# MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.

RCSL n. B112885

Financial Statements
30 June 2023

# MEDIOBANCA INTERNATIONAL (LUXEMBOURG)

SOCIETE ANONYME

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

Annual General Meeting
19 October 2023

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## BOARD OF DIRECTORS

| | | Term expires | Location |
|---|---|---|---|
| GIOVANNI MANCUSO | CHAIRMAN | 2023 | LUXEMBOURG |
| ALESSANDRO RAGNI | MANAGING DIRECTOR & CEO | 2023 | LUXEMBOURG |
| MASSIMO AMATO | DIRECTOR | 2023 | LUXEMBOURG |
| STEPHANE BOSI | DIRECTOR | 2023 | LUXEMBOURG |
| PIERO PEZZATI | DIRECTOR | 2023 | ITALY |
| LARA PIZZIMIGLIA | DIRECTOR | 2023 | ITALY |
| JESSICA SPINA | DIRECTOR | 2023 | ITALY |

## INDEPENDENT AUDITOR

| | |
|---|---|
| ERNST AND YOUNG S.A. | 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 AS AT 30 JUNE 2023
# MANAGEMENT REPORT

## DEVELOPMENT IN MACROECONOMIC SCENARIO

During financial year 22/23, world economic growth was influenced by the Chinese government decision to abandon the Zero Tolerance Policy about Covid infections, by the continuation of the Russian-Ukrainian war and by the decisive monetary policy action to contrast inflation adopted in most jurisdictions with the exception of Japan (where the policy stance remains accommodative). China's decision in the last part of the first half of the year under analysis reversed the loss of momentum of the world economy, which began in the second half of 2021, and helped to boost it during the third quarter (Jan-Mar 2023) together with the easing of bottlenecks on production chains. In the last part of the financial year, the combination of turmoil in the US and Swiss banking sectors together with the emergence of economic effects of the monetary restrictions, led to a moderation of economic activity and de-synchronization of business cycles between economic areas of North America, Europe and Far East.

In the first half of the year there were average cyclical changes in GDP of 0.7% q/q in the USA, 1.9% in China, 0.2% in the Eurozone, and -0.2% in Japan.

In Western economies, starting from the last part of the first semester, investment planning with more favorable prospects has been supported by the impulse to expenditure from the East and by the use of savings accumulated by households for final consumption (most of them aimed to services rather than goods).

Third quarter witnesses a significant rebound in growth prospects fueled by the boost to demand from China although the cyclical changes in GDP have in fact continued to show variability: in the USA growth equal to 0.5% q/q, 2.2% in China, 0.0% in the European Union and 0.7% in Japan. Surveys on confidence in the manufacturing sector pointed to an acceleration in growth also in the last quarter despite the shocks, which then subsided, to the financial system that occurred in the US and Switzerland and the structural weaknesses of the Chinese economy. Average growth in the second half of the financial year stands at 0.6% q/q for the US, 1.5% in China, 0.2% in the European Union and 1.2% in Japan in the perspective of growth generally modest for the coming quarters.

After a first semester of sharp decline for oil (-25%), general decrease for raw industrial materials (-8%) and modest growth for copper (+3%), the prices of oil and raw industrial materials confirmed the downward trend also in the second half of the year (-12% and -3% respectively).

During the year, food prices fell significantly from the record levels reached in the first six months of 2022. In the first half the drop was 15%, in the second half 7%. The result is a significant reduction of the contribution to inflation in all geographical areas.

Across the year, deflationary phenomena directly attributable to the food and energy components began to strengthen. The result are different trajectories of inflation and core inflation (excluding energy and food). From June 2022 to December 2022, inflation in the Euro Area went from 8.6% y/y to 9.2% y/y to end the year at 5.5% y/y, while in the USA it went from 9.1 %y/y at 6.5%y/y in December 2022 to end the year at 3.0%y/y. While the trend, at net of the energy and food components, in the same periods in the Euro Area goes from 3.7% y/y to 5.2% y/y in December 2022 and ends at 5.5% y/y in June 2023 In the USA the same goes from 5.9% y/y in June 2022 to 5.7% y/y in December 2022.

In 22/23 central bankers remained firmly convinced that a significant tightening of financial conditions is necessary to bring inflation back in line with targets. Among the major banks, only the Japanese central bank continued with its monetary stimulus leaving reference rates unchanged over the 12 months, while the European Central Bank raised them from -0.50% to 3.50%, the Bank of England from 1 .25% to 4.50%, the Federal Reserve raised the reference range from 1.75-2.00% to 5.25-5.50%. Policies aiming to central bank balance sheets gradual reduction, initiated in 2022, continued during the year with minimal changes (the Fed at USD 95 billion per month, the ECB at EUR 15 billion per month).

In this context, share prices remained stable in the first half of the year (*MSCI World Index* +1.7%) and showed a marked acceleration in the second part (*MSCI World Index* +14.0%), with those of the Far East marginally in contraction in the first half (*MSCI Asia Pacific* -1.4%) and slightly recovering in the second (*MSCI Asia* +4.8%). Credit spreads tightened from early period levels (*iTraxx Europe* at 118bp, US high grade at 101bp) as Chinese government announced abandonment of Zero Tolerance Policy and continued tightening trend in second half, after weathering turmoil financial instruments originated in the USA and Switzerland (overall in the second half of the year *iTraxx Europe* tightened by a further 15bp to 75bp in June 2023, *US high grade* CDS tightened by 15bp to 67bp), while the absolute level of interest rates rose with the diffusion of the restrictive policies of the central banks especially in the first part of the year to stabilize in the second. The yield on the 10-year Treasury went from 3.01% to 3.87% at the end of 2022, to finish at 3.84% in June 2023, the corresponding values for the Bund with the same maturity are 1.34%, 2.57% and 2.39%.

The short-term prospects for the world economy depend on the process of deployment of production chains as an alternative (the so-called *Friendshoring*) or in competition (the so-called *China plus 1*) with those involving important production stages in China, the continuation of the Russian- Ukrainian and geopolitical tensions in the Far East.

* * *

The performance of the European economy has been influenced by the weakening of the global economy due to the persistence of the Zero Tolerance Policy in China, by the weakening of the post-Covid tax push in Western economies and by the persistence of uncertainties related to the Russian-Ukrainian conflict. The structural reforms imposed by the Chinese government on the economy have weighed on growth and indirectly frustrated European exports. The resolution of Credit Suisse imposed by the authorities of the Swiss Federation resulted in a shock to financial stability on top of that resulting from structural weaknesses in the US peripheral banking system. Only the promptness of intervention by public institutions has allayed the fears on the financial markets and the concerns of savers. The path of economic growth was in any case supported by the *Next Generation EU* (NGEU) programme, which however showed critical elements in the transition from the planning to the implementation stage. As for the broader international context, the trend in price dynamics was largely influenced by the trend in the price of raw materials in the comparison with the quotation of the previous year, starting from the second part of the period. As reported, the Eurozone harmonized consumer price index rose from 8.6% y/y in June 2022 to 9.2% y/y in December 2022 before declining to 5.5% y/y in June 2023. While the underlying inflation trend was growing in the first half and substantially stable at around 5.5% y/y in the second. During the year, the inflationary impulse of the energy sector also permeated the other components of the basket, contributing, together with the robustness of the labor market, to sustaining the growth of prices in the second half.

The cyclical growth of GDP in the year showed a weak dynamic with growth that stood at a modest 0.2% q/q on average. The growth prospects for Europe remain linked to the economic consequences of the Russian-Ukrainian conflict and to the dynamics of Chinese growth.

In the context described, the ECB accelerated the process of removing the monetary accommodation by combining, starting from March 2023, the reduction at a pace of 15 billion per month of the stock of securities accumulated during the expansionary phases with the process of rapid increase in reference rates (from -0.50% to 3.50% as mentioned).

The modest level of economic growth, the decline in inflation, together with the stabilization of high levels of core inflation and the low unemployment rate, resulted in the year:

— the stabilization of market inflation expectations: over 5 years they fell from 2.9% on average in the first half to 2.5% in the second, those over 10 years fluctuated with modest differences around 2.5%;

— the rise of share prices: Euro Stoxx 600 rose by 13%, the indices of Germany, France, Italy between 25% and 33%, the Spanish one by 18%;

— after the widening in the first quarter, the tightening of European government spreads to levels not far from those at the beginning of the year; the Italian 10-year spread narrowed by around 25bps to 170bps, the Spanish one by around 10bps to 100bps;

— the tightening of the spread of high yield credits; the Xover went from 575bps to 475bps at the end of December 2022 to close at around 475bps in June 2023;

— after a first quarter marked by weakness based on the difficulties of the Chinese economy and the caution of the ECB in dealing with the inflationary phenomenon, the Euro began to appreciate, ending the year at +4.1% against the USD and +3.8% on the average of other currencies weighted for trade.

The German economy, engine of Europe, entered a recession over the winter. GDP declined by 2.1% (seasonal adjusted annual rate) in the fourth quarter of 2022 and 1.2% in the first quarter of 2023, mainly due to a drop in private consumption. High inflation has reduced real wages, which were down by 5.4% in the fourth quarter of 2022 compared to a year earlier. Heightened uncertainty, high energy prices and material shortages weighed on manufacturing and investment. However, since early 2023, easing supply chain bottlenecks and a large export order backlog have led to a pick-up in industrial production, investment and exports. Business investment increased by 12.7% (seasonally adjusted annual rate) in the first quarter of 2023. Reduced energy prices have particularly benefitted energy-intensive industries, with production rising by 3.3% from January to March. Investor and consumer confidence have recovered since late 2022, but business expectations deteriorated in May. Headline inflation decreased to 6.3% in May compared to a year earlier, down from 7.6% in April, but core inflation is still on the rise. Although the most recent short-term indicators suggest some signs of stabilization, it is premature to assume that the critical stage has passed: the major changes initiated some years ago have not yet been fully completed, and some challenges for the future add to them, digitalization, and climate transition at the forefront.

In France, rising energy prices, the war in Ukraine and supply-chain disruptions slowed the rapid rebound in GDP in 2022. Robust business investment and a resilient labor market supported growth over the 2022-23 winter, but GDP stagnated in 2022Q4 and rose by just 0.2% in 2023Q1. Despite historically high employment rates, high energy prices, tighter financial conditions and declining real wages have held back private consumption and residential investment. Goods consumption was down by 4.3% in the year, services consumption has slowed, and manufacturing production in energy-intensive sectors has plunged. Consumer prices were up 6.0% in the year to May, as food price inflation reached 13.6% and core inflation rose to 4.3%, with wages accelerating. Nonetheless, business and consumer confidence have been broadly stable from the beginning of 2023, as wholesale energy and food prices and supply-chain tensions eased. Monetary and financial conditions are becoming less supportive for investment in the euro area. However, the implementation of the Next Generation EU plan is supporting investment in France, with EUR 37.5 billion of grants, and in its main trading partners. The 2022 resilience plan has pushed forward funding for housing renovation and insulation, while the energy saving plan aims for a 10% decline in energy consumption by 2024.

UK: Annual headline inflation remains high at 8.7% in April, despite the drop in the contribution of energy prices. Both rising services prices and elevated goods prices contribute to the persistence of core inflation, which at 6.8% in April, is the highest rate observed since March 1992. Imported food materials inflation continues to push up producer prices and headline consumer prices. By contrast, a fall in wholesale energy prices has eased the cost-of-living squeeze, and the steady appreciation of sterling against the US dollar attenuates imported inflation overall.

After monetary policy, fiscal policy is becoming more restrictive. The Bank of England brought its base rate to 4.5% in May, close to the assumed terminal value of 4.75% for the current monetary tightening cycle. The Bank is also proceeding with quantitative tightening by gradually reducing its bond holdings by GPB 80 billion by September 2023, through a mixture of redemptions and active sales, and by decreasing its stock of sterling corporate bonds. Monetary policy is not expected to ease until the second half of 2024, with two cuts of 25 basis points in the Bank's base rate in the third and fourth quarters as core inflation converges towards target.

The fiscal stance will be restrictive over 2023-24, as the government complies with its national fis-cal rule of decreasing public debt within a five-year horizon against the backdrop of significantly higher borrowing costs. In the end, private expenditure will strengthen moderately as energy prices recede, benefits such as pensions and universal credit are uprated, labor participation increases, and global economic conditions improve.

- NORDICS: Regional inflation eased to a 16-month low of 6.0% in July (June: 6.1%) as price pressures softened in Iceland and Norway. Average regional inflation will be lower this year than in 2022 on tighter monetary policy and slower activity, but it will remain markedly above central banks' targets. Currency fluctuations are a risk in both directions. However, the economic outlook will continue to be weighed down by geopolitical turmoil, extreme weather, increased trade barriers and a flare-up of subsidy competition between the US and the European Union.

* * *

Similarly to the European dynamics, in Luxembourgish economy GDP shrank by over 3% in the fourth quarter of 2022. The slowdown was broad-based. However, key high-frequency indicators, such as retail sales and industrial production, show a possible rebound in domestic activities in the early part of this year. Headline consumer price inflation decreased substantially in the first months of 2023, to below 3% in April 2023, the lowest in the European Union.

Weakness in global financial markets in 2022 hit Luxembourg's mutual fund industry, contributing to a pronounced slowdown in the financial and insurance services sector in the last quarter of last year. Turmoil in the banking sector in some OECD countries in 2023 does not seem to have spread to Luxembourg so far. Global energy prices rose sharply in 2022 but their recent reversion towards historical averages has contributed to disinflation.

Generous fiscal policy support measures are being extended. Financial conditions are expected to keep tightening as a result of euro area monetary policy and are contributing to the correction in the housing market. In accordance with the social partners, the government legislated a fiscal support package last year, worth about 3% of GDP over 2022-23. The package helps the economy deal with the energy price shock and keeps inflationary pressures in check to limit the extent of the automatic wage indexation to inflation.

The Italian economy experienced a growth deceleration in the first part of the year, then a rebound in the first quarter of 2023 linked to the change in public health policy in China, and ended the 12 months on a weak note as difficulties surfaced structural factors in China and the effectiveness of the restrictive monetary policies launched at the turn of the previous year. Quarterly growth went from 0.4% q/q in the first quarter to -0.1% q/q in the second (in line with Eurozone growth), increased broadly in the third to +0.6% q /t and slowed rapidly to -0.3% q/q in the last quarter.

In this context, the prospects for Italian growth depend mainly on the external context, and in particular on the developments of the Russian-Ukrainian conflict and on the recovery of the Far East economy, as well as on the ability to implement the structural reforms underlying the National Plan of Recovery and Resilience (PNRR). Economic activity will be supported by the greater purchasing power that the decrease in inflation allows for nominal wages, and by the possible stabilization of the international economy. Bank of Italy surveys on business prospects confirm stable investment expectations at historically high levels and a decreasing incidence of raw materials procurement difficulties and energy costs in investment decisions.

On the financial markets, Italian share prices recorded among the best performances of the European markets starting from non-challenging valuations. The movement in favor of risky assets, not only Italians and not only Europeans, has started with China decision to abandon the Zero Tolerance Policy at the beginning of the second quarter, and supported by the prospects of actions by central banks less aggressive than those already occurred in the last part of the year.

### GENERAL PRINCIPLES OF DRAWING UP THE MANAGEMENT REPORT

The Bank's financial statements have been drawn up in accordance with the IAS/IFRS international accounting standards as adopted, and in line with the structure of the Parent Bank[1] as disciplined by the circular of Bank of Italy no. 262 of 22 December 2005 as amended from time to time (for further details please refer to Part B of the notes to the financial statements – accounting policies).

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

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

[1] Please refer to page 42 for the definition of "Parent bank".

## RECLASSIFIED STATEMENT OF FINANCIAL POSITION

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

| | 30/06/2023 | 30/06/2022 | Chg. |
|---|---|---|---|
| | €m | €m | % |
| Financial assets at FVTPL | 131,7 | 172,2 | -23,5% |
| Treasury investments | 1.431,2 | 1.784,5 | -19,8% |
| Debt securities - banking book | 0,9 | 10,2 | -91,2% |
| Loans and advances | 3.994,5 | 5.412,6 | -26,2% |
| Equity investments | 4,2 | 4,2 | 0,0% |
| Tangible and intangible assets | 1,2 | 1,4 | -14,3% |
| Other assets | 12,7 | 97,4 | -87,0% |
| **Total Assets** | **5.576,4** | **7.482,5** | **-25,5%** |
| | | | |
| Loans and borrowings | 2.834,5 | 4.681,6 | -39,5% |
| Debt securities issued | 2.196,3 | 2.217,7 | -1,0% |
| Treasury borrowings | 5,4 | 16,5 | -67,1% |
| Financial liabilities at FVTPL | 60,1 | 102,1 | -41,1% |
| Other liabilities | 23,6 | 20,0 | 17,8% |
| Provisions for risks and charges | 0,8 | 1,5 | -44,0% |
| Net equity | 437,0 | 436,1 | 0,2% |
| Net profit | 18,6 | 7,0 | 165,6% |
| **Total Liabilities** | **5.576,4** | **7.482,5** | **-25,5%** |

## ASSETS

In a challenging market environment, the Bank's balance sheet decreased further throughout the financial year, reaching the value of €. 5,576bn at 30 June 2023 (7,482 in June 2022). In particular, the following variations are worth to be noted:

- decrease in the loans granted to corporates, mainly due to the difficult market conditions (interest rates steepening) together with the prepayments (or partial reimbursements) experienced on the credit portfolio, partially offset as follows:
- decrease in time deposit from €1,080m of June-22 to €1,051m of Jun-23 (€-29m);
- cash balance decrease of €323.7m, from €696.1m as at 30/06/22 to €372.4m as at 30/06/23.

Financial assets at FVTPL – the carrying value of financial assets at fair value through profit or loss decreased by -23,5%, primarily as a consequence of the mark to market value of the financial and credit derivative contracts negotiated with the Parent Bank (or embedded in other financial instruments) which amounts to € 65,6m (€ 108,8m at 30 June 2022) while the carrying amount of debt securities (CLOs instruments) remain quite stable (+€2,7m). It is worth mentioning that the Bank is not taking any speculative position in derivatives and the aforementioned variation was de facto compensated by an equivalent decrease of the carrying value of financial liabilities valued at fair value through profit or loss.

Treasury investment – the carrying value of treasury investments has decreased compared to June 2022 (-19,8%, from € 1.784,5m to € 1.431,2m) mainly as a consequence of liquidity optimization reinvested by means of money market instruments. In details:

- Cash available at Central Bank amounts to € 230,6m, 91,3m down compared to June 2022, due to the liquidity reinvestment in the Central Bank of Luxembourg, eligible inter-alia to the LCR requirements;
- Demand deposits with banks amounts to € 148,8m which corresponds to a decrease of -61,1% compared to June 2022 (stood at € 382,2m);
- Term deposits with the Parent Bank amounts to € 1.051,7m which corresponds to a decrease of -2,6% compared to June 2022 when they stood at € 1.080,2m;
- The carrying value of repo transactions is nil at the reference date (same as previous financial year).

Other treasury exposures are negligible in terms of outstanding carrying values (and substantially stable compared to June 2022).

| | 30/06/2023 | 30/06/2022 | Chg. |
|---|---|---|---|
| | €m | €m | % |
| Cash available at Central Bank | 230,6 | 321,9 | -28,4% |
| Demand deposits | 148,8 | 382,2 | -61,1% |
| Term deposits | 1.051,7 | 1.080,2 | -2,6% |
| Repo transactions | 0,0 | - | - |
| Other money market operations | 0,2 | 0,2 | 0,0% |
| **Treasury investments** | **1.431,2** | **1.784,5** | **-19,8%** |

Debt securities – this item of the reclassified statement of financial position amounts to € 0,9m as a consequence of €10m of debt securities expired during the FY (issued by the Parent and/or other Group affiliates which have been classified as financial assets valued at amortised cost under IFRS 9).

Loans and advances – the carrying value of loans and advances has decreased compared to June 2022 (-26,2%, from € 5.412,6m to € 3.994,5m). The institution's net credit risk exposure (i.e. drawn amounts to corporate clients excluding the portion secured by financial guarantees issued by the Parent and/or the direct exposures towards the Parent) has followed the same trend, with a decrease from € 1.042,5m at the end of June 2022 to € 678,1m at the end of June 2023 (-34,9%). The quality of the credit portfolio remains satisfactory, as demonstrated by the value of the Texas ratio which amounts to 1,30% (1,40% at the end of June 2022).

In a challenging market scenario that is continuously evolving for all domestic and international operators, the net carrying value of non-performing exposures (i.e. net book value after any impairment recognition) corresponds to € 4,7m.

| | 30/06/2023 | 30/06/2022 | Chg. |
|---|---|---|---|
| | €m | €m | % |
| Loans and receivables (banks) | 808,5 | 953,7 | -15,2% |
| *of which: non performing* | - | - | |
| Loans and receivables (customers) | 3.186,0 | 4.458,9 | -28,5% |
| *of which: non performing* | *4,7* | *4,6* | *2,2%* |
| **Loans and advances** | **3.994,5** | **5.412,6** | **-26,2%** |

Equity investment – in September 2011, the Bank 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 company owning the building where the Bank has moved its head office in April 2012. In February 2020, an independent evaluation was carried out by a primary real estate advisor to assess the presence of any impairment indicator and, in particular, whether the carrying amount of the immovable property may be higher than its recoverable amount. The evaluation report has largely confirmed the fairness of the Bank's carrying amount.

Other assets – this item of the reclassified statement of financial position decreased from € 97,3m at the end of June 2022 to € 12,7m at the end of June 2023 (approximately -87.0% in percentage terms) and is composed by (i) fair value of hedging derivatives, (ii) tax assets, and (iii) other receivables. In details:

| | 30/06/2023 | 30/06/2022 | Chg. |
|---|---|---|---|
| | €m | €m | % |
| Hedging derivatives | - | 2,4 | -100,0% |
| Tax assets | 1,8 | 3,9 | -53,8% |
| Transitory accounts and other receivables | 10,9 | 91,0 | -88,0% |
| **Other assets** | **12,7** | **97,3** | **-86,9%** |

Fair value of hedging derivative instruments decreased as a result of market rates rise (Bank receives floating rates) over the fiscal year. Tax assets slightly decreased following the assessments received during the course of the financial year (both tax reimbursement and reduced tax advances paid in the course of the financial year). Transitory accounts and other receivables decreased primarily as a result of the 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. This kind of transactions create various suspended amounts which are generally cleared in a very short period of time (indeed most of the receivables accounted at the end of June were already cleared in August 2023).

## LIABILITIES

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

Loans and borrowings – the carrying value of loans and borrowings decreased from € 4.681,6m (June 2022) to € 2.834,5m (June 2023). In detail:

- decrease in loans due to banks from €3.886,1m to €2.098,5m (€ -1.787,6m) as a consequence of reduction in assets side to refinance;
- Amount due to customers moved from €11,0m at the end of June 2022 to €1,0m at the end of June 2023 due to a reimbursement of intercompany position;
- Borrowings under the commercial paper program decreased of approx. €42,5m;
- Change in fair value of hedged debt instruments valued at amortised costs decreased from €1,9m (June 2022) to € -5,1m (June 2023). As already stated above with regard to the dynamic of the fair value of hedging derivatives, the leading cause of this variation was attributable to the dynamic of

the underlying input market parameters, in particular the interest rate; the dollar exchange rate in residual way.

| | 30/06/2023 | 30/06/2022 | Chg. |
|---|---|---|---|
| | €m | €m | % |
| Amount due to banks | 2.098,5 | 3.886,1 | -46,0% |
| Amount due to customers | 1,0 | 11,0 | -90,9% |
| Commercial papers | 740,1 | 782,6 | -5,4% |
| CFV notes issued | -5,1 | 1,9 | -368,4% |
| **Loans and borrowings** | **2.834,5** | **4.681,6** | **-39,5%** |

Debt securities issued – the carrying value of notes issued under the existing medium-term programmes decreased by 1,0%, from € 2.217,8m (June 2022) to € 2.196,3m (June 2023). The most relevant change affected the structured notes (-97,6%) whilst the decrease of non-structured notes (-29,3m) is limited to -1.4%. As regards the debt securities valued at FVO, this item moved from €7,6m to €64,7m.

| | 30/06/2023 | 30/06/2022 | Chg. |
|---|---|---|---|
| | €m | €m | % |
| Debt securities issued - non structured | 2.130,4 | 2.159,7 | -1,4% |
| Debt securities issued - structured | 1,2 | 50,5 | -97,6% |
| Debt securities valued at FV | 64,7 | 7,6 | 751,3% |
| **Debt securities issued** | **2.196,3** | **2.217,8** | **-1,0%** |

Treasury borrowings – this item of the reclassified statement of financial position decreased compared to June 2022 (-67,1%, from € 16,5m to € 5,4m at June 2023) primarily by reason of cash collateral received under two-way credit support annex (CSA) agreement with the Parent Bank for a carrying value of € 4,6m (€ 16,5m as at June 2022).

Financial liabilities at FVTPL – the carrying value of financial liabilities at fair value through profit or loss (FVTPL) decreased from € 102,1m at the end of June 2022 to € 60,1m at the end of June 2023, primarily as a consequence of the mark to market value of the financial and credit derivative contracts negotiated with the Parent Bank or embedded in other financial instruments which amounts to € 52,3m (€ 86,7m at the end of June 2022). It is worth mentioning that the Bank is not taking any speculative position in derivatives and the aforementioned variation was *de facto* compensated by an equivalent decrease 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 increased from € 20,0m at the end of June 2022 to € 23,6m at the end of June 2023 (+17,8% in percentage terms) and is composed of (i) hedging derivatives, (ii) tax liabilities and (iii) transitory accounts and other payables. In details:

| | 30/06/2023 | 30/06/2022 | Chg. |
|---|---|---|---|
| | €m | €m | % |
| Hedging derivatives | 2,7 | - | - |
| Tax liabilities | 9,0 | 4,5 | 100,0% |
| Other payables | 11,9 | 15,5 | -23,5% |
| **Other liabilities** | **23,6** | **20,0** | **17,8%** |

Fair value of hedging derivative instruments at the reference date is equal to €2,7m (nil as at June 2022). The carrying value of tax liabilities increased, from € 4,5m to € 9,0m, following the assessments received during the course of the financial year (with reference to which there are no particular deviations to be reported) and the tax provision of the current financial year. Transitory accounts and other payables decreased (-5,8% in percentage terms, from € 15,5m to € 14,6m), in particular with regard to the amounts owed to the Parent.

Provisions for risks and charges – This item of the reclassified statement of financial position decreased from € 1,5m (June 2022) to € 0,8m (June 2023), mostly as result of the loan commitments reduction in June over the year.

Net equity – No dividends were distributed during the fiscal year: the aggregate increased from € 436,1m to € 437,0m.

### RESTATED STATEMENT OF COMPREHENSIVE INCOME

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

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

| | 30/06/2023 | 30/06/2022 | Chg. |
|---|---|---|---|
| | €m | €m | % |
| Net interest income | 25,4 | 14,9 | 70,5% |
| Net trading income | -1,9 | -0,3 | 530,0% |
| Net fee and commission income | 8,9 | 5,0 | 78,0% |
| **TOTAL INCOME** | **32,4** | **19,6** | **65,4%** |
| Wages and salaries | -2,7 | -2,4 | 12,5% |
| Other administrative expenses | -9,2 | -9,9 | -7,1% |
| **OPERATING COSTS** | **-11,9** | **-12,3** | **-3,3%** |
| Loans impairment | 4,1 | 3,4 | 20,6% |
| Provisions for other financial assets | 0,2 | 1,0 | -80,0% |
| Other profit (losses) | – | – | n.a. |
| **PROFIT BEFORE TAX** | **24,8** | **11,7** | **112,1%** |
| Fiscal provision | -6,2 | -4,6 | 34,8% |
| **TOTAL COMPREHENSIVE INCOME** | **18,6** | **7,1** | **162,1%** |

Net interest income – net interest income increased from PY € 14,9m to € 25,4m. During the reference period, the different components performed as follows:

- interest income and similar income from lending activities stands at €193,5m (€72,7m at June 22) driven by the sharp rise in interest rates;
- interest expense and similar charges from borrowing activities increased from € -53,4m to

  € -189,0m mostly as a consequence of higher average cost of funding (base rates), which impacted both loans due to banks as well as debt securities issued;
- the abovementioned effects are supported by the positive performance of the treasury activities equals to approx. € +21,0m (from € -4,4m at June 22), due to the higher remuneration on liquidity reinvested (in particular, time deposits and current accounts).

| | 30/06/2023 | 30/06/2022 | Chg. |
|---|---|---|---|
| | €m | €m | % |
| Interest income - lending | 193,5 | 72,7 | 166,2% |
| Interest expense - funding | -189,0 | -53,4 | 254,0% |
| Net interest income (expense) - Treasury | 21,0 | -4,4 | -576,4% |
| **Net interest income** | **25,4** | **14,9** | **70,7%** |

Net trading income – the contribution from trading activities remains negative at €-1,9m (€ -0,3m as at June 2022). The foregoing was essentially a consequence of the following:

- Realized losses on derivatives for approx. € -4,6m (€ -1,1m at June 2022) due to the new market environment of the interest rates;
- Profit from unrealised mark to market valuations of financial instruments amounts to €0,5m (€2,0m at the end of June 2022) (principally derivative contracts negotiated with the Parent and/or embedded in other non-derivative instruments);

- Forex exposures have generated a loss of € -1,5m compared to the one of previous year of € -3.2m at June 2022;
- Gain on disposals and repurchases totally amounts to €1,8m (€ 0,5m in June 2022) and is mainly attributable to the
  - *i)* profit on sale financial asset at amortised cost equals to € +0,5m (€ +0,1m),
  - *ii)* gain relating to assets and liabilities, of which designated at FV for €+1,5m (€ +0,1m) and mandatory valued at FV equal to € -0,2m (€ +0,3m);
- Net fee income generated by securities lending transactions amounts to € 2,0m at the end of June 2023, € +0,5m compared to June 2022.

| | 30/06/2023 | 30/06/2022 | Chg. |
|---|---|---|---|
| | **€m** | **€m** | **%** |
| Derivatives - realised gains and losses | -4,7 | -1,1 | 327,3% |
| Derivatives - unrealised gains and losses (mtm) | 0,5 | 2,0 | -75,0% |
| Forex gains and losses | -1,5 | -3,2 | -53,1% |
| Gain/loss on disposals/repurch. of A.C. instrument | 0,5 | 0,1 | 400% |
| Gain/loss on instruments designated at FVTPL | 1,3 | 0,4 | 225% |
| Securities lending/borrowing | 2,0 | 1,5 | 33,3% |
| **Net trading income (expense)** | **-1,9** | **-0,3** | **533,3%** |

Net fee and commission income – this item of the reclassified statement of comprehensive income, which remains mostly driven by corporate lending and treasury services, increased to approx. €+8,9m (vs €+5,0m of previous year). Despite the stable performance of the fees receivable (from €16,4m of Jun-22 to €15,2m of Jun-23) the main contributions are attributable to the reduction of fees payable (from €-10,9 of Jun-22 to €-7,2m of Jun-23) in conjunction with an extraordinary one-off effects recorded in Q1 (€+1,5m) due to so called "event driven fees" realized on corporate portfolio under other income item.

| | 30/06/2023 | 30/06/2022 | Chg. |
|---|---|---|---|
| | **€m** | **€m** | **%** |
| Fee and commission income | 15,2 | 16,4 | -7,3% |
| Fee and commission expense | -7,2 | -10,9 | -33,9% |
| Other income (expense) | 0,9 | -0,5 | -280,0% |
| **Net fee and commission income (expense)** | **8,9** | **5,0** | **78,0%** |

Operating costs –this item of the reclassified statement of comprehensive income decreased by -3,3%, from € -12,3m to € -11,9m. In details:

- expenditure on salaries totalled €-2,7m which corresponds to an increase of 12,5% compared to June 2022, mostly due to salary review, indexation and staff turnover.
- administrative expenses decreased to € -6,3m (€ -6,8m at June 2022) principally by reason of reduction of cost coming from the service agreement expenses with Parent (IT services and regulatory compliance costs).

- Amortisation of tangible assets remains stable compared to the last year; it's entirely attributable to the depreciation of the right-of-use asset under the new accounting principle IFRS16.
- Contribution to the single resolution fund (SRF) decreased during the financial year (-14,3%) from € -2,8m to € -2,4m), due to a lower Target Amount in Luxembourg.

| | **30/06/2023** | **30/06/2022** | **Chg.** |
|---|---|---|---|
| | **€m** | **€m** | **%** |
| Personnel expenses | -2,7 | -2,4 | 12,5% |
| Administrative expenses | -6,3 | -6,8 | -7,4% |
| Amortisation | -0,2 | -0,2 | 0,0% |
| Other expenses | -0,3 | -0,1 | 200,0% |
| Contribution to the SRF | -2,4 | -2,8 | -14,3% |
| **Operating costs** | **-11,9** | **-12,3** | **-3,3%** |

Loans impairment – impairment provisions for credit exposures remains quite stable y-o-y with a positive contribution to the P&L of approx. €4,3m, mostly driven by the drop in the lending portfolio volumes, due to reimbursement and early repayments of stage 1 and stage 2 exposures, a progressive improvement of the portfolio credit quality, with some migration from stage 2 to 1, along with the reduction of the overlay along the year (€ -1,2m), especially in H2 (January 23 to June 23).

Fiscal provision – corresponds to € -6,2m (€ -4,65m at the end of June 22 due to the NWT effect of € -1,65m included).

## ALTERNATIVE PERFORMANCE MEASURES

The results achieved at the end of the financial year are accompanied by the soundness of the capital ratios (CET1 ratio is equal to 15,0%), the adequacy of liquidity indicators (already in line with all Basel 3 requirements) and the low risk profile of our business model (cf. below):

### CAPITAL RATIOS

| | 12 months to | |
|---|---|---|
| | 30/06/2023 | 30/06/2022 |
| Common Equity Tier1 Capital Ratio (in %) | 15,0 | 11,0 |
| Total Capital Ratio (in %) | 22,4 | 16,3 |
| Leverage Ratio (in %) | 6,9 | 5,3 |
| Total risk exposure amount (in Euro million) | 2.238,1 | 3.115,7 |

### LIQUIDITY RATIOS

| | 12 months to | |
|---|---|---|
| | 30/06/2023 | 30/06/2022 |
| Liquidity Coverage Ratio (in %) | 164,9 | 132,9 |
| Net Stable Funding Ratio (in %) | 106,7 | 107,4 |

PROFITABILITY RATIOS

| | 12 months to | |
|---|---|---|
| | 30/06/2023 | 30/06/2022 |
| ROE - Return On Equity (in %) | 5,5 | 2,1 |
| ROA - Return On Assets (in %) | 0,3 | 0,1 |

In the broader context of an efficient capital allocation, taking into account the dynamics of the business in recent years and the growth of the Bank's core activity, in order to operate with an adequate amount of capital in compliance with the minimum regulatory requirements, in coordination with the Parent Bank, in December 2021 the Bank issued an AT1 instrument of €100m that, after approval by the Regulatory Authorities, strengthened Tier1 capital of Mediobanca International and improved Leverage Ratio at an individual level.

## SIGNIFICANT EVENTS

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

– In December 2022, the CSSF notified the Bank about the determination of the minimum requirement for own funds and eligible liabilities (‘MREL’) at individual level. In particular, the binding MREL determination by the Single Resolution Board (‘SRB’) for Mediobanca International - which shall be met at all times - is equal to 8% of the *total risk exposure amount* (“TREA”) and 3% of the *leverage ratio exposure* (“LRE”). A transitional period is not applicable, given that Mediobanca International already meets the aforementioned MREL target as of the date of the decision.

– In December 2022, the bank renewed the Euro Medium Term Note Programme (the “EMTN Programme”) whereby it may from time to time issue senior preferred notes (the “Senior Preferred Notes”). The payment of all amounts due in respect of any Senior Preferred Notes issued by Mediobanca International will be unconditionally and irrevocably guaranteed by Mediobanca S.p.A. (in such capacity, the “Guarantor”) under a deed of guarantee and subject to the limitations thereof executed by the Guarantor and dated 30 December 2022.

## CORPORATE GOVERNANCE STATEMENT

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

The corporate bodies are as follows:

– General meeting of Shareholders;

– Board of Directors;

– Authorised Management;

– Audit Committee;

– Credit Committee.

General meeting of Shareholders

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

The General Meeting resolves on the following matters, among others:

- Approval of the financial statements and allocation of profit;
- Discharging members of the Board of Directors and the Authorised Management from liability;
- Setting the number of Board members and their appointment;
- Establishing the remuneration of the Board of Directors;
- Endorsement of those transactions that by law must be approved by shareholders in general meeting.

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

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

Board of Directors

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

The essential duties and responsibilities of the Board are defined primarily by the Articles of Association and Luxembourg law. According to the Articles of Association, the Board of Directors is composed of at least three members who do not have to be Shareholders and who are elected by General Meeting of Shareholders for a term of office as determined by the Shareholders but not exceeding six years. The Board is composed of seven Directors who have been originally appointed for a term of office three years.

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

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

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

- approval of strategic guidelines and directions, business and financial plans, budgets, risk management and internal control policies;
- approval of quarterly, semi-annual and annual accounts;
- appointment of the Authorised Management and establishment of powers;
- appointment of the other key function holders (e.g. Chief Compliance Officer, Chief Risk Officer, Chief Internal Auditor);
- appointment of the Audit Committee and establishment of powers;
- appointment of the Credit Committee and establishment of powers;
- approval of or amendment to internal regulations.

The Board of Directors of Mediobanca International was appointed by Shareholders in a General Meeting held on 16 October 2020 for the period ending with the Annual General Meeting to be called to approve the annual accounts as at 30 June 2023.

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

The Board currently consists of seven members (four of whom qualify as independent[2]): Mr. Giovanni Mancuso (Chairman), Mr. Alessandro Ragni (Managing Director), Mr. Massimo Amato, Mr. Stephane Bosi, Mr. Piero Pezzati, Mrs. Lara Pizzimiglia and Mrs. Jessica Spina. The Board includes prominent figures from the banking sectors, which ensures an appropriate degree of professionalism as required by the complexity of the bank's operations and given the Board's role in strategic supervision.

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[2] Not employee of the Mediobanca Group.

During the fiscal year, the Board of Directors was convened 5 (five) times and passed 2 (two) circular resolutions. The attendance rate of the meetings was 97%.

| Position | Member | Term of office - Since | Term of office - Until | Gender (M/F) | Executive (Y/N) | Independent (Y/N) | Attendance rate (%) | Other Directorships (*) |
|---|---|---|---|---|---|---|---|---|
| Chairman | Giovanni Mancuso | 16 October 2020 | Approval of the financial statement as at 30 June 2023 | M | N | Y | 100% | 3 |
| Managing Director | Alessandro Ragni | 22 January 2020 | Approval of the financial statement as at 30 June 2023 | M | Y | N | 100% | |
| Director | Massimo Amato | 27 January 2021 | Approval of the financial statement as at 30 June 2023 | M | N | Y | 100% | 2 |
| Director | Stephane Bosi | 16 October 2020 | Approval of the financial statement as at 30 June 2023 | M | N | Y | 100% | - |
| Director | Piero Pezzati | 16 October 2020 | Approval of the financial statement as at 30 June 2023 | M | N | Y | 100% | - |
| Director | Lara Pizzimiglia | 27 January 2021 | Approval of the financial statement as at 30 June 2023 | F | N | N | 100% | - |
| Director | Jessica Spina | 27 January 2021 | Approval of the financial statement as at 30 June 2023 | F | N | N | 80% | - |

(*) Directorships held within the same group (if any) are counted as a single directorship.

The Board has approved internal regulations in the area of self-assessment to govern the various phases into which the process is structured, identifying the means and instruments by which it is implemented. Such formalization enables a standardized process to be developed over the years meaning that results can also be compared more easily. The process of self-assessment of the size, composition and functioning of the Board of Directors and its Committees, required inter alia by the supervisory instructions for banks in the area of corporate governance, was launched in February and performed during the month of March 2023.

Authorised Management

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

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

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

Audit Committee

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

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

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

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

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

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

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

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

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

During the financial year, the Audit Committee was convened 5 (five) times and passed 1 (one) circular resolution. The attendance rate was 100%. The Audit Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed. After every meeting of the Audit Committee, the chairman of the Committee reports formally to the Board, in sufficient depth, to enable the Board to fulfil its oversight responsibilities.

Credit Committee

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

The Committee remains in force for the entire term of office of the Board of Directors which appointed it. The Board meeting held on 16 October 2020 vested the Credit Committee with the following powers:

– provision of guidance on the main risk categories faced by the institution;
– assessment and approval of credit, issuer and market risk (within the limits set forth by the Board);
– passing resolutions as regards the declaration of insolvency status of a counterparty, the classification of credit exposures as non-performing or forborne, and their return to the "performing" status once conditions of solvency have been restored;
– promoting effective management of all risk categories and overseeing the current risk exposure of the Bank and its future risk strategy;
– assessment and approval of new risk's types and/or operations;
– passing resolutions on those transactions which are significant in term of structure, number and/or type of risks involved.

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

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

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

## OTHER INFORMATION

During the fiscal year ended on 30 June 2023, the Bank has not purchased own shares nor has undertaken activities in the field of research and development.

## ECONOMIC OUTLOOK FOR THE NEXT TWELVE MONTHS

Global economic developments have begun to improve, but the upturn remains fragile. Lower energy prices are helping to bring down headline inflation and ease the strains on household budgets, business and consumer sentiment are picking up from low levels, and the earlier-than-expected full reopening of China has provided a boost to global activity. At the same time, core inflation is proving persistent, reflecting higher profits in some sectors and still-elevated cost pressures in resilient labour markets. The impact of higher interest rates around the world is also increasingly being felt, particularly in property and financial markets. Signs of stress have started to appear in some financial market segments as investors reassess risks, and credit conditions are tightening. Global GDP growth is projected to moderate from 3.3% in 2022 to 2.7% in 2023, before edging up to a still subdued 2.9% in 2024. Restrictive monetary policy will constrain demand growth for some time to come, with the full effects from policy tightening in 2022 only appearing later this year or in the early part of 2024. Annual consumer price inflation in the G20 economies is projected to decline from 7.8% in 2022 to 6.1% in 2023 and 4.7% in 2024, helped by lower energy and food retail prices, moderating demand pressures and lower supply bottlenecks. Core inflation is projected to be relatively sticky but ease gradually towards target in the major advanced economies by the end of next year.

Significant uncertainty about economic prospects remains, and the major risks to the projections are on the downside. One key concern is that inflation could continue to be more persistent than expected. Significant additional monetary policy tightening may then be required to lower inflation, raising the likelihood of abrupt asset repricing and risk reassessments in financial markets. A related concern is that the strength of the impact from the monetary policy tightening that has already occurred is difficult to gauge after an extended period of very accommodative policy and the speed at which policy interest rates have subsequently been raised. While a cooling of overheated markets and moderation of credit growth are standard channels through which monetary policy normally takes effect, the impact on economic growth could be stronger than expected if tighter financial conditions were to trigger stress in the financial system and undermine financial stability. Sharp changes in the market value of bond portfolios may further expose liquidity and duration risks.

Another key downside risk to the outlook relates to the uncertain course of Russia’s war of aggression against Ukraine and the associated risks of renewed disruptions in global energy and food markets. On the upside, reduced uncertainty from an early end to the war, easier-than-expected financial conditions, more robust labour force growth, and greater use of accumulated savings by households and businesses would all improve growth and investment prospects. However, the impact of these individual shocks on inflation could vary. The need to durably lower inflation, adjust fiscal policy support and revive sustainable growth creates difficult challenges for policymakers.

The Bank, as well as Mediobanca Group has entered this phase, in which challenges are expected for the global economy, with a resilient and profitable model, a high capitalization and with prudent level of provisions already in place.

Having delivered on the 2019-23 Strategic Plan (despite the outbreak of the Covid-19 pandemic and the Russia-Ukraine conflict), the Bank is now committed to implementing the Group’s 2023-26 Business Plan unveiled on 24 May 2023.

The Bank aims to establish itself as a leading revenues growth/capital light player leveraging on valuable customer base in Corporate & Investment Banking, the selective increase in lendings coupled with the capital optimization policies being deployed, and the ongoing control of both asset quality and operating costs, means that Mediobanca International can face with confidence a macroeconomic scenario that is still characterized by uncertainty, with low growth expected in the leading European economies given the level of interest rates and inflation that will remain high at least until the end of 1H FY 2023-24.

Main guidance over the business plan are as follows:

- Mantain sustainable level of revenues;
- improving profitability and value while preserving cost efficiency (Cost of Risk);
- Keep solid institution's capital base and improve capital ratios;
- RWAs stable, with selective growth in lendings and the launch of optimization actions;
- Cost/income ratio to be kept at around 40% area;
- Increase in shareholder remuneration, with dividend payout ratio to be maintained;
- Promoting responsible ESG criteria.

## PROPOSAL FOR ALLOCATION OF THE RESULT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023

The Board of Directors of Mediobanca International (Luxembourg) S.A. proposes to the Annual General Meeting the following allocation of the result for the financial year ended 30 June 2023:

| | | |
|---|---|---|
| – Profit of the year | € | 18.588.988 |
| – Balance on retained earnings | € | - |
| – **Total profit to be allocated** | **€** | **18.588.988** |
|     – To specific reserve for N.W.T. | € | - |
|     – To free reserve | € | - |
|     – To Dividend to the shareholders | € | 18,588,988 |

Considering the CIT due, the Bank should be able to reduce the 2024 NWT. Based on current estimation the charge could be reduced by € 1,757,360.00 by creating an NWT special reserve of € 8,786,800.00.

Beside the allocation of the profit suggested above, € 8,786,800 will be reclassified from the free reserve to NWT reserve. This reserve must be kept in the accounts for a 5 years period.

Accordingly, you are invited to approve the financial statements for the year ended 30 June 2023, including the balance sheet, profit and loss account and accompanying schedules.

Luxembourg, 12 September 2023

pp. BOARD OF DIRECTORS

CHIARMAN

(Mr. Giovanni Mancuso)

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

## MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.

### Statement of Directors' responsibilities

To the best of our knowledge, the financial statements of MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A. (the "Bank") give a true and fair view of the statement of the financial position and the statement of the comprehensive income of the Bank in accordance with applicable accounting standards. The management report includes a fair view of (I) the Bank's development, (II) its position, and (III) a description of the opportunities and risks relevant to the Bank that arose during the period ended 30 June 2023.

Luxembourg, 12 September 2023

The Board of Directors

| | | |
|---|---|---|
| Giovanni Mancuso | Alessandro Ragni | Massimo Amato |
| Stephane Bosi | Piero Pezzati | Lara Pizzimiglia |
| Jessica Spina | | |

# INDEPENDENT AUDITOR'S REPORT

Building a better
working world

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# Independent auditor's report

To the Board of Directors of
Mediobanca International (Luxembourg) S.A.
4, Boulevard Joseph II
L-1840 Luxembourg

## Report on the audit of the financial statements

### Opinion

We have audited the financial statements of Mediobanca International (Luxembourg) S.A. (the "Bank"), which comprise the statement of financial position as at 30 June 2023, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 30 June 2023, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

### Basis for opinion

We conducted our audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession ("Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under the EU Regulation Nº 537/2014, the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the "Responsibilities of the "réviseur d'entreprises agréé" for the audit of the financial statements" section of our report. We are also independent of the Bank in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment on loans and advances to customers

*Description*

The Bank's customer lending operations primarily consist of loans to corporate clients, including syndicated loans arranged by major non-Italian banks and high return finance (e.g. mezzanine and subordinated finance). The loans are grouped in different categories (corporate lending, leverage acquisition, project finance, export finance). The major part of corporate loans is guaranteed, in total or partially, by the Parent Bank Mediobanca - Banca di Credito Finanziario S.p.A.

As of 30 June 2023, loans and advances to customers amount to EUR 3,186 million (gross amount) representing 57% of the Bank’s total assets against which an impairment allowance of EUR 4.52 million is recorded (see Part F to the financial statements). Impairments are calculated in accordance with IFRS 9 “Financial instruments”, based on an expected credit loss (ECL) calculation model.

The assessment of expected credit losses on loans and advances to customers requires the use of judgment and estimates notably to:

- Assessment of the borrowers’ credit risks,
- determine the loan classification criteria under stage 1, stage 2 or stage 3;
- estimate the amount of expected credit losses depending on the different stages;
- prepare macro-economic projections which are embedded in the expected credit losses measurement.

The qualitative information concerning in particular the recognition and procedures used to estimate expected credit losses is mainly described in Part B Section 6 of the financial statements.
We considered the assessment of impairment on loans and advances to customers to be a key audit matter for the following reasons:

- the significance of loans and advances to customers in the Bank’s statement of financial position;
- the use of various parameters and assumptions in the models to determine the probability of default and the loss given default;
- the importance of judgment in determining the criteria of significant increase in credit risk and the way macro-economic forecasts are taken into account;
- the use of judgment and assumptions regarding the amount and timing of future cash flows as well as the value and recoverability of related collateral for defaulted loans and advances to customers;
- the assessment of individual impairment on defaulted loans (stage 3);

**Key audit matters (continued)**

*How the matter was addressed in our audit*

We obtained an understanding of the Bank's internal controls and tested the design and operating effectiveness of the manual and automated key controls relating to the assessment of credit risk and the measurement of expected credit losses. This included testing of:

- entity level controls over the ECL modelling process, including model review and governance;
- controls relating to the process of monitoring exposures within the Bank as well as the periodic review of these exposures by the relevant credit committee;
- controls over allocation of loans and advances into stages, including movements between stages, and the identification of defaulted loans and advances;
- controls over data accuracy and completeness.

The system of internal control at the bank level consists of the policies and procedures that the parent entity has implemented.

We also performed the following substantive audit procedures:

- we verified that the data used as a basis to calculate the ECL is complete and accurate; we also tested, on a sample basis, the extraction of data used in the models including rating of loans and movements between various ratings;
- we tested a sample of loans and advances to customers whereby we applied a risk-based approach per portfolio and focused on non-performing loans, loans included in the watchlist, exposures to new borrowers, most significant exposures, rating, staging, exposure and collateral, to form our own assessment with regards to the rating, staging and classification of the loans as selected in our sample to form our own assessment as to whether they are classified in the appropriate bucket (staging methodology);
- with the support of our internal modelling specialists, we tested the assumptions, inputs and formulas used in ECL model. This included assessing the appropriateness of model design and formulas used, considering alternative modelling techniques and recalculating the Probability of Default, Loss Given Default and Exposure at Default for a sample of models, as well as challenging the forward looking macro-economic scenarios;
- we performed an overall assessment of the ECL provision levels by stage to determine if they were reasonable considering the Bank's portfolio, risk profile, credit risk management practices and the macroeconomic environment;
- we performed substantive audit procedures on a sample of defaulted loans and advances to customer, consisting of key items. We examined in a critical manner the assumptions used by the Bank to determine expected cash flows and estimated recovery from any underlying collateral. We have performed enquiry and review procedures subsequent to year for any changes in risk assessment.

**Other information**

The Board of Directors is responsible for the other information. The other information comprises the information included in the management report and the corporate governance statement but does not include the financial statements and our report of "réviseur d'entreprises agréé" thereon.

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

**Other information (continued)**

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

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

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

The Board of Directors is also responsible for presenting the financial statements in compliance with the requirements set out in the Delegated Regulation 2019/815 on European Single Electronic Format, as amended ("ESEF Regulation").

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

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

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "réviseur d'entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with the ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

**Responsibilities of the “réviseur d’entreprises agréé” for the audit of the financial statements (continued)**

As part of an audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

- Assess whether the financial statements have been prepared, in all material respects, in compliance with the requirements laid down in the ESEF Regulation.

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

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

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

**Report on other legal and regulatory requirements**

We have been appointed as “réviseur d’entreprises agréé” by the Board of Directors on 3 November 2022 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is two years.

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

The corporate governance statement, included in the management report, is the responsibility of the Board of Directors. The information required by article 70bis paragraph 1 letters c) and d) of the law of 17 June 1992 relating to the annual and consolidated accounts of credit institutions governed by the laws of Luxembourg, as amended, is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

We have checked the compliance of the financial statements of the Bank as at 30 June 2023 with relevant statutory requirements set out in the ESEF Regulation that are applicable to the financial statements. For the Bank, it relates to the Financial Statements prepared in valid xHTML format.

In our opinion, the financial statements of the Bank as at 30 June 2023, identified as 549300DV870NBWY5W279-2023-06-30-en.xhtml, have been prepared, in all material respects, in compliance with the requirements laid down in the ESEF Regulation.

We confirm that the audit opinion is consistent with the additional report to the audit committee or equivalent.

We confirm that the prohibited non-audit services referred to in EU Regulation No 537/2014 were not provided and that we remained independent of the Bank in conducting the audit.

Ernst & Young
Société anonyme
Cabinet de révision agréé

Papa Saliou Diop

Alexander Kastendeuch

Luxembourg, 25 September 2023

# FINANCIAL STATEMENTS AS AT 30 JUNE 2023

## STATEMENT OF FINANCIAL POSITION

| | Assets | 30.06.2023 | 30.06.2022 |
|---|---|---|---|
| | | € | € |
| 10. | Cash and cash equivalents | 372.427.013 | 696.131.128 |
| 20. | Financial assets valued at FVTPL | 144.261.274 | 180.401.031 |
| | *a) Financial assets held for trading* | *131.715.551* | *172.244.484* |
| | *b) Financial assets designated at fair value* | *7.856.575* | *3.515.944* |
| | *c) Other financial assets mandatorily at fair value* | *4.689.148* | *4.640.603* |
| 40. | Financial assets at amortised cost | 5.041.606.037 | 6.503.033.327 |
| | *a) Due from banks* | *1.859.394.682* | *2.038.547.198* |
| | *b) Due from customers* | *3.182.211.355* | *4.464.486.039* |
| 50. | Hedging derivatives | — | 2.424.667 |
| 70. | Equity investments | 4.150.000 | 4.150.000 |
| 90. | Property, plant and equipment | 1.214.999 | 1.401.173 |
| 110. | Tax assets | 1.833.631 | 3.917.881 |
| | *a) Current* | *930.499* | *3.014.749* |
| | *b) Deferred* | *903.132* | *903.132* |
| 130. | Other assets | 10.895.708 | 91.026.004 |
| | **Total assets** | **5.576.388.662** | **7.482.485.121** |

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

| | Liabilities and Shareholders' equity | 30.06.2023 | 30.06.2022 |
|---|---|---|---|
| | | € | € |
| 10. | Financial liabilities at amortised cost | 4.972.745.654 | 6.914.838.241 |
| | *a) Due to banks* | *2.103.121.370* | *3.907.764.795* |
| | *b) Due to customers* | *3.015.177* | *12.433.556* |
| | *c) Debt securities in issue* | *2.866.609.107* | *2.994.639.890* |
| 20. | Financial liabilities valued at FVTPL | 60.123.832 | 102.084.552 |
| 30. | Financial liabilities designated at fair value | 64.721.471 | 7.590.814 |
| 40. | Hedging derivatives | 2.736.587 | — |
| 60. | Tax liabilities | 9.005.218 | 4.518.137 |
| | *a) Current* | *9.005.218* | *4.518.137* |
| | *b) Deferred* | — | — |
| 80. | Other liabilities | 10.594.965 | 8.903.992 |
| 100. | Provisions for risks and charges | 838.559 | 1.459.641 |
| 120. | Valuation Reserves | -282.409 | 79.760 |
| 140. | Equity instruments-AT1 | 100.000.000 | 100.000.000 |
| 150. | Reserves | 327.315.797 | 326.042.785 |
| 160. | Share capital | 10.000.000 | 10.000.000 |
| 200. | Profit (Loss) of the year | 18.588.988 | 6.967.199 |
| | **Total liabilities and Shareholders' equity** | **5.576.388.662** | **7.482.485.121** |

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

## STATEMENT OF COMPREHENSIVE INCOME

| | Balance sheet items | 30.06.2023 | 30.06.2022 |
|---|---|---|---|
| | | € | € |
| 010. | Interest and similar income | 219.315.800 | 87.355.873 |
| 020. | Interest and similar charges | -190.793.983 | -70.102.653 |
| **030.** | **Net interest income** | **28.521.817** | **17.253.220** |
| 040. | Fee and commission income | 17.897.427 | 19.001.088 |
| 050. | Fee and commission expenses | -7.859.954 | -12.056.805 |
| **060.** | **Net fee and commission income** | **10.037.473** | **6.944.283** |
| 080. | Net trading income (expenses) | -8.940.274 | -4.706.644 |
| 090. | Net hedging income (expenses) | 144.093 | 29.030 |
| 100. | Gains (losses) on disposal or repurchase of: | 486.087 | 90.012 |
| | *a) Financial assets measured at amortised cost* | *486.086* | 92.457 |
| | *b) Financial assets valued at FVOCI* | — | — |
| | *c) Financial liabilities* | *1* | -2.445 |
| 110. | Gains (losses) on other financial assets and liabilities measured at fair value through profit or loss | 1.277.732 | 410.956 |
| **120.** | **Total income** | **31.526.928** | **20.020.857** |
| 130. | Net write-offs (write-backs) for credit risk: | 3.651.383 | 3.998.968 |
| | *a) financial assets measured at amortised cost* | *3.651.383* | 3.998.968 |
| | *b) financial assets valued at fair with impact taken to comprehensive income* | — | — |
| **150.** | **Net income from financial operations** | **35.178.311** | **24.019.825** |
| 190. | Administrative expenses | -11.414.677 | -11.992.446 |
| | *a) Personnel costs* | -2.742.387 | -2.404.791 |
| | *b) Other administrative expenses* | -8.672.290 | -9.587.655 |
| 200. | Net provisions for risks and charges | 621.083 | 394.483 |
| 210. | Net adjustments to tangible assets | -205.654 | -204.285 |
| 230. | Other operating income (expenses) | 643.824 | -601.334 |
| **290.** | **Profit (loss) of the ordinary activity before tax** | **24.822.887** | **11.616.243** |
| 300. | Income tax on the ordinary activity | -6.233.899 | -4.649.044 |
| **330.** | **Profit (loss) for the period** | **18.588.988** | **6.967.199** |
| 340. | Other comprehensive income, net of tax | — | — |
| **350.** | **Profit (loss) of the period** | **18.588.988** | **6.967.199** |

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

## STATEMENT OF CHANGES IN EQUITY FROM 01.07.2022 TO 30.06.2023 (in €)

| | Balance as of June 30, 2022 | Allocation of the profit for the previous period | | Changes in reserves | Transactions involving equity | | | | Profit (loss) of the period | Balance as of June 30, 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Reserves | Dividends and other fund applications | | Additional Tier 1 | 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** | **326.042.784** | — | — | **1.217.201** | — | — | — | **55.812** | — | **327.315.797** |
| a) legal reserve | 1.000.000 | — | — | — | — | — | — | — | — | 1.000.000 |
| b) free reserve | 299.589.017 | — | — | 8.331.726 | — | — | — | 55.812 | — | 307.976.555 |
| c) special reserve(1) | 28.133.063 | — | — | -7.114.525 | — | — | — | — | — | 21.018.538 |
| c) FTA reserve(2) | -2.679.296 | — | — | — | — | — | — | — | — | -2.679.296 |
| **Valuation reserves** | **79.760** | — | — | **-362.169** | — | — | — | — | — | **-282.409** |
| **Own shares** | — | — | — | — | — | — | — | — | — | — |
| **Capital instruments** | **100.000.000** | — | — | — | — | — | — | — | — | **100.000.000** |
| **Comprehensive income of the period** | **6.967.199** | — | — | **-6.967.199** | — | — | — | — | **18.588.988** | **18.588.988** |
| **Total equity** | **443.089.743** | — | — | **-6.112.167** | — | — | — | **55.812** | **18.588.988** | **455.622.376** |

The accompanying notes form an integral part of the financial statements. The allocation of prior year result to the **NWT reserve** results is in line with the resolution taken by the AGM of October 2022.

(1) Luxembourg resident companies are subject to a Net Worth Tax ('NWT') of 0.5% of taxable wealth. This charge may be reduced provided the following conditions have been respected: (i) a special reserve account 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.

(2) FTA - Refers to "first time adoption" of the new accounting principle IFRS9 application.

## STATEMENT OF CHANGES IN EQUITY FROM 01.07.2021 TO 30.06.2022 (in €)

| | Balance as of June 30, 2021 | Allocation of the profit for the previous period | | | Transactions involving equity | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Reserves | Dividends and other fund applications | Changes in reserves | Additional Tier 1 | New shares issued | Treasury shares derivatives | Stock options and others | Profit (loss) of the period | Balance as of June 30, 2022 |
| **Share capital** | **10.000.000** | — | — | — | — | — | — | — | — | **10.000.000** |
| a) ordinary shares | 10.000.000 | — | — | — | — | — | — | — | — | 10.000.000 |
| b) other shares | — | — | — | — | — | — | — | — | — | — |
| **Profit brought forward** | — | — | — | — | — | — | — | — | — | — |
| **Reserves** | **320.782.764** | **5.260.020** | — | — | — | — | — | — | — | **326.042.784** |
| a) legal reserve | 1.000.000 | — | — | — | — | — | — | — | — | 1.000.000 |
| b) free reserve | 286.792.447 | 5.260.020 | — | 7.536.550 | — | — | — | | — | 299.589.017 |
| c) special reserve[1] | 35.669.613 | — | — | -7.536.550 | — | — | — | — | — | 28.133.063 |
| c) FTA reserve[2] | -2.679.296 | — | — | — | — | — | — | — | — | -2.679.296 |
| **Valuation reserves** | — | — | — | **79.760** | — | — | — | — | — | **79.760** |
| **Own shares** | — | — | — | — | — | — | — | — | — | — |
| **Capital instruments** | — | — | — | — | **100.000.000** | — | — | — | — | **100.000.000** |
| **Comprehensive income of the period** | **5.260.020** | **-5.260.020** | — | — | — | — | — | — | **6.967.199** | **6.967.199** |
| **Total equity** | **336.042.784** | — | — | **79.760** | **100.000.000** | — | — | — | **6.967.199** | **443.089.743** |

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

(1) Luxembourg resident companies are subject to a Net Worth Tax ('NWT') of 0.5% of taxable wealth. This charge may be reduced provided the following conditions have been respected: (i) a special reserve account 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.

(2) FTA - Refers to "first time adoption" of the new accounting principle IFRS9 application

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

| | | Amount | |
|---|---|---|---|
| | | 30/06/2023 | 30/06/2022 |
| **A.** | **Cash flow from (used in) operating activity** | **-317.954** | **-188.877** |
| **1.** | **Operating activity** | **52.496** | **37.881** |
| | – interests received (+) | 233.029 | 102.167 |
| | – interests paid (-) | -174.244 | -64.535 |
| | – net fees and commissions received/paid (+/-) | 14.817 | 15.845 |
| | – dividends and similar income (+) | — | — |
| | – net premium income (+) | — | — |
| | – cash payments to employees (-) | -2.220 | -2.036 |
| | – other expenses paid (-) | -20.498 | — |
| | – other income received (+) | 1.890 | -17.463 |
| | – taxes and duties (+/-) | -278 | 3.903 |
| **2.** | **Cash generated/absorbed by financial assets** | **1.489.744** | **-141.363** |
| | – Financial assets held for trading | -661 | 1.754 |
| | – financial assets designated at FVTPL | -4.115 | -3.526 |
| | – Other financial assets mandatorily measured at fair value | 46 | — |
| | – financial assets valued at FVOCI | — | — |
| | – financial assets valued at amortised cost | 1.491.082 | -136.451 |
| | – other assets | 3.392 | -3.140 |
| **3.** | **Cash generated/absorbed by financial liabilities** | **-1.860.194** | **-85.395** |
| | – financial liabilities valued at amortised cost | -1.907.279 | -93.794 |
| | – financial liabilities held for trading | -4.647 | 1.782 |
| | – financial liabilities designated at fair value | 58.024 | 7.826 |
| | – other liabilities | -6.292 | -1.209 |
| **B.** | **Cash flow from (used in) investment activity** | — | — |
| **1.** | **Cash generated from:** | — | — |
| | – disposal of shareholdings | — | — |
| | – disposal of tangible assets | — | — |
| | – disposal of intangible assets | — | — |
| **2.** | **Cash absorbed by:** | — | — |
| | – purchase of shareholdings | — | — |
| | – purchase of tangible assets | — | — |
| | – purchase of intangible assets | — | — |
| **C.** | **Cash flows from (used in) funding activity** | **-5.750** | **100.000** |
| | – issueance/acquisition of T1 capital instruments | — | 100.000 |
| | – distribution of dividends and other purposes | -5.750 | — |
| | – issueance/acquisition of T2 capital instruments | — | — |
| | **Net cash inflow (outflow) during the fiscal year** | **-323.704** | **-88.877** |

| | Amount | |
|---|---|---|
| | 30/06/2023 | 30/06/2022 |
| Cash and cash equivalents: balance at 1 July | 696.131 | 785.008 |
| Total cash inflow (outflow) during year | -323.704 | -88.877 |
| **Cash and cash equivalents: balance at 30 June** | **372.427** | **696.131** |

# NOTES TO THE FINANCIAL STATEMENTS

# PART A – CORPORATE INFORMATION

## Corporate matters

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

## Nature of the bank’s business

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

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

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

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

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

## Outsourcing

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

## Financial statements

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

The financial statements as at 30 June 2023 were authorised for issue by the Board of Directors on 12 September 2023.

## Parent Bank

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

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

# PART B – ACCOUNTING POLICIES

## Section 1

### Statement of compliance with the International Accounting Standards

The individual financial statements of the Bank are prepared in accordance with the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) promulgated by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), adopted by the European Commission in accordance with the procedure laid down in Article 6 of the Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002. The financial statements as at 30 June 2023 have been prepared based on the template of the Parent Bank 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 – 7th update of 30 November 2018 – which sets out the financial statements layouts and compilation methods, as well as the content of the explanatory notes[3].

**Changes in accounting policies since the previous annual publication.**

Standards effective for Mediobanca International (Luxembourg) S.A from or after 1 July 2022:

- IAS 1 Presentation of Financial Statements-Disclosure of Accounting Policies (Effective 1 January 2023, EU Regulation as of 2 March 2022)
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors-Definition of accounting estimates (Effective 1 January 2023, EU Regulation as of 2 March 2022)
- IAS 12 Income Taxes -Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Effective 1 January 2023, EU Regulation as of 11 August 2022)
- IFRS 17 Insurance Contracts including Amendments to IFRS 17-Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Effective 1 January 2023, EU Regulation as of 8 September 2022)

New standards and interpretations issued that are mandatory for the annual periods beginning on or after 1 July 2023 or later, and which Mediobanca International (Luxembourg) S.A has not early adopted:

- None

[3] Banca d’Italia (Bank of Italy) published the 7th update of Circular 262/2005, which for the Mediobanca Group shall be applied from December 2021.

New standards and interpretations issued for the annual periods beginning on or after 1 July 2023 or later, and whose adoption by the EU remains open or has been postponed:

- IAS 1 Presentation of Financial Statements-Classification of Liabilities as Current or Non-current (Effective 1 January 2024, EU Adoption open)
- IAS 7 Statements of cash flow, supplier finance arrangements (Effective 1 January 2024, EU Adoption open)
- IFRS 7 Financial instruments disclosures, supplier finance arrangements (Effective 1 January 2024, EU Adoption open)
- IFRS 10 Consolidated Financial Statements-Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Deferred indefinitely, EU Adoption postponed)
- IFRS 16 Leases, lease liability in a sale and leaseback (Effective 1 January 2024, EU Adoption open)
- IAS 28 Investments in Associates and Joint Venture-Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Deferred indefinitely, EU Adoption postponed)

None of the above standards are expected to have any material impact on the financial statements when adopted.

## Section 2

### General principles for preparation

The financial statements comprise:

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

All the statements have been drawn up in conformity with the general principles provided for under the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) provided for under IFRS as adopted by EU and the accounting policies illustrated in section 5 and show data for the period under review compared with that for the previous financial period.

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 annual accounts are presented in €/k unless otherwise stated.

During the year under review, the European Commission approved the following two regulations, which include certain amendments to accounting standards already in force:

– Regulation 2022/1392 of 11 August 2022, published in Official Journal L 211 of 12 August 2022, adopts amendments to IAS 12 “Income Taxes”. These amendments clarify how companies should account Annual Accounts for deferred taxes on transactions such as leases and decommissioning obligations and aim to reduce differences in the recognition of deferred tax assets and liabilities on leases and decommissioning obligations. Companies will apply these provisions starting from 1 January 2023 or later. The Mediobanca Group as of 1 July 2023;

– Regulation 2022/1491 of 8 September 2022, published in Official Journal L 234 of 9 September 2022, adopts amendments to IFRS 17 “Insurance Contracts”. The amendment to the transitional provisions of IFRS 17 allows companies to overcome the one-off classification differences in comparative information regarding the previous year upon first-time adoption of IFRS 17 and IFRS 9 “Financial Instruments”. Companies may apply the amendment only upon first-time adoption of IFRS 17 and IFRS 9 2.

ESMA:

Public Statement of 28 October 2022, “*European common enforcement priorities for 2022 annual financial reports”*, setting out priorities on which listed companies must focus in preparing their financial statements for the year ended 31 December 2022. ESMA underlines the responsibility of management and supervisory bodies of issuers as well as the importance of the oversight role of audit committees which is key to ensure the overall internal consistency of the annual financial report and contribute to high-quality annual financial reports; in particular, ESMA recommends that disclosure is provided in the IFRS-compliant financial statements for 2022 regarding the following topics:

- a) Climate-related matters[4], impacts, estimates and strategies implemented to mitigate them and indicate how the company is positioned relative to its sustainability objectives;
- b) Russia’s invasion of Ukraine
- c) Macroeconomic environment
- d) Taxonomy-related disclosures and disclosure of the taxonomy alignment of economic activities in accordance with the obligations set out in Article 8 of Regulation (EU) 2020/852.
- e) Reporting scope and data quality
- f) Identification of Alternative Performance Measures and reconciliations
- g) Block tagging on European Single Electronic Format

CSSF:

Circular CSSF 22/804: update of Circular CSSF 21/769 on governance and security requirements for Supervised Entities to perform tasks or activities through Telework. The circular defines the governance and security requirements with respect to the implementation and utilisation by an entity under the supervision of the CSSF of work processes based on Telework solutions. It contributes to the sound and prudent management, the proper organisation of these Supervised Entities and the preservation of information security by providing guidance on the requirements the Supervised Entities have to comply with.

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[4] ESMA expects the impact of climate-related matters to be taken into consideration by entities in relation to IFRS, with reference in particular to the scope of application of IAS 16, IAS 36 and IAS 38.

Circular CSSF 22/805: *Revised EBA Guidelines on outsourcing arrangements (EBA/GL/2019/02) - Publication of Circular CSSF 22/806 on outsourcing arrangements – Repeal or amendments of certain circulars CSSF*. The purpose of this circular is to inform market participants that the CSSF, in its capacity as competent authority, applies the revised EBA Guidelines on outsourcing arrangements (EBA/GL/2019/02 or the Guidelines). Consequently, the CSSF has integrated them into its administrative practice and regulatory approach via the Circular with a view to contribute to supervisory convergence at European level in terms of requirements on outsourcing arrangements about *a)* information and communication technology (ICT), *b)* defining important functions that shall be subject to more stringent requirements, *c)* introducing specific requirements for the management and oversight of the risks associated with *d)* requiring the concerned entities to maintain a register for all outsourcing arrangements that can be used by competent authorities in the context of their prudential supervision.

Circular CSSF 22/821: update of Circular CSSF 21/821 rules concerning Long Form Report. The purpose of this circular is to introduce a revised version of the long form report following on from the regulatory developments and the evolving supervisory practices since 2001. The revision of the long form report as contemplated under Circular CSSF 01/27 is the result of a thorough reconsideration of its objective, scope and content in order to realign it with supervisory and prudential points of focus as well as to suppress redundancies between existing reports. This circular introduces the self-assessment questionnaire to be filled in on an annual basis by the institutions. It also introduces the Agreed Upon Procedure report(s) and the annual separate report on the protection of financial instruments and funds belonging to clients as required under Article 7 of the Grand-ducal Regulation of 30 May 2018 to be established by the réviseurs d'entreprises agréés (REA) of the institutions. The self-assessment questionnaire and the Agreed Upon Procedure report(s) do not cover matters relating to anti-money laundering and countering the financing of terrorism (AML/CFT). In this regard, it is expected that the REA provides, on an annual basis, a separate and additional report covering AML/CFT further to CSSF Regulation N°12-02.

None of the above standards are expected to have any material impact on the financial statements when adopted.

## Section 3

### Interest rates benchmark transition: Group project

All the activities required to complete the transition to the new interbank benchmark rates by the start of 2022 have basically been completed. The discontinued index-linked products have all been amended without any problems being noted through the transition to Ester (for the Euro), Saron (for CHF), Sonia (for GBP) and Tonar (for JPY).

To date, according with the Group framework, Mediobanca International have completed the transition for the Libor index in all currencies, including the USD (whose transition was successfully completed on June '23). The amendment of the contractual documentation for products linked to CHF, GBP and JPY Libor (Loan, Derivatives, Securities Lending, Repo), in order to introduce fallback clauses and allow for an orderly transition to the new rates, has been completed. All the intercompany and bilateral loans indexed to GBP and CHF Libor have been amended. The amendment of the contractual documentation for products linked to USD Libor (Loan, Derivatives, Securities Lending) has been completed in June '23.

## Section 4

### New ESEF (European Single Electronic Format) requirement

ESEF is the new single electronic reporting for the preparation of annual financial reports to be published by listed companies in the European Union from 2021 onwards. Directive 2004/109/EC (the "*Transparency Directive*") and Delegated Regulation (EU) 2019/815 introduced the obligation for issuers of securities listed on regulated markets of the European Union to draw up the annual financial report in the language XHTML, based on the European Single Electronic Format (ESEF), approved by ESMA. This format provides for one single file (*prepared under XHTML*) which will include the financial statements, the management report and the responsibility statements of the persons responsible within the company. This file will be human-readable similar to a normal webpage. MBIL falls under the Transparency Directive[5]. Moreover, according to the ESEF Regulation, non-consolidated annual financial reports shall be prepared in XHTML format (the XBRL markup language shall be used in case the issuer was required to prepare IFRS consolidated annual financial statements).

## Section 5

### Basis of preparation

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

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

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

Due to rounding, numbers may not add up precisely to the totals provided across these financial statements.

[5] CIRCULAR CSSF 08/337: Law of 11 January 2008 and Grand-ducal Regulation of 11 January 2008 on transparency requirements for issuers, as amended.

Section 6

## Summary of significant accounting policies

### Cash and cash equivalents

Cash and cash equivalents[6] comprise cash balances on hand, short-term highly liquid investments with maturities of three months or less when purchased, non-restricted current accounts with the Central Bank and current accounts.

### Financial assets measured at fair value through profit or loss (FVTPL)

**Recognition:** Financial assets represented by debt or equity instruments are initially recognised on the settlement date, while derivative contracts are recognised on the date of signature. In particular, any changes in the fair value of the asset to be received between the settlement date and the earlier arrangement date are recognised at the time of settlement, in the same way in which the asset acquired is recorded. Financial assets measured at fair value through profit or loss are initially recorded at fair value; unless stated otherwise, this is represented by the consideration paid for the transaction, without considering any related costs or income attributable to them, which are recorded directly in the income statement.

**Classification**:

a) **financial assets held for trading**: financial assets held for trading are assets which have been acquired principally for the purpose of being traded and comprise those whose business model is defined as "Other". This also includes s debt securities, equities, loans held for trading purposes, and the positive value of derivatives held for trading, including those embedded in complex instruments (such as structured bonds), which are recorded separately.

b) **financial assets designated at fair value:** this category comprises the financial assets for which the fair value option has been exercised.

c) **other financial assets mandatorily measured at fair value**: this category includes financial assets whose business model is defined as "Hold to Collect" or "Hold to Collect & Sell", but which fail the SPPI test and therefore do not satisfy the requirements for classification therein. It also includes loans which do not guarantee full repayment of principal in the event of the counterparty’s financial difficulties and which have therefore failed the SPPI test. The process followed to write down these positions is aligned with that used for other loans, on the grounds that the exposure is basically attributable to credit risk, with both the gross exposure and related provisioning stated.

**Measurement and criteria for the recognition**: subsequent to initial recognition, these assets continue to be measured at fair value. If the fair value of derivatives classified as "financial assets held for trading" becomes negative, this caption is recognised as a financial liability. The positive components of income, represented by the interest income deriving from financial assets classified as "Financial assets measured at fair value through profit or loss", are recognised on an accruals basis in the "interest" captions of the income statement. Gains and losses deriving from changes in the fair value of "Financial assets measured

[6] According to the 7th update of Circular 262/2005 of Bank of Italy, in force from December 2021.

at fair value through profit or loss – financial assets held for trading" are recognised in income statement caption "Net income from trading activities".

Gains and losses deriving from changes in the fair value of “financial assets designated at fair value” are recognised in income statement caption "Net income on other financial assets and liabilities measured at fair value through profit or loss – financial assets and liabilities designated at fair value", while the other financial assets mandatorily measured at fair value are recognised in caption "Net income on other financial assets and liabilities measured at fair value through profit or loss – other financial assets mandatorily measured at fair value".

Financial assets are derecognised when the contractual rights to the cash flows deriving from them expire, when substantially all the risks/benefits associated with them are assigned, or when substantial changes are made to them. If the Bank sells a financial asset classified among the "Financial assets measured at fair value through profit or loss", it is derecognised on the transfer date (settlement date).

**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. In this connection, the Group has developed a standardized process for performing the test, which involves analysing the loans using a specific tool, developed internally, which is structured on the basis of decision-making trees. If the test is not passed, the tool will show that the assets should be recognized at fair value through profit and loss (FVTPL). The method by which loans are tested differs according to whether or not the asset concerned is a retail or corporate loan: at product level for retail loans, individually for corporate loans. An external info-provider is used to test debt securities; if, however, the results of the test are unavailable, the instrument is analysed using the SPPI tool. 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 amortised cost, i.e. the initial value minus/plus principal repayments, write-downs/write-backs and amortization - 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.

In accordance with IFRS9, 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 recognize the expected losses along the residual maturity of the instrument;
- *stage 3*: includes impaired exposures according to the regulatory definition. In moving to stage 3, exposures are evaluated on an individual basis, i.e. the value adjustment is calculated as the difference between the carrying amount at the date (amortised cost) and the present value of the expected cash flows, calculated applying the original effective interest rate. Expected cash flows take into account the expected collection times, the estimated realizable value of any guarantees, the costs expected to be incurred to recover the credit exposure with a forward-looking perspective which takes account of alternative recovery scenarios and developments in the economic cycle.

In the expected credit loss calculation model used by the Group, forward-looking information has been taken into consideration with reference to three possible macroeconomic scenarios (baseline, mild-positive and mild-negative) which impact on the PD and the LGD, including possible disposal scenarios where the Group's NPL strategy aims at derisking through market sales.

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) are receivables that are already impaired at the point in time when they are acquired or disbursed. At the initial recognition date they are recognized at amortized cost on the basis of an internal rate of return which is calculated using an estimate of the recovery flows expected for the item, and recovery flows are periodically updated in light of new evidence, with flows discounted using the above-mentioned internal rate of return.

Following initial recognition, all financial assets recognized at amortised cost and FVOCI 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.

The expected credit losses are recorded and released only insofar as the changes actually occur. For financial instruments held to be in default, the Group records an expected loss for the outstanding life of the instrument (similar to stage 2 above); while value adjustments are calculated for all the exposures split into different categories, factoring in forward-looking information which reflects macro-economic factors.

**Hedging transactions**

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

The types of hedging transactions 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 recognized 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 recognized 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 recognized 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 recognized) 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 recognized 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 recognized 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. Please refers to Heading 50 (Section 5 Assets) for further information about outstanding hedges.

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

*Cash flow hedges*

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

- The gain or loss on the hedge instrument in relation to the effective part of the hedge is taken through OCI in the cash flow reserve, whereas the ineffective part is taken directly through profit and loss.
- The cash flow reserve is adjusted to reflect the lower amount of:
  - the gain or loss accumulated on the hedge instrument since the hedge’s inception; and
  - the cumulative change in fair value (versus the present value) of the item hedged (i.e. the present value of the cumulative change in the estimated future cash flows hedged) since the hedge’s inception.

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

As at 30 June 2023, 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 (at the end of FY 22/23 the Bank does not have any tangible asset).

**Leasing (IFRS16)**

With reference to the transactions governed by IFRS 16 and the contracts which fall within its scope of application, the only leases has in place in this connection are for properties and company cars. Such leases normally have durations of more than twelve months, and typically contain renewal or termination clauses which both lessor and lessee can exercise in accordance with the provisions of law and/or specific contractual arrangements, if any.

The classification of an agreement as a lease[7] (or containing an element of a lease) is based on the substance of the agreement at the date on which it is entered into. An agreement is or contains a lease if it envisages the use of a specific asset (or assets) and grants the “Right of Use” (RoU) on that asset (or assets) for an established period of time and in exchange for consideration (lease liabilities); therefore, rental and long-term rental agreements are defined as leases.

[7] Lease agreements in which the Bank is lessor (if any) are broken down between finance leases and operating leases. An agreement is classified as a finance lease if it transfers all risks and rewards typical of ownership to the lessee. It is accounted for with the financial method, with the recognition in the Assets of a receivable the value of which is equal to the amount disbursed net of the principal amount of the lease instalments falling due and paid by the lessee, with interest income recognized in the income statement.

The right of use recognized under "tangible assets" is equal to the sum of the present value of future payments (corresponding to the present value of the liability recognized), of the initial direct costs, of any payment received in advance or at the start date of the lease (balloon instalment), of any incentive received from the lessor, and the estimate of any costs of removal or restoration of the asset underlying the lease.

This item is recognized against a liability posted under "liabilities measured at amortised cost" which corresponds to the present value of payments due for the lease; the incremental borrowing rate is equal to the internal rate of transfer at that date.

The duration of the lease agreement must consider not only the non-cancellable period established by the contract, but also extension options if it is deemed reasonably certain that they will be exercised. In particular, if there is a right to automatic renewal, it is necessary to consider past behaviors, the existence of company plans to dispose of the leased asset, and any other circumstance indicative of the existence of the reasonable certainty of renewal.

Subsequent to initial recognition, the right of use is depreciated throughout the term of the lease and, in certain circumstances, subject to adjustment for impairment. The liability is increased due to the accrual of interest expense and progressively reduced due to the payments made; if the payments are modified, the liability is redetermined against the right of use asset.

**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 IFRS9. In this case, the Bank verifies that the contractual rights to receive the cash flows from the asset are transferred or, alternatively, said rights are maintained, but at the same time, there is a contractual obligation to pay them to one or more beneficiaries. It is necessary to verify that substantially all risks and rewards are transferred, and any rights and obligations originating from or maintained with the transfer, are, if the case warrants it, recognized 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 recognized.

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 securitization, 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 recognized 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 recognize 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).

## Financial guarantees and loan commitments

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances, that means contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of *i)* the amount determined in accordance with the impairment provisions of IFRS 9, *b)* the premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Bank are firm commitments to provide loans or advances under pre-specified terms and conditions and are measured as the amount determined in accordance with the impairment provision of IFRS 9. Financial guarantee contracts and loan commitments are recognised in off-balance sheet. The Bank recognises loan commitments when it has fulfilled all its obligations and related contracts have been duly signed by all the counterparties involved.

The Bank recognises a loss allowance in compliance with IFRS 9

## 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 amortised 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 or 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 recognized in the statement of comprehensive income.

## Financial liabilities designated at fair value

These include the value of financial liabilities designated at fair value through profit and loss based on the “*fair value option*” granted under IFRS 9 and in compliance with the cases established by the regulation itself. Such liabilities are measured at fair value with recognition of the results according to the following rules provided by IFRS 9:

– Changes in fair value which are attributable to the issuer's own credit standing must be recognized through other comprehensive income (net equity);

– Other changes in fair value must be recognized in through profit and loss.

– Amounts stated in other comprehensive income are not subsequently transferred to the profit and loss. This method cannot be applied, however, if the recognition of the effects of the issuer's own credit standing in net equity generates or amplifies an accounting mismatch in profit and loss. In such cases, the profits or losses related to the liability, including those caused as the effect of the change in the issuer's credit standing, must be recorded through profit and loss.

**Tax assets and liabilities**

Income taxes are recognized 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.

Contributions to resolution funds are accounted for according to IFRIC21.

**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 recognized 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 IFRS9. In such cases the same staging and expected loss calculation criteria are used for both financial assets recognized at amortised 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 recognized under IAS19.

### 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 recognized amounts and the transactions are intended to be settled on a net basis or realize 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.

### "Day 1" 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 recognizes 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 recognized in the comprehensive income when the inputs become observable, or when the instrument is derecognized.

### Fair value hierarchy

In accordance with IFRS 13, fair value must be presented according to a hierarchy based on the quality of the inputs used[8] to determine it.

In particular, financial assets and liabilities measured at fair value must be classified to levels that give decreasing priority to measurements based on different market parameters: the highest priority (Level 1) is assigned to measurements based on (unadjusted) prices quoted in an active market for identical assets or liabilities; the lowest priority (Level 3) is assigned to those derived significantly from unobservable parameters.

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[8] IFRS 13 para. 73: "The fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement" and para. 74: "The fair value hierarchy prioritises the inputs to valuation techniques, not the valuation techniques used to measure fair value." For further details, see IFRS 13 paragraphs 72-90.

In particular, the following levels are distinguished:

- Level 1: measurements based on (uniform, unadjusted) quoted prices taken from an active market for the individual financial instrument being measured.
- Level 2: measurements based on valuation techniques using inputs that can be observed directly (prices) or indirectly (price derivatives) on the market. In this case, fair value is measured through a comparable approach or the use of a pricing model that does not leave overly ample margins for subjectivity, normally used by other financial operators and based on inputs that can be observed on the market or estimated internally with a limited impact on fair value.
- Level 3: measurements based on valuation techniques using significant inputs that cannot be observed on the market and/or complex pricing models subject to uncertainty. In this case, fair value is determined on the basis of assumptions concerning future cash flows, which could yield different estimates for the same financial instrument by different valuers.

Where the input data used to measure an asset or a liability are of different levels, determination of the fair value level is guided by the significance of the input data (IFRS 13, para. 73).

**Fair Value Adjustment**

Fair value adjustment is defined as the quantity to be added to, or subtracted, from the price observed on the market or the theoretical price generated by the model, to ensure that the fair value reflects the price that can be realized in a market transaction which is effectively possible. In line with the best market practice, the alignment of all fair value adjustments with the prudential categories defined in Article 105 of the CRR ("Prudent Valuation") was largely completed in the course of the financial year.

**Credit/Debt and Funding Valuation Adjustment (CVA/DVA/FCA)**

Credit and Debt Value Adjustments (CVA and DVA) are incorporated into the valuation of derivatives to reflect the impact of the counterparty's credit risk and the Bank's own credit quality on the fair value respectively, as follows:

– CVA is a negative quantity which takes account of scenarios in which the counterparty might fail before the Bank does while amounts are still receivable (positive MTM) by the Bank from the counterparty;

– DVA is a positive quantity which takes account of scenarios in which the Bank itself might fail before the party does while amounts are still payable (negative MTM) to the counterparty.

CVA and DVA are calculated taking into consideration any counterparty risk mitigation agreements that have been entered into, in particular collateral and netting agreements for each counterparty. The CVA/DVA methodology used by Mediobanca is based on the following inputs:

– Expected positive exposure (EPE) and expected negative exposure (ENE) of the valuation of the derivatives, deriving from simulation techniques;

– PD (probability of default (PD), derived from historical PD readings or those implied in market prices for credit default swaps or bond securities;

– Loss given default (LGD) based on the estimated value of recovery in the event of the counterparty going bankrupt, as defined in specific analysis conducted by the Bank itself or the recovery rates conventionally utilized for credit default swap prices.

The fair value of non-collateralized derivatives may be influenced by the Bank's cost of funding. To take account of this aspect, some adjustments are calculated to reflect the different cost of funding (Funding Value Adjustments), using a discount curve representative of the average funding level of banks participating in the European corporate derivative market.

***1. Fair value levels: valuation techniques***

The Bank normally maximises the use of market prices (Level 1) or models with observable inputs (Level 2).

However, all instruments within which the component attributable to unobservable inputs (such as implicit volatility beyond certain observability thresholds, or equity and credit correlation) is prevalent within fair value, or where there are adjustments that significantly modify the most liquid input parameters used, are classified to Level 3[9].

All Level 3 instruments are subject to additional price verification procedures, including: revision of relevant historical data, profit and loss analysis, individual valuation of each component of structured products and benchmarking. This approach involves the use of subjective parameters and judgements based on experience and therefore may require adjustments to valuations that take account of the bid-ask spread, liquidity or counterparty risk, as well as the type of valuation model adopted. In any case, all valuation models, including internally developed models, are independently tested and validated by different functions of the Bank, thus ensuring an independent control structure. Similarly, the Independent Price Verification unit carries out an independent check of the parameters used, comparing them to similar inputs from different sources.

***2. Inputs used to determine fair value levels***

During the year, the Bank further developed fair value classification processes increasingly focused on analysing the parameters underlying the instruments in the absence of a price quoted on an active market.

A description of the main inputs used in determining fair value levels is provided below:

– *Prices*: the instruments traded on a regulated market or for which quoted prices are available for bilateral trades are valued using prices taken from info-providers;

– *Interest rates / Inflation swap rates*: these are valuation inputs for derivative instruments that involve an exchange of flows between two counterparties. Interest rates represent market expectations of future rate performance and are quoted for various maturities. Inflation swap rates represent the market's expectations of future inflation performance. The illiquidity of such inputs has a direct impact on the measurement of a debt security or derivative;

– *Repo rates*: interest rates applied to repurchase agreements on securities;

– *Volatility*: this is a measurement of expectations regarding the variability of quoted market prices in respect of certain parameters. They may be quoted directly or derived from the prices of quoted instruments. Volatility may refer to, inter alia, various types of underlying (shares/indices, interest rates: caps/floors or swaptions, exchange rates, inflation);

[9] See paragraphs 73 and 75 of IFRS 13.

- *Correlation*: it measures the relationship that exists between movements of two variables and is an input in the valuation of a derivative product, where the payoff is determined by multiple risk factors/underlying;
- *Dividends*: the dividend yields of equity instruments are an estimate of the possible yields that such instruments will offer in the future in terms of cash flows. The yield and periodicity of the dividends is the most significant parameter for determining the fair value of instruments sensible to the forward price of a share;
- *Credit spreads*: these are the estimate of the risk of insolvency of a counterparty and are quoted with respect to a benchmark; credit spreads refer to a wide range of underlying (indices and single names), regions, sectors, maturities and credit qualities (high yield and investment grade). The wide range of this category is the reason for the breadth of ranges of unobservable inputs.

***3. Assets and liabilities measured at fair value on a recurring basis***

This section provides disclosure on the measurement techniques and inputs used for assets and liabilities measured at fair value on a recurring basis, by fair value level.

*Level 1*

This level comprises all instruments quoted on active markets or for which quotations are available on an ongoing basis. The former instance covers cash equity instruments, funds and listed derivatives[10] (futures and options with equity, interest rates and sovereign debt as the underlying) traded on regulated markets for which an official price was available[11]. The second instance covers liquid debt securities for which quotations are available on an ongoing basis, and ABS and CLOs for which tradable quotations are available at the reporting date.

*Level 2*

- Bonds: securities traded on less liquid markets that show bid/ask spreads above adequate levels are classified as Level 2; as are instruments not traded on active markets that are marked to model using the implied credit spread curves obtained from Level1 or Level 2 instruments, to which a further spread is added to reflect their illiquidity. The model makes maximum use of observable inputs and minimum use of non-observable inputs. In this way, only if the credit spread curve applied is representative, the bonds are categorized as Level 2. In fair value measurement, fair value adjustments can be used in cases where there is reduced liquidity and model risk, to compensate for the lack of observable market inputs;
- Derivatives: the fair value of derivatives not traded on an active market derives from application of mark-to-model measurement techniques. In accordance with the definitions provided in paragraphs 3, 61 and 67 of IFRS 13, where possible the Bank uses models that maximize observable parameters, which are preferable to models where the use of unobservable parameters is predominant. When there is an active market for the input parameters to be used for the different components of the valuation model, the fair value is established on the basis of their market quotations. Hence an OTC derivative that mainly uses observable inputs deriving from Level 1 instruments (quoted prices, as established in paragraphs 76-80 of IFRS 13) or Level 2 instruments (interest rate curves, implicit volatilities and

10 Provided that the quotation, following the IPV process, is considered to be effectively liquid.

11 The current bid price is used for financial assets and the current ask price for financial liabilities.

credit spreads, as stipulated in paragraph 82 of IFRS 13) is classified as Level 2. These derivatives include:

- Plain vanilla instruments, such as options with equity or exchange rates, interest rate swaps, cap & floor, credit default swaps and credit default indexes as underlying;
- Exotic instruments which use more complex models such as exotic equity options, structured forex including derivatives embedded in notes issued by Mediobanca whose characteristics replicate those referred to above;
- Issues of certificates with credit derivatives or shares as underlying (basket or single name), including the issuer credit risk which is thus factored into the total calculation of the fair value.

The instruments referred to above are classified as Level 2 when the fair value component calculated using models based on observable inputs is adjudged to be predominant.

The observability of an input parameter depends on the type of product, and on the adequacy of the parameters used. In both cases the relevant issuers are the availability of quotes, expiry and level of moneyness.

*Level 3*

- Bonds: instruments whose fair value is determined using prices that cannot be corroborated are classified as Level 3, as are instruments not traded on active markets which are marked to model using the credit spread curves implicitly derived from Level 1 or Level 2 instruments, to which a spread is added in order to factor in their unobservable illiquidity. Fair value adjustments may be used in recognizing such instruments at fair value when there is low liquidity, in order to compensate for the lack of observable market parameters for the Level 3 positions;
- Asset-backed securities, CLOs and loans: the measurement process relies on info-providers which effectively collect market prices. Basically, ABS are categorized as Level 3, with the exception of those for which a bid/ask contribution can be provided with the respective quantities on an ongoing basis, in which case they are categorized as Level 1;
- Credit exposures which, based on the characteristics of their cash flows, are recognized at fair value (IFRS 9, SPPI criteria - Solely Payments of Principal and Interest): specific valuation methodologies are adopted to represent the individual exposure's characteristics, seeking to maximize use of observable market data;
- Equities: equities are categorized as Level 1 when quoted prices are available on an active market considered to be liquid, and Level 3 when there are no quoted prices or when quoted prices have been suspended indefinitely and for which an internal model is used in order to determine the fair value. Some residual equities for which fair value cannot be established reliably using the methods described above are recognized at cost;
- Derivatives: when the valuation of an OTC derivative has been materially affected by unobservable parameters it is classified as Level 3. Such derivatives include:
  - Plain vanilla instruments, such as options with equity as the underlying and long expiries, or dividends on which there is no market consensus and options on equity baskets (indexes and single name);

- Equity certificates for which the valuation inputs show a high degree of uncertainty (as it emerges during the Independent Price Verification process) in terms of volatility or future dividends[12];
- Exotic instruments that use certain payoffs (i.e. Knock-in/Knock-out reverse notes) on a single security (or baskets) for which the valuation inputs are not directly observable;
- Bespoke CDO tranches.

***4. Assets and liabilities measured at fair value on a non-recurring basis***

The fair value of the financial assets and liabilities measured at amortized cost and classified as "Financial assets measured at amortized cost" (loans to banks and customers) or as "Financial liabilities measured at amortized cost" (payables to banks and customers and debt securities in issue) is relevant only for information purposes in line with IFRS 7 requirement

- In such cases the fair value is calculated only for the purpose of meeting the Bank's responsibilities in terms of providing market disclosure, and has no impact on the book value of the investment, on the profit and loss account or on net equity. Such instruments are not normally traded, and their fair value is thus measured on the basis of internal inputs not directly observable on the market.

- The fair value of corporate loans is measured using the Discounted Cash Flow Method i.e., adding, at the measurement date, the value of future cash flows discounted with appropriate rates to reflect the credit risk of the counterparty. The credit spread is determined using industry curves representing the counterparty (rating, geography, industry). For corporate receivables, loans to counterparties with official ratings are categorized as Level 2; in all other cases as Level 3. The same applies to retail loans (i.e., mortgage loans and consumer credit).

- For on-demand or short-term receivables and payables, their book value is considered a good approximation of their fair value as allowed by IFRS 7. The related fair value, which is conventionally set equal to the book value, is brought back to Level 2.

- Bonds issued by Mediobanca are categorized as Level 1 fair value if quoted in an active market (considering the market price as the input); if there are no quoted prices, fair value is categorized as Level 2 and is determined using the discounted cash flow method at a market interest rate adjusted for the Group's issuer risk (with a distinction being made between senior and subordinated risks). The fair value of our naked derivatives is also categorized as Level 2 when the Group proceeds to the split off of the embedded derivatives whose fair value level is determined as described above.

[12] New rules application in order to establish whether an instrument is level 3 and the consequent DOP (see pg 58, "Day 1 profit or loss").

**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 recognized 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 amortization 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 expense**

This heading includes all revenues deriving from the provision of services to customers with the exception of those relating to financial instruments, leases and insurance contracts.

Revenues from contracts with customers are measured through profit or loss when control over the service is transferred to the customer, in an amount that reflects the fee to which the Bank considers to be entitled in return for the service rendered.

For revenue recognition purposes, the Bank analyses the contracts to establish whether they contain more than one obligation to provide services to which the price of the transaction should be allocated. The revenues are then recorded throughout the time horizon over which the service is rendered, using suitable methods to recognize the measurement in which the service is provided. The Bank also takes into consideration the effects of any variable commissions, and whether or not a significant financial component is involved.

In the event of additional costs being incurred to perform or execute the contract, where such costs meet the requirements of IFRS 15, the Bank will assess whether to capitalize them and then amortize them throughout the life of the contract, or to make use of the exemption provided by IFRS 15 to expense the costs immediately in cases where their amortization period would be complete within twelve months.

**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 IAS24 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 7

### Significant accounting estimates and judgment

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

Going concern

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

Fair value of financial instruments

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

Impairment losses on loans and advances

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

Deferred tax assets

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

## Section 8

### Impacts deriving from the war in Ukraine

The Bank's portfolio shows direct credit exposures linked to Russia equals to €12,2m (100% insured by SACE) in Corporate exposures, classified as Stage 2 despite ongoing collections. The impacts were examined and deemed limited also in terms of indirect exposure.

# PART C - NOTES TO THE STATEMENT OF FINANCIAL POSITION

## ASSETS

### Section 1

### Heading 10 – Cash and cash equivalents

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

| | 30/06/2023 | 30/06/2022 |
|---|---|---|
| a) Cash | — | — |
| b) Demand deposit held at Central Banks | 223.622 | 313.918 |
| c) Current accounts and Demand Deposits | 148.805 | 382.213 |
| **Total** | **372.427** | **696.131** |

Cash and cash equivalent decreased for both cash available in current accounts due to a reduced banking book to refinance and cash held at Central Banks (via Deposit facility in Banque Centrale du Luxembourg). This started in September 2022 following the monetary policy decision of 8 September 2022 in which the Governing Council of the ECB, in light of the above-zero increase in the central bank deposit rate, suspended the two-tier system for the remuneration of excess reserves.

### Section 2

### Heading 20 – Financial assets valued at FVTPL

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

| Item/Values | 30/06/2023 | | | 30/06/2022 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| A. Cash assets | | | | | | |
| 1. Debt securities | — | — | 66.145 | — | — | 63.446 |
| 1.1 Structured | — | — | 47.821 | — | — | 46.138 |
| 1.2 Other debt securities | — | — | 18.324 | — | — | 17.308 |
| 2. Equities | — | — | — | — | — | — |
| 3. UCITS units | — | — | — | — | — | — |
| 4. Loans and advances | — | — | — | — | — | — |
| 4.1 Repos | — | — | — | — | — | — |
| 4.2 Others | — | — | — | — | — | — |
| **Total A** | **—** | **—** | **66.145** | **—** | **—** | **63.446** |
| B. Derivative products | | | | | | |
| 1. Financial derivatives | — | 22.836 | 7.322 | — | 47.864 | 6.126 |
| 1.1 Trading | — | 22.836 | 7.322 | — | 47.864 | 6.126 |
| 1.2 Linked to FV options | — | — | — | — | — | — |
| 1.3 Others | — | — | — | — | — | — |
| 2. Credit derivatives | — | 30.063 | 5.350 | — | 46.687 | 8.121 |
| 2.1 Trading | — | 30.063 | 5.350 | — | 46.687 | 8.121 |
| 2.2 Linked to FV options | — | — | — | — | — | — |
| 2.3 Others | — | — | — | — | — | — |
| **Total B** | **—** | **52.899** | **12.672** | **—** | **94.551** | **14.247** |
| **Total (A+B)** | **—** | **52.899** | **78.817** | **—** | **94.551** | **77.693** |

Financial assets held for trading amount to € 131.716k as at 30 June 2023 (-23% vs previous year). Total A is due to the carrying amount of debt securities (CLOs instruments), of which variation is equals to +2,7m entirely due to the lower FV adjustment in comparison to the last year. The financial structure underlying this transaction (level 3) is hedged by the payoffs of the protection purchased via financial guarantees by external counterparty (Level 3 accordingly).

Total B is mainly represented by the gross positive fair value of financial and credit derivatives contracts negotiated with the Parent Bank or embedded in other financial instruments[13], in addition to the credit derivatives mentioned above.

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

- Level 1, quoted (unadjusted) prices available on active markets for identical assets or liabilities;
- Level 2, other techniques for which all inputs which have a significant effect on the recorded fair value are based on observable (either directly or indirectly) market data;
- Level 3, other techniques for which all inputs which have a significant effect on the recorded fair value are based on not observable market data.

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

*2.2 Financial assets held for trading: breakdown by counterparty (in € k)*

| **Item/Value** | **30/06/2023** | **30/06/2022** |
|---|---|---|
| A. CASH ASSETS | | |
| 1. Debt securities | 66.145 | 63.446 |
| 2. Equities | — | — |
| 3. UCITS units | — | — |
| 4. Loans and advances | — | — |
| **Total A** | **66.145** | **63.446** |
| B. DERIVATIVE PRODUCTS | | |
| a. Banks | 65.571 | 108.798 |
| *- Fair value* | 65.571 | 108.798 |
| b. Customers | — | — |
| *- Fair value* | — | — |
| **Total B** | **65.571** | **108.798** |
| **Total A+B** | **131.716** | **172.244** |

[13] Financial derivatives include certificates to be valued at Level 3 starting from January 2021. See “Fair Value Hierarchy”, p. 60.

*2.3 Financial assets designated at fair value: composition*

| Items/Values | 30/06/2023 | | | 30/06/2022 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| A. Debt securities | — | — | — | — | — | — |
| 1. Structured securities | — | — | — | — | — | — |
| 2. Other debt securities | — | — | — | — | — | — |
| B. Loans | — | — | 7.857 | — | — | 3.516 |
| 1. Structured | — | — | — | — | — | — |
| 2. Others | — | — | 7.857 | — | — | 3.516 |
| **Total** | **—** | **—** | **7.857** | **—** | **—** | **3.516** |

The carrying value of Financial assets designated at fair value amounts to €7,9m at the end of the reference period (+123.5% compared to Jun-22). The increase is due to the opening of new intercompany loans (approx. 4,1m of Euro) settled against the equivalent notes in Euro issued at liability side.

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

*2.4 Financial assets designated at fair value: by borrower/issuer*

| Items/Values | 30/06/2023 | 30/06/2022 |
|---|---|---|
| A. Debt securities | — | — |
| a) Central Banks | — | — |
| b) General Government | — | — |
| c) Banks | — | — |
| d) Other financial companies | — | — |
| *of which: Insurance companies* | — | — |
| e) Non financial companies | — | — |
| B. Loans | 7.857 | 3.516 |
| a) Central Banks | — | — |
| b) General Government | — | — |
| c) Banks [1] | 7.857 | 3.516 |
| d) Other financial companies | — | — |
| *of which: Insurance companies* | — | — |
| e) Non financial companies | — | — |
| f) Households | — | — |
| **Total** | **7.857** | **3.516** |

(1) Counterparty refers to the Parent Bank.

## *2.5 Other financial assets mandatorily at fair value: composition*

| Items/Values | 30/06/2023 | | | 30/06/2022 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| A. Debt securities | — | — | — | — | — | — |
| 1. Structured securities | — | — | — | — | — | — |
| 2. Others | — | — | — | — | — | — |
| B. Equity instruments | — | — | — | — | — | — |
| C. UCITs | — | — | — | — | — | — |
| D. Loans | — | — | 4.689 | — | — | 4.641 |
| 1. Reverse Repos | — | — | — | — | — | — |
| 2. Others [1] | — | — | 4.689 | — | — | 4.641 |
| **Total** | **—** | **—** | **4.689** | **—** | **—** | **4.641** |

(1) Refers to NPL exposure that has been evaluated at FV mandatory after restructuring transaction.

## *2.6 Other financial assets mandatorily at fair value: by borrower/issuer*

| Items/Values | 30/06/2023 | 30/06/2022 |
|---|---|---|
| 1. Equity instruments | — | — |
| *of which: banks* | — | — |
| *of which: other financial companies* | — | — |
| *of which: other non-financial companies* | — | — |
| 2. Debts securities | — | — |
| a) Central Banks | — | — |
| b) General Government | — | — |
| c) Banks | — | — |
| d) Other financial companies | — | — |
| *of which: insurance companies* | — | — |
| e) Non financial companies | — | — |
| 3. UCITs | — | — |
| 4. Loans | 4.689 | 4.641 |
| a) Central Banks | — | — |
| b) General Government | — | — |
| c) Banks | — | — |
| d) Other financial companies | — | — |
| *of which: insurance companies* | — | — |
| e) Non financial companies | 4.689 | 4.641 |
| f) Households | — | — |
| **Total** | **4.689** | **4.641** |

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 30/06/2023 | | | | | | Total 30/06/2022 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | 6.932 | — | — | — | 6.932 | — | 7.947 | — | — | — | 7.947 | — |
| 1. Term deposits | — | — | — | X | X | X | — | — | — | X | X | X |
| 2. Compulsory reserve | 6.932 | — | — | X | X | X | 7.947 | — | — | X | X | X |
| 3. Repos | — | — | — | X | X | X | — | — | — | X | X | X |
| 4. Others | — | — | — | X | X | X | — | — | — | X | X | X |
| B. Due from banks | 1.852.462 | — | — | — | 1.851.182 | — | 2.030.601 | — | — | — | 2.020.669 | — |
| 1. Loans and advances | 1.852.462 | — | — | — | 1.851.182 | — | 2.030.601 | — | — | — | 2.020.669 | — |
| 1.1 Current accounts and demand deposits | — | — | — | X | X | X | — | — | — | X | X | X |
| 1.2 Term deposits | 1.051.650 | — | — | X | X | X | 1.080.221 | — | — | X | X | X |
| 1.3 Other financings: | 800.812 | — | — | X | X | X | 950.380 | — | — | X | X | X |
| - Repos | — | — | — | X | X | X | — | — | — | X | X | X |
| - Finance leases | — | — | — | X | X | X | — | — | — | X | X | X |
| - Others | 800.812 | — | — | X | X | X | 950.380 | — | — | X | X | X |
| 2. Debt securities | — | — | — | — | — | — | 0 | — | — | — | — | — |
| 2.1 Structured debt securities | — | — | — | X | X | X | 0 | — | — | X | X | X |
| 2.2 Other debt securities | — | — | — | X | X | X | — | — | — | X | X | X |
| **Total** | **1.859.394** | **—** | **—** | **—** | **1.858.114** | **—** | **2.038.548** | **—** | **—** | **—** | **2.028.616** | **—** |

The carrying value of financial assets due to banks valued at amortised cost decreased throughout the reference period, passing from € 2.038.548k (June 2022) to € 1.859.394k (June 2023), mainly due to the CHF bond maturity (150m) in liability side. The line "2. Compulsory reserve" includes the balance of the compulsory reserve which, at the end of the financial year, amounted to EUR 6,9m (€7,9m as at 30 June 2022). The vast majority of the transactions reported under this caption are de facto concluded with the Parent Bank. For further information about the criteria adopted for the determination of the fair value as well as the classification of the financial instruments within the three-levels of the fair value hierarchy, please refer to Part B - Accounting Policies.

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

| Type of transactions/Values | Total 30/06/2023 | | | | | | Total 30/06/2022 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | 3.065.373 | 115.942 | — | — | 3.313.774 | — | 4.136.472 | 317.818 | — | — | 4.701.337 | — |
| 1.1 Current accounts | — | — | — | X | X | X | — | — | — | X | X | X |
| 1.2 Repos | — | — | — | X | X | X | — | — | — | X | X | X |
| 1.3 Term loans | 3.065.373 | 115.942 | — | X | X | X | 4.136.472 | 317.818 | — | 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 | 896 | — | — — | — | 896 | — — | 10.196 | — | — — | — | 10.052 | — |
| 2.1 Structured debt securities | — | — | — | X | X | X | — | — | — | X | X | X |
| 2.2 Other debt securities | 896 | — | — | X | 896 | X | 10.196 | — | — | X | 10.052 | X |
| **Total** | **3.066.269** | **115.942** | — | — | **3.314.670** | — | **4.146.668** | **317.818** | — | — | **4.711.389** | — |

As at 30 June 2023, portfolio total exposure (gross of guarantees) stands at € 3,182bn against € 4,464bn of the previous FY, with a decrease of 29% y-o-y; considering the guarantees, portfolio net exposure as at 30 June 2023 stands at € 432m (13,6% of total) against € 770m (17,2% of total) of the previous FY21-22, with a decline of -44% y-o-y. The significant decline in disbursements experienced during the fiscal year is mainly due to early repayments, mainly from corporate based on US market, in conjunction with the increased funding cost as a consequence of the increase in interest rates

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

| Type of transactions/Value | 30/06/2023 | | | 30/06/2022 | | |
|---|---|---|---|---|---|---|
| | Stage1 / Stage2 | Stage3 | of which: impaired assets acquired or created | Stage1 / Stage2 | Stage3 | of which: impaired assets acquired or created |
| 1. Debt securities: | 896 | — | — | 10.196 | — | — |
| a) Public administration | — | — | — | 10.196 | — | — |
| b) Other financial company | 896 | — | — | — | — | — |
| *of which: insurance companies* | — | — | — | — | — | — |
| c) Non financial companies | — | — | — | — | — | — |
| 2. Loans and advances to: | 3.181.316 | — | — | 4.454.290 | — | — |
| a) Public administration | — | — | — | 96.702 | — | — |
| b) Other financial company | 913.265 | — | — | 810.942 | — | — |
| *of which: insurance companies* | 113.846 | — | — | 42.459 | — | — |
| c) Non financial companies | 2.268.051 | — | — | 3.546.646 | | — |
| d) Households | — | — | — | — | — | — |
| **Total** | **3.182.212** | **—** | **—** | **4.464.486** | **—** | **—** |

At reporting date Stage 2 represents 3,6% of portfolio total exposure, in net reduction in comparison with the previous year when stood at 7,1% of the portfolio. The reduction in volumes, already mentioned above, resulted in a credit quality improvement of the corporate portfolio.

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

| | Gross value | | | | Expected Credit Loss | | | Write off partial/total |
|---|---|---|---|---|---|---|---|---|
| | Stage1 | *of which: low credit risk ** | Stage2 | Stage3 | Stage1 | Stage2 | Stage3 | |
| Debt securities | 896 | — | — | — | — | — | — | — |
| Loans[1] | 4.929.074 | 30.305 | 116.973 | — | -4.306 | -1.031 | — | — |
| **Total 30/06/2023** | **4.929.970** | **30.305** | **116.973** | **—** | **-4.306** | **-1.031** | **—** | **—** |
| **Total 30/06/2022** | **6.191.004** | **—** | **320.915** | **—** | **-5.788** | **-3.097** | **—** | **—** |

(1) This item includes loans to customers and credit institutions.

Section 5

## Heading 50 – Hedging derivatives

The objective of the fair value hedges is to reduce the interest rate risk through swaps that convert fixed-rate into floating rate assets and/or liabilities. The items being mainly hedged are fixed-rate or structured notes issued by the Bank and classified in the portfolio “financial liabilities at amortized cost”. At June 2022, the Bank had two derivatives under the hedge accounting regime (fair value hedging), facing two unsecured notes issued in USD and CHF of approx. € equivalent 510m).

During the financial year we had the following change:

- 2 new hedging derivatives linked to notes issued respectively in USD and GBP;
- CHF note and the hedging derivative expired in March 2023 (€ equivalent 150m).

All the hedging derivatives were booked at inception with the Parent Bank. The accounting treatment is in line with the methodological and procedural choices for the accounting management of hedge transactions; in June 2023, we have a total notional amount of approx. €346m, with M-t-M of the 3 hedging instruments in liabilities side.[14]

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

| | 30/06/2023 | | | Notional value | 30/06/2022 | | | Notional value |
|---|---|---|---|---|---|---|---|---|
| | *Fair value* | | | | *Fair value* | | | |
| | Level 1 | Level 2 | Level 3 | | Level 1 | Level 2 | Level 3 | |
| A. Financial derivatives | — | — | — | — | — | 2.425 | — | 503.567 |
| 1) Fair value | — | — | — | — | — | 2.425 | — | 503.567 |
| 2) Cash flow | — | — | — | — | — | — | — | — |
| B. Credit derivatives | — | — | — | — | — | — | — | — |
| 1) Fair value | — | — | — | — | — | — | — | — |
| 2) Cash flow | — | — | — | — | — | — | — | — |
| **Total** | **—** | **—** | **—** | **—** | **—** | **2.425** | **—** | **503.567** |

[14] Please refers to Accounting policies to see risk management strategy of the Bank.

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

| 30/06/2023 Operations/Type of hedging | Fair Value Hedge | | | | | | Cash Flow Hedge | | Net Investments in foreign |
|---|---|---|---|---|---|---|---|---|---|
| | Specific | | | | | Generic | Specific | Generic | |
| | Interest risk | Currency risk | Credit risk | Price risk | Multiple risk | | | | |
| 1. Financial assets valued at FVOCI | — | — | — | — | — | X | — | X | X |
| 2. Financial assets valued at amortised cost | — | — | — | — | — | X | — | X | X |
| 3. Portfolio | X | X | X | X | X | — | X | — | X |
| 4. Other | — | — | — | — | — | X | — | X | — |
| **TOTAL ASSETS** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| 1. Financial liabilities | — | — | — | — | — | X | — | — | X |
| 2. Portfolio | X | X | X | X | X | — | X | — | X |
| **TOTAL LIABILITIES** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| 1. Highly probable transactions | X | X | X | X | X | X | — | X | X |
| 2. Financial assets and liabilities portfolio | X | X | X | X | X | — | X | — | — |

| 30/06/2022 Operations/Type of hedging | Fair Value Hedge | | | | | | Cash Flow Hedge | | Net Investments in foreign |
|---|---|---|---|---|---|---|---|---|---|
| | Specific | | | | | Generic | Specific | Generic | |
| | Interest risk | Currency risk | Credit risk | Price risk | Multiple risk | | | | |
| 1. Financial assets valued at FVOCI | — | — | — | — | — | X | — | X | X |
| 2. Financial assets valued at amortised cost | — | — | — | — | — | X | — | X | X |
| 3. Portfolio | X | X | X | X | X | — | X | — | X |
| 4. Other | — | — | — | — | — | X | — | X | — |
| **TOTAL ASSETS** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| 1. Financial liabilities | 2.425 | — | — | — | — | X | — | — | X |
| 2. Portfolio | X | X | X | X | X | — | X | — | X |
| **TOTAL LIABILITIES** | **2.425** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| 1. Highly probable transactions | X | X | X | X | X | X | — | X | X |
| 2. Financial assets and liabilities portfolio | X | X | X | X | X | — | X | — | — |

## Section 7

## Heading 70 – Equity investments

### *7.1 Equity investments: disclosure on shareholdings*

| Company Name | Registered office | Control type[15] | Ownership | | Voting rights (%) |
|---|---|---|---|---|---|
| | | | Controlling entity | % shareholding | |
| Mediobanca International Immobilière S.à r.l. | Luxembourg | 3 | Mediobanca International (Luxembourg) S.A. | 100 | 100 |

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

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

*7.2 Equity investments: financial information (in € k) **

| Company Name | Total assets | Total revenues | Net profit (loss) | Shareholders' equity | Carrying value |
|---|---|---|---|---|---|
| Mediobanca International Immobilière S.à r.l. | 2.083 | 190 | 52 | 2.061 | 4.150 |

(*) Figures as at 30/06/2023 from Mediobanca International Immobilière S.à.r.l. are coming from unaudited accounts.

The financial year of Mediobanca International Immobilière S.à.r.l. runs from 1 July to 30 June (as modified by the extraordinary Shareholders' meeting held on 15 May 2012). The company owns and leases the building where the Bank has moved its head office in April 2012. Based on the last available evaluation report made in March 2020 by an independent advisor, which shows a market value higher than the carrying amount and looking at the macro trends of the real estate market in Luxembourg, the Bank has decided to not perform any impairment test.

## Section 9

## Heading 90 – Property, plant and equipment

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

| Assets/value | 30/06/2023 | 30/06/2022 |
|---|---|---|
| 1. Assets owned by Bank | — | — |
| a) land | — | — |
| b) buildings | — | — |
| c) furniture and fitting | — | — |
| d) electronic equipment | — | — |
| e) other assets | — | — |
| 2. Right-of-use assets | 1.215 | 1.401 |
| a) land | — | — |
| b) buildings | 1.148 | 1.318 |
| c) furniture | — | — |
| d) electronic equipment | — | — |
| e) other assets | 67 | 83 |
| **Total** | **1.215** | **1.401** |

**Section 11**

## Heading 110 – Tax assets

*11.1 Current tax assets: composition (in € k)*

| | CIT [A] | MBT [B] | Other [C] | Total |
|---|---|---|---|---|
| **Balance at the beginning of the year** | **1.632** | **652** | **730** | **3.014** |
| **Increase of the period (+)** | — | — | **1.787** | **1.787** |
| - advances paid | — | — | 1.776 | 1.776 |
| - transfers | — | — | — | — |
| - others | — | — | 11 | 11 |
| **Decrease of the period (-)** | **-1.632** | **-575** | **-1.664** | **-3.871** |
| - releases of the year (assessments) | -1.632 | -571 | -1.659 | -3.862 |
| - transfers | — | — | — | — |
| - others | — | -4 | -5 | -9 |
| **Balance at the end of the fiscal year** | — | **77** | **853** | **930** |

[A] Impôt sur le Revenu des Collectivités (‘Corporate Income Tax’, CIT) is a proportional tax levied on gains made by corporations.
[B] Impôt Commercial Communal (‘Municipal Business Tax’, MBT) is a municipal tax levied on gains made by corporations.
[C] Other taxes primarily include the outstanding balances in respect of Net Wealth Tax (‘NWT’) and Value Added Tax (‘VAT’).

Current tax assed decreased from € 3.014k (June 2022) to € 930k (June 2023). This is mostly due to a refund from tax authority for CIT and MBT advance payments not due in the previous FY (following the tax assessment received from Tax authority).

*11.2 Deferred tax assets: composition (in € k)*

| | 30/06/2023 | 30/06/2022 |
|---|---|---|
| - Deferred tax assets recognised in the statement of comprehensive income | — | — |
| - Deferred tax assets recognised in the net equity | 903 | 903 |
| **Total** | 903 | 903 |

The total deferred tax assets in line with previous year. The DTAs recognised in the net equity result from the FTA of IFRS 9 (adjustments to loans to banks, guarantees and commitments, etc.).

Section 13

## Heading 130 – Other assets

*13.1 Other assets: composition (in € k)*

| | 30/06/2023 | 30/06/2022 |
|---|---|---|
| 1. Gold, silver and precious metal | — | — |
| 2. Accrued income other than capitalized income | 997 | 1.240 |
| 3. Trade receivables or invoice to be issued | — | — |
| 4. Amount due from tax revenue Authorities (not attributed to heading 110) | 367 | 16 |
| 5. Other | 9.532 | 89.770 |
| - *transitory accounts* | *9.416* | *89.677* |
| - *prepayments* | *116* | *93* |
| **Total** | **10.896** | **91.026** |

Transitory accounts decreased significantly as the value of the previous financial year has been impacted by one receivable amount suspended at the 30/06/2022 settled in the month after the cut-off date of reporting.

Accrued income other than capitalised income from financial assets mainly refer to accrued commissions on credit facilities to corporate clients.

## LIABILITIES

### Section 1

### Heading 10 – Financial liabilities valued at amortised cost

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

| Type of transactions/Values | 30/06/2023 | | | | 30/06/2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 2.103.121 | X | X | X | 3.907.765 | X | X | X |
| 2.1 Current accounts and demand deposits | 4.575 | X | X | X | 16.460 | X | X | X |
| 2.2 Term deposits | — | X | X | X | — | X | X | X |
| 2.3 Loans | 2.098.476 | X | X | X | 3.886.089 | X | X | X |
| 2.3.1 Repos | — | X | X | X | — | X | X | X |
| 2.3.2 Others | 2.098.476 | X | X | X | 3.886.089 | 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 | 70 | X | X | X | 5.216 | X | X | X |
| **Total** | **2.103.121** | — | **2.099.113** | — | **3.907.765** | — | **3.904.806** | — |

The carrying value of due to banks valued at amortised cost decreased by -46.18% at the end of the reference period, passing from € 3.907.765k (June 2022) to € 2.103.121k (June 2023). Transactions reported under this caption are de facto concluded with the Parent Bank, as an internal source of funding to finance the core lending activities. The carrying value of € 2.098.476k reported at the end of June 2023 under 'other loans' includes € 65.040k of subordinated loan assimilated to Tier 2 and concluded with the Parent for regulatory capital purposes.

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

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

| Type of transactions/Values | 30/06/2023 | | | | 30/06/2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying value | Fair value | | | Carrying value | Fair value | | |
| | | Level 1 | Level 2 | Level 3 | | Level 1 | Level 2 | Level 3 |
| 1. Current accounts and demand deposits | — | X | X | X | — | X | X | X |
| 2. Term deposits | — | X | X | X | — | X | X | X |
| 3. Loans | 1.791 | X | X | X | 11.027 | X | X | X |
| 3.1 Repos | 788 | X | X | X | 26 | X | X | X |
| 3.2 Others | 1.003 | X | X | X | 11.001 | X | X | X |
| 4. Liabilities in respect of commitments to repurchase own equity instruments | — | X | X | X | — | X | X | X |
| 5. Lease payables [1] | 1.224 | X | X | X | 1.406 | X | X | X |
| 6. Other liabilities | — | X | X | X | — | X | X | X |
| **Total** | **3.015** | — | **3.012** | — | **12.433** | — | **12.411** | — |

(1) This heading includes obligations in respect of future instalments payable on leases as provided by IFRS16.

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

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

| Type of transactions/Values | 30/06/2023 | | | | 30/06/2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 2.126.506 | — | 2.160.718 | — | 2.212.040 | — | 2.249.313 | — |
| 1.1 Structured | 1.225 | — | 1.210 | — | 50.426 | — | 49.630 | — |
| 1.2 Other | 2.125.281 | — | 2.159.508 | — | 2.161.614 | — | 2.199.683 | — |
| 2. Other securities | 740.103 | — | 740.103 | — | 782.599 | — | 782.599 | — |
| 2.1 Structured | — | — | — | — | — | — | — | — |
| 2.2 Other | 740.103 | — | 740.103 | — | 782.599 | — | 782.599 | — |
| **Total** | **2.866.609** | **—** | **2.900.821** | — | **2.994.639** | **—** | **3.031.912** | **—** |

An AT1 - Additional Tier1 instrument (fully subscribed by Parent Bank) - of € 100m, has been issued in December 2021 and it has strengthened the capital structure of the Bank, as for the purposes of regulatory capital requirement.

Under Debt securities item, outstanding bonds include approx. €1.6 Bn, guaranteed by the parent company, of derivative arbitrage strategies or indices (skew) on bases mainly linked to credit derivatives and commodity derivatives and, to a lesser extent, also on rates, equity and inflation risk (underlying transaction).

All notes issued involve payment of interest in the form of a coupon, including a premium (extra yield), and the full repayment of capital at maturity. In case of the subscriber opting for early repayment, the issuer has the faculty, at its discretion, to choose a repayment price that takes into account the current fair value (including that of the underlying transactions). As required by par. 4.3.3 of IFRS 9, the embedded derivative, identified by the right to include the arbitrage value within the repayment price, has been separated by the obligation valued at amortized cost and booked at the fair value of underlying transactions.

Other securities item refers to the Commercial Paper program: short-term financing instruments, with duration generally of one year or less, which remained rather stable over the year (-5% yoy).

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

## Section 2

# Heading 20 – Financial liabilities valued at FVTPL

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

| Transaction type/Values | 30/06/2023 | | | | 30/06/2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 1.690.678 | — | 24.188 | 7.338 | 1.801.367 | — | 51.688 | 6.126 |
| 1.1 Trading | 1.690.678 | — | 24.188 | 7.338 | 1.801.367 | — | 51.688 | 6.126 |
| 1.2 Related to the fair value option | — | — | — | — | — | — | — | — |
| 1.3 Others | — | — | — | — | — | — | — | — |
| 2. Credit derivatives | 2.004.017 | — | 28.224 | 374 | 1.353.968 | — | 44.271 | — |
| 2.1 Trading | 2.004.017 | — | 28.224 | 374 | 1.353.968 | — | 44.271 | — |
| 2.2 Related to the fair value option | — | — | — | — | — | — | — | — |
| 2.3 Others | — | — | — | — | — | — | — | — |
| **Total (B)** | **3.694.695** | **—** | **52.412** | **7.712** | **3.155.335** | **—** | **95.959** | **6.126** |
| **Total (A+B)** | **3.694.695** | **—** | **52.412** | **7.712** | **3.155.335** | **—** | **95.959** | **6.126** |

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

## Section 3

# Heading 30 – Financial liabilities valued at fair value

### *3.1 Financial liabilities designated at fair value: composition*

| Operation Type/Values | 30/06/2023 | | | | | 30/06/2022 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Nominal value | Fair Value | | | Fair Value | Nominal value | Fair Value | | | Fair Value |
| | | Level1 | Level2 | Level3 | | | Level1 | Level2 | Level3 | |
| 1. Due to banks | — | — | — | — | — | — | — | — | — | — |
| 1.1 Structured | — | — | — | — | — | — | — | — | — | — |
| 1.2 Others | — | — | — | — | — | — | — | — | — | — |
| *of which:* | | | | | | | | | | |
| - *commitments to disburse funds* | — | — | — | — | — | — | — | — | — | — |
| - *financial guarantees given* | — | — | — | — | — | — | — | — | — | — |
| 2. Due to customers | — | — | — | — | — | — | — | — | — | — |
| 2.1 Structured | — | — | — | — | — | — | — | — | — | — |
| 2.2 Others | — | — | — | — | — | — | — | — | — | — |
| *of which:* | | | | | | | | | | |
| - *commitments to disburse funds* | — | — | — | — | — | — | — | — | — | — |
| - *financial guarantees given* | — | — | — | — | — | — | — | — | — | — |
| 3. Debt securities | 64.721 | — | 42.523 | 22.198 | 64.721 | 7.591 | — | 4.078 | 3.513 | 7.591 |
| 3.1 Structured | 64.721 | — | 42.523 | 22.198 | 64.721 | 7.591 | — | 4.078 | 3.513 | 7.591 |
| 3.2 Others | — | — | — | — | — | — | — | — | — | — |
| **Total** | **64.721** | **—** | **42.523** | **22.198** | **64.721** | **7.591** | **—** | **4.078** | **3.513** | **7.591** |

### Section 4

## Heading 40 – Hedging derivatives

### *4.1 Hedging derivatives: breakdown by hedge type and level (in € k)*

| Items/Values | 30/06/2023 | | | | 30/06/2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | Notional value | Fair value | | | Notional value | Fair value | | |
| | | Level 1 | Level 2 | Level 3 | | Level 1 | Level 2 | Level 3 |
| A. Financial derivatives | 346.109 | — | 2.737 | — | — | — | — | — |
| 1) Fair value hedges | 346.109 | — | 2.737 | — | — | — | — | — |
| 2) Cash flow hedges | — | — | — | — | — | — | — | — |
| 3) Foreign investments | — | — | — | — | — | — | — | — |
| B. Credit derivatives | — | — | — | — | — | — | — | — |
| 1) Fair value hedges | — | — | — | — | — | — | — | — |
| 2) Cash flow hedges | — | — | — | — | — | — | — | — |
| **Total** | **346.109** | **—** | **2.737** | **—** | **—** | **—** | **—** | **—** |

Please refers to Heading 50 (Section 5 Assets). For further information about the criteria adopted for the determination of the fair value as well as the classification of the financial instruments within the three-levels of the fair value hierarchy, please refer to Part B - Accounting Policies.

### *4.2 Hedging derivatives: breakdown by portfolio hedged and hedge type (in € k)*

| 30/06/2023<br>Operations/Type of hedging | Fair Value Hedge | | | | | | Cash Flow Hedge | | Net Investments in foreign |
|---|---|---|---|---|---|---|---|---|---|
| | Specific | | | | | Generic | Specific | Generic | |
| | Interest risk | Currency risk | Credit risk | Price risk | Multiple risk | | | | |
| 1. Financial assets valued at FVOCI | — | — | — | — | — | X | — | X | X |
| 2. Financial assets valued at amortised cost | — | — | — | — | — | X | — | X | X |
| 3. Portfolio | X | X | X | X | X | — | X | — | X |
| 4. Other | — | — | — | — | — | X | — | X | — |
| **TOTAL ASSETS** | — | — | — | — | — | — | — | — | — |
| 1. Financial liabilities | 2.737 | — | — | — | — | X | — | — | X |
| 2. Portfolio | X | X | X | X | X | — | X | — | X |
| **TOTAL LIABILITIES** | **2.737** | — | — | — | — | — | — | — | — |
| 1. Highly probable transactions | X | X | X | X | X | X | — | X | X |
| 2. Financial assets and liabilities portfolio | X | X | X | X | X | — | X | — | — |

| 30/06/2022<br>Operations/Type of hedging | Fair Value Hedge | | | | | | Cash Flow Hedge | | Net Investments in foreign |
|---|---|---|---|---|---|---|---|---|---|
| | Specific | | | | | Generic | Specific | Generic | |
| | Interest risk | Currency risk | Credit risk | Price risk | Multiple risk | | | | |
| 1. Financial assets valued at FVOCI | — | — | — | — | — | X | — | X | X |
| 2. Financial assets valued at amortised cost | — | — | — | — | — | X | — | X | X |
| 3. Portfolio | X | X | X | X | X | — | X | — | X |
| 4. Other | — | — | — | — | — | X | — | X | — |
| **TOTAL ASSETS** | — | — | — | — | — | — | — | — | — |
| 1. Financial liabilities | — | — | — | — | — | X | — | — | X |
| 2. Portfolio | X | X | X | X | X | — | X | — | X |
| **TOTAL LIABILITIES** | — | — | — | — | — | — | — | — | — |
| 1. Highly probable transactions | X | X | X | X | X | X | — | X | X |
| 2. Financial assets and liabilities portfolio | X | X | X | X | X | — | X | — | — |

Section 6

## Heading 60 – Tax liabilities

### *6.1 Current tax liabilities: composition * (in € k)*

| | CIT | MBT | Other | Total |
|---|---|---|---|---|
| **Balance at the beginning of the year** | **1.862** | **690** | **1.966** | **4.518** |
| **Increase of the period (+)** | **4.547** | **1.686** | **—** | **6.233** |
| - provisions of the year | 4.547 | 1.686 | — | 6.233 |
| - transfers | — | — | — | — |
| - others | — | — | — | — |
| **Decrease of the period (-)** | **—** | **—** | **-1.746** | **-1.746** |
| - releases of the year (fiscal assessments) | — | — | -1.659 | -1.659 |
| - transfers | — | — | — | — |
| - others | — | — | -87 | -87 |
| **Balance at the end of the fiscal year** | **6.409** | **2.376** | **220** | **9.005** |

* [A] Corporate Income Tax, **CIT**: Impôt sur le Revenu des Collectivités is a proportional tax levied on gains made by corporations.

* [B] Municipal Business Tax, **MBT**: Impôt Commercial Communal is a municipal tax levied on gains made by corporations.

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

The positive result of the current fiscal year lead to a CIT and MBT liability (€4.547k and € 1.686k respectively).

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

| Deferred tax liabilities | 30/06/2023 | 30/06/2022 |
|---|---|---|
| **1. Initial amount** | **—** | **—** |
| 1.1 Initial amount | — | — |
| **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 (-)** | **—** | **—** |
| 3.1 Deferred tax reversed during the period | — | — |
| 3.2 Lowering of tax rates | — | — |
| 3.3 Other reductions | — | — |
| **Total** | — | — |

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

| | 30/06/2023 | | 30/06/2022 | |
|---|---|---|---|---|
| | **Valuation difference** | **Tax rate 24,94%** | **Valuation difference** | **Tax rate 24,94%** |
| Cash and cash equivalent | — | — | — | — |
| Financial assets valued at FVTPL | — | — | — | — |
| Financial assets valued at amortized cost | — | — | — | — |
| Hedging derivatives | — | — | — | — |
| Other assets | — | — | — | — |
| **Total assets** | — | — | — | — |
| Financial liabilities valued at FVTPL | — | — | — | — |
| Financial liabilities valued at amortized cost | — | — | — | — |
| Hedging derivatives | — | — | — | — |
| Other liabilities | — | — | — | — |
| **Total liabilities** | — | — | — | — |
| | | | | |
| **Total deferred liabilities** | — | — | — | — |

There are no movements to be reported through the period.

## Section 8

## Heading 80 – Other liabilities

*8.1 Other liabilities: composition (in € k)*

| | **30/06/2023** | **30/06/2022** |
|---|---|---|
| 1. Payment agreements (IFRS 2) | — | — |
| 2. Impaired endorsements | — | — |
| 3. Working capital payables and invoices pending receipt | 5.868 | 6.577 |
| 4. Prepaid expenses other than capitalized expenses on related financial assets | — | — |
| 5. Amounts due to revenue authorities | — | — |
| 6. Amounts due to staff | 348 | 295 |
| 7. Other items: | 4.379 | 2.031 |
| - bills for collection | — | — |
| - coupons and dividends pending collection | — | — |
| - available sums payable to third parties | 4.379 | 2.031 |
| - premiums, grants and other items in respect of lending transactions | — | — |
| - credit notes to be issued | — | — |
| - other | — | — |
| **Total** | **10.595** | **8.903** |

Other liabilities are mostly composed of invoices accrued or payable for € 5.868k (€ 6.577k at the end of June 2022) and other items for € 4.379k (€ 2.031k at the end of June 2022). The last consists in particular of accrued commissions payable to related parties for the financial guarantees or retrocessions related to the lending portfolio.

## Section 10

## Heading 100 – Provisions for risks and charges

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

| Items / Values | 30/06/2023 | 30/06/2022 |
|---|---|---|
| 1. Provisions for credit risk related to commitments and financial guarantees issued | 839 | 1.460 |
| 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** | **839** | **1.460** |

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

| Provisions for credit risk related to financial obligations and guarantees issued | 30/06/2023 | | | | 30/06/2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage1 | Stage2 | Stage3 | Total | Stage1 | Stage2 | Stage3 | Total |
| Commitments to distribute funds | 741 | 98 | — | **839** | 861 | 227 | — | **1.088** |
| Financial guarantees issued | — | — | — | **—** | 372 | — | — | **372** |
| **Total** | **741** | **98** | **—** | **839** | **1.233** | **227** | **—** | **1.460** |

## Section 15

## Heading 150 - Reserves

### *15.1 Reserves: composition (in € k)*

| | 30/06/2023 | 30/06/2022 |
|---|---|---|
| **A. Reserves** | **327.316** | **326.043** |
| A.1 Legal reserve (1) | 1.000 | 1.000 |
| A.2 Free reserve | 307.977 | 299.589 |
| A.3 NWT reserve (2) | 21.018 | 28.133 |
| A.4 Other (3) | -2.679 | -2.679 |
| **B. Valuation Reserves (4)** | **282** | **80** |

(1): 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.

(2): Luxembourg resident companies are subject to a Net Worth Tax (‘NWT’) of 0.5% of taxable wealth. This charge may be reduced provided the following conditions have been respected: (i) a special reserve account 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.

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

(4): Valuation reserve due to changes in fair value which are attributable to the issuer’s own credit standing must be recognized through other comprehensive income (net equity).

## Section 16

## Heading 160 – Share capital

### *16.1 Share capital*

As at 30 June 2023, the issued capital of the Bank amounts to € 10.000.000 and is divided into one million shares fully paid with a pair value of € 10 each.

Authorised capital and issue share capital coincide.

## Other information

### *1. Guarantees and commitments (in € k)*

| | Nominal value of commitments and financial guarantees | | | 30/06/2023 | Nominal value of commitments and financial guarantees | | | 30/06/2022 |
|---|---|---|---|---|---|---|---|---|
| | Stage1 | Stage2 | Stage3 | Total | Stage1 | Stage2 | Stage3 | Total |
| **1. Commitments to disburse funds** | **1.527.541** | **11.984** | **—** | **1.539.525** | **1.753.266** | **100.800** | **—** | **1.854.066** |
| a ) Central Banks | — | — | — | — | — | — | — | — |
| b) Public Administrations | — | — | — | — | — | — | — | — |
| c) Banks | — | — | — | — | — | — | — | — |
| d) Other financial companies | 197.239 | — | — | 197.239 | 253.018 | 81.185 | — | 334.203 |
| e) Non-financial companies | 1.330.302 | 11.984 | — | 1.342.286 | 1.500.248 | 19.615 | — | 1.519.863 |
| f) Retail clients | — | — | — | — | — | — | — | — |
| **2. Financial guarantees given** | **—** | **—** | **—** | **—** | **62.893** | **—** | **—** | **62.893** |
| a ) Central Banks | — | — | — | — | — | — | — | — |
| b) Public Administrations | — | — | — | — | — | — | — | — |
| c) Banks | — | — | — | — | — | — | — | — |
| d) Other financial companies | — | — | — | — | — | — | — | — |
| e) Non-financial companies | — | — | — | — | 62.893 | — | — | 62.893 |
| f) Retail clients | — | — | — | — | — | — | — | — |

Total amount of “Guarantees and commitments” item reflects the dynamic of corporate portfolio mentioned above, with a double-digit decrease against higher credit quality with Stage 2 equals to 0,8% (5,4% in June 2022).

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

| Portfolios | Amount | |
|---|---|---|
| | **30/06/2023** | **30/06/2022** |
| Financial instruments valued at FVTPL | — | — |
| Financial instruments valued at FVOCI | — | — |
| Financial instruments valued at amortised cost | 962.735 | 1.050.708 |
| Tangible assets | — | — |
| **Total** | **962.735** | **1.050.708** |

As at 30 June 2023, the Bank has encumbered assets for approx. € 1.306m of which € 963m originated by the Bank itself (financial instruments valued at amortised cost), whereas € 343m represents the re-use of collateral borrowed from the Parent Bank. The encumbered assets are mainly related to collaterals pledged under both Swap agreements and Repurchase agreements with the SPV.

# PART D - NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

## Section 1

# Headings 10 and 20 – Net interest income

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

| Items/Technical forms | 30/06/2023 | | | | 30/06/2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | Debt securities | Loans | Other operations | Total* | Debt securities | Loans | Other operations | Total* |
| 1. Financial assets valued at FVTPL: | 4.096 | 2 | — | 4.098 | 3.517 | — | — | 3.517 |
| 1.1. Financial assets held for trading | 4.096 | — | — | 4.096 | 3.517 | — | — | 3.517 |
| 1.2. Financial assets designated at fair value | — | — | — | — | — | — | — | — |
| 1.3. Other financial assets mandatorily at fair value | — | 2 | — | 2 | — | — | — | — |
| 2. Financial assets valued at FVOCI | — | — | X | — | — | — | X | — |
| 3. Financial assets at amortized cost | 195 | 215.023 | X | 215.218 | 4 | 73.049 | X | 73.053 |
| 3.1 Due from banks | — | 53.871 | X | 53.871 | — | 3.353 | X | 3.353 |
| 3.2 Due from customers | 195 | 161.152 | X | 161.347 | 4 | 69.696 | X | 69.700 |
| 4. Hedging derivatives | X | X | — | — | X | X | 10.669 | 10.669 |
| 5. Other assets | X | X | — | — | X | X | — | — |
| 6. Financial liabilities bearing negative interests | X | X | X | — | X | X | X | 116 |
| **Total** | **4.291** | **215.025** | **—** | **219.316** | **3.521** | **73.049** | **10.669** | **87.355** |

* please refer to the column Total as the valid amount

The sharp increase in the interest income of the Bank is due to the increase of the interest rate hikes by the ECB (interest rates market curves as well). This of course had a major impact in the business of the Bank.

The income increased from € 87.355k (June 2022) to € 219.316k (June 2023), and is mainly driven by increases in interest in loans to customers from € 69.696k (June 2022) to € 161.152k (June 2023), and loans to banks from € 3.353k (June 2022) to € 53.871k (June 2023).

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

| Items/Technical forms | 30/06/2023 | | | | 30/06/2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | Borrowings | Securities issued | Other operations | Total* | Borrowings | Securities issued | Other operations | Total* |
| 1. Financial liabilities at amortized cost | -108.944 | -78.068 | X | -187.012 | -36.417 | -28.012 | X | -64.429 |
| 1.1 Due to central banks | — | X | X | — | — | X | X | — |
| 1.2 Due to banks | -108.723 | X | X | -108.723 | -36.518 | X | X | -36.518 |
| 1.3 Due to customers | -221 | X | X | -221 | 101 | X | X | 101 |
| 1.4 Debt securities in issue | X | -78.068 | X | -78.068 | X | -28.012 | X | -28.012 |
| 2. Trading financial liabilities | — | — | — | — | — | — | — | — |
| 3. Financial liabilities designated at fair value | — | -625 | — | -625 | — | -9 | — | -9 |
| 4. Other liabilities and funds | X | X | — | — | X | X | — | — |
| 5. Hedging derivatives | X | X | -2.398 | -2.398 | X | X | — | — |
| 6. Financial assets bearing negative interests | X | X | -759 | -759 | X | X | X | -5.664 |
| **Total** | **-108.944** | **-78.693** | **-3.157** | **-190.794** | **-36.417** | **-28.021** | **—** | **-70.102** |

* please refer to the column Total as the valid amount

In line with the interest income also the interest expense faces a surge in the figures compared to the previous financial year.

In particular the expense increased in loans borrowed from banks from € 36.518k (June 2022) to € 108.723k (June 2023), and issued notes from € 28.012k (June 2022) to € 78.068k (June 2023).

### Section 2

## Headings 40 and 50 – Net fee and commission income

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

| Type of service/Values | | | | 30/06/2023 | 30/06/2022 |
|---|---|---|---|---|---|
| a) | guarantees given | | | 55 | 92 |
| b) | credit derivatives | | | — | — |
| c) | management and brokerage services | | | 4.613 | 6.744 |
| | 1. | trading in financial instruments | | — | — |
| | 2. | currency trading | | — | — |
| | 3. | portfolio management | | — | — |
| | 4. | securities custody and administration | | — | — |
| | 5. | custodian bank | | — | — |
| | 6. | placement of financial instruments | | 4.613 | 6.744 |
| | 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 | | | 13.229 | 12.165 |
| **Total** | | | | **17.897** | **19.001** |

Fee and commission income are connected to the lending activity of the Bank. These are related to the contracts and assume various forms as the followings: underwriting fees, waiver, amendment, extension, ongoing and bookrunning fees.

*2.1.1 Fee and commission income: Other services breakdown (in € k)*

| Other services (breakdown) | 30/06/2023 | 30/06/2022 |
|---|---|---|
| Loans - ongoing fees | 8.879 | 8.869 |
| Stock lending fees | 2.671 | 2.626 |
| NSFR fees | 1.679 | 45 |
| Treasury fees | — | 625 |
| **Total** | **13.229** | **12.165** |

In particular, the increase of the NSFR fees from € 45k (June 2022) to € 1.679k (June 2023) is due to compensate the increase of the funding cost sustained by the Bank to generate the additional ASF (*available stable funding, the denominator of **NSFR ratio***) as a consequence of being Group reference center of short-term funding program. This increase depends both on the average cash collected through commercial papers and reinvested at the same time (up from €364m of FY21-22 to €535m of FY22-23, +47% yoy) and on the Euribor rate level reached over the year.

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

| **Services/Amounts** | **30/06/2023** | **30/06/2022** |
|---|---|---|
| a) guarantees received | — | — |
| b) credit derivatives | — | — |
| c) management and brokerage services | -1.760 | -4.392 |
| 1. trading in financial instruments | — | — |
| 2. currency trading | — | — |
| 3. portfolios management: | — | — |
| 3.1 own portfolio | — | — |
| 3.2 third parties portfolio | — | — |
| 4. securities custody and administration | — | — |
| 5. placement of financial instruments | -1.760 | -4.392 |
| 6. off-site distribution of financial instruments, products and services | — | — |
| d) collection and payment services | -332 | -512 |
| e) other services | -5.768 | -7.153 |
| **Total** | **-7.860** | **-12.057** |

### *2.2.1 Fee and commission expense: Other services breakdown (in € k)*

| **Other services (breakdown)** | **30/06/2023** | **30/06/2022** |
|---|---|---|
| Loans - ongoing fees | -3.939 | -3.968 |
| Stock lending fees | -675 | -1.126 |
| CD-CP fees | -3 | -162 |
| Treasury fees | -1.151 | -1.897 |
| **Total** | **-5.768** | **-7.153** |

Section 3

## Heading 80 – Net trading income/expense

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

| Transactions / Income | | Unrealized profit (A) | Realized profit (B) | Unrealized losses (C) | Realized losses (D) | Net Profit 30/06/2023* | Net Profit 30/06/2022* |
|---|---|---|---|---|---|---|---|
| 1. | Financial trading assets | 2.678 | 3.049 | — | — | 5.727 | -8.050 |
| | 1.1 Debt securities | 2.678 | — | — | — | 2.678 | -8.632 |
| | 1.2. Equity | — | 3.049 | — | — | 3.049 | 582 |
| | 1.3. O.I.C.R. shares | — | — | — | — | — | — |
| | 1.4. Loans | — | — | — | — | — | — |
| | 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 | -10.828 | 782 |
| 4. | Derivatives | 108.914 | 9.341 | -111.057 | -20.353 | -3.839 | 2.562 |
| | 4.1 Financial derivatives: | 48.283 | 9.279 | -47.227 | -18.488 | 1.163 | -5.572 |
| | 4.1.1 debt securities and interest rates | 8.876 | 7.385 | -10.911 | -10.048 | -4.698 | -1.680 |
| | 4.1.2 equity securities and shares indexes | 6.708 | 1.894 | -3.617 | -8.440 | -3.455 | 85 |
| | 4.1.3 currencies and gold | X | X | X | X | 9.316 | -3.977 |
| | 4.1.4 other | 32.699 | — | -32.699 | — | — | — |
| | 4.2. Credit derivatives | 60.631 | 62 | -63.830 | -1.865 | -5.002 | 8.134 |
| **Total** | | **111.592** | **12.390** | **-111.057** | **-20.353** | **-8.940** | **-4.706** |

* please refer to the column Net Profit as the valid amount

Net trading result decreased significantly compared to June 2022. It is worth mentioning that the loss of €-8,9m are mainly attributable to:

- a negative performance carried out by the realized and unrealized items (€-1,6m);
- a negative impact originated from the interests paid for swap derivatives to hedge the lending corporate portfolio (€-3,2m);
- the dynamic of the net foreign exchange loss, which can be expressed as the sum of (i) the exchange differences on financial assets and liabilities in foreign currencies (cf. caption 3. of the table above), and (ii) the net gain/loss on financial derivatives on currencies and gold (cf. caption 4.1.3 of the table above). Net foreign exchange item, throughout the financial year, passed from a loss of € -3.195k (June 2022) to a loss of € -1.512k (June 2023).

## Section 4

## Heading 90 – Net hedging income/expense

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

| | 30/06/2023 | 30/06/2022 |
|---|---|---|
| A. Income from: | | |
| A.1 Fair value hedge derivatives | 1.306 | — |
| A.2 Financial assets hedged (fair value) | — | — |
| A.3 Financial liabilities hedged (fair value) | 7.560 | 25.787 |
| A.4 Cash flow hedge financial derivatives | — | — |
| A.5 Assets and liabilities in foreign currency | — | — |
| Total hedging income (A) | 8.866 | 25.787 |
| B. Expenses relating to: | | |
| B.1 Fair value hedge derivatives | -6.434 | -23.724 |
| B.2 Financial assets hedged (fair value) | — | — |
| B.3 Financial liabilities hedged (fair value) | -2.288 | -2.034 |
| B.4 Cash flow hedge financial liabilities | — | — |
| B.5 Assets and liabilities in foreign currency | — | — |
| Total hedging expenses (B) | -8.722 | -25.758 |
| **C. Net hedging income (A-B)** | **144** | **29** |

The fair value change due to the exchange rate for the hedged instrument is recorded under profit and loss - Heading 90 “Net hedging income (expense)” - while the remaining fair value (any difference, i.e. partial ineffectiveness of the hedging derivatives) is recorded under Heading 80, “Net trading gains (losses)”.

## Section 5

## Heading 100 – Gain or loss on disposals or repurchases

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

| Items/Income | | 30/06/2023 | | | 30/06/2022 | | |
|---|---|---|---|---|---|---|---|
| | | Gains | Losses | Net profit (loss) | Gains | Losses | Net profit (loss) |
| A | Financial assets | | | | | | |
| 1. | Financial assets valued at amortized cost | 2.305 | -1.819 | 486 | 454 | -362 | 92 |
| | 1.1 Loans and receivables from banks | 1.559 | -1.668 | -109 | 188 | -198 | -10 |
| | 1.2 Loans and receivables from customers | 746 | -151 | 595 | 266 | -164 | 102 |
| 2. | Financial assets valued at FVOCI | — | — | — | — | — | — |
| | 2.1 Debt securities | — | — | — | — | — | — |
| | 2.2 Loans | — | — | — | — | — | — |
| **Total assets (A)** | | **2.305** | **-1.819** | **486** | **454** | **-362** | **92** |
| B | Financial liabilities valued at amortized cost | | | | | | |
| 1. | Deposits with banks | — | — | — | — | — | — |
| 2. | Deposits with customers | — | — | — | — | — | — |
| 3. | Debt securities in issue | — | — | — | 1 | -3 | -2 |
| **Total liabilities (B)** | | **—** | **—** | **—** | **1** | **-3** | **-2** |

In the course of the financial year, thanks to the credit market conditions, the Bank sold a few customer exposures to institutional investors. This gave to the Bank the opportunity to optimize the financing portfolio. Given the guarantees granted by Parent company, the net effect of these sales has been positive and equals to €486k (€92k in June 2022).

## Heading 110 – Gain or loss on other financial assets and liabilities measured at FVTPL net

### *5.2 Net variation in the value of other financial assets and liabilities measured at FVTPL: composition of financial assets and liabilities designated at fair value (in €k)*

| 30/06/2023 | Capital gains (A) | Proceeds from disposal (B) | Capital Losses (C) | Minus from disposal (D) | Net result [(A+B)-(C+D)] |
|---|---|---|---|---|---|
| 1. Financial assets | 321 | — | -95 | — | 226 |
| 1.1 Debt securities | — | — | — | — | — |
| 1.2 Loans | 321 | — | -95 | — | 226 |
| 2. Financial liabilities | 2.034 | — | -374 | -149 | 1.511 |
| 2.1 Debt securities in issue | 2.034 | — | -374 | -149 | 1.511 |
| 2.2 Due to banks | — | — | — | — | — |
| 2.3 Due to customers | — | — | — | — | — |
| 3. Foreign-currency denominated financial assets and liabilities: exchange rate differences | X | X | X | X | -244 |
| **Total** | **2.355** | **-** | **-469** | **-149** | **1.493** |

### *5.3 Net variation in the value of other financial assets and liabilities measured at FVTPL: composition of other financial assets mandatorily measured at fair value (in € k)*

| 30/06/2023 | Capital gains (A) | Proceeds from disposal (B) | Capital Losses (C) | Minus from disposal (D) | Net result [(A+B)-(C+D)] |
|---|---|---|---|---|---|
| 1. Financial assets | — | — | — | — | — |
| 1.1 Debt securities | — | — | — | — | — |
| 1.2 Equity securities | — | — | — | — | — |
| 1.3 UCITs | — | — | — | — | |
| 1.4 Loans | — | — | — | — | — |
| 2. Foreign-currency denominated financial assets and liabilities: exchange rate differences | X | X | X | X | -215 |
| **Total** | **—** | **—** | **—** | **—** | **-215** |

## Section 6

## Heading 130 – Adjustments for impairment

### 6.1 *Adjustment for impairment: breakdown (in € k)*

| Items/Income | | Writedowns (1) | | | Writebacks (2) | | 30/06/2023 (1)+(2) | 30/06/2022 |
|---|---|---|---|---|---|---|---|---|
| | | Stage1 and Stage2 | Stage3 | | Stage1 and Stega2 | Stage3 | | |
| | | | Write-off | Others | | | | |
| A | Loans and receivables with banks | -38 | — | — | 1.847 | — | 1.809 | 2.445 |
| | - Loans and receivables | -38 | — | — | 1.847 | — | 1.809 | 2.445 |
| | - Notes | — | — | — | — | — | — | — |
| | of which: financial assets purchased or originated credit impaired | — | — | — | — | — | — | — |
| B | Loans and receivables with customers | -16.574 | — | — | 18.416 | — | 1.842 | 1.554 |
| | - Loans and receivables | -16.574 | — | — | 18.416 | — | 1.842 | 1.552 |
| | - Notes | — | — | — | — | — | — | 2 |
| | of which: financial assets purchased or originated credit impaired | — | — | — | — | — | — | — |
| **Total** | | **-16.612** | **—** | **—** | **20.263** | **—** | **3.651** | **3.999** |

Impairment provisions for credit exposures worth a positive effect of € +3,6m, slightly decreased (approx. €-0,4m) compared to June 2022, with a net contribution from the loans and receivables with customers (commitment included) equals to € +1,8m in addition to an equivalent net contribution from the loans and receivables with banks (€ +1,8m). Overlay stands at € equivalent 0,7m and decreased as well as YoY € equivalent -1,3m, of which € -0,2m in the first half year due to update of scenario and € -1,1m in the second half-year due to the shift of some sectors to Low Impact from High/Medium inflationary impact (please refers to a dedicated table in Part F).

In details, the provisioning made in FY (Stage 1 and Stage 2) have been widely absorbed by the writebacks mainly attributable to *a)* a positive effect from repayments experienced on corporate loan portfolio (i.e. Stage 1 drop by € 1,9m in relation to the pre-payments/reimbursement of € 1,2bn exposures), *b)* credit exposures selling on the secondary market with benefit on impairment provision, *c)* an overall good credit quality of the entire net (uncovered) portfolio without new NPL transactions and Stage 3 exposures stable over the year (in addition, Stage 2 impairment decreased by approximately € -2,2m and € 292m of exposures mainly due repayments and exit experienced along the year), *d)* provision recorded on the intercompany assets of approx. € +0,8m.

## Section 7

## Heading 190 – Administrative expenses

### *7.1 Personnel costs: composition (in € k)*

| Type of expense/Amounts | 30/06/2023 | 30/06/2022 |
|---|---|---|
| 1.Employees | -2.558 | -2.230 |
| a) wages and salaries | -1.864 | -1.766 |
| b) social security contributions | -84 | -70 |
| c) severance indemnities | — | — |
| d) pension contributions | -130 | -116 |
| e) transfers to severance indemnity provision | — | — |
| f) transfers to post-employment and similar benefits: | — | — |
| – defined contribution | — | — |
| – defined benefit | — | — |
| g) payments to outside complementary pension schemes: | -213 | -163 |
| – defined contribution | -213 | -163 |
| – defined benefit | — | — |
| h) expenses incurred in connection with share payment schemes | -56 | — |
| i) other staff benefits | -211 | -115 |
| 2. Other staff | -9 | — |
| 3. Board members | -175 | -175 |
| **Total** | **-2.742** | **-2.405** |

Expenditure on salaries has increased compared to June 2022 (€ 337k), in particular due to salary review (inflation-driven dynamics) and staff turnover (please see number of employees, cf. caption 7.2).

### *7.2 Number of employees by category*

| | 30/06/2023 | 30/06/2022 |
|---|---|---|
| Employees | 19 | 18 |
| a) senior executives | 3 | 3 |
| b) executives | 2 | 2 |
| c) other employees | 14 | 13 |
| Other staff | 1 | — |
| **Total** | **20** | **18** |

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

| Type of expense/Amounts | 30/06/2023 | 30/06/2022 |
|---|---|---|
| OTHER ADMINISTRATIVE EXPENSES | | |
| – legal, tax and professional services | -778 | -753 |
| – loan recovery activity | — | — |
| – marketing and communication | -16 | -7 |
| – property expenses | -57 | -65 |
| – IT and data processing | -2.343 | -2.003 |
| – Info-provider | -30 | -34 |
| – bank charges, collection and payment fees | -21 | -49 |
| – operating expenses | -1.675 | -2.484 |
| – other staff expenses | -71 | -41 |
| – other costs | -3.081 | -3.510 |
| – indirect and other taxes | -600 | -641 |
| **Total** | **-8.672** | **-9.587** |

Other administrative expenses amounted to € 8.672k which corresponds to a deviation of approx. -9,5% compared to June 2022 (€ 9.587k). Inflationary pressure has been more than counterbalanced by the decrease in other costs and intercompany fees (operating expenses due to Parent Company).

## Section 8

## Heading 200 – Net provisions for risks and charges

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

| | 30/06/2023 | | | 30/06/2022 | | |
|---|---|---|---|---|---|---|
| | **Net provisions** | **Net releases of surplus** | **Total** | **Net provisions** | **Net releases of surplus** | **Total** |
| Loan commitments | 621 | — | 621 | 394 | — | 394 |
| Financial guarantees issued | — | — | — | — | — | — |
| **Total** | **621** | **—** | **621** | **394** | **—** | **394** |

### Section 9

## Heading 210 – Value adjustments in respect of tangible assets

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

| Asset/Income | Depreciation (a) | Impairment (b) | Write-back (c) | Net result (a+b-c) |
|---|---|---|---|---|
| A. Property, equipment and investment properties | | | | |
| 1 For operational use | -206 | — | — | -206 |
| - Owned | — | — | — | — |
| - Licences acquired through leases | -206 | — | — | -206 |
| 2 Held for investment purpose | — | — | — | — |
| - Owned | — | — | — | — |
| - Licences acquired through leases | — | — | — | — |
| **Total 30/06/2023** | **-206** | **—** | **—** | **-206** |
| **Total 30/06/2022** | **-204** | **—** | **—** | **-204** |

### Section 10

## Heading 230 – Other operating income (expense)

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

| | 30/06/2023 | 30/06/2022 |
|---|---|---|
| a) Leasing activity | — | — |
| b) Other expenses | -1.764 | -907 |
| **Total expense** | **-1.764** | **-907** |
| a) Amounts recovered from customers | — | — |
| b) Leasing activity | — | — |
| c) Other income | 2.408 | 306 |
| **Total income** | **2.408** | **306** |
| **Net income (expense)** | **644** | **-601** |

While the “Other expenses” are negative compared to the last year, impacted mostly by other intercompany expenses, the “Other income” improved thanks to extraordinary one-off corporate lending commissions.

## Section 11

### Heading 300 – Income tax on the ordinary activity

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

| | 30/06/2023 | 30/06/2022 |
|---|---|---|
| 1. Current tax expenses | -6.234 | -4.649 |
| 2. Changes in current tax expenses of the previous years | - | - |
| 3. Changes of deferred tax assets | - | - |
| 4. Changes of deferred tax liabilities | - | - |
| **Total** | **-6.234** | **-4.649** |

Current tax expenses in the amount of € -6.234k consists of:

a) the Net Wealth Tax (‘NWT’) charge for 2023 amounting to € nil (€1.660K in 2022) thanks to the creation of the NWT reserve (see Heading 150 – Reserves);

b) the income taxes for an amount of €6,234k, as result of: €4,547k and €1,686k respectively for Corporate income tax ('CIT') and Municipality business tax ('MBT'), plus €1k of other taxes.

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

| | 30/06/2023 | | | | 30/06/2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | IRC | | ICC | | IRC | | ICC | |
| | Applicable rate | Absolute value | Applicable rate | Absolute value | Applicable rate | Absolute value | Applicable rate | Absolute value |
| **Total profit or loss before tax from the current operations** | 18,19% | 24.870 | 6,75% | 24.870 | 18,19% | 10.110 | 6,75% | 10.110 |
| **Theoretical tax expense at a standard rate** | 18,19% | 4.524 | 6,75% | 1.678 | 18,19% | 1.839 | 6,75% | 682 |
| Non deductible expenses (+) | 18,19% | 23 | 6,75% | 8 | 18,19% | 23 | 6,75% | 8 |
| *Director fees* | 18,19% | 20 | 6.75% | 6 | 18.19% | 20 | 6.75% | 6 |
| *Witholding tax on director fees* | 18,19% | 3 | 6,75% | 2 | 18,19% | 3 | 6,75% | 2 |
| Tax allowance (-) | 18,19% | - | 6,75% | - | 18,19% | - | 6,75% | - |
| **Effective tax expense at standard rates** | 18,19% | 4.547 | 6,75% | 1.686 | 18,19% | 1.862 | 6,75% | 690 |

# PART E – OPERATING SEGMENT REPORTING

## A. PRIMARY SEGMENT REPORTING

The Bank does not run separate accounts or reporting for individual divisions or other business segments, primary because the business is essentially focused on wholesale banking. Local management uses specific markets segment reporting (i.e. geographical, economic sector, ratings) to evaluate segment's income, expenses, assets, liabilities and so on in order to assess profitability and riskiness of the business. The Bank’s segmental reporting is based on the following operating segments: corporate lending, 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 | 175.994 | - | 195.008 | 1.425 | - |
| 20. | Financial assets valued at FVTPL | 68.173 | - | 75.537 | 552 | - |
| | *a) Financial assets held for trading* | *62.244* | - | *68.968* | *504* | - |
| | *b) Financial assets designated at FV* | *3.713* | - | *4.114* | *30* | - |
| | *c) Other financial assets mandatorily at fair value* | *2.216* | - | *2.455* | *18* | - |
| 40. | Financial assets valued at amortised cost | 2.382.465 | - | 2.639.851 | 19.289 | - |
| | *a) Due from banks* | *878.677* | - | *973.603* | *7.114* | - |
| | *b) Due from customers* | *1.503.788* | - | *1.666.248* | *12.175* | - |
| 50. | Hedging derivatives | - | - | - | - | - |
| 70. | Equity investments | - | - | - | - | 4.150 |
| 90. | Property, plant and equipments | - | - | - | - | 1.215 |
| 110. | Tax assets | 867 | - | 960 | 7 | - |
| | *a) current* | *440* | - | *487* | *4* | - |
| | *b) deferred* | *427* | - | *473* | *3* | - |
| 130. | Other assets | 5.149 | - | 5.705 | 42 | - |
| | **Total assets at 30/06/2023** | **2.632.648** | **-** | **2.917.061** | **21.315** | **5.365** |
| | **Total assets at 30/06/2022** | **3.835.624** | **87.039** | **3.521.227** | **33.044** | **5.551** |
| 10. | Financial liabilities valued at amortised cost | -2.349.924 | - | -2.603.794 | -19.027 | - |
| | *a) Due to banks* | *-993.853* | - | *-1.101.221* | *-8.047* | - |
| | *b) Due to customers* | *-1.424* | - | *-1.579* | *-12* | - |
| | *c) Debt securities in issue* | *-1.354.647* | - | *-1.500.994* | *-10.968* | - |
| 20. | Financial liabilities valued at FVTPL | -28.412 | - | -31.482 | -230 | - |
| 30. | Financial liabilities designated at FV | -30.584 | - | -33.889 | -248 | - |
| 40. | Hedging derivatives | -1.294 | - | -1.433 | -10 | - |
| 60. | Tax liabilities | -4.256 | - | -4.715 | -34 | - |
| | *a) current* | *-4.256* | - | *-4.715* | *-34* | - |
| | *b) deferred* | - | - | - | - | - |
| 80. | Other liabilities | -5.006 | - | -5.548 | -41 | - |
| 100. | Provisions for risks and charges | -397 | - | -439 | -3 | - |
| 120. | Revaluation Reserves | 133 | - | 148 | 1 | - |
| 140. | Equity instruments | -47.256 | - | -52.361 | -383 | - |
| 150. | Reserves | -154.677 | - | -171.387 | -1.252 | - |
| 170. | Share capital | -4.726 | - | -5.236 | -38 | - |
| | **Total liabilities at 30/06/2023 *** | **-2.626.399** | **-** | **-2.910.136** | **-21.265** | **-** |
| | **Total liabilities at 30/06/2022 *** | **-3.834.897** | **-** | **-3.606.767** | **-33.854** | **-** |

* Profit for the period excluded

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.

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

| Items | | CORPORATE LENDING | EXPORT FINANCE | LEVERAGE FINANCE | PROJECT FINANCE | OTHER |
|---|---|---|---|---|---|---|
| 010. | Interests and similar income | 103.640 | - | 114.837 | 839 | - |
| 020. | Interest expense and similar charges | -90.162 | - | -99.902 | -730 | - |
| **030.** | **Net interest income** | **13.478** | **-** | **14.934** | **109** | **-** |
| 040. | Fee and commission income | 8.458 | - | 9.371 | 68 | - |
| 050. | Fee and commission expense | -3.714 | - | -4.116 | -30 | - |
| **060.** | **Net fee and commission income** | **4.743** | **-** | **5.256** | **38** | **-** |
| 080. | Net trading income/expense | -4.225 | - | -4.681 | -34 | - |
| 090. | Net hedging income/expense | 68 | - | 75 | 1 | - |
| 100. | Gain or loss on disposal or repurchase of: | 230 | - | 255 | 2 | - |
| | *a) financial assets valued at amortised cost* | *230* | - | *255* | *2* | - |
| | *b) financial assets valued at FVOCI* | - | - | - | - | - |
| | *c) financial liabilities* | - | - | - | - | - |
| 110. | Gain or loss on financial assets and liabilities | 604 | - | 669 | 5 | - |
| **120.** | **Total income** | **14.898** | **-** | **16.508** | **121** | **-** |
| 130. | Adjustment for impairment to: | 1.726 | - | 1.912 | 14 | - |
| | *a) financial assets valued at amortised cost* | *1.726* | - | *1.912* | *14* | - |
| | *b) financial assets valued at FVOCI* | - | - | - | - | - |
| **150.** | **Net income from financial operations** | **16.624** | **-** | **18.420** | **135** | **-** |
| 190. | Administrative expenses | -5.394 | - | -5.977 | -44 | - |
| | *a) personnel costs* | *-1.296* | - | *-1.436* | *-10* | - |
| | *b) other administrative expenses* | *-4.098* | - | *-4.541* | *-33* | - |
| 200. | Net provisions for risks and charges | 293 | - | 325 | 2 | - |
| 210. | Value adjustments in respect of tangible assets | -97 | - | -108 | -1 | - |
| 230. | Other operating income/expense | 304 | - | 337 | 2 | - |
| **290.** | **Profit (loss) of the ordinary activity before tax** | **11.730** | **-** | **12.998** | **95** | **-** |
| 300. | Income tax on the ordinary activity | -2.946 | - | -3.264 | -24 | - |
| **330.** | **Profit (loss) for the period** | **8.784** | **-** | **9.733** | **71** | **-** |
| 340. | Other comprehensive income, net of tax | – | – | – | – | – |
| **350.** | **Profit (Loss) of the year 30/06/2023** | **8.784** | **-** | **9.733** | **71** | **-** |
| | **Profit (Loss) of the year 30/06/2022** | **3.574** | – | **3.362** | **32** | – |

## B. Secondary segment reporting

The Bank operates in four main geographical markets: Luxembourg, other European Countries, Americas and other EMEA countries (Asia). The following tables show the distribution of the Bank's financial and statement of comprehensive incomes based on the location of the customers for the years ended 30 June 2023 and 2022.

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

| | | LUXEMBOURG | OTHER EUROPEAN COUNTRIES | AMERICAS | OTHER EMEA |
|---|---|---|---|---|---|
| 10. | Cash and cash equivalents | 226.034 | 146.393 | — | — |
| 20. | Financial assets valued at FVTPL | 93.673 | 40.549 | 10.039 | — |
| | *a) Financial assets held for trading* | 93.673 | 32.692 | 5.350 | — |
| | *b) Financial assets designated at FV* | — | — | 4.689 | — |
| | *c) Other financial assets mandatorily at fair valu* | — | 7.857 | — | — |
| 40. | Financial assets valued at amortised cost | 507.774 | 3.339.071 | 1.138.365 | 56.397 |
| | *a) Due from banks* | 7.136 | 1.852.258 | — | — |
| | *b) Due from customers* | 500.638 | 1.486.812 | 1.138.365 | 56.397 |
| 50. | Hedging derivatives | — | — | — | — |
| 70. | Equity investments | 4.150 | — | — | — |
| 90. | Property, plant and equipments | 1.215 | — | — | — |
| 110. | Tax assets | 1.834 | — | — | — |
| | *a) current* | *930* | — | — | — |
| | *b) deferred* | *903* | — | — | — |
| 130. | Other assets | 132 | 10.058 | 696 | 9 |
| | **A. Total assets at 30/06/2023** | **834.812** | **3.536.070** | **1.149.100** | **56.406** |
| | **A. Total assets at 30/06/2022** | **1.226.031** | **4.615.859** | **1.485.715** | **154.880** |
| 10. | Financial liabilities valued at amortised cost | -2.869.630 | -2.103.115 | — | — |
| | *a) Due to banks* | *-6* | *-2.103.115* | — | — |
| | *b) Due to customers* | *-3.015* | — | — | — |
| | *c) Debt securities in issue* | *-2.866.609* | — | — | — |
| 20. | Financial liabilities valued at FVTPL | -8.264 | -51.860 | — | — |
| 30. | Financial liabilities designated at FV | -64.721 | — | — | — |
| 40. | Hedging derivatives | — | -2.737 | — | — |
| 60. | Tax liabilities | -9.005 | — | — | — |
| | *a) current* | *-9.005* | — | — | — |
| | *b) deferred* | — | — | — | — |
| 80. | Other liabilities | -411 | -10.185 | — | — |
| 100. | Provisions for risks and charges | -12 | -721 | -106 | — |
| 120. | Revaluation reserves | 282 | — | — | — |
| 140. | Equity instruments | -100.000 | — | — | — |
| 150. | Reserves | -328.522 | 1.238 | -31 | — |
| 170. | Share capital | -10.000 | — | — | — |
| | **B. Total liabilities at 30/06/2023 *** | **-3.390.283** | **-2.167.380** | **-137** | **—** |
| | **B. Total liabilities at 30/06/2022 *** | **-3.495.511** | **-3.979.900** | **-106** | **—** |

* Profit for the period excluded

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

| | LUXEMBOURG | OTHER EUROPEAN COUNTRIES | AMERICAS | OTHER EMEA |
|---|---|---|---|---|
| Net interest income | -42.151 | -11.058 | 75.671 | 6.060 |
| Net fee and commission income | 844 | 7.968 | 1.226 | — |
| Net trading income/expense | 24.551 | -37.134 | 2.403 | 1.240 |
| Net hedging income/expense | 5.272 | -5.128 | — | — |
| Gain or loss on disposal or repurchase of: | 1.206 | 337 | 436 | -215 |
| Value Adjustments - impairment | 488 | 1.382 | 1.755 | 27 |
| Administrative expenses | -6.726 | -4.659 | -29 | — |
| Net provisions for risks and charges | 18 | 635 | -31 | — |
| Value adjustments in respect of tangible assets | -206 | — | — | — |
| Other operating income/expense | -208 | -286 | 1.138 | — |
| Income tax | -6.234 | — | — | — |
| **Profit (Loss) of the year 30/06/2023** | **-23.148** | **-47.943** | **82.567** | **7.112** |
| **Profit (Loss) of the year 30/06/2022** | **-51.350** | **-47.456** | **91.552** | **14.222** |

# PART F – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

## Introduction

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

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

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

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

The Risk Appetite Framework ("RAF"):

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

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

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

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

- identification of the risks which the Bank is willing to take;
- for each risk, definition of the objective and limits in normal and stressed conditions;

- identification of the actions which are deemed to be appropriate to bring the risk back within the set objectives.

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

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

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

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

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

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

Section 1

## 1.1 CREDIT RISK

QUALITATIVE INFORMATION

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

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

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

Credit valuation adjustments (CVAs) are normally incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk. At the reference date, the Bank has calculated a CVA adjustment (*standard method approach*), including Parent company as counterparty; furthermore, with reference to the Parent, the Bank has signed a Credit Support Annex (CSA) that allowed the two counterparties to post cash collateral according to margin call made by the calculation agent, de facto resetting the counterparty risk.

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

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

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision (at least annually). The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action. Credit risk management unit in Milan is responsible for executing the credit risk analysis entailed by lending and market transactions, and for assigning credit ratings to the counterparties in these transactions.

The Risk management is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The unit works closely with the Credit Committee to ensure that procedures are compliant with the overall framework. Risk management is divided into the following areas: enterprise risk management, credit risk management, market and operational risk management.

During the year there were no significant changes in the Bank's objectives, policies and process for managing credit risk. In the light of changes in the macroeconomic context, resulting from the end of the pandemic period, inflation pressure, interest rates hike and deterioration of the business outlook Risk management has further strengthened the monitoring of portfolio in particular focusing on sectors particularly exposed to inflationary pressure. In order to mitigate potential negative impact, a high level of protection from Parent Bank was maintained.

Dedicated monitoring has been carried out on the impact of the current inflationary environment on the bank corporate portfolio, evaluating the effect of rising energy, raw material, labour and transportation costs on earnings, as well as the ability of each industry and counterparty to pass-through higher costs to customers.

The residual amount of overlay is allocated to sectors particularly exposed to inflationary pressure.

The impacts of inflation - including the increase in the energy costs - have not had significant consequences on corporate counterparties operating in sectors potentially more exposed to such effects (such as automotive and manufacturing); it should be noted, however, that these counterparties represent a marginal percentage of the overall portfolio.

## Impact Ukraine-Russia conflict

As a consequence of the Russia-Ukraine conflict, Risk Management strictly monitored the direct exposures in these countries (only one direct exposure linked to Russia - € 12.2m - completely insured by SACE[16], classified as Watchlist and Stage 2). for which regular repayment has been recorded along the year.

## Corporate banking

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

[16] SACE is the Italian Export Credit Agency and an active participant in the major international organizations within the Export Credit industry, which activities are regulated by the European Union legislation and by the OECD Arrangement on Officially Supported Export Credits.

Leverage finance

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

Loan impairment provisions

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

The determination of provisions on performing loans is carried out by identifying the highest possible synergies with the supervisory approach contained in the regulations known as "Basel 3". In particular, the parameters of the calculation model set out in the supervisory provisions, namely Probability of Default (PD) and Loss Given Default (LGD), are used – where already available – also for the purposes of financial statement valuation, adjusted for the aspects which are not suitable to be used directly in an accounting environment (e.g., in some cases reconverting the data to reflect a "point-in-time" approach). The relationship between the two aforementioned parameters represents the starting point for loan segmentation, since they summarize the relevant factors considered by IAS/IFRS for the determination of the homogeneous categories and for the calculation of provisions. Under IFRS 9, expected losses are calculated as the product of the PD, LGD and EAD metrics.

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. The expected loss is the result of the combined valuation of three scenarios, the baseline one and other two scenarios (mild-positive and negative deviations with respect to baseline, previously based on alternative scenarios) weighted according to expert based weights (respectively 50%, 25%, 25%). The scenarios, determined at Group level, are revised at least once every six months. In particular, the Group sets the estimates for the baseline scenario, processing the economic variables using an external macroeconomic model, which factors in the internal expectations for interest rates.

In accordance with IFRS 9, financial assets are divided in three categories[17].

[17] For further details, refers to "Financial assets measured at amortised cost" under Part B, Accounting Policies.

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 (so-called backstop indicators) and to the classification in watch list status according to credit risk monitoring rules. The Group uses the simplified approach of the ''low credit risk exemption'' to a very limited extent.

The criterion for Stage 2 classification, which is based on an increase in the PD above defined thresholds, occurred between the origination of the credit and the reference date. Consistent with the options granted by IFRS 9, a change in forward-looking twelve-month PD is used as the benchmark quantitative metric for measuring the Significant Increase in Credit Risk (SICR) for the purpose of identifying positions to be classified as Stage 2. Revisions of single name classifications are also possible on the basis of internal decisions supported by monographic analysis.

On Non-Performing Loans (NPL), various measures have been issued by the regulators in recent years to guide the financial sector in the direction of reducing stocks and accelerating the process of recovering the credit. On 26 April 2019 the European Parliament published the updated version of Regulation (EU) No. 575/2013 (the "CRR") in the Official Journal, which includes the new rules (known as "Calendar Provisioning") to be applied for coverage of loans granted as from the date on which the new version of the Regulation was issued.

The Calendar Provisioning mechanism requires non-performing loans to be written off entirely at set deadlines and is intended to ensure that NPLs do not accumulate on banks' balance sheets without the appropriate value adjustments being taken.

### MACROECONOMIC SCENARIO AND IMPACTS

Loan loss provisioning at 30 June 2023 is subject to the most recent updated of the macroeconomic scenario which is characterized by stagflation environment, thus affected by the increase in the price level combined with weak growth. Expected credit loss is the result of a probability-weighted outcome, based on the projections of three scenarios (Baseline, Mild-positive and Mild-negative).

The macroeconomic context for the first six months of 2023 that governs the June 2023 IFRS9 provision is characterized by the same assumptions underlying the scenario available in December 2022.

Stagflation is confirmed as the most likely feature for 2023 with an increase in the price level associated with weak growth particularly for the second half of the current year.

For 2023, the macroeconomic forecasts are slightly better compared to base scenario available in December 2022 due to better performance observed between November 2022 and March 2023. Growth remains moderate but positive starting from 2024 and for the next two years.

Despite the continued price increases registered in 2022, the economy of the Euro zone has been characterized by a growth above the expectations with a growth rate of the GPD over than 3.5% (vs 2.1% of USA GDP growth), higher than the level had at June 2022.

However, 2023 growth rate is more modest, also as a consequence of the ongoing monetary tightening, with GDP growth expected at 0.7%, although higher than what was expected in the previous half-year where the estimates were negative.

Nevertheless, the greater resilience of the main European economies compared to Italy with regard to the effects of the energy crisis, due in some cases to the availability of effective price containment measures (e.g., Germany) or in other cases of alternative energy supplies to fossil fuels (e.g., France), will allow them to resume a more sustained growth path than Italy from 2024. For example, for the EU in the two-year period 2024-2025 the growth rates are expected to be 1.9% and 2.4%, respectively, versus 1.3% and 1.2% for Italy.

Moreover, a further aspect that could affect the economy of the Eurozone is the unemployment level, which is expected to be at a level of 6.4% for the 2023 compared to 6.4% of the 2022, remaining stably above 6% for the next two years till 2025 while it is expected to remain constantly above 8% in Italy.

*Tab. 1 - Macroeconomic scenario*

| **GDP** | **2022** | **2023** | **2024** | **2025** |
|---|---|---|---|---|
| Italy | 3.8% | 0.7% | 1.3% | 1.2% |
| EU | 3.5% | 0.6% | 1.9% | 2.4% |
| USA | 2.1% | 0.6% | 0.5% | 2.4% |
| **Unemployment Rate** | **2022** | **2023** | **2024** | **2025** |
| Italy | 8.1% | 8.5% | 8.4% | 8.2% |
| EU | 6.1% | 6.4% | 6.2% | 6.0% |
| USA | 3.6% | 4.1% | 4.6% | 3.9% |
| **10yr Gov Bond Yield** | **2022** | **2023** | **2024** | **2025** |
| Italy | 3.1% | 4.8% | 4.8% | 4.7% |
| EU | 1.2% | 2.7% | 2.7% | 2.7% |
| USA | 3.0% | 4.0% | 4.1% | 3.9% |

After the Covid-19 pandemic outbreak, additional provisions (overlays) have been set aside for positions particularly exposed to the risks posed by the pandemic situation and they have been maintained considering the significant changes to macroeconomic environment (Russia-Ukraine conflict, tensions on the energy market and raw material, general dynamics of interest rates and inflation).

Starting from December 2022, the overlays have been applied on corporate sectors particularly exposed to inflationary pressure in order to consider possible peaks of risk on particular industrial sectors (i.e. the ones considered at High/Medium risk) that the quantitative methodology only captures on average. As of June 2023, the overlay methodology is maintained substantially stable for Corporate Portfolio.

| **30th June 2023 (in €/K)** | | | | |
|---|---|---|---|---|
| **Corporate Lending** | **Stock overlay 2023** | **% overlay on total ECL** | **Stock overlay 2022** | **% overlay on total ECL 2022** |
| **Stage 1** | 690 | 12.9% | 1,373 | 14.6% |
| **Stage 2** | 18 | 0.3% | 622 | 6.6% |
| **Stage 3** | - | - | - | - |
| **Total** | 708 | 13.2% | 1,995 | 21.2% |

The overlay moved from approximately € 2m at June 2022 (21,2% of total ECL affected by the overlay, of which € approx.1.4m relating to Stage 1) to approximately € 0.7m at June 2023 (representing 13.2% of total ECL affected by the overlay, almost entirely relating to Stage1). This drop in the overlay is mainly connected to the ability of some sectors initially considered as highly inflation vulnerable (e.g. Automotive and manufacturing sectors) to overcome the increase in raw material costs through the adjustment of sales prices as well as a general stability in volumes.

## QUANTITATIVE INFORMATION

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

| Portfolio/Quality | Non performing loans | Unlikely to pay | Impaired past due exposures | Not impaired past due exposures | Other not impaired exposures | Total |
|---|---|---|---|---|---|---|
| 1. Financial asset at amortized cost | — | — | — | — | 5.041.606 | 5.041.606 |
| 2. Financial assets valued to fair value with impact on overall profitability | — | — | — | — | — | — |
| 3. Financial assets designated to FV | — | — | — | — | 7.857 | 7.857 |
| 4. Other financial assets mandatorily at FV | — | 4.689 | — | — | — | 4.689 |
| 5. Financial instruments as held for sale | — | — | — | — | — | — |
| **Total 30/06/2023** | **—** | **4.689** | **—** | **—** | **5.049.463** | **5.054.152** |
| **Total 30/06/2022** | **—** | **4.641** | **—** | **—** | **6.506.550** | **6.511.191** |

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

| Asset portfolio/quality | Non-performing loans | | | Performing loans | | | Total (net exposure) |
|---|---|---|---|---|---|---|---|
| | Gross exposure | Accumulated impairment | Net exposure | Gross exposure | Accumulated impairment | Net exposure | |
| 1. Financial assets at amortized cost | — | — | — | 5.046.943 | -5.337 | 5.041.606 | 5.041.606 |
| 2. Financial assets at FVOCI | — | — | — | — | — | — | — |
| 3. Financial assets at FVTPL | — | — | — | 7.857 | — | 7.857 | 7.857 |
| 4. Other financial assets mandatorily at fair value | 4.689 | — | 4.689 | — | — | — | 4.689 |
| 5. Financial assets being sold | — | — | — | — | — | — | — |
| **Total 30/06/2023** | **4.689** | **—** | **4.689** | **5.054.800** | **-5.337** | **5.049.463** | **5.054.152** |
| **Total 30/06/2022** | **4.641** | **—** | **4.641** | **6.515.435** | **-8.885** | **6.506.550** | **6.511.191** |

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

| Type of exposure/Amounts | Gross exposure | Specific value adjustments | Portfolio value adjustments | 30/06/2023 | 30/06/2022 |
|---|---|---|---|---|---|
| A. CASH EXPOSURES | | | | | |
| A.1 Sight deposit | 372.544 | — | -117 | 372.427 | 696.131 |
| a) Non performing | — | — | — | — | — |
| b) Other assets | 372.544 | — | -117 | 372.427 | 696.131 |
| A.2 Others | 1.868.068 | — | -816 | 1.867.252 | 2.038.547 |
| a) Non-performing loans | — | — | — | — | — |
| - *of which: forborne exposures* | — | — | — | — | — |
| b) Unlikely to pay | — | — | — | — | — |
| - *of which: forborne exposures* | — | — | — | — | — |
| c) Impaired past due exposures | — | — | — | — | — |
| - *of which: forborne exposures* | — | — | — | — | — |
| d) Not impaired past due exposures | — | — | — | — | — |
| - *of which: forborne exposures* | — | — | — | — | — |
| e) Other not impaired exposures | 1.868.068 | — | -816 | 1.867.252 | 2.038.547 |
| - *of which: forborne exposures* | — | — | — | — | — |
| **Total A** | **2.240.612** | **—** | **-933** | **2.239.679** | **2.734.678** |
| B. OFF-BALANCE-SHEET EXPOSURES | | | | | |
| a) Non-performing | — | — | — | — | — |
| b) Other assets | — | — | — | — | 205.000 |
| **Total B** | **—** | **—** | **—** | **—** | **205.000** |
| **Total A+Total B** | **2.240.612** | **—** | **-933** | **2.239.679** | **2.939.678** |

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

| **Type of exposure/Amounts** | **Gross exposure** | | | | | **Overall value adjustments and overall provisions** | | | | | **Net Exposure 30/06/2023** | **Overall partial write-offs** | **Net Exposure 30/06/2022** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Total** | **First stage** | **Second stage** | **Third stage** | **Purchased or originated impaired assets** | **Total** | **First stage** | **Second stage** | **Third stage** | **Purchased or originated impaired assets** | | | |
| A. CASH EXPOSURES | | | | | | | | | | | | | |
| a) Non-performing loans | — | X | X | — | — | — | X | X | — | — | — | — | — |
| - of which: forborne exposures | — | X | X | — | — | — | X | X | — | — | — | — | — |
| b) Unlikely to pay | 4.689 | X | X | — | — | — | X | X | — | — | 4.689 | — | 4.641 |
| - of which: forborne exposures | 4.689 | X | X | — | — | — | X | X | — | — | 4.689 | — | — |
| c) Impaired past due exposures | — | X | X | — | — | — | X | X | — | — | — | — | — |
| - of which: forborne exposures | — | X | X | — | — | — | X | X | — | — | — | — | — |
| d) Not impaired past due exposures | — | — | — | X | — | — | — | — | X | — | — | — | — |
| - of which: forborne exposures | — | — | — | X | — | — | — | — | X | — | — | — | — |
| e) Other not impaired exposures | 3.252.877 | 3.069.760 | 116.973 | X | — | -4.521 | -3.490 | -1.031 | X | — | 3.248.356 | — | 4.459.845 |
| - of which: forborne exposures | 35.111 | — | 35.111 | X | — | -577 | — | -577 | X | — | 34.534 | — | 18.715 |
| **Total A** | **3.257.566** | **3.069.760** | **116.973** | **—** | **—** | **-4.521** | **-3.490** | **-1.031** | **—** | **—** | **3.253.045** | **—** | **4.464.486** |
| B. OFF-BALANCE-SHEET EXPOSURES | | | | | | | | | | | | | |
| a) Non-performing | — | X | X | — | — | — | X | X | — | — | — | — | — |
| b) Other assets | 1.539.525 | 1.527.541 | 11.984 | X | — | -838 | -740 | -98 | X | — | 1.538.687 | — | 1.915.499 |
| **Total B** | **1.539.525** | **1.527.541** | **11.984** | **—** | **—** | **-838** | **-740** | **-98** | **—** | **—** | **1.538.687** | **—** | **1.915.499** |
| **Total A + Total B** | **4.797.091** | **4.597.301** | **128.957** | **—** | **—** | **-5.359** | **-4.230** | **-1.129** | **—** | **—** | **4.791.732** | **—** | **6.379.985** |

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

| Description/Category | 30/06/2023 | 30/06/2022 |
|---|---|---|
| A. Gross exposure at start of period | 4.641 | 43.986 |
| *of which: accounts sold but not derecognized* | — | — |
| B. Additions | 310 | 5.475 |
| B.1 transfers from performing loans | — | — |
| B.2 transfer from other categories of impaired assets | — | — |
| B.3 other additions | 310 | 5.475 |
| C. Reductions | -262 | -44.820 |
| C.1 transfer to performing loans | — | — |
| C.2 amounts written off | — | — |
| C.3 amounts collected | — | -22.797 |
| C.4 gains realized on disposal | — | — |
| C.5 transfers to other categories of impaired assets | — | -2.778 |
| C.6 other reductions | -262 | -19.245 |
| D. Gross exposure at end of period | 4.689 | 4.641 |
| *of which: accounts sold but not derecognized* | — | — |

*A.1.6 Financial assets, commitments to end-funds and financial guarantees given transfers between different stages of credit risk (gross and nominal values - in € k)*

| Portfolios/Risk stages | Gross amounts / Nominal values | | | | | |
|---|---|---|---|---|---|---|
| | Transfers between stage 1 to stage 2 | | Transfers between stage 2 to stage 3 | | Transfers between stage 1 to stage 3 | |
| | From stage 1 to stage 2 | From stage 2 to stage 1 | From stage 2 to stage 3 | From stage 3 to stage 2 | From stage 1 to stage 3 | From stage 3 to stage 1 |
| 1. Financial assets valued at amortized cost | 49.649 | 88.931 | - | - | - | - |
| 2. Financial assets valued at fair value with impact taken to other comprehensive income | - | - | - | - | - | - |
| 3.Assets classified as held for sale | - | - | - | - | - | - |
| 4. Commitments to disburse funds and financial guarantees given | - | 12.955 | - | - | - | - |
| **Total 30/06/2023** | **49.649** | **101.886** | **-** | **-** | **-** | **-** |
| **Total 30/06/2022** | **132.329** | **-** | **-** | **-** | **-** | **-** |

During the year, the migration from stage 1 to stage 2 is due to the shift of one customer entered in Watchlist while the migration from stage 2 to stage 1 is related the improvement of 3 counterparties.

*A.1.7 Financial assets, loan commitments, and financial guarantees issued: trend in overall value adjustments and overall provisioning (in € k)*

| Motivations/risk stages | Overall value adjustments | | | | | | | | | | | | | | | | | | | | | | | | Overall provisions for loan commitments and financial guarantees issued | | | | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 assets | | | | | | Stage 2 assets | | | | | | Stage 3 assets | | | | | | Purchased or originated credit-impaired financial assets | | | | | | | | | | |
| | On-demand loans to banks and Central Banks | Financial assets measured at amortised costs | Financial assets measured at fair value through OCI | Financial assets being sold | *of which: individual writedown* | *of which: collective writedown* | On-demand loans to banks and Central Banks | Financial assets measured at amortised costs | Financial assets measured at fair value through OCI | Financial assets being sold | *of which: individual writedown* | *of which: collective writedown* | On-demand loans to banks and Central Banks | Financial assets measured at amortised costs | Financial assets measured at fair value through OCI | Financial assets being sold | *of which: individual writedown* | *of which: collective writedown* | Financial assets measured at amortised costs | Financial assets measured at fair value through OCI | Financial assets being sold | *of which: individual writedown* | *of which: collective writedown* | First stage | Second stage | Third stage | Purchased or originated credit-impaired | |
| **Opening balance overall amount** | **306** | **5.787** | **—** | **—** | **—** | ***6.093*** | **—** | **3.098** | **—** | **—** | **—** | ***3.098*** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **1.233** | **227** | **—** | **—** | **10.651** |
| Increase due to purchased or originated financial assets | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | X | X | X | X | X | — | — | — | — | — |
| Derecognitions other than write-offs | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Net adjustements / writebacks for credit risk | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Contractual changes without derecognition | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Changes in estimation methods | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Write-off not directly recognized through profit or loss | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Other adjustment | -189 | -1.481 | — | — | — | *-1.670* | — | -2.067 | — | — | — | *-2.067* | — | — | — | — | — | — | — | — | — | — | — | -493 | -129 | — | — | -4.359 |
| **Closing overall amount** | **117** | **4.306** | **—** | **—** | **—** | ***4.423*** | **—** | **1.031** | **—** | **—** | **—** | ***1.031*** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **740** | **98** | **—** | **—** | **6.292** |
| Recoveries for collections of written-off financial assets | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Write-offs directly recognized though profit or loss | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |

Overall value adjustments stand at a value of €5.45m on June 23. During the current fiscal year, this variation is mainly due to the pre-payment and reimbursement of corporate loans and overlay release, resulting in an overall decrease in the closing amount (-40.65% drops respect to June 22).

Overall provisions for loan commitments and financial guarantees issued drastically decrease (€0.83m on June 23) compared to opening amount. Mostly of the variation is driven by the actual macroeconomic scenario related to the lending market with a slightly reduction of the commitments and the absence of provisions of financial guarantees issued with a related adjustment of €-0.4m.

*A.1.8 Financial assets, commitments to disburse funds and financial guarantees given by class of external ratings (gross value - in € k)*

| Exposures | External Rating Classes | | | | | | Unrated | Total |
|---|---|---|---|---|---|---|---|---|
| | Class 1 | Class 2 | Class 3 | Class 4 | Class 5 | Class 6 | | |
| **A. Financial assets valued at amortised cost** | **—** | **-682** | **2.011.761** | **400.729** | **93.445** | **—** | **2.541.690** | **5.046.943** |
| - First stage | — | -682 | 2.011.761 | 368.433 | 56.134 | — | 2.494.325 | 4.929.971 |
| - Second stage | — | — | — | 32.296 | 37.311 | — | 47.365 | 116.972 |
| - Third stage | — | — | — | — | — | — | — | — |
| - Impaired acquired or originated | — | — | — | — | — | — | — | — |
| **B. Financial assets designated at fair value** | **—** | **—** | **7.857** | **—** | **—** | **—** | **—** | **7.857** |
| - First stage | — | — | 7.857 | — | — | — | — | 7.857 |
| - Second stage | — | — | — | — | — | — | — | — |
| - Third stage | — | — | — | — | — | — | — | — |
| - Impaired acquired or originated | — | — | — | — | — | — | — | — |
| **C. Other financial assets mandatorily at fair value** | **—** | **—** | **—** | **—** | **—** | **—** | **4.689** | **4.689** |
| - First stage | — | — | — | — | — | — | — | — |
| - Second stage | — | — | — | — | — | — | — | — |
| - Third stage | — | — | — | — | — | — | 4.689 | 4.689 |
| - Impaired acquired or originated | — | — | — | — | — | — | — | — |
| **Total (A + B + C)** | **—** | **-682** | **2.019.618** | **400.729** | **93.445** | **—** | **2.546.379** | **5.059.489** |
| **D. Commitments and financial guarantees given** | **—** | **46.015** | **616.000** | **178.112** | **84.323** | **—** | **615.075** | **1.539.525** |
| - First stage | — | 46.015 | 616.000 | 178.112 | 84.323 | — | 603.091 | 1.527.541 |
| - Second stage | — | — | — | — | — | — | 11.984 | 11.984 |
| - Third stage | — | — | — | — | — | — | — | — |
| - Impaired acquired or originated | — | — | — | — | — | — | — | — |
| **Total ( D )** | **—** | **46.015** | **616.000** | **178.112** | **84.323** | **—** | **615.075** | **1.539.525** |
| **Total (A + B + C + D)** | **—** | **45.333** | **2.635.618** | **578.841** | **177.768** | **—** | **3.161.454** | **6.599.014** |

The Mediobanca Group adopts the Standard & Poor’s ratings for all portfolios subject to assessment. The table is compliant with the classification provided by Bank of Italy circular 262/05 (7° update) which requires external ratings to be divided into six different classes of credit standing. The first three risk classes (classes 1, 2 and 3) consist of investment grade exposures, with a Standard & Poor’s rating of between AAA and BBB-, and represent 75% of the entire portfolio, excluding unrated counterparties and non-performing loans.

*A.1.9 Financial assets, commitments to disburse funds and financial guarantees given by class of internal ratings (gross values - in € k)*

| Exposures | Internal Rating Classes | | | | | | Non performing exposures | Unrated | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Class 1 | Class 2 | Class 3 | Class 4 | Class 5 | Class 6 | | | |
| **A. Financial assets valued at amortised cost** | **6.932** | **374.815** | **2.887.269** | **1.459.284** | **306.439** | **12.204** | **—** | **—** | **5.046.943** |
| - First stage | 6.932 | 374.815 | 2.887.269 | 1.449.632 | 211.372 | -49 | — | — | 4.929.971 |
| - Second stage | — | — | — | 9.652 | 95.067 | 12.253 | — | — | 116.972 |
| - Third stage | — | — | — | — | — | — | — | — | — |
| - Impaired acquired or originated | — | — | — | — | — | — | — | — | — |
| **B. Financial assets designated at fair value** | **—** | **—** | **7.857** | **—** | **—** | **—** | **—** | **—** | **7.857** |
| - First stage | — | — | 7.857 | — | — | — | — | — | 7.857 |
| - Second stage | — | — | — | — | — | — | — | — | — |
| - Third stage | — | — | — | — | — | — | — | — | — |
| - Impaired acquired or originated | — | — | — | — | — | — | — | — | — |
| **C. Other financial assets mandatorily at fair value** | **—** | **—** | **—** | **—** | **—** | **—** | **4.689** | **—** | **4.689** |
| - First stage | — | — | — | — | — | — | — | — | — |
| - Second stage | — | — | — | — | — | — | — | — | — |
| - Third stage | — | — | — | — | — | — | 4.689 | — | 4.689 |
| - Impaired acquired or originated | — | — | — | — | — | — | — | — | — |
| **Total (A + B + C)** | **6.932** | **374.815** | **2.895.126** | **1.459.284** | **306.439** | **12.204** | **4.689** | **—** | **5.059.489** |
| **D. Commitments and financial guarantees given** | **—** | **46.015** | **958.493** | **433.710** | **101.307** | **—** | **—** | **—** | **1.539.525** |
| - First stage | — | 46.015 | 958.493 | 433.710 | 89.323 | — | — | — | 1.527.541 |
| - Second stage | — | — | — | — | 11.984 | — | — | — | 11.984 |
| - Third stage | — | — | — | — | — | — | — | — | — |
| - Impaired acquired or originated | — | — | — | — | — | — | — | — | — |
| **Total ( D )** | **—** | **46.015** | **958.493** | **433.710** | **101.307** | **—** | **—** | **—** | **1.539.525** |
| **Total (A + B + C + D)** | **6.932** | **420.830** | **3.853.619** | **1.892.994** | **407.746** | **12.204** | **4.689** | **—** | **6.599.014** |

The Mediobanca Group uses models developed internally in the process of managing credit risk to assign ratings to each counterparty (corporate customers). The models' different rating scales are mapped against a single Group master scale consisting of six different rating classes based on the underlying probability of default (PD) attributable to the S&P master scale.

## 1.1a CREDIT RISK – CONCENTRATION RISK

### QUALITATIVE INFORMATION

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

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

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

The Bank's concentrations of risk are managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to a single client (or group of connected clients) other than the Parent as at 30 June 2023 was € 295 million (June 2022: € 268 million) before taking account of collateral or other credit enhancements and € 51 million (June 2022: € 34 million) net of such protection.

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

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

In accordance with EU Regulation n. 575/2013 of the European Parliament and of the Council of 26 June 2013 (as amended from time to time), the Bank's exposures to a client or group of connected clients shall be considered a large exposure where the amount is greater than or equal to the lower of the two following amounts: 10% of Tier 1 or € 12,5 million for risks taken on "clients" other than institutions (CSSF Circular 14/593). The CSSF has granted a total exemption for the exposures towards the Parent Bank in the calculation of large exposure limits, in accordance with article 20 point 2 of CSSF Regulation 18-03.

## QUANTITATIVE INFORMATION

### *B.1 Cash and off-balance sheet exposures to customers: breakdown by sector (in € k)*

| | Governments and Central Banks | Other Public agencies | Financial companies | Insurances | Non-financial undertakings | Other entities | Total |
|---|---|---|---|---|---|---|---|
| **A. Cash exposures** | | | | | | | |
| A.1 Non-performing | | | | | | | |
| Gross exposure | — | — | — | — | 4.689 | — | 4.689 |
| Value adjustments to gross exposure | — | — | — | — | — | — | — |
| Value adjustments to portfolio | — | — | — | — | — | — | — |
| Net exposure | — | — | — | — | 4.689 | — | 4.689 |
| A.2 Other exposures | | | | | | | |
| Gross exposure | — | — | 980.306 | 113.846 | 2.268.050 | — | 3.248.356 |
| Value adjustments to gross exposure | — | — | — | — | — | — | — |
| Value adjustments to portfolio | — | — | -1.102 | -115 | -3.419 | — | -4.521 |
| Net exposure | — | — | 979.204 | 113.731 | 2.264.631 | — | 3.243.835 |
| Total A | | | | | | | |
| Gross exposure | — | — | 980.306 | 113.846 | 2.272.739 | — | 3.253.045 |
| Value adjustments to gross exposure | — | — | — | — | — | — | — |
| Value adjustments to portfolio | — | — | -1.102 | -115 | -3.419 | — | -4.521 |
| Net exposure | — | — | 979.204 | 113.731 | 2.269.320 | — | 3.248.524 |
| **B. Off-balance sheet exposures** | | | | | | | |
| B.1 Non-performing | | | | | | | |
| Gross exposure | — | — | — | — | — | — | — |
| Value adjustments to gross exposure | — | — | — | — | — | — | — |
| Value adjustments to portfolio | — | — | — | — | — | — | — |
| Net exposure | — | — | — | — | — | — | — |
| B.2 Other exposures | | | | | | | |
| Gross exposure | — | — | 197.126 | 4.664 | 1.308.436 | — | 1.505.562 |
| Value adjustments to gross exposure | — | — | — | — | — | — | — |
| Value adjustments to portfolio | — | — | -113 | -2 | -725 | — | -838 |
| Net exposure | — | — | 197.013 | 4.662 | 1.307.711 | — | 1.504.724 |
| Total B | | | | | | | |
| Gross exposure | — | — | 197.126 | 4.664 | 1.308.436 | — | 1.505.562 |
| Value adjustments to gross exposure | — | — | — | — | — | — | — |
| Value adjustments to portfolio | — | — | -113 | -2 | -725 | — | -838 |
| Net exposure | — | — | 197.013 | 4.662 | 1.307.711 | — | 1.504.724 |
| **Total 30/06/2023** | | | | | | | |
| Gross exposure | — | — | 1.177.432 | 118.510 | 3.581.175 | — | 4.758.607 |
| Value adjustments to gross exposure | — | — | — | — | — | — | — |
| Value adjustments to portfolio | — | — | -1.215 | -117 | -4.144 | — | -5.359 |
| Net exposure | — | — | 1.176.217 | 118.393 | 3.577.031 | — | 4.753.248 |
| **Net exposure 30/06/2022** | **96.702** | **—** | **1.218.498** | **—** | **5.132.873** | **—** | **6.448.073** |

## *B.2 Cash and off-balance sheet exposures to customers: breakdown by geography (in € k)*

| Exposure/geographical areas | Luxembourg | | Other European countries | | America | | Asia | | Oceania | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Gross exposure | Net exposure | Gross exposure | Net exposure | Gross exposure | Net exposure | Gross exposure | Net exposure | Gross exposure | Net exposure |
| A) Cash exposures | | | | | | | | | | |
| A.1 Non-performing | — | — | — | — | — | — | — | — | — | — |
| A.2 Unlikely to pay | — | — | — | — | — | — | 4.689 | 4.689 | — | — |
| A.3 Impaired past due | — | — | — | — | — | — | — | — | — | — |
| A.4 Not impaired past due | — | — | — | — | — | — | — | — | — | — |
| A.5 Performing | 549.161 | 548.565 | 1.507.539 | 1.505.029 | 1.139.748 | 1.138.365 | 55.678 | 55.645 | 752 | 752 |
| Total A | 549.161 | 548.565 | 1.507.539 | 1.505.029 | 1.139.748 | 1.138.365 | 60.367 | 60.334 | 752 | 752 |
| B) Off-balance-sheet exposures | | | | | | | | | | |
| B.1 Non-performing | — | — | — | — | — | — | — | — | — | — |
| B.2 Performing | 26.242 | 26.230 | 1.366.205 | 1.365.485 | 147.078 | 146.972 | — | — | — | — |
| Total B | 26.242 | 26.230 | 1.366.205 | 1.365.485 | 147.078 | 146.972 | — | — | — | — |
| **Total 30/06/2023** | **575.403** | **574.795** | **2.873.744** | **2.870.515** | **1.286.825** | **1.285.337** | **60.367** | **60.334** | **752** | **752** |
| **Total 30/06/2022** | **895.349** | **894.235** | **3.822.987** | **3.818.031** | **1.584.241** | **1.580.925** | **154.941** | **154.881** | **—** | **—** |

## *B.3 Cash and off-balance sheet exposures to credit institutions: breakdown by geography (in € k)*

| Exposure/geographical areas | Luxembourg | | Other European countries | | America | | Asia | | Oceania | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Gross exposure | Net exposure | Gross exposure | Net exposure | Gross exposure | Net exposure | Gross exposure | Net exposure | Gross exposure | Net exposure |
| A) Cash exposures | | | | | | | | | | |
| A.1 Non-performing | — | — | — | — | — | — | — | — | — | — |
| A.2 Unlikely to pay | — | — | — | — | — | — | — | — | — | — |
| A.3 Impaired past due | — | — | — | — | — | — | — | — | — | — |
| A.4 Not impaired past due | — | — | — | — | — | — | — | — | — | — |
| A.5 Performing | 9.343 | 9.343 | 2.231.269 | 2.230.336 | — | — | — | — | — | — |
| Total A | 9.343 | 9.343 | 2.231.269 | 2.230.336 | — | — | — | — | — | — |
| B) Off-balance-sheet exposures | | | | | | | | | | |
| B.1 Non-performing | — | — | — | — | — | — | — | — | — | — |
| B.2 Performing | — | — | — | — | — | — | — | — | — | — |
| Total B | — | — | — | — | — | — | — | — | — | — |
| **Total 30/06/2023** | **9.343** | **9.343** | **2.231.269** | **2.230.336** | **—** | **—** | **—** | **—** | **—** | **—** |
| **Total 30/06/2022** | **322.117** | **322.117** | **2.622.281** | **2.621.077** | **—** | **—** | **—** | **—** | **—** | **—** |

Section 2

## 1.2 MARKET RISK

### 1.2.1 Interest rate risk of Banking book

QUALITATIVE INFORMATION

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

The Bank monitors and controls interest rate risk through interest margin sensitivity and value sensitivity economic (EVE). The sensitivity of the interest margin quantifies the impact on current profits of instantaneous shocks of the interest rate curve. In this analysis, the balance sheet stocks are kept constant by renewing the items maturing with others having identical financial characteristics considering a time horizon of 12 months.

The sensitivity of the economic value, on the other hand, measures the impact on the discounted cash flows in the worst scenario among those envisaged by the guidelines of the Basel Committee (BCBS).

According to CSSF Regulation 15-02, the Bank performs a *"test de résistance, en matière de risque de taux d'intérêt"* implementing systems to identify, evaluate and manage the risk arising from potential changes in interest rates that affect its non-trading activities. The CSSF determines in particular to which extent the interest rate risk after a parallel shift up or down by 200 basis points of the yield curve is likely to exceed 20% of their own funds or 15% of their TIER1 capital after change in EVE deriving from the application of 6 additional EBA scenarios. According to CSSF Circular 12/552 (as amended), the Institution, when implementing the CSSF Regulation 15-02, shall comply with the guidelines published by the European Banking Authority.

A maturity-dependent post-shock interest rate floor is applied for each currency starting with -100 basis points for immediate maturities. This floor increase by 5 basis points per year, eventually reaching 0% for maturities of 20 years and more. However, if observed rates are lower than the current lower reference rate of -100 basis points, institutions should apply the lower observed rate.

Risk management regularly monitors the sensitivity of the EVE to different shifts of the yield curves related to currencies. For this calculation, the Bank do not include credit risk spreads.

The sensitivity resulting from a parallel shift (+/-200 bps) at 30$^{th}$ June 2023 remains within CSSF threshold and is shown below:

- +200bps: €-0,5m;
- -200bps: €1,1m;

In addition, the impact of the six EBA stressed scenarios on EVE is regularly performed by Risk Management with the aim of verifying the coherence with the defined managerial limits and CSSF limits. The scenarios considered are: parallel up/down, steepener, flattener, short rates down and short rates up. At 30$^{th}$ June 2023 the worst impact is achieved in the steepener scenario at €-0.7m, resulting within both regulatory and managerial thresholds.

The sensitivity of economic value to one basis point change over the preset time horizons is also regularly monitored and limits have been set.

The sensitivity of the Net Interest Income (NII) to parallel shifts in the interest rate curves is also carried out periodically as well in the six scenarios of the EBA. At 30th June 2023 the worst impact achieved is related to the Short Down and is equal to € -10.3m which remains within the internal limit defined. According to new EBA guidelines (EBA/GL/2022/14) the change in the NII in the parallel shock should be limited at 5% of the Tier 1 Capital. Considering that the impact in the parallel up/down is € 6.69m/€ -6.75m respectively, the Bank results also in line with the new guidelines.

The above metrics are summarized in the monthly ALM report which points out the mismatching of the statement of financial position in terms of maturity and rate re-fixing. Based on reporting evidences, the management of the Bank – in coordination with the treasury department of the Parent Bank – decides on possible remedial measures (if needed) concerning the "mix" of funding (notes, overdraft on current account, time deposits, loans, etc.) in order to obtain a better matching with the lending.

### 1.2.2 Market risks relating to the Trading Book

The market risk of the Bank's trading portfolio is essentially limited, as all new trading book positions/products that originate market risks (i.e. structured bonds, financial instruments designated at FVO) are simultaneously offset via derivatives put in place with Parent company.

Starting from the second part of the current fiscal year, in coordination with the Parent's central units and leveraging on the Group reporting tool, the Bank launched a feasibility study to implement a dedicated reporting of managerial P&L sensitivity, with breakdown by managerial portfolio /instrument.

At reporting date, the Bank has a preliminary static analysis which will be strengthened during the next fiscal year via the *P&L sensitivity*, meaning the analysis through *delta sensitivity* which represents the positive or negative change in the value of financial assets and derivatives providing a static representation of the risk of the trading portfolio.

*Fair value hedge*

Hedges are intended to neutralize possible losses that may be incurred on a given asset or liability, due to the volatility of a certain financial risk factor (interest rate, exchange rate, credit or some other risk parameter), through the gains that may be realized on a hedge instrument which allow the changes in fair value to be offset. The Bank uses fair value hedges to neutralize the financial risk on interest rates by bringing the entire interest-bearing exposure in line with Euribor/Libor and new RFRs.

It is principally the fixed rate, zero coupon and structured financial instruments that are fair value hedged. During the year there were no significant changes in the bank's objectives, policies and processes for managing interest rate risks.

QUANTITATIVE INFORMATION

*C.1a Regulatory trading book: breakdown by outstanding maturity (repricing date) of cash assets and liabilities and financial derivative products as at 30 June 2023 (in € k).*

| Type/Residual duration | On demand | Up to 3 months | From 3 to 6 months | From 6 months to 1 year | From 1 year to 5 years | From 5 years to 10 years | Over 10 years | Not specified |
|---|---|---|---|---|---|---|---|---|
| 1. Cash assets | | | | | | | | |
| 1.1 Debt securities | — | — | — | — | — | — | — | — |
| – with early redemption option | — | — | — | — | — | — | — | — |
| – other | — | — | — | — | — | — | — | — |
| 1.2 Loans to Banks | — | — | — | — | — | — | — | — |
| 1.3 Loans to customers | — | — | — | — | — | — | — | — |
| **Total cash assets at 30/06/2023** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| 2. Cash liabilities | | | | | | | | |
| 2.1 Amounts due to Banks | — | — | — | — | — | — | — | — |
| 2.2 Amounts due to customers | — | — | — | — | — | — | — | — |
| 2.3 Debt securities in issue | — | — | — | — | — | — | — | — |
| **Total cash liabilities at 30/06/2023** | — | — | — | — | — | — | — | — |
| **3. Financial derivatives** | | | | | | | | |
| 3.1 With underlying securities | | | | | | | | |
| – Options | | | | | | | | |
| + Long positions | — | — | — | — | — | — | — | — |
| + Short positions | — | — | — | — | — | — | — | — |
| – Others | | | | | | | | |
| + Long positions | — | — | — | — | — | — | — | — |
| + Short positions | — | — | — | — | — | — | — | — |
| 3.2 Without underlying securities | | | | | | | | |
| – Options | | | | | | | | |
| + Long positions | — | — | — | — | — | — | — | — |
| + Short positions | — | — | — | — | — | — | — | — |
| – Others | | | | | | | | |
| + Long positions | — | 1.596.349 | 373.655 | — | 53.789 | — | — | — |
| + Short positions | — | 1.910.704 | 59.300 | — | 53.789 | — | — | — |

*C.1b Regulatory trading book: breakdown by outstanding maturity (repricing date) of cash assets and liabilities and financial derivative products as at 30 June 2022 (in € k)*

| Type/Residual duration | On demand | Up to 3 months | From 3 to 6 months | From 6 months to 1 year | From 1 year to 5 years | From 5 years to 10 years | Over 10 years | Not specified |
|---|---|---|---|---|---|---|---|---|
| 1. Cash assets | | | | | | | | |
| 1.1 Debt securities | — | — | — | — | — | — | — | — |
| – with early redemption option | — | — | — | — | — | — | — | — |
| – other | — | — | — | — | — | — | — | — |
| 1.2 Loans to Banks | — | — | — | — | — | — | — | — |
| 1.3 Loans to customers | — | — | — | — | — | — | — | — |
| **Total cash assets at 30/06/2022** | — | — | — | — | — | — | — | — |
| 2. Cash liabilities | | | | | | | | |
| 2.1 Amounts due to Banks | — | — | — | — | — | — | — | — |
| 2.2 Amounts due to customers | — | — | — | — | — | — | — | — |
| 2.3 Debt securities in issue | — | — | — | — | — | — | — | — |
| **Total cash liabilities at 30/06/2022** | — | — | — | — | — | — | — | — |
| **3. Financial derivatives** | | | | | | | | |
| 3.1 With underlying securities | | | | | | | | |
| – Options | | | | | | | | |
| + Long positions | — | — | — | — | — | — | — | — |
| + Short positions | — | — | — | — | — | — | — | — |
| – Others | | | | | | | | |
| + Long positions | — | — | — | — | — | — | — | — |
| + Short positions | — | — | — | — | — | — | — | — |
| 3.2 Without underlying securities | | | | | | | | |
| – Options | | | | | | | | |
| + Long positions | — | — | — | — | — | — | — | — |
| + Short positions | — | — | — | — | — | — | — | — |
| – Others | | | | | | | | |
| + Long positions | — | 507.010 | 28.105 | — | 507.140 | 200.000 | — | — |
| + Short positions | — | 507.010 | 28.105 | — | 507.140 | 200.000 | — | — |

*C.2a Regulatory banking book: breakdown by outstanding maturity (repricing date) of cash assets and liabilities and financial derivative products as at 30 June 2023 (in € k).*

| **Type/Residual duration** | **On demand** | **Up to 3 months** | **From 3 to 6 months** | **From 6 months to 1 year** | **From 1 year to 5 years** | **From 5 years to 10 years** | **Over 10 years** | **Not specified** |
|---|---|---|---|---|---|---|---|---|
| 1. Cash assets | | | | | | | | |
| 1.1 Debt securities | — | 451 | — | — | 444 | — | — | — |
| – with early redemption option | — | — | — | — | — | — | — | — |
| – other | — | 451 | — | — | 444 | — | — | — |
| 1.2 Loans to Banks | 148.982 | 1.607.678 | 246.772 | 4.878 | — | — | — | — |
| 1.3 Loans to customers | — | 3.061.363 | 174.854 | — | 19.343 | — | | — |
| **Total cash assets at 30/06/2023** | **148.982** | **4.669.492** | **421.626** | **4.878** | **19.787** | **—** | **—** | **—** |
| 2. Cash liabilities | | | | | | | | |
| 2.1 Amounts due to customers | — | 1.003 | — | 1.224 | — | — | — | — |
| 2.2 Amounts due to Banks | 4.575 | 1.765.905 | 332.646 | — | — | — | — | — |
| 2.3 Debt securities in issue | — | 2.044.638 | 277.824 | 353.015 | 151.334 | — | 2.074 | — |
| **Total cash liabilities at 30/06/2023** | **4.575** | **3.811.546** | **610.470** | **354.239** | **151.334** | **—** | **2.074** | **—** |
| **3. Financial derivatives** | | | | | | | | |
| 3.1 With underlying securities | | | | | | | | |
| – Options | | | | | | | | |
| + Long positions | — | — | — | — | — | — | — | — |
| + Short positions | — | — | — | — | — | — | — | — |
| – Others | | | | | | | | |
| + Long positions | — | — | — | — | — | — | — | — |
| + Short positions | — | — | — | — | — | — | — | — |
| 3.2 Without underlying securities | | | | | | | | |
| – Options | | | | | | | | |
| + Long positions | — | 20.000 | 733.413 | 209.023 | 400.000 | — | — | — |
| + Short positions | — | 20.000 | 733.413 | 209.023 | 400.000 | — | — | — |
| – Others | | | | | | | | |
| + Long positions | — | 52.561 | 5.000 | 337.405 | — | — | — | — |
| + Short positions | — | 393.801 | — | 1.165 | — | — | — | — |
| **4. Other off-balance sheet** | | | | | | | | |
| + Long positions | — | 526.664 | 32.276 | — | 942.460 | 5.000 | — | — |
| + Short positions | — | 526.664 | 32.276 | — | 942.460 | 5.000 | — | — |

*C.2b Regulatory banking book: breakdown by outstanding maturity (repricing date) of cash assets and liabilities and financial derivative products as at 30 June 2022 (in € k)*

| Type/Residual duration | On demand | Up to 3 months | From 3 to 6 months | From 6 months to 1 year | From 1 year to 5 years | From 5 years to 10 years | Over 10 years | Not specified |
|---|---|---|---|---|---|---|---|---|
| 1. Cash assets | | | | | | | | |
| 1.1 Debt securities | — | 10.029 | — | — | 139 | 28 | — | — |
| – with early redemption option | — | — | — | — | — | — | — | — |
| – other | — | 10.029 | — | — | 139 | 28 | — | — |
| 1.2 Loans to Banks | 608.060 | 1.667.750 | 145.256 | — | — | — | — | — |
| 1.3 Loans to customers | 91.250 | 3.429.377 | 240.874 | 151.206 | 19.542 | 9.783 | | — |
| **Total cash assets at 30/06/2022** | **699.310** | **5.107.156** | **386.130** | **151.206** | **19.681** | **9.811** | **—** | **—** |
| 2. Cash liabilities | | | | | | | | |
| 2.1 Amounts due to customers | — | 11.001 | — | 1.406 | — | — | — | — |
| 2.2 Amounts due to Banks | 116.615 | 3.260.305 | 530.249 | — | — | — | — | — |
| 2.3 Debt securities in issue | — | 2.128.149 | 145.352 | 502.507 | 54.337 | — | 3 | — |
| **Total cash liabilities at 30/06/2022** | **116.615** | **5.399.455** | **675.601** | **503.913** | **54.337** | **—** | **3** | **—** |
| **3. Financial derivatives** | | | | | | | | |
| 3.1 With underlying securities | | | | | | | | |
| – Options | | | | | | | | |
| + Long positions | — | — | — | — | — | — | — | — |
| + Short positions | — | — | — | — | — | — | — | — |
| – Others | | | | | | | | |
| + Long positions | — | — | — | — | — | — | — | — |
| + Short positions | — | — | — | — | — | — | — | — |
| 3.2 Without underlying securities | | | | | | | | |
| – Options | | | | | | | | |
| + Long positions | — | — | — | 43.000 | 500.000 | 300.000 | — | — |
| + Short positions | — | — | — | 43.000 | 500.000 | 300.000 | — | — |
| – Others | | | | | | | | |
| + Long positions | — | 5.500 | 5.000 | 503.567 | — | — | — | — |
| + Short positions | — | 514.067 | — | — | — | — | — | — |
| **4. Other off-balance sheet** | | | | | | | | |
| + Long positions | — | 596.057 | 2.503 | 223.499 | 874.837 | 40.861 | — | — |
| + Short positions | — | 596.057 | 2.503 | 223.499 | 874.837 | 40.861 | — | — |

### 1.2.2 Exchange rate risk

QUALITATIVE INFORMATION

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

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

As at 30 June 2023, the Bank has not registered any forex capital allowance.

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

QUANTITATIVE INFORMATION

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

| Line items | Currency | | | | |
|---|---|---|---|---|---|
| | **US dollars** | **Pounds sterling** | **Swiss francs** | **Zloty** | **Other** |
| A. Assets | | | | | |
| A.1 Debt securities | — | — | — | — | — |
| A.2 Equities | — | — | — | — | — |
| A.3 Loans and advances to Banks | 117.200 | 31.520 | 4.366 | 224 | 743 |
| A.4 Loans and advances to customers | 1.137.015 | 428.793 | 64.625 | — | 7.374 |
| A.5 Other financial assets | 3.882 | 546 | 8 | — | — |
| B. Financial liabilities | | | | | |
| B.1 Due to Banks | -793.446 | -256.364 | — | — | — |
| B.2 Due to customers | — | — | — | — | — |
| B.3 Debt securities | -454.886 | -14.454 | — | — | — |
| B.4 Other financial liabilities | -776 | -2.614 | -17 | — | -24 |
| C. Financial Derivatives | | | | | |
| - Options | | | | | |
| + long positions | 2.296 | 320 | — | — | — |
| + short positions | -705 | -316 | — | — | — |
| - Other | | | | | |
| + long positions | 27.948 | 5.177 | — | — | 23 |
| + short positions | -32.130 | -188.112 | -66.698 | — | -6.013 |
| Total assets 30/06/2023 | 1.288.341 | 466.356 | 68.999 | 224 | 8.140 |
| Total liabilities 30/06/2023 | -1.281.943 | -461.860 | -66.715 | — | -6.037 |
| **Difference (+/-) 30/06/2023** | **6.398** | **4.496** | **2.284** | **224** | **2.103** |
| Total assets 30/06/2022 | 2.225.938 | 451.227 | 324.764 | 29.216 | 9.284 |
| Total liabilities 30/06/2022 | -2.231.075 | -451.184 | -323.308 | -28.453 | -7.143 |
| **Difference (+/-) 30/06/2022** | **-5.137** | **43** | **1.456** | **763** | **2.141** |

### 1.2.3 Derivative contracts

QUALITATIVE INFORMATION

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

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

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

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

QUANTITATIVE INFORMATION

FINANCIAL DERIVATIVES

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

| Type of transactions | 30/06/2023 | | 30/06/2022 | |
|---|---|---|---|---|
| | **Over-the-counter** | **Listed** | **Over-the-counter** | **Listed** |
| 1. Debt securities and interest rates | 3.180.286 | — | 1.706.976 | — |
| a) Options | 1.538.259 | — | 843.000 | — |
| b) Swap | 1.642.027 | — | 863.976 | — |
| c) Forward | — | — | — | — |
| d) Futures | — | — | — | — |
| e) Others | — | — | — | — |
| 2. Equities and share indexes | 18.729 | — | 33.564 | — |
| a) Options | 7.680 | — | 16.782 | — |
| b) Swap | — | — | — | — |
| c) Forward | — | — | — | — |
| d) Futures | — | — | — | — |
| e) Others | 11.049 | — | 16.782 | — |
| 3. Exchange rates and Gold | 263.466 | — | 301.337 | — |
| a) Options | — | — | — | — |
| b) Swap | 263.466 | — | 213.945 | — |
| c) Forward | — | — | 87.392 | — |
| d) Futures | — | — | — | — |
| e) Others | — | — | — | — |
| 4. Commodities | 339.894 | — | 254.906 | — |
| 5. Other assets | — | — | — | — |
| **Total** | **3.802.375** | — | **2.296.783** | — |

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

| Type of transactions | 30/06/2023 | | 30/06/2022 | |
|---|---|---|---|---|
| | **Over-the-counter** | **Listed** | **Over-the-counter** | **Listed** |
| 1. Debt securities and interest rates | 346.109 | — | 503.567 | — |
| a) Options | — | — | — | — |
| b) Swap | 346.109 | — | 503.567 | — |
| c) Forward | — | — | — | — |
| d) Futures | — | — | — | — |
| e) Others | — | — | — | — |
| 2. Equities and share indexes | — | — | — | — |
| a) Options | — | — | — | — |
| b) Swap | — | — | — | — |
| c) Forward | — | — | — | — |
| d) Futures | — | — | — | — |
| e) Others | — | — | — | — |
| 3. Exchange rates and Gold | — | — | — | — |
| a) Options | — | — | — | — |
| b) Swap | — | — | — | — |
| c) Forward | — | — | — | — |
| d) Futures | — | — | — | — |
| e) Others | — | — | — | — |
| 4. Commodities | — | — | — | — |
| 5. Other assets | — | — | — | — |
| **Total** | **346.109** | **—** | **503.567** | **—** |

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

| **Type of transactions** | **Positive fair value** | | | |
|---|---|---|---|---|
| | **30/06/2023** | | **30/06/2022** | |
| | **Over-the-counter** | **Listed** | **Over-the-counter** | **Listed** |
| A. Regulatory trading book | 30.157 | — | 53.989 | — |
| a) Options | 9.420 | — | 17.826 | — |
| b) Interest Rate Swap | 5.063 | — | 4.068 | — |
| c) Cross Currency Swap | 2.468 | — | 3.642 | — |
| d) Equity Swap | — | — | — | — |
| e) Forward | 13.206 | — | 28.453 | — |
| f) Futures | — | — | — | — |
| g) Others | — | — | — | — |
| B. Banking book: Hedge derivatives | — | — | 2.425 | — |
| a) Options | — | — | — | — |
| b) Interest Rate Swap | | — | 2.425 | — |
| c) Cross Currency Swap | — | — | — | — |
| d) Equity Swap | — | — | — | — |
| e) Forward | — | — | — | — |
| f) Futures | — | — | — | — |
| g) Others | — | — | — | — |
| C. Banking book: Others derivatives | — | — | — | — |
| a) Options | — | — | — | — |
| b) Interest Rate Swap | — | — | — | — |
| c) Cross Currency Swap | — | — | — | — |
| d) Equity Swap | — | — | — | — |
| e) Forward | — | — | — | — |
| f) Futures | — | — | — | — |
| g) Others | — | — | — | — |
| **Total** | **30.157** | **—** | **56.414** | **—** |

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

| Type of transactions | Negative fair value | | | |
|---|---|---|---|---|
| | 30/06/2023 | | 30/06/2022 | |
| | Over-the-counter | Listed | Over-the-counter | Listed |
| A. Regulatory trading book | -31.524 | — | -57.814 | — |
| a) Options | -3.965 | — | -2.387 | — |
| b) Interest Rate Swap | -5.175 | — | -4.505 | — |
| c) Cross Currency Swap | -1.349 | — | -6.494 | — |
| d) Equity Swap | — | — | — | — |
| e) Forward | -13.206 | — | -29.104 | — |
| f) Futures | — | — | — | — |
| g) Others | -7.829 | — | -15.324 | — |
| B. Banking book: Hedge derivatives | -2.737 | — | — | — |
| a) Options | — | — | — | — |
| b) Interest Rate Swap | -2.737 | — | — | — |
| c) Cross Currency Swap | — | — | — | — |
| d) Equity Swap | — | — | — | — |
| e) Forward | — | — | — | — |
| f) Futures | — | — | — | — |
| g) Others | — | — | — | — |
| C. Banking book: Others derivatives | — | — | — | — |
| a) Options | — | — | — | — |
| b) Interest Rate Swap | — | — | — | — |
| c) Cross Currency Swap | — | — | — | — |
| d) Equity Swap | — | — | — | — |
| e) Forward | — | — | — | — |
| f) Futures | — | — | — | — |
| g) Others | — | — | — | — |
| **Total** | **-34.261** | **—** | **-57.814** | **—** |

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

| Contracts not forming part of netting arrangements | 30/06/2023 | | | | | | | 30/06/2022 |
|---|---|---|---|---|---|---|---|---|
| | Governments and central Bank | Other public agencies | Banks | Financial companies | Insurances | Non-Financial companies | Other counterparties | |
| 1. Debt securities and interest rates | | | | | | | | |
| - notional value | — | — | — | — | — | — | — | — |
| - positive fair value | — | — | — | — | — | — | — | — |
| - negative fair value | — | — | — | — | — | — | — | — |
| - future exposure | — | — | — | — | — | — | — | — |
| 2. Equities and share indexes | | | | | | | | |
| - notional value | — | — | — | — | — | — | — | — |
| - positive fair value | — | — | — | — | — | — | — | — |
| - negative fair value | — | — | — | — | — | — | — | — |
| - future exposure | — | — | — | — | — | — | — | — |
| 3. Exchange rates and Gold | | | — | — | | | | — |
| - notional value | — | — | — | — | — | — | — | — |
| - positive fair value | — | — | — | — | — | — | — | — |
| - negative fair value | — | — | — | — | — | — | — | — |
| - future exposure | — | — | — | — | — | — | — | — |
| 4. Other assets | | | — | — | | | | |
| - notional value | — | — | — | — | — | — | — | — |
| - positive fair value | — | — | — | — | — | — | — | — |
| - negative fair value | — | — | — | — | — | — | — | — |
| - future exposure | — | — | — | — | — | — | — | — |

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

| Contracts forming part of netting arrangements | 30/06/2023 | | | | | | | 30/06/2022 |
|---|---|---|---|---|---|---|---|---|
| | Governments and central Bank | Other public agencies | Banks | Financial companies | Insurances | Non-Financial companies | Other counterparties | |
| 1. Debt securities and interest rates | | | | | | | | |
| - notional value | — | — | 3.080.286 | 100.000 | — | — | — | 1.706.976 |
| - positive fair value | — | — | 6.669 | — | — | — | — | 4.339 |
| - negative fair value | — | — | 9.034 | 107 | — | — | — | 4.660 |
| 2. Equities and share indexes | | | | | | | | |
| - notional value | — | — | 18.729 | — | — | — | — | 33.564 |
| - positive fair value | — | — | 7.814 | — | — | — | — | 17.555 |
| - negative fair value | — | — | 7.829 | — | — | — | — | 17.556 |
| 3. Exchange rates and Gold | | | | | | | | — |
| - notional value | — | — | 263.466 | — | — | — | — | 301.337 |
| - positive fair value | — | — | 2.468 | — | — | — | — | 3.642 |
| - negative fair value | — | — | 1.349 | — | — | — | — | 7.145 |
| 4. Other assets | | | | | | | | — |
| - notional value | — | — | 339.894 | — | — | — | — | 254.906 |
| - positive fair value | — | — | 13.206 | — | — | — | — | 28.453 |
| - negative fair value | — | — | 13.205 | — | — | — | — | 28.453 |

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

| Contracts not forming part of netting arrangements | 30/06/2023 | | | | | | | 30/06/2022 |
|---|---|---|---|---|---|---|---|---|
| | Governments and central Bank | Other public agencies | Banks | Financial companies | Insurances | Non-Financial companies | Other counterparties | |
| 1. Debt securities and interest rates | | | | | | | | |
| - notional value | — | — | — | — | — | — | — | — |
| - positive fair value | — | — | — | — | — | — | — | — |
| - negative fair value | — | — | — | — | — | — | — | — |
| - future exposure | — | — | — | — | — | — | — | — |
| 2. Equities and share indexes | | | | | | | | |
| - notional value | — | — | — | — | — | — | — | — |
| - positive fair value | — | — | — | — | — | — | — | — |
| - negative fair value | — | — | — | — | — | — | — | — |
| - future exposure | — | — | — | — | — | — | — | — |
| 3. Exchange rates and Gold | | | | | | | | |
| - notional value | — | — | — | — | — | — | — | — |
| - positive fair value | — | — | — | — | — | — | — | — |
| - negative fair value | — | — | — | — | — | — | — | — |
| - future exposure | — | — | — | — | — | — | — | — |
| 4. Other assets | | | | | | | | |
| - notional value | — | — | — | — | — | — | — | — |
| - positive fair value | — | — | — | — | — | — | — | — |
| - negative fair value | — | — | — | — | — | — | — | — |
| - future exposure | — | — | — | — | — | — | — | — |

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

| Contracts forming part of netting arrangements | 30/06/2023 | | | | | | | 30/06/2022 |
|---|---|---|---|---|---|---|---|---|
| | Governments and central Bank | Other public agencies | Banks | Financial companies | Insurances | Non-Financial companies | Other counterparties | |
| 1. Debt securities and interest rates | | | | | | | | |
| - notional value | — | — | 346.109 | — | — | — | — | 503.567 |
| - positive fair value | — | — | — | — | — | — | — | 2.425 |
| - negative fair value | — | — | 2.737 | — | — | — | — | — |
| 2. Equities and share indexes | | | | | | | | |
| - notional value | — | — | — | — | — | — | — | — |
| - positive fair value | — | — | — | — | — | — | — | — |
| - negative fair value | — | — | — | — | — | — | — | — |
| 3. Exchange rates and Gold | | | | | | | | |
| - notional value | — | — | — | — | — | — | — | — |
| - positive fair value | — | — | — | — | — | — | — | — |
| - negative fair value | — | — | — | — | — | — | — | — |
| 4. Other assets | | | | | | | | |
| - notional value | — | — | — | — | — | — | — | — |
| - positive fair value | — | — | — | — | — | — | — | — |
| - negative fair value | — | — | — | — | — | — | — | — |

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

| Underlying/Residual maturity | Up to 1 year | From 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|
| 1. Financial derivatives on debt securities and interest rates | 2.121.716 | 740.925 | 317.645 | 3.180.286 |
| 2. Financial derivatives on equities and share indexes | 8.929 | 9.800 | — | 18.729 |
| 3. Financial derivatives on foreign currencies and gold | 118.991 | 144.475 | | 263.466 |
| 4. Financial derivatives on commodities | 280.087 | 59.807 | | 339.894 |
| 5. Other financial derivatives | — | — | — | — |
| **Total at 30/06/2023** | **2.529.723** | **955.007** | **317.645** | **3.802.375** |
| **Total at 30/06/2022** | **329.170** | **1.467.613** | **500.000** | **2.296.783** |

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

| Underlying/Residual maturity | Up to 1 year | From 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|
| 1. Financial derivatives on debt securities and interest rates | 337.405 | 8.704 | — | 346.109 |
| 2. Financial derivatives on equities and share indexes | — | — | — | — |
| 3. Financial derivatives on foreign currencies and gold | — | — | — | — |
| 4. Financial derivatives on commodities | — | — | — | — |
| 5. Other financial derivatives | — | — | — | — |
| **Total at 30/06/2023** | **337.405** | **8.704** | — | **346.109** |
| **Total at 30/06/2022** | **150.602** | **352.965** | — | **503.567** |

## CREDIT DERIVATIVES

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

| Transaction categories | Regulatory trading book | | Other transactions | |
|---|---|---|---|---|
| | Individual assets | Baskets | Individual assets | Baskets |
| 1. Protection purchase | | | | |
| a) Credit default | 1.414.170 | — | — | — |
| b) Credit spread products | — | — | — | — |
| c) Total rate of return swap | — | — | — | — |
| d) Others | — | — | — | — |
| **Total at 30/06/2023** | **1.414.170** | **—** | **—** | **—** |
| **Total at 30/06/2022** | **1.521.408** | **—** | **—** | **—** |
| 2. Protection sale | | | | |
| a) Credit default | 1.359.225 | — | — | — |
| b) Credit spread products | — | — | — | — |
| c) Total rate of return swap | — | — | — | — |
| d) Others | — | — | — | — |
| **Total at 30/06/2023** | **1.359.225** | **—** | **—** | **—** |
| **Total at 30/06/2022** | **1.450.579** | **—** | **—** | **—** |

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

| Transaction categories | Fair Value | |
|---|---|---|
| | 30/06/2023 | 30/06/2022 |
| 1. Positive fair value | | |
| a) Credit default | 35.413 | 54.808 |
| b) Credit spread products | — | — |
| c) Total rate of return swap | — | — |
| d) Others | — | — |
| **Total** | **35.413** | **54.808** |
| 2. Negative fair value | | |
| a) Credit default | -28.598 | -44.271 |
| b) Credit spread products | — | — |
| c) Total rate of return swap | — | — |
| d) Others | — | — |
| **Total** | **-28.598** | **-44.271** |

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

| | 30/06/2023 | | | | 30/06/2022 |
|---|---|---|---|---|---|
| | Central counterparts | Banks | Other financial companies | Other counterparties | |
| OTC contracts not covered by clearing agreements | | | | | |
| 1. Protection purchase | | | | | |
| - notional value | — | 1.343.341 | 70.829 | — | 1.521.408 |
| - positive fair value | — | 6.355 | 5.349 | — | 29.991 |
| - negative fair value | — | 12.884 | — | — | 22.432 |
| 2. Protection sale | | | | | |
| - notional value | — | 1.359.225 | — | — | 1.450.579 |
| - positive fair value | — | 23.709 | — | — | 24.817 |
| - negative fair value | — | 15.714 | — | — | 21.839 |
| agreements | | | | | |
| 1. Protection purchase | | | | | |
| - notional value | — | — | — | — | — |
| - positive fair value | — | — | — | — | — |
| - negative fair value | — | — | — | — | — |
| 2. Protection sale | | | | | |
| - notional value | — | — | — | — | — |
| - positive fair value | — | — | — | — | — |
| - negative fair value | — | — | — | — | — |

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

| Transaction categories | Up to 1 year | From 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|
| 1. Regulatory trading book | | | | |
| a) Protection purchase | 791.378 | 564.963 | 57.829 | 1.414.170 |
| b) Protection sale | 791.378 | 552.963 | 14.884 | 1.359.225 |
| **Total at 30/06/2023** | **1.582.756** | **1.117.926** | **72.713** | **2.773.395** |
| **Total at 30/06/2022** | **—** | **2.901.158** | **70.829** | **2.971.987** |

## <u>ACCOUNTING HEDGE</u>

### *F.5 Financial hedging derivatives: gross positive and negative fair values by product (in € k)*

| | Positive and negative fair value | | | | | | | | Change in value used to relieve hedging ineffectiveness | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 30/06/2023 | | | | 30/06/2022 | | | | 30/06/2023 | 30/06/2022 |
| | Over the counter | | | Established markets | Over the counter | | | Established markets | | |
| | With Central Counterparts | Without Central Counterparties | | | With Central Counterparts | Without Central Counterparties | | | | |
| | | *With Clearing arrangement* | *Without Clearing arrangement* | | | *With Clearing arrangement* | *Without Clearing arrangement* | | | |
| 1. Positive Fair Value | | | | | | | | | | |
| a) Options | — | — | — | — | — | — | — | — | — | — |
| b) Interest rate swap | — | — | — | — | — | 2.425 | — | — | — | 1.902 |
| c) Cross currency swap | — | — | — | — | — | — | — | — | — | — |
| d) Forward | — | — | — | — | — | — | — | — | — | — |
| e) Futures | — | — | — | — | — | — | — | — | — | — |
| h) Others | — | — | — | — | — | — | — | — | — | — |
| **Total** | **—** | **—** | **—** | **—** | **—** | **2.425** | **—** | **—** | **—** | **1.902** |
| 2. Negative Fair Value | | | | | | | | | | |
| a) Options | — | — | — | — | — | — | — | — | — | — |
| b) Interest rate swap | — | 2.737 | — | — | — | — | — | — | 1.854 | — |
| c) Cross currency swap | — | — | — | — | — | — | — | — | — | — |
| d) Forward | — | — | — | — | — | — | — | — | — | — |
| e) Futures | — | — | — | — | — | — | — | — | — | — |
| h) Others | — | — | — | — | — | — | — | — | — | — |
| **Total** | **—** | **2.737** | **—** | **—** | **—** | **—** | **—** | **—** | **1.854** | **—** |

### *F.6 Fair value hedges (in € k)*

| | Specific hedges: book value | Specific hedges - net positions: balance sheet value of assets or liabilities (before offsetting) | Specific Hedges | | | Generic hedges: Book value |
|---|---|---|---|---|---|---|
| | | | Accumulated changes in fair value of the hedged instrument | Ending of hedge: residual accumulated changes in fair value | Changes in value used to calculate the hedge ineffectiveness | |
| **A. Assets** | | | | | | |
| **1. Financial assets measured at fair value through other comprehensive income - hedges of:** | - | - | - | - | - | - |
| 1.1 Debt securities and interest rate | - | - | - | - | - | x |
| 1.2 Equity securities and stock price indexes | - | - | - | - | - | x |
| 1.3 Currencies and gold | - | - | - | - | - | x |
| 1.4 Credits | - | - | - | - | - | x |
| 1.5 Other | - | - | - | - | - | x |
| **2. Financial assets measured at amortized cost - hedges of:** | - | - | - | - | - | - |
| 2.1 Debt securities and interest rate | - | - | - | - | - | x |
| 2.2 Equity securities and stock price indexes | - | - | - | - | - | x |
| 2.3 Currencies and gold | - | - | - | - | - | x |
| 2.4 Credits | - | - | - | - | - | x |
| 2.5 Other | - | - | - | - | - | x |
| Total 30/06/2023 | - | - | - | - | - | - |
| Total 30/06/2022 | - | - | - | - | - | - |
| **B. Liabilities** | | | | | | |
| **1. Financial Liabilities measured at amortized cost - hedges of:** | **342.628** | - | **-5.096** | - | **1.854** | - |
| 1.1 Debt securities and interest rate | 342.628 | - | -5.096 | - | 1.854 | x |
| 1.2 Currencies and gold | - | - | - | - | - | x |
| 1.3 Other | - | - | - | - | - | x |
| Total 30/06/2023 | **342.628** | - | **-5.096** | - | **1.854** | - |
| Total 30/06/2022 | **504.295** | - | **1.892** | - | **1.902** | - |

## 1.3 LIQUIDITY RISK

### QUALITATIVE INFORMATION

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

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

- Management of short-term liquidity with the purpose of managing events which might impact the bank's liquidity position (up to 30 days) and preserving in this way the Bank's ability to fulfill its ordinary and/or extraordinary payment obligations while minimizing the related funding costs. The Institution regularly monitors the Liquidity Coverage Ratio (hereinafter also referred to as "LCR") and the Additional Liquidity Monitoring Metrics (ALMM);
- Management of long-term liquidity focusing on events which might impair the bank's liquidity position beyond 1-year time horizon, with the primary goal of maintaining an adequate and efficient ratio between medium/long term liabilities and assets. The institution uses regulatory liquidity metrics, namely the Net Stable Funding Ratio (hereinafter also referred to as "NSFR") which became mandatory at 30.06.2021 with a minimum requirement of 100% (according to Regulation (UE) 2019/876 or "CRR2").

The goal of the institution is to keep maintaining a level of liquidity that enables the payment of commitments undertaken, being it ordinary or extraordinary. In this regard, the Group has adopted a specific approach for the short-term and long-term managerial metrics which foresees the settlement of the cash flows in two analysis scenarios, namely the "Standard" and the "Stressed" scenarios. Potential stress scenario includes: stress on market-wide factors, consisting of the combined occurrence of political, macroeconomic and other extraordinary events that have a negative impact on market conditions, reduction in cash inflow due to default flows scenario and drawdown in credit lines granted to customers; idiosyncratic factors referring to specific stress events and a combination of both. The liquidity risk tolerance thresholds are defined as the maximum exposure to risk deemed sustainable by the management in the normal course of business, as well as "stress situations". The bank is going to implement tailored stressed scenarios (market, idiosyncratic and combined) at individual level in line with the Group framework.

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

Throughout the observation period, Mediobanca International's liquidity indicators amounted to 164,9% (compared with 132,9% at 30 June 2022) for the LCR and to 106,7% (compared with 107,4% at 30 June 2022) for the NSFR. The two ratios have been calculated using a methodology which is consistent with the Group internal regulations.

Contingency Funding Plan

The Group treasury department acts as lender of last resort for the Group legal entities, including Mediobanca International (Luxembourg) S.A., guarantees their solvency both in the short and the medium/long term, and is responsible to activate the Contingency Funding Plan (‘CFP’) aimed at safeguarding the continuity of ordinary operations during a liquidity crisis. Even though the Bank is included in the Group CFP, in addition to the risk management and governance guidelines for the normal course of business, the Bank has adopted a Contingency Funding Plan at individual level that includes guidelines and processes to be followed in the event of liquidity emergency conditions. On this extent, the Bank is responsible for activating its local Contingency Funding Plan (CFP).

The Bank CFP governs the following processes: the definition of liquidity tension situations, the alarm system and identification of operating scenario, the procedure for monitoring risk indicators and reporting flows, roles and responsibilities of the company units, communication and testing procedures and prompt actions to be taken in order to resolve the emergency situations as well the regular revision of the framework.

The Bank, through the Risk Management and Treasury, measures and monitors the value of the specific warning indicators in order to detect any exceeding of the defined thresholds and to predict the occurrence of a potential alarm situation in case the emergency persists for a certain period deemed critical. No emergency situation it has been verified along the year.

## QUANTITATIVE INFORMATION

### *G.1 Financial assets and liabilities by outstanding life as at 30 June 2023 (in € k)*

| Type | On demand | From 1 days to 7 days | From 7 days to 15 days | From 15 days to 1 month | From 1 month to 3 months | From 3 months to 6 months | From 6 months to 1 year | From 1 year to 5 years | Over 5 years | Unlimited |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cash assets** | **372.604** | **19.034** | **105.092** | **455.898** | **700.617** | **420.747** | **330.066** | **2.974.918** | **291.255** | **6.926** |
| A.1 Government securities | — | — | — | — | — | — | — | — | — | — |
| A.2 Listed debt securities | — | — | — | — | — | — | — | — | 71.509 | — |
| A.3 Other debt securities | — | — | — | — | — | — | — | — | — | — |
| A.4 OICR units | — | — | — | — | — | — | — | — | — | — |
| A.5 Loans and advances | 372.604 | 19.034 | 105.092 | 455.898 | 700.617 | 420.747 | 330.066 | 2.974.918 | 219.746 | 6.926 |
| – to Banks | 372.604 | 224 | — | 245.430 | 563.524 | 255.582 | 22.515 | 800.000 | — | 6.926 |
| – to customers | — | 18.810 | 105.092 | 210.468 | 137.093 | 165.165 | 307.551 | 2.174.918 | 219.746 | — |
| **Cash liabilities** | **4.575** | **260.503** | **—** | **236.869** | **309.664** | **768.650** | **721.013** | **2.746.935** | **65.000** | **—** |
| B.1 Deposits | 4.575 | — | — | — | — | — | — | — | — | — |
| – to banks | 4.575 | — | — | — | — | — | — | — | — | — |
| – to customers | — | — | — | — | — | — | — | — | — | — |
| B.2 Debt securities | — | — | — | 208.812 | 298.121 | 698.041 | 395.752 | 1.351.478 | — | — |
| B.3 Other liabilities | — | 260.503 | — | 28.057 | 11.543 | 70.609 | 325.261 | 1.395.457 | 65.000 | — |
| **Off-balance-sheet transactions** | | | | | | | | | | |
| C.1 Financial derivatives with exchange of principal | | | | | | | | | | |
| – long positions | — | — | — | — | 992 | — | — | 4.660 | — | — |
| – short positions | — | — | — | — | 118.991 | — | — | 139.815 | — | — |
| C.2 Financial derivatives without exch. of principal | | | | | | | | | | |
| – long positions | 1.545.623 | — | 23 | 153 | 426 | 456 | 17.347 | — | — | — |
| – short positions | 1.542.764 | — | 34 | 210 | 6.737 | 6.815 | 8.024 | — | — | — |
| C.3 Irrevocable commitments to disburse funds | | | | | | | | | | |
| – long positions | — | — | — | — | — | — | — | — | — | — |
| – short positions | — | — | — | — | — | — | — | — | — | — |
| C.4 Financial guarantees issued | — | — | — | — | — | — | — | — | — | — |
| C.5 Credit derivatives with exchange of principal | | | | | | | | | | |
| – long positions | — | — | — | — | — | — | 1.200 | 1.000 | 85.713 | — |
| – short positions | — | — | — | — | — | — | 1.200 | 14.000 | 72.713 | — |
| C.6 Credit derivatives without exchange of principal | | | | | | | | | | |
| – long positions | 615.393 | — | — | — | — | — | — | — | — | — |
| – short positions | 613.634 | — | — | — | — | — | — | — | — | — |

## *G.2 Financial assets and liabilities by outstanding life as at 30 June 2022 (in € k)*

| Type | On demand | From 1 days to 7 days | From 7 days to 15 days | From 15 days to 1 month | From 1 month to 3 months | From 3 months to 6 months | From 6 months to 1 year | From 1 year to 5 years | Over 5 years | Unlimited |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cash assets** | **678.094** | **12.676** | **174.906** | **190.675** | **884.705** | **324.159** | **299.478** | **3.453.339** | **254.505** | **7.947** |
| A.1 Government securities | — | — | — | — | — | — | — | — | — | — |
| A.2 Listed debt securities | — | — | — | — | 9 | 9 | 10.019 | — | — | — |
| A.3 Other debt securities | — | — | — | — | — | — | — | — | — | — |
| A.4 OICR units | — | — | — | — | — | — | — | — | — | — |
| A.5 Loans and advances | 678.094 | 12.676 | 174.906 | 190.675 | 884.696 | 324.150 | 289.459 | 3.453.339 | 254.505 | 7.947 |
| – to Banks | 608.076 | 210 | 22.128 | 45.015 | 643.955 | 146.825 | 153.857 | 800.000 | — | 7.947 |
| – to customers | 70.018 | 12.466 | 152.778 | 145.660 | 240.741 | 177.325 | 135.602 | 2.653.339 | 254.505 | — |
| **Cash liabilities** | **66.615** | **1.207** | **87.076** | **70.751** | **560.438** | **507.728** | **771.872** | **3.350.620** | **365.000** | **—** |
| B.1 Deposits | 16.460 | — | — | — | — | — | — | — | — | — |
| – to banks | 16.460 | — | — | — | — | — | — | — | — | — |
| – to customers | — | — | — | — | — | — | — | — | — | — |
| B.2 Debt securities | — | — | 57.988 | 45.010 | 432.757 | 97.644 | 170.649 | 1.260.537 | 300.000 | — |
| B.3 Other liabilities | 50.155 | 1.207 | 29.088 | 25.741 | 127.681 | 410.084 | 601.223 | 2.090.083 | 65.000 | — |
| **Off-balance-sheet transactions** | | | | | | | | | | |
| C.1 Financial derivatives with exchange of principal | | | | | | | | | | |
| – long positions | — | — | — | 1.100 | — | 100.402 | — | — | — | — |
| – short positions | — | — | 28.131 | 1.027 | 107.352 | 110.738 | — | 58.261 | — | — |
| C.2 Financial derivatives without exch. of principal | | | | | | | | | | |
| – long positions | 897.179 | — | — | — | 14 | 35 | 15.230 | — | — | — |
| – short positions | 787.689 | — | — | — | 3.151 | 4.239 | 9.274 | — | — | — |
| C.3 Irrevocable commitments to disburse funds | | | | | | | | | | |
| – long positions | — | — | — | — | 205.000 | — | — | — | — | — |
| – short positions | — | — | — | — | — | — | — | — | — | — |
| C.4 Financial guarantees issued | — | — | — | — | — | — | — | — | — | — |
| C.5 Credit derivatives with exchange of principal | | | | | | | | | | |
| – long positions | — | — | — | — | — | — | — | 1.200 | 50.729 | — |
| – short positions | — | — | — | — | — | — | — | 1.200 | 70.829 | — |
| C.6 Credit derivatives without exchange of principal | | | | | | | | | | |
| – long positions | 421.963 | — | — | — | — | — | — | — | — | — |
| – short positions | 475.559 | — | — | — | — | — | — | — | — | — |

## 1.4 OPERATIONAL RISK

QUALITATIVE INFORMATION

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

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

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

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

In addition, the Group has constantly strengthened its security strategy in order to guarantee the confidentiality, integrity and availability of information and data. It has adopted a system of principles and rules aimed at identifying and measuring the IT and Cyber risk to which company assets are exposed, assessing the existing security measures and controls, identifying the proper risk response (risk treatment in line with the operational risks management process). Security activities and IT risk analyses are continuously performed in order to guarantee adequate organizational and technological security measures and controls, on the whole Group’s perimeter.

As at 30 June 2023 and 2022, the Bank does not face any litigation risk.

## 1.5 OTHER RISKS

QUALITATIVE INFORMATION

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

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

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

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

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

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

Capital adequacy is assessed considering the balance between the assumed risk, both Pillar I and Pillar II, and the available capital. The internal economic capital measurements and the resulting Risk-Taking Capacity showed an adequate capitalization at 30 June 2022. In detail, the Bank reported an amount of € 508,3 million of available own funds, which was above the internal capital estimates in the ordinary scenario (€ 329,6 million) leaving a capital surplus of € 178 million.

The ICAAP process for the exercise ended 30 June 2023 is currently being implemented.

**ESG and Climate Risk**

The Mediobanca Group has always placed great importance on environmental issues and is strongly committed to playing an active role in the ecological transition process. The Group is member of the Net-Zero Banking Alliance (NZBA), the initiative promoted by the United Nations, with the objective of accelerating the sustainable transition of the international banking sector. The NZBA brings together a global alliance of over 130 banks that are committed to aligning their lending and investment portfolios with net-zero emissions by 2050. Climate neutrality has again been achieved in 2022 through the Group offsetting its remaining $CO_2$ emissions.

In light of a rapidly changing regulatory scenario with the European Union adopting an ambitious package of measures to encourage flows of capital towards sustainable activities throughout the EU, the Group has launched a programme for integration of ESG risks, disclosure and financial sustainability of products and of adaptation to the European taxonomy. The ESG Programme is a roadmap of progressive adaptation of the Group to the new regulations in the ESG area, in which three main strands have been identified:

– Proprietary, which is focused on the process of adaptation to the following regulations: ECB Guide on climate related and environmental risk, and EBA Guidelines on Loan Origination and Monitoring and on integrating ESG criteria into the credit governance, investment processes and into business strategy;

– Clients and Markets, which refers chiefly to transposition of Regulation (EU) 2019/2088 (the "Sustainable Finance Disclosure Regulation", or "SFDR";

– Non-Financial Disclosure, focused on application of the European taxonomy (Regulation (EU) No. 2020/852), as part of the reporting obligations introduced in connection with the Consolidated Non-Financial Statement (for which the regulatory framework is still in the process of being completed).

As part of the 2023-2026 "One Brand - One Culture" Strategic Plan, the Group has renewed its commitment in relation to Climate and Environmental issues, setting the goal of supporting customers in ESG transition strategies with ad hoc advisory activities and allocate capital with an ESG focus. The new strategic plan contains specific targets relating to environmental issues. The intention to achieve carbon neutrality by 2050 is confirmed, with an approximately 35% reduction in financed emissions intensity, this based on GHG emissions for CIB loan by 2030 (-18% by 2026).

The commitments are consistent with the Group's Sustainability and ESG Policies, in place as well at Bank level, which transpose detailed sectoral guidelines by introducing restrictions on operators with a negative impact on the climate. The achievement of the strategic objectives is also guaranteed by the implementation of new metrics in the Group's Risk Appetite Framework, aimed at promoting responsible business activities, while maintaining a low profile in terms of exposure to climate risk.

Greenhouse gas emission reduction targets were also formalized for counterparties operating in the sectors identified by the NZBA, which confirms the Group's willingness to be an active part in the "green" transition, after signing the Principles for Responsible Banking (PRB), promoted by the United Nations Environment Program Finance Initiative (UNEP FI), a section of the UN Environment Program dedicated to financial institutions.

# PART G – CAPITAL MANAGEMENT

## Section 1

### Regulatory and supervisory capital requirements

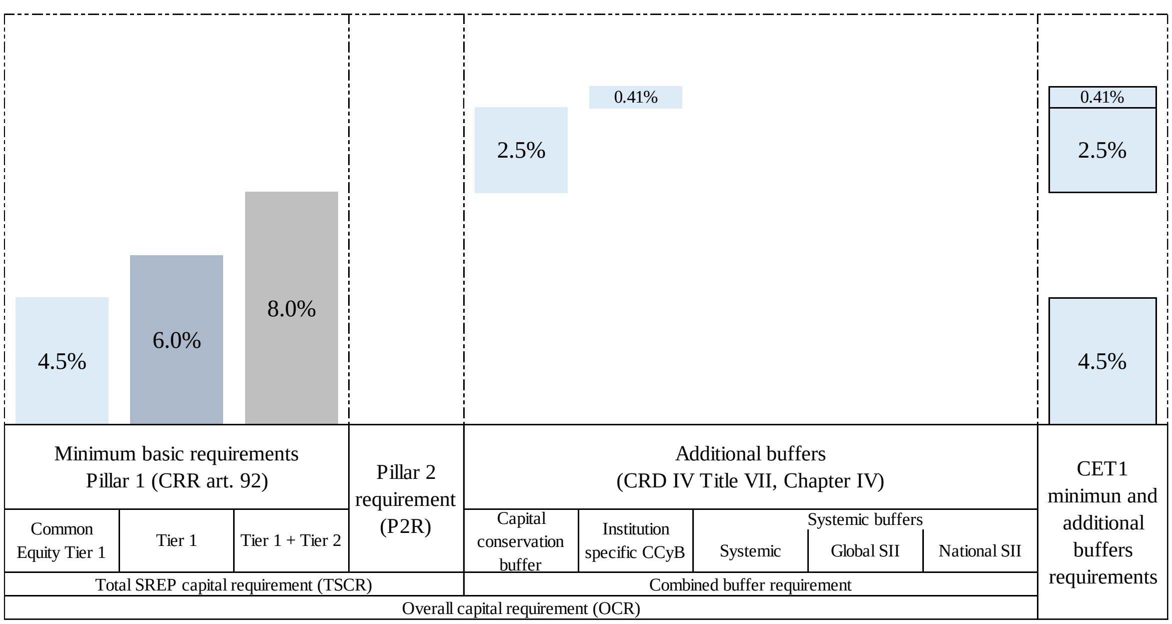
Capital is the first and most important safeguard of a bank's stability. For this reason, the international and domestic supervisory bodies have established rigorous rules for calculating regulatory capital and the minimum capital requirements with which banks are bound to comply.

Since its inception, one of the distinguishing features of the Italian Banking Group Mediobanca has been the solidity of its financial structure, with capital ratios that have been consistently and significantly higher than those required by the regulatory guidelines, as shown by the comfortable margin emerging from the Internal Capital Adequacy Assessment Process (ICAAP) and the process performed by the regulator as part of the supervisory review and evaluation process (SREP).

The Bank maintains locally an actively managed capital base to cover risks inherent to its business. The adequacy of the capital has been monitored on the basis of the reference EU Regulation (i.e. EU Regulation n. 2021/558 - Amendment of Regulation (EU) No 575/2013 – CRR and EU Directive n. 36/2013 – CRD IV as amended from time to time) and in conjunction with CSSF Regulation n. 18-03 about the implementation of certain discretions contained in Regulation (EU) n. 575/2013.

The governing Council of the European Central Bank (ECB), having regard to EU Council Regulation n. 1024/2013 conferring specific tasks on the ECB concerning the prudential supervision of credit institution, has adopted on 25 November 2019 a formal decision on the prudential requirements that the Bank shall at all-time satisfy. This decision has been established on the basis of the harmonised SREP developed by the ECB which implements Guidelines EBA/GL/2014/13 of the European Banking Authority (EBA), with a view to ensuring consistency across the institutions supervised by the ECB.

Based on the above, the institution must always comply with the minimum basic requirement set forth in art. 92 of the CRR Regulation, and with the minimum combined buffer requirement specified in Chapter 4 of Title VII of the CRD IV Directive. Considering the absence of pillar 2 requirement (P2R) and of pillar 2 guidance (P2G), the minimum capital requirement imposed at June 2023 to the Bank can be summarized as follows:



### Section 2

## Capital adequacy – quantitative information

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

The structure of capital is made up of:

- a Tier 2 subordinated loan for €65m with a maturity of 10 years, issued during the financial year ended 30 June 2019 with the Parent Bank as the sole counterparty;
- an additional Tier 1 (AT1 instrument), equals to €100m, has been issued by the Bank during the first semester of the FY20-21; the AT1, fully paid up by Mediobanca Spa, is qualified as instrument to enhance the Tier 1 ratio of the Bank.

It is worth mentioning that, during the Board meeting held in July 2023, board members were asked to consider the proposal to pay-out up to 100% of the current year profit in the form of the dividend to the Parent Company, after evaluation of the impacts on the capital ratios as part of the self-assessment process required by the recommendation of the ECB on dividend distribution policies.

In this scenario, **Total Own Funds (TOF)** item at reporting date is assumed net of any foreseeable charge or dividend, according to art. 26 of the CRR; without considering net profit for the current fiscal year, this means TOF equal to €501,6m.

*2.1 Total own funds: breakdown (in € k)*

| | **30/06/2023** | **30/06/2022** |
|---|---|---|
| A. Common Equity Tier 1 (CET1) before application of the prudential filters | 337.033 | 343.010 |
| a.1 Share capital | 10.000 | 10.000 |
| a.2 Share premium reserve | — | — |
| a.3 Reserves | 327.316 | 326.043 |
| a.4 Equity instruments | — | — |
| a.5 Treasury shares | — | — |
| a.6 Valuation reserves | -282 | — |
| a.7 Net profit (loss) for the period | — | 6.967 |
| B. CET1 prudential filters (+/-) | -1.081 | -1.027 |
| C. Items to be deducted from CET1 | — | — |
| D. Phase-in regime impact on CET1 (+/-) | 670 | 1.340 |
| **E. Total Common Equity Tier 1 (CET1)** | **336.622** | **343.322** |
| F. Additional Tier 1 (AT1) instruments | 100.000 | 100.000 |
| G. Items to be deducted from AT1 | — | — |
| H. Phase-in regime impact on AT1 (+/-) | — | — |
| **I. Total Additional Tier 1 (AT1)** | **100.000** | **100.000** |
| J. Tier 2 (T2) instruments | 65.000 | 65.000 |
| K. Items to be deducted from T2 | — | — |
| L. Phase-in regime impact on T2 (+/-) | — | — |
| **M. Total Tier 2 (T2)** | **65.000** | **65.000** |
| **N. Total own funds (E+I+M)** | **501.622** | **508.322** |

## Capital adequacy ‑ qualitative information

The primary objectives of capital management are to ensure that the Bank complies with the regulatory capital requirements while maintaining healthy capital ratios in order to support its business and to maximize shareholders' value. Capital management is nonetheless under the constant scrutiny of the bank's Board of Directors and management.

The Bank manages its capital structure and makes adjustments to it (when/if needed) in light of changes in the economic conditions and/or in the risk profile of its activities. No significant changes have been made to date in the objectives, policies and processes from the previous years.

At the end of June 2023, taking into account the current capital structure as well as the dividend pay-out scenario mentioned above, the Bank complies with all imposed capital ratios and additional buffers. In detail:

- Common Equity Tier 1 (CET1) capital ratio: 15% (higher than June 2022 at 11%);
- Tier 1 capital ratio: 19,5% (14,2% at June 2022);
- Total capital ratio: 22,4% (16,3% at June 2022).

During the fiscal year, the Leverage Ratio increased from 5,3% (June 2022) to 6,9% (June 2023), well above the regulatory limit of 3%.

| *(in € K)* | **30/06/2023** | **30/06/2022** |
|---|---|---|
| A. Total own funds | | |
| A.1 CET1 capital | 336.622 | 343.322 |
| A.2 T1 capital | 436.622 | 443.322 |
| A.3 Own funds | 501.622 | 508.322 |
| B. Total Risk Weighted Assets (RWA) | 2.238.067 | 3.115.702 |
| B.1 Credit and counterparty risk (standard methodology) | 2.144.564 | 2.976.033 |
| B.2 Credit valuation risk | 2.346 | 3.218 |
| B.3 Settlement risk | — | — |
| B.4 Market risk (standard methodology) | 44.729 | 104.189 |
| B.5 Operational risk (basic indicator approach) | 46.429 | 32.263 |
| B.6 Other | — | — |
| C. Regulatory ratios | | |
| C.1 CET1 capital ratio (CET1 Capital/RWA) | 15,0% | 11,0% |
| C.2 T1 capital ratio (T1 Capital/RWA) | 19,5% | 14,2% |
| C.3 Total capital ratio (own funds/RWA) | 22,4% | 16,3% |

# PART H – RELATED PARTIES' DISCLOSURES

## Related parties' disclosures

Accounts with related parties fall within the ordinary operations of the Bank, are maintained on an arm's length basis and are entered into in the interests of the individual companies concerned. No atypical or unusual transaction with related parties is to be reported for the financial year ended on 30 June 2023. Related parties for the purpose hereof include local strategic management, Parent Bank, entities of the Group and its Directors and executive officers (and any company owned by them).

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

| Assets and liabilities (in € K) | 30/06/2023 | |
|---|---|---|
| | Parent Bank | Other related parties |
| Cash and cash equivalents | 146.393 | — |
| Financial assets valued at FVTPL | 22.225 | — |
| Financial assets valued at amortised cost | 1.864.712 | — |
| Hedging derivatives | — | — |
| Other assets | 718 | — |
| **Total assets** | **2.034.048** | **—** |
| | | |
| Financial liabilities valued at amortised cost | 2.900.713 | 191.816 |
| Financial liabilities valued at FVTPL | 54.222 | — |
| Hedging derivatives | 2.737 | — |
| Tax liabilities | — | — |
| Other liabilities | 9.777 | 307 |
| Provisions for risks and charges | -1.389 | — |
| **Total liabilities and shareholders' equity** | **2.966.060** | **192.123** |

| Comprehensive income (in € K) | 30/06/2023 | |
|---|---|---|
| | Parent Bank | Other related parties |
| Interest and similar income | 31.216 | 196 |
| Interest expenses and similar charges | -140.274 | -3.945 |
| Fee and commission income | 4.350 | 33 |
| Fee and commission expenses | -6.977 | -679 |
| Net trading income (expense) | -7.953 | — |
| Net hedging income (expense) | -5.128 | — |
| Administrative expenses | -1.637 | -1.887 |
| Other income | -941 | 12 |
| **Total comprehensive income** | **-127.344** | **-6.270** |

The tables below show the amounts as at 30 June 2022.

| Assets and liabilities (in € k) | 30/06/2022 | |
|---|---|---|
| | **Parent Bank** | **Other related parties** |
| Cash and cash equivalents | 381.961 | — |
| Financial assets valued at FVTPL | 40.040 | — |
| Financial assets valued at amortised cost | 2.056.966 | 9.987 |
| Hedging derivatives | 2.425 | — |
| Other assets | — | — |
| **Total assets** | **2.481.392** | **9.987** |
| | | |
| Financial liabilities valued at amortised cost | 4.698.777 | 80.060 |
| Financial liabilities valued at FVTPL | 69.383 | — |
| Hedging derivatives | — | — |
| Tax liabilities | — | — |
| Other liabilities | 6.148 | 226 |
| Provisions for risks and charges | -3.056 | 369 |
| **Total liabilities and shareholders' equity** | **4.771.252** | **80.655** |

| Comprehensive income (in € k) | 30/06/2022 | |
|---|---|---|
| | **Parent Bank** | **Other related parties** |
| Interest and similar income | -5.882 | 4 |
| Interest expenses and similar charges | -53.493 | 49 |
| Fee and commission income | 2.639 | 46 |
| Fee and commission expenses | -11.791 | -132 |
| Net trading income (expense) | -47.513 | — |
| Net hedging income (expense) | -23.724 | — |
| Administrative expenses | -2.456 | -1.703 |
| Other income | -860 | 12 |
| **Total comprehensive income** | **-143.080** | **-1.724** |

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

| in € k | **30/06/2023** | **30/06/2022** |
|---|---|---|
| Administrative bodies | 474 | 453 |
| Key management personnel | 503 | 591 |
| **Total** | **977** | **1.044** |

As at 30 June 2023 and 2022, neither advances nor guarantees were granted to Directors or senior management. Remuneration to key management personnel includes salary, benefits and bonus.

# PART I – OTHER INFORMATION

### Audit fees

As at 30 June 2023 expenses incurred in connection with the statutory audit of the accounts and the other related services provided by the external independent auditors of the Bank can be summarized as follows (in €):

| | 30/06/2023 | 30/06/2022 |
|---|---|---|
| Audit fees | 224.044 | 197.400 |
| Audit related fees | 111.820 | 15.750 |
| Other fees | - | - |
| **Total** | **335.869** | **213.150** |

The table above shows the aggregate fees payable and paid to Ernst & Young S.A. in relation to professional services rendered as external auditors equal to €224.0k.

The Bank paid and recorded an amount of €84.5k as professional fees for statutory audit concerning year end 30 June 2022, which had not been accrued during previous fiscal year. As at 30 June 2023, a sum of €154.7k remains unbilled in relation to statutory audit for the same period.

### Staff number

As at 30 June 2023 and 2022, the bank's staff is as follows:

| | 30/06/2023 | 30/06/2022 |
|---|---|---|
| Employees | 19 | 18 |
| a) senior executives | 3 | 3 |
| b) executives | 2 | 2 |
| c) other employees | 14 | 13 |
| Other staff | 1 | — |
| **Total** | **20** | **18** |

Senior management as at June 30$^{th}$ consists of the Chief Executive Officer, the Chief Financial Officer and the Chief Risk Officer.

# PART J - SUBSEQUENT EVENTS

The Bank is not aware of any subsequent events (other than those already reflected in the financial statement), that occurred between 30 June 2023 and the date when the present financial statements were authorised for issue.

# ANNEX I

## RECONCILIATION BETWEEN OFFICIAL AND RESTATED FINANCIAL STATEMENTS

### Executive summary

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

*1.1 Statement of financial position as at 30 June 2023 (in € k)*

| | | Total assets (restated) | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **30/06/2023** | | **Financial assets at FVTPL** | **Treasury Investments** | **Debt securities - banking book** | **Loans and advances** | **Equity Investments** | **Tangible assets** | **Other assets** |
| 10. Cash and cash equivalents | 372.426 | — | 372.426 | — | — | — | — | — |
| 20. Financial assets valued at FVTPL | 144.262 | 131.716 | — | — | 12.546 | — | — | — |
| 40. Financial assets valued at amortised cost | 5.041.606 | — | 1.058.806 | 896 | 3.981.904 | — | — | — |
| 50. Hedging derivatives | — | — | — | — | — | — | — | — |
| 70. Equity investments | 4.150 | — | — | — | — | 4.150 | — | — |
| 90. Property, plant and equipment | 1.215 | — | — | — | — | — | 1.215 | — |
| 110. Tax assets | 1.834 | — | — | — | — | — | — | 1.834 |
| 130. Other assets | 10.896 | — | — | — | — | — | — | 10.896 |
| **Total assets** | **5.576.389** | **131.716** | **1.431.232** | **896** | **3.994.450** | **4.150** | **1.215** | **12.730** |

| | | Total liabilities (restated) | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **30/06/2023** | | **Loans and borrowings** | **Debt securities issued** | **Treasury borrowings** | **Fin. liabilities at FVTPL** | **Other liabilities** | **Prov. for risks and charges** | **Net equity and profit** |
| 10. Financial liabilities valued at amortised cost | 4.972.744 | 2.834.486 | 2.131.602 | 5.432 | — | 1.224 | — | — |
| 20. Financial liabilities valued at FVTPL | 60.124 | — | — | — | 60.124 | — | — | — |
| 30. Financial liabilities designated at fair value | 64.721 | — | 64.721 | — | — | — | — | — |
| 40. Hedging derivatives | 2.737 | — | — | — | — | 2.737 | — | — |
| 60. Tax liabilities | 9.005 | — | — | — | — | 9.005 | — | — |
| 80. Other liabilities | 10.596 | — | — | — | — | 10.596 | — | — |
| 100. Provisions for risks and charges | 839 | — | — | — | — | — | 839 | — |
| 120. Valuation Reserves | -282 | — | — | — | — | — | — | -282 |
| 140. Equity instruments | 100.000 | — | — | — | — | — | — | 100.000 |
| 150. Reserves | 327.316 | — | — | — | — | — | — | 327.316 |
| 170. Share capital | 10.000 | — | — | — | — | — | — | 10.000 |
| 200. Profit (Loss) of the year | 18.589 | — | — | — | — | — | — | 18.589 |
| **Total liabilities and shareholders' equity** | **5.576.389** | **2.834.486** | **2.196.323** | **5.432** | **60.124** | **23.562** | **839** | **455.623** |

## *1.2 Statement of financial position as at 30 June 2022 (in € k)*

| 30/06/2022 | | Total assets (restated) | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | **Financial assets at FVTPL** | **Treasury Investments** | **Debt securities - banking book** | **Loans and advances** | **Equity Investments** | **Tangible assets** | **Other assets** |
| 10. Cash and cash equivalents | 696.131 | — | 696.131 | — | — | — | — | — |
| 20. Financial assets valued at FVTPL | 180.401 | 172.244 | — | — | 8.157 | — | — | — |
| 40. Financial assets valued at amortised cost | 6.503.034 | — | 1.088.377 | 10.196 | 5.404.461 | — | — | — |
| 50. Hedging derivatives | 2.425 | — | — | — | — | — | — | 2.425 |
| 70. Equity investments | 4.150 | — | — | — | — | 4.150 | — | — |
| 90. Property, plant and equipment | 1.401 | — | — | — | — | — | 1.401 | — |
| 110. Tax assets | 3.918 | — | — | — | — | — | — | 3.918 |
| 130. Other assets | 91.026 | — | — | — | — | — | — | 91.026 |
| **Total assets** | **7.482.486** | **172.244** | **1.784.508** | **10.196** | **5.412.618** | **4.150** | **1.401** | **97.369** |

| 30/06/2022 | | Total liabilities (restated) | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | **Loans and borrowings** | **Debt securrities issued** | **Treasury borrowings** | **Fin. liabilities at FVTPL** | **Other liabilities** | **Prov. for risks and charges** | **Net equity and profit** |
| 10. Financial liabilities valued at amortised cost | 6.914.837 | 4.681.581 | 2.210.148 | 16.530 | — | 6.578 | — | — |
| 20. Financial liabilities valued at FVTPL | 102.085 | — | — | — | 102.085 | — | — | — |
| 30. Financial liabilities designated at fair value | 7.591 | — | 7.591 | — | — | — | — | — |
| 40. Hedging derivatives | — | — | — | — | — | — | — | — |
| 60. Tax liabilities | 4.518 | — | — | — | — | 4.518 | — | — |
| 80. Other liabilities | 8.903 | — | — | — | — | 8.903 | — | — |
| 100. Provisions for risks and charges | 1.460 | — | — | — | — | — | 1.460 | — |
| 120. Valuation Reserves | 80 | — | — | — | — | — | — | 80 |
| 140. Equity instruments | 100.000 | — | — | — | — | — | — | 100.000 |
| 150. Reserves | 326.044 | — | — | — | — | — | — | 326.044 |
| 170. Share capital | 10.000 | — | — | — | — | — | — | 10.000 |
| 200. Profit (Loss) of the year | 6.968 | — | — | — | — | — | — | 6.968 |
| **Total liabilities and shareholders' equity** | **7.482.486** | **4.681.581** | **2.217.739** | **16.530** | **102.085** | **19.999** | **1.460** | **443.092** |

## 2.1 *Statement of comprehensive income as at 30 June 2023 (in € k)*

| 30/06/2023 | | Statement of comprehensive income (restated) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | **Net interest income** | **Net trading income** | **Net fee and commission income** | **Wages and salaries** | **Other administrative expenses** | **Loans impairment** | **Provision for other financial assets** | **Fiscal provision** |
| 010. Interests and similar income | 219.316 | 219.316 | — | — | — | — | — | — | — |
| 020. Interest expense and similar charges | -190.794 | -190.794 | — | — | — | — | — | — | — |
| **030. Net interest income** | **28.522** | **28.522** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| 040. Fee and commission income | 17.897 | — | 2.671 | 15.226 | — | — | — | — | — |
| 050. Fee and commission expense | -7.860 | — | -675 | -7.185 | — | — | — | — | — |
| **060. Net fee and commission income** | **10.037** | **—** | **1.996** | **8.041** | **—** | **—** | **—** | **—** | **—** |
| 080. Net trading income (expense) | -8.940 | -3.200 | -5.740 | — | — | — | — | — | — |
| 090. Net hedging income (expense) | 144 | — | 144 | — | — | — | — | — | — |
| 100. Gain or loss on disposal or repurchase of: | 486 | — | 486 | — | — | — | — | — | — |
| 110. Gain or loss on instruments designated at FVTPL | 1.278 | — | 1.278 | — | — | — | — | — | — |
| **120. Total income** | **31.527** | **25.322** | **-1.836** | **8.041** | **—** | **—** | **—** | **—** | **—** |
| 130. Adjustment for impairment to: | 3.651 | — | — | — | — | — | 3.487 | 164 | — |
| **150. Net income from financial operations** | **35.178,4** | **25.322** | **-1.836** | **8.041** | **—** | **—** | **3.487** | **164** | **—** |
| 190. Administrative expenses | -11.415 | — | — | — | -2.742 | -8.672 | — | — | — |
| *a) personnel costs* | -2.742 | — | — | — | *-2.742* | — | — | — | — |
| *b) other administrative expenses* | -8.672 | — | — | — | — | *-8.672* | — | — | — |
| 200. Net provisions for risks and charges | 621 | — | — | — | — | — | 621 | — | — |
| 210. Value adjustments in respect of tangible assets * | -206 | — | — | — | — | -206 | — | — | — |
| 230. Other operating income (expense) ** | 644 | — | — | 894 | — | -250 | — | — | — |
| **290. Profit (loss) of the ordinary activity before tax** | **24.822** | **25.322** | **-1.836** | **8.935** | **-2.742** | **-9.128** | **4.108** | **164** | **—** |
| 300. Income tax on the ordinary activity | -6.234 | — | — | — | — | — | — | — | -6.234 |
| **330. Profit (loss) for the period** | **18.589** | **25.322** | **-1.836** | **8.935** | **-2.742** | **-9.128** | **4.108** | **164** | **-6.234** |
| 340. Other comprehensive income, net of tax | — | — | — | — | — | — | — | — | — |
| **350. Comprehensive income (loss) for the year, net of tax** | **18.589** | **25.322** | **-1.836** | **8.935** | **-2.742** | **-9.128** | **4.108** | **164** | **-6.234** |

(*) € 205k tangible assets amortisation.

(**) € 894k relate to fees and commissions with Parent Bank.

## 2.2 *Statement of comprehensive income as at 30 June 2022 (in € k)*

| 30/06/2022 | | Statement of comprehensive income (restated) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | **Net interest income** | **Net trading income** | **Net fee and commission income** | **Wages and salaries** | **Other administrative expenses** | **Loans impairment** | **Provision for other financial assets** | **Fiscal provision** |
| 010. Interests and similar income | 87.355 | 87.355 | — | — | — | — | — | — | — |
| 020. Interest expense and similar charges | -70.102 | -70.102 | — | — | — | — | — | — | — |
| **030. Net interest income** | **17.253** | **17.253** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| 040. Fee and commission income | 19.001 | — | 2.626 | 16.375 | — | — | — | — | — |
| 050. Fee and commission expense | -12.057 | — | -1.126 | -10.931 | — | — | — | — | — |
| **060. Net fee and commission income** | **6.944** | **—** | **1.500** | **5.444** | **—** | **—** | **—** | **—** | **—** |
| 080. Net trading income (expense) | -4.706 | -2.409 | -2.297 | — | — | — | — | — | — |
| 090. Net hedging income (expense) | 29 | — | 29 | — | — | — | — | — | — |
| 100. Gain or loss on disposal or repurchase of: | 90 | — | 90 | — | — | — | — | — | — |
| 110. Gain or loss on instruments designated at FVTPL | 411 | — | 411 | — | — | — | — | — | — |
| **120. Total income** | **20.021** | **14.844** | **-267** | **5.444** | **—** | **—** | **—** | **—** | **—** |
| 130. Adjustment for impairment to: | 3.999 | — | — | — | — | — | 2.978 | 1.021 | — |
| **150. Net income from financial operations** | **24.020** | **14.844** | **-267** | **5.444** | **—** | **—** | **2.978** | **1.021** | **—** |
| 190. Administrative expenses | -11.992 | — | — | — | -2.405 | -9.587 | — | — | — |
| *a) personnel costs* | -2.405 | — | — | — | *-2.405* | — | — | — | — |
| *b) other administrative expenses* | -9.587 | — | — | — | — | *-9.587* | — | — | — |
| 200. Net provisions for risks and charges | 394 | — | — | — | — | — | 394 | — | — |
| 210. Value adjustments in respect of tangible assets * | -204 | — | — | — | — | -204 | — | — | — |
| 230. Other operating income (expense) ** | -601 | — | — | -532 | — | -69 | — | — | — |
| **290. Profit (loss) of the ordinary activity before tax** | **11.617** | **14.844** | **-267** | **4.912** | **-2.405** | **-9.860** | **3.372** | **1.021** | **—** |
| 300. Income tax on the ordinary activity | -4.649 | — | — | — | — | — | — | — | -4.649 |
| **330. Profit (loss) for the period** | **6.968** | **14.844** | **-267** | **4.912** | **-2.405** | **-9.860** | **3.372** | **1.021** | **-4.649** |
| 340. Other comprehensive income, net of tax | — | — | — | — | — | — | — | — | — |
| **350. Comprehensive income (loss) for the year, net of tax** | **6.968** | **14.844** | **-267** | **4.912** | **-2.405** | **-9.860** | **3.372** | **1.021** | **-4.649** |

(*) € 204k tangible assets amortisation.

(**) € 532k relate to fees and commissions with Parent Bank.

# ANNEX II

## GUIDELINES ON ALTERNATIVE PERFORMANCE MEASURES

### Executive summary

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

### Alternative performance measures

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

- Texas Ratio (cf. p. 15 of the management report) which compares the net book value (i.e. after impairment and/or depreciation) of the exposures reported as non-performing with the tangible common equity (i.e. the subset of shareholders’ equity which is not preferred equity and not intangible assets).

| (in €/K) | | 30/06/2023 | 30/06/2022 |
|---|---|---|---|
| Texas ratio = | Non-Performing Exposures (net book value) | 4.689 | 4.641 |
| | Tangible Common Equity | 355.622 | 343.010 |
| | **ratio %** | **1,3** | **1,4** |

The goal of the Texas ratio is to assess whether the tangible common equity is large enough to stand any possible loan losses on non-performing assets. In the simplest terms, the Texas ratio measures a bank’s likelihood of failure by comparing its bad assets to available capital. When this ratio exceeds 100 percent, a bank’s capital cushion is no longer adequate to absorb potential losses from troubled assets (i.e. greater risk of default). By contrast, a level of the ratio close to zero percent is synonymous with high credit quality and capital strength.

- Return On Equity (ROE, cf. p. 21 of the management report) is the amount of net income returned as a percentage of the shareholders’ equity.

| (in €/k) | | 30/06/2023 | 30/06/2022 |
|---|---|---|---|
| Return on equity = | Net income | 18.589 | 6.967 |
| | Shareholders' equity | 337.033 | 336.043 |
| | **ratio %** | **5,5** | **2,1** |

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

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

- <u>Return On Assets</u> (ROA, cf. p. 22 of the management report) is the amount of net income returned as a percentage of the average total assets.

| (in €/k) | | 30/06/2023 | 30/06/2022 |
|---|---|---|---|
| Return on assets = | Net income | 18.589 | 6.967 |
| | Average Total Assets | 6.681.179 | 7.556.455 |
| | **ratio %** | **0,3** | **0,1** |

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

# ANNEX III

## GLOSSARY

**Executive summary**

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

* * *

**ABS – Asset Backed Security**

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

**ALM – Asset and Liability Management**

Integrated management of assets and liabilities to optimize allocation of resources on a risk/return basis.

**APM – Alternative Performance Measures**

Cf. Annex II – Guidelines on Alternative Performance Measures.

**ASF – Available Stable Funding**

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

**AT1 – Additional Tier 1**

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

**Basel Accords**

Guidelines on capital requirements for banks, compiled by the Basel Committee with a view to establishing standard, harmonized regulation of banking supervision at supranational level. The first accord published by the Basel Committee was in 1988 and introduced a set of minimum capital requirements for banks to reduce credit and market risk deriving from the possibility of assets losing their value excessively.

a) Basel II: The short name given to the document entitled International Convergence of Capital Measurement and Capital Standards signed in Basel in 2004 which came into force in 2008.

b) Basel III: This name refers to the new prudential requirements introduced at European level by the CRD IV/CRR package.

c) Basel IV: New regulatory framework which includes a revision of Basel III provisions and standards; it will enter into force by different stages.

**BRRD Directive - Bank Recovery and Resolution Directive (Directive 2014/59/EU)**

This directive introduces harmonized rules in all EU Countries to prevent and manage crises at credit institutions and investment firms. The BRRD confers to the authorities powers and instruments in order for them to be able to: plan management of the crisis; intervene in good time before the crisis fully occurs; and manage the “resolution” stages in optimal fashion.

**Certificates**

Certificates are financial instruments which in contractual terms are equivalent to derivatives with an option component, and which replicate the performance of an underlying asset. In acquiring a certificate, the investor obtains the right to receive a sum linked to the value of the underlying instrument at a given date.

**CDO - Collateralized Debt Obligation**

CDOs are fixed-income securities which have a portfolio of bonds, loans and other debt instruments as their collateral.

**CLO - Collateralized Loan Obligation**

A particular type of CDO (see definition), in which the collateral is made up by receivables.

**CET1 – Common Equity Tier 1**

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

**CET1 Ratio – Common Equity Tier1 Ratio**

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

**Commercial Paper**

Short-term financing instrument with duration generally of one year or less.

**Contingency Funding Plan**

Set of operating procedures developed internally by a bank in order to manage liquidity crisis (short-term and/or medium-/long- term).

**CoR - Cost of Risk**

Ratio between loan loss provisions and average net volumes of loans to customers.

**COVID-19**

Severe Acute Respiratory Syndrome Coronavirus-2 (SARS-CoV-2) is the name given to the 2019 novel coronavirus. COVID-19 is the name given to the disease associated with the virus. SARS-CoV-2 is a new strain of coronavirus not previously found in human beings. Current evidence suggests that SARSCoV-2 is spread from person to person: directly, indirectly (via contaminated objects or surfaces) and through close contact with infected persons, in the form of oral and nasal secretions (saliva, respiratory secretions or droplets). To halt the spread of the virus, the free circulation of people has been limited, leading to some economic activities being halted, which has in turn led to an unprecedented economic crisis.

**CRDIV**
EU Directive n. 36/2013.

**CRDV**
EU Directive n. 878/2019.

**CRR**
EU Regulation n. 575/2013.
**CRRII**
EU Regulation n. 876/2019.

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

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

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

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

**ESEF - European Single Electronic Format**
This acronym indicates the name of the new harmonized reporting format across the entire EU.

**ESG - Environmental, Social, Governance**
The definition indicates non-financial criteria used to assess and measure the environmental, social and governance impact of corporations. Considering these parameters, it is also possible to rank corporations according to their degree of adaptation to these criteria.

**ESMA – European Security and Markets Authority**

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

**FED – Federal Reserve System**

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

**FINREP - Financial Reporting Standards**

A document issued by the CEBS (Committee of European Banking Supervisors), a body which provides advisory services to the European Commission on banking regulations. The CEBS also promotes co-operation and convergence of regulatory practices within the European Union. In 2011 the EBA (European Banking Authority – see entry) began to define harmonized supervisory reporting schemes with statistical content. FINREP itself came into force in 2014.

**Forborne Exposures**

Forborne exposures are defined as debt contracts in which concessions have been granted to a borrower which is in, or is shortly to find itself in, a situation where it is unable to meet its financial commitments (referred to as “financial difficulties”). This situation may apply to both performing and non-performing contracts.

**GDP – Gross Domestic Product**

The GDP is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.

**HQLA – High Quality Liquid Assets**

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

**IMF – International Monetary Fund**

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

**IAS/IFRS – International Accounting Standards**

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

**IASB – International Accounting Standard Board**

The IASB is the entity responsible for issuing international accounting standards (IAS/IFRS). The Board is composed by a group of independent experts with an appropriate mix of recent practical experience in setting accounting standards, in preparing, auditing, or using financial reports, and in accounting education.

**ICAAP – Internal Capital Adequacy Assessment Process**

Pillar II of the Basel Accords (see definition) requires all intermediaries to put in place a process for ongoing assessment of the adequacy of their internal capital (ICAAP). The process must be formalized, documented and approved by the relevant bodies and submitted to internal review on a regular basis.

**ICC – Impôt Commercial Communal**

Communal business tax levied on the profits of Luxembourg commercial companies.

**IFRIC – International Financial Reporting Interpretations Committee**

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

**IRC - Impôt sur le Revenu des Collectivités**

Corporate income tax levied on gains made by certain Luxembourg corporations (including capital companies) during the financial year.

**Leverage Ratio**

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

**LCR – Liquidity Coverage Ratio**

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

**MREL - Minimum Requirement for own funds and Eligible Liabilities**

MREL is a requirement introduced by the BRRD Directive (see definition), the purpose of which is to ensure that the bail-in mechanism works smoothly by increasing the Bank’s capacity to absorb losses. The MREL indicator is calculated as follows:

(own funds + eligible liabilities) / (total liabilities + own funds)

New regulatory provisions require a MREL ratio of 21.85% on risk-weighted assets (RWAs, see definition) and of 5.91% on the leverage exposure.

**Non-performing**

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

**NSFR – Net Stable Funding Ratio**

The NSFR is defined as the amount of available stable funding (ASF) relative to the amount of required stable funding (RSF). The ASF is defined as the portion of equity and liabilities considered to be reliable over the time horizon considered by the NSFR, i.e. one year. The amount of RSF required for a specific bank depends on its liquidity characteristics and the outstanding maturities of the various on- and off-balance-sheet assets held by it. The ratio must remain at a level of at least 100% on an ongoing basis.

**NWT – Net Wealth Tax**

Public limited company in Luxembourg are subject to a net wealth tax established by assessing the taxable wealth (in other words, net assets as they appear on the balance sheet at the end of a tax period).

**OECD – Organization for the Economic Co-Operation and Development**

The OECD is an intergovernmental economic organisation with 37 member countries, founded in 1961 to stimulate economic progress and world trade (further information https://www.oecd.org/about/).

**P2G – Pillar 2 Guidance**

Additional non-binding capital requirement which might be required by supervisors in order to have sufficient capital as a buffer to withstand stressed situations.

**P2R – Pillar 2 Requirement**

Additional binding capital requirement which might be imposed by the supervisors to cover those risks that are not fully targeted by the capital requirements and buffers dictated by CRR and CRD IV (e.g. unexpected losses, under-provisioned expected losses, deficiencies in risk measurement models, deficiencies in governance and internal controls).

**Payout Ratio**

The payout ratio is the percentage of net profit distributed to shareholders in the form of a dividend. This share depends chiefly on the company’s need to retain earnings in order to finance its own activities and the returns expected by the shareholders on their investment.

**Provisioning (loans)**

This term refers to transfer to provisions made in order to cover the expected credit loss. In particular:

– if at the reporting date there is no significant increase in the financial asset credit risk since its initial recognition, the corresponding provision should be valued for 12-months expected losses;

– if at the reporting date there is a significant increase in the financial asset credit risk since its initial recognition, the corresponding provision should be valued for its lifetime expected losses.

**ROA – Return On Assets**

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

**ROE – Return On Equity**

ROE is a measure of the profitability of a company's own equity, calculated as the amount of net income returned as a percentage of the shareholders' equity.

**RWA – Risk Weighted Assets**

On-balance sheet assets and off-balance sheet assets are classified and weighted by different coefficients referring to risks (following banking rules issued by local Supervisors to calculate solvency ratios) in order to express a more accurate measurement of their value. The riskier the asset is, the higher will be the risk weight assigned.

**RSF – Required Stable Funding**

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

**SPPI – Solely Payments of Principal and Interest**

Test prescribed by the accounting standard IFRS 9 which must be carried out on an instrument by instrument basis to assess whether the contractual terms of a given financial asset (as a whole) give rise to cash flows that are solely payments of principal and interest on the principal amounts outstanding (i.e. cash flows that are consistent with a basic lending arrangement).

**SPV – Special Purpose Vehicle**

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

**SREP - Supervisory Review and Evaluation Process**

Evaluation activity carried out by the supervisors once a year to assess and measure the risks for each bank. In SREP decisions, the supervisory authority can require each bank to hold additional capital and/or set qualitative requisites (known as Pillar II).

**Tier 1**

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

**Tier 2**

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

**TLTROs – Targeted Longer-Term Refinancing Operation**

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

**Total Capital Ratio**

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

**WL Ratio – Watch List Ratio**

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

**ZLB – Zero Lower Bound**

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