MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.

RCSL n. B112885

Interim Report
for the six months ended 31 December 2019

MEDIOBANCA INTERNATIONAL (Luxembourg)

SOCIÉTÉ ANONYME

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

Board of Directors meeting
28th January 2020

BOARD OF DIRECTORS

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

INDEPENDENT AUDITOR

PRICEWATERHOUSECOOPERS S.C. LUXEMBOURG

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MANAGEMENT REPORT

Mediobanca International (Luxembourg) S.A.
Head Office: 4, Boulevard Joseph II, L-1840 Luxembourg
Mediobanca Banking Group
Share capital: € 10,000,000 fully paid up

FINANCIAL SITUATION AT 31 DECEMBER 2019
BOARD OF DIRECTORS' REVIEW OF OPERATIONS

The International Monetary Fund ('IMF') forecasts global economic growth to rise from an estimated 2,9 percent in 2019 to 3,3 percent in 2020 and 3,4 percent for 2021. These outcomes depend to an important extent on (i) avoiding further escalation in trade tensions between US and China, (ii) being able to contain the global impact of the coronavirus, (iii) averting a no-deal Brexit, (iv) limiting the economic ramifications of social unrest and geopolitical tensions.

The effects of substantial monetary easing across advanced and emerging market economies in 2019 are expected to continue working their way through the global economy in 2020. The global growth estimate for 2019 and projections for 2020 would have been 0,5 percentage point lower in each year without this monetary stimulus.

Growth in the euro area is projected to remain subdued at just over 1,0 percent over the coming two years, as enduring weak external demand, policy uncertainty and low confidence continue to hamper exports and investment. Household saving is expected to continue to rise, further weakening the prospects for demand growth. Inflation is projected to remain low and far below 2,0 percent. Germany and Italy remain the countries most affected by the current slowdown, reflecting in part their strong reliance on manufacturing, compounded in the case of Germany by greater dependence on exports and specific issues in the automotive industry. Countries more reliant on domestic demand, such as France and Spain, have resisted better to the slowdown so far, but are now also being impacted through intra-area spillovers.

In Italy GDP growth is projected to be around 0,5 percent in 2020 and 2021. Weak external demand and persistent uncertainties relating to global trade policies will limit export growth, weighing on investment, employment and incomes. On the other hand, household consumption will rise moderately, supported by stabilising consumer confidence and cuts to the tax wedge for many dependent workers. Reduced domestic policy uncertainty, easier financing conditions and tax incentives are expected to support investment.

In Luxembourg growth is projected to ease to 2,8 percent in 2020 and to 2,3 percent in 2021, amid subdued investment and persistent weakness in the euro area, which will hamper further export dynamism. Robust private consumption, in the context of a strong labour market, will help sustain economic activity. Fiscal position remains strong, with the fiscal surplus projected to remain close to 3,0 percent of GDP and the gross public debt ratio among the lowest in the OECD area.

In United Kingdom the economic outlook is unusually uncertain given the risks around a no-deal Brexit. Assuming there is a smooth transition ending after 2021, activity is expected to grow at around 1,0 percent in the next two years. Leaving the European Union without an agreed deal would significantly damage the economy, especially if it triggers turbulence in financial markets. The UK economy is also exposed to global financial risks, a further slowdown in the world economy and rising protectionism. By contrast, investment prospects could recover faster should the United Kingdom and the European Union agree on a future close economic relationship.

Forecasts for Germany reflect he stagnation of global trade, with declines in export orders and industrial production. After expanding by an estimated 0,6 percent in 2019, GDP is projected to grow only by 0,4 percent in 2020 and 0,9 percent in 2021. The outlook for exports remains poor with new orders stabilising at a low level. Business investment has also declined, as manufacturing business confidence has continued to weaken. Unemployment is expected to increase only slightly as the flexible government-supported short-term work programmes absorb some labour market slack as long as the slowdown is temporary

In United States growth is projected to slow in the coming two years (from 2,3 percent in 2019 to 2,0 percent in 2020, and decline further to 1,7 percent in 2021) as macroeconomic policy becomes less supportive. There are substantial downside risks to the projection if trade tensions continue to escalate. The space for effective fiscal and monetary policies remains narrow as long as sizeable deficits continue and long-term spending pressures mount. On the other hand, a stronger international outlook, reduced trade tensions, building on the recent agreement with China to reach a wider-ranging deal, and stronger productivity growth could boost growth and inflation.

Growth prospects in the emerging-markets and developing economies collectively is expected to increase to 4,4 percent in 2020 and 4,6 percent in 2021, from an estimated 3,7 percent in 2019. The growth profile for the group reflects a combination of projected recovery from deep downturns for stressed and underperforming emerging market economies and an ongoing structural slowdown in China. Growth in emerging and developing Europe in particular is expected to strengthen to around 2,5 percent both in 2020 and 2021 (from 1,8 percent expected in 2019).

(Source: OECD economic outlook – November 2019; IMF world economic outlook – January 2020)

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During the six months under review the Bank has reported a net profit of €0,8m i.e. a decrease of approximately -41% when compared to December 2018 (€1,4m). A detailed analysis of the performance registered on the main income and financial items is made further in this report.

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

- Brexit: the United Kingdom has left the European Union at midnight on 31 January 2020. On 17 October 2019 the UK and the EU reached an agreement on a transition period. During the transition period, all EU rules and regulations will continue to apply to the UK (i.e. nothing will change for the business and/or for the public); this will give more time to prepare the new agreements concerning the future relationship between the EU and the UK after 31 December 2020.
- CRD V/CRR II: the CRD V/CRR II package is amongst the most important regulatory development for credit institutions operating in the EU in the coming years. Rather than piecemeal regulatory updates, CRD V and CRR II are refinements of reforms that started after the 2008-09 financial crisis. The proposed amendments to the package, implement the most recent international regulatory standards for banks and address some regulatory shortcomings to contribute to sustainable bank financing of the economy.
- BRRD II: in order to ensure effective and credible application of the bail-in resolution tool to impose losses on banks' creditors in case of a banking crisis, banks are subject to the Minimum Requirement for own funds and Eligible Liabilities (MREL). The MREL consists of own funds and part of a bank's liabilities. If a bank fails and goes into resolution, the MREL acts as a buffer to absorb losses and to provide new capital to the bank.
- Prospectus Directive 3: on 21 July 2019, the new EU Prospectus Regulation, along with the new Luxembourg Prospectus Act, laying down requirements for the drawing up, approval and distribution of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, fully entered into force.

- EU action plan on sustainable finance: the action plan on sustainable finance adopted by the European Commission in March 2018 has three main objectives: (i) reorient capital flows towards sustainable investment in order to achieve sustainable and inclusive growth, (ii) manage financial risks stemming from climate change, and (iii) foster transparency and long-termism in financial and economic activity.
- Securities Financing Transaction Regulation (SFTR): the SFTR aims to reduce the risks arising from securities lending, repurchase and reverse repurchase agreements, and any sell/buy-back transactions involving securities or commodities by setting reporting and recording obligations for securities financing transactions and limitations on the reuse of collateral.

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RESTATED STATEMENT OF FINANCIAL POSITION

In order to further illustrate the result of the period and support management commentaries, the statement of financial position has been reclassified using the same criteria adopted in the annual report (to which reference is made for further details).

	31/12/2019	30/06/2019	Chg.
	€m	€m	%
Financial assets at FVTPL	72,7	58,5	24,2%
Treasury investments	1.710,0	2.627,4	-34,9%
Debt securities - banking book	12,9	12,9	0,2%
Loans and advances	5.034,3	5.147,1	-2,2%
Equity investments	4,2	4,2	0,0%
Tangible and intangible assets	0,0	0,0	27,4%
Other assets	43,5	38,5	13,0%
Total Assets	**6.877,6**	**7.888,6**	**-12,8%**
Loans and borrowings	4.026,7	4.415,3	-8,8%
Debt securities issued	2.142,2	2.796,6	-23,4%
Treasury borrowings	295,0	268,5	9,9%
Financial liabilities at FVTPL	70,8	55,6	27,2%
Other liabilities	9,8	10,5	-5,9%
Provisions for risks and charges	0,7	0,7	-1,5%
Net equity	341,5	338,2	1,0%
Net profit	0,8	3,2	-75,2%
Total liabilities	**6.887,6**	**7.888,6**	**-12,8%**

ASSETS

Despite the persistence of a difficult market environment, the bank's total exposures remained at elevated levels throughout the semester, reaching at the end of December 2019 the carrying value of €6.9bn (-12,8% compared to June 2019).

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 24,2%, 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 €55,2m (€44,2m at the end of June 2019). 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 investments – this is the item which decreased above all others during the first semester of the financial year (-34,9%, from €2.627,4m to € 1.710,0m) mainly as a result of the minor reinvestment of the liquidity generated through the debt issuances made under the note programmes. In details:

- Reserve requirement at the Central Bank of Luxembourg increased importantly by 556,8% (from €14,9m to €97,9m) as a consequence of the introduction by the ECB, in September 2019 with effective date as of 30 October 2019, of a two-tier system for reserve remuneration which exempts part of credit institutions' excess liquidity holdings from negative remuneration.
- Demand deposits with third party credit institutions decreased significantly by -75,6% (from €539,0m to €131,6m) primarily by reason of the narrowing of the institution's net liquidity position.
- Term deposits with the Parent Company decreased by -28,6% (from €2.073,3m to €1.480,3m) as a consequence of the minor reuse of liquidity borrowed under the various note programmes;
- Other money market operations refer to securities lending transactions and are negligible in terms of outstanding carrying values (and substantially stable when compared to June 2019).

	31/12/2019	**30/06/2019**	**Chg.**
	€m	**€m**	**%**
Reserve requirement at Central Bank	97,9	14,9	556,8%
Demand deposits	131,6	539,0	-75,6%
Term deposits	1.480,3	2.073,3	-28,6%
Repo transactions	-	-	-
Other money market operations	0,3	0,3	12,3%
Others exposures (treasury)	0,0	0,0	-91,7%
Treasury investments	**1.710,0**	**2.627,4**	**-34,9%**

Loans and advances – this item decreased by -2,2% from €5.147,1m to €5.034,3m due to the reimbursements of the period which have been only partially compensated by the new financings. The institution's net credit risk exposure (i.e. drawn amounts excluding the portion secured by financial guarantees received from the Parent and/or third party insurers) has followed an opposite trend, passing from €1.298,1m at the end of June 2019 to €1.496,1m at the end of December 2019 (+15,2%).

In an environment which continues to be very challenging, it is worth mentioning that the carrying value of non-performing exposures remains very low in absolute terms (i.e. €16,2m at the end of December 2019). This result confirms the institution' strong commitment to asset quality and risk control.

	31/12/2019	**30/06/2019**	**Chg.**
	€m	**€m**	**%**
Loans and receivables (banks)	654,7	651,1	0,6%
of which: non performing	-	-	-
Loans and receivables (customers)	4.379,6	4.496,1	-2,6%
of which: non performing	*16,2*	-	-
Loans and advances	**5.034,3**	**5.147,1**	**-2,2%**

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 increased from €38,5m at the end of June 2019 to €43,5m at the end of December 2019 (13,0% in percentage terms) and is composed by (i) fair value of hedging derivatives, (ii) tax assets, and (iii) other receivables. In detail:

	31/12/2019	**30/06/2019**	**Chg.**
	€m	**€m**	**%**
Hedging derivatives	23,2	15,6	48,8%
Tax assets	5,7	12,6	-55,0%
Transitory accounts and other receivables	14,6	10,3	41,8%
Other assets	**43,5**	**38,5**	**13,0%**

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 semester (with reference to which there are no particular deviations to be reported as compared with the amounts originally provisioned). Transitory accounts and other receivables increased as a result of the growth 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 December 2019 were already cleared in January 2020).

LIABILITIES

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

Loans and borrowings – this item decreased by -8,8%, passing from €4.415,3m to €4.026,7m. In detail:

- Amount due to banks decreased by -17.1% passing from €2.974,4m to €2.464,4m. Such a trend is in line with the downward evolution of the asset volume.
- Amount due to customers is stable at €110,0m.
- Borrowings under the NEU CP and the Euro CP Programmes increased by 9,4% from €1.305,0m to €1.428,3m.
- Change in fair value of hedged debt instruments valued at amortised costs slightly decreased from €25,8m at the end of June 2019 to €24,0m at the end of December 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.

	31/12/2019	30/06/2019	Chg.
	€m	€m	%
Loans and borrowings (banks)	2.464,4	2.974,4	-17,1%
Loans and borrowings (customers)	110,0	110,0	0,0%
Negotiable commercial papers	1.428,3	1.305,0	9,4%
CFV notes issued	24,0	25,8	-7,2%
Loans and borrowings	**4.026,7**	**4.415,3**	**-8,8%**

Debt securities issued – this item decreased by -23,4% passing from €2.796,6m (June 2019) to €2.142,2m (December 2019) primarily by reason of the contractual repayment of the note issuance XS1663833744 (series no. 213) which occurred in August 2019 for a nominal value of €650m.

	31/12/2019	30/06/2019	Chg.
	€m	€m	%
Debt securities issued - non structured	2.034,2	2.688,9	-24,3%
Debt securities issued - structured	108,0	107,7	0,3%
Debt securities issued	**2.142,2**	**2.796,6**	**-23,4%**

Financial liabilities at FVTPL – the carrying value of financial liabilities at fair value through profit or loss (FVTPL) increased by +27,2% (from €55,6m to €70,8m) 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 € 53,7m (€42,5m at the end of June 2019). 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 from €10,5m at the end of June 2019 to €9,8m at the end of December 2019 (-5,9% 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:

	31/12/2019	30/06/2019	Chg.
	€m	€m	%
Hedging derivatives	-	0,1	-100,0%
Tax liabilities	3,3	7,4	-55,0%
Other payables	6,5	3,0	119,7%
Other liabilities	**9,8**	**10,5**	**-5,9%**

Fair value of hedging derivative instruments decreased to nil as a consequence of the dynamics of the underlying input market parameters. Tax liabilities decreased (-55,0% in percentage terms, from €7,4m to €3,3m) following the assessments received during the course of the semester (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 increased (+119,7% in percentage terms) in particular as a result of the growth of outstanding invoices for payment.

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 in the annual report (to which reference is made for further details).

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

	6 mths to 31/12/2019	6 mths to 31/12/2018	Chg.
	€m	€m	%
Net interest income	3,3	9,0	-63,3%
Net trading income	1,5	0,2	793,9%
Net fee and commission income	4,0	-0,4	-1.168,4%
TOTAL INCOME	**8,8**	**8,8**	**0,0%**
Wages and salaries	-1,4	-1,0	35,9%
Other administrative expenses	-5,4	-2,9	86,6%
OPERATING COSTS	**-6,8**	**-3,9**	**73,4%**
Loans impairment	-2,1	-2,7	-21,2%
Provisions for other financial assets	1,2	-0,4	-400,2%
Other profit (losses)	–	–	–
PROFIT BEFORE TAX	**1,1**	**1,8**	**-41,9%**
Fiscal provision	-0,3	-0,5	-42,2%
TOTAL COMPREHENSIVE INCOME	**0,8**	**1,4**	**-41,8%**

Total income for the first six months of the financial year was stable at €8,8m, however the mix between interest, trading and commission margin has changed importantly. The following variations are in particular worth to be noted:

Net interest income – this item decreased by -63,3% (from €9,0m to €3,3m) due to the followings:

- interest income from lending activities remained stable at €51,7m (€52,4m at December 2018) thanks to higher average volumes which compensated the decrease in average yields;
- interest expense from borrowing activities increased by 12,7% (from -€43,4m to -€48,9m) mostly as a consequence of higher average yields;
- The above was only partially compensated by the positive contribution from treasury activities (€0,5m at December 2019).

	6 mths to 31/12/2019	6 mths to 31/12/2018	Chg.
	€m	€m	%
Interest income - lending	51,7	52,4	-1,5%
Interest expense - funding	-48,9	-43,4	12,7%
Net interest income (expense) - Treasury	0,5	-0,1	-1121,6%
Net interest income	**3,3**	**9,0**	**-63,3%**

Net trading income – the contribution of the trading portfolio was significantly higher compared to the previous FY (+793,9%, from €0,2m at the end of December 2018 to €1,5m at the end of December 2019). This category is composed as follows:

	6 mths to 31/12/2019	6 mths to 31/12/2018	Chg.
	€m	€m	%
Derivatives - realised gains and losses	0,9	0,1	669,7%
Derivatives - unrealised gains and losses (mtm)	-1,1	-0,2	523,3%
Forex gains and losses	-0,9	-0,1	679,2%
Other realised gains and losses	2,5	0,3	658,5%
Net trading income	**1,5**	**0,2**	**793,9%**

- Realized gains and losses on financial instruments valued at FVTPL amounts to €0,9m (€0,1m at the end of December 2018);
- Unrealised mark to market valuation generated a loss of -€1,1m (-€0,2m at December 2018) which principally originates from derivative contracts negotiated with the Parent and/or embedded in other non-derivative instruments;
- Forex exposures has generated a loss of -€0,9m (whilst at December 2018 the loss was equal to -€0,1m);
- Other realized gains and losses primarily refer to securities lending transactions (which have generated a net contribution of € 0,7m whilst the contribution at December 2018 was € 0,3m), net gain on disposals of financial assets (€0.7m at December 2019), and net gain on repurchase of financial liabilities (€1.1m at December 2019).

Net fee and commission income – this item of the reclassified statement of comprehensive income, which is mostly driven by corporate lending and treasury services, turned from -€0,4m at the end of December 2018 to €4,0m at the end of December 2019. Main reason for such an increase has been the fall in commission expenditure (down from -€7,8m of December 2018 to -€2,7m of December 2019) as a consequence of the revision in the transfer pricing with the Parent.

	6 mths to 31/12/2019	6 mths to 31/12/2018	Chg.
	€m	€m	%
Fee and commission income	6,4	7,3	-12,2%
Fee and commission expense	-2,7	-7,8	-65,3%
Other income/expense	0,3	0,1	162,8%
Net fee and commission income (expense)	**4,0**	**-0,4**	**-1.168,4%**

Operating costs – this item increased importantly at -€6,8m (-€3,9m at December 2018) with the main components which performed as follows:

- wages and salaries increased by 35,9% (from -€1,0m to -€1,4m) essentially because of the hiring of new personnel.

- other costs increased by 86,6% (from -€2,9m to -€5,4m) mostly by reason of a non-recurrent expense incurred with the Parent Company.

Loans impairment – impairment provisions for credit exposures worth a total of -€2,1m were accounted for during the semester (-€2,7m at December 2018).

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

MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.

Statement of Directors' responsibilities

To the best of our knowledge, the interim accounts of MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A. (the "Bank") give a true and fair view of the assets, liabilities, financial position and profit and loss of the Bank in accordance with applicable accounting standards. The Directors' report includes a fair view of (I) the Bank's development, (II) its position, and (III) a description of the opportunities and risks relevant to the Bank that arose during the period ended 31 December 2019.

Luxembourg, 28 January 2020

The Board of Directors

Peter W. Gerrard Stefano Biondi Stephane Bosi

Massimo Di Carlo Giovanni Mancuso Piero Pezzati

Paola Schneider

INTERIM ACCOUNTS

STATEMENT OF FINANCIAL POSITION

Assets	31/12/2019	30/06/2019
10. Cash and cash equivalents	1.213	735
20. Financial assets valued at FVTPL	72.692.686	58.540.717
40. Financial assets valued at amortised cost	6.757.262.865	7.793.213.292
a) Due from banks	*2.367.545.986*	*3.287.070.565*
b) Due from customers	*4.389.716.879*	*4.506.142.727*
50. Hedging derivatives	23.164.161	15.563.611
70. Equity investments	4.150.000	4.150.000
90. Property, plant and equipment	362.221	10.203
110. Tax assets	5.666.905	12.580.187
a) current	*4.763.773*	*11.677.054*
b) deferred	*903.132*	*903.133*
130. Other assets	24.539.422	4.544.279
Total assets	**6.887.839.473**	**7.888.603.023**

Liabilities and equity	31/12/2019	30/06/2019
10. Financial liabilities valued at amortised cost	6.464.458.129	7.480.287.692
a) Due to banks	*2.736.575.709*	*3.242.845.060*
b) Due to customers	*133.368.130*	*110.027.614*
b) Debt securities in issue	*3.594.514.290*	*4.127.415.018*
20. Financial liabilities valued at FVTPL	70.769.208	55.634.234
40. Hedging derivatives	—	91.406
60. Tax liabilities	3.333.555	7.405.859
a) current	*2.585.355*	*6.657.659*
b) deferred	*748.200*	*748.200*
80. Other liabilities	6.281.576	2.974.646
100. Provisions for risks and charges	728.483	738.752
150. Reserves	331.470.434	328.247.674
160. Share capital	10.000.000	10.000.000
200. Profit (Loss) of the year	798.088	3.222.760
Total liabilities and shareholders' equity	**6.887.839.474**	**7.888.603.023**

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

STATEMENT OF COMPREHENSIVE INCOME

Items		31/12/2019	31/12/2018
010.	Interests and similar income	53.240.318	53.405.626
020.	Interest expense and similar charges	-49.873.687	-44.408.986
030.	**Net interest income**	**3.366.631**	**8.996.640**
040.	Fee and commission income	7.699.322	8.128.070
050.	Fee and commission expense	-3.272.416	-8.288.385
060.	**Net fee and commission income**	**4.426.906**	**-160.315**
080.	Net trading income (expense)	-1.067.186	-163.894
090.	Net hedging income (expense)	-56.420	10.967
100.	Gain or loss on disposal or repurchase of:	1.777.254	-16.233
	a) financial assets valued at amortised cost	*674.578*	*77.279*
	b) financial assets valued at FVOCI	–	–
	c) financial liabilities	*1.102.676*	*-93.512*
120.	**Total income**	**8.447.186**	**8.667.165**
130.	Adjustment for impairment to:	-948.461	-2.922.141
	a) financial assets valued at amortised cost	*-948.461*	*-2.922.141*
	b) financial assets valued at FVOCI	–	–
150.	**Net income from financial operations**	**7.498.725**	**5.745.024**
190.	Administrative expenses	-3.838.757	-3.939.595
	a) personnel costs	*-1.387.975*	*-1.020.632*
	b) other administrative expenses	*-2.450.782*	*-2.918.963*
200.	Net provisions for risks and charges	10.268	-115.946
	a) commitments and guarantees	*10.268*	*-115.946*
	b) other contingencies	–	–
210.	Value adjustments in respect of tangible assets	-112.937	-2.012
230.	Other operating income (expense)	-2.484.286	160.168
290.	**Profit (loss) of the ordinary activity before tax**	**1.073.012**	**1.847.639**
300.	Income tax on the ordinary activity	-274.924	-476.047
330.	**Profit (loss) for the period**	**798.088**	**1.371.592**
340.	Other comprehensive income, net of tax	—	—
350.	**Comprehensive income (loss) for the year, net of tax**	**798.088**	**1.371.592**

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

STATEMENT OF CHANGES IN EQUITY FROM 01/07/2019 TO 31/12/2019

	Balance as of June 30, 2019	First time adoption IFRS9	Allocation of the profit for the previous period		Changes during the reference period						Balance as of December 31, 2019
					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	**328.247.674**	**3.222.760**	—	—	—	—	—	—	—	**331.470.434**
a) legal reserve	1.000.000	—	—	—	—	—	—	—	—	1.000.000
b) free reserve	292.552.970	—	—	—	4.927.147	—	—	—	—	297.480.117
c) special reserve[(1)]	37.374.000	3.222.760	—	—	-4.927.147	—	—	—	—	35.669.613
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	**3.222.760**	**-3.222.760**	—	—	—	—	—	—	**798.088**	**798.088**
Total equity	**341.470.434**	—	—	—	—	—	—	—	**798.088**	**342.268.522**

(1) As of 31 December 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 interim accounts.

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

	Balance as of June 30, 2018	First time adoption IFRS9	Allocation of the profit for the previous period		Changes during the reference period						Balance as of December 31, 2018
						Transactions involving equity					
			Reserves	Dividends and other fund applications	Changes in reserves	New shares issued	Treasury shares derivatives	Stock options and others	Profit (loss) of the period		
Share capital	**10.000.000**	—	—	—	—	—	—	—	—		**10.000.000**
a) ordinary shares	10.000.000	—	—	—	—	—	—	—	—		10.000.000
b) other shares	—	—	—	—	—	—	—	—	—		—
Profit brought forward	—	—	—	—	—	—	—	—	—		—
Reserves	**318.552.612**	**-2.679.296**	**12.374.359**	—	—	—	—	—	—		**328.247.675**
a) legal reserve	1.000.000	—	—	—	—	—	—	—	—		1.000.000
b) free reserve	282.923.412	—	12.374.359	—	—	—	—	—	—		295.297.771
c) special reserve[(1)]	34.629.200	—	—	—	—	—	—	—	—		34.629.200
d) FTA reserve	—	-2.679.296	—	—	—	—	—	—	—		-2.679.296
Valuation reserves	—	—	—	—	—	—	—	—	—		—
a) AFS securities	—	—	—	—	—	—	—	—	—		—
b) cash flow hedges	—	—	—	—	—	—	—	—	—		—
c) special laws – others	—	—	—	—	—	—	—	—	—		—
Own shares	—	—	—	—	—	—	—	—	—		—
Comprehensive income of the period	**12.374.359**	—	**-12.374.359**	—	—	—	—	—	**1.371.593**		**1.371.593**
Total equity	**340.926.971**	**-2.679.296**	—	—	—	—	—	—	**1.371.593**		**339.619.268**

(1) As of 31 December 2018 and 2017 the bank has opted for the exoneration of the net wealth tax charge provided that the following conditions have been respected: (i) a reserve equivalent to five times the net wealth tax charge for the year is recorded following the decision of the Shareholders meeting, and (ii) the reserve will be maintained for a period of at least five years.

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

CASH FLOW STATEMENT - Direct Method (in € k)

		Amount	
		31/12/2019	**31/12/2018**
A.	**Cash flow from operating activity**	**—**	**-15.000**
1.	**Operating activity**	**12.189**	**-38.223**
	– interests received (+)	65.545	50.110
	– interests paid (-)	-53.827	-3.124
	– net fees and commissions received/paid (+/-)	1.625	-3.674
	– dividends and similar income (+)	—	—
	– net premiums collected (+)	—	—
	– personnel expenses (-)	-1.134	-1.121
	– other income (expenses) (+/-)	-2.292	-77.617
	– taxes and duties (+/-)	2.272	-2.797
2.	**Cash generated/absorbed by financial assets**	**1.141.921**	**-1.027.349**
	– financial assets valued at FVTPL	46	817
	– financial assets valued at FVOCI	817.473	—
	– financial assets valued at amortised cost	324.402	-1.023.753
	– other assets	—	-4.413
3.	**Cash generated/absorbed by financial liabilities**	**-1.154.110**	**1.050.572**
	– financial liabilities valued at FVTPL	-122	—
	– financial liabilities valued at amortised cost	-1.153.988	1.113.202
	– financial liabilities designated at fair value	—	—
	– other liabilities	—	-62.630
B.	**Cash flow from investing activity**	—	—
	– disposal/purchase of shareholdings	—	—
	– disposal/purchase of tangible assets	—	—
	– disposal/purchase of intangible assets	—	—
2.	**Cash flow from funding activityabsorbed by:**	**—**	**15.000**
	– issue/redemption of T1 capital instruments	—	—
	– issue/redemption of T2 capital instruments	—	15.000
	Net cash inflow (outflow) during the fiscal year	**—**	**—**

	Amount	
	31/12/2019	**31/12/2018**
Cash and cash equivalents: balance at 1 July	1	—
Total cash inflow (outflow) during year	—	—
Cash and cash equivalents: balance at 31 December	**1**	**—**

NOTES TO THE INTERIM ACCOUNTS

PART A - ACCOUNTING POLICIES

A.1 – GENERAL PART

Section 1

Statement of compliance with the International Accounting Standards

The interim financial statements of the Bank 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 for the period ended 31 December 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 – 6th update of 30 November 2018 – which sets out the financial statements layouts and compilation methods, as well as the content of the explanatory notes[1].

Accounting standard IAS 34 on interim reports is particularly taken into account.

Section 2

General principles

The interim accounts comprise:

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

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

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

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

The preparation of interim accounts in accordance with IFRS as adopted by the European Union requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expense items. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The new accounting standard IFRS 16 (Leases) came into force on 1 January 2019. This has been incorporated into the Group's accounting policies, and will apply starting from the current financial year.

For completeness of disclosure, it should be noted that during the six months under review, the European Commission has approved Regulation (EU) 2019/2075[2] and Regulation 2019/2104[3] of 29 November 2019, providing specifications and clarifications for certain IAS and IFRS already in force. For the Group Mediobanca, all such amendments and additions will apply starting from 1 July 2020.

This interim report was not audited nor reviewed by the statutory auditor.

Section 3

IFRS 16 - Leases

In 2016, the IASB issued the new accounting standard IFRS 16 "Leases", replacing the previous IAS 17 and its respective interpretations[4]. This standard was endorsed by the European Commission through Regulation no. 1986/2017 and, as far as the Group Mediobanca is concerned, it took effect from the financial year beginning on 1 July 2019.

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, 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 in the scope of the new standard.

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[2] The regulation entails amendments to the following standards: IAS 1 – *Presentation of financial statements;* IAS 8 – *Accounting policies, changes in accounting estimates and errors;* IAS 37 – *Provisions, contingent liabilities and contingent assets;* IAS 38 – *Intangible assets;* IFRS 2 – *Share-based payment;* IFRS 3 – *Business combinations;* IFRS 6 – *Exploration for and evaluation of mineral resources;* IFRIC 12 – *Service concession arrangements;* IFRIC 19 – *Extinguishing financial liabilities with equity instruments;* IFRIC 20 – *Stripping costs in the production phase of a surface mine;* IFRIC 22 – *Foreign currency transactions and advance consideration;* SIC 32 – *Intangible assets – website costs.*

[3] The regulation entails amendments to the following standards: IAS 1 – *Presentation of financial statements;*IAS 8 – *Accounting policies, changes in accounting estimates and errors;* IAS 10 – *Events after the reporing period;* IAS 34 – *Interim financial reporting;* IAS 37 – *Provisions, contingent liabilities and contingent assets.*

[4] 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".

At inception, IFRS 16 requires the lessee to record under the statement of financial position the value of the "right of use" of the leased/rented asset, offset by the liability arising from the discounted value of future lease payments to date. Thereafter the "right of use" asset will be amortized throughout the useful life of the contract, whilst the liability 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 over the term of the contracts.

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.

IFRS 16 requires the following information to be stated:

- breakdown of amortization charges booked by various classes of assets;
- 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.

The IFRS 16 project

The Group Mediobanca has launched a dedicated project to manage the transition to the new reporting standard, which has involved the analysis of the contracts, the definition of the choices, the assessment of the estimated impact, and the adaptation of the internal regulations.

Based on the aforementioned analysis, two macro-categories of contracts were identified as falling within the Bank's scope of action:

- real estate rental contracts;
- company car lease agreements.

The Group Mediobanca has adopted a dedicated IT solution to manage the new reporting standard in terms of quantifying and accounting for amounts payable and receivable in respect of leases.

IFRS 16 – Choices made by 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 the 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;
- if the original lease has been replicated with a new counterparty (so-called "sub-leasing"), the liability in respect of the original lease is matched by an amount receivable from the sub-lessee rather than the value in use;

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 contracts with a duration of twelve months or less (calculated on the first time adoption as at that date);
- “low-value” contracts, i.e. those contracts involving cumulated payments of less than five thousand Euros.

The Group has 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 “ITR” (internal transfer rate) curve existing at that date based on the duration of the contract.

Effects of the First-Time Adoption (FTA)

Since IFRS 16 came into force, and based on the transition choices that have been made at Group level (cf. above), the Bank’s assets have increased by € 415 thousand, as a consequence of the recognition of the right of use over properties, vehicles and other core goods being recognized under heading 90 of the statement of financial position (Property, plant and equipment). The latter was matched by an equivalent increase in heading 10 of the liabilities (Financial liabilities recognized at amortized cost), representing the payment obligations in respect of future instalments on the leases.

The overall value in use (accounted for under heading 90 ‘Property, plant and equipment’) amounts to € 415 thousand, and is made up as follows:

- Value in use of real estate properties: € 373 thousand;
- Value in use of company cars: € 42 thousand.

The impact of the first time adoption on the accounting balances as at 30 Jun 2019 (IAS 17) and 1 July 2019 (IFRS 16) can be summarized as follows:

Items *€ ('000)*	**30.06.2019**	**Transition effects** **IFRS16 impacts**	**01.07.2019**
10 Cash and cash receivables	1	—	1
20 Financial assets valued at fair value with impact taken to profit and loss	58.541	—	58.541
a) trading financial assets	58.541	—	58.541
b) financial assets designated at fair value	—	—	—
c) financial assets mandatorily valued at fair value	—	—	—
30 Financial assets valued at fair value with impact taken to comprehensive income	—	—	—
40 Financial assets valued at amortized cost	7.793.213	—	7.793.213
50 Hedging derivatives	15.565	—	15.565
60 Adjustments to hedged financial assets (+/-)	—	—	—
70 Equity interests	4.150	—	4.150
80 Technical reserves of reinsurers	—	—	—
90 Tangible assets	10	415	425
100 Intangible assets	—	—	—
110 Tax assets	12.580	—	12.580
120 Held for sale financial assets	—	—	—
130 Other assets	4.544	—	4.544
Total assets	**7.888.604**	**415**	**7.889.019**

Items € ('000)	30.06.2019	Transition effects IFRS16 impacts	01.07.2019
10 Financial liabilities valued at amortized cost	7.480.288	415	7.480.703
20 Trading financial liabilities	55.634	—	55.634
30 *Financial liabilities designated at fair value*	—	—	—
40 *Hedging derivatives*	91	—	91
50 *Adjustments to hedged financial liabilities (+/-)*	—	—	—
60 Tax liabilities	7.406	—	7.406
80 Other liabilities	2.975	—	2.975
100 Provisions	739	—	739
150 Reserves	328.248	—	328.248
170 Share capital	10.000	—	10.000
200 Gain (loss) for the period	3.223	—	3.223
Total liabilities and net equity	**7.888.604**	**415**	**7.889.019**

Considering the small perimeter involved and consequently the amounts of the value in use, in the first six months under examination the impact of profits and losses is not material.

Section 4

Events subsequent to the reporting date

After the closing date, no events took place that would induce to adjust the results posted in the interim report as at 31 December 2019.

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 (amortized 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.

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).

Leasing (IFRS 16)

An agreement is classified as a leasing contract (or contains a leasing element) based on the substance of the agreement at the execution date. An agreement is, or contains a lease if its performance involves the use of a specific good (or goods) and confers the right to use such good(s) – the “Right of Use” (“RoU”) – for an agreed period of time and in return for payment of a fee. This definition of leasing therefore also includes long-term rentals or hires.

From the date on which the contract takes effect, that is, the date on which the asset becomes available to the lessee, the lessee records the right of use among its tangible assets, matched by a liability which incorporates all future payment commitments.

Right of use is calculated as the sum of the discounted value of future payments (which is equal to the current value of the liability booked in respect of it), of the initial direct costs, any instalments received in advance or at the date from which the lease is effective (jumbo instalment), any incentives received from the lessor, and estimates of any costs of removing or restoring the asset underlying the lease itself.

The liability, which is booked under “Financial liabilities recognized at amortized cost”, is equal to the discounted value of the payments due in respect of the lease; and the marginal financing rate is equal to the Funds Transfer Pricing rate (FTP) as at the date concerned.

The Group Mediobanca has availed itself of the option granted under IFRS 16 to not consider short-term leases (i.e. expiring in under twelve months) or low value leases (i.e. those involving assets worth less than €5,000). For both these categories, the costs of the instalments are taken directly through profit and loss at the date of expiry.

The duration of a leasing contract takes into consideration the period during which the lease cannot be cancelled (as provided by the contract) and also any options for extending which it may reasonably be assumed will be used. In particular, where automatic renewal is provided for, account must be taken of previous behaviour, the existence of company schemes for disposing of assets leased, and every other circumstance that would point towards the existence of reasonable certainty of renewal.

After initial recognition, RoU is amortized over the lease’s duration, and written down as appropriate. The liability is increased as the interest payable accrues, and decreases gradually in line with the instalments being paid. If there are changes to the payments due in respect of the lease, the liability is recalculated against the asset recognized by way of RoU.

Leasing contracts in which Mediobanca is the lessor are split between finance and operating leases.

A lease is categorized as a finance lease if all the risks and benefits associated with ownership of the asset are transferred to the lessee.

Such leases are accounted for using the financial method, with a receivable being booked as an asset in an amount equal to that paid net of the instalments due and paid by the lessee, and the interest income being recognized through profit and loss.

For operating leases, where the risks and benefits associated with ownership are not transferred in full but continue to apply to the lessor, the leasing instalments are recognized through profit and loss based on the accrual principle.

For sub-leasing, i.e. when an original renting contract has been replicated with a counterparty, and there are grounds for classifying it as a finance lease, the liability in respect of the original lease is matched by an amount receivable from the sub-lessee rather than the value in use.

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 31 December 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.

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.

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, management makes estimates and assumptions concerning the future and the amounts recognized in the interim accounts. The most significant uses of judgment and estimates are as follows.

<u>Going concern</u>

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 interim accounts continue to be prepared on the going concern basis.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for structured securities. The valuation of financial instruments is described in more detail in Section 5.

Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances on a monthly basis to assess whether an impairment loss should be recorded in the income statement. In particular, risk judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumption about a number of factors and actual results may differ, resulting in future changes to the allowance. Impairment of financial assets takes account of data from the portfolio (such as level of arrears, credit utilization, loan to collateral ratio, etc.) and judgments to the effect of concentration of risk and economic data. The impairment loss on loans and advances is disclosed in more detail in Section 5.

Deferred tax assets

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

PART B - NOTES TO THE STATEMENT OF FINANCIAL POSITION

ASSETS

Section 1

Heading 10 – Cash and cash equivalents

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

	31/12/2019	30/06/2019
a) Cash	1	1
b) Demand deposit held at Central Banks	—	—
Total	**1**	**1**

Section 2

Heading 20 – Financial assets valued at FVTPL

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

Item/Values	31/12/2019			30/06/2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	—	—	—	—	—	—
1.1 Structured	—	—	—	—	—	—
1.2 Other debt securities	—	—	—	—	—	—
2. Equities	—	—	—	—	—	—
3. UCITS units	—	—	—	—	—	—
4. Loans and advances	2.009	—	—	—	—	—
4.1 Repos	—	—	—	—	—	—
4.2 Others	2.009	—	—	—	—	—
Total A	**2.009**	**—**	**—**	**—**	**—**	**—**
B. Derivative products						
1. Financial derivatives	—	15.498	—	—	14.380	—
1.1 Trading	—	15.498	—	—	14.380	—
1.2 Linked to FV options	—	—	—	—	—	—
1.3 Others	—	—	—	—	—	—
2. Credit derivatives	—	55.186	—	—	44.161	—
2.1 Trading	—	55.186	—	—	44.161	—
2.2 Linked to FV options	—	—	—	—	—	—
2.3 Others	—	—	—	—	—	—
Total B	**—**	**70.684**	**—**	**—**	**58.541**	**—**
Total (A+B)	**2.009**	**70.684**	**—**	**—**	**58.541**	**—**

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

Item/Value	**31/12/2019**	**30/06/2019**
A. CASH ASSETS		
1. Debt securities	—	—
2. Equities	—	—
3. UCITS units	—	—
4. Loans and advances	2.009	—
Total A	**2.009**	**—**
B. DERIVATIVE PRODUCTS		
a. Banks	70.684	58.541
- *Fair value*	70.684	58.541
b. Customers	—	—
- *Fair value*	—	—
Total B	**70.684**	**58.541**
Total A+B	**72.693**	**58.541**

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	Total 31/12/2019						Total 31/12/2019					
	Carrying value			Fair value			Carrying value			Fair value		
	Stage1 and stage2	Stage3	of which: non performing acquired or originated	Level 1	Level 2	Level 3	Stage1 and stage2	Stage3	of which: non performing acquired or originated	Level 1	Level 2	Level 3
A. Due from Central Banks	97.868	—	—	—	97.868	—	14.899	—	—	—	14.899	—
1. Term deposits	83.887	—	—	X	X	X	—	—	—	X	X	X
2. Compulsory reserve	13.981	—	—	X	X	X	14.899	—	—	X	X	X
3. Repos	—	—	—	X	X	X	—	—	—	X	X	X
4. Others	—	—	—	X	X	X	—	—	—	X	X	X
B. Due from banks	2.269.677	—	—	—	2.268.937	—	3.272.172	—	—	—	3.252.267	—
1. Loans and advances	2.266.874	—	—	—	2.266.151	—	3.269.368	—	—	—	3.249.494	—
1.1 Current accounts and demand deposits	131.644	—	—	X	X	X	538.578	—	—	X	X	X
1.2 Term deposits	1.480.264	—	—	X	X	X	2.073.292	—	—	X	X	X
1.3 Other financings:	654.966	—	—	X	X	X	657.498	—	—	X	X	X
- Repos	—	—	—	X	X	X	—	—	—	X	X	X
- Finance leases	—	—	—	X	X	X	—	—	—	X	X	X
- Others	654.966	—	—	X	X	X	657.498	—	—	X	X	X
2. Debt securities	2.803	—	—	—	2.786	—	2.804	—	—	—	2.773	—
2.1 Structured debt securities	2.803	—	—	X	X	X	2.804	—	—	X	X	X
2.2 Other debt securities	—	—	—	X	X	X	—	—	—	X	X	X
Total	**2.367.545**	**—**	**—**	**—**	**2.366.805**	**—**	**3.287.071**	**—**	**—**	**—**	**3.267.166**	**—**

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

Type of transactions/Values	Total 31/12/2019						Total 30/06/2019					
	Carrying value			Fair Value			Carrying value			Fair Value		
	Stage1	Stage2	Stage3	Level 1	Level 2	Level 3	Stage1	Stage2	Stage3	Level 1	Level 2	Level 3
1. Loans and advances	4.199.074	164.378	16.153	—	4.629.848	—	4.282.716	213.339	—	—	4.768.779	—
1.1 Current accounts	—	—	—	X	X	X	—	—	—	X	X	X
1.2 Repos	—	—	—	X	X	X	—	—	—	X	X	X
1.3 Term loans	4.199.074	164.378	16.153	X	X	X	4.282.716	213.339	—	X	X	X
1.4 Credit cards and personal loans	—	—	—	X	X	X	—	—	—	X	X	X
1.5 Finance leases	—	—	—	X	X	X	—	—	—	X	X	X
1.6 Factoring	—	—	—	X	X	X	—	—	—	X	X	X
1.7 Other loans	—	—	—	X	X	X	—	—	—	X	X	X
2. Debt securities	10.112	—	—	—	10.181	—	10.084	—	—	—	10.309	—
2.1 Structured debt securities	—	—	—	X	X	X	—	—	—	X	X	X
2.2 Other debt securities	10.112	—	—	X	X	X	10.084	—	—	X	X	X
Total	**4.209.186**	**164.378**	**16.153**	**—**	**4.640.029**	**—**	**4.292.800**	**213.339**	**—**	**—**	**4.779.088**	**—**

Section 5

Heading 50 – Hedging derivatives

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

	31/12/2019			Notional value	30/06/2019			Notional value
	Fair value				*Fair value*			
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives								
1) Fair value	—	23.164	—	491.255	—	15.564	—	508.206
2) Cash flow	—	—	—	—	—	—	—	—
B. Credit derivatives								
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	**—**	**23.164**	**—**	**491.255**	**—**	**15.564**	**—**	**508.206**

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

31/12/2019 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 available-for-sale	—	—	—	—	—	—	—	—	—
2. Lending portfolio	—	—	—	—	—	—	—	—	—
3. Financial assets held-to-maturity	—	—	—	—	—	—	—	—	—
4. Portfolio	—	—	—	—	—	—	—	—	—
5. Other	—	—	—	—	—	—	—	—	—
TOTAL ASSETS	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
1. Financial liabilities	23.164	—	—	—	—	—	—	—	—
2. Portfolio	—	—	—	—	—	—	—	—	—
TOTAL LIABILITIES	**23.164**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
1. Highly probable transactions	—	—	—	—	—	—	—	—	—
2. Financial assets and liabilities portfoglio	—	—	—	—	—	—	—	—	—

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 available-for-sale	—	—	—	—	—	—	—	—	—
2. Lending portfolio	—	—	—	—	—	—	—	—	—
3. Financial assets held-to-maturity	—	—	—	—	—	—	—	—	—
4. Portfolio	—	—	—	—	—	—	—	—	—
5. Other	—	—	—	—	—	—	—	—	—
TOTAL ASSETS	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
1. Financial liabilities	15.564	—	—	—	—	—	—	—	—
2. Portfolio	—	—	—	—	—	—	—	—	—
TOTAL LIABILITIES	**15.564**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
1. Highly probable transactions	—	—	—	—	—	—	—	—	—
2. Financial assets and liabilities portfoglio	—	—	—	—	—	—	—	—	—

Section 7

Heading 70 – Equity investments

7.1 Equity investments: disclosure on shareholdings

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

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.	1.839	87	25	1.799	4.150

Section 9

Heading 90 – Property, plant and equipment

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

Assets/value	31/12/2019	30/06/2019
1. Assets owned by Bank	12	10
a) land	—	—
b) buildings	—	—
c) furniture and fitting	1	2
d) electronic equipment	—	—
e) other assets	11	8
2. Right-of-use assets	351	—
a) land	—	—
b) buildings	318	—
c) furniture	—	—
d) electronic equipment	—	—
e) other assets	33	—
Total	**363**	**10**

Section 11

Heading 110 – Tax assets

11.1 Current tax assets: composition (in € k)

	IRC [5]	ICC [6]	Other [7]	Total
Balance at the beginning of the year	**8.738**	**2.899**	**40**	**11.677**
Increase of the period (+)	**351**	**484**	**405**	**1.240**
- advances paid	351	484	—	835
- transfers	—	—	—	0
- others	—	—	405	405
Decrease of the period (-)	**-5.825**	**-1.933**	**-415**	**-8.173**
- releases of the year (assessments)	-5.825	-1.933	-415	-8.173
- transfers	—	—	—	0
- others	—	—	—	0
Balance at the end of the fiscal year	**3.264**	**1.450**	**30**	**4.744**

5) Impôt sur le Revenu des Collectivités (IRC) is a special proportional tax levied on gains made by corporations.
6) Impôt Commercial Communal (ICC) is a municipal tax levied on gains made by corporations.
7) Other taxes primarily include the outstanding balances in respect of Net Wealth Tax (Fee and commission expe) and Value Added Tax (VAT).

11.2 Deferred tax assets: composition (in € k)

	31/12/2019	30/06/2019
- deferred tax assets recognised in the statement of comprehensive income	—	—
- deferred tax assets recognised in the net equity	748	903
Total	**748**	**903**

Section 13

Heading 130 – Other assets

13.1 Other assets: composition (in € k)

	31/12/2019	30/06/2019
1. Gold, silver and precious metal	—	—
2. Accrued income other than capitalized income	756	953
3. Trade receivables or invoice to be issued	—	89
4. Amount due from tax revenue Authorities (not attributed to heading 110)	208	208
5. Other	23.576	3.294
- transitory accounts	23.583	3.231
- prepayments	-7	63
Total	**24.540**	**4.544**

LIABILITIES

Section 1

Heading 10 – Financial liabilities valued at amortised cost

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

Type of transactions/Values	31/12/2019				30/06/2019			
	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	2.736.575	X	X	X	3.242.845	X	X	X
2.1 Current accounts and demand deposits	21.853	X	X	X	18.275	X	X	X
2.2 Term deposits	250.001	X	X	X	250.090	X	X	X
2.3 Loans	2.464.401	X	X	X	2.974.382	X	X	X
2.3.1 Repos	—	X	X	X	—	X	X	X
2.3.2 Others	2.464.401	X	X	X	2.974.382	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	320	X	X	X	98	X	X	X
Total	**2.736.575**	**—**	**2.753.977**	**—**	**3.242.845**	**—**	**3.242.845**	**—**

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

Type of transactions/Values	31/12/2019				30/06/2019			
	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	23.000	X	X	X	—	X	X	X
3. Loans	110.017	X	X	X	110.028	X	X	X
3.1 Repos	—	X	X	X	—	X	X	X
3.2 Others	110.017	X	X	X	110.028	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	—	X	X	X	—	X	X	X
5. Lease payables [1]	351	X	X	X	—	X	X	X
6. Other liabilities	—	X	X	X	—	X	X	X
Total	**133.368**	**—**	**133.445**	**—**	**110.028**	**—**	**109.531**	**—**

[1] This heading includes obligations in respect of future instalments payable on leases as provided by IFRS 16 and Bank of Italy circular 262, sixth update.

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

Type of transactions/Values	31/12/2019				30/06/2019			
	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	2.166.211	—	2.194.054	—	2.822.398	—	2.897.755	—
1.1 Structured	108.011	—	113.809	—	107.703	—	112.343	—
1.2 Other	2.058.200	—	2.080.245	—	2.714.695	—	2.785.412	—
2. Other securities	1.428.303	—	1.428.303	—	1.305.017	—	1.305.017	—
2.1 Structured	—	—	—	—	—	—	—	—
2.2 Other	1.428.303	—	1.428.303	—	1.305.017	—	1.305.017	—
Total	**3.594.514**	**—**	**3.622.357**	**—**	**4.127.415**	**—**	**4.202.772**	**—**

Section 2

Heading 20 – Financial liabilities valued at FVTPL

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

Transaction type/Values	31/12/2019				30/06/2019			
	Nominal value	Fair Value			Nominal value	Fair Value		
		Level 1	Level 2	Level 3		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	1.226.172	—	15.327	—	937.531	—	13.146	—
1.1 Trading	1.226.172	—	15.327	—	937.531	—	13.146	—
1.2 Related to the fair value option	—	—	—	—	—	—	—	—
1.3 Others	—	—	—	—	—	—	—	—
2. Credit derivatives	1.301.506	—	55.442	—	1.299.073	—	42.488	—
2.1 Trading	1.301.506	—	55.442	—	1.299.073	—	42.488	—
2.2 Related to the fair value option	—	—	—	—	—	—	—	—
2.3 Others	—	—	—	—	—	—	—	—
Total (B)	**2.527.678**	**—**	**70.769**	**—**	**2.236.604**	**—**	**55.634**	**—**
Total (A+B)	**2.527.678**	**—**	**70.769**	**—**	**2.236.604**	**—**	**55.634**	**—**

Section 4

Heading 40 – Hedging derivatives

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

Items/Values	**31/12/2019**				**30/06/2019**			
	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) Fair value hedges	—	—	—	—	650.000	—	91	—
2) Cash flow hedges	—	—	—	—	—	—	—	—
3) Foreign investments	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value hedges	—	—	—	—	—	—	—	—
2) Cash flow hedges	—	—	—	—	—	—	—	—
Total	—	—	—	—	**650.000**	**—**	**91**	**—**

Section 6

Heading 60 – Tax liabilities

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

	IRC	ICC	Other	Total
Balance at the beginning of the year	**4.832**	**1.557**	**269**	**6.658**
Increase of the period (+)	**217**	**79**	**37**	**333**
- advances paid	217	79	—	296
- transfers	—	—	—	—
- others	—	—	37	37
Decrease of the period (-)	**-3.264**	**-1.142**	**—**	**-4.406**
- releases of the year (assessments)	-3.264	-1.142	—	-4.406
- transfers	—	—	—	—
- others	—	—	—	—
Balance at the end of the fiscal year	**1.785**	**494**	**306**	**2.585**

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

Deferred tax liabilities	31/12/2019	30/06/2019
1. Initial amount	**748**	**780**
1.1 Initial amount	748	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**	**748**

Section 8

Heading 80 – Other liabilities

8.1 Other liabilities: composition (in € k)

	31/12/2019	30/06/2019
1. Payment agreements (IFRS 2)	—	—
2. Impaired endorsements(*)	—	—
3. Working capital payables and invoices pending receipt	1.244	2.742
4. Prepaid expenses other than capitalized expenses on related financial assets	—	—
5. Amounts due to revenue authorities	—	—
6. Amounts due to staff	62	28
7. Other items:	4.980	205
- bills for collection	—	—
- coupons and dividends pending collection	192	192
- available sums payable to third parties	4.788	13
- premiums, grants and other items in respect of lending transactions	—	—
- credit notes to be issued	—	—
- other	—	—
Total	**6.286**	**2.975**

Section 10

Heading 100 – Provisions for risks and charges

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

Items / Values	31/12/2019	30/06/2019
1. Provisions for credit risk related to commitments and financial guarantees issued (*)	728	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	**728**	**739**

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

Provisions for credit risk related to financial obligations and guarantees issued	31/12/2019				30/06/2019			
	First stage	Second stage	Third stage	Total	First stage	Second stage	Third stage	Total
Commitments to distribute funds	634	94	—	728	656	63	—	719
Financial guarantees issued	—	—	—	—	20	—	—	20
Total	**634**	**94**	**—**	**728**	**676**	**63**	**—**	**739**

Section 15

Heading 150 - Reserves

15.1 Reserves: composition (in € k)

	31/12/2019	30/06/2019
A. Reserves	**331.470**	**328.248**
A.1 Legal reserve [(A)]	1.000	1.000
A.2 Free reserve	297.479	292.553
A.3 NWT reserve [(B)]	35.670	37.374
A.4 Other [(C)]	-2.679	-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 31 December 2019, same as June 2019, the issued capital of the Bank amounts to € 10.000.000 and is divided into 1 million shares fully paid with a pair value of € 10 each.

Authorised capital and issue share capital coincide.

Other information

1. Guarantees and commitments (in € k)

	Nominal value of commitments and financial guarantees			31/12/2019	Nominal value of commitments and financial guarantees			30/06/2019
	First stage	**Second stage**	**Third stage**	**Total**	**First stage**	**Second stage**	**Third stage**	**Total**
1. Commitments to disburse funds	**1.394.347**	**23.507**	**—**	**1.417.854**	**1.378.200**	**16.359**	**—**	**1.394.559**
a) Central Banks	—	—	—	—	—	—	—	—
b) Public Administrations	—	—	—	—	—	—	—	—
c) Banks	—	—	—	—	—	—	—	—
d) Other financial companies	229.319	—	—	229.319	244.156	—	—	244.156
e) Non-financial companies	1.165.028	23.507	—	1.188.535	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	—	—	—	—	—	—	—	—

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

Portfolios	**Amount**	
	31/12/2019	**30/06/2019**
Financial instruments valued at FVTPL	—	—
Financial instruments valued at FVOCI	—	—
Financial instruments valued at amortised cost	1.139.836	1.165.521
Tangible assets	—	—
Total	**1.139.836**	**1.165.521**

As at 31 December 2019, the Bank has pledged collateral in form of securities and loans for an amount of € 1.208m of which € 1.140m originated by the Bank itself, whereas € 68m represents the re-use of collateral borrowed from the Parent Bank.

Among the secured financing operations which are outstanding as at 31 December 2019 it might be reported the issue of a senior unsecured floating rate note due 10 March 2022 for a nominal value of USD 100m 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 131m.

PART C - 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	31/12/2019				31/12/2018			
	Debt securities	**Loans**	**Other operations**	**Total**	**Debt securities**	**Loans**	**Other operations**	**Total**
1. Financial assets valued at FVTPL:	—	16	—	16	—	—	—	—
1.1. Financial assets held for trading	—	16	—	16	—	—	—	—
1.2. Financial assets designated at fair value	—	—	—	—	—	—	—	—
1.3. Other financial assets mandatorily at fair value	—	—	—	—	—	—	—	—
2. Financial assets valued at FVOCI	—	—	—	—	—	—	—	—
3. Financial assets at amortized cost	13	53.212	X	53.225	-17	53.422	X	53.405
3.1 Due from banks	4	4.047	X	4.051	—	3.372	X	3.372
3.2 Due from customers	9	49.165	X	49.174	-17	50.050	X	50.033
4. Hedging derivatives	X	X	—	—	X	X	—	—
5. Other assets	X	X	—	—	X	X	—	—
6. Financial liabilities bearing negative interests	X	X	X	—	X	X	X	—
Total	**13**	**53.227**	**—**	**53.240**	**-17**	**53.422**	**—**	**53.405**

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

Items/Technical forms	31/12/2019 Borrowings	31/12/2019 Securities issued	31/12/2019 Other operations	31/12/2019 Total	31/12/2018 Borrowings	31/12/2018 Securities issued	31/12/2018 Other operations	31/12/2018 Total
1. Financial liabilities at amortized cost	-30.965	-17.768	—	-48.733	-31.665	-11.544	—	-43.209
1.1 Due to central banks	—	X	X	—	—	X	X	—
1.2 Due to banks	-30.743	X	X	-30.743	-30.835	X	X	-30.835
1.3 Due to customers	-222	X	X	-222	-830	X	X	-830
1.4 Debt securities in issue	X	-17.768	X	-17.768	X	-11.544	X	-11.544
2. Trading financial liabilities	—	—	—	—	—	—	—	—
3. Financial liabilities designated at fair valu	—	—	—	—	—	—	—	—
4. Other liabilities and funds	X	X	—	—	X	X	—	—
5. Hedging derivatives	X	X	-189	-189	X	X	-1.201	-1.201
6. Financial assets bearing negative interests	X	X	X	-952	X	X	X	—
Total	**-30.965**	**-17.768**	**-189**	**-49.874**	**-31.665**	**-11.544**	**-1.201**	**-44.410**

Headings 40 and 50 – Net fee and commission income

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

Type of service/Values	**31/12/2019**	**31/12/2018**
a) guarantees given	32	79
b) credit derivatives	—	—
c) management and brokerage services	—	—
1. trading in financial instruments	—	—
2. currency trading	—	—
3. portfolio management	—	—
4. securities custody and administration	—	—
5. custodian bank	—	—
6. placement of financial instruments	—	—
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	7.667	8.049
Total	**7.699**	**8.128**

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

Services/Amounts		31/12/2019	31/12/2018
a)	guarantees received	-135	-1.899
b)	credit derivatives	—	—
c)	management and brokerage services	-989	-1.014
	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	-989	-1.014
	6. off-site distribution of financial instruments, products and services	—	—
d)	collection and payment services	-22	—
e)	other services	-2.127	-5.376
Total		**-3.273**	**-8.289**

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 31/12/2019	Net Profit 31/12/2018
1. Financial trading assets	—	—	-14	—	-14	—
1.1 Debt securities	—	—	—	—	—	—
1.2. Equity	—	—	—	—	—	—
1.3. O.I.C.R. shares	—	—	—	—	—	—
1.4. Loans	—	—	-14	—	-14	—
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	3.185	339
4. Derivatives	51.748	5.503	-52.800	-4.632	-4.238	-502
4.1 Financial derivatives:	5.432	5.463	-6.464	-4.632	-4.258	-494
4.1.1 on debt securities and interest rates	5432	5.463	-6.387	-4.632	-124	66
4.1.2 on equity securities and shares indexes	—	—	-77	—	-77	—
4.1.3 on currencies and gold	X	X	X	X	-4.057	-452
4.1.4 other	—	—	—	—	—	-108
4.2. Credit derivatives	46.316	40	-46.336		20	-8
Total	**51.748**	**5.503**	**-52.814**	**-4.632**	**-1.067**	**-163**

Section 4

Heading 90 – Net hedging income (expense)

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

	31/12/2019	31/12/2018
A. Income from:		
A.1 Fair value hedge derivatives	47	8.827
A.2 Financial assets hedged (fair value)	—	—
A.3 Financial liabilities hedged (fair value)	12.030	—
A.4 Cash flow hedge financial derivatives	—	—
A.5 Assets and liabilities in foreign currency	—	—
Total hedging income (A)	12.077	8.827
B. Expenses relating to:		
B.1 Fair value hedge derivatives	-12.056	-836
B.2 Financial assets hedged (fair value)	—	—
B.3 Financial liabilities hedged (fair value)	-77	-7.980
B.4 Cash flow hedge financial liabilities	—	—
B.5 Assets and liabilities in foreign currency	—	—
Total hedging expenses (B)	-12.133	-8.816
C. Net hedging income (A-B)	**-56**	**11**

Section 5

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

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

Items/Income		**31/12/2019**			**31/12/2018**		
		Gains	**Losses**	**Net profit (loss)**	**Gains**	**Losses**	**Net profit (loss)**
A	Financial assets						
1.	Financial assets valued at amortized cost	675	—	675	343	-266	77
	1.1 Loans and receivables from banks	382	-6	376	-15	-116	-131
	1.2 Loans and receivables from customers	293	6	299	358	-150	208
2.	Financial assets valued at FVOCI	—	—	—	—	—	—
	2.1 Debt securities	—	—	—	—	—	—
	2.2 Loans	—	—	—	—	—	—
Total assets (A)		**675**	**—**	**675**	**343**	**-266**	**77**
B	Financial liabilities valued at amortized cost						
1.	Deposits with banks	—	—	—	—	—	—
2.	Deposits with customers	—	—	—	—	—	—
3.	Debt securities issue	1.111	-8	1.103	25	-119	-94
Total liabilities (B)		**1.111**	**-8**	**1.103**	**25**	**-119**	**-94**

Section 6

Heading 130 – Net value adjustments for credit risk

6.1 Adjustment for impairment: breakdown (in € k)

Items/Income		Writedowns (1)			Writebacks (2)		31/12/2019 (1)+(2)	31/12/2018
		First and Second stage	Third stage		First and Second stage	Third stage		
			Write-off	Others				
A	Loans and receivables with banks	1.301	—	—	—	—	1.301	-120
	- Loans and receivables	1.299	—	—	—	—	1.299	-120
	- Notes	2	—	—	—	—	2	—
	of which: financial assets purchased or originate credit impaired	—	—	—	—	—	—	—
B	Loans and receivables with customers	-1.817	—	-432	—	—	-2.249	-2.802
	- Loans and receivables	-1.920	—	-432	—	—	-2.352	-2.802
	- Notes	103	—	—	—	—	103	—
	of which: financial assets purchased or originate credit impaired	—	—	—	—	—	—	—
Total		**-516**	**—**	**-432**	**—**	**—**	**-948**	**-2.922**

Section 7

Heading 190 – Administrative expenses

7.1 Personnel costs: breakdown (in € k)

Type of expense/Amounts	31/12/2019	31/12/2018
1.Employees	-1.228	-873
a) wages and salaries	-1.043	-679
b) social security contributions	-92	-68
c) severance indemnities	—	—
d) pension contributions	—	—
e) transfers to severance indemnity provision	—	—
f) transfers to post-employment and similar benefits:	—	-44
– defined contribution	—	-44
– defined benefit	—	—
g) payments to outside complementary pension schemes:	-54	—
– defined contribution	-54	—
– defined benefit	—	—
h) expenses incurred in connection with share payment schemes	—	—
i) other staff benefits	-39	-82
2. Other staff	-40	-64
3. Board members	-120	-276
Total	**-1.388**	**-1.213**

7.2 Average number of employees by category

	31/12/2019	31/12/2018
Employees	18	15
a) senior executives	3	2
b) executives	1	1
c) other employees	14	12
Other staff	1	—
Total	**19**	**15**

7.3 Other administrative expenses: composition (in € k)

Type of expense/Amounts	31/12/2019	31/12/2018
OTHER ADMINISTRATIVE EXPENSES		
– legal, tax and professional services	-263	-528
– loan recovery activity	—	—
– marketing and communication	-6	-5
– property expenses	-23	-106
– IT and data processing	-910	-731
– Info-provider	-23	-19
– bank charges, collection and payment fees	-13	-10
– operating expenses	-742	-1.029
– other staff expenses	-65	-33
– other costs	-139	-179
– indirect and other taxes	-267	-279
Total	**-2.451**	**-2.919**

Section 8

Heading 200 – Net provisions for risks and charges

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

	31/12/2019			31/12/2018		
	Net provisions	**Net releases of surplus**	**Total**	**Net provisions**	**Net releases of surplus**	**Total**
Loan commitments	—	-10	-10	-114	—	-114
Financial guarantees issued	20	—	20	-2	—	-2
Total	**20**	**-10**	**10**	**-116**	**—**	**-116**

Section 9

Heading 210 – Net adjustments to tangible assets

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

Asset/Income	**Depreciation (a)**	**Impairment (b)**	**Write-back (c)**	**Net result (a+b-c)**
A. Property, equipment and investment properties				
A.1 Owned	-113	—	—	-113
- For operational use	-4	—	—	-4
- For investment	—	—	—	—
- RoU ex IFRS16	-109	—	—	-109
- Inventories	—	—	—	—
A.2 Acquired through finance lease(s)	—	—	—	—
- For operational use	—	—	—	—
- For investment	—	—	—	—
Total	**-113**	**—**	**—**	**-113**

Section 10

Heading 230 – Other operating income (expense)

10.1 Other operating income: breakdown (in € k)

	31/12/2019	31/12/2018
a) Leasing activity	—	—
b) Other expenses	-2.833	—
Total expense	**-2.833**	**—**
a) Amounts recovered from customers	—	—
b) Leasing activity	—	—
c) Other income	349	160
Total income	**349**	**160**
Net income (expense)	**-2.484**	**160**

Section 11

Heading 300 – Income tax on the ordinary activity

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

	31/12/2019	31/12/2018
1. Current tax expenses	-275	-476
2. Changes in current tax expenses of the previous years	—	—
3. Changes of deferred tax assets	—	—
4. Changes of deferred tax liabilities	—	—
Total	**-275**	**-476**

PART D – OPERATING SEGMENT REPORTING

A. Primary segment reporting

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

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

		CORPORATE LENDING	EXPORT FINANCE	LEVERAGE FINANCE	PROJECT FINANCE	OTHER
10.	Cash and cash equivalents	—	—	—	—	1
20.	Financial assets valued at FVTPL	37.278	—	34.590	727	98
40.	Financial assets valued at amortised cost	3.469.875	—	3.219.693	67.694	—
	a) Due from banks	*1.215.742*	—	*1.128.086*	*23.718*	—
	b) Due from customers	*2.254.133*	—	*2.091.607*	*43.976*	—
50.	Hedging derivatives	11.895	—	11.037	232	—
70.	Equity investments	—	—	—	—	4.150
90.	Property, plant and equipment	—	—	—	—	362
110.	Tax assets	2.910	—	2.700	57	—
	a) current	*2.446*	—	*2.270*	*48*	—
	b) deferred	*464*	—	*430*	*9*	—
130.	Other assets	12.601	—	11.693	246	—
	Total assets at 31/12/2019	**3.534.559**	**—**	**3.279.713**	**68.956**	**4.611**
	Total assets at 30/06/2019	**3.569.248**	**—**	**3.954.251**	**346.047**	**19.060**
10.	Financial liabilities valued at amortised co	-3.319.519	—	-3.080.177	-64.761	—
	a) Due to banks	*-1.405.240*	—	*-1.303.920*	*-27.415*	—
	b) Due to customers	*-68.485*	—	*-63.547*	*-1.336*	—
	c) Debt securities in issue	*-1.845.794*	—	*-1.712.710*	*-36.010*	—
20.	Financial liabilities valued at FVTPL	-36.340	—	-33.720	-709	—
40.	Hedging derivatives	—	—	—	—	—
60.	Tax liabilities	-1.712	—	-1.589	-33	—
	a) current	*-1.328*	—	*-1.232*	*-26*	—
	b) deferred	*-384*	—	*-357*	*-7*	—
80.	Other liabilities	-3.226	—	-2.993	-63	—
100	Provisions for risks and charges	-374	—	-347	-7	—
100.	Reserves	-170.211	—	-157.939	-3.321	—
160.	Share capital	-5.135	—	-4.765	-100	—
	Total liabilities at 31/12/2019 (1)	**-3.536.517**	**—**	**-3.281.530**	**-68.994**	**—**
	Total liabilities at 30/06/2019 (1)	**-3.576.431**	**—**	**-3.962.207**	**-346.744**	**—**

(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.

		CORPORATE LENDING	EXPORT FINANCE	LEVERAGE FINANCE	PROJECT FINANCE	OTHER
010.	Interests receivable and similar income	27.339	—	25.368	533	—
020.	Interests payable and similar charges	-25.610	—	-23.764	-500	—
030.	**Net interest income**	**1.729**	**—**	**1.604**	**34**	**—**
040.	Fee and commission income	3.954	—	3.669	77	—
050.	Fee and commission expense	-1.680	—	-1.559	-33	—
060.	**Net fee and commission income**	**2.273**	**—**	**2.109**	**44**	**—**
080.	Net trading income/expense	-548	—	-509	-11	—
090.	Net hedging income/expense	-29	—	-27	-1	—
100.	Gain or loss on disposal or repurchase of:	913	—	847	18	—
	a) financial assets valued at amortised cost	*913*	—	*847*	*18*	—
	b) financial assets valued at FVOCI	—	—	—	—	—
	c) financial liabilities	—	—	—	—	—
120.	**Total income**	**4.338**	**—**	**4.025**	**85**	**—**
130.	Value adjustments	-487	—	-452	-10	—
	a) financial assets valued at amortised cost	*-487*	—	*-452*	*-10*	—
	b) financial assets valued at FVOCI	—	—	—	—	—
150.	**Net income from the financial operations**	**3.851**	**—**	**3.573**	**75**	**—**
190.	Administrative expenses	-1.971	—	-1.829	-39	—
	a) personnel costs	—	—	—	—	—
	b) other administrative expenses	*-1.971*	—	*-1.829*	*-39*	—
200.	Net provisions for risks and charges	5	—	5	—	—
210.	Value adjustments in respect of tangible assets	—	—	—	—	-113
230.	Other operating income/expense	-1.276	—	-1.184	-25	—
290.	**Profit (loss) of the ordinary activity before tax**	**609**	**—**	**565**	**12**	**-113**
300.	Income tax on the ordinary activity	-141	—	-131	-3	—
330.	**Profit (loss) for the period**	**468**	**—**	**434**	**9**	**-113**
340.	Other comprehensive income, net of tax	—	—	—	—	—
350.	**Profit (Loss) of the year 31/12/2019**	**468**	**—**	**434**	**9**	**-113**
	Profit (Loss) of the year 30/06/2019	**1.464**	**—**	**1.621**	**142**	**-4**

B. SECONDARY SEGMENT REPORTING

The Bank operates in four geographical markets: Luxembourg, Other EU Countries, Americas and Asia. The following tables show the distribution of the Bank's financial and income statements based on the location of the customers for the mid years ended 31 December 2019

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	61.586	11.107	—	—
Financial assets valued at amortised cost	891.930	4.828.884	996.461	39.987
a) Due from banks	*97.920*	*2.269.626*	—	—
b) Due from customers	*794.010*	*2.559.258*	*996.461*	*39.987*
Hedging derivatives	—	23.164	—	—
Equity investments	4.150	—	—	—
Property, plant and equipments	325	37	—	—
Tax assets	5.667	—	—	—
a) current	*4.764*	—	—	—
b) deferred	*903*	—	—	—
Other assets	10.126	13.721	693	—
A. Total assets 31/12/2019	**973.785**	**4.876.913**	**997.154**	**39.987**
A. Total assets 30/06/2019	**538.695**	**5.822.293**	**1.488.176**	**39.439**
Financial liabilities at amortised cost	-3.730.481	-2.733.978	—	—
a) Due from banks	*-237*	*-2.736.339*	—	—
b) Due from customers	*-133.331*	*-38*	—	—
c) Debt securities in issue	*-3.596.913*	*2.399*	—	—
Financial liabilities valued at FVTPL	-5.804	-64.965	—	—
Hedging derivatives	—	—	—	—
Tax liabilities	-3.333	—	—	—
a) current	*-2.585*	—	—	—
b) deferred	*-748*	—	—	—
Other liabilities	-86	-6.196	—	—
Provisions for risks and charges	-20	-679	-29	—
Reserves	-331.470	—	—	—
Shareholders' equity	-10.000	—	—	—
B. Total liabilities 31/12/2019 (1)	**-4.081.194**	**-2.805.818**	**-29**	**—**
B. Total liabilities 30/06/2019 (1)	**-4.586.188**	**-3.299.098**	**-94**	**—**

(1) Profit for the period excluded

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

	LUXEMBOURG	OTHER EUROPEAN COUNTRIES	AMERICAS	OTHER EMEA
Net interest income	-6.155	-12.584	22.056	50
Net fee and commission income	238	4.148	40	—
Net trading income/expense	-2.751	8.436	-6.752	—
Net hedging income/expense	871	-1.032	105	—
Gain or loss on disposal or repurchase	1.603	131	43	—
Value adjustments - impairment	-480	611	-1.091	11
Administrative expenses	-1.821	-1.993	-24	—
Net provisiones for risks and charges	37	20	-39	-8
Value adjustments – amortisation	-92	-21	—	—
Other operating income (expenses)	-2.816	69	263	—
Income tax	-275	—	—	—
Profit (Loss) of the year 31/12/2019	**-11.641**	**-2.215**	**14.601**	**53**
Profit (Loss) of the year 30/06/2019	**-37.178**	**-19.352**	**59.153**	**600**

PART E - SUBSEQUENT EVENTS

The bank is not aware of any subsequent events (other than those already reflected in the financial statement), that occurred between 31 December 2019 and the date when the present financial statements were authorised for issue.