Cross Currency Swap	124	—	—	—
d) Equity Swap				
c) Forward				—
f) Futures	—	—	—	—
g) Others	—	—	—	—
B. Banking book: Hedge derivatives	157.977		245.616	
a) Options	—	—	—	
b) Interest Rate Swap	95.311	—	150.597	—
c) Cross Currency Swap	—	—	2.712	
d) Equity Swap	—	—	—	—
e) Forward				
f) Futures	-	—	—	—
g) Others	62.666		92.307	
C. Banking book: Others derivatives	96.679	—	167.810	—
a) Options	96.679	—	—	—
b) Interest Rate Swap	—	—	5.187	-
c) Cross Currency Swap	—	—	20.695	
d) Equity Swap	—	—	—	—
c) Forward	—	—	—	—
f) Futures				—
g) Others	—	—	141.928	—
Total	**559.185**	—	**709.588**	—

(*) Table shows outstanding amounts by type of transactions while in last year's annual accounts they have been grouped by counterparty.

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

Type of transactions	Negative fair value			
	30/06/2011		30/06/2010[*]	
	Over the counter	**Listed**	**Over the counter**	**Listed**
A. Regulatory trading book	-124.010	—	-9.829	—
a) Options	-118.362	—	—	—
b) Interest Rate Swap	-5.648	—		
c) Cross Currency Swap	—	—	-9.829	—
d) Equity Swap				
e) Forward	—	—		
f) Futures		—	—	—
g) Others	—	—	—	—
B. Banking book: Hedge derivatives	-78.859	—	-125.551	—
a) Options	—	—	—	—
b) Interest Rate Swap	-14.672		-32.278	
c) Cross Currency Swap	-1.521	—	-966	
d) Equity Swap	—	—	—	—
e) Forward	—	—		—
f) Futures	—	—	—	—
g) Others	-62.666		-92.307	
C. Banking book: Others derivatives	-2.635		-157.118	
a) Options	-2.635	—	—	—
b) Interest Rate Swap	—	—	—	—
c) Cross Currency Swap	—	—	-15.190	—
d) Equity Swap	—	—	—	—
e) Forward				
f) Futures			—	
g) Others	—	—	-141.928	—
Total	**-205.504**	—	**-292.498**	—

(*) Table shows outstanding amounts by type of transactions while in last year's annual accounts they have been grouped by counterparty.

A.5 *Regulatory trading book: counterparty and financial risks – OTC financial derivatives without collateral offsetting (in € k)*

Contracts not forming part of netting arrangements	30/06/2011							30/06/2010
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	835.579	—	—	349.731	—	441.812
- positive fair value			274.533			5.233		296.162
- negative fair value			-5 648					-43
- future exposure[1]	—	—	4 383	—	—	1.749	—	1.909
2. Equities and share indexes								
- notional value	—	—	773.743	—	—	—	—	—
- positive fair value	—	—	24.640	—	—	—	—	—
- negative fair value	—	—	-118.362	—	—	—	—	—
- future exposure[1]	—	—	33.813	—	—	—	—	—
3. Exchange rates and Gold								
- notional value	—	—	13.838	—	—	—	—	89.642
- positive fair value	—	—	124	—	—	—	—	—
- negative fair value	—		–	—	—	—		-9.786
- future exposure[1]	—	—	138	—	—	—	—	1.874
4. Other assets								
- notional value								
- positive fair value					—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—

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

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

A.6 *Regulatory banking book: counterparty and financial risks – OTC financial derivatives without collateral offsetting (in € k)*

Contracts not forming part of netting arrangements	30/06/2011							30/06/2010
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	1.194.848	—	—	—	—	2.375.813
- positive fair value	—	—	157.977	—	—	—	—	248.093
- negative fair value	—	—	-77.338	—	—	—	—	-139.777
- future exposure[1]	—	—	5.983	—	—	—	—	14.623
2. Equities and share indexes								
- notional value	—	—	—	—	—	—	—	822.314
- positive fair value	—	—	—	—	—	—	—	141.927
- negative fair value	—	—		—		—		-141.927
- future exposure[1]	—	—	—	—	—	—	—	63.904
3. Exchange rates and Gold								
- notional value	—	—	8.310	—	—		—	363.669
- positive fair value								23.407
- negative fair value	—	—	-1.521					-965
- future exposure[1]	—	—	415	—	—	—	—	4.656
4. Other assets								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value		—	—	—	—			
- future exposure[1]	—	—	—	—	—	—	—	—

[1] See table A.5

A.7 *OTC financial derivatives by maturity: notional values (in € k)*

Underlying/Residual maturity	Up to 1 year	From 1 to 5 years	Over 5 years	Total
A. Regulatory trading book				
A.1 Financial derivatives on debt securities and interest rates	94.219	946.091	145.000	1.185.310
A.2 Financial derivatives on equities and share indexes	457.479	55.951	290.897	804.327
A.3 Financial derivatives on foreign currency and gold	13.838	—	—	13.838
A.4 Financial derivatives on other assets	—	—	-	—
B. Banking book:				
B.1 Financial derivatives on debt securities and interest rates	68.000	378.282	748.565	1.194.847
B.2 Financial derivatives on equities and share indexes		55.951	291.055	347.006
B.3 Financial derivatives on foreign currency and gold	—	8.310	—	8.310
B.4 Financial derivatives on other assets		-		
Total at 30/06/2011	**633.536**	**1.444.585**	**1.475.517**	**3.553.638**
Total at 30/06/2010	**629.339**	**3.153.508**	**310.404**	**4.093.251**

Grand-Duché de Luxembourg
COMMISSION DE SURVEILLANCE DU SECTEUR FINANCIER

B. CREDIT DERIVATIVES

B.1 *Credit derivatives: average and reporting date notional values (in € k)*

Transaction categories	Regulatory trading book		Other transactions	
	Individual assets	Baskets	Individual assets	Baskets
1. Hedge buys				
a) Credit default	112.799	500.000	191.854	11.500
b) Credit spread products				—
c) Total rate of return swap				
d) Others				—
Total at 30/06/2011	**112.799**	**500.000**	**191.854**	**11.500**
Average values	112.799	500.000	164.249	11.500
Total at 30/06/2010	**470.984**	—	**90.000**	**40.746**
2. Hedge sales				
a) Credit default	184.768	261.500	149.914	1.038.800
b) Credit spread products				—
c) Total rate of return swap				—
d) Others				—
Total at 30/06/2011	**184.768**	**261.500**	**149.914**	**1.038.800**
Average values	158.754	261.500	149.914	1.038.800
Total at 30/06/2010	**278.470**	**808.000**	**90.000**	**40.746**

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

Transaction categories	Positive FV	
	30/06/2011	30/06/2010
1. Regulatory trading book		
a) Credit default	260.530	294.875
b) Credit spread products		
c) Total rate of return swap	—	—
d) Others	—	26.139
2. Regulatory banking book		
a) Credit default	71.902	6.052
b) Credit spread products		
c) Total rate of return swap	—	—
d) Others	—	—

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

Transaction categories	Negative FV	
	30/06/2011	30/06/2010
1. Regulatory trading book		
a) Credit default	-24.841	-15.033
b) Credit spread products	—	
c) Total rate of return swap	—	—
d) Others	—	-10.703
2. Regulatory banking book		
a) Credit default	-4.275	-5.202
b) Credit spread products	—	—
c) Total rate of return swap	—	
d) Others	—	—

B.4 *Credit derivatives: counterparty and financial risks – OTC financial derivatives without collateral offsetting (in € k)*

	Governments and central Banks	Other public agencies	Banks	Financial companies	Insurances	Non-financial companies	Other counterparties
Regulatory trading book							
1. Hedge buys							
- notional value	—	—	612.799	—	—	—	—
- positive fair value	—	—	7.842	—	--	—	
- negative fair value	—	—	-20.862	—	—	—	—
- future exposure[1]	—	—	31.538	--	—	—	—
2. Hedge sales							
- notional value			446.268				
- positive fair value	—	—	252.688	—	—	—	—
- negative fair value	—	—	-3.979	—	—	—	—
- future exposure[1]	—	—	22.313	—	—	—	
Banking book							
1. Hedge buys							
- notional value	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
2. Hedge sales							
- notional value	—	.	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

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

- 5% in case of qualified reference obligation;
- 10% in the other cases.

B.5 *Credit derivatives: outstanding life – notional values (in € k)*

Transaction categories	Up to 1 year	From 1 to 5 years	Over 5 years	Total
1. Regulatory trading book	62.219	996.848	—	1.059.067
a) CDS with "qualified" reference obligation	62.219	943.794	—	1.006.013
b) CDS with "unqualified" reference obligation		53.054	—	53.054
2. Regulatory banking book	97.300	1.294.768	—	1.392.068
a) CDS with "qualified" reference obligation	55.300	1.241.714	—	1.297.014
b) CDS with "unqualified" reference obligation	42.000	53.054		95.054
Total at 30/06/2011	**159.519**	**2.291.616**	—	**2.451.135**
Total at 30/06/2010	**439.269**	**1.379.679**	—	**1.818.948**

1.3 Liquidity risk

QUALITATIVE INFORMATION

Liquidity risk is measured through indicators based on definite cash inflows and outflows to take place in the months to come, and also on the basis of data which includes estimates of:

- — new loans/repayments/renewals for lending;
- — new issues/early redemptions for funding;
- — any significant extraordinary items.

The Bank has conducted liquidity stress tests following the CEBS guidelines on Liquidity Buffers & Survival Period (December 2009) and the CEBS guidelines on Stress Testing (December 2009).

The liquidity stress tests performed allow the Bank to assess the potential impact of extreme but plausible stress scenarios on their liquidity positions and their current or contemplated mitigants. The management of the Bank was highly involved in the discussions of the stress tests. The result has been formalized into the '*Liquidity stress tests methodology*' document.

The Bank approach regarding liquidity stress tests can be summarized as follows:

- ► **Analysis of risk factors generating liquidity risk:** as liquidity risk is a 'consequential risk' or 'secondary risk' generated by other risks types, the Bank performed an analysis assessing the primary risks impacting the liquidity.

- ► **Liquidity stress testing methodology**

The Bank has combined the liquidity risk leading practices applicable to its liquidity profile and therefore built a tailor-made approach in line with the nature and complexity of its business activities. The approach consists of:

- The **historical analysis of the cash flows** during 2010 and 2011 to identify common patterns
- The analysis of both **balance and off-balance sheet items** to understand the liquidity generating capacity (inflows) and the liquidity consumption (outflows) as well as any liquidity inter-relations between assets and liabilities. This assessment is in line with the CSSF 09/403 Annex 1 – Recommendation 6.
- The creation of a tailor-made indicator, which reflects the exposure of the Bank towards liquidity. The **Operating Indicator** (OI) is built based on:
  - the historical analysis of the inflows / outflows,
  - the Asset Liability Management (ALM) analysis,
  - the historical analysis of the balance sheet of 2010 and 2011 and finally,
  - the future cash inflows and outflows scheduled.

The evolution of the indicator is monitored on a monthly basis by the Bank's management and discussed with the Parent company.

- The **stress testing framework** has been elaborated based on the indicator to better represent the liquidity evolution of the Bank. In building the stress tests, the Bank has considered idiosyncratic scenarios, market scenarios and a combination of them;
- A reverse stress test scenario has been included in the analysis.

Contingency Funding Plan (CFP)

The Bank has elaborated the Contingency Funding Plan (CFP), both for preparing for and dealing with a liquidity crisis. The management of the Bank was highly involved in the discussions of the CFP. The plan is customized to the liquidity risk profile of the Bank (principle of proportionally).

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

QUANTITATIVE INFORMATION

1.a *Financial assets and liabilities by outstanding life as at 30/06/2011 (in € k)*

Type	On demand	From 1 days to 7 days	From 7 days to 15 days	From 15 days to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years
Cash assets	437.377	77.249	164.539	287.869	136.702	236.073	428.143	2.768.397	384.840
A.1 Government securities	—	—	—	—	—	—	—	—	—
A.2 Listed debt securities	—	—	—	—	1.448	—	67.213	50.580	5.000
A.3 Other debt securities	—	—	—	—	—	—	—	—	—
A.4 OICR units	—	—	—	—	—	—	—	—	—
A.5 Loans and advances	437.377	77.249	164.539	287.869	135.254	236.073	360.930	2.717.817	379.840
– to Banks	436.919	—	93.051	30.048	13.857	3.493	223.436	91	—
– to customers	458	77.249	71.488	257.821	121.397	232.580	137.494	2.717.726	379.840
Cash liabilities	-305.468	-918.142	-159.859	-284.488	-200.403	-77.800	-205.067	-2.927.924	-132.107
B.1 Deposits	-305.468	-918.142	-97.591	-268.340	-17.334	-11.625	-23.138	-1.769.044	-132.107
– to Banks	-45.213	-774.919	-74.340	-238.297	-3.494	-11.625	-19.193	-1.727.090	-132.107
– to customers	-260.255	-143.223	-23.251	-30.043	-13.840	—	-3.945	-41.954	—
B.2 Debt securities	—	—	-62.268	-16.148	-183.069	-66.175	-181.929	-1.158.880	—
B.3 Other liabilities	—	—	—	—	—	—	—	—	—
Off-balance-sheet transactions	285.413	1.127	142	3.507	31.463	13.460	125.292	1.555.528	
C.1 Financial derivatives with exchange of principal	—	—	40	—	27.824	48	93	17.846	—
– long positions	—	—	—	—	13.838	—	—	8.310	—
– short positions	—	—	40	—	13.986	48	93	9.536	
C.2 Financial derivatives without exchange of principal	285.413	1.127	102	3.507	3.639	13.412	27.899	—	—
– long positions	279.765	997		1.136	1.800	9.664	12.267	—	—
– short positions	5.648	130	102	2.371	1.839	3.748	15.632	—	—
C.3 Financial guarantees given	—	—	—	—	—	—	—	—	—
C.4 Irrevocable commitments to disburse funds	—	—	—	—	—	—	97.300	1.537.682	—

Grand-Duché de Luxembourg - COMMISSION DE SURVEILLANCE DU SECTEUR FINANCIER

1.b *Financial assets and liabilities by outstanding life as at 30/06/2010 (in € k)*

Type	On demand	From 1 days to 7 days	From 7 days to 15 days	From 15 days to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years
Cash assets	664.322	12.007	90.281	234.455	182.359	53.177	253.387	3.172.506	574.440
A.1 Government securities	—	—	—	—	—				—
A.2 Listed debt securities		872	917	622	2.726	25.053	112.066	138.477	5.000
A.3 Other debt securities		—		—	—			—	
A.4 OICR units		—		—	—	—		—	—
A.5 Loans and advances	664.322	11.135	89.364	233.833	179.633	28.124	141.321	3.034.029	569.440
– to Banks	664.322	—	87.229	—	—	35	57.461	202.017	—
– to customers	—	11.135	2.135	233.833	179.633	28.089	83.860	2.832.012	569.440
Cash liabilities	776.971	259.184	135.514	70.150	763.930	143.818	532.088	2.360.940	564.654
B.1 Deposits	765.290	259.056	23.659	43.485	155.274	8.168	13.438	1.119.481	564.654
– to Banks	620.287	4.040	—		155.274	8.168	11.070	1.119.481	524.330
to customers	145.003	255.016	23.659	43.485			2.368	—	40.324
B.2 Debt securities	—	127	111.855	26.665	608.609	135.490	518.650	1.241.459	
B.3 Other liabilities	11.681	1	—		47	160		—	—
Off-balance sheet transactions	316.582	1.105	76	3.745	1.489	13.140	15.252	879.945	—
C.1 Financial derivatives with exchange of principal	—	—	23	—	413	73	146	879.945	—
– long positions	—	—	—	—	367		—	447.107	—
– short positions	—	—	23	—	46	73	146	432.838	—
C.2 Financial derivatives without exchange of principal	316.582	1.105	53	3.745	1.076	13.067	15.106	—	—
– long positions	301.349	1.000	—	687	419	9.227	7.571	—	—
– short positions	15.233	105	53	3.058	657	3.840	7.535	—	—
C.3 Financial guarantees given	—	—	—	—	—	—	—	—	—

1.4 Operational risk

Operational risk is the risk of incurring losses as a result of external events or the inadequacy or malfunctioning of procedures, staff and internal systems. Operational risk includes legal risk, but does not include strategic or reputational risk.

The Bank has decided to adopt the Basic Indicator Approach ("BIA") in order to calculate the capital requirement for covering operational risk, applying a margin of 15% to the average of the last three annual readings of total income. Based on this method of calculation the capital requirement as at 30 June 2011 is € 5,8 million (€ 3,9 million as at 30 June 2010); the increase is due to the improved profitability of the Bank in the last 3 fiscal years.

Segregation of duties, internal procedures, and technological systems in force mitigate the risk of losses due to errors or inadequacies.

In the review of its internal procedures as part of the "Head of Company Financial Reporting" project, the Bank has sought to identify the majority of the sources of possible risk and the relevant measures to be taken to control and mitigate them, by formulating company procedures in order to deal with them, and focusing mitigation activity on the most serious aspects.

With reference to the possibility of losses caused by interruptions in operations or due to systems being unavailable, the Bank has drawn up operating continuity and disaster recovery plans to ensure that activity is able to continue and to limit the operating losses in the event of prolonged interruptions. The Bank regularly reviews the operating continuity and disaster recovery plans with a view to ensuring that they are consistent with its activities and current operating strategies.

Control of internal access (individual system users) and external access (IT attacks) is carried out via the relevant computer and observation tools.

Insurance policies have been taken out to cover the most valuable staff members and assets.

As for the possibility of risk deriving from outsourcing activities, the Group has implemented a continuous monitoring and regular review system to assess the care taken in performing these activities by the Parent company and Group's IT Consortium entity.

As at 30 June 2011 and 2010 the Bank does not face any litigation risk.

PART G – CAPITAL MANAGEMENT

Capital is the first and most important safeguard of a Bank's stability. For this reason, the international and domestic supervisory bodies have established rigorous rules for calculating regulatory capital and the minimum capital requirements with which Banks are bound to comply. In particular, the ratio between risk-weighted assets and regulatory capital must not fall below 8%.

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

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

Regulatory capital has been calculated on the basis of CSSF Circulars 06/273 as amended and 07/301 as amended which transpose the prudential guidelines for Banks and banking groups introduced by the Basel Capital Accord (Basel II) into the Luxembourg regulatory framework.

During the years ended 30 June 2011 and 2010, the Bank had complied in full with all its externally imposed capital requirements.

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

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

The Bank took part to the 1st and 2nd impact assessment of the new Basel III liquidity requirement realized by CSSF and BCL on the Luxembourg banking system. The assessment consisted in the early calculation of both the liquidity coverage and net stable funding ratios.

QUANTITATIVE INFORMATION

In €	30/06/2011 (including profit of the fiscal year)	30/06/2011 (excluding profit of the fiscal year)	30/06/2010 (including profit of the fiscal year)	30/06/2010 (excluding profit of the fiscal year)
Original own funds (Tier 1)	202.622.999	166.518.524	166.518.524	131.226.577
Additional own funds (Tier 2)	39.250.000	39.250.000	39.250.000	39.250.000
Total own funds (Tier 1 + Tier 2)	**241.872.999**	**205.768.524**	**205.768.524**	**170.476.577**
Credit/Counterparty risk (Standardized approach)	114.106.601	114.106.601	104.670.401	104.670.401
Market risk (Standardized Approach)			-	
Operational risk (Basic Indicator Approach)	5.782.586	5.782.586	3.946.556	3.946.556
Total capital requirements (Pillar 1)	**119.889.187**	**119.889.187**	**108.616.957**	**108.616.957**
Pillar 2 Risk (Internal Assessment)	9.900.000	9.900.000	9.400.000	9.400.000
Total capital requirements (Pillar 1 + Pillar 2)	**129.789.187**	**129.789.187**	**118.016.957**	**118.016.957**
Surplus (+) / Deficit (-) of Own Funds	112.083.812	75.979.337	87.751.567	52.459.620
Solvency ratio (%)	16,14	13,73	15,15	12,56

PART H – RELATED PARTY DISCLOSURES

Accounts with related parties fall within the ordinary operations of the Bank are maintained on an arm's length basis and are entered into in the interests of the individual companies concerned. No atypical or unusual transactions have been entered with such counterparties. Related parties for the purpose hereof include local strategic management, Parent company, entities of its Group and its Directors and executive officers (and any company owned by them).

Reference is made in the following tables to Parent Bank and other related parties, separately disclosed as required by IAS 24.

The amount of balance sheet and off balance sheet's items as at 30 June 2011 and 2010 concerning related parties are as follows (in € k):

Assets and liabilities	**30/06/2011**		**30/06/2010**
	Parent Bank	Other related parties	
Financial assets held for trading	554.888	—	614.382
Loans and advances	632.464	—	804.908
Derivatives held for hedging	95.311	—	153.309
Other assets	6.244	—	11.104
Total assets	**1.288.907**	—	**1.583.703**
Financial liabilities held for trading	-189.548	—	-272.501
Amounts due	-2.797.746	—	-2.252.300
Debt securities	-31.423	-38.329	—
Derivatives held for hedging	-16.193	—	-20.121
Other liabilities	-6.581		-16.288
Total liabilities	**-3.041.491**	**-38.329**	**-2.561.210**

Comprehensive income	**30/06/2011**		**30/06/2010**
	Parent Bank	Other related parties	
Interest and similar income	-11.289	—	30.085
Interest expenses and similar charges	-68.672	—	-74.956
Fee and commission income		—	
Fee and commission expenses	-22.621	—	-29.891
Net gains and losses on financial assets and liabilities hft	-20.736	—	-38.346
Net gains and losses from hedge accounting	-53.315	—	67.417
Other income	1.137	—	—
Administrative expenses	-4.797	-413	-704
Total	**-180.293**	**-413**	**-46.395**

Guarantees and commitments	30/06/2011		30/06/2010
	Parent Bank	Other related parties	
Financial guarantees given	—	—	—
Commercial guarantees given	—	—	—
Irrevocable commitments to disburse funds	—	—	—
Commitments underlying cds: hedge sales	446.268	—	516.653
Total	**446.268**	—	**516.653**

In connection with the above activities the Parent Bank provides several administrative and corporate services. The remuneration of such services is reflected in comprehensive income under caption "Administrative Expenses".

The Bank's incurred in expenses with respect to the remuneration of the members of the administrative, management and supervisory bodies of the Bank are as follows:

	30/06/2011	30/06/2010
Administrative bodies	25	25
Key management personnel	561	293
	586	**318**

The increase of expenses for key management personnel is due both to non recurrent amounts which have been charged during the 1st half year by the Parent Company and to the provisioning of extraordinary components as at 30 June 2011.

As of 30 June 2011 and 2010, neither advances nor guarantees were granted to Directors or Senior Management. In addition, Directors and Senior Management do not benefit from any pension plan contributions.

PART I – OTHER INFORMATION

Audit fees

As of 30 June 2011 and 2010, audit fees are split as follows (in €):

	30/06/2011	30/06/2010
Audit fees	86.000	86.000
Audit related fees	17.500	38.930
Other fees	53.000	86.000
Total	**156.500**	**210.930**

Staff number

As at 30 June 2011 and 2010, the Bank's staff is as follows:

	30/06/2011	30/06/2010
Management Senior	2	2
Management-Middle	3	3
Other staff	3	3
Total	**8**	**8**

As of 30 June 2011 and 2010, the Bank's Senior Management consists of 2 Managing Directors, who are not included on the Bank's payroll. Also, 1 member of the Middle Management is not included directly on the Bank's payroll but is on secondment from the Parent company.

PART J – SUBSEQUENT EVENTS

On 11 July 2011 the Bank (acting as buyer) has signed a head of terms with Cadogan Joseph II S.àR.L. (acting as seller) to purchase via a share deal all the 1.000 shares of Jodewa S.àR.L. a real estate company having its registered office in Luxembourg. The Bank is carrying out the due diligence process which is conditional to the completion of the sale, the final share purchase agreements should be signed in September. Jodewa S.àR.L. owns the building in which the Bank plans to move its head-office.

The Bank is not aware of any other adjusting or non-adjusting event that would have occurred between 30 June 2011 and the date when the present annual accounts were authorized for issue.