MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.

RCSL n. B112885

Annual Accounts and Report
30 June 2019

MEDIOBANCA INTERNATIONAL (Luxembourg)

SOCIÉTÉ ANONYME

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

Annual General Meeting
16 October 2019

www.mediobancaint.lu

BOARD OF DIRECTORS

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

INDEPENDENT AUDITOR

PRICEWATERHOUSECOOPERS S.C.	LUXEMBOURG

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Mediobanca International (Luxembourg) S.A.

Head Office: 4, Boulevard Joseph II, L-1840 Luxembourg

Mediobanca Banking Group

Share capital: € 10,000,000 fully paid up

FINANCIAL SITUATION AS AT 30 JUNE 2019

MANAGEMENT REPORT

DEVELOPMENT IN MACROECONOMIC SCENARIO

In 2018, the GDP of advanced economies grew by +2.2% (slowing compared to +2.4% in 2017), while that of emerging and developing economies (EMDE - Emerging Markets and Developing Economies) was up 4.5% (+4.8% in 2017). Amongst the former, the United States accelerated, growing +2.9% (+2.2% in 2017), with the Eurozone also up but heading in the opposite direction (from +2.4% in 2017 to +1.9% in 2018). Further trend diversification can be observed among the individual countries: Spain progressed +2.6%, at a rate lower than the +3% recorded in 2017 but in any event better than the results of the area's other major countries, with the 'German locomotive' slowing to +1.4% compared to +2.2% in 2017, surpassed by France with +1.7%, while the decreased degree of liveliness remains for Italy (+0.9%) and Japan (+0.8%), also slowing compared to 2017 (+1.7% and +1.9%, respectively). In part weighed down by still unclear Brexit scenarios, the UK continues to lose steam (with growth of +1.4%, 40 bps below 2017). In the group of EMDEs, the gaps remain quite wide: amongst the BRICs, Russia is doing well with an economy improving by +2.3% (+1.6% in 2017), while Brazil is stable at +1.1%, after both had declined in 2016 (-0.2% and -3.5%, respectively). China (+6.6%) and India (+6.8%) are continuing to represent the most dynamic areas of the globe, although the season of double-digit growth now seems to be long gone for both. They are followed by the ASEAN countries (Indonesia, Malaysia, the Philippines, Thailand and Vietnam) with GDP up by +5.2%. Up and down situations can be seen in the rest of the world: the South American continent is growing at the same rate as in 2017 (+1.1%), driven primarily by the dynamism of Mexico (+2%), while the Middle East is slowing for the second year in a row (+1.6% in 2018 compared to +2.1% in 2017), a value more than halved compared to the splendour of 2016 (+5%), although Saudi Arabia gained +2.2%, exploiting the 29.4% increase in crude oil prices, which are in any event at values still quite far from the peaks of the decade recorded in 2011-12. Sub-Saharan Africa is improving, with overall GDP up by +3.1%, but with South Africa bucking the trend (from +1.4% to +0.8%).

IMF projections from July 2019 describe a slowdown in the global growth rate expected to reach +3.2% this year, and a partial recovery to +3.5% in 2020. This forecast is based on the recent intensification of the trade war launched by the United States in July 2018 on a basket of goods imported from China and the inevitable retaliation taken by the Asian country which, along with uncertainty linked to Brexit and further and rising geopolitical tensions, risk derailing the recovery and depressing medium-term growth outlooks. In this scenario, the prevailing conduct of businesses and consumer households is to postpone investment decisions and purchases of durable consumer goods, respectively. The growth expected for advanced economies in 2019 is +1.9%, and for the EMDE countries a less intense acceleration compared to the past, of +4.1%, is expected. The United States is expected to rise by +2.6%, with the expected improvement moderating to +1.9% for 2020 as a result of the attenuation of the effects linked to fiscal stimulus and with a view to domestic demand becoming weaker than expected, accompanying suffering imports due to the escalation of customs tariffs. Growth for the Eurozone is expected to reach +1.3% in 2019 and +1.6% in 2020, with the order of the main countries basically the same as what was observed for 2018: Spain is confirmed as the best performing economy (+2.3% in 2019 and +1.9% in 2020), while Germany (+0.7% in 2019 and +1.7% in 2020) will be preceded by France

(+1.3%), with Italy still delayed and stagnant at +0.1% in 2019 (but partially accelerating in 2020 with an expected +0.8%). Expectations for the UK are still influenced by the repercussions of its exit from the single currency: forecasts are pointing to growth of +1.3% in 2019 and +1.4% in 2020, an estimate revised upwards by +0.1% compared to April projections, taking into account better performance than expected in the first quarter, favoured by pre-Brexit inventory accumulation processes.

Amongst the EMDE countries, growth outlooks remain uneven, especially for China and India, with the first still decelerating (+6.2% in 2019) and an expected rise of around 7% for the Indian subcontinent. Also in this case, the numbers for China reflect the tariff tensions which are adding pressure to an economy already involved in a structural slowdown and characterised by significant recourse to both public and private borrowing. Growth projections have been downscaled for India and Russia, and especially Brazil and Mexico.

Slower global growth than expected and the stagnant level of core inflation in the main economies, both advanced and emerging, may trigger new deflationary processes. Based on these considerations, a number of Central Banks have changed the tone of their outlooks, with the Fed adopting less aggressive tones with respect to its monetary restriction and with the ECB announcing in its most recent forward guidance that it is ready to extend the current level of interest rates until mid-2020.

Manufacturing industry

In this scenario, multinational manufacturing companies marked turnover increases in 2018 compared to 2017. In Europe, growth reached +3.2%, lower than that of North America (+7.1%). Industrial margins were also up more in the new continent than in the old: the EBIT of European multinationals grew by +3.8%, while that of their North American counterparts was up +10.8%. Net profitability (ROE) expressed by European multinational manufacturing companies was 16.7%, well below that of their North American counterparts (28.6%), whose net profit in 2018 accelerated considerably due to the elimination of write-downs on deferred tax assets accounted for in 2017 linked to the launch of the US reform, as well as the decreased tax burden due to the same reform, which lowered the corporate tax rate from 35% to 21%.

	Europe		North America	
	Energy	*Manufacturing*	*Energy*	*Manufacturing*
	% Change 2018/2017			
Turnover	+27.0	+3.2	+21.3	+7.1
EBIT	+60.5	+3.8	+135.2	+10.8
ROE (in %)	*13.5*	*16.7*	*13.4*	*28.6*

Source: R&S – Multinationals: financial aggregates (2019)

In 2018, the energy industry experienced a significant recovery that showed up in sales (+27% in Europe, +21.3% in North America) but especially in margins, which rose impressively in North America (+135.2%) and in Europe as well (+60.5%). The ROE of the energy industry was lower than that of the manufacturing industry in 2018, as in the previous year.

	Europe		North America	
	% change on 2017	in % of invested capital	% change on 2017	in % of invested capital
Equity	+7.0	55.7	-10.4	52.7
Financial debt	+9.6	44.3	-4.7	47.3
Cash and cash equivalents	+3.5	10.9	-11.8	13.6
Net debt /Equity (%)	79.6		89.9	
Intangibles / Equity (%)	84.8		108.6	

Source: R&S – Multinationals: financial aggregates (2019), manufacturing companies

The capital structure of manufacturing multinationals showed signs of deterioration in North America, where there was a decline in equity (-10.4%) higher than that of financial debt (-4.7%). These trends resulted in a debt-equity ratio of 89.9% in 2018, or at levels higher than those of European businesses (79.6%), although they too slightly weakened their capital structures. One element of potential fragility is the continuous growth in the weight of intangibles, which in North America exceed the value of equity and in Europe absorb 84.8% of it.

Financial industry

With reference to the main international banks, in 2018 profitability in the sector continued to improve on both sides of the Atlantic, in both cases reaching the highest values of the last decade, although the major European banks still remain behind those in the United States.

The revenue of the largest European institutions grew by +0.9% (+2% in 2017) with net interest income nearly unchanged (+0.2%) despite the fact that lending volumes rose by +3% on the whole; this item, which in any event represents the main source of revenue (53.4% of the contribution margin), was impacted by the context of stability of Zero Lower Bound (ZLB) rates. Net commissions and profit from trading activities instead declined, respectively by -0.3% and -15.3%, taking into account in the first case the decline in volumes managed (against redemptions and adverse market performance) and, in the second case, the significant volatility in the main global financial markets in the final quarter of 2018. The increase in other revenues (insurance revenue, expense recoveries and sundry revenue) instead reached +40%. In the future, the commission margin, the second source of banking revenue, will presumably be influenced by the full implementation, by September 2019, of the PSD2 – Payment Service Directive which allows for the entry of non-banking actors into the payment services business, such as over the top operators (Apple, PayPal, WhatsApp, etc.) and fintech companies.

In 2018, the reduction continued in losses on loans (-3.2%), which are now equal to 6.7% of revenue, the lowest percentage of the last decade and close to what can be observed for the main US institutions (5.7%).

The increase in revenue is taking place within a context of a limitation of operating costs (-2%), a more appreciable result if read in the context of the new regulation and the relative increasing implementation costs. The cost/income ratio thus fell to 65.4%, down 190 bps, but the improvement is not generalised, weighed down in certain cases (primarily Switzerland and Germany) by the high cost of labour per capita regarding the investment banking division of the main domestic institutions.

The combination of revenue growth, the limitation of operating costs and the reduction in write-downs on loans resulted in an increase in operating profit by +27.9% (+25.7% in 2017). After a positive contribution in 2017 (the first since 2010), the balance of extraordinary items became negative once again in 2018, still weighed down by costs linked to fines and sanctions and asset impairment.

Also thanks to the elimination of write-downs on deferred tax assets accounted for in 2017 by the main European institutions for a total of -8.9 billion linked to the launch of the US tax reform (which, amongst its various effects, lowered the corporate tax from 35% to 21%), net income rose by 18.1% compared to 2017, rising to 18% of total revenue. As a result, the ROE improved from 5.8% in 2017 to 7%, a value which is in any event insufficient on average to remunerate equity.

In the US market, the revenue of the main institutions rose by +4% in 2018, thanks to the positive contribution of all revenue items, driven in particular by profit from trading (+7.1%), net commissions (+1.7%) and net interest income (+5.1%), in this last case in the wake of four increases of 25 bps each in reference rates implemented by the Fed in 2017 as well as in 2018. Operating costs rose by +2.2% but the cost/income ratio fell to 59.7% (from 60.8% in 2017), due to the more than proportional increase in revenue; the advantage over European institutions thus reduced to 5.7 points (compared to 6.5 points in 2017). Losses on loans declined by -5.7%, accounting for 5.7% of revenue (compared to 6.7% for European banks). Leaner overhead costs, alongside the lower impact of adjustments on loans, underlie the high incidence of operating profit (which improved by +10.4% in 2018) on total revenue, equal to 34.6% (a good deal higher than the level of European banks). The balance of extraordinary components is still positive and improved compared to the values of 2017. Also considering the elimination of write-downs on deferred tax assets accounted for in 2017 for roughly 22 billion as a result of the launch of the tax reform, the net profit improved by +63.5% and reached 28.2% of total revenue (17.9% in 2016). The ROE almost doubled to 12.6% from 7.3% in 2017. Please also recall that already starting from 2013, the largest US banks again started to approximate pre-crisis profitability levels, considering that the operating profit represented 30% of revenue throughout the 2013-18 period, the same average value as the 2005-2007 three-year period.

In the current context characterised by interest rates anchored at all-time lows (in Europe), which impact net interest income, and increasing international geopolitical tension causing greater volatility in the financial markets, the limitation of costs seems to be the main lever to further improve bank efficiency so as to maximise the interests of all stakeholders. In this regard, in the 2008-18 period there was a significant tendency towards reducing the number of branches (-27.7%, from just under 225.4 thousand to around 163 thousand in 2018) and the number of bank employees (-17%, from 2.8 million to approximately 2.3 million) throughout the European Union, with a broad dispersion amongst the various countries: France is that which cut the least, the Netherlands and Denmark the most, and Italy is no exception, reducing branches by 25.5% and bank personnel by 18.9%.

	Europe	USA
	% Change 2018/2017	
Revenue	+0.9	+4.0
of which: net interest income	*+0.2*	*+5.1*
Impairment of loans	-3.2	-10.5
Income	+9.8	+10.4
Net profit	+18.1	+63.5
ROE (in %)	*7.0*	*12.6*

Source: R&S –Major international banks (2019)

On the balance sheet side, in 2018 the assets of the major European banks grew by +0.4% on the whole (in the US, +1.1%) primarily taking into account the growth of +3% in loans to customers, offset by the decline in the fair value of derivative assets, which fell by -5% in Europe (and by -3.9% in the US).

The stock of securities in the portfolio marked diverging trends between the two areas, marking a decline of -1.3% in Europe and an increase of +3% in the US. In this regard, the portfolio of government bonds held by European institutions continues to represent a significant share of total assets, although the situation is quite uneven between the individual countries. After reducing the securities that could be purchased under the Asset Purchases Programme ("quantitative easing") to 15 billion per month, in January 2019 the ECB terminated the programme, while also announcing its intention to continue to reinvest all of the capital repaid on maturing securities. Overall, under this programme the European Central Bank has acquired 2.1 trillion in public sector securities, in addition to 263 billion covered bonds, 28 billion ABSs and 178 billion corporate bonds. Available cash and cash available at the central bank represents 7.5% of total assets in Europe, a percentage which has not changed with respect to 2017 although the bank deposit rate at the central bank is stable at -0.4%. Analysing funding by form, in Europe funding in securities (primarily bonds) rebounded by a total of +5.3%, while also in this case performance is different among the various countries. In Italy, bond funding continues to decline due to higher repayments than new issues. On the other hand, in the US bond funding decreased by -0.6% and as a percentage of the total balance sheet it is still lower than that of European institutions (9.8% against 14.7%). Furthermore, US banks obtain higher funding through deposits (54.3% of the total liabilities compared to 46.5% in European banks). Recourse to interbank funding also rose, with payables to banks up in Europe by +4.7% although new TLTRO II transactions were not performed in 2018 and the relative liquidity injected into the system by the ECB fell on the whole from 761 to 724 billion as a result of voluntary repayments.

The main US banks are more capitalised, considering that for them shareholders' equity came to 9.6% of total assets, compared to 5.9% in Europe. European banks also continue to mark higher leverage than that of US institutions (19.1x against 13.2x): the drop in the indicator in both areas (equal to 27.7x in Europe and 23.8x in the US in 2010) was due to the derisking process in response to increasing regulatory pressure which, while on one hand led to an aggravation of costs for the lending industry, on the other hand had the positive impact of increasing its resilience. With regard to the configuration of leverage introduced by the criteria of Basel III, which requires as of 1 January 2018, Tier 1 Capital to be equal to at least 3% of total exposures, all of the major European institutions are already aligned with this target, with an average value of 5% at the end of 2018, up compared to 3.8% in 2013, the year of initial introduction.

However, the total capital ratio is higher for the main European banks, with an average value of 19% at the end of 2018 compared to 15.2% in the US. In Europe, net non-performing loans declined by -2.6% compared to 2017, with the largest decreases in Italy (-27.3%) and Spain (-19.9%), while the main German institutions went against this trend (+32.4%). The significant disparity continues between the various countries in Europe in terms of the percentage out of net loans to customers, with higher values for the main Italian banks (ratio at 4.6% considering the top five banks) compared to an average European value still at 1.5%. Also in Italy, in 2018 a total of 84 billion in NPLs were sold (compared to 68 billion in 2017) and the income statements continued to be scrubbed, resulting in an above average coverage ratio.

	Europe	United States
	% Change 2018/2017	
Balance sheet total	+0.4	+1.1
Derivative assets	-5.0	-3.9
Securities	-1.3	+3.3
Loans to customers	+3.0	+1.7
Funding from customers	+1.4	+1.7
Debt securities issued	+5.3	-0.6
Leverage	*19.1*	*13.2*

Source: R&S –Major international banks (2019)

General principles of drawing up the management report

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

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

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

Reclassified statement of financial position

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

	30/06/2019	30/06/2018	Chg.
	€m	€m	%
Financial assets at FVTPL	58,5	22,4	161,0%
Treasury investments	2.627,4	2.144,8	22,5%
Debt securities - banking book	12,9	49,2	-73,8%
Loans and advances	5.147,1	4.699,8	9,5%
Equity investments	4,2	4,2	0,0%
Tangible and intangible assets	0,0	0,0	-7,2%
Other assets	38,5	110,8	-65,3%
Total Assets	**7.888,6**	**7.031,1**	**12,2%**
Loans and borrowings	4.415,3	4.292,3	2,9%
Debt securities issued	2.796,6	2.281,8	22,6%
Treasury borrowings	268,5	51,7	419,6%
Financial liabilities at FVTPL	55,6	19,1	192,0%
Other liabilities	10,5	45,0	-76,7%
Provisions for risks and charges	0,7	0,4	81,5%
Net equity	338,2	328,6	3,0%
Net profit	3,2	12,4	-74,0%
Total liabilities	**7.888,6**	**7.031,1**	**12,2%**

ASSETS

Despite the persistence of a difficult market environment, the bank's exposures continued to grow throughout the fiscal year, reaching at the end of June 2019 the record value of € 7.9bn (+12,2% compared to June 2018). The following variations are in particular worth to be noted:

Financial assets at FVTPL – the carrying value of financial assets at fair value through profit or loss (FVTPL) increased by +161%, primarily as a consequence of the mark to market value of the credit derivative contracts negotiated with the Parent Company or embedded in other financial instruments which amounts to € 44,1m (€ 11,2m at the end of June 2018). It is worth mentioning that the above variation was *de facto* compensated by an equivalent increase of the financial liabilities valued at fair value through profit or loss (cf. infra).

Treasury investment – the carrying value of treasury investments has grown considerably compared to June 2018 (+22,5%, from € 2.144,8m to € 2.627,4m) mainly as a result of the increasing reinvestment of liquidity generated through the debt issuances made under the existing note programmes. In details:

- Reserve requirement amounts to € 14,9m and is declining compared to June 2018 (-21,5% in percentage terms) when it totalled € 19,0m;
- Demand deposits with banks amounts to € 539,0m which corresponds to an increase of +316,3% compared to June 2018 when they stood at € 129,5m;
- Term deposits with the Parent Company amounts to € 2.073,3m which corresponds to an increase of +30,1% compared to June 2018 when they stood at € 1.593,5m. This variation, so as the variation of demand deposits (cf. below), was primarily driven by the reuse of the liquidity borrowed under the note programmes;
- The carrying value of repo transactions is nil at the reference date (€ 402,7m at the end of June 2018) as a consequence of the contractual redemption of certain secured funding structures which were not renewed;
- Other treasury exposures are negligible in terms of outstanding carrying values (and substantially stable compared to June 2018).

	30/06/2019 €m	30/06/2018 €m	Chg. %
Reserve requirement at Central Bank	14,9	19,0	-21,5%
Demand deposits	539,0	129,5	316,3%
Term deposits	2.073,3	1.593,5	30,1%
Repo transactions	-	402,7	-100,0%
Other money market operations	0,3	0,1	87,2%
Others exposures (treasury)	0,0	-	-
Treasury investments	**2.627,4**	**2.144,8**	**22,5%**

Debt securities – this item of the reclassified statement of financial position amounts to € 12,9m (€ 49,2m at the end of June 2018) and is made by debt securities issued by the Parent and/or other Group affiliates which have been classified as financial assets valued at amortised cost under IFRS 9.

Loans and advances – this item of the reclassified statement of financial position has increased considerably compared to June 2018 (+9,5%, from € 4.699,8m to € 5.147,1m). The institution's net credit risk exposure (i.e. drawn amounts excluding the portion secured by financial guarantees received from the Parent and/or third party insurers) has followed the same trend, with an increase from € 1.175,6m at the end of June 2018 to € 1.298,1m at the end of June 2019 (+10,4%). Notwithstanding the foregoing, the quality of the credit portfolio has continued to be very satisfactory, as demonstrated by the value of the 'watch list ratio' which at the end of June 2019 amounts to 1,4% (0,4% at the end of June 2018).

In an environment which continues to be very challenging, the carrying value of non-performing exposures went to zero (from € 1,4m at the end of June 2018) demonstrating once again the risk sensitive approach of the Bank, so as its ability to select those investment opportunities which show a fair balance between risk and return.

	30/06/2019	30/06/2018	Chg.
	€m	€m	%
Loans and receivables (banks)	651,1	645,8	0,8%
of which: non performing	-	-	-
Loans and receivables (customers)	4.496,1	4.054,0	10,9%
of which: non performing	-	*1,4*	*-100%*
Loans and advances	**5.147,1**	**4.699,8**	**9,5%**

Equity investment – in September 2011, the Bank has purchased via a share deal all the 1.000 shares of Jodewa S.à r.l. (following renamed as Mediobanca International Immobilière S.à r.l.) a real estate company which owns the building where the Bank has moved its head office in April 2012. In February 2019, a test was carried out to assess the presence of any impairment indicator, and in particular whether the carrying amount of the real estate property may be higher than its recoverable amount. An independent evaluation made in this respect by a primary advisor has confirmed the fairness of the Bank's carrying amount.

Other assets – this item of the reclassified statement of financial position decreased significantly from € 110,8m at the end of June 2018 to € 38,5m at the end of June 2019 (-65,1% in percentage terms) and is composed by (i) fair value of hedging derivatives, (ii) tax assets, and (iii) other receivables. In detail:

	30/06/2019	30/06/2018	Chg.
	€m	€m	%
Hedging derivatives	15,6	1,7	821,5%
Tax assets	12,6	16,8	-25,1%
Transitory accounts and other receivables	10,3	92,3	-88,8%
Other assets	**38,5**	**110,8**	**-65,3%**

Fair value of hedging derivative instruments increased as a consequence of the dynamics of the underlying input market parameters. Tax assets decreased following the assessments received during the course of the financial year (with reference to which there are no particular deviations to be reported as compared with the amounts originally provisioned). Transitory accounts and other receivables also decreased, in particular as a result of the reduction of receivables generated in the context of the asset encumbrance, where payments received on the financial instruments posted as collateral are initially collected by the third-party lenders (i.e. collateral receiver) and subsequently transferred to the Bank (i.e. the collateral giver) in accordance with the contractual arrangements in place between parties. This kind of transactions create various suspended amounts which are generally cleared in a very short period of time (most of the receivables accounted at the end of June 2019 were already cleared in July 2019).

LIABILITIES

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

Loans and borrowings – the carrying value of loans and borrowings remained substantially stable at € 4.415,3m (€ 4.292,3m at the end of June 2018). In detail:

- Amount due to banks increased by 39,7% passing from € 2.128,7m to € 2.974,4m mainly to compensate the decrease of borrowings from customers (cf. below);
- Amount due to customers decreased by -86,1% from € 792,7m to € 110,0m by reason of the contractual repayment of two secured funding transactions (for a nominal amount of € 400m and € 300m respectively) which were not renewed.
- Borrowings under the NEU CP and the Euro CP Programmes are substantially stable at € 1.305,0m (€ 1.371,6m at the end of June 2018);
- Change in fair value of hedged debt instruments valued at amortised costs increased from € -0,7m at the end of June 2018 to € 25,8m at the end of June 2019. As already stated above with regard to the dynamic of the fair value of hedging derivatives, one of the leading cause of this variation was the dynamic of the underlying input market parameters.

	30/06/2019	30/06/2018	Chg.
	€m	€m	%
Loans and borrowings (banks)	2.974,4	2.128,7	39,7%
Loans and borrowings (customers)	110,0	792,7	-86,1%
Negotiable commercial papers	1.305,0	1.371,6	-4,9%
CFV notes issued	25,8	- 0,7	-4033,2%
Loans and borrowings	**4.415,3**	**4.292,3**	**2,9%**

Debt securities issued – the carrying value of notes issued under the existing medium term programmes notably increased from € 2.281,8m (June 2018) to € 2.796,6m (June 2019). The variation was greater with reference to non-structured notes (which increased from € 2.214,7m to € 2.688,9m), whilst the increase of structured notes was less pronounced in absolute terms (from € 67,1m to € 107,7m).

	30/06/2019	30/06/2018	Chg.
	€m	€m	%
Debt securities issued - non structured	2.688,9	2.214,7	21,4%
Debt securities issued - structured	107,7	67,1	60,6%
Debt securities issued	**2.796,6**	**2.281,8**	**22,6%**

Treasury borrowings – this item of the reclassified statement of financial position increased considerably compared to June 2018 (+419,6%, from € 51,7m to € 268,5m) primarily by reason of the term deposits held at the Parent, which passed from € 50,0m to € 250,1m. The rest of the outstanding balance as at 30 June 2019 is attributable to cash collateral received under two-way credit support annex (CSA) agreement with the Parent (for a carrying value of € 18,3m), and to accrued commission payable for the borrowing of financial assets from the Group Treasury (for a carrying value of € 0,1m).

Financial liabilities at FVTPL – the carrying value of financial liabilities at fair value through profit or loss (FVTPL) increased by +192%, primarily as a consequence of the mark to market value of the credit derivative contracts negotiated with the Parent Company or embedded in other financial instruments which amounts to € 42,5m (€ 9,0m at the end of June 2018). It is worth mentioning that such variation was *de facto* compensated by an equivalent increase of the financial assets valued at fair value through profit or loss (cf. above).

Other liabilities – this item of the reclassified statement of financial position decreased significantly from € 45,0m at the end of June 2018 to € 10,5m at the end of June 2019 (-76,7% in percentage terms) and is composed by (i) fair value of hedging derivatives, (ii) tax liabilities, and (iii) transitory accounts and other payables. In detail:

	30/06/2019	30/06/2018	Chg.
	€m	€m	%
Hedging derivatives	0,1	11,1	-99,2%
Tax liabilities	7,4	28,0	-73,5%
Other payables	3,0	5,9	-49,7%
Other liabilities	**10,5**	**45,0**	**-76,7%**

Fair value of hedging derivative instruments decreased as a consequence of the dynamics of the underlying input market parameters. Tax liabilities decreased (-73,5% in percentage terms, from € 28,0m to € 7,4m) following the assessments received during the course of the financial year (with reference to which there are no particular deviations to be reported as compared with the amounts originally provisioned). Transitory accounts and other payables also decreased (-49,7% in percentage terms), in particular as a result of the reduction of outstanding invoices for payment.

Provisions for risks and charges – this item of the reclassified statement of financial position increased by 81,5% – from € 0,4m (June 2018) to € 0,7m (June 2019) – mostly as a result of the first time adoption of the new accounting principle IFRS9.

Net equity – No dividends were distributed during the fiscal year and the increase from € 328,6m to € 338,2m (+3,0%) is attributable to the provisioning of the net profit from the previous financial year net of the first time adoption (FTA) reserve generated by the application of the new accounting principle IFRS9.

RESTATED STATEMENT OF COMPREHENSIVE INCOME

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

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

	30/06/2019	30/06/2018	Chg.
	€m	€m	%
Net interest income	12,2	23,4	-47,7%
Net trading income	1,6	-2,9	-156,1%
Net fee and commission income	4,2	5,6	-25,1%
TOTAL INCOME	**18,0**	**26,1**	**-30,8%**
Wages and salaries	-1,9	-1,6	23,6%
Other administrative expenses	-8,3	-7,5	10,3%
OPERATING COSTS	**-10,3**	**-9,1**	**12,6%**
Loans impairment	-2,6	-0,2	1430,8%
Provisions for other financial assets	-0,9	–	–
Other profit (losses)	–	–	–
PROFIT BEFORE TAX	**4,3**	**16,8**	**-74,2%**
Fiscal provision	-1,1	-4,4	-75,1%
TOTAL COMPREHENSIVE INCOME	**3,2**	**12,4**	**-74,0%**

Net interest income – net interest income decreased by -47,7% (from € 23,4m to € 12,2m). During the reference period, the different components performed as follows:

- Interest received from lending business increased by 30,9% (from € 81,9m to € 107,2m) thanks to larger average volumes and higher average yields on corporate lending;
- The increase in interest paid on proprietary funding was more pronounced in percentage terms (+45,2%, from € -66,5m to € -96,6m). Also in this circumstance main drivers have been the larger volumes and the higher weighted average spreads on proprietary funding. In this respect, it is worth recalling the refinancing of the tier 2 subordinated loan occurred in September 2018, and the continuing tensions on the Italian government bond spread (which has direct consequences on the cost of borrowing of the bank).
- Contribution of the treasury management was pretty poor (-80,7%, from € 8,0m to € 1,5m) mostly by reason of minor volumes and lower yields.

	30/06/2019	30/06/2018	Chg.
	€m	€m	%
Interest income - lending	107,2	81,9	30,9%
Interest expense - funding	-96,6	-66,5	45,2%
Net interest income (expense) - Treasury	1,5	8,0	-80,6%
Net interest income	**12,2**	**23,4**	**-47,7%**

Net trading income – after the negative result of the preceding financial year (€ -2,9m), the contribution of trading activities at June 2019 is back to being positive (€ 1,6m). The foregoing was essentially a consequence of the followings:

- Realized gains on derivatives for € 0,4m (whilst the contribution at June 2018 was negative for € -1,4m);
- Income from unrealised mark to market valuations of financial instruments (principally derivative contracts negotiated with the Parent and/or embedded in other non-derivative instruments) is stable at € 1,2m (-3,0% compared to June 2018);
- The loss generated by forex exposures decreased from € -2,1m (June 2018) to € -0,8m (June 2019);
- Net fee income generated by securities lending transactions amounts to € 1,0m at the end of June 2019 (€ -0,1m at the end of June 2018);
- Loss on disposals and repurchases amounts to € -0,1m (€ -0,5m in June 2018) and is mainly attributable to the difference between the repurchase proceeds and the net carrying value of financial liabilities issued by the Bank which have been repurchased during the course of the financial year.

	30/06/2019	30/06/2018	Chg.
	€m	€m	%
Derivatives - realised gains and losses	0,4	-1,4	-126,9%
Derivatives - unrealised gains and losses (mtm)	1,2	1,2	-5,8%
Forex gains and losses	-0,8	-2,1	-61,8%
Gain/loss on disposals/repurchases	-0,1	-0,5	-82,4%
Securities lending/borrowing	1,0	-0,1	-991,9%
Net trading income	**1,6**	**-2,9**	**-156,1%**

Net fee and commission income – this item of the reclassified statement of comprehensive income, which is mostly driven by corporate lending and treasury services, decreased by -25,1% when compared to June 2018 (from € 5,6m to € 4,2m). Main reason for such variation was the decrease of the commission income originated by the corporate lending activity (-31,1%, from € 18,1m to € 12,5m), which was only partially compensated by a parallel decrease of the commission expense (-33,7%, from € -12,7m to € -8,4m).

	30/06/2019	30/06/2018	Chg.
	€m	€m	%
Fee and commission income	12,5	18,1	-31,1%
Fee and commission expense	-8,4	-12,7	-33,7%
Other income/expense	0,1	0,2	-35,4%
Net fee and commission income (expense)	**4,2**	**5,6**	**-25,1%**

Operating costs – this item of the reclassified statement of comprehensive income increased by +12,6%, from € -9,1m to € -10,3m. In detail:

- expenditure on salaries totalled € -1,9m which corresponds to a deviation +23,6% compared to June 2018 (€ -1,6m) associated with the staff recruitment of the period;

- administrative expenses slightly decreased to € -6,3m (€ -6,7m at June 2018) principally by reason of the lowering of intragroup re-invoicing under the service agreements (only partially offset by the increase of legal and advisory expenditure);
- Contribution to the single resolution fund (SRF) notably increased during the financial year (+114,9%, from € -0,8m to € -1,8m). In Luxembourg the foregoing was essentially driven by a higher aggregate amount of contribution for the fiscal year 2019, coupled with a lower number of contributing banks.

	30/06/2019	30/06/2018	Chg.
	€m	€m	%
Personnel expenses	-1,9	-1,6	23,6%
Administrative expenses	-6,3	-6,7	-5,3%
Amortisation	0,0	0,0	-35,8%
Other expenses	-0,2	0,0	481,7%
Contribution to the SRF	-1,8	-0,8	114,9%
Operating costs	**-10,3**	**-9,1**	**12,6%**

Loans impairment – impairment provisions for credit exposures worth a total of € -3,4m were accounted for during the financial year (€ -0,2m at June 2018). Under the new accounting standard IFRS9, at each reporting date, the institution shall recognize a loss allowance based on either 12-months expected credit loss (stage1) or lifetime expected credit loss (stage2 and stage3) depending on whether there has been a significant increase in credit risk on the financial instrument since initial recognition. Under IAS39 provision for credit losses were measured in accordance with an incurred loss model. IFRS9 has replaced the incurred loss model with a forward looking expected credit loss model. During the financial year some credit exposures were moved from stage1 to stage2, as a result the loss allowance recognised on the exposures passed from a 12-months expected credit loss to a lifetime expected credit loss, with an impact on the comprehensive income of approx. € -2,6m. The rest of the impact was essentially due to the growth of the portfolio.

Fiscal provision – This item decreased by -75% (from € -4,4m to € -1,1m) by reason of the lower taxable base and tax rate (the latter in particular decreased from 26,01% to 24.94% as a result of the approval of the 2019 Budget Law by the Luxembourg Parliament).

ALTERNATIVE PERFORMANCE MEASURES

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

CAPITAL RATIOS

	12 months to	
	30/06/2019	30/06/2018
Common Equity Tier1 Capital Ratio (in %)	10,2	10,2
Total Capital Ratio (in %)	12,1	11,7
Leverage Ratio (in %)	4,0	4,2
Risk Weighted Assets (in Euro million)	3.366,0	3.327,0

LIQUIDITY RATIOS

	12 months to	
	30/06/2019	30/06/2018
Liquidity Coverage Ratio (in %)	134,8	122,5
Net Stable Funding Ratio (in %)	104,6	112,5

PROFITABILITY RATIOS

	12 months to	
	30/06/2019	30/06/2018
ROE - Return On Equity (in %)	1,0	3,8
ROA - Return On Assets (in %)	0,05	0,2

SIGNIFICANT EVENTS

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

- the setting up of an Audit Committee in order to support the Board of Directors in fulfilling its responsibilities in the areas of financial reporting and controls (as well as overseeing external and internal auditors);
- the first time adoption of the new accounting standard IFRS9 '*Financial Instruments*' (in replacement of IAS 39 '*Financial Instruments – Recognition and Measurement*') as from 1 July 2018 (further details are provided in Part C of the notes to the financial statements);
- the appointment of a new executive member of the authorised management (in replacement of a resigning one) as approved by the European Central Bank in April 2019.

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

- Brexit: European Union and UK have agreed a further half-year extension until 31 October 2019.
- CRDV/CRRII/BRRDII: In November 2016, the European Commission proposed a banking reform package to introduce further risk-reduction measures and advance the completion of the post-crisis regulatory reforms. This banking package, as agreed by the European Parliament on 16 April 2019, implements some international rules for banks – set by the Basel Committee on Banking Supervision (BCBS) and by the Financial Stability Board (FSB) – and aims to make the

financial system more resilient and stable. In particular, the package, also known as Risk Reduction Measure (RRM) package, comprise amendments to: (i) the Capital Requirement Regulation (CRR) and the Capital Requirement Directive (CRD) which were adopted in 2013, and (ii) the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism Regulation (SRMR) which were adopted in 2014.

– EBA guidelines on management of non-performing and forborne exposures: the EBA guidelines on management of non-performing and forborne exposures are applicable to all credit institutions (no transition period is foreseen) effective from 30 June 2019. These guidelines aim to ensure that adequate prudential tools and framework are in place to effectively manage Non Performing Exposures (NPEs) and to achieve a sustainable reduction over time. Some chapters of the guidelines are applicable only to those banks with a significant portion of NPEs, while the other chapters are applicable to all banks irrespective of their portion of NPEs.
– Changes of reference benchmarks (ESTER): ECB, FCA and European Commission have recently started to reflect on the usage of key benchmarks (Libor, Euribor, Eonia). Two new benchmark rates will emerge: the ESTER rate to replace EONIA in October 2019 and the new Euribor, initially scheduled for no later than 1 January 2020, postponed to 1 January 2022. The new methodology will be aligned on the Benchmark Regulation, switching from judgemental expert contributions to transaction-based data.

CORPORATE GOVERNANCE STATEMENT

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

Corporate bodies are the followings:

– General meeting of Shareholders;
– Board of Directors;
– Authorised Management;
– Audit Committee;
– Credit Committee.

General meeting of Shareholders

The General Meeting is the highest decision-making body and is vested with the broadest powers to perform, authorize or ratify all acts concerning the bank. In accordance with the Articles of Association, the annual general meeting is held in Luxembourg at the registered office of the Bank (or at any other place in the municipality of Luxembourg to be indicated in the notice of meeting) within six months from the end of each financial year. Further ordinary or extraordinary general meeting(s) can be held during the year, if necessary, in accordance with the provisions of the bylaws.

The Shareholders General Meeting resolves – among others – on the following matters:

– Approval of the financial statements and allocation of profit;
– Discharging members of the Board of Directors and the Authorised Management from liability;
– Defining the number of Board members and their appointment;
– Establishing the remuneration of the Board of Directors;

- Endorsement of those transactions required by law to be approved by shareholders in general meeting.

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

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

Board of Directors

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

The essential duties and responsibilities of the Board are defined primarily by the Articles of Association and the Luxembourg law(s). According to the Articles of Associations, the Board of Directors will be composed of at least three members who need not to be Shareholder and who shall be elected by General Meeting of Shareholders for a term of office as determined by the Shareholders but not exceeding six years. As at 16 September 2019, the Board is composed of seven Directors who have been appointed for a term of office three years.

Directors can be removed at any time from office by a simple resolution of a majority of Shareholders voting in general meeting. In the event of a vacancy in the office of a Director, the remaining Directors may, under the conditions foreseen by the law, temporarily fill such vacancy. In such a case the first general meeting of Shareholders following the temporary appointment shall ratify such appointment.

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

According to the Articles of Associations currently in force, the Board of Directors is supported by an Audit Committee in overseeing the internal control and financial statements, whereas management of the bank's current operations is delegated to the Credit Committee and to the Authorised Management who exercise such powers in accordance with the strategic guidelines and direction formulated by the Board itself. The following matters, however, remain within the sole jurisdiction of the Board of Directors:

- approval of strategic guidelines and directions, business and financial plans, budgets, risk management and internal control policies;
- approval of quarterly, semi-annual and annual accounts;

– appointment of the Authorised Management and establishment of powers;

– appointment of the other key function holders (e.g. Chief Compliance Officer, Chief Risk Officer, Chief Internal Auditor);

– appointment of the Audit Committee and establishment of powers;

– appointment of the Credit Committee and establishment of powers;

– approval of or amendment to internal regulations.

The Board of Directors of Mediobanca International was appointed by Shareholders in a General Meeting held on 20 October 2017 for the period ending with the Annual General Meeting to be called to approve the annual accounts as at 30 June 2020.

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

The number of the Board members currently consists of seven members (five of whom qualify as independent): Peter W. Gerrard (Chairman), Stefano Biondi (Managing Director), Massimo Di Carlo, Stephane Bosi, Giovanni Mancuso, Piero Pezzati, Paola Schneider. The Board includes prominent figures from the banking sectors, which ensures an appropriate degree of professionalism as required by the complexity of the bank's operations, and given the Board's role in strategic supervision.

During the fiscal year the Board of Directors convened no. 8 (eight) times and the attendance rate was 96%.

		Term of office						
Position	**Member**	**Since**	**Until**	**Gender (M/F)**	**Executive (Y/N)**	**Independent (Y/N)**	**Attendance rate (%)**	**Other Directorships**
Chairman	Peter W. Gerrard	20 October 2017	Approval of the financial statement as at 30 June 2020	M	N	Y	100%	2
Managing Director	Stefano Biondi	20 October 2017	Approval of the financial statement as at 30 June 2020	M	Y	N	100%	3
Director	Massimo Di Carlo	20 October 2017	Approval of the financial statement as at 30 June 2020	M	N	Y	88%	1
Director	Stephane Bosi	20 October 2017	Approval of the financial statement as at 30 June 2020	M	N	Y	100%	-
Director	Paola Schneider	20 October 2017	Approval of the financial statement as at 30 June 2020	F	N	N	88%	1
Director	Piero Pezzati	20 October 2017	Approval of the financial statement as at 30 June 2020	M	N	Y	100%	1
Director	Giovanni Mancuso	20 October 2017	Approval of the financial statement as at 30 June 2020	M	N	Y	100%	3

The Board has approved internal regulations in the area of self-assessment to govern the various phases into which the process is structured, identifying the means and instruments by which it is implemented. Such formalization enables a standardized process to be developed over the years meaning that results can also be compared more easily. The process of self-assessment of the size, composition and functioning of the Board of Directors and its Committees, required inter alia by the supervisory instructions for banks in the area of corporate governance, was conducted throughout the months of May and June 2019.

Authorised Management

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

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

The Board of Directors appointed as Authorised Managers Mr. Stefano Biondi (Managing Director & Chief Executive Officer) and Mr. Rocco Cosimo Damiano Di Leo (Chief Financial Officer).

Audit Committee

At the meeting held on 30 January 2019, the Board of Directors has appointed an Audit Committee in order to facilitate effective supervision of the activities by the Board itself. The task of the Audit Committee is to assist the Board in fulfilling its responsibilities in the areas of financial information, internal control, including internal audit as well as the control by the approved statutory auditors.

The Audit Committee shall comprise at least three non-executive Directors appointed by the General Meeting of Shareholders of the bank. The Audit Committee presently is composed by three Directors, namely: Giovanni Mancuso (Chairman of the Committee), Piero Pezzati, and Peter Gerrard.

The Committee remains in force for the entire duration of the office of the Board of Directors which appointed it. The entire Audit Committee or any individual member of the Committee may be removed with or without cause by a resolution approved by the majority of the member of the Board.

The collective competences of the Committee members must be representative of the activities and risks of the bank. To that extent, the Audit Committee as a whole should notably have sufficient relevant expertise in accounting, auditing and finance. At least one member of the Audit Committee must have competences in accounting and/or auditing.

The Audit Committee is responsible for reviewing the effectiveness of the Bank's internal quality control and risk management systems in light of the applicable rules and internal policies. The Audit Committee shall ensure that the main risks are properly identified, managed and disclosed. The mission of the Audit Committee is to provide the Board with critical assessments in respect of the organisation and operation of the institution in the field of internal audit. The implementation of the Audit Committee enables the members of the Board to fulfil their supervisory mission and to take on their responsibilities.

The general objective of the Audit Committee is to provide to the Board and the members of the Authorised Management reasonable assurance that the Bank is operating properly and efficiently. To this end, the Committee is authorised:

- to seek any information that it requires from any employee of the Bank for the purpose of performing its duties;
- to obtain, at the bank's expense, outside legal or other professional advice on any matter within its terms of reference;
- to call any employee to be questioned at a meeting of the Audit Committee as and when required;
- to appoint, compensate and oversee the work of any registered public accounting firm employed by the Bank;
- to pursue and promote the resolution of any disagreements between management and the auditors regarding financial reporting; and
- to meet with bank's officers, external auditors, or outside counsel, as necessary.

The Audit Committee shall meet at least four times a year at appropriate times in the reporting and audit cycle and otherwise when its role and responsibilities are required. Meetings of the Audit Committee shall be called by the Chairman of the Audit Committee or at the request of any of its members or at the request of external or internal auditors if they consider it necessary, by the secretary.

Only members of the Audit Committee have the right to attend the meetings of the Audit Committee. However, when appropriate, other individuals such as the chief executive, finance director, other directors, the heads of risk, compliance and internal audit and representatives from the finance function can be invited to attend all or part of any meeting.

Since its establishment, the Audit Committee convened no. 2 (two) times and the attendance rate was 100%.

The Audit Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed. After every meeting of the Audit Committee, the chairman of the Committee reports formally to the Board, in sufficient depth, to enable the Board to fulfil its oversight responsibilities.

Credit Committee

The Board of Directors appoints a Credit Committee (previously named Risk Committee), which may be either composed by Directors and/or Management, establishing their powers in accordance with the provisions set forth in the articles of association. The Credit Committee presently is composed by four members, namely: Stefano Biondi (Managing Director & Chief Executive Officer), Rocco Cosimo Damiano Di Leo (Chief Financial Officer), Alessandro Ragni (Chief Risk Officer), and Massimo Di Carlo (Director).

The Committee remains in force for the entire duration of the office of the Board of Directors which appointed it. The Board held on 30 January 2019 has vested the Credit Committee with the following powers:

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

The Credit Committee shall normally meet at least once per month or whenever necessary for examination of proposed deals/transactions. For strictly advisory purposes persons external to the Bank and/or the Parent may also take part in such meetings without having voting rights.

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

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

OTHER INFORMATION

During the fiscal year ended on 30 June 2019, the Bank has not purchased own shares nor has undertaken activities in the field of research and development.

ECONOMIC OUTLOOK FOR THE NEXT TWELVE MONTHS

Global growth remains subdued and threatened by intensified US-China trade and technology tensions as well as prolonged uncertainty on Brexit. The slowdown in global manufacturing activity, which began in early 2018, has continued during the first half of 2019, reflecting weak business spending (machinery and equipment) and consumer purchases of durable goods, such as cars. These developments suggest that firms and households continue to hold back on long-range spending amid elevated policy uncertainty (as recently highlighted by the International Monetary Fund in its periodic update of the World economic outlook).

Consistent with subdued growth in final demand, core inflation across advanced economies has softened below target (for example, in the United States) or remained well below it (for example, in the euro area and Japan). Core inflation has also dropped further below historical averages in many emerging market and developing economies.

Policy actions and missteps have played an important role in shaping these outcomes, not least through their impact on market sentiment and business confidence. While the six-month extension to Brexit announced in early April provided some initial reprieve, fears of disruptions to technology supply chains, and geopolitical tensions undermined market confidence.

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

In the United States growth was robust during the first semester of 2019 on the back of strong export and inventory accumulation (whilst domestic demand and imports were somewhat softer than expected, in part reflecting the effects of trade tensions with China). In July 2019, the Federal Reserve cut interest rates for the first time in more than a decade. Unlike the previous cuts, which were more intended to rescue a weakening economy, the cut announced in July 2019 was seen as a precautionary effort to protect the United States against downside risks from weak global growth and trade tensions. Growth in the near term is projected to slow.

In the Euro Area, the European Central Bank announced that a new series of quarterly targeted longer-term refinancing operations (TLTRO-III) will be launched starting in September 2019 and ending in March 2021, each with a maturity of two years. It also indicated that key interest rates are expected to remain at their present or lower levels at least through the first half of 2020, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to its aim over the medium term. Growth in the Euro Area is projected to pick up over the remainder of 2019 and into 2020, even though three of Europe’s largest economies – i.e. Germany, Italy and the UK – are on the verge of recession, which could spell danger for the Eurozone. The economy in Germany, which has always been very reliant on foreign exports, is suffering from the slowing global trade (which weights also on investments). In Italy, sovereign spreads remain well above 200 basis points driven by prolonged political uncertainty. Debt to GDP ratio remains above 130% with very little prospects for improvement in the medium term. The UK economy contracted in Q2 for the first time since 2012, a clear sign of the effects that the uncertainty of a "no-deal" Brexit is having on the economy. Recent forecasts assume an orderly Brexit followed by a gradual transition to the new regime. However, the ultimate form of Brexit remains highly uncertain.

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

- minor interest receivable on corporate lending as a result of both (i) progressive decline of the lending portfolio, and (ii) gradual lowering of the interest rate curves which are expected to bring down the average return on corporate financing.
- decrease in the cost of borrowing which is expected to be less than proportional of the decrease of interest income. Credit spreads for Italian issuers are expected to remain at high levels in the short term.
- Net fee income is forecasted to improve mostly as a consequence of the lesser fee paid for the structuring activity under the note programmes.
- Administrative expenses are expected to remain stable by reason of the combined effect of higher spending for salaries and lower spending for advisory and legal services.
- Allowance for credit losses is projected to remain stable during the fiscal year.

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

PROPOSAL FOR ALLOCATION OF DISPOSABLE PROFIT

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

– Profit of the year	€	3.222.760
– Balance on retained earnings	€	-
– **Total profit to be allocated**	**€**	**3.222.760**
– To specific reserve for N.W.T.	€	3.222.760
– To free reserve	€	-

Luxembourg, 16 September 2019

pp. BOARD OF DIRECTORS

CHIARMAN

(Mr. Peter W. Gerrard)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.

Statement of Directors' responsibilities

To the best of our knowledge, the financial statements of MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A. (the "Bank") give a true and fair view of the assets, liabilities, financial position and profit and loss of the Bank in accordance with applicable accounting standards. The management report includes a fair view of (I) the Bank's development, (II) its position, and (III) a description of the opportunities and risks relevant to the Bank that arose during the period ended 30 June 2019.

Luxembourg, 16 September 2019

The Board of Directors

Peter Gerrard   Stefano Biondi   Stephane Bosi

Massimo Di Carlo   Giovanni Mancuso   Piero Pezzati

Paola Schneider

INDEPENDENT AUDITOR’S REPORT

pwc

Audit report

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

Report on the audit of the financial statements

Our opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Mediobanca International (Luxembourg) S.A. (the "Bank") as at 30 June 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 30 June 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

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

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

The non-audit services that we have provided to the Bank and its controlled undertakings, if applicable, for the year then ended, are disclosed herebelow.

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Nature of non-audit services:

- Inter-office report on review of interim financial information as of 31 December 2018;
- Inter-office report on review of interim financial information as of 31 March 2019;
- Comfort letter issued on the EMTN programme.

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Valuation of loans to customers Customer loans are one of the key items on the Bank's balance sheet representing 57% of total assets. The Bank's customer lending operations primarily consist of loans to corporate clients, including syndicated loans arranged by leading non-Italian banks and high return finance (e.g. mezzanine and subordinated finance). The loans are grouped in different categories (corporate lending, leverage acquisition, project finance, export finance). The major part of corporate loans is guaranteed, in total or partially, by the Parent Bank Mediobanca - Banca di Credito Finanziario S.p.A.. As it relates to its credit activities, there is a considerable inherent risk because measurement of loans and receivables is based on estimates of the borrower's credit risk. However, the Bank has a low record of non-performing loans since its incorporation and in general has maintained a good quality loan portfolio of well recognised international groups.	We first tested and assessed the Bank's relevant internal control system with respect to the valuation of loans to customers. We considered the respective business organisation, IT systems and valuation models. We tested for a selection of dates the controls regarding the loan origination, loan monitoring and credit assessment processes. We also tested and assessed the Bank's processes on credit assessment and valuation of loans as part of our credit review testing (please refer below). We involved our specialists in the fields of IT audits to test the relevant IT applications. Regarding substantive testings, the following audit procedures were performed: • Overall analysis of the loan portfolio by comparison to prior years to identify trends and areas of particular risk; • Comparison on sample basis of internal ratings used in the Bank's credit assessments to external publicly available; • Credit assessment for a sample of 32 items representing groups of related borrowers, covering at least the following: – All loans in the Watchlist, including those categorised as "red", "amber" and "green", which are "de facto" performing, but are subject to close monitoring;

The current market conditions may worsen the quality of credit, with a significant adverse impact on this item. This matter was of particular importance during our audit. The Bank's disclosures on the accounting for loan loss provisions are provided in Part B Section 5 within the notes of the financial statements.	– TOP 15 largest exposures; – Exposures of particular risk identified (related party exposures, higher country risk exposures); – Exposures to new customers. • Assessment of impairment model used by the Bank. We ensured that the calculation of the loss allowance (ECL) is compliant with IFRS 9 requirements (staging, determination of probabilities of default, application of multiple scenarios, use of forward-looking information).

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the annual report including the management report and the Corporate Governance Statement but does not include the financial statements and our audit report thereon.

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

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

Responsibilities of the Board of Directors for the financial statements

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

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

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

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

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

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

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our audit report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

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

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

We have been appointed as "Réviseur d'Entreprises Agréé" of the Bank by the Board of Directors on 14 December 2016 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 5 years.

Other matter

The Corporate Governance Statement includes, when applicable, the information required by Article 68ter Paragraph (1) Letters a), b), e), f) and g) of the Law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 25 September 2019

Holger von Keutz

FINANCIAL STATEMENTS AS AT 30 JUNE 2019

STATEMENT OF FINANCIAL POSITION (*)

	Assets	30.06.2019 IFRS 9	30.06.2018 IAS 39
		€	€
10.	Cash and cash equivalents	735	
	Cash and cash balances with Central Banks (former heading 10 pursuant IAS 39)		18.991.743
20.	Financial assets valued at FVTPL	58.540.717	
	Financial assets held for trading (former heading 20 pursuant IAS 39)		22.426.337
40.	Financial assets valued at amortised cost	7.793.213.292	
	a) Due from banks	*3.287.070.565*	
	b) Due from customers	*4.506.142.727*	
	Financial assets held to maturity (former heading 50 pursuant IAS 39)		10.000.638
	Loans and advances to credit institutions (former heading 60 pursuant IAS 39)		2.774.876.819
	Loans and advances to customers (former heading 70 pursuant IAS 39)		4.090.380.576
50.	Hedging derivatives	15.563.611	1.689.398
70.	Equity investments	4.150.000	4.150.000
90.	Property, plant and equipment	10.203	10.674
110.	Tax assets	12.580.187	16.789.469
	a) current	*11.677.054*	*16.789.469*
	b) deferred	*903.133*	-
130.	Other assets	4.544.279	91.808.385
	Total assets	**7.888.603.023**	**7.031.124.039**

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

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

	Liabilities and equity	30.06.2019 IFRS 9	30.06.2018 IAS 39
		€	€
10.	Financial liabilities valued at amortised cost	7.480.287.693	
	a) Due to banks	*3.242.845.060*	
	b) Due to customers	*110.027.614*	
	b) Debt securities in issue	*4.127.415.018*	
	Amount due to credit institutions (former heading 10 pursuant IAS 39)		2.180.325.918
	Amount due to customers (former heading 20 pursuant IAS 39)		792.710.284
	Debt securities in issue (former heading 30 pursuant IAS 39)		3.652.740.949
20.	Financial liabilities valued at FVTPL	55.634.234	
	Trading liabilities (former heading 40 pursuant IAS 39)		19.050.100
40.	Hedging derivatives	91.406	11.121.740
60.	Tax liabilities	7.405.859	27.956.557
	a) current	*6.657.659*	*27.176.257*
	b) deferred	*748.200*	*780.300*
80.	Other liabilities	2.974.646	6.291.520
100.	Provisions for risks and charges	738.752	
150.	Reserves	328.247.674	318.552.612
160.	Share capital	10.000.000	10.000.000
200.	Profit (Loss) of the year	3.222.760	12.374.359
	Total liabilities and shareholders' equity	**7.888.603.023**	**7.031.124.039**

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

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

STATEMENT OF COMPREHENSIVE INCOME (*)

Items		30.06.2019 IFRS 9	30.06.2018 IAS 39
		€	€
010.	Interests and similar income	110.324.887	92.595.717
020.	Interest expense and similar charges	-98.106.702	-69.321.681
030.	**Net interest income**	**12.218.185**	**23.274.036**
040.	Fee and commission income	14.580.269	19.376.082
050.	Fee and commission expense	-9.559.764	-14.135.410
060.	**Net fee and commission income**	**5.020.505**	**5.240.672**
080.	Net trading income (expense)	732.748	-2.059.702
090.	Net hedging income (expense)	6.794	-120.457
100.	Gain or loss on disposal or repurchase of:	-87.431	
	a) financial assets valued at amortised cost	*101.760*	
	b) financial assets valued at FVOCI	–	
	c) financial liabilities	*-189.191*	
	Gain or loss on disposal or repurchase of (former heading 100 pursuant IAS 39):		-494.815
	a) loans and receivables		*133.369*
	d) financial liabilities		*-628.184*
120.	**Total income**	**17.890.801**	**25.839.734**
130.	Adjustment for impairment to:	-3.455.524	
	a) financial assets valued at amortised cost	*-3.455.524*	
	b) financial assets valued at FVOCI	–	
	Adjustment for impairment to (former heading 130 pursuant IAS 39):		-169.412
	a) loans and receivables		*-120.708*
	b) financial assets available for sale		–
	c) financial assets held to maturity		–
	d) other financial operations		*-48.704*
150.	**Net income from financial operations**	**14.435.277**	**25.670.322**
190.	Administrative expenses	-10.064.865	-9.078.701
	a) personnel costs	*-1.948.071*	*-1.576.189*
	b) other administrative expenses	*-8.116.794*	*-7.502.512*
200.	Net provisions for risks and charges	5.715	
	a) commitments and guarantees	*5.715*	
	b) other contingencies	–	
210.	Value adjustments in respect of tangible assets	-4.005	
	Value adjustments in respect of tangible assets (former heading 200 pursuant IAS 39)		-6.235
230.	Other operating income (expense)	-51.328	
	Other operating income/expense (former heading 220 pursuant IAS39)		196.175
290.	**Profit (loss) of the ordinary activity before tax**	**4.320.794**	**16.781.561**
300.	Income tax on the ordinary activity	-1.098.034	-4.407.202
330.	**Profit (loss) for the year**	**3.222.760**	**12.374.359**
340.	Other comprehensive income, net of tax	–	–
350.	**Comprehensive income (loss) for the year, net of tax**	**3.222.760**	**12.374.359**

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

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

STATEMENT OF CHANGES IN EQUITY FROM 01.07.2018 TO 30.06.2019 (in €)

Amounts in €	Balance as at 30 June 2018	First time adoption IFRS9	Allocation of the profit for the previous period		Changes during the reference period					Balance as at 30 June 2019
						Transactions involving equity				
			Reserves	Dividends and other fund applications	Changes in reserves	New shares issued	Treasury shares derivatives	Stock options and others	Profit (loss) of the period	
Share capital	**10.000.000**	—	—	—	—	—	—	—	—	**10.000.000**
a) ordinary shares	10.000.000	—	—	—	—	—	—	—	—	10.000.000
b) other shares	—	—	—	—	—	—	—	—	—	—
Profit brought forward	—	—	—	—	—	—	—	—	—	—
Reserves	**318.552.612**	**-2.679.296**	**12.374.359**	—	—	—	—	—	—	**328.247.674**
a) legal reserve	1.000.000	—	—	—	—	—	—	—	—	1.000.000
b) free reserve	282.923.412	—	4.010.809	—	5.618.750	—	—	—	—	292.552.970
c) special reserve(1)	34.629.200	—	8.363.550	—	-5.618.750	—	—	—	—	37.374.000
d) FTA reserve	—	-2.679.296	—	—	—	—	—	—	—	-2.679.296
Valuation reserves	—	—	—	—	—	—	—	—	—	—
a) AFS securities	—	—	—	—	—	—	—	—	—	—
b) cash flow hedges	—	—	—	—	—	—	—	—	—	—
c) special laws – others	—	—	—	—	—	—	—	—	—	—
Own shares	—	—	—	—	—	—	—	—	—	—
Comprehensive income of the period	**12.374.359**	—	**-12.374.359**	—	—	—	—	—	**3.222.760**	**3.222.760**
Total equity	**340.926.971**	**-2.679.296**	—	—	—	—	—	—	**3.222.760**	**341.470.434**

(1) As of 30 June 2019 and 2018 the Bank has opted for the exoneration of the net wealth tax charge provided that the following conditions have been respected: (i) a reserve equivalent to five times the net wealth tax charge for the year is recorded following the decision of the Shareholders meeting, and (ii) the reserve will be maintained for a period of at least five years.

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

STATEMENT OF CHANGES IN EQUITY FROM 01.07.2017 TO 30.06.2018 (in €)

Amounts in €	Balance as at 30 June 2017	Allocation of the profit for the previous period		Changes during the reference period					Balance as at 30 June 2018
				Changes in reserves	Transactions involving equity			Profit (loss) of the period	
		Reserves	Dividends and other fund applications		New shares issued	Treasury shares derivatives	Stock options and others		
Share capital	**10.000.000**	—	—	—	—	—	—	—	**10.000.000**
a) ordinary shares	10.000.000	—	—	—	—	—	—	—	10.000.000
b) other shares	—	—	—	—	—	—	—	—	—
Profit brought forward	—	—	—	—	—	—	—	—	—
Reserves	**297.773.199**	**20.779.413**	—	—	—	—	—	—	**318.552.612**
a) legal reserve	1.000.000	—	—	—	—	—	—	—	1.000.000
b) free reserve	260.948.548	12.647.638	—	9.327.226	—	—	—	—	282.923.412
c) special reserve[1]	35.824.651	8.131.775	—	-9.327.226	—	—	—	—	34.629.200
d) FTA reserve	—	—	—	—	—	—	—	—	—
Valuation reserves	—	—	—	—	—	—	—	—	—
a) AFS securities	—	—	—	—	—	—	—	—	—
b) cash flow hedges	—	—	—	—	—	—	—	—	—
c) special laws – others	—	—	—	—	—	—	—	—	—
Own shares	—	—	—	—	—	—	—	—	—
Comprehensive income of the period	**20.779.413**	**-20.779.413**	—	—	—	—	—	**12.374.359**	**12.374.359**
Total equity	**328.552.612**	—	—	—	—	—	—	**12.374.359**	**340.926.971**

(1) As of 30 June 2018 and 2017 the Bank has opted for the exoneration of the net wealth tax charge provided that the following conditions have been respected: (i) a reserve equivalent to five times the net wealth tax charge for the year is recorded following the decision of the Shareholders meeting, and (ii) the reserve will be maintained for a period of at least five years.

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

CASH FLOW STATEMENT - Direct Method (in €k) (*)

		Amount	
		30/06/2019	30/06/2018
		IFRS 9	*IAS 39*
A.	**Cash flow from operating activity**	**-33.991**	**-38.230**
1.	Operating activity	35.213	159.546
	– interests received (+)	109.217	74.008
	– interests paid (-)	-96.572	-17.438
	– net fees and commissions received/paid (+/-)	4.097	3.344
	– dividends and similar income (+)	—	—
	– net premiums collected (+)	—	—
	– personnel expenses (-)	-1.886	-1.280
	– other income (expenses) (+/-)	32.467	106.681
	– taxes and duties (+/-)	-12.110	-5.769
2.	Cash generated/absorbed by financial assets	-66.898	-2.675.616
	– financial assets valued at FVTPL	-1.037	
	– financial assets valued at amortised cost	-65.377	
	– other assets	-484	1
	– due from banks (IAS 39)		-1.988.298
	– due from customers (IAS 39)		-784.493
	– financial assets measured at fair value (IAS 39)		97.174
3.	Cash generated/absorbed by financial liabilities	-2.306	2.477.840
	– financial liabilities valued at FVTPL	-192	
	– financial liabilities valued at amortised cost	-1.116	
	– other liabilities	-998	13.337
	– due to banks (IAS 39)		342.394
	– due to customers (IAS 39)		-111.483
	– debt securities in issue (IAS 39)		2.233.592
	– financial liabilities measured at fair value (IAS 39)		—
B.	**Cash flow from investing activity**	**—**	**50.000**
	– disposal/purchase of shareholdings	—	—
	– dividends collected from shareholdings	—	—
	– disposal/purchase of financial assets held to maturity (IAS 39)		50.000
	– disposal/purchase of tangible assets	—	—
	– disposal/purchase of intangible assets	—	—
C.	**Cash flow from capital management activity**	**15.000**	**—**
	– issue/repurchase of own shares	—	—
	– issue/redemption of T1 capital instruments	—	—
	– issue/redemption of T2 capital instruments	15.000	—
	– dividend payments	—	—
	Net cash inflow (outflow) generated during the fiscal year	**-18.991**	**11.770**

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

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

Reconciliation

	Amount	
	30/06/2019	30/06/2018
Cash and cash equivalents: balance at 1 July	18.992	7.222
Total cash inflow (outflow) during year	-18.991	11.770
Cash and cash equivalents: balance at 30 June	**1**	**18.992**

As highlighted in Part C - Section 4, one of the consequences of the first time adoption of the new accounting principle IFRS9 in replacement of IAS39 was the reclassification of the minimum reserve requirement held at Central Bank (for an amount of € 18.992k at June 2018) from heading 10 ‘cash and cash equivalents’ to heading 40 ‘financial assets valued at amortised cost’.

NOTES TO THE FINANCIAL STATEMENTS

PART A – CORPORATE INFORMATION

Corporate matters

Mediobanca International (Luxembourg) S.A. (hereinafter also referred to as 'Mediobanca International') was incorporated under the laws of Luxembourg on 21 December 2005 as a "Société Anonyme" (i.e. as a joint stock company formed under the Commercial Companies Law 1915, as amended).

Nature of the bank's business

Mediobanca International is mostly focused on structured lending transactions and the related activity of buying and selling on the secondary market.

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

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

Export finance: the business provides 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 programmes (Notes, Structured Notes, Certificates, Warrants, Negotiable European Commercial Papers, Euro-Commercial Papers) fully guaranteed by the Parent bank. Mediobanca S.p.A. guarantees a plafond of funding which could be drawn in different ways (i.e. overdraft on current accounts, medium-long term loans, money-market transactions) and provides as well treasury services.

Outsourcing

Since inception, the Bank has outsourced a significant part of its activities to the Parent and to other Group's affiliates under the terms of specific servicing agreements.

Financial statements

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

The financial statements as at 30 June 2019 were authorised for issue by the Board of Directors on 16 September 2019.

Parent Bank

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

Mediobanca S.p.A. is the leading investment Bank in Italy and helped for over seventy 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 compliance with the International Accounting Standards

The individual financial statements of the Bank are prepared in accordance with the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) promulgated by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and adopted by the European Commission in accordance with the procedure per Article 6 of the Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002. The financial statements as at 30 June 2019 have been prepared based on the template of the Parent company which, in turn, was based on the "Instructions for drawing up separate and consolidated financial statements for banks and financial companies that head banking groups", issued by the Banca d'Italia (Bank of Italy) through Circular no. 262 of 22 December 2005 – 5th update of 22 December 2017 – which sets out the financial statements layouts and compilation methods, as well as the content of the explanatory notes[1].

Section 2

General principles for preparation

The financial statements comprise:

- statement of financial position;
- statement of comprehensive income;
- statement of changes in equity;
- the statement of cash flows, prepared according to the direct method;
- the explanatory and accompanying notes.

All the statements have been drawn up in conformity with the general principles provided for under IFRS as adopted by EU and the accounting policies illustrated in section 5, and show data for the period under review compared with that for the previous financial period.

IFRS 9 and IFRS 15 entered into force during the financial year and were incorporated into the bank's accounting policies.

The table below lists the regulations approved by the European Commission that supplemented the current regulations pertaining to accounting standards and, though having no significant effects on the financial statements, were incorporated in the Group's accounting policies:

[1] Banca d'Italia (Bank of Italy) published the 6th update of Circular 262/2005, which for the Mediobanca Group shall be applied from 1 July 2019.

Ratification regulation	Date of adoption by the Group	Subject matter
2018/182 of 7 February 2018	01 July 2018	Amendments to IAS 28 – *Investments in Associates and Joint Ventures* Amendments to IFRS 1 – *First-Time Adoption of the International Financial Reporting Standards*
2018/289 of 26 February 2018	01 July 2018	Amendments to IFRS 2 – *Share-Based Payments*
2018/400 of 14 March 2018	01 July 2018	Amendments to IAS 40 – *Investment Property*
2018/519 of 28 March 2018	01 July 2018	Adoption of IFRIC 22 – *Foreign Currency Transactions and Advance Consideration*

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

Ratification regulation	Date of adoption of the Group	Subject matter
2017/1986 of 31 October 2017	01 July 2019	Adoption of IFRS 16 – *Leases*
2018/1595 of 23 October 2018	01 July 2019	Adoption of IFRIC23 - *Uncertainty over Income Tax Treatments*
2019/237 of 08 February 2019	01 July 2019	Amendments to IAS 28 – *Investments in Associates and Joint Ventures*
2019/402 of 13 March 2019	01 July 2019	Amendments to IAS 19 – *Employee Benefits*
2019/412 of 14 March 2019	01 July 2019	Amendments to IAS 12 – *Income Taxes*
		Amendments to IAS 23 – *Borrowing Costs*
		Amendments to IFRS 3 – *Business Combinations*
		Amendments to IFRS 11 – *Joint Arrangements*

Section 3

IFRS 16 Leases – Regulatory provisions

In 2016, the IASB issued a new accounting standard IFRS 16 “Leases”, replacing the previous IAS 17 and its interpretations (IFRIC 4 “determining whether an arrangement contains a lease”, SIC 15 “operating leases – incentives” and SIC 27 “evaluating the substance of transactions in the legal form of a lease”). This standard was endorsed by the European Commission through Regulation no. 1986/2017 and shall take effect for the Group Mediobanca from the next financial year (i.e. 1 July 2019).

The main changes introduced by this standard include the new definition of lease and a single method for accounting for operating leases and financial leases. Specifically, according to the new standard, each contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration shall be considered a lease, which means that long-term rental or hire contracts are also included.

The new standard requires the lessee to record under assets in the statement of financial position the amount of the “right of use” of the leased/rented asset covered by the liability for future lease payments discounted to that date. Thereafter the “right of use” asset will be amortized throughout the useful life of the contract and the obligation will be paid off through payments of the instalments due on the lease plus interest expenses accruing. The impact on profit and loss does not change across the life of the contracts as a whole, but does reflect a different distribution in terms of timing.

With regard to the accounting model for the lessor, there are no substantial changes as the distinction in treatment between operating and financial leases continues to apply in much the same way as under IAS 17.

The new standard requires the following information to be stated:

- breakdown of amortization charges booked by various classes of asset;
- interest payable booked in respect of liabilities;
- expenses due in respect of “short-term” and “low-value” contracts;
- breakdown of maturities for the liabilities;
- any information that could facilitate understanding of how leasing contracts have been represented.

IFRS 16 project

The Mediobanca Group has launched a project to manage the transition to the new standard, through:

- analyzing contracts and defining the scope of application of the standard;
- defining the transition choices and assessing the expected impacts;
- implementing reporting systems;
- aligning internal regulations.

Based on the analysis of contracts, three macro-categories of contracts fall within the scope:

- real estate rental contracts;
- payments for employees’ vehicles;
- payments for several applications of exclusive use, such as multifunction printers.

The Group has set up an IT solution that will manage the new standard in terms of quantification and accounting, starting from the previously-existing contract management application.

IFRS 16 Choices of the Group Mediobanca

At the first-time adoption, the Group Mediobanca decided to use the 'modified retrospective approach', which consists of:

- recording the effect of first-time adoption cumulatively, without restating the comparative data;
- calculating the value of the obligation as equal to the present value of the remaining future lease payments discounted using the incremental borrowing rate at the date of first-time adoption;
- stating the right of use as equal to the liability, adjusted where appropriate to reflect the amount of accrued income and prepaid expenses;
- sub-leasing.

The Group has also elected to use some of the simplifications permitted by the new reporting standard, thus excluding the following from the representation:

- "short-term" contracts, i.e. those with a duration of twelve months or less (calculated on first-time adoption as at that date);
- "low-value" contracts, i.e. those involving amounts of less than € 5 thousand.

The Group also decided:

- not to strip out the service components from the leases themselves and, as a result, to account for the entire contract as a lease, on the ground that the formers are insignificant;
- to extrapolate the financing rate for discounting the future cash flows from the "ITT" (internal transfer rate) curve existing at that date based on the duration of the contract.

Results

The changes introduced by IFRS 16 resulted in an increase in assets following the recognition of the right of use and sub-lease receivables of around € 414 thousand, covered by financial liabilities (payables due to the lessor) of the same amount, without impacting shareholders' equity.

Section 4

Basis of preparation

The financial statements are prepared on the historical cost basis except for financial instruments valued at fair value through profit and loss and for derivatives concluded for hedging purposes, which are measured at fair value. The carrying amounts of recognised assets and/or liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The statement of financial position, statement of comprehensive income and the statement of changes in equity are presented in Euro (€) and all values are rounded to the nearest Euro. Cash flow statement and notes to the financial statements are presented in Euro thousands unless otherwise stated.

The preparation of financial statements in accordance with IFRS as endorsed 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 5

Summary of significant accounting policies

Cash and cash equivalents

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

Financial assets designated at fair value through profit and loss (FVTPL)

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

Financial assets held for trading include those financial assets which have been acquired or issued principally for the purpose of being traded. They include debt securities, equity securities, loans subject to trading and the positive value of derivative contracts held for trading, including those incorporated in complex financial instruments (such as, for example, structured bonds), which are recognised separately.

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

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

Equity instruments and correlated derivatives for which it is not possible to reliably determine the fair value using the methods indicated above are measured at amortised cost (this category is also included in Level 3). If impairment arises, these assets are appropriately written down to their current value.

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

Assets held for trading mandatorily measured at fair value also include loans that do not guarantee repayment of the entire principal in case of financial hardship of the counterparty and which therefore do not pass the SPPI test. The process of impairment of these positions is in line with that of the other loans, on the grounds that the exposure is basically attributable to credit risk, with both the gross exposure and related provisioning stated.

Financial assets measured at amortised cost

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

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

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

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

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

Upon first recognition, the Bank analyses contractual cash flows for the instrument as part of the SPPI test. When contractual cash flows do not represent solely payments of principal and interest on the outstanding amount, the Bank mandatorily classifies the instrument at fair value through profit and loss.

At the initial recognition date, the financial assets are recorded at fair value inclusive of the costs/income directly attributable to the individual transactions and determinable from the origin even though they were liquidated at subsequent times. The recognition value does not, however, factor in costs with the above characteristics which are repaid separately by the borrower, or may be classified as normal internal administrative expenses.

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

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

The original effective 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 statement of comprehensive income.

After initial recognition, all financial assets recognized at amortized cost are subject to the impairment model based on the expected loss, i.e. performing as well as non-performing assets.

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

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

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

The Group's policy to establish the significant increase in credit risk takes into consideration qualitative and quantitative elements of each credit transaction or financial instrument and consideration is given in particular to elements determining the recognition of "forbearance measures", the ''30 days past due" criterion or the identification of other backstops like the passage to watch list according to credit risk monitoring rules. The Group uses the simplified approach of the ''low credit risk exemption'' to a very limited extent.

POCI (Purchased or Originated Credit Impaired) comprises loans that are already impaired at the time of purchase or disbursement. At the date of first-time application, they are recognised at amortised cost, based on the internal rate of return, calculated on the estimate of expected debt collection flows. The interest is then determined by applying an internal rate of return adapted to the circumstances. Expected credit losses are recognised and released only the amount in which changes are verified. For financial instruments that are considered in default, the Group recognises an expected loss on the residual maturity of the instrument (similar to that indicated for stage 2 above). Value adjustments are determined for all exposures, broken down into the various categories, taking account of the forward looking information that considers macroeconomic factor.

Hedging transactions

With reference to hedging transactions, the Group chose to adopt the provisions of IFRS 9 from 1 July 2018 onwards and not to apply the allowed exception (i.e. continuing to apply the rules of IAS 39 to such transactions).

The types of hedging transactions which might be adopted by the Bank are as follows:

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

Hedging derivatives are recognised and measured at fair value. In particular:

- for fair value hedging, the change in the fair value of the hedged item is offset by the change in the fair value of the hedging instrument, both recognised in the statement of comprehensive income, where a difference between the two emerges as a result of the partial ineffectiveness of the hedge;

- for cash flow hedging, the changes in fair value are recognized in net equity in the amount of the effective portion of the hedging, while the gain or loss deriving from the ineffective portion is recognised through the statement of comprehensive income only as and when, with reference to the hedged item, the change in cash flow to be offset crystallizes.

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

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

- the effect of credit risk does not prevail over the changes in value resulting from the economic relationship;
- the hedging ratio of the hedge is the same as that resulting from the amount of the hedged element that the entity effectively hedges and from the amount of the hedging instrument that the Bank effectively uses to hedge that amount of the hedged element. Nonetheless, that designation must not reflect an imbalance of the weightings of the hedged element and the hedging instrument that would make the hedge ineffective (irrespective of whether it is recognised) which could give rise to an accounting result that could conflict with the purpose of the accounting for hedging transactions.

Fair value hedges

As long as the fair value hedge meets the eligibility criteria, the profit or loss of the hedging instrument is recognised in the statement of comprehensive income or under one of the other comprehensive income headings if the hedging instrument hedges an equity instrument for which the Bank chose to recognize the changes in fair value through OCI. The profit or loss on the hedged item are recognised as adjustments to the carrying amount of the edge with balancing entry in the statement of comprehensive income, even in cases where the item hedged is a financial asset (or one of its components) recognized at fair value with changes taken through OCI. However, if the item hedged is an equity instrument for which the entity has opted to recognize changes in fair value through OCI, the amounts remain in the other items in the comprehensive statement of comprehensive income.

If the item hedged is an irrevocable commitment (or one of its components) not booked to the accounts, the cumulative change in the fair value of the item hedged resulting from its designation as such is recorded as an asset or liability with corresponding gain or loss recorded in the profit (loss) for the period.

Cash flow hedges

As long as it meets the eligibility criteria, the cash flow hedge is accounted for as follows:

- The gain or loss on the hedge instrument in relation to the effective part of the hedge is taken through OCI in the cash flow reserve, whereas the ineffective part is taken directly through profit and loss.
- The cash flow reserve is adjusted to reflect the lower amount of:
    - The gain or loss accumulated on the hedge instrument since the hedge's inception; and

- The cumulative change in fair value (versus the present value) of the item hedged (i.e. the present value of the cumulative change in the estimated future cash flows hedged) since the hedge's inception.

The amount accumulated in the cash flow hedge reserve must be reclassified from the cash flow hedge reserve to profit (loss) for the period as an adjustment due to reclassification in the same period or periods in which the estimated future cash flows hedged impact on the profit (loss) for the period (e.g. in periods when interest receivable or payable are recorded, or when the planned sale takes place). However, if the amount constitutes a loss and the entity does not expect to recover the whole loss or part of it in one or more future periods, the entity must classify the amount it does not expect to recover in the profit (loss) for the period (as an adjustment due to reclassification) immediately.

As at 30 June 2019, the Bank does not hold any cash flow hedged transaction.

Equity investments

The item includes the stakes held in subsidiaries.

These are measured at cost if there are indications that the value of an equity investment may have decreased, the updated value is estimated, taking into account market prices, where possible, as well as the present value of the future cash flows which the equity investment may generate, including the final value. If the value determined in this manner is lower than the carrying amount, the related difference is posted to the statement of comprehensive income.

Tangible assets

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

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

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

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

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. Value adjustments are credited or charged to the comprehensive income, as appropriate.

Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost include the items due to banks, due to customers and debt securities in issue less any repurchased amounts.

The initial recognition - upon collecting the amounts raised or issuing the debt securities - is carried out at fair value, equal to the amount collected net of the transaction costs directly attributable to the financial liabilities. Thereafter liabilities are stated at amortized cost on the basis of the original effective interest rate, with the exception of short-term liabilities which continue to be stated at the original amount collected.

Derivatives embedded in structured bonds are stripped out from the underlying contract and recognized at fair value when they are not closely correlated to the host instrument. Subsequent changes in fair value are recognized through the statement of comprehensive income.

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

The sale on the market of own securities bought back (even in the form of repos and securities lending transactions) is treated as a new issue with recognition at the new sale price, without effects on the statement of comprehensive income.

Financial liabilities valued at fair value through profit and loss (FVTPL)

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

Tax assets and liabilities

Income taxes are recognised in the statement of comprehensive income, with the exception of tax payable on items debited or credited directly to net equity. Provisions for income taxes are determined on the basis of a prudential forecast of current, advance and deferred tax charge. In particular, deferred tax assets and liabilities are determined on the basis of the temporary differences - without time limits - between the carrying value attributed to an asset or a liability according to statutory criteria and the corresponding value assumed for tax purposes.

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

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

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

Contribution to resolution funds are accounted for according to IFRIC 21.

Provisions for risks and charges

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

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

Withdrawals are only made from provisions to cover the expenses for which the provision was originally made.

This heading also includes credit risk provisions in respect of commitments to disburse funds and guarantees issued falling within the scope of application of the rules on impairment introduced by IFRS 9. In such cases the same staging and expected loss calculation criteria are used for both financial assets recognized at amortized cost and/or fair value through other comprehensive income.

Pension plans

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

Derecognition of assets

A financial asset must be derecognized from the balance sheet if, and only if, the contractual rights to the cash flows deriving from it have expired, or if the asset has been transferred in compliance with IFRS 9. In this case, the Bank verifies that the contractual rights to receive the cash flows from the asset are transferred or, alternatively, said rights are maintained, but at the same time, there is a contractual obligation to pay them to one or more beneficiaries. It is necessary to verify that substantially all risks and rewards are transferred and any rights and obligations originating from or maintained with the transfer, are, if the case warrants it, recognised separately as an asset or liability. If, on the contrary, the Bank maintains substantially all the risks and rewards, then the financial asset must continue to be recognised.

If the Bank has neither transferred nor maintained all risks and benefits, but at the same time has retained control of the financial asset, this continues to be recognized up to the residual interest retained in that asset.

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

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

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

Foreign currency transactions

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

Assets and liabilities denominated in currencies other than the Euro are translated into Euros using exchange rates prevailing at the dates of the transactions. Differences on monetary items due to translation are recorded through the statement of comprehensive income, whereas those on non-monetary items are recorded according to the valuation criteria used in respect of the category they belong to (i.e. at cost, through the profit and loss account or on an equity basis).

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Bank has a legally enforceable right to offset the recognised amounts and the transactions are intended to be settled on a net basis or realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the statement of financial position.

"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.

Fair Value hierarchy

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

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

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

- Linear interest rate and inflation instruments, such as deposits, asset swaps, IRS, inflation swaps, CCS, FX swaps, FRA, repos, are constructed from the interest rate curves via standard bootstrap techniques and interpolation based on the most recent fixings of interest rate and inflation indexes and on the prices of short rate futures, FRA, IRS, CCS, inflation futures and inflation swaps. The inflation curves are also supplemented with information derived from macro-economic analysis of short-term prospects and historical analysis of seasonality effects. These curves are then used to make a projection of future cash flows dependent on interest rate and inflation indexes. Lastly, these flows are discounted using a discount factor, which allows the fair value of linear interest rate and inflation instruments to be calculated in line with the market.

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

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

- Equity options: the market prices of the options do not allow a volatility surface to be constructed beyond a certain expiry. If it is necessary to value an option beyond this limit, extrapolation methods are applied, supported by analysis of the volatility surfaces of other comparable underlying assets (peers).
- Equity options on baskets: standard market models are used, along with estimated correlation data. For this estimate, historical analyses of yields on the basket's components are used, taking into consideration the historical difference between listed and historical correlation.

Securities lending and borrowing

Financial assets are derecognized as and when the Bank is no longer entitled to receive cash flows deriving from them, or when they are sold and the related risks and benefits are transferred accordingly.

Assets or groups of assets which are sold, continue to be recognized if the risks and benefits associated with them (in the relevant technical form) continue to be attributable to the bank. A corresponding amount is then entered as a liability to offset any amounts received (as Other amounts receivable or Repos).

The main forms of activity currently carried out by the Bank which do not require underlying assets to be derecognized are the secured financing, repo trading and securities lending.

Interest income and expenses

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

Fee and commission income and expenses

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

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

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

Net trading income/expense

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

Administrative expenses

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

Changes in accounting policies and reclassifications of prior year figures

The Group Mediobanca adopted the new accounting standard IFRS 9 as of 1 July 2018, in replacement of IAS 39. A detailed description of the impacts associated with the first time adoption of the new standard IFRS 9 is given further at Part C of the notes.

A reclassification compared to the previous financial year has been done with reference to the advances paid to the Luxembourg fiscal administration. Whilst tax assets and liabilities were offset in the original statement of financial position at the end of June 2018, the two items are reported separately in the statement of financial position at the end of June 2019. For the sake of clarity, a reconciliation of the statement of financial position at June 2018 is provided here below:

Assets		30/06/2018 Original	Reclassification	30/06/2018 Restated
		€	€	€
10.	Cash and cash balances with Central Banks	18.991.743	-	18.991.743
20.	Financial assets held for trading	22.426.337	-	22.426.337
50.	Financial assets held to maturity	10.000.638	-	10.000.638
60.	Loans and advances to credit institutions	2.774.876.819	-	2.774.876.819
70.	Loans and advances to customers	4.090.380.576	-	4.090.380.576
80.	Hedging derivatives	1.689.398	-	1.689.398
100.	Equity investments	4.150.000	-	4.150.000
120.	Property, plant and equipment	10.674	-	10.674
	Tax assets	-	16.789.469	16.789.469
160.	Other assets	91.808.385	-	91.808.385
	Total assets	**7.014.334.570**	**16.789.469**	**7.031.124.039**

Liabilities and equity		30/06/2018 Original	Reclassification	30/06/2018 Restated
		€	€	€
10.	Amount due to credit institutions	2.180.325.918	-	2.180.325.918
20.	Amount due to customers	792.710.284	-	792.710.284
30.	Debt securities in issue	3.652.740.949	-	3.652.740.949
40.	Trading liabilities	19.050.100	-	19.050.100
60.	Hedging derivatives	11.121.740	-	11.121.740
80.	Tax liabilities	11.167.088	- 16.789.469	27.956.557
	a) current	*10.386.788*	*- 16.789.469*	*27.176.257*
	b) deferred	*780.300*	-	*780.300*
100.	Other liabilities	6.291.520	-	6.291.520
160.	Reserves	318.552.612	-	318.552.612
190.	Share capital	10.000.000	-	10.000.000
200.	Profit (Loss) of the year	12.374.359	-	12.374.359
	Total liabilities and shreholders equity	**7.014.334.570**	**- 16.789.469**	**7.031.124.039**

Related parties

Related parties are defined by IAS 24 as:

a) Individuals or entities which directly or indirectly:

   1. are subject to joint control by the Bank (including parent companies, subsidiaries and associates);
   2. own an interest in the Bank which enables them to exert a significant influence over it: “significant influence” is presumed to exist in cases where an individual or entity owns a shareholding of more than 5% of the share capital of Mediobanca International (Luxembourg) S.A., along with the entitlement to appoint at least one member of the Board of Directors.

b) Associate companies;

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

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

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

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

Section 6

Significant accounting estimates and judgment

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

Fair value of financial instruments

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

Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances on a monthly basis to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, risk judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumption about a number of factors and actual results may differ, resulting in future changes to the allowance. Impairment of financial assets takes account of data from the portfolio (such as level of arrears, credit utilization, loan to collateral ratio, etc.) and judgments to the effect of concentration of risk and economic data.

Deferred tax assets

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

PART C - TRANSITION TO IFRS 9

Section 1

Introduction

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

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

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

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

– Classification and Measurement: the classification and the consequent method of valuation of financial assets (with the exception of shares) is affected by two tests, the test on the business model and the other one on the contractual characteristics of the cash flows (Solely Payment of Principal and Interest – SPPI test). Only the instruments that pass both tests can be recognised under amortised cost, otherwise the instruments are to be recognised at fair value through profit or loss (this category thus becomes the residual portfolio). In addition, there remains an intermediate portfolio (held to collect and sell) which, like the preceding available for sale portfolio, provides for measurement at fair value through Shareholders' equity (or the other comprehensive income). Shares shall always be measured at fair value with the possibility, for those not held for trading, to record the effects of the fair value in an equity reserves (instead of through profit or loss) however eliminating recycling, i.e. the effects of disposals will no longer be recognised in the statement of comprehensive income.

  Financial liabilities do not undergo particular changes in terms of classification and measurement, as the current rules are confirmed, with the exception of the accounting treatment of own credit risk: for financial liabilities designated at fair value (liabilities in fair value option) the standard prescribes that changes in fair value due to changes in own credit risk are recognised in Shareholders' equity, unless this treatment creates or expands an accounting mismatch in the profit or loss for the period, while the residual amount of changes in fair value of the liabilities has to be recognised in the statement of comprehensive income.

– Impairment: with regard to impairment, for instruments measured at amortised cost and at fair value with balancing entry in the Shareholders' equity (other than capital instruments), the new accounting standard marks the shift from a module of calculating the loss incurred to expected. Provisioning shall be carried out on the entire portfolio (including the unimpaired portfolio) on the basis of forecast information that discount microeconomic factors (expected losses).

  In particular, at the time of initial recognition (stage1) the instrument shall already discount an expected loss on a time horizon of twelve months. When/if a significant increase of credit risk occurs, the asset is classified in the portfolio under-performing (stage2), which shall discount an expected loss over the entire life time. In case of further impairment, the shift to the non-performing segment shall be made (stage3), where the final recovery value will be estimated. The expected loss shall be based on point in time data that reflect the internal credit models.

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

Section 2

The Group project

The internal project was originally launched in 2015 at Group level under the joint leadership of the risk management and of the accounting functions, and with the participation of the other Group functions (in particular front office, Group technology and operations, Group organization, Group ALM, Group treasury). Starting in January 2018, the testing phase of the new IFRS9 systems and processes was started (so called "parallel run" between IAS39 and IFRS9) which allowed to revise the organisational structure and the framework of the internal regulations (methodology, processes and procedures), as well as to test the information systems.

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

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

Classification and measurement

Within the scope of the activities for the "Classification and Measurement" of financial instruments, IFRS9 introduced new rules for financial assets, based on the portfolio management model and on the characteristics of the contractual cash flows of the instruments, ascertained through the SPPI (*Solely Payment of Principal and Interest*) test.

The standard identifies two main macro business models: *Hold to Collect* and *Hold to Collect and Sell*, to which is added a residual business model (*Other*) which includes all portfolios held for trading that continue to be measured at fair value with changes booked in the profit and loss.

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

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

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

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

To complete the phase of classification of financial instruments in the new categories provided by IFRS9, the analysis of the business model is to be accompanied by the analysis of contractual cash flows (*Solely Payment of Principal and Interest* – SPPI test). The SPPI test is performed at financial instrument, product or sub-product level, and takes into consideration the contractual characteristics of the asset(s). In this regard, the Group has devised a standardised process for the performance of the test, providing for the analysis of the loans through a dedicated tool developed internally and structured on decision-making trees, at the level of individual financial instrument or product on the basis of the different degree of tailoring. If the test is failed, the tool shall provide the indication of the classification of the assets at Fair Value Through Profit & Loss (FVTPL). The loan testing procedure is carried out line by line at the individual loan level. To analyse debt securities, an external info provider is employed; if the results of the test are not present, the instrument will be analysed through the SPPI Tool.

Impairment

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

To comply with the provisions of the IFRS9, the Group set up a financial instrument staging allocation model for the correct classification of performing exposures in stage1, or in stage2 in the presence of a "Significant Increase in Credit Risk" (SICR). With reference, instead, to non-performing exposures, the alignment of the definitions of accounting default to regulatory default allows to consider identical the current logic for classification of exposures among "non-performing" with respect to those of exposures in stage3, albeit with some small measurement differences (see below).

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

- valuation of the SICR: takes into consideration qualitative and quantitative elements directed at identifying the significant impairment of the credit rating of the counterparty for each facility. Moreover, the recognition of forbearance measures or the 30-days past due criterion are considered backstop indicators. According to the expectations of the Supervisory Authorities, the simplified "low credit risk exemption" approach is used to a very limited extent. The criteria defined for the purposes of shifting the exposures from stage2 to stage1 are symmetrical to those of the significant increase in credit risk (i.e. when the elements of significant impairment no longer hold true, the exposure returns to stage1);
- inclusion of forward looking information in the model for calculating ECL: forward looking information is considered with reference to three scenarios (baseline, mild-positive and mild-negative), which impact the risk parameter Probability of Default (PD) and Loss Given Default (LGD). Forecasts are limited to three years, to assure a time horizon deemed reasonable. The use of forward looking scenarios is consistent with the macroeconomic forecast processes adopted by the Group for risk management purposes and carried out by a specific department at the Parent company;

- adoption of forward looking parameters also for the calculation of the ECL relating to stage3 exposures: the impacts of alternative scenarios are simulated, including those connected with the different options for managing and recovering default positions (including sale scenarios);
- validation and back-testing: within the scope of the models based on the recognition of ECL, a process was defined for validation and back-testing. The reference framework adopted determines the independence between the development unit and the model validation unit at the Parent, taking into account a clear definition of roles and responsibilities. In addition, periodic analyses are carried out to assure that the assumptions on which the model is based are still valid, and that the new information available is taken into consideration;
- calculation of 12-month and life-time ECL: the IFRS9 estimate of the PD, LGD and EAD (Exposure at Default) parameters is based on existing prudential models, adapted to incorporate the forward looking information and the multi-period horizon.

Hedge Accounting

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

Section 3

The effects of “First Time Adoption” (FTA)

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

<u>Classification and Measurement</u>

On the “Classification and Measurement” front, the analyses carried out on the portfolio of financial assets did not uncover any significant impacts. Also with reference to financial liabilities, no impacts of relevance were noted, with the exception of a reclassification of the provisions for credit risks recorded on the commitments to disburse funds and on the financial guarantees issued: in accordance with the new Group provisions, these imports have been reclassified under heading “provisions for risks and charges” whereas under IAS39 they were grouped under heading “other liabilities”.

The adoption of the new rules for the classification and measurement of financial instruments has no effect on the Shareholders' equity of the bank.

<u>Impairment</u>

The most significant impacts of the transition to IFRS9 are tied to the changes in “Impairment”. Compared to the provisions of the previous standard IAS39, ECLs increased by approximately € 3,6m overall, entirely due to performing credit exposures (i.e. stage1 and stage2).

The increase in value adjustments on performing exposures is mainly due to the portion of exposures classified in stage2 and to the value adjustments on exposures (direct and/or indirect) with respect to the Parent company.

The higher value adjustments listed above led to an increase of € 0,9m of the Deferred Tax Assets (DTA).

All together, the changes introduced by the new accounting standard on the impairment of financial assets affected the Shareholders' equity of the Bank by € 3,6m (€ 2,7m net of the tax effect) with a total impact on the CET1 ratio estimated in approximately -7bps. To mitigate the effect of IFRS9 on the prudential ratios, the Regulation (EU) 2017/2395 "transitional arrangements for mitigating the impact of the introduction of IFRS9 on own funds", revising Regulation 575/2013 CRR with the addition of the new Article 473*a* "Introduction of IFRS9", allows banks to distribute the impacts on own funds deriving from the introduction of IFRS9 in a transitional period of 5 years, including a progressively decreasing amount of the impact in the CET1.

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

Section 4

IAS39/IFRS9 – Statement of financial position reconciliation statements

The bridging tables between the statement of financial position published in the financial statements as at 30 June 2018 and the new statement of financial position, as modified following the introduction of the accounting standard IFRS9, are shown below.

Carrying amounts as at 30 June 2018 - determined in accordance with IAS39 - are reattributed to the new headings, without taking into consideration any impact arising from the new impairment rules prescribed by IFRS9 and, therefore, for equal 'total assets' and 'total liabilities'.

Table 1: reconciliation IAS39/IFRS9 - Total assets (in € k)

IFRS9 \ IAS39	10. Cash and cash balance with Central Banks	20. Financial assets held for trading	50. Financial assets held to maturity	60. Loans and advances to credit institutions	70. Loans and advances to customers	80. Hedging derivatives	100. Equity investments	120. Property, plant and equipment	160. Other assets	Total assets
10. Cash and cash balances	—	—	—	—	—	—	—	—	—	—
20. Financial assets valued at FVPL	—	22.426	—	—	—	—	—	—	—	22.426
40. Financial assets valued at amortised cost	18.992	—	10.001	2.774.877	4.090.381	—	—	—	—	6.894.251
50. Hedging derivatives	—	—	—	—	—	1.689	—	—	—	1.689
70. Equity investments	—	—	—	—	—	—	4.150	—	—	4.150
90. Tangible assets	—	—	—	—	—	—	—	11	—	11
110. Tax assets	—	—	—	—	—	—	—	—	—	—
130. Other assets	—	—	—	—	—	—	—	—	91.808	91.808
Total assets	18.992	22.426	10.001	2.774.877	4.090.381	1.689	4.150	11	91.808	7.014.335

Table 2: reconciliation IAS39/IFRS 9 - Total liabilities (in € k)

IAS39 / IFRS9	10. Amounts due to credit institutions	20. Amounts due to customers	30. Debt securities in issue	40. Trading liabilities	60. Hedging derivatives	80. Tax liabilities	100. Other liabilities	160. Reserves	190. Share capital	200. Profit (Loss) of the year	Total liabilities and Shareholders' equity
10. Financial liabilities valued at amortised cost	2.180.326	792.710	3.652.741	—	—	—	—	—	—	—	6.625.777
20. Financial liabilities valued at FVTPL	—	—	—	19.050	—	—	—	—	—	—	19.050
40. Hedging derivatives	—	—	—	—	11.122	—	—	—	—	—	11.122
60. Tax liabilities	—	—	—	—	—	11.167	—	—	—	—	11.167
80. Other liabilities	—	—	—	—	—	—	5.885	—	—	—	5.885
100. Provisions for risks and charges	—	—	—	—	—	—	407	—	—	—	407
150. Reserves	—	—	—	—	—	—	—	318.553	—	—	318.553
160. Share capital	—	—	—	—	—	—	—	—	10.000	—	10.000
200. Profit (Loss) of the year	—	—	—	—	—	—	—	—	—	12.374	12.374
Total liabilities and Shareholders' equity	2.180.326	792.710	3.652.741	19.050	11.122	11.167	6.292	318.553	10.000	12.374	7.014.335

The table below highlights, with respect to the statement of financial position, the impact of the first time adoption of the new standard IFRS9 in terms of "Classification and Measurement" and "Impairment". In particular, the column "Classification and Measurement" shows the changes in carrying values due to a different measurement criterion (if any), whilst the column "Impairment" shows the changes in carrying values due to the adoption of the new impairment model introduced by IFRS9.

Balance sheet items		30/06/2018	First time adoption		01/07/2018
			Classification and measurement	Impairment	
10.	Cash and cash balances	—	—	—	—
20.	Financial assets valued at FVTPL	22.426	—	—	22.426
40.	Financial assets valued at amortised cost	6.894.251	—	-3.284	6.890.967
50.	Hedging derivatives	1.689	—	—	1.689
70.	Equity investments	4.150	—	—	4.150
90.	Tangible assets	11	—	—	11
110.	Tax assets	—	—	942	942
130.	Other assets	91.808	—	—	91.808
	Total assets	**7.014.335**	—	**-2.342**	**7.011.993**

Balance sheet items		30/06/2018	First time adoption		01/07/2018
			Classification and measurement	Impairment	
10.	Financial liabilities valued at amortised cost	6.625.777	—	—	6.625.777
20.	Financial liabilities valued at FVTPL	19.050	—	—	19.050
40.	Hedging derivatives	11.122	—	—	11.122
60.	Tax liabilities	11.167	—	—	11.167
80.	Other liabilities	5.885	—	—	5.885
100.	Provisions for risks and charges	407	—	337	744
150.	Reserves	318.553	—	-2.679	315.874
160.	Share capital	10.000	—	—	10.000
200.	Profit (Loss) of the year	12.374	—	—	12.374
	Total liabilities and shareholders' equity	**7.014.335**	—	**-2.342**	**7.011.993**

IAS39/IFRS9 – Shareholders' equity reconciliation statement

The table below shows the reconciliation between the Shareholders' equity as at 30 June 2018 – as determined in accordance with IAS39 – and the corresponding item determined considering the effects of the new classification, measurement and impairment rules introduced by IFRS9.

	Amounts **(in € k)**
Equity as at 30 June 2018 (IAS39)	**340.927**
IFRS9 first time adoption	-2.679
of which: classification	—
of which: measurement	*-3.621*
- stage1 & 2 (performing exposures)	*-3.621*
- stage3 (non-performing exposures)	—
of which: tax impact	*942*
Equity as at 1 July 2018 (FRS9)	**338.248**

Section 5

Transition to the new accounting standard IFRS15

The new accounting standard IFRS15 introduces a new model for the recognition of revenues from contracts with customers. The standard replaces the current requirements set forth in the IFRS that deal with revenue recognition: i.e. IAS11 Construction Contracts, IAS18 Revenue, IFRIC13 Customer Loyalty Programmes, IFRIC15 Agreements for the Construction of Real Estate, IFRIC18 Transfers of Assets from Customers e SIC-31 Revenue – Barter Transaction involving Advertising Services.

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

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

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

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

PART D - NOTES TO THE STATEMENT OF FINANCIAL POSITION

ASSETS

Section 1

Heading 10 – Cash and cash equivalents

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

	30/06/2019
a) Cash	1
b) Demand deposit held at Central Banks	—
Total	**1**

The table 1.1 below shows the amounts as at 30 June 2018 stated in accordance with IAS 39 for comparative purposes:

1.1 Cash and cash balances with Central Bank: composition (in € k)

	30/06/2018
a) Cash	—
b) Demand deposit held at Central Banks	—
c) Minimum required reserve held at Central Bank	18.992
Total	**18.992**

As already highlighted in Part C - Section 4, one of the consequences of the first time adoption of the new accounting principle IFRS9 in replacement of IAS39 was the reclassification of the minimum reserve requirement held at Central Bank from heading 10 ‘cash and cash equivalents’ to heading 40 ‘financial assets valued at amortised cost’. As will be disclosed further in this document, the amount of the reserve requirement has decreased throughout the period, from € 18.992k at June 2018 to € 14.899k at June 2019, by reason of the lowering of the financial liabilities used for the computation of the minimum reserve.

Section 2

Heading 20 – Financial assets valued at FVTPL

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

Financial assets valued at FVTPL amount to € 58.541k as at 30 June 2019. The balance is entirely made by the gross positive fair value of derivatives contracts negotiated with the Parent Company or embedded in other financial instruments. In detail: fair value of financial derivatives amounts to € 14.380k, whilst fair value of credit derivatives amounts to € 44.161k (cf. table below).

Item/Value	30/06/2019		
	Level 1	**Level 2**	**Level 3**
A. Cash assets			
1. Debt securities	—	—	—
1.1 Structured	—	—	—
1.2 Other debt securities	—	—	—
2. Equities	—	—	—
3. UCITS units	—	—	—
4. Loans and advances	—	—	—
4.1 Repos	—	—	—
4.2 Others	—	—	—
Total A	—	—	—
B. Derivative products			
1. Financial derivatives	—	14.380	—
1.1 Trading	—	14.380	—
1.2 Linked to FV options	—	—	—
1.3 Others	—	—	—
2. Credit derivatives	—	44.161	—
2.1 Trading	—	44.161	—
2.2 Linked to FV options	—	—	—
2.3 Others	—	—	—
Total B	—	**58.541**	—
Total (A+B)	—	**58.541**	—

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

- Level 1, quoted (unadjusted) prices available on 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 based on observable (either directly or indirectly) market data;
- Level 3, other techniques for which all inputs which have a significant effect on the recorded fair value are based on not observable market data.

For further information about the criteria adopted for the determination of the fair value as well as the classification of the financial instruments within the three-levels of the fair value hierarchy, please refer to Part B - Accounting Policies.

The table 2.1 below shows the amounts as at 30 June 2018 stated in accordance with IAS39 for comparative purposes:

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

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

2.2 Financial assets valued at FVTPL: movements on level 3 fair value hierarchy (in € k)

The carrying values of level 3 financial instruments is nil both in June 2019 and 2018, therefore there are no movements to be reported throughout the period.

2.3 Financial assets valued at FVTPL: breakdown by counterparty (in € k)

The balance as at 30 June 2019 (€ 58.541k) is entirely made by the gross positive fair value of derivatives contracts negotiated with the Parent Company or embedded in other financial instruments.

Item/Value	30/06/2019	30/06/2018
A. CASH ASSETS		
1. Debt securities	—	—
2. Equities	—	—
3. UCITS units	—	—
4. Loans and advances	—	—
Total A	**—**	**—**
B. DERIVATIVE PRODUCTS		
a. Banks	58.541	22.426
- *Fair value*	58.541	22.426
b. Customers	—	—
- *Fair value*	—	—
Total B	**58.541**	**22.426**
Total A+B	**58.541**	**22.426**

2.4 Financial assets valued at FVTPL: breakdown of derivative products (in € k)

Notwithstanding the decrease of notional amounts from € 4.752.228k (June 2018) to € 2.231.144k (June 2019), the gross positive fair value of derivative products increased importantly from € 22.426k (June 2018) to € 58.541k (June 2019).

The largest increase is to be attributed to credit derivatives, whose carrying amount passed from € 11.160k (June 2018) to € 44.161k (June 2019) despite the decline in notional values, from € 3.895.830k (June 2018) to € 1.299.073k (June 2019). Main reason for this dynamic must be sought in the evolution of the underlying input market parameters.

Type of derivatives/Underlying assets	Interest rates		Foreign currency/gold		Equities		Credit		30/06/2019		30/06/2018	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
OTC derivative products												
1) Financial derivatives:	801.837	13.168	130.234	1.212	—	—	—	—	932.071	14.380	856.398	11.266
– with exchange of principal	—	—	130.234	1.212	—	—	—	—	130.234	1.212	168.768	2.215
– options bought	—	—	—	—	—	—	—	—	—	—	89.874	552
– other derivatives	—	—	130.234	1.212	—	—	—	—	130.234	1.212	78.894	1.663
– without exchange of principal	801.837	13.168	—	—	—	—	—	—	801.837	13.168	687.630	9.051
– options bought	480.000	357	—	—	—	—	—	—	480.000	357	—	—
– other derivatives	321.837	12.811	—	—	—	—	—	—	321.837	12.811	687.630	9.051
2) Credit derivatives:	—	—	—	—	—	—	1.299.073	44.161	1.299.073	44.161	3.895.830	11.160
– with exchange of principal	—	—	—	—	—	—	—	—	—	—	—	—
– without exchange of principal	—	—	—	—	—	—	1.299.073	44.161	1.299.073	44.161	3.895.830	11.160
Total	**801.837**	**13.168**	**130.234**	**1.212**	**—**	**—**	**1.299.073**	**44.161**	**2.231.144**	**58.541**	**4.752.228**	**22.426**

Section 4

Heading 40 – Financial assets valued at amortised cost

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

Type of transactions/Values	30/06/2019					
	Carrying value			Fair value		
	Stage1 and stage2	Stage3	of which: non performing acquired or originated	Level 1	Level 2	Level 3
A. Due from Central Banks	14.899	—	—	—	14.899	—
1. Term deposits	—	—	—	X	X	X
2. Compulsory reserve	14.899	—	—	X	X	X
3. Repos	—	—	—	X	X	X
4. Others	—	—	—	X	X	X
B. Due from banks	3.272.172	—	—	—	3.252.267	—
1. Loans and advances	3.269.368	—	—	—	3.249.494	—
1.1 Current accounts and demand deposits	538.578	—	—	X	X	X
1.2 Term deposits	2.073.292	—	—	X	X	X
1.3 Other financings:	657.498	—	—	X	X	X
- Repos	—	—	—	X	X	X
- Finance leases	—	—	—	X	X	X
- Others	657.498	—	—	X	X	X
2. Debt securities	2.804	—	—	—	2.773	—
2.1 Structured debt securities	2.804	—	—	X	X	X
2.2 Other debt securities	—	—	—	X	X	X
Total	**3.287.071**	**—**	**—**	**—**	**3.269.939**	**—**

For further information about the criteria adopted for the determination of the fair value as well as the classification of the financial instruments within the three-levels of the fair value hierarchy, please refer to Part B - Accounting Policies.

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

Type of transactions/Values	30/06/2019					
	Carrying value			Fair Value		
	Stage1	**Stage2**	**Stage3**	**Level 1**	**Level 2**	**Level 3**
1. Loans and advances	4.282.716	213.339	—	—	4.768.779	—
1.1 Current accounts	—	—	—	X	X	X
1.2 Repos	—	—	—	X	X	X
1.3 Term loans	4.282.716	213.339	—	X	X	X
1.4 Credit cards and personal loans	—	—	—	X	X	X
1.5 Finance leases	—	—	—	X	X	X
1.6 Factoring	—	—	—	X	X	X
1.7 Other loans	—	—	—	X	X	X
2. Debt securities	10.084	—	—	—	10.309	—
2.1 Structured debt securities	—	—	—	X	X	X
2.2 Other debt securities	10.084	—	—	X	X	X
Total	**4.292.804**	**213.339**	**—**	**—**	**4.779.088**	**—**

For further information about the criteria adopted for the determination of the fair value as well as the classification of the financial instruments within the three-levels of the fair value hierarchy, please refer to Part B - Accounting Policies.

The tables below (table 5.1/6.1/7.1) show the amounts as at 30 June 2018 stated in accordance with IAS39 for comparative purposes:

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

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

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

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

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

Type of transactions/Value	30/06/2018				
	Book Value		Fair Value		
	Performing	Impaired	Level 1	Level 2	Level 3
Loans	**4.052.536**	**1.449**	**—**	**4.050.291**	**—**
1. Current accounts	—	—	—	—	—
2. Repos	—	—	—	—	—
3. Mortgages	—	—	—	—	—
4. Credit cards and personal loans including wage assignment loans	—	—	—	—	—
5. Finance leasing	—	—	—	—	—
6. Factoring	—	—	—	—	—
7. Other loans	4.052.536	1.449	—	4.050.291	—
Debt securities	**36.396**	**—**	**—**	**36.396**	**—**
8. Structured	—	—	—	—	—
9. Other	36.396	—	—	36.396	—
Total	**4.088.932**	**1.449**	**—**	**4.086.687**	**—**

4.3 Financial assets valued at amortised cost: breakdown of due from customers by counterparty (in € k)

Type of transaction / Values	30/06/2019		
	Stage1	**Stage2**	**Stage3**
1. Debt securities	10.088	—	—
a) Public Administration	—	—	—
b) Other financial company	10.088	—	—
of which: insurance companies	—	—	—
c) Non-financial companies	—	—	—
2. Loans to:	4.282.716	213.339	—
a) Public Administration	—	—	—
b) Other financial company	885.284	—	—
of which: insurance companies	—	—	—
c) Non-financial companies	3.397.432	213.339	—
d) Households	—	—	—
Total	**4.292.804**	**213.339**	**—**

The table 7.2 below shows the amounts as at 30 June 2018 stated in accordance with IAS39 for comparative purposes:

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

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

4.4 Financial assets valued at amortised cost: gross values and total value adjustments (in € k)

Type of transaction/Value	Gross value			Write-down			Write off partial/total	Total
	Stage1	Stage2	Stage3	Stage1	Stage2	Stage3		
Debt securities	12.995	—	—	-103	—	—	—	12.892
Loans	7.574.302	216.367	—	-7.319	-3.028	—	—	7.780.322
Total 30/06/2019	**7.587.297**	**216.367**	—	**-7.422**	**-3.028**	—	—	**7.793.214**

Section 5

Heading 50 – Hedging derivatives

5.1 Hedging derivatives: breakdown by type of hedging and fair value levels (in € k)

	30/06/2019			Notional value	30/06/2018			Notional value
	Fair value				*Fair value*			
	level 1	level 2	level 3		level 1	level 2	level 3	
A. Financial derivatives	—	15.564	—	508.206	—	1.689	—	139.657
1) Fair value	—	15.564	—	508.206	—	1.689	—	139.657
2) Cash flow	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	—	**15.564**	—	**508.206**	—	**1.689**	—	**139.657**

For further information about the criteria adopted for the determination of the fair value as well as the classification of the financial instruments within the three-levels of the fair value hierarchy, please refer to Part B - Accounting Policies.

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

30/06/2019 Operations/Type of hedging	Fair Value Hedge						Cash Flow Hedge		Net investments in foreign subsidiaries
	Micro					Macro	Specific	Generic	
	Interest risk	Currency risk	Credit risk	Price risk	Multiple risk				
1. Financial assets valued at FVTOCI	—	—	—	X	X	X	—	X	X
2. Financial assets valued at amortised cost	—	—	—	X	X	X	—	X	X
3. Portfolio	X	X	X	X	X	—	X	—	X
4. Other	—	—	—	—	—	X	—	X	—
TOTAL ASSETS	—	—	—	—	—	—	—	—	—
1. Financial liabilities	15.564	—	—	—	—	X	—	X	X
2. Portfolio	X	X	X	X	X	—	X	—	X
TOTAL LIABILITIES	**15.564**	—	—	—	—	—	—	—	—
1. Highly probable transactions	X	X	X	X	X	X	—	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	—	X	—	—

The table 8.2 below shows the amounts as at 30 June 2018 stated in accordance with IAS39 for comparative purposes:

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

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

Section 7

Heading 70 – Equity investments

7.1 Equity investments: disclosure on shareholdings

Company Name	Registered office	Control type[2]	Ownership		Voting rights (%)
			Controlling entity	% shareholding	
Mediobanca International Immobiliere S.à r.l.	Luxembourg	3	Mediobanca International (Luxembourg) S.A.	100	100

In accordance with article 83 of the Law of 17 June 1992 (as amended) the undertaking is not consolidated on the local balance sheet since it would represent a negligible interest to the consolidated financial situation.

7.2 Equity investments: financial information (in € k)

Company Name	Total assets	Total revenues	Net profit (loss)	Shareholders' equity	Carrying value
Mediobanca International Immobiliere S.à r.l.	1.806	168	53	1.746	4.150

The financial year of Mediobanca International Immobilière S.à r.l. runs from 1 July to 30 June (as modified by the extraordinary Shareholders' meeting held on 15 May 2012). The company owns and leases the building where the Bank has moved its head office in April 2012. Based on the last available evaluation report made in February 2019 by an independent advisor, which shows a market value higher than the carrying amount, and looking at the macro trends of the real estate market in Luxembourg, the Bank has decided to not perform any impairment test.

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

Section 9

Heading 90 – Property, plant and equipment

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

Assets/value	30/06/2019	30/06/2018
1. Assets owned by Bank	10	11
a) lands	—	—
b) buildings	—	—
c) furniture and fitting	2	3
d) electronic equipment	—	—
e) other assets	8	8
2. Assets acquired under finance leases:	—	—
a) lands	—	—
b) buildings	—	—
c) furniture and fitting	—	—
d) electronic equipment	—	—
e) other assets	—	—
Total	**10**	**11**

9.2 Property, plant and equipment: movements during the period (in € k)

	Land	Buildings	Furniture	Electronic equipment	Other assets	Total
A. Gross opening balance	—	—	46	—	79	125
A.1 Total net value reductions	—	—	-43	—	-71	-114
A.2 Net opening balance	—	—	3	—	8	11
B. Additions:	—	—	—	—	4	4
B.1 Purchases	—	—	—	—	4	4
B.2 Improvement expenses, capitalized	—	—	—	—	—	—
B.3 Write-backs	—	—	—	—	—	—
B.4 Increases in fair value recognized in:	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit and loss account	—	—	—	—	—	—
B.5 Increases arising due to exchange rates	—	—	—	—	—	—
B.6 Transfers from properties held for investment purposes	—	—	—	—	—	—
B.7 Other additions	—	—	—	—	—	—
C. Reductions:	—	—	-1	—	-4	-4
C.1 Disposals	—	—	—	—	—	—
C.2 Depreciation charges	—	—	—	—	-4	-4
C.3 Value adjustments for impairment taken to:	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit and loss account	—	—	—	—	—	—
C.4 Reductions in fair value charged to:	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit and loss account	—	—	—	—	—	—
C.5 Reductions due to exchange rates	—	—	—	—	—	—
C.6 Transfers to:	—	—	—	—	—	—
a) assets held for investment purposes	—	—	—	—	—	—
b) assets being sold	—	—	—	—	—	—
C.7 Other reductions	—	—	-1	—	—	-1
D. Net closing balance	—	—	2	—	8	10
D.1 Total net value reductions	—	—	-44	—	-75	-119
D.2 Gross closing balance	—	—	46	—	83	129

Section 11

Heading 110 – Tax assets

11.1 Current tax assets: composition (in € k)

	IRC[3]	ICC[4]	Other[5]	Total
Balance at the beginning of the year	**12.840**	**3.870**	**79**	**16.789**
Increase of the period (+)	**6.969**	**2.365**	**211**	**9.545**
- advances paid	6.969	2.365	5	9.339
- transfers	—	—	—	—
- others	—	—	206	206
Decrease of the period (-)	**-11.071**	**-3.336**	**-250**	**-14.657**
- releases of the year (assessments)	-11.071	-3.336	-250	-14.657
- transfers	—	—	—	—
- others	—	—	—	—
Balance at the end of the fiscal year	**8.738**	**2.899**	**40**	**11.677**

During the fiscal year, the Bank has received the preliminary tax assessments for the exercises closed at 30 June 2015/16/17. In all circumstances, the net position of the Bank turned out to be in line with the assessments received for year in question, therefore there are no significant impacts on the statement of comprehensive income which are worth to be reported.

11.2 Deferred tax assets: composition (in € k)

	30/06/2019	30/06/2018
- deferred tax assets recognised in the statement of comprehensive income	—	—
- deferred tax assets recognised in the net equity	903	—
Total	**903**	**—**

Deferred tax assets reflect the effects of IFRS 9 first-time adoption, for further details please refer to Part C of the notes to the financial statements.

3 Impôt sur le Revenu des Collectivités (IRC) is a special proportional tax levied on gains made by corporations.

4 Impôt Commercial Communal (ICC) is a municipal tax levied on gains made by corporations.

5 Other taxes primarily include the outstanding balances in respect of Net Wealth Tax (NWT) and Value Added Tax (VAT).

11.3 Deferred tax assets: variations of the period (in € k)

	Total 30/06/2019	Total 30/06/2018
1. Initial amount	—	—
2. Increases	942	—
2.1 Anticipated levies observed in fiscal year	942	—
a) related to previous fiscal years	—	—
b) due to changes in accounting standards	942	—
c) others	—	—
2.2 New levies or increments of fiscal rates	—	—
2.3 Other increases	—	—
- of which: business combinations	—	—
3. Decreases	-39	—
3.1 Anticipated levies cancelled in the fiscal year	—	—
a) reversals of temporary differences	—	—
b) devaluation for appeared non recoverability	—	—
c) due to changes in accounting standards	—	—
d) others	—	—
3.2 Decreases in fiscal rates	-39	—
3.3 Other decreases:	—	—
- of which: business combinations	—	—
4. Final amount	**903**	**—**

Luxembourg's budget law was approved by the Parliament on 25 April 2019 and published in the Official Journal on 26 April 2019. One of the measures included in the law was the reduction of the corporate tax rate (IRC) from 18% to 17% (for companies with taxable income in excess of € 200k) leading to an overall tax rate of 24,94% in Luxembourg City for the year 2019 (taking into account the solidarity surtax of 7% on the municipal business tax, and including the 6,75% municipal business tax rate applicable).

11.4 Deferred tax assets: breakdown by financial statement caption (in € k)

	30/06/2019		30/06/2018	
	Valuation difference	Tax rate 24,94%	Valuation difference	Tax rate 26,01%
Cash and cash equivalent	—	—	—	—
Financial assets valued at FVTPL	—	—	—	—
Financial assets valued at amortised cost	-3.284	819	—	—
Hedging derivatives	—	—	—	—
Other assets	—	—	—	—
Total assets	**-3.284**	**819**	**—**	**—**
Financial liabilities valued at amortised cost	337	84	—	—
Financial liabilities valued at FVTPL	—	—	—	—
Hedging derivatives	—	—	—	—
Other liabilities	—	—	—	—
Shareholders' equity	—	—	—	—
Total liabilities	**337**	**84**	**—**	**—**

Total deferred tax assets	**903**	**—**

Section 13

Heading 130 – Other assets

13.1 Other assets: composition (in € k)

Assets/value	30/06/2019	30/06/2018
1. Gold, silver and precious metals	—	—
2. Accrued income other than capitalized income from financial assets	953	937
3. Trade receivables and invoices to be issued	89	174
4. Amount due from tax Authorities (not attributed to heading 110)	208	210
5. Other items	3.294	90.487
- transitory accounts	3.231	90.487
- prepayments	63	—
Total	**4.544**	**91.808**

Transitory accounts at 30 June 2019 and 2018 were composed by transitory items arising from a technical mismatch between fund flows forecasted and payments received on loans to customers which were given as collateral to secure financing transactions. Accrued income other than capitalised income from financial assets mainly refer to accrued commissions on credit facilities to corporate clients. Trade receivables and invoices to be issued refer to revenues generated by the administrative services outsourced by other Group companies established in Luxembourg (namely Mediobanca International Immobilière and Mediobanca Management Company).

LIABILITIES

Section 1

Heading 10 – Financial liabilities valued at amortised cost

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

Type of transactions/Values	30/06/2019				30/06/2018			
	Carrying value	Fair value			Carrying value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Due to Central Banks	—	X	X	X	—	X	X	X
2. Due to banks	3.242.845	X	X	X	2.180.326	X	X	X
2.1 Current accounts and demand deposits	18.275	X	X	X	—	X	X	X
2.2 Term deposits	250.090	X	X	X	51.551	X	X	X
2.3 Loans	2.974.382	X	X	X	2.128.652	X	X	X
2.3.1 Repos	—	X	X	X	—	X	X	X
2.3.2 Others	2.974.382	X	X	X	2.128.652	X	X	X
2.4 Liabilities in respect of commitments	—	X	X	X	—	X	X	X
to repurchase own equity instruments		X	X	X		X	X	X
2.5 Other liabilities	98	X	X	X	123	X	X	X
Total	**3.242.845**	**—**	**3.268.234**	**—**	**2.180.326**	**—**	**2.174.347**	**—**

The carrying value of due to banks valued at amortised cost increased significantly throughout the reference period, passing from € 2.180.326k (June 2018) to € 3.242.845k (June 2019). All the transactions reported under this caption are de facto concluded with the Parent company with a view to financing the investment activities. The value of € 2.974.382k reported at the end of June 2019 among the ‘other loans’ includes € 65.018k of subordinated loan assimilated to Tier 2 concluded for regulatory capital purposes.

For further information about the criteria adopted for the determination of the fair value as well as the classification of the financial instruments within the three-levels of the fair value hierarchy, please refer to Part B - Accounting Policies.

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

Type of transactions/Values	30/06/2019				30/06/2018			
	Carrying value	Fair value			Carrying value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Current accounts and demand deposits	—	X	X	X	—	X	X	X
2. Term deposits	—	X	X	X	—	X	X	X
3. Loans	110.028	X	X	X	792.710	X	X	X
3.1 Repos	—	X	X	X	—	X	X	X
3.2 Others	110.028	X	X	X	792.710	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	—	X	X	X	—	X	X	X
5. Other liabilities	—	X	X	X	—	X	X	X
Total	**110.028**	—	**109.531**	—	**792.710**	—	**789.805**	—

For further information about the criteria adopted for the determination of the fair value as well as the classification of the financial instruments within the three-levels of the fair value hierarchy, please refer to Part B - Accounting Policies.

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

Type of transactions/Values	30/06/2019				30/06/2018			
	Carrying value	Fair value (*)			Carrying value	Fair value (*)		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Debt securities								
1. Bonds	2.822.398	—	2.897.755	—	2.281.106	—	2.336.794	—
1.1 Structured	107.703	—	112.343	—	67.120	—	69.112	—
1.2 Other	2.714.695	—	2.785.412	—	2.213.986	—	2.267.682	—
2. Other securities	1.305.017	—	1.305.017	—	1.371.635	—	1.371.635	—
2.1 Structured	—	—	—	—	—	—	—	—
2.2 Other	1.305.017	—	1.305.017	—	1.371.635	—	1.371.635	—
Total	**4.127.415**	—	**4.202.772**	—	**3.652.741**	—	**3.708.429**	—

(*) Fair value does not include issuer risk. If issuer risk was considered, the fair value of debt securities as at 30 June 2019 would have decreased by € 126.933k (down to € 4.075.839k).

For further information about the criteria adopted for the determination of the fair value as well as the classification of the financial instruments within the three-levels of the fair value hierarchy, please refer to Part B - Accounting Policies.

Section 2

Heading 20 – Financial liabilities valued at FVTPL

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

Transaction type/Values	30/06/2019			
	Nominal value	Fair Value		
		Level 1	Level 2	Level 3
A. Cash liabilities				
1. Due to banks	—	—	—	—
2. Due to customers	—	—	—	—
3. Debt securities	—	—	—	—
3.1 Bonds	—	—	—	—
3.1.1 Structured	—	—	—	—
3.1.2 Other bonds	—	—	—	—
3.2 Other securities	—	—	—	—
3.2.1 Structured	—	—	—	—
3.2.2 Other	—	—	—	—
Total (A)	**—**	**—**	**—**	**—**
B. Derivative instruments				
1. Financial derivatives	937.351	—	13.146	—
1.1 Trading	937.351	—	13.146	—
1.2 Related to the fair value option	—	—	—	—
1.3 Others	—	—	—	—
2. Credit derivatives	1.299.073	—	42.488	—
2.1 Trading	1.299.073	—	42.488	—
2.2 Related to the fair value option	—	—	—	—
2.3 Others	—	—	—	—
Total (B)	**2.236.424**	**—**	**55.634**	**—**
Total (A+B)	**2.236.424**	**—**	**55.634**	**—**

For further information about the criteria adopted for the determination of the fair value as well as the classification of the financial instruments within the three-levels of the fair value hierarchy, please refer to Part B - Accounting Policies.

The table 4.1 below shows the amounts as at 30 June 2018 stated in accordance with IAS39 for comparative purposes:

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

Transaction type/Values	30/06/2018			
	Nominal value	Fair Value		
		Level 1	Level 2	Level 3
A. Cash liabilities				
1. Due to banks	—	—	—	—
2. Due to customers	—	—	—	—
3. Debt securities	—	—	—	—
3.1 Bonds	—	—	—	—
3.1.1 Structured	—	—	—	—
3.1.2 Other bonds	—	—	—	—
3.2 Other securities	—	—	—	—
3.2.1 Structured	—	—	—	—
3.2.2 Other	—	—	—	—
Total (A)	**—**	**—**	**—**	**—**
B. Derivative instruments				
1. Financial derivatives	1.183.747	—	10.004	—
1.1 Trading	1.183.747	—	10.004	—
1.2 Related to the fair value option	—	—	—	—
1.3 Others	—	—	—	—
2. Credit derivatives	3.848.430	—	9.046	—
2.1 Trading	3.848.430	—	9.046	—
2.2 Related to the fair value option	—	—	—	—
2.3 Others	—	—	—	—
Total (B)	**5.032.177**	**—**	**19.050**	**—**
Total (A+B)	**5.032.177**	**—**	**19.050**	**—**

2.2 Financial liabilities valued at FVTPL: movements on level 3 fair value hierarchy (in € k)

The carrying values of level 3 financial instruments is nil both in June 2019 and 2018, therefore there are no movements to be reported throughout the period.

2.3 Financial liabilities valued at FVTPL: breakdown of derivative products (in € k)

Notwithstanding the decrease of notional amounts from € 5.032.177k (June 2018) to € 2.236.424k (June 2019), the gross negative fair value of derivative products increased importantly from € 19.050k (June 2018) to € 55.634k (June 2019).

The largest increase is to be attributed to credit derivatives, whose carrying amount passed from € 9.046k (June 2018) to € 42.488k (June 2019) despite the significant decline in notional values, from € 3.848.430k (June 2018) to € 1.299.073k (June 2019). Main reason for this dynamic must be sought in the evolution of the underlying input market parameters.

	Interest rate		Foreign currency/gold		Equity		Credit		30/06/2019		30/06/2018	
Type of transaction/amounts	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**	**Notional**	**FV**
OTC derivative products												
1. Financial derivatives	847.140	10.767	90.211	2.379	—	—	—	—	937.351	13.146	1.183.747	10.004
1.1 With exchange of principal	—	—	90.211	2.379	—	—	—	—	90.211	2.379	275.177	1.952
- options issued	—	—	90.211	2.379	—	—	—	—	90.211	2.379	275.177	1.952
- other derivatives	—	—	—	—	—	—	—	—	—	—	—	—
1.2 Without exchange of principal	847.140	10.767	—	—	—	—	—	—	847.140	10.767	908.570	8.052
- options issued	—	—	—	—	—	—	—	—	—	—	130.000	112
- other derivatives	847.140	10.767	—	—	—	—	—	—	847.140	10.767	778.570	7.940
2. Credit derivatives	—	—	—	—	—	—	1.299.073	42.488	1.299.073	42.488	3.848.430	9.046
2.1 With exchange of principal	—	—	—	—	—	—	—	—	—	—	—	—
2.2 Without exchange of principal	—	—	—	—	—	—	1.299.073	42.488	1.299.073	42.488	3.848.430	9.046
Total	**847.140**	**10.767**	**90.211**	**2.379**	**—**	**—**	**1.299.073**	**42.488**	**2.236.424**	**55.634**	**5.032.177**	**19.050**

Section 4

Heading 40 – Hedging derivatives

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

Items/Values	30/06/2019				30/06/2018			
	Notional value	Fair value			Notional value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Financial derivatives	650.000	—	91	—	1.014.234	—	11.122	—
1) Fair value hedges	650.000	—	91	—	1.014.234	—	11.122	—
2) Cash flow hedges	—	—	—	—	—	—	—	—
3) Foreign investments	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value hedges	—	—	—	—	—	—	—	—
2) Cash flow hedges	—	—	—	—	—	—	—	—
Total	**650.000**	**—**	**91**	**—**	**1.014.234**	**—**	**11.122**	**—**

For further information about the criteria adopted for the determination of the fair value as well as the classification of the financial instruments within the three-levels of the fair value hierarchy, please refer to Part B - Accounting Policies.

4.2 Hedging derivatives: breakdown by hedged items and risk type (in € k)

Transactions/Type of hedge	Fair Value Hedge					Cash flow Hedge		Net investments in foreign subsidiary
	Micro				Macro	Micro	Macro	
	Interest risk	Currency risk	Credit risk	Other risk				
1. Financial assets valuated at FVOCI	—	—	—	X	X	—	X	X
2. Financial assets valued at amortized cost	—	X	—	X	X	—	X	X
3. Portfolio	X	X	X	X	—	X	—	X
4. Other operations	—	—	—	—	X	—	X	—
Total assets	—	—	—	—	—	—	—	—
1. Financial liabilities	91	X	—	—	X	—	X	X
2. Portfolio	X	X	X	X	—	X	—	X
Total liabilities	**91**	—	—	—	—	—	—	—
1. Highly probable transactions	X	X	X	X	X	—	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	—	X	—	—

The table 6.2 below shows the amounts as at 30 June 2018 stated in accordance with IAS39 for comparative purposes:

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

Hedged items	Fair value hedges					Cash flow hedge		30/06/2018
	Specific				Generic	Specific	Generic	
	Interest Risk	Currency rate	Credit risk	Other risks				
1. Financial assets AFS	—	—	—	—	—	—	—	—
2. Lending portfolio	—	—	—	—	—	—	—	—
3. Financial assets HTM	—	—	—	—	—	—	—	—
4. Portfolio	—	—	—	—	—	—	—	—
TOTAL ASSETS	—	—	—	—	—	—	—	—
1. Amounts due	11.122	—	—	—	—	—	—	**11.122**
2. Debt securities in issue	—	—	—	—	—	—	—	—
3. Portfolio	—	—	—	—	—	—	—	—
TOTAL LIABILITIES	**11.122**	—	—	—	—	—	—	**11.122**
TOTAL	**11.122**	—	—	—	—	—	—	**11.122**

Section 6

Heading 60 – Tax liabilities

6.1 Current tax liabilities: composition (in € k)

	IRC[6]	ICC[7]	Other[8]	Total
Balance at the beginning of the year	**20.491**	**6.365**	**318**	**27.174**
Increase of the period (+)	**835**	**309**	**612**	**1.756**
- provisions of the year	835	309	—	1.144
- transfers	—	—	—	—
- others	—	—	612	612
Decrease of the period (-)	**-16.494**	**-5.117**	**-661**	**-22.272**
- releases of the year (assessments)	-16.494	-5.117	-661	-22.272
- transfers	—	—	—	—
- others	—	—	—	—
Balance at the end of the fiscal year	**4.832**	**1.557**	**269**	**6.658**

During the fiscal year, the Bank has received the preliminary tax assessments for the exercises closed at 30 June 2015/16/17. In all circumstances, the net position of the Bank turned out to be in line with the assessments received for year in question, therefore there are no significant impacts on the statement of comprehensive income which are worth to be mentioned.

[6] Impôt sur le Revenu des Collectivités (IRC) is a special proportional tax levied on gains made by corporations.

[7] Impôt Commercial Communal (ICC) is a municipal tax levied on gains made by corporations.

[8] Other taxes primarily include the outstanding balances in respect of Net Wealth Tax (NWT) and Value Added Tax (VAT).

6.2 Deferred tax liabilities: movements of the period (in € k)

Deferred tax liabilities	30/06/2019	30/06/2018
1. Initial amount	**780**	**780**
1.1 Initial amount	780	780
2. Additions (+)	**—**	**—**
2.1 Deferred tax originated during the period	—	—
2.2 New taxes or increases in tax rates	—	—
2.3 Other additions	—	—
3. Reductions (-)	**-32**	**—**
3.1 Deferred tax reversed during the period	—	—
3.2 Lowering of tax rates	-32	—
3.3 Other reductions	—	—
Total	**748**	**780**

Luxembourg's budget law was approved by the parliament on 25 April 2019 and published in the Official Journal on 26 April 2019. One of the measures included in the law was the reduction of the corporate tax rate (IRC) from 18% to 17% (for companies with taxable income in excess of € 200k) leading to an overall tax rate of 24,94% in Luxembourg City for the year 2019 (taking into account the solidarity surtax of 7% on the municipal business tax, and including the 6,75% municipal business tax rate applicable).

6.3 Deferred tax liabilities: breakdown by financial statement caption (in € k)

	30/06/2019		**30/06/2018**	
	Valuation difference	**Tax rate 24,94%**	**Valuation difference**	**Tax rate 26,01%**
Cash and cash equivalent	—	—	—	—
Financial assets valued at FVTPL	—	—	—	—
Financial assets valued at amortised cost	—	—	—	—
Hedging derivatives	—	—	—	—
Other assets	—	—	—	—
Total assets	**—**	**—**	**—**	**—**
Financial liabilities valued at amortised cost	—	—	—	—
Financial liabilities valued at FVTPL	—	—	—	—
Hedging derivatives	—	—	—	—
Other liabilities	—	—	—	—
Shareholders' equity	3.000	748	3.000	780
Total liabilities	**3.000**	**748**	**3.000**	**780**

Total deferred tax liabilities	**748**	**780**

Section 8

Heading 80 – Other liabilities

8.1 Other liabilities: composition (in € k)

	30/06/2019	30/06/2018
1. Payment agreements (IFRS 2)	—	—
2. Impaired endorsements(*)	—	407
3. Working capital payables and invoices pending receipt	2.742	4.358
4. Prepaid expenses other than capitalized expenses on related financial assets	—	—
5. Amounts due to revenue authorities	—	—
6. Amounts due to staff	28	23
7. Other items:	205	1.503
- bills for collection	—	—
- coupons and dividends pending collection	192	194
- available sums payable to third parties	13	—
- premiums, grants and other items in respect of lending transactions	—	1.309
- credit notes to be issued	—	—
- other	—	—
Total	**2.975**	**6.291**

(*) Provisions for credit risk related to commitments to disburse funds and financial guarantees issued, which were previously included in the item "Other liabilities", following the revision of the Group accounting standards have been reclassified in the item "Provisions for risks and charges" (cf. section 10.1 below)

Section 10

Heading 100 – Provisions for risks and charges

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

Items / Values	30/06/2019	30/06/2018
1. Provisions for credit risk related to commitments and financial guarantees issued (*)	739	—
2. Provisions on other obligations and warranties release	—	—
3. Provisions to retirement payment and similar	—	—
4. Other provisions for risks and obligations	—	—
4.1. Legal and fiscal controversies	—	—
4.2. Staff expenses	—	—
4.3. Others	—	—
Total	**739**	**—**

(*) Provisions for credit risk related to commitments to disburse funds and/or financial guarantees issued, which were previously included in the item "Other liabilities", following the revision of the Group accounting standards have been reclassified in the item "Provisions for risks and charges" (cf. section 8.1 above).

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

	Provisions for credit risk related to financial obligations and guarantees issued			
	Stage1	**Stage2**	**Stage3**	**Total**
1. Commitments to distribute funds	656	63	—	719
2. Financial guarantees issued	20	—	—	20
Total	**676**	**63**	**—**	**739**

Section 15

Heading 150 - Reserves

15.1 Reserves: composition (in € k)

	30/06/2019	30/06/2018
A. Reserves	**328.248**	**318.553**
A.1 Legal reserve (A)	1.000	1.000
A.2 Free reserve	292.553	282.924
A.3 NWT reserve (B)	37.374	34.629
A.4 Other (C)	-2.679	—

(A): under Luxembourg law, an amount equal to at least 5% (five per cent) of the net profit must be allocated to a legal reserve until such reserve equals 10% (ten per cent) of the issued share capital. This reserve is not available for dividend distributions and has been already fully provisioned throughout the previous financial years.

(B): at 30 June 2019 the Bank has taken up the option to credit net wealth tax against the tax itself, provided that the following conditions were respected:

- the IRC (corporate income tax) charge must be at least equal to the NWT (net wealth tax) charge in order to credit the entire amount of the NWT. If not, only the amount of the NWT equivalent to the IRC charge can be credited;

- a reserve for an amount of at least five times the NWT charge is to be booked and maintained for a minimum period of five years.

(C): the account comprises the FTA reserve created on the transition to IFRS9.

Section 16

Heading 160 – Share capital

16.1 Share capital

As of 30 June 2019 and 2018, the issued capital of the Bank amounts to € 10.000.000 and is divided into one million shares fully paid with a pair value of € 10 each.

Authorised capital and issue share capital coincide.

Other information

1. Guarantees and commitments (in € k)

	Nominal value of commitments and financial guarantees			30/06/2019
	Stage 1	Stage 2	Stage 3	
1. Commitments to disburse funds	**1.378.200**	**16.359**	**—**	**1.394.559**
a) Central Banks	—	—	—	—
b) Public Administrations	—	—	—	—
c) Banks	—	—	—	—
d) Other financial companies	244.156	—	—	244.156
e) Non-financial companies	1.134.044	16.359	—	1.150.403
f) Retail clients	—	—	—	—
2. Financial guarantees given	**13.214**	**—**	**—**	**13.214**
a) Central Banks	—	—	—	—
b) Public Administrations	—	—	—	—
c) Banks	—	—	—	—
d) Other financial companies	2.900	—	—	2.900
e) Non-financial companies	10.314	—	—	10.314
f) Retail clients	—	—	—	—

The table 1. below shows the amounts as at 30 June 2018 stated in accordance with IAS39 for comparative purposes:

1. Guarantees and commitments (in € k)

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

2. Assets encumbered to guarantee own liabilities and commitments (in € k)

Portfolios	Amount 30/06/2019
Financial instruments valued at FVTPL	—
Financial instruments valued at FVOCI	—
Financial instruments valued at amortised cost	1.165.521
Tangible assets	—
Total	**1.165.521**

As at 30 June 2019, the Bank has pledged collateral in form of securities and loans for an amount of € 1.221m of which € 1.165m originated by the Bank itself, whereas € 56m represents the re-use of collateral borrowed from the Parent Bank.

Among the secured financing operations which are outstanding as at 30 June 2019 it might be reported the issue of a senior unsecured floating rate note due 10 March 2022 for a nominal value of USD 100mln guaranteed by the Parent (ISIN XS1496191864). This note has been issued in contemplation of its subsequent sale by Mediobanca S.p.A. to Titanium DAC (an Irish special purpose vehicle) in the context of a total return swap transaction whereby, inter alia, Mediobanca S.p.A. has undertaken to repurchase the note from Titanium DAC upon contractual maturity. Mediobanca S.p.A.'s obligation to repurchase the note is collateralised by a portfolio of assets (mostly originated by Mediobanca International) with a market value on any day greater than the principal amount of the note. The market value of the collateral pool at the reporting date is equal to approx. USD 129m.

PART E - NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

Section 1

Headings 10 and 20 – Net interest income

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

Items/Technical forms	Debt securities	Loans	Other operations	30/06/2019
1. Financial assets valued at FVTPL:	—	—	—	—
1.1. Financial assets held for trading	—	—	—	—
1.2. Financial assets designated at fair value	—	—	—	—
1.3. Other financial assets mandatorily at fair value	—	—	—	—
2. Financial assets valued at FVOCI	—	—	X	—
3. Financial assets at amortized cost	—	110.325	X	110.325
3.1 Due from banks	—	8.418	X	8.418
3.2 Due from customers	—	101.907	X	101.907
4. Hedging derivatives	X	X	—	—
5. Other assets	X	X	—	—
6. Financial liabilities bearing negative interests	X	X	X	—
Total	—	**110.325**	—	**110.325**

The table 1.1 below shows the amounts as at 30 June 2018 stated in accordance with IAS39 for comparative purposes:

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

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

1.2 Interest and similar income: breakdown per credit quality (in € k)

Performing	Non-performing	Unlikely to pay	Past due	30/06/2019
110.325	—	—	—	**110.325**

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

Items/Technical forms	Borrowings	Securities issued	Other operations	30/06/2019
1. Financial liabilities at amortized cost	-65.197	-28.864	X	-94.061
1.1 Due to central banks	—	X	X	—
1.2 Due to banks	-64.218	X	X	-64.218
1.3 Due to customers	-979	X	X	-979
1.4 Debt securities in issue	X	-28.864	X	-28.864
2. Trading financial liabilities	—	—	—	—
3. Financial liabilities designated at fair value	—	—	—	—
4. Other liabilities and funds	X	X	—	—
5. Hedging derivatives	X	X	-2.630	-2.630
6. Financial assets bearing negative interests	X	X	X	-1.416
Total	**-65.197**	**-28.864**	**-2.630**	**-98.107**

The table 1.4 below shows the amounts as at 30 June 2018 stated in accordance with IAS39 for comparative purposes:

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

	Payables	Notes	Other liabilities	30/06/2018
1. Amount due to Banks	-47.047	—	—	-47.047
2. Amount due to customers	-11.795	—	—	-11.795
3. Debt securities	—	-10.479	—	-10.479
4. Trading liabilities	—	—	—	—
5. Liabilities at fair value	—	—	—	—
6. Liabilities in respect of assets sold but not yet derecognized	—	—	—	—
7. Other liabilities	—	—	—	—
8. Hedging derivatives	—	—	—	—
Total	**-58.842**	**-10.479**	—	**-69.321**

Section 2

Headings 40 and 50 – Net fee and commission income

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

Type of service/Values	30/06/2019	30/06/2018
a) guarantees given	158	181
b) credit derivatives	—	—
c) management and brokerage services	—	75
1. trading in financial instruments	—	—
2. currency trading	—	—
3. portfolio management	—	—
4. securities custody and administration	—	—
5. custodian bank	—	—
6. placement of financial instruments	—	75
7. reception and transmission of orders	—	—
8. advisory services	—	—
8.1. related to investments	—	—
8.2. related to financial structure	—	—
9. distribution of third parties services	—	—
9.1. portfolio management	—	—
9.1.1. individual	—	—
9.1.2. collective	—	—
9.2. insurance products	—	—
9.3. other products	—	—
d) collection and payment services	—	—
e) securitization servicing	—	—
f) factoring services	—	—
g) tax collection services	—	—
h) management of multilateral trading facilities	—	—
i) management of current account	—	—
j) other services	14.422	19.120
Total	**14.580**	**19.376**

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

Services/Amounts	30/06/2019	30/06/2018
a) guarantees received	—	-1.140
b) credit derivatives	—	—
c) management and brokerage services	-1.573	—
1. trading in financial instruments	—	—
2. currency trading	—	—
3. portfolios management:	—	—
3.1 own portfolio	—	—
3.2 third parties portfolio	—	—
4. securities custody and administration	—	—
5. placement of financial instruments	-1.573	—
6. off-site distribution of financial instruments, products and services	—	—
d) collection and payment services	—	—
e) other services	-7.987	-12.995
Total	**-9.560**	**-14.135**

Section 3

Heading 80 – Net trading income (expense)

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

Transactions / Income	Unrealized profit (A)	Realized profit (B)	Unrealized losses (C)	Realized losses (D)	Net Profit 30/06/2019	Net Profit 30/06/2018
1. Financial trading assets	—	—	—	—	—	-28.043
1.1 Debt securities	—	—	—	—	—	—
1.2. Equity	—	—	—	—	—	—
1.3. O.I.C.R. shares	—	—	—	—	—	-28.008
1.4. Loans	—	—	—	—	—	-35
1.5. Others	—	—	—	—	—	—
2. Financial trading liabilities	—	—	—	—	—	—
2.1. Debt securities	—	—	—	—	—	—
2.2. Borrowings and deposits	—	—	—	—	—	—
2.3. Others	—	—	—	—	—	—
3. Financial assets and liabilities in foreign currencies: exchange differences	X	X	X	X	8.936	-10.906
4. Derivatives	61.844	9.378	-60.680	-8.995	-8.203	36.889
4.1 Financial derivatives:	12.965	9.233	-11.633	-8.995	-8.180	9.080
4.1.1 on debt securities and interest rates	12.965	9.233	-11.633	-8.995	1.570	302
4.1.2 on equity securities and shares indexes	—	—	—	—	—	3
4.1.3 on currencies and gold	X	X	X	X	-9.750	8.775
4.1.4 other	—	—	—	—	—	—
4.2. Credit derivatives	48.879	145	-49.047	—	-23	27.809
Total	**61.844**	**9.378**	**-60.680**	**-8.995**	**733**	**-2.060**

Net trading result has improved significantly compared to June 2018. One of the key driver was the dynamic of the net foreign exchange loss, which can be expressed as the sum of (i) the exchange differences on financial assets and liabilities in foreign currencies (cf. caption 3. of the table above), and (ii) the net gain/loss on financial derivatives on currencies and gold (cf. caption 4.1.3 of the table above). Net foreign exchange loss throughout the financial year passed from € -2.131k (June 2018) to € -814k (June 2019) due to a more efficient treasury management and to the favourable dynamic of the market rates. It is also worth noting the positive contribution of the realised income on derivative products for an amount of € 383k (whilst the contribution as at June 2018 was negative for an amount of € -277k).

Section 4

Heading 90 – Net hedging income (expense)

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

	30/06/2019	30/06/2018
A. Income from:		
A.1 Fair value hedge derivatives	25.711	188.685
A.2 Financial assets hedged (fair value)	—	—
A.3 Financial liabilities hedged (fair value)	648	191.715
A.4 Cash flow hedge financial derivatives	—	—
A.5 Assets and liabilities in foreign currency	—	—
Total hedging income (A)	26.359	380.400
B. Expenses relating to:		
B.1 Fair value hedge derivatives	-86	-379.131
B.2 Financial assets hedged (fair value)	—	—
B.3 Financial liabilities hedged (fair value)	-26.266	-1.389
B.4 Cash flow hedge financial liabilities	—	—
B.5 Assets and liabilities in foreign currency	—	—
Total hedging expenses (B)	-26.352	-380.520
C. Net hedging income (A-B)	**7**	**-120**

Section 5

Heading 100 – Gain (loss) on disposals/repurchases

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

Items / Income	30/06/2019		
	Gains	Losses	Net profit
A. Financial assets			
1. Financial assets valued at amortized cost	449	-347	102
1.1 Loans and receivables from banks	65	-197	-132
1.2 Loans and receivables from customers	384	-150	234
2. Financial assets valued at FVOCI	—	—	—
2.1 Debt securities	—	—	—
2.2 Loans	—	—	—
Total assets (A)	**449**	**-347**	**102**
B. Financial liabilities valued at amortized cost			
1. Deposits with banks	—	—	—
2. Deposits with customers	—	—	—
3. Debt securities in issue	25	-214	-189
Total liabilities (B)	**25**	**-214**	**-189**

The table 5.1 below shows the amounts as at 30 June 2018 stated in accordance with IAS39 for comparative purposes:

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

	30/06/2018		
	Gains	**Losses**	**Net profit (loss)**
Financial assets			
1. Due from Banks	—	—	—
2. Due from customers	133	—	133
3. AFS securities	—	—	—
3.1 Debt securities	—	—	—
3.2 Equities	—	—	—
3.3 UCITS units	—	—	—
3.4 Loans and advances	—	—	—
4. Financial assets held to maturity	—	—	—
Total assets	**133**	**—**	**133**
Financial liabilities			
1. Due to Banks	—	—	—
2. Due to customers	—	—	—
3. Debt securities in issue	—	-628	-628
Total liabilities	**—**	**-628**	**-628**

Section 6

Heading 130 – Adjustments for impairment

6.1 Adjustment for impairment: breakdown (in € k)

Transactions/Income	**Writedowns (1)**			**Writebacks (2)**		**30/06/2019 (1)+(2)**
	Stage1 and stage2	**Stage3**		**Stage1 and stage2**	**Stage3**	
		Write-off	**Others**			
A. Loans and receivables with banks	-1.158	—	—	112	—	-1.046
- Loans and receivables	-1.158	—	—	112	—	-1.046
- Notes	—	—	—	—	—	—
of which: financial assets purchased or originated credit impaired	—	—	—	—	—	—
B. Loans and receivables with customers	-5.497	—	—	3.087	—	-2.410
- Loans and receivables	-5.479	—	—	3.087	—	-2.392
- Notes	-18	—	—	—	—	-18
of which: financial assets purchased or originated credit impaired	—	—	—	—	—	—
Total	**-6.655**	**—**	**—**	**3.199**	**—**	**-3.456**

The table 6.1 below shows the amounts as at 30 June 2018 stated in accordance with IAS39 for comparative purposes:

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

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

Section 7

Heading 190 – Administrative expenses

7.1 Personnel costs: composition (in € k)

Type of expense/Amounts	30/06/2019	30/06/2018
1.Employees	-1.608	-1.363
a) wages and salaries	-1.343	-1.161
b) social security contributions	-48	-40
c) severance indemnities	—	—
d) pension contributions	-91	-71
e) transfers to severance indemnity provision	—	—
f) transfers to post-employment and similar benefits:	-44	-77
– defined contribution	-43	-77
– defined benefit	—	—
g) payments to outside complementary pension schemes:	—	—
– defined contribution	—	—
– defined benefit	—	—
h) expenses incurred in connection with share payment schemes	—	—
i) other staff benefits	-82	-14
2. Other staff	-64	-46
3. Board members	-276	-167
Total	**-1.948**	**-1.576**

7.2 Number of employees by category

	30/06/2019	30/06/2018
Employees	17	13
a) senior executives	3	2
b) executives	1	1
c) other employees	13	10
Other staff	—	—
Total	**17**	**13**

7.3 Other administrative expenses: composition (in € k)

Type of expense/Amounts	30/06/2019	30/06/2018
OTHER ADMINISTRATIVE EXPENSES		
– legal, tax and professional services	-1.138	-631
– loan recovery activity	—	-66
– marketing and communication	-11	-8
– property expenses	-218	-172
– IT and data processing	-1.458	-1.182
– Info-provider	-41	-12
– bank charges, collection and payment fees	-21	-26
– operating expenses	-1.969	-3.411
– other staff expenses	-93	-18
– other costs	-2.515	-1.312
– indirect and other taxes	-653	-665
Total	**-8.117**	**-7.503**

Section 8

Heading 200 – Net provisions for risks and charges

8.1 Net provisions for risks and charges: composition of the net provisions for credit risk related to commitments to disburse funds and/or financial guarantees issued (in € k)

	30/06/2019		
	Net provisions	Net releases of surplus	Total
Loan commitments	—	7	7
Financial guarantees issued	-1	—	-1
Total	**-1**	**7**	**6**

The table 6.2 below shows the amounts as at 30 June 2018 stated in accordance with IAS39 for comparative purposes. In this regard, it is worth recalling that provisions for credit risk related to commitments to disburse funds and/or financial guarantees issued, which were previously included in the item "adjustment for impairment to other financial operations", following the adoption of the new accounting principle IFRS9 and the consequent revision of the Group accounting standards have been reclassified in the item "provisions for credit risk related to commitments to disburse funds and/or financial guarantees issued" (cf. table above).

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

Transactions/Income-linked components	Value adjustments			Amounts recovered				30/06/2018
	Specific		Portfolio	Specific		Portfolio		
	Write off	Others		A	B	A	B	
A. Guarantees given	—	—	-7	—	—	—	4	-3
B. Credit derivatives	—	—	—	—	—	—	—	—
C. Commitments	—	—	-250	—	—	—	205	-45
D. Other transactions	—	—	—	—	—	—	—	—
E. Total	**—**	**—**	**-257**	**—**	**—**	**—**	**209**	**-48**

Section 9

Heading 210 – Value adjustments in respect of tangible assets

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

Asset/Income	Depreciation (a)	Impairment (b)	Write-back (c)	Net result (a+b-c)
A. Property, equipment and investment properties				
A.1 Owned	-4	—	—	-4
- For operational use	-4	—	—	-4
- For investment	—	—	—	—
- Inventories	X	—	—	—
A.2 Acquired through finance lease(s)	—	—	—	—
- For operational use	—	—	—	—
- For investment	—	—	—	—
Total	**-4**	**—**	**—**	**-4**

The table 8.1 below shows the amounts as at 30 June 2018 stated in accordance with the previous Group balance sheet structure for comparative purposes:

8.1 Value adjustments in respect of tangible assets: composition (in € k)

	Depreciation and other reduction	Adjustments for impairment	Amounts recovered	30/06/2018
A. Tangible assets				
A.1 Owned:	-6	—	—	-6
– Core	-6	—	—	-6
– Investment	—	—	—	—
A.2 Acquired under finance leases:	—	—	—	—
Total	**-6**	**—**	**—**	**-6**

Section 10

Heading 230 – Other operating income (expense)

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

	30/06/2019
a) Leasing activity	—
b) Other expenses	-200
Total expense	**-200**
a) Amounts recovered from customers	—
b) Leasing activity	—
c) Other income	149
Total income	**149**
Net income (expense)	**-51**

The table 10.1 below shows the amounts as at 30 June 2018 stated in accordance with the previous Group balance sheet structure for comparative purposes:

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

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

Section 11

Heading 300 – Income tax on the ordinary activity

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

	30/06/2019	30/06/2018
1. Current tax expenses	-1.144	-4.407
2. Changes in current tax expenses of the previous years	53	—
3. Changes of deferred tax assets	-39	—
4. Changes of deferred tax liabilities	32	—
Total	**-1.098**	**-4.407**

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

	30/06/2019			
	IRC		ICC	
	Applicable Rate	Absolute values	Applicable Rate	Absolute values
Profit before tax from current operations		**4.321**		**4.321**
Theoretical tax expense at standard rates	18,19%	786	6,75%	292
Non-deductible expenses (+)	18,19%	50	6,75%	19
- Director fees	18,19%	40	6,75%	15
- Withholding tax on Director fees	18,19%	10	6,75%	4
Tax allowance (-)	X	—	6,75%	-1
Effective tax expense at standard rates	18,19%	836	6,75%	308

The Bank is subject to an annual corporate income tax (*impôt sur le revenu des collectivités - IRC*) at a rate of 17% plus a 7% solidarity surcharge for the employment fund, which results in an aggregate rate of 18.19%.

The Bank is subject to an annual municipal business tax (*impôt commercial communal - ICC*) at rates which in general may vary depending on the municipality in which the company's registered office or undertaking is located. The ICC rate is 6.75% in Luxembourg city.

The Bank is also subject to an annual net worth tax (*impôt sur la fortune - NWT*) on the net assets as determined at 1 January of each year in accordance with the valuation rules. At 30 June 2019 the Bank has taken up the option to credit net wealth tax against the tax itself, as permitted by applicable law (for further details please refer to Part C – Section 15.1).

The table 11.2 below shows the amounts as at 30 June 2018 stated in accordance with the previous Group balance sheet structure for comparative purposes:

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

	30/06/2018	
	Amounts %	**Absolute values**
Total profit or loss before tax from current operations		**16.781**
Theoretical income tax expense on pre-tax income	-26,01%	-4.365
Tax exempt interest and dividends	0,00%	—
Income from tax exempt investments	0,00%	—
Impact of using tax losses for which no deferred tax asset was previously recognised	0,00%	—
Impact of tax rate adustment on temporary differences	0,00%	—
Differential effect in tax rates applicable to foreign entities	0,00%	—
Other items	0,00%	—
Theoretical corporate income tax expense	**-26,01%**	**-4.365**

PART F – OPERATING SEGMENT REPORTING

A. PRIMARY SEGMENT REPORTING

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

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

		CORPORATE LENDING	EXPORT FINANCE	LEVERAGE FINANCE	PROJECT FINANCE	OTHER
10.	Cash and cash equivalents	-	-	-	-	1
20.	Financial assets valued at FVTPL	26.551	-	29.415	2.574	-
40.	Financial assets valued at amortised cost	3.527.871	-	3.908.408	342.035	14.899
	a) Due from banks	*1.484.100*	-	*1.644.184*	*143.887*	*14.899*
	b) Due from customers	*2.043.771*	-	*2.264.224*	*198.148*	-
50.	Hedging derivatives	7.059	-	7.821	685	-
70.	Equity investments	-	-	-	-	4.150
90.	Property, plant and equipment	-	-	-	-	10
110.	Tax assets	5.706	-	6.322	553	-
	a) current	*5.296*	-	*5.868*	*513*	-
	b) deferred	*410*	-	*454*	*40*	-
130.	Other assets	2.061	-	2.284	200	-
	Total assets at 30/06/2019	**3.569.248**	**-**	**3.954.251**	**346.047**	**19.060**
	Total assets at 30/06/2018	**3.037.629**	**-**	**3.588.605**	**364.948**	**23.153**
10.	Financial liabilities valued at amortised cost	-3.392.700	-	-3.758.658	-328.930	-
	a) Due to banks	*-1.470.799*	-	*-1.629.449*	*-142.597*	-
	b) Due to customers	*-49.903*	-	*-55.286*	*-4.838*	-
	b) Debt securities in issue	*-1.871.998*	-	*-2.073.923*	*-181.495*	-
20.	Financial liabilities valued at FVTPL	-25.233	-	-27.955	-2.447	-
40.	Hedging derivatives	-41	-	-46	-4	-
60.	Tax liabilities	-3.359	-	-3.721	-326	-
	a) current	*-3.020*	-	*-3.345*	*-293*	-
	b) deferred	*-339*	-	*-376*	*-33*	-
80.	Other liabilities	-1.349	-	-1.495	-131	-
100.	Provisions for risks and charges	-335	-	-371	-32	-
150.	Reserves	-148.878	-	-164.936	-14.434	-
160.	Share capital	-4.536	-	-5.025	-440	-
	Total liabilities at 30/06/2019 (1)	**-3.576.431**	**-**	**-3.962.207**	**-346.744**	**-**
	Total liabilities at 30/06/2018 (1)	**-3.042.313**	**-**	**-3.594.139**	**-365.509**	**-**

(1) Profit for the period excluded

A.2 Comprehensive income data by business segment (in € k)

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.

	Items	CORPORATE LENDING	EXPORT FINANCE	LEVERAGE FINANCE	PROJECT FINANCE	OTHER
010.	Interests and similar income	50.038	—	55.435	4.851	—
020.	Interest expense and similar charges	-44.497	—	-49.296	-4.314	—
030.	**Net interest income**	**5.541**	**—**	**6.139**	**537**	**—**
040.	Fee and commission income	6.613	—	7.326	641	—
050.	Fee and commission expense	-4.336	—	-4.804	-420	—
060.	**Net fee and commission income**	**2.277**	**—**	**2.522**	**221**	**—**
080.	Net trading income/expense	333	—	368	33	—
090.	Net hedging income/expense	3	—	3	—	—
100.	Gain or loss on disposal or repurchase of:	-40	—	-44	-4	—
	a) financial assets valued at amortised cost	*-40*	—	*-44*	*-4*	—
	b) financial assets valued at FVOCI	—	—	—	—	—
	c) financial liabilities	—	—	—	—	—
120.	**Total income**	**8.114**	**—**	**8.988**	**787**	**—**
130.	Adjustment for impairment to:	-1.567	—	-1.736	-152	—
	a) financial assets valued at amortised cost	*-1.567*	—	*-1.736*	*-152*	—
	b) financial assets valued at FVOCI	—	—	—	—	—
150.	**Net income from financial operations**	**6.547**	**—**	**7.253**	**635**	**—**
190.	Administrative expenses	-4.565	—	-5.057	-443	—
	a) personnel costs	*-884*	—	*-979*	*-86*	—
	b) other administrative expenses	*-3.681*	—	*-4.078*	*-357*	—
200.	Net provisions for risks and charges	3	—	3	—	—
210.	Value adjustments in respect of tangible assets	—	—	—	—	-4
230.	Other operating income/expense	-23	—	-26	-2	—
290.	**Profit (loss) of the ordinary activity before tax**	**1.962**	**—**	**2.173**	**190**	**-4**
300.	Income tax on the ordinary activity	-498	—	-552	-48	—
330.	**Profit (loss) for the period**	**1.464**	**—**	**1.621**	**142**	**-4**
340.	Other comprehensive income, net of tax	—	—	—	—	—
350.	**Profit (Loss) of the year 30/06/2019**	**1.464**	**—**	**1.621**	**142**	**-4**
	Profit (Loss) of the year 30/06/2018	**6.017**	**—**	**5.761**	**1.025**	**-429**

B. SECONDARY SEGMENT REPORTING

The Bank operates in four main geographical markets: Luxembourg, Other EU Countries, Americas and Asia. The following tables show the distribution of the Bank's financial and statement of comprehensive incomes based on the location of the customers for the years ended 30 June 2019 and 2018.

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

	LUXEMBOURG	OTHER EUROPEAN COUNTRIES	AMERICAS	OTHER EMEA
Cash and cash equivalents	1	—	—	—
Financial assets valued at FVTPL	51.890	6.650	—	—
Financial assets valued at amortised cost	469.983	5.798.244	1.485.547	39.439
a) Due from banks	*20.487*	*3.266.584*	—	—
b) Due from customers	*449.496*	*2.531.660*	*1.485.547*	*39.439*
Hedging derivatives	—	15.564	—	—
Equity investments	4.150	—	—	—
Property, plant and equipment	10	—	—	—
Tax assets	12.580	—	—	—
a) current	*11.677*	—	—	—
b) deferred	*903*	—	—	—
Other assets	81	1.835	2.629	—
A. Total assets at 30/06/2019	**538.695**	**5.822.293**	**1.488.176**	**39.439**
A. Total assets at 30/06/2018	**619.134**	**5.446.156**	**943.045**	**—**
Financial liabilities valued at amortised cost	-4.239.917	-3.240.370	—	—
a) Due to banks	—	*-3.242.845*	—	—
b) Due to customers	*-110.027*	—	—	—
c) Debt securities in issue	*-4.129.890*	*2.475*	—	—
Financial liabilities valued at FVTPL	-526	-55.108	—	—
Hedging derivatives	—	-91	—	—
Tax liabilities	-7.406	—	—	—
a) current	*-6.658*	—	—	—
b) deferred	*-748*	—	—	—
Other liabilities	-57	-2.918	—	—
Provisions for risks and charges	-34	-611	-94	—
Reserves	-328.248	—	—	—
Share capital	-10.000	—	—	—
B. Total liabilities at 30/06/2019 (1)	**-4.586.188**	**-3.299.098**	**-94**	**—**
B. Total liabilities at 30/06/2018 (1)	**-3.599.635**	**-3.402.279**	**-47**	**—**

(1) Profit for the period excluded

B.2 Statement of comprehensive income by geographical region (in € k)

	LUXEMBOURG	OTHER EUROPEAN COUNTRIES	AMERICAS	OTHER
Net interest income	-9.581	-20.912	42.086	625
Net fee and commission income	92	2.428	2.486	15
Net trading income/expense	6.771	-23.250	17.208	3
Net hedging income/expense	-28.030	28.037	—	—
Gain or loss on disposal or repurchase of:	-273	103	83	—
Value Adjustments - impairment	789	-1.473	-2.729	-43
Administrative expenses	-5.900	-4.124	-41	—
Net provisions for risks and charges	-16	48	-26	—
Value adjustments in respect of tangible assets	-4	—	—	—
Other operating income/expense	72	-209	86	—
Income tax	-1.098	—	—	—
Profit (Loss) of the year 30/06/2019	**-37.178**	**-19.352**	**59.153**	**600**
Profit (Loss) of the year 30/06/2018	**-9.968**	**-3.243**	**25.458**	**127**

PART G – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

Introduction

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

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

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

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

The Risk Appetite Framework ("RAF"):

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

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

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

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

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

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

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

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

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

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

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

Section 1

1.1 CREDIT RISK

QUALITATIVE INFORMATION

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

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

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

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

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

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

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

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

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

Corporate banking

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

Leverage finance

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

Loan impairment provisions

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

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

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

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

- *stage 1*: includes exposures at the date of initial recognition in the financial statements and as long as their credit rating does not undergo a significant deterioration. For these instruments, the expected loss is to be calculated on the basis of default events that are possible within twelve months from the reporting date;
- *stage 2*: includes exposures that, while not impaired, underwent a significant deterioration in credit risk since the initial recognition date. In moving from stage 1 to stage 2, it is necessary to recognise the expected losses along the residual maturity of the instrument;

– *stage 3*: includes impaired exposures according to the regulatory definition. In moving to stage 3, exposures are evaluated on an individual basis, i.e. the value adjustment is calculated as the difference between the carrying amount at the date (amortised cost) and the present value of the expected cash flows, calculated applying the original effective interest rate. Expected cash flows take into account the expected collection times, the estimated realizable value of any guarantees, the costs expected to be incurred to recover the credit exposure with a forward looking perspective which takes account of alternative recovery scenarios and developments in the economic cycle.

The Group's policy to establish the significant increase in credit risk takes into consideration qualitative and quantitative elements of each credit transaction or financial instrument and consideration is given in particular to elements determining the recognition of "forbearance measures", the ''30 days past due" criterion or the identification of other backstops like the passage to watch list according to credit risk monitoring rules. The Group uses the simplified approach of the ''low credit risk exemption'' to a very limited extent.

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

QUANTITATIVE INFORMATION

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

Portfolio/Quality	Non performing loans	Unlikely to pay	Impaired past due exposures	Not impaired past due exposures	Other not impaired exposures	Total
1. Financial asset at amortized cost	—	—	—	—	7.793.214	7.793.214
2. Financial assets valued to fair value with impact on overall profitability	—	—	—	—	—	—
3. Financial assets designated to FV	—	—	—	—	—	—
4. Other fin.ass. mandatorily at FV	—	—	—	—	—	—
5. Financial instruments as held for sale	—	—	—	—	—	—
Total 30/06/2019	—	—	—	—	**7.793.214**	**7.793.214**

The table below shows the amounts as at 30 June 2018 stated in accordance with IAS39 for comparative purposes:

Portfolio/Quality	Defaulted	Performing past due below 90 days	Non-Performing exposures with forbearance measures	Impaired (past due more than 90 days)	Other exposures (performing)	Total
1. Financial assets held for trading	—	—	—	—	22.426	22.426
2. Available-for-sale financial assets	—	—	—	—	—	—
3. Held to maturity financial instruments	—	—	—	—	10.001	10.001
4. Loans and receivables with Banks	—	—	—	—	2.774.887	2.774.887
5. Loans and receivables with customers	—	—	1.449	—	4.088.932	4.090.381
6. Financial assets at fair value through profit	—	—	—	—	—	—
7. Financial assets classified as held for	—	—	—	—	—	—
8. Hedging derivatives	—	—	—	—	1.689	1.689
Total 30/06/2018	—	—	**1.449**	—	**6.897.935**	**6.899.384**

A.1.2 Distribution of financial assets by portfolio and credit quality (gross and net values) (in € k)

Asset portfolio/quality	Non-performing loans			Performing loans			Total (net exposure)
	Gross exposure	Accumulated impairment	Net exposure	Gross exposure	Accumulated impairment	Net exposure	
1. Financial assets at amortized cost	—	—	—	7.803.663	10.449	7.793.214	7.793.214
2. Financial assets at FVOCI	—	—	—	—	—	—	—
3. Financial assets at FVTPL	—	—	—	—	—	—	—
4. Other financial assets mandatorily at fair value	—	—	—	—	—	—	—
5. Financial assets being sold	—	—	—	—	—	—	—
Total 30/06/2019	**—**	**—**	**—**	**7.803.663**	**10.449**	**7.793.214**	**7.793.214**

The table below shows the amounts as at 30 June 2018 stated in accordance with IAS39 for comparative purposes:

Portfolio/Quality	**Impaired assets**			**Other assets**			**Total net exposure**
	Gross exposure	**Specific adjustments**	**Net exposure**	**Gross exposure**	**Portfolio adjustments**	**Net exposure**	
1. Financial assets held for trading	—	—	—	22.426	—	22.426	22.426
2. AFS securities	—	—	—	—	—	—	—
3. Financial assets held to maturity	—	—	—	10.001	—	10.001	10.001
4. Due from Banks	—	—	—	2.774.899	-12	2.774.887	2.774.887
5. Due from customers	1.449	—	1.449	4.092.630	-3.698	4.088.932	4.090.381
6. Financial assets recognized at fair value	—	—	—	—	—	—	—
7. Financial assets being sold	—	—	—	—	—	—	—
8. Hedging derivatives	—	—	—	1.689	—	1.689	1.689
Total at 30/06/2018	**1.449**	**—**	**1.449**	**6.901.645**	**-3.710**	**6.897.935**	**6.899.384**

A.1.3 Cash and off-balance sheet exposures to credit institutions (gross and net values) (in € k)

Type of exposure/Amounts	**Gross exposure**	**Specific value adjustments**	**Portfolio value adjustments**	**30/06/2019**	**30/06/2018**
A. CASH EXPOSURES					
a) Non-performing loans	—	—	—	—	—
- of which: forborne exposures	—	—	—	—	—
b) Unlikely to pay	—	—	—	—	—
- of which: forborne exposures	—	—	—	—	—
c) Impaired past due exposures	—	—	—	—	—
- of which: forborne exposures	—	—	—	—	—
d) Not impaired past due exposures	—	—	—	—	—
- of which: forborne exposures	—	—	—	—	—
e) Other not impaired exposures	3.289.473	—	-2.402	3.287.071	2.774.877
- of which: forborne exposures	—	—	—	—	—
Total A	**3.289.473**	**—**	**-2.402**	**3.287.071**	**2.774.877**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Non-performing	—	—	—	—	—
b) Other assets	—	—	—	—	
Total B	**—**	**—**	**—**	**—**	**—**

A.1.4 Cash and off-balance sheet exposures to customers (gross and net values) (in € k)

Type of exposure/Amounts	Gross exposure	Specific value adjustments	Portfolio value adjustments	30/06/2019	30/06/2018
A. CASH EXPOSURES					
a) Non-performing loans	—	—	—	—	1.449
- of which: forborne exposures	—	—	—	—	1.449
b) Unlikely to pay	—	—	—	—	—
- of which: forborne exposures	—	—	—	—	—
c) Impaired past due exposures	—	—	—	—	—
- of which: forborne exposures	—	—	—	—	—
d) Not impaired past due exposures	—	—	—	—	—
- of which: forborne exposures	—	—	—	—	—
e) Other not impaired exposures	4.514.190	—	-8.047	4.506.143	4.098.933
- of which: forborne exposures	151.014	—	-177	150.837	—
Total A	**4.514.190**	**—**	**-8.047**	**4.506.143**	**4.100.382**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Non-performing	—	—	—	—	—
b) Other assets	1.407.773	—	-739	1.407.034	1.667.037
Total B	**1.407.773**	**—**	**-739**	**1.407.034**	**1.667.037**

A.1.5 Non-performing cash exposures to customers: trend in gross impaired positions/accounts (in € k)

Description/Category	30/06/2019	30/06/2018
A. Gross exposure at start of period	1.449	50.606
of which: accounts sold but not derecognized	—	—
B. Additions	—	—
B.1 transfers from performing loans	—	—
B.2 transfer from other categories of impaired assets	—	—
B.3 other additions	—	—
C. Reductions	-1.449	-49.157
C.1 transfer to performing loans	—	—
C.2 amounts written off	—	-32.645
C.3 amounts collected	-1.449	-16.373
C.4 gains realized on disposal	—	—
C.5 transfers to other categories of impaired assets	—	—
C.6 other reductions	—	-139
D. Gross exposure at end of period	—	1.449
of which: accounts sold but not derecognized	—	—

1.1a CREDIT RISK – CONCENTRATION RISK

QUALITATIVE INFORMATION

Concentrations arise when a number of customers/counterparties operate on business activities in the same geographical region or in the same market, or have similar economic features that would question their capability to meet contractual obligations to be similarly undermined by changes in economic, political or other conditions. Country risk is defined as the risk of losses caused by events in a specific country which may be under the control of the government but not under the control of a private enterprise or individuals. This may imply that the repayment of assets within a specific country will be ultimately prevented by actions of the country's government (e.g. transfer risk, expropriation risk, legal risk, tax risk) or by a deterioration of the economic and / or political environment (e.g. a sharp recession, currency and / or banking crisis, civil war) of a country. The bank's performance may be affected by developments concerning a particular industry or geographical area.

In order to avoid excessive concentrations of risk, the bank's monitors on a monthly basis the concentration of his loan portfolio based on the following items: geographical, economic sector, class of rating, currencies. Identified concentrations of credit risks are controlled and managed accordingly and are always considered as strategic guidelines in the Credit Committee resolutions in order to achieve an improved diversification.

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

The bank's concentrations of risk are managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to a single client (or group of connected clients) other than the Parent as at June 30 June 2019 was € 450 million (2018: € 379 million) before taking account of collateral or other credit enhancements and € 50 million (2018: € 58 million) net of such protection.

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

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

In accordance with EU Regulation n. 575/2013 of the European Parliament and of the Council of 26 June 2013, the Bank's exposures to a client or group of connected clients shall be considered a large exposure where the amount is greater than or equal to the lower of the two following amounts: 10% of own funds or € 12,5 million for risks taken on "clients" other than institutions (CSSF Circular 14/593). The CSSF has granted a total exemption for the exposures towards the Parent Bank in the calculation of large exposure limits, in accordance with article 20 point 2 of CSSF Regulation 14-01, as amended.

QUANTITATIVE INFORMATION

B.1 Cash and off-balance sheet exposures to customers: breakdown 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	—	—	—	—	—	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	—	—	—	—
Net exposure	—	—	—	—	—	—
A.2 Other exposures						
Gross exposure	—	—	896.324	—	3.617.866	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-916	—	-7.131	—
Net exposure	—	—	895.408	—	3.610.735	—
Total A						
Gross exposure	—	—	896.324	—	3.617.866	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-916	—	-7.131	—
Net exposure	—	—	895.408	—	3.610.735	—
B. Off-balance sheet exposures						
B.1 Non-performing						
Gross exposure	—	—	—	—	—	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	—	—	—	—
Net exposure	—	—	—	—	—	—
B.2 Other exposures						
Gross exposure	—	—	247.057	—	1.160.717	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-125	—	-614	—
Net exposure	—	—	246.932	—	1.160.102	—
Total B						
Gross exposure	—	—	247.057	—	1.160.717	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-125	—	-614	—
Net exposure	—	—	246.932	—	1.160.102	—
Total 30/06/2019						
Gross exposure	—	—	1.143.381	—	4.778.583	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-1.041	—	-7.745	—
Net exposure	—	—	1.142.340	—	4.770.837	—
Net exposure 30/06/2018	—	—	1.138.387	—	4.629.031	—

B.2 Cash and off-balance sheet exposures to customers: breakdown 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	—	—	—	—	—	—	—	—	—	—
A.2 Unlikely to pay	—	—	—	—	—	—	—	—	—	—
A.3 Impaired past due	—	—	—	—	—	—	—	—	—	—
A.4 Not impaired past due	—	—	—	—	—	—	—	—	—	—
A.5 Performing	449.497	449.496	2.581.363	2.576.749	1.443.745	1.440.459	39.482	39.439	—	—
Total A	449.497	449.496	2.581.363	2.576.749	1.443.745	1.440.459	39.482	39.439	—	—
B) Off-balance-sheet exposures										
B.1 Non-performing	—	—	—	—	—	—	—	—	—	—
B.2 Performing	28.665	28.631	1.183.758	1.183.140	195.350	195.264	—	—	—	—
Total B	28.665	28.631	1.183.758	1.183.140	195.350	195.264	—	—	—	—
Total 30/06/2019	**478.162**	**478.126**	**3.765.122**	**3.759.889**	**1.639.095**	**1.635.723**	**39.482**	**39.439**	**—**	**—**
Total 30/06/2018	**603.661**	**602.893**	**3.987.894**	**3.985.518**	**1.179.970**	**1.179.008**	**—**	**—**	**—**	**—**

B.3 Cash and off-balance sheet exposures to credit institutions: breakdown 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 Unlikely to pay	—	—	—	—	—	—	—	—	—	—
A.3 Impaired past due	—	—	—	—	—	—	—	—	—	—
A.4 Not impaired past due	—	—	—	—	—	—	—	—	—	—
A.5 Performing	20.487	20.487	3.268.985	3.266.583	—	—	—	—	—	—
Total A	20.487	20.487	3.268.985	3.266.583	—	—	—	—	—	—
B) Off-balance-sheet exposures										
B.1 Non-performing	—	—	—	—	—	—	—	—	—	—
B.2 Performing	—	—	—	—	—	—	—	—	—	—
Total B	—	—	—	—	—	—	—	—	—	—
Total 30/06/2019	**20.487**	**20.487**	**3.268.985**	**3.266.583**	**—**	**—**	**—**	**—**	**—**	**—**
Total 30/06/2018	**523**	**523**	**2.774.366**	**2.774.354**	**—**	**—**	**—**	**—**	**—**	**—**

Section 2

1.2 MARKET RISK

1.2.1 Interest rate risk

QUALITATIVE INFORMATION

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

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

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

According to CSSF Circular 08/338 (as amended), the standard shock interest rate scenario to apply is a sudden +/- 200 basis point shift of all interest rates (parallel shift of yield curves). If +/-200 basis points shift is lower than the actual level of change in interest rates, calculated using the 1st and 99th percentile of observed one-day interest rate changes over a five-year period scaled up to a 240-day year, the higher level of shock arising from the latter calculation should be applied as the standard shock. For this calculation, institutions should apply an appropriate general "risk-free" yield curve. That curve should not include instrument-specific or entity-specific credit risk spreads or liquidity risk spreads. Interest rate risk is controlled on a quarterly basis by the management using specific risk management reports. The gap analysis report shows the sensitivity of the statement of financial position for a 1 (one) basis point shift of the interest rate curve. A monthly ALM report points out the mismatching of the statement of financial position in terms of maturity and rate re-fixing. Based on reporting evidences, the management of the Bank – in coordination with the treasury department of the Parent Bank – decides on possible remedial measures (if needed) concerning the "mix" of funding (notes, overdraft on current account, time deposits, loans, etc.) in order to obtain a better matching with the lending.

According to the part III of the Circular CSSF 08/338 as amended by Circular CSSF 16/642, a "résistance test" of interest rate risk was carried out as at 30 June 2019. The simulation was based on two different scenarios (parallel shift of the interest rate curve +200 and -200 bps, applying a 0% floor). The results achieved are described herein after:

- Scenario +200 bps: - € 13,4 million;
- Scenario - 200 bps: + € 3,6 million.

Fair value hedge

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

QUANTITATIVE INFORMATION

C.1a Regulatory trading book: breakdown by outstanding maturity (repricing date) of cash assets and liabilities and financial derivative products as at 30 June 2019 (in € k)

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets								
1.1 Debt securities	—	—	—	—	—	—	—	—
– with early redemption option	—	—	—	—	—	—	—	—
– other	—	—	—	—	—	—	—	—
1.2 Loans to Banks	—	—	—	—	—	—	—	—
1.3 Loans to customers	—	—	—	—	—	—	—	—
Total cash assets at 30/06/2019	—	—	—	—	—	—	—	—
2. Cash liabilities								
2.1 Amounts due to Banks	—	—	—	—	—	—	—	—
2.2 Amounts due to customers	—	—	—	—	—	—	—	—
2.3 Debt securities in issue	—	—	—	—	—	—	—	—
Total cash liabilities at 30/06/2019	—	—	—	—	—	—	—	—
3. Financial derivatives								
3.1 With underlying securities								
– Options								
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others								
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities								
– Options								
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others								
+ Long positions	—	1.068.592	—	70.000	71.200	—	—	—
+ Short positions	—	502.652	—	—	600.000	107.140	—	—

C.1b Regulatory trading book: breakdown by outstanding maturity (repricing date) of cash assets and liabilities and financial derivative products as at 30 June 2018 (in € k)

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets								
1.1 Debt securities	—	—	—	—	—	—	—	—
– with early redemption option	—	—	—	—	—	—	—	—
– other	—	—	—	—	—	—	—	—
1.2 Loans to Banks	—	—	—	—	—	—	—	—
1.3 Loans to customers	—	—	—	—	—	—	—	—
Total cash assets at 30/06/2018	—	—	—	—	—	—	—	—
2. Cash liabilities								
2.1 Amounts due to Banks	—	—	—	—	—	—	—	—
2.2 Amounts due to customers	—	—	—	—	—	—	—	—
2.3 Debt securities in issue	—	—	—	—	—	—	—	—
Total cash liabilities at 30/06/2018	—	—	—	—	—	—	—	—
3. Financial derivatives								
3.1 With underlying securities								
– Options								
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others								
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities								
– Options								
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others								
+ Long positions	—	1.292.234	76.372	200.000	756.430	107.140	—	—
+ Short positions	—	1.476.051	33.483	—	815.502	107.140	—	—

C.2a Regulatory banking book: breakdown by outstanding maturity (repricing date) of cash assets and liabilities and financial derivative products as at 30 June 2019 (in € k)

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets								
1.1 Debt securities	—	12.725	—	—	139	28	—	—
– with early redemption option	—	—	—	—	—	—	—	—
– other	—	12.725	—	—	139	28	—	—
1.2 Loans to Banks	539.630	1.844.682	484.996	411.965	—	—	—	—
1.3 Loans to customers	494.071	3.431.925	481.958	100.528	—	10.000	2	—
Total cash assets at 30/06/2019	**1.033.701**	**5.289.332**	**966.954**	**512.493**	**139**	**10.028**	**2**	**—**
2. Cash liabilities								
2.1 Amounts due to customers	—	110.028	—	—	—	—	—	—
2.2 Amounts due to Banks	18.274	2.891.948	82.532	250.090	—	—	—	—
2.3 Debt securities in issue	119	2.163.663	150.594	1.406.311	375.902	4.986	—	—
Total cash liabilities at 30/06/2019	**18.393**	**5.165.639**	**233.126**	**1.656.401**	**375.902**	**4.986**	**—**	**—**
3. Financial derivatives								
3.1 With underlying securities								
– Options								
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others								
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities								
– Options								
+ Long positions	—	—	—	—	680.000	100.000	—	—
+ Short positions	—	—	—	—	680.000	100.000	—	—
– Others								
+ Long positions	—	650.000	—	—	678.844	5.000	—	—
+ Short positions	373.132	955.712	—	—	—	5.000	—	—
4. Other off-balance sheet								
+ Long positions	—	431.201	34.662	—	922.227	6.469	—	—
+ Short positions	—	431.201	34.662	—	922.227	6.469	—	—

C.2b Regulatory banking book: breakdown by outstanding maturity (repricing date) of cash assets and liabilities and financial derivative products as at 30 June 2018 (in € k)

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets								
1.1 Debt securities	—	12.797	—	—	—	—	—	—
– with early redemption option	—	—	—	—	—	—	—	—
– other	—	12.797	—	—	—	—	—	—
1.2 Loans to Banks	141.824	1.667.220	169.128	812.965	—	—	—	—
1.3 Loans to customers	—	3.352.301	754.785	—	—	6.924	170	—
Total cash assets at 30/06/2018	**141.824**	**5.032.318**	**923.913**	**812.965**	**—**	**6.924**	**170**	**—**
2. Cash liabilities								
2.1 Amounts due to customers	—	792.710	—	—	—	—	—	—
2.2 Amounts due to Banks	—	1.903.270	237.806	39.250	—	—	—	—
2.3 Debt securities in issue	—	1.771.245	234.804	1.376.002	269.304	1.387	—	—
Total cash liabilities at 30/06/2018	**—**	**4.467.225**	**472.610**	**1.415.252**	**269.304**	**1.387**	**—**	**—**
3. Financial derivatives								
3.1 With underlying securities								
– Options								
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others								
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities								
– Options								
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others								
+ Long positions	—	—	10.000	493.891	200.000	100.000	—	—
+ Short positions	—	139.657	—	464.234	200.000	—	—	—
4. Other off-balance sheet								
+ Long positions	—	451.786	94.541	90.255	986.843	30.213	—	—
+ Short positions	1.653.638	—	—	—	—	—	—	—

1.2.2 Exchange rate risk

QUALITATIVE INFORMATION

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Forex risk exposure is minimal. A continuous monitoring and a dynamic management of the liquidity allow the offsetting of the financial structure in terms of currency risk exposure.

Forex exposures are funded with financial liabilities in the same currencies and, whenever this kind of strategy results unrealizable in terms of costs/opportunity, specific hedging transactions (e.g. cross currency swap, forex swap) are negotiated with the treasury department of the Parent bank.

Currency exposure is constantly monitored by management through dedicated ALM reports, corrective actions are dealt if necessary. As at 30 June 2019 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

D.1 Assets, liabilities and forex derivatives: breakdown by currency (in € k)

Line items	Currency				
	US dollars	Pounds sterling	Swedish krona	Swiss francs	Other
A. Assets					
A.1 Debt securities	—	—	—	—	—
A.2 Equities	—	—	—	—	—
A.3 Loans and advances to Banks	77.709	65.772	25	162.492	604
A.4 Loans and advances to customers	1.448.533	539.217	74.519	61.276	35.578
A.5 Other financial assets	2.608	389	—	7	—
B. Financial liabilities					
B.1 Due to Banks	-1.118.582	-553.361	—	-27.032	-134
B.2 Due to customers	—	—	—	—	—
B.3 Debt securities	-484.337	—	—	-134.526	—
B.4 Other financial liabilities	-494	-764	-34	-9	—
C. Financial Derivatives					
- Options					
+ long positions	—	—	—	—	—
+ short positions	—	—	—	—	—
- Other					
+ long positions	71.357	—	—	—	—
+ short positions	—	-50.504	-73.946	-61.540	-35.462
Total assets 30/06/2019	1.600.207	605.378	74.544	223.775	36.182
Total liabilities 30/06/2019	-1.603.413	-604.629	-73.980	-223.107	-35.596
Difference (+/-) 30/06/2019	**-3.206**	**749**	**564**	**668**	**586**
Total assets 30/06/2018	1.525.270	572.776	36.800	214.178	5.213
Total liabilities 30/06/2018	-1.526.741	-571.792	-36.469	-214.057	-4.497
Difference (+/-) 30/06/2018	**-1.471**	**984**	**331**	**121**	**716**

1.2.3 Derivative contracts

QUALITATIVE INFORMATION

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

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

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

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

QUANTITATIVE INFORMATION

FINANCIAL DERIVATIVES

E.1 Regulatory trading book: breakdown of notional values by type of transaction (in € k)

Type of transactions	30/06/2019		30/06/2018	
	Over-the-counter	**Listed**	**Over-the-counter**	**Listed**
1. Debt securities and interest rates	1.648.977	—	1.744.770	—
a) Options	480.000	—	—	—
b) Swap	1.168.977	—	1.744.770	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
2. Equities and share indexes	—	—	380.000	—
a) Options	—	—	380.000	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Exchange rates and Gold	220.445	—	307.407	—
a) Options	—	—	—	—
b) Swap	220.445	—	89.874	—
c) Forward	—	—	217.533	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	**1.869.422**	—	**2.432.177**	—

E.2 Regulatory banking book: breakdown of notional values by type of transaction (in € k)

Type of transactions	30/06/2019		30/06/2018	
	Over-the-counter	Listed	Over-the-counter	Listed
1. Debt securities and interest rates	1.158.206	—	803.891	—
a) Options	—	—	—	—
b) Swap	1.158.206	—	803.891	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
2. Equities and share indexes	—	—	—	—
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Exchange rates and Gold	—	—	—	—
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	**1.158.206**	**—**	**803.891**	**—**

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

Type of transactions	Positive fair value			
	30/06/2019		30/06/2018	
	Over-the-counter	Listed	Over-the-counter	Listed
A. Regulatory trading book	14.380	—	4.197	—
a) Options	357	—	—	—
b) Interest Rate Swap	12.811	—	1.981	—
c) Cross Currency Swap	1.212	—	1.664	—
d) Equity Swap	—	—	552	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
B. Banking book: Hedge derivatives	15.564	—	1.689	—
a) Options	—	—	—	—
b) Interest Rate Swap	15.564	—	1.689	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
C. Banking book: Others derivatives	—	—	7.070	—
a) Options	—	—	—	—
b) Interest Rate Swap	—	—	7.070	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	**29.944**	**—**	**12.956**	**—**

E.4 OTC financial derivatives: negative fair value (in € k)

Type of transactions	Negative fair value			
	30/06/2019		30/06/2018	
	Over-the-counter	Listed	Over-the-counter	Listed
A. Regulatory trading book	-13.146	—	-10.005	—
a) Options	—	—	-111	—
b) Interest Rate Swap	-10.767	—	-7.942	—
c) Cross Currency Swap	-2.379	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	-1.952	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
B. Banking book: Hedge derivatives	-91	—	—	—
a) Options	—	—	—	—
b) Interest Rate Swap	-91	—	—	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others		—	—	—
C. Banking book: Others derivatives	—	—	-11.122	—
a) Options	—	—	—	—
b) Interest Rate Swap	—	—	-11.122	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	**-13.237**	—	**-21.127**	—

E.5 Regulatory trading book: counterparty and financial risk – OTC financial derivatives not included in netting or collateral agreements (in € k)

Contracts not forming part of netting arrangements	30/06/2019							30/06/2018
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	—	—	—	—	—	400.000
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—
2. Equities and share indexes								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—
3. Exchange rates and Gold								—
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—
4. Other assets								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—

E.6 Regulatory trading book: counterparty and financial risk – OTC financial derivatives included in netting or collateral agreements (in € k)

Contracts forming part of netting arrangements	30/06/2019							30/06/2018
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	808.977	840.000	—	—	—	1.344.770
- positive fair value	—	—	13.168	—	—	—	—	1.982
- negative fair value	—	—	-10.767	—	—	—	—	-7.942
2. Equities and share indexes								
- notional value	—	—	—	—	—	—	—	380.000
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	-111
3. Exchange rates and Gold								
- notional value	—	—	220.445	—	—	—	—	307.406
- positive fair value	—	—	1.212	—	—	—	—	2.215
- negative fair value	—	—	-2.379	—	—	—	—	-1.952
4. Other assets								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—

E.7 Regulatory banking book: counterparty and financial risk – OTC financial derivatives not included in netting or collateral agreements (in € k)

Contracts not forming part of netting arrangements	30/06/2019							30/06/2018
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	—	—	—	—	—	300.000
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	2.500
2. Equities and share indexes								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—
3. Exchange rates and Gold								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—
4. Other assets								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—

E.8 Regulatory banking book: counterparty and financial risk – OTC financial derivatives included in netting or collateral agreements (in € k)

Contracts not forming part of netting arrangements	30/06/2019							30/06/2018
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	1.158.206	—	—	—	—	118.503
- positive fair value	—	—	15.564	—	—	—	—	192.321
- negative fair value	—	—	-91	—	—	—	—	-187.893
2. Equities and share indexes								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
3. Exchange rates and Gold								—
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
4. Other assets								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—

E.9 Regulatory trading book: residual life – notional values (in € k)

Underlying/Residual maturity	Up to 1 year	From 1 to 5 years	Over 5 years	Total
1. Financial derivatives on debt securities and interest rates	70.000	1.466.837	112.140	1.648.977
2. Financial derivatives on equities and share indexes	—	—	—	—
3. Financial derivatives on foreign curencies and gold	30.179	190.266	—	220.445
4. Financial derivatives on commodities	—	—	—	—
5. Other financial derivatives	—	—	—	—
Total at 30/06/2019	**100.179**	**1.657.103**	**112.140**	**1.869.422**
Total at 30/06/2018	**660.332**	**1.613.514**	**158.340**	**2.432.186**

E.10 Regulatory banking book: residual life – notional values (in € k)

Underlying/Residual maturity	Up to 1 year	From 1 to 5 years	Over 5 years	Total
1. Financial derivatives on debt securities and interest rates	650.000	508.206	—	1.158.206
2. Financial derivatives on equities and share indexes	—	—	—	—
3. Financial derivatives on foreign curencies and gold	—	—	—	—
4. Financial derivatives on commodities	—	—	—	—
5. Other financial derivatives	—	—	—	—
Total at 30/06/2019	**650.000**	**508.206**	**—**	**1.158.206**
Total at 30/06/2018	**10.000**	**551.087**	**414.234**	**975.321**

CREDIT DERIVATIVES

F.1 Regulatory trading book: breakdown of notional values by type of transaction (in € k)

Transaction categories	Regulatory trading book		Other transactions	
	Individual assets	Baskets	Individual assets	Baskets
1. Protection purchase				
a) Credit default	1.299.073	—	—	—
b) Credit spread products	—	—	—	—
c) Total rate of return swap	—	—	—	—
d) Others	—	—	—	—
Total at 30/06/2019	**1.299.073**	—	—	—
Total at 30/06/2018	**2.135.443**	**919.540**	**648.091**	**171.556**
2. Protection sale				
a) Credit default	1.299.073	—	—	—
b) Credit spread products	—	—	—	—
c) Total rate of return swap	—	—	—	—
d) Others	—	—	—	—
Total at 30/06/2019	**1.299.073**	—	—	—
Total at 30/06/2018	**471.535**	**343.112**	**2.005.919**	**1.049.064**

F.2 Regulatory trading book: positive and negative fair values (in € k)

Transaction categories	Positive FV	
	30/06/2019	30/06/2018
1. Positive fair value		
a) Credit default	44.161	2.540
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
Total	**44.161**	**2.540**
2. Negative fair value		
a) Credit default	-42.488	-7.755
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
Total	**-42.488**	**-7.755**

F.3 Regulatory trading book: settlement risk – OTC credit derivatives covered by clearing agreements (in € k)

	30/06/2019				30/06/2018
	Central counterparts	Banks	Other financial companies	Other counterparties	
OTC contracts not covered by clearing agreements					
1. Protection purchase					
- notional value	X	1.299.073	—	—	3.054.983
- positive fair value	X	19.451	—	—	—
- negative fair value	X	-22.020	—	—	-1.678
2. Protection sale					
- notional value	X	1.299.073	—	—	814.647
- positive fair value	X	24.710	—	—	89
- negative fair value	X	-20.468	—	—	-4.528
OTC contracts covered by clearing agreements					
1. Protection purchase					
- notional value	—	—	—	—	—
- positive fair value	—	—	—	—	—
- negative fair value	—	—	—	—	—
2. Protection sale					
- notional value	—	—	—	—	—
- positive fair value	—	—	—	—	—
- negative fair value	—	—	—	—	—

F.4 Regulatory trading book: residual life – notional values (in € k)

Transaction categories	Up to 1 year	From 1 to 5 years	Over 5 years	Total
1. Regulatory trading book				
a) Protection purchase	5.000	1.294.073	—	1.299.073
b) Protection sale	5.000	1.294.073	—	1.299.073
Total at 30/06/2019	**10.000**	**2.588.146**	**—**	**2.598.146**
Total at 30/06/2018	**10.000**	**1.992.759**	**1.866.872**	**3.869.631**

1.3 Liquidity risk

QUALITATIVE INFORMATION

Liquidity risk is defined as the risk that the Bank would encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

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

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

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

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

Contingency Funding Plan

The Group treasury department acts as lender of last resort for the Group legal entities, including Mediobanca International (Luxembourg) S.A., guarantees their solvency both in the short and the medium/long term, and is responsible to activate the Contingency Funding Plan (CFP) aimed at safeguarding the continuity of ordinary operations during a liquidity crisis. Based on the above, the Bank hasn't implemented a CFP on an individual basis but relies on the Group's plan.

QUANTITATIVE INFORMATION

G.1 Financial assets and liabilities by outstanding life as at 30 June 2019 (in € k)

Type	On demand	From 1 days to 7 days	From 7 days to 15 days	From 15 days to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Unlimited
Cash assets	**686.067**	**23.648**	**79.062**	**166.317**	**1.343.391**	**894.306**	**735.973**	**2.721.289**	**1.235.208**	**14.899**
A.1 Government securities	—	—	—	—	—	—	—	—	—	—
A.2 Listed debt securities	—	—	—	—	—	—	—	—	—	—
A.3 Other debt securities	—	—	—	—	6	6	11	12.796	—	—
A.4 OICR units	—	—	—	—	—	—	—	—	—	—
A.5 Loans and advances	686.067	23.648	79.062	166.317	1.343.385	894.300	735.962	2.708.493	1.235.208	14.899
– to Banks	539.630	254	—	34.998	1.143.449	485.579	429.427	135.074	500.000	14.899
– to customers	146.437	23.394	79.062	131.319	199.936	408.721	306.535	2.573.419	735.208	—
Cash liabilities	**-18.393**	**-441**	**-274**	**-6.318**	**-1.388.679**	**-596.742**	**-452.671**	**-3.098.584**	**-1.972.784**	—
B.1 Deposits	-18.274	—	—	—	—	—	—	—	—	—
– to banks	-18.274	—	—	—	—	—	—	—	—	—
– to customers	—	—	—	—	—	—	—	—	—	—
B.2 Debt securities	-119	—	-89	-983	-654.343	-4.062	-89.732	-1.470.308	-1.907.784	—
B.3 Other liabilities	—	-441	-185	-5.335	-734.336	-592.680	-362.939	-1.628.276	-65.000	—
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
– long positions	—	—	—	—	—	—	—	71.357	—	—
– short positions	—	—	—	—	—	25.204	4.463	191.786	—	—
C.2 Financial derivatives without exch. of principal										
– long positions	—	—	—	961	222	1.134	13.399	—	—	—
– short positions	3.970	—	—	859	3.892	4.071	4.613	—	—	—
C.3 Irrevocable commitments to disburse funds										
– long positions	—	—	—	—	44.615	—	—	1.343.474	6.470	—
– short positions	1.394.559	—	—	—	—	—	—	—	—	—
C.4 Financial guarantees issued	—	—	—	—	—	4	2.926	10.284	—	—
C.5 Credit derivatives with exchange of principal										
– long positions	—	—	—	—	—	—	—	—	—	—
– short positions	—	—	—	—	—	—	—	—	—	—
C.6 Credit derivatives without exchange of principal										
– long positions	—	—	—	—	—	—	5.000	1.294.073	—	—
– short positions	—	—	—	—	—	—	5.000	1.294.073	—	—

G.2 Financial assets and liabilities by outstanding life as at 30 June 2018 (in € k)

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

1.4 Operational risk

QUALITATIVE INFORMATION

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

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

Control of internal access (individual system users) and external access (IT attacks) is carried out via the relevant computer and observation tools. Insurance policies have been taken out to cover the most valuable staff members and assets.

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

As at 30 June 2019 and 2018 the Bank does not face any litigation risk.

1.5 Other risks

QUALITATIVE INFORMATION

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

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

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

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

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

Following the identification of relevant risk, capital requirement quantification is performed on risks not covered by the Pillar I framework. In case the management shall consider that some risks are underestimated and not entirely covered by the minimum capital requirements of Pillar I, an additional discretionary capital II add-on may be calculated and allocated. The adequacy of the risk measurement methodologies supporting the ICAAP, including stress testing and risk aggregation, is checked by internal validation. Measuring the risk profile is a fundamental element of the Internal Capital Adequacy Assessment Process under Basel II Pillar II.

Capital adequacy is assessed considering the balance between the assumed risk, both Pillar I and Pillar II, and the available capital. The internal economic capital measurements and the resulting Risk Taking Capacity showed an inadequate capitalization at 30 June 2018. In detail, the Bank reported an amount of EUR 390,5 million of available own funds, which was below the internal capital estimates in the ordinary scenario (EUR 406,7 million) leaving a capital deficit of EUR 16,2 million. The institution has already intervened to reduce such gap, through the repayment of the EUR 50 million Tier 2 instrument originally issued in June 2007 and the simultaneous issuance of a new Tier 2 instrument for EUR 65 million with a contractual maturity of ten years.

The ICAAP process for the exercise ended 30 June 2019 is currently being implemented.

Mediobanca International currently provides in the UK, on a cross-border basis, wholesale lending services (the Services) to clients consisting exclusively of large and mid-sized companies. No Services are provided to UK individual/retail customers. In the context of the Services, Mediobanca International acts, from a legal and contractual perspective, in capacity as lender of record. All structuring, commercial, advisory and agency activities related to the Services are outsourced to Mediobanca International’s parent company (Mediobanca - Banca di Credito Finanziario S.p.A.) and/or to other third party credit institutions. Management’s short term intention is to (subject to Brexit developments, conditions, consequences and potential restrictions):

(i) keep the current exposure towards UK customers and therefore not terminate the corresponding existing contractual relationships; and

(ii) continue providing Services to potential new UK customers.

In case of “hard-Brexit” the potential impact for the Group is expected to be contained (i.e. less than 1.5% of revenues), however, the Parent closely monitors the progress of negotiations and potential regulatory impacts through an internal working group.

PART H – CAPITAL MANAGEMENT

Section 1

Regulatory and supervisory capital requirements

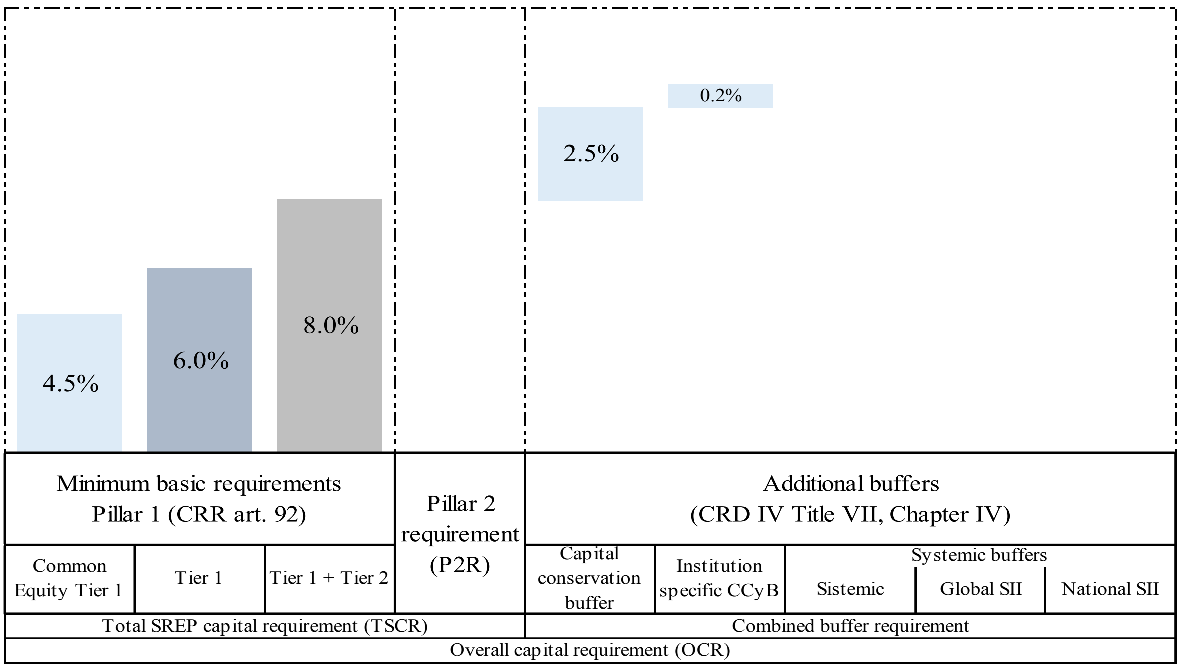
Capital is the first and most important safeguard of a bank's stability. For this reason, the international and domestic supervisory bodies have established rigorous rules for calculating regulatory capital and the minimum capital requirements with which banks are bound to comply.

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, as shown by the comfortable margin emerging from the Internal Capital Adequacy Assessment Process (ICAAP) and the process performed by the regulator as part of the supervisory review and evaluation process (SREP).

The Bank maintains locally an actively managed capital base to cover risks inherent to its business. The adequacy of the capital has been monitored on the basis of the reference EU Regulation (i.e. EU Regulation n. 575/2013 – CRR and EU Directive n. 36/2013 – CRD IV) and in conjunction with CSSF Regulation n. 14-01 about the implementation of certain discretions contained in Regulation (EU) n. 575/2013.

The governing Council of the European Central Bank (ECB), having regard to EU Council Regulation n. 1024/2013 conferring specific tasks on the ECB concerning the prudential supervision of credit institution, has adopted on 5 February 2019 a formal decision on the prudential requirements that the Bank shall at all-time satisfy. This decision has been established on the basis of the harmonised SREP developed by the ECB which implements Guidelines EBA/GL/2014/13 of the European Banking Authority (EBA), with a view to ensuring consistency across the institutions supervised by the ECB.

Based on the above, the institution must always comply with the minimum basic requirement set forth in art. 92 of the CRR Regulation, and with the minimum combined buffer requirement specified in Chapter 4 of Title VII of the CRD IV Directive. Considering the absence of pillar 2 requirement (P2R) and of pillar 2 guidance (P2G), the minimum capital requirement imposed at June 2019 to the Bank can be summarized as follows:



Section 2

Capital adequacy – quantitative information

Common Equity Tier 1 (CET1) capital is the core measure of a bank's financial strength from a Regulator's point of view. It consists of paid up capital, retained earnings and the profit of the year (net of the dividend, if any).

No additional Tier 1 (AT1) instruments have been issued by the Bank since establishment, whilst the structure of Tier 2 (T2) capital has changed during the financial year: in September 2018, the institution has indeed enhanced its own funds through (i) the repayment of a T2 instrument in the amount of EUR 50 million originally issued on June 2007, and (ii) the contextual issuance of a new T2 subordinated loan for EUR 65 million with a maturity of 10 years. Both the operations were concluded with the Parent company as the sole counterparty.

2.1 Total own funds: breakdown (in € k)

	30/06/2019	30/06/2018
A. Common Equity Tier 1 (CET1) before application of the prudential filters	341.470	340.927
a.1 Share capital	10.000	10.000
a.2 Share premium reserve	—	—
a.3 Reserves	328.248	318.553
a.4 Equity instruments	—	—
a.5 Treasury shares	—	—
a.6 Valuation reserves	—	—
a.7 Net profit (loss) for the period	3.223	12.374
B. CET1 prudential filters (+/-)	-280	-401
C. Items to be deducted from CET1	—	—
D. Phase-in regime impact on CET1 (+/-)	2.545	—
E. Total Common Equity Tier 1 (CET1)	343.736	340.526
F. Additional Tier 1 (AT1) instruments	—	—
G. Items to be deducted from AT1	—	—
H. Phase-in regime impact on AT1 (+/-)	—	—
I. Total Additional Tier 1 (AT1)	—	—
J. Tier 2 (T2) instruments	65.000	50.000
K. Items to be deducted from T2	—	—
L. Phase-in regime impact on T2 (+/-)	—	—
M. Total Tier 2 (T2)	65.000	50.000
N. Total own funds (E+I+O)	**408.736**	**390.526**

Capital adequacy – qualitative information

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

The Bank manages its capital structure and makes adjustments to it (when/if needed) in light of changes in the economic conditions and/or in the risk profile of its activities. No significant changes have been made to date in the objectives, policies and processes from the previous years. Capital management is nonetheless under the constant scrutiny of the bank's Board of Directors and management.

At the end of June 2019, the Bank complies with all imposed capital ratios and additional buffers. In detail:

- Common Equity Tier 1 (CET1) capital ratio: 10.2% (same as June 2018, minimum requirement is 4.5%);
- Tier 1 capital ratio: 10.2% (same as June 2018, minimum requirement is 6.0%);
- Total capital ratio: 12.2% (11.7% at June 2018, minimum requirement is 8.0%).

During the fiscal year, the Leverage Ratio decreased from 4.2% to 4.0% which remains above the regulatory limit of 3%.

(in € k)	**30/06/2019**	**30/06/2018**
A. Total own funds		
A.1 CET1 capital	343.736	340.526
A.2 T1 capital	343.736	340.526
A.3 Own funds	408.736	390.526
B. Total Risk Weighted Assets (RWA)	3.363.752	3.327.462
B.1 Credit and counterparty risk (standard methodology)	3.224.008	3.250.166
B.2 Credit valuation risk	—	—
B.3 Settlement risk	—	—
B.4 Market risk (standard methodology)	89.519	17.176
B.5 Operational risk (basic indicator approach)	50.225	60.120
B.6 Other	—	—
C. Regulatory ratios		
C.1 CET1 capital ratio (CET1 Capital/RWA)	10,2%	10,2%
C.2 T1 capital ratio (T1 Capital/RWA)	10,2%	10,2%
C.3 Total capital ratio (own funds/RWA)	12,2%	11,7%

PART I – RELATED PARTIES DISCLOSURES

Related parties 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 transaction with related parties is to be reported for the financial year ended on 30 June 2019. Related parties for the purpose hereof include local strategic management, Parent Bank, entities of the Group and its Directors and executive officers (and any company owned by them).

Further details on the definition of related parties adopted by the Group are contained in part B – section 5 of the notes to the financial statements (accounting policies). The following tables contain separate disclosure of the balances with the Parent and the other related parties, as required by IAS 24:

Assets and liabilities (in € k)	30/06/2019	
	Parent bank	**Other related parties**
Cash and cash equivalents	-	-
Financial assets valued at FVTPL	6.423	-
Financial assets valued at amortised cost	3.259.127	9.898
Hedging derivatives	15.564	-
Other assets	-	-
Total assets	**3.281.114**	**9.898**
Financial liabilities valued at amortised cost	4.098.343	431.613
Financial liabilities valued at FVTPL	55.110	-
Hedging derivatives	91	-
Tax liabilities	-	-
Other liabilities	2.523	176
Provisions for risks and charges	745	-
Total liabilities and shareholders' equity	**4.156.812**	**431.789**

Comprehensive income (in € k)	30/06/2019	
	Parent bank	**Other related parties**
Interest and similar income	- 12.091	5
Interest expense and similar charges	- 83.386	- 194
Fee and commission income	2.474	2
Fee and commission expense	- 9.306	-
Net trading income (expense)	- 45.890	-
Net hedging income (expense)	27.614	-
Administrative expenses	- 2.027	- 1.284
Other income (expense)	- 1.754	21
Total comprehensive income	**- 124.366**	**- 1.450**

The tables below show the amounts as at 30 June 2018 stated in accordance with the previous Group balance sheet structure (IAS 39) for comparative purposes:

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

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

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

in € k	**30/06/2019**	**30/06/2018**
Administrative bodies	255	149
Key management personnel	424	406
Total	**679**	**555**

As at 30 June 2019 and 2018, neither advances nor guarantees were granted to Directors or senior management. Remuneration to key management personnel includes salary, benefits and bonus.

PART J – OTHER INFORMATION

Audit fees

As at 30 June 2019 and 2018, expenses incurred in connection with the statutory audit of the accounts and the other related services provided by the external independent auditor PricewaterhouseCoopers S.C. (Luxembourg) can be summarized as follow (in €):

	30/06/2019	**30/06/2018**
Audit fees	268.145	28.109
Audit related fees	51.250	36.468
Other fees	—	—
Total	**319.395**	**64.577**

The table contains the aggregate fees billed by PricewaterhouseCoopers S.C. during the financial year. For the sake of clarity, it should be noted that professional fees worth approx. € 121.000 for the statutory audit of the financial statement as at 30 June 2018 were entirely billed during the current fiscal year.

Staff number

As at 30 June 2019 and 2018, the bank's staff is as follows:

	30/06/2019	**30/06/2018**
Employees	17	13
a) senior management	3	2
b) middle management	1	1
c) other employees	13	10
Other staff	—	—
Total	**17**	**13**

Senior management as at 30 June 2019 consists of the Chief Executive Officer, the Chief Financial Officer, and the Chief Risk Officer.

PART K - SUBSEQUENT EVENTS

The Bank is not aware of any subsequent events (other than those already reflected in the financial statement), that occurred between 30 June 2019 and the date when the present financial statements were authorised for issue.

ANNEX I

RECONCILIATION BETWEEN OFFICIAL AND RESTATED FINANCIAL STATEMENTS

Executive summary

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

1.1 Statement of financial position as at 30 June 2019 (in € k)

		Total assets (restated)						
30/06/2019		Financial assets at FVTPL	Treasury investments	Debt securities - banking book	Loans and advances	Equity investments	Tangible assets	Other assets
10. Cash and cash equivalents	1	-	1	-	-	-	-	-
20. Financial assets valued at FVTPL	58.541	58.541	-	-	-	-	-	-
40. Financial assets valued at amortised cost	7.793.213	-	2.627.424	12.892	5.147.124	-	-	5.773
50. Hedging derivatives	15.564	-	-	-	-	-	-	15.564
70. Equity investments	4.150	-	-	-	-	4.150	-	-
90. Property, plant and equipment	10	-	-	-	-	-	10	-
110. Tax assets	12.580	-	-	-	-	-	-	12.580
130. Other assets	4.544	-	-	-	-	-	-	4.544
Total assets	**7.888.603**	**58.541**	**2.627.425**	**12.892**	**5.147.124**	**4.150**	**10**	**38.461**

		Total liabilities (restated)						
30/06/2019		Loans and borrowings	Debt securities issued	Treasury borrowings	Fin. liabilities at FVTPL	Other liabilities	Prov. for risks and charges	Net equity and profit
10. Financial liabilities valued at amortised cost	- 7.480.288	- 4.415.269	- 2.796.558	- 268.461	-	-	-	-
20. Financial liabilities valued at FVTPL	- 55.634	-	-	-	- 55.634	-	-	-
40. Hedging derivatives	- 91	-	-	-	-	- 91	-	-
60. Tax liabilities	- 7.406	-	-	-	-	- 7.406	-	-
80. Other liabilities	- 2.974	-	-	-	-	- 2.974	-	-
100. Provisions for risk and charges	- 739	-	-	-	-	-	- 739	-
160. Reserves	- 328.248	-	-	-	-	-	-	- 328.248
190. Share capital	- 10.000	-	-	-	-	-	-	- 10.000
200. Profit for the year	- 3.223	-	-	-	-	-	-	- 3.223
Total liabilities and equity	**- 7.888.603**	**- 4.415.269**	**- 2.796.558**	**- 268.461**	**- 55.634**	**- 10.471**	**- 739**	**- 341.471**

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

30/06/2018		Total assets (restated) Financial assets at FVTPL	Treasury investments	Debt securities - banking book	Loans and advances	Equity investments	Tangible assets	Other assets
10. Cash and cash balances with Central Banks	18.992	-	18.992	-	-	-	-	-
20. Financial assets held for trading	22.426	22.426	-	-	-	-	-	-
50. Financial assets held to maturity	10.001	-	-	10.001	-	-	-	-
60. Loans and advances to Credit Institutions	2.774.877	-	2.125.795	2.796	645.804	-	-	482
70. Loans and advances to Customers	4.090.381	-	-	36.396	4.053.985	-	-	-
80. Hedging derivatives	1.689	-	-	-	-	-	-	1.689
100. Equity investments	4.150	-	-	-	-	4.150	-	-
110. Tax assets	-	-	-	-	-	-	-	16.789
120. Property, plant and equipment	11	-	-	-	-	-	11	-
160. Other assets	91.808	-	-	-	-	-	-	91.808
Total assets	**7.014.335**	**22.426**	**2.144.787**	**49.193**	**4.699.789**	**4.150**	**11**	**110.768**

30/06/2018		Total liabilities (restated) Loans and borrowings	Debt securities issued	Treasury borrowings	Fin. liabilities at FVTPL	Other liabilities	Prov. for risks and charges	Net equity and profit
10. Amounts due to Credit Institutions	- 2.180.326	- 2.128.652	-	- 51.674	-	-	-	-
20. Amounts due to Customers	- 792.710	- 792.710	-	-	-	-	-	-
30. Debt securities in issue	- 3.652.741	- 1.370.979	- 2.281.762	-	-	-	-	-
40. Trading liabilities	- 19.050	-	-	-	- 19.050	-	-	-
50. Hedging derivatives	- 11.122	-	-	-	-	- 11.122	-	-
80. Tax liabilities	- 11.167	-	-	-	-	- 27.956	-	-
100. Other liabilities	- 6.292	-	-	-	-	- 5.885	- 407	-
160. Reserves	- 318.553	-	-	-	-	-	-	- 318.553
190. Share capital	- 10.000	-	-	-	-	-	-	- 10.000
200. Profit for the year	- 12.374	-	-	-	-	-	-	- 12.374
Total liabilities and equity	**7.014.335**	**- 4.292.341**	**- 2.281.762**	**- 51.674**	**- 19.050**	**- 44.963**	**- 407**	**- 340.927**

Note: under IAS39, tax advances for an amount of € 16.789k were reclassified under 'heading 80 - Tax liabilities' so that the carrying value as at 30 June 2018 was the sum of the outstanding tax provisions net of the advances already paid to the tax Authorities. Under IFRS9 tax advances and provisions are kept separate, therefore the carrying values which are shown in the reclassified statement of financial position as at 30 June 2018 are not immediately traceable and/or reconcilable to the official statement. The same is not true for the reconciliation of the figures as at 30 June 2019 (cf. below) since the latters were already prepared under the new accounting standard IFRS9.

2.1 Statement of comprehensive income as at 30 June 2019 (in € k)

30/06/2019			Statement of comprehensive income (restated)							
			Net interest income	**Net trading income**	**Net fee and commission income**	**Wages and salaries**	**Other administrative expenses**	**Loans impairment**	**Provisions for other financial assets**	**Fiscal provision**
10.	Interests and similar income	110.325	110.325	-	-	-	-	-	-	-
20.	Interest expense and similar charges	- 98.107	- 98.107	-	-	-	-	-	-	-
30.	**Net interest income**	**12.218**	**12.218**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
40.	Fee and commission income	14.580	-	2.120	12.460	-	-	-	-	-
50.	Fee and commission expense	- 9.560	-	- 1.130	- 8.430	-	-	-	-	-
60.	**Net fee and commission income**	**5.020**	**-**	**990**	**4.030**	**-**	**-**	**-**	**-**	**-**
80.	Net trading income (expense)	733	6	727	-	-	-	-	-	-
90.	Net hedging income (expense)	7	7	-	-	-	-	-	-	-
100.	Gain or loss on disposal or repurchase	- 87	-	- 87	-	-	-	-	-	-
120.	**Total income**	**17.891**	**12.231**	**1.630**	**4.030**	**-**	**-**	**-**	**-**	**-**
130.	Adjustments for impairment	- 3.456	-	-	-	-	-	- 2.593	- 863	-
150.	**Net income from financial operations**	**14.435**	**12.231**	**1.630**	**4.030**	**-**	**-**	**- 2.593**	**- 863**	**-**
190.	Administrative expenses	- 10.065	-	-	-	- 1.960	- 8.105	-	-	-
a)	*personnel costs*	*- 1.960*	-	-	-	*- 1.960*	-	-	-	-
b)	*other administrative expenses*	*- 8.105*	-	-	-	-	*- 8.105*	-	-	-
200.	Net provisions for risks and charges	6	-	-	-	-	-	6	-	-
210.	Value adjustments in respect of tangible assets	- 4	-	-	-	-	- 4	-	-	-
230.	Other operating income (expense)	- 51	-	-	149	-	- 200	-	-	-
290.	**Profit (loss) of the ordinary activity before tax**	**4.321**	**12.231**	**1.630**	**4.179**	**- 1.960**	**- 8.309**	**- 2.587**	**- 863**	**-**
300.	Income tax on the ordinary activity	- 1.098	-	-	-	-	-	-	-	- 1.098
330.	**Profit (loss) for the year**	**3.223**	**12.231**	**1.630**	**4.179**	**- 1.960**	**- 8.309**	**- 2.587**	**- 863**	**- 1.098**
340.	Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	-
350.	**Total comprehensive income for the year, net of tax**	**3.223**	**12.231**	**1.630**	**4.179**	**- 1.960**	**- 8.309**	**- 2.587**	**- 863**	**- 1.098**

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

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

ANNEX II

GUIDELINES ON ALTERNATIVE PERFORMANCE MEASURES

Executive summary

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

Alternative performance measures

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

- Watch List Ratio (cf. p. 17 of the management report) which compares the exposures reported within the credit watch list of the institution at the reporting date with the total credit exposure amount (drawn and undrawn commitments, always net of any financial guarantee received from the Parent company and/or third party insurers).

(in €)		30/06/2019	30/06/2018
Watch list ratio =	Net credit watch list exposures	24.555.374	5.643.022
	Net credit exposures	1.747.583.698	1.604.276.839
	ratio %	**1,4**	**0,4**

The goal of the credit watch-list process is to highlight potentially problematic clients through the use of an early warning system that identifies counterparties which have manifested or potentially could manifest weaknesses and thus require a closer monitoring. The identified counterparties are then added to the watch-list and classified based on the alert level assigned (“red” and “amber” for performing assets, “black” for non-performing assets). The credit watch list also comprises the “green” or “reinforced monitoring” category, within which are reported those exposures that show preliminary and/or potential sign of weakness which are not considered to be relevant for the purpose of inclusion in the numerator of the ratio. Forborne exposures conversely are always included within the watch-list.

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

- Return On Equity (ROE, cf. p. 23 of the management report) is the amount of net income returned as a percentage of the shareholders’ equity.

(in €)		30/06/2019	30/06/2018
Return on equity =	Net income	3.222.760	12.374.359
	Shareholders' equity	338.247.674	328.552.612
	ratio %	**1,0**	**3,8**

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

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

- Return On Assets (ROA, cf. p. 23 of the management report) is the amount of net income returned as a percentage of the average total assets.

(in €)		30/06/2019	30/06/2018
Return on assets =	Net income	3.222.760	12.374.359
	Average total assets	7.042.856.960	6.103.002.024
	ratio %	**0,05**	**0,2**

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

ANNEX III

GLOSSARY

Executive summary

A list (non exhaustive) of certain technical terms is provided below in the meaning adopted in the financial statements as at June 30th.

* * *

ABS – Asset Backed Security

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

APM – Alternative Performance Measures

Cf. Annex II – Guidelines on Alternative Performance Measures.

ASF – Available Stable Funding

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

AT1 – Additional Tier 1

Additional Tier 1 capital is defined as instruments with undetermined/continuous duration that are not common equity but are eligible to be included in this tier.

Basel 2

Reference prudential regulations based on three pillars:

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

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

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

Basel 3

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

Basel 4

On 7 December 2017, the Basel Committee on Banking Supervision published a document finalizing the Basel 3 reform (cf. above), also known informally as Basel 4. The key objective of the revision is to reduce excessive variability of RWA observed in the banking sector through: (i) enhancing the robustness and risk sensitivity of the standardized approaches for credit risk and operational risk, (ii) constraining the use of internally modelled approaches, (iii) Complementing the risk-weighted capital ratio with a finalized leverage ratio and a revised and robust capital floor.

CEO

Chief Executive Officer.

CET1 – Common Equity Tier 1

Bank's core capital which primarily consists of ordinary shares, retained earnings and certain reserves.

CET1 Ratio – Common Equity Tier1 Ratio

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

CFO

Chief Financial Officer.

CRDIV

EU Directive n. 36/2013.

CRDV

EU Directive n. 878/2019.

CRR

EU Regulation n. 575/2013.

CRRII

EU Regulation n. 876/2019.

CSSF – Commission de Surveillance du Secteur Financier

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

CRO
Chief Risk Officer.

EBA – European Banking Authority
The European Banking Authority is an independent EU Authority which works to ensure effective and consistent prudential regulation and supervision across the European banking sector. Its overall objectives are to maintain financial stability in the EU and to safeguard the integrity, efficiency and orderly functioning of the banking sector.

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

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

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

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

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

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

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

IAS/IFRS – International Accounting Standards

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

IASB – International Accounting Standard Board

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

ICAAP – Internal Capital Adequacy Assessment Process

Cf. above “Basel 2 – Pillar 2”.

ICC – Impôt Commercial Communal

Communal business tax levied on the profits of Luxembourg commercial companies.

IFRIC – International Financial Reporting Interpretations Committee

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

IRC - Impôt sur le Revenu des Collectivités

Corporate income tax levied on gains made by certain Luxembourg corporations (including capital companies) during the financial year.

L&R – Loan and Receivables

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

Leverage Ratio

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

LCR – Liquidity Coverage Ratio

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

NAV – Net Asset Value

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

Non performing

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

NSFR – Net Stable Funding Ratio

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

NWT – Net Wealth Tax

Public limited company in Luxembourg are subject to a net wealth tax established by assessing the taxable wealth (in other words, net assets as they appear on the balance sheet at the end of a tax period).

P2G – Pillar 2 Guidance

Additional non-binding capital requirement which might be required by supervisors in order to have sufficient capital as a buffer to withstand stressed situations.

P2R – Pillar 2 Requirement

Additional binding capital requirement which might be imposed by the supervisors to cover those risks that are not fully targeted by the capital requirements and buffers dictated by CRR and CRD IV (e.g. unexpected losses, under-provisioned expected losses, deficiencies in risk measurement models, deficiencies in governance and internal controls).

ROA – Return On Assets

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

ROE – Return On Equity

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

RWA – Risk Weighted Assets

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

RSF – Required Stable Funding

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

SPPI – Solely Payments of Principal and Interest

Test prescribed by the accounting standard IFRS 9 which must be carried out on an instrument by instrument basis to assess whether the contractual terms of a given financial asset (as a whole) give rise to cash flows that are solely payments of principal and interest on the principal amounts outstanding (i.e. cash flows that are consistent with a basic lending arrangement).

SPV – Special Purpose Vehicle

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

SREP - Supervisory Review and Evaluation Process

Evaluation activity carried out by the supervisors once a year to assess and measure the risks for each bank.

Tier 1

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

Tier 2

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

TLTROs – Targeted Longer Term Refinancing Operation

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

Total Capital Ratio

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

WL Ratio – Watch List Ratio

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

ZLB – Zero Lower Bound

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