# MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.

RCSL n. B112885

Interim Report
for the six months ended 31 December 2020

# MEDIOBANCA INTERNATIONAL (Luxembourg)

SOCIÉTÉ ANONYME

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

Board of Directors meeting
5th February 2021

www.mediobancaint.lu

## BOARD OF DIRECTORS

| | | Term expires | Location |
|---|---|---|---|
| GIOVANNI MANCUSO | CHAIRMAN | 2023 | LUXEMBOURG |
| ALESSANDRO RAGNI | MANAGING DIRECTOR | 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

| | |
|---|---|
| PRICEWATERHOUSECOOPERS S.C. | LUXEMBOURG |

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# MANAGEMENT REPORT

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

## FINANCIAL SITUATION AT 31 DECEMBER 2020
## BOARD OF DIRECTORS' REVIEW OF OPERATIONS

The first six months of the financial year have seen a satisfactory performance on financial markets[1], coupled with weaker growth due to the second wave of the Covid-19 pandemic. The lockdown and social distancing measures imposed as a result weakened the economic momentum that had accumulated at the end of the summer. The spread of the virus had the effect of desynchronizing economic cycles, impacting heavily on the relative performance of the large economic areas. China and the rest of the world are progressing at different speeds, with the former being the main contributor to global trade in 2020; China escaped a second wave of coronavirus infections and is the only major economy that was able to regain pre-crisis GDP levels in 2020, leading the Asian countries into the recovery phase; the European continent, by contrast, has been impacted by the second wave starting from the autumn while the US economy suffered from the pandemic and the gradual reduction in public support to households income throughout the second half of the calendar year.

Within this scenario, growth prospects depend on many factors, including the magnitude, duration and frequency of new COVID-19 outbreaks, the degree to which these can be effectively contained, the time until an effective vaccine can be widely deployed, and the extent to which significant fiscal and monetary policy actions continue to support demand.

A gradual but uneven recovery in the global economy is projected to continue in the next two years following a temporary interruption at the end of the current year. After a decline of 4,25% in 2020, global GDP is projected to pick up by 4,25% in 2021, and a further 3,75% in 2022; by the end of 2021, the level of global output is projected to have returned to that at the end of 2019, although this is not the case in all countries.

Output is set to remain persistently weaker than projected prior to the pandemic, suggesting that the risk of long-lasting costs from the pandemic is high. Such shortfalls are projected to be relatively low in China, Korea, Japan and some Northern European economies, at between 1-2% in 2022.The economic impact of the pandemic and its aftermath has been relatively well contained in many Asia-Pacific and Northern European economies, reflecting effective containment measures, including well-resourced test, track and isolate systems, and familiarity with precautionary measures to protect against risks from transmissible diseases. In contrast, the measures required to control virus outbreaks in other parts of Europe and other emerging-market economies have been prolonged and involved much deeper declines in output.

In the euro area, GDP has declined by 7,5% this year, and near-term prospects are weak. Output is projected to drop by close to 3% in the fourth quarter of 2020, reflecting the recent reintroduction of stringent containment measures in most countries. Provided virus outbreaks can be effectively contained in the near term, and confidence restored, a moderate recovery is projected in 2021-22. However, area-wide pre-pandemic output levels may not be fully regained until after 2022. After sizeable support this year, fiscal policy is set to be broadly neutral in 2021 and mildly restrictive in 2022 despite the modest outlook.

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[1] *Over the period, international financial markets have drawn benefit from the announcement of vaccines against Covid-19, governments' commitment to support economic activity, and renewed pledges by monetary authorities to maintain accommodative financial conditions until such time as inflationary pressure should become robust.*

In Europe, one of the most important developments was the conclusion of the Brexit issue; the agreement, reached at the year-end and applied on a temporary basis, will be ratified by the European Parliament in the first months of 2021. Overall the agreement safeguards some benefits of the pre-existing bilateral trade, mostly related to goods, strongly reduces the exchange of services, and refers financial regulation issues to a Memorandum of Understanding to be finalized by 31 March 2021.

Ratification of the Next Generation EU (NGEU) plan at the start of the half-year, the prospects of government risk sharing at a supranational level via the Support to mitigate Unemployment Risks in an Emergency (SURE) bond issuance programme, and the commitment to continue the process of European Union integration have attracted the interest of investors generally cautious in taking exposures to European risk. The main beneficiaries of this development have been public sector issuers from Southern Europe.

Analyzing the euro area in more detail, in Luxembourg, after a 4.4% contraction in 2020, the economy is projected to expand by a moderate 1.5% in 2021 and by 3.8% in 2022. The introduction of lockdowns in neighboring countries will significantly restrain exports in the fourth quarter of 2020, causing the economy to contract. GDP will start growing again in the first quarter of 2021. The recovery will gather pace in the following quarters on the back of more dynamic external demand and greater confidence of domestic consumers and firms due to a rollout of an effective vaccine. The unemployment rate is expected to peak at the beginning of 2021 at around 7.2% and to decline to 6.2% at the end of 2022.

In Italy, after falling sharply in 2020, GDP is projected to expand by 4.3% in 2021 and 3.2% in 2022. Lockdowns and uncertainty are weighing on activity, although government support has mitigated the effects on firms and households. Substantial job creation, especially for the low-skilled, women and youth, will return only in 2022, when an effective vaccine is expected to have been deployed widely, stimulating consumption, and easing precautionary saving. Investment and exports are expected to recover gradually alongside the manufacturing sector. Supportive fiscal policy is resulting in rising public debt levels, but interest rates are projected to remain low. Higher growth is needed to improve the fiscal position in the medium term.

About Germany, activity is projected to contract by around 5½ per cent in 2020, driven by falling private consumption, business investment and exports. Growth is set to recover slowly to 2.8% in 2021 and 3.3% in 2022. Private consumption and exports initially rebounded rapidly, but demand for services will stay weak into 2021 as virus containment measures have been tightened. Further uncertainty will constrain the recovery of investment as well as demand for capital goods exports before general deployment of a vaccine increases confidence

In United Kingdom GDP is set to contract again in the fourth quarter of 2020 as virus containment measures are implemented. Growth of 4.2% in 2021 and 4.1% in 2022 is projected to be driven by a rebound of consumption, while business investment will remain weak due to spare capacity and continued uncertainty. Increased border costs will weigh on imports and exports from 2021 as the United Kingdom leaves the EU Single Market and is assumed to enter a new, less comprehensive free trade agreement with the European Union.

In United States the economy is recovering following the sharp fall in GDP and dramatic rise in the unemployment rate in the first half of 2020. Real GDP is anticipated to contract by 3.7% in 2020, before rising by 3.2% in 2021 and 3.5% in 2022. The unemployment rate will gradually fall but will remain elevated compared with the pre-pandemic period. This reflects activity in some sectors, such as hospitality and transportation, continuing to be impacted by the pandemic and impediments to cross-sectoral labour reallocation. A general rollout of an effective vaccine in the latter half of 2021 will allow an easing of containment measures and strengthen confidence. Massive monetary and fiscal responses have protected households and businesses but hard to know for how long.

(Source: OECD economic outlook –December 2020)

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During the six months under review the Bank has reported a net loss of €2.0m, down from +0.8m of profit recorded in December 2019. A detailed analysis of the performance registered on the main income and financial items is made further in this report.

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

- European institutions - European Commission, European Council and Parliament - Italian and European Supervisory Authorities - EBA, ESMA, ECB / SSM, Bank of Italy, SRB - and international institutions - IASB, Basel Committee - have adopted a series of measures to support banks in mitigating the economic impact of the COVID-19 pandemic.
- On 26 June 2020, Regulation (EU) 2020/873 amending the CRR and CRR II regulations was published in the Official Journal of the European Union, in order to adapt the prudential regulatory framework to the needs related to the COVID emergency. The Regulation introduces, inter alia, measures to ease the capital requirements applicable from 27 June 2020[2],
- With reference to the Liquidity requirement, the ECB has granted supervised banks the possibility to operate even below 100% Liquidity Coverage Ratio.
- BRRD II: in order to ensure effective and credible application of the bail-in resolution tool to impose losses on banks' creditors in case of a banking crisis, banks are subject to the Minimum Requirement for own funds and Eligible Liabilities (MREL). CSSF notified the Bank about the determination from the Single Resolution Board ('SRB') of the MREL at individual level. In particular, the binding MREL determination is fixed at 4,65% of total liabilities and own funds.
- CRDV/CRR2: the CRDV/CRR2 package is amongst the most important regulatory development for credit institutions operating in the EU in the coming years; these are refinements of reforms that started after the 2008 financial crisis and implement the most recent international regulatory standards for banks and address some regulatory shortcomings to contribute to sustainable bank financing of the economy. CRDV and CRR2 were published in the Official Journal of the European Union and entered into force on June 2019; however, their implementation timeframe is complex and most provisions in CRR2 will only start to apply on June 2021.
- Macroeconomic scenario for the calculation of the ECL (measurement of loans), in line with the guidance provided by the ECB and the Bank of Italy in June, also in view of the substantial uniformity (except for minor changes) of scenarios forecast published by the ECB, despite the EU activity in Q3-2020 was higher than expected; in addition, the adoption of management overlays to include ad hoc corrective measures, not captured by the models - based on bottom-up analyses deriving from the Credit Risk Appetite - to better reflect the particularities of the COVID-19 impacts in the measurement of loans.

[2] Among others, a specific mention is referred to the amendment to the transitional provisions of IFRS 9 which allows banks to sterilize the capital impacts linked to the increase in impairment losses on loans recognized in the period 2020 - 2024 compared to 1 January 2020 with reference to the stage 1 and 2 portfolios.

- Circular CSSF 20/762: update of Circular CSSF 08/338, as amended by Circular CSSF 16/642, on the implementation of a stress test in order to assess the interest rate risk arising from non-trading book activities, following the adoption of the guidelines of the European Banking Authority (EBA) on the management of interest rate risk arising from non-trading book activities (EBA/GL/2018/02).
- Circular CSSF 20/753: Amendment of Circular CSSF 07/301 on the implementation of the Internal Capital and Liquidity Adequacy Assessment Process (ICAAP and ILAAP) and of circular CSSF 11/506 on principles of a sound stress testing programme.
- Securities Financing Transaction Regulation (SFTR): the SFTR aims to reduce the risks arising from securities lending, repurchase and reverse repurchase agreements, and any sell/buy-back transactions involving securities or commodities by setting reporting and recording obligations for securities financing transactions and limitations on the reuse of collateral. SFTR applies to credit institution as from April 2020.

## CORPORATE GOVERNANCE STATEMENT

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

Corporate bodies are the followings:

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

During the six months under review, the mandate of previous Board of Directors of Mediobanca International expired with the approval of the annual financial statements as at 30 June 2020. In this occasion a new Board of Directors was appointed by Shareholders in a General Meeting for the period ending with the approval of the annual accounts as at 30 June 2023 by the Annual General Meeting.

The Board of directors currently in office consists of seven members (four of whom qualify as independent): Giovanni Mancuso (Chairman), Alessandro Ragni (Managing Director), Massimo Amato, Stephane Bosi, Piero Pezzati, Lara Pizzimiglia, 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.

The new key functions appointed are:

- Mr. Giovanni Mancuso as new Chairman of the Board of Directors (previously member of the Board and Chairman of the Audit committee)
- Mr. Alessandro Ragni as new Chief Executive Officer and Authorised manager of the Bank (Managing director and CEO) (previously Chief Risk Officer of the Bank);
- Mrs. Daniela De Salvo as new Chief Risk Officer in replacement of Mr. Alessandro Ragni.

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.

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

The Audit Committee, which shall comprise at least three non-executive Directors appointed by the General Meeting of Shareholders of the bank, is currently composed by: Piero Pezzati (Chairman of the Committee), Giovanni Mancuso and Massimo Amato. The Committee remains in force for the entire duration of the office of the Board of Directors which appointed it.

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: Alessandro Ragni (Managing Director & CEO), Rocco Cosimo Damiano Di Leo (Chief Financial Officer), Daniela De Salvo (Chief Risk Officer) and Antonio Santese (Group representative of the Risk management function).

The Committee remains in force for the entire duration of the office of the Board of Directors which appointed it.

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## RESTATED STATEMENT OF FINANCIAL POSITION

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

| | 31/12/2020 | 30/06/2020 | Chg. |
|---|---|---|---|
| | €m | €m | % |
| Financial assets at FVTPL | 98,4 | 121,3 | -18,9% |
| Treasury investments | 1.337,0 | 1.303,3 | 2,6% |
| Debt securities - banking book | 13,0 | 12,9 | 0,9% |
| Loans and advances | 5.247,8 | 4.912,6 | 6,8% |
| Equity investments | 4,2 | 4,2 | 0,0% |
| Tangible and intangible assets | 0,2 | 0,3 | -34,2% |
| Other assets | 58,6 | 74,1 | -21,0% |
| **Total Assets** | **6.759,1** | **6.428,6** | **5,1%** |
| | | | |
| Loans and borrowings | 3.888,7 | 3.326,0 | 16,9% |
| Debt securities issued | 2.306,9 | 2.265,6 | 1,8% |
| Treasury borrowings | 175,8 | 373,6 | -53,0% |
| Financial liabilities at FVTPL | 44,6 | 118,8 | -62,4% |
| Other liabilities | 11,4 | 12,7 | -10,5% |
| Provisions for risks and charges | 2,9 | 1,1 | 155,9% |
| Net equity | 330,7 | 341,5 | -3,2% |
| Net profit | -2,0 | -10,8 | -81,5% |
| **Total Liabilities** | **6.759,1** | **6.428,6** | **5,1%** |

## ASSETS

Despite the persistence of a difficult market environment, the bank's total exposures remained at elevated levels throughout the semester, reaching at the end of December 2020 the carrying value of €6.7bn (+5,1% compared to June 2020).

The following variations are worth to be noted:

Financial assets at FVTPL – the carrying value of financial assets at fair value through profit or loss (FVTPL) decreased by 18,9%, primarily as a consequence of the mark to market value of the credit derivative contracts negotiated with the Parent Company or embedded in other financial instruments which amounts to €18,1m (€94,5m at the end of June 2020). It is worth mentioning this variation was de facto compensated by an equivalent increase of the financial liabilities valued at fair value through profit or loss (cf. infra).

Treasury investments – this item increased slightly during the first semester of the financial year (+2,6%, from €1.303,3m to € 1.337,0m) mainly as a result of the minor reinvestment of the liquidity generated through a generalized liquidity optimization. In details:

- Reserve requirement at the Central Bank of Luxembourg decreased by -30,4% (from €68,2m to €47,4m)[3].
- Demand deposits with third party credit institutions increased by +41,2% (from €610,2m to €861,8m) by reason of a prudential liquidity management at the end of the year.
- Term deposits with the Parent Company amounts to €414,8m which corresponds to a decrease of -33.6% compared to June 2020 when they stood at €624,6m, in line with the other items;
- The carrying value of repo transactions is nil at the reference date (same as previous financial year).
- Other money market operations refer to securities lending transactions and in terms of outstanding the carrying values are higher of almost €13m compared to June 2020).

| | 31/12/2020 | 30/06/2020 | Chg. |
|---|---|---|---|
| | €m | €m | % |
| Reserve requirement at Central Bank | 47,4 | 68,2 | -30,4% |
| Demand deposits | 861,8 | 610,2 | 41,2% |
| Term deposits | 414,8 | 624,6 | -33,6% |
| Repo transactions | - | - | - |
| Other money market operations | 13,0 | 0,3 | 5026,9% |
| **Treasury investments** | **1.337,0** | **1.303,3** | **2,6%** |

Loans and advances – the carrying value of loans and advances has increased by +6,8% compared to June 2020 (from €4.912,6m to €5.247,8m) due to the entry of new exposures, in particular recorded in 2Q. The institution's net credit risk exposure (i.e. drawn amounts excluding the portion secured by financial guarantees received from the Parent and/or third party insurers) has followed an opposite trend, passing from €1.353,1m at the end of June 2020 to €1,132m at the end of December 2020 (-16,3%).

In an environment which continues to be very challenging, it is worth mentioning that the carrying value of *non-performing exposures* (i.e. net book value after any impairment recognition) remains stable and corresponds to €27,2m (€29,5m at the end of June 2020). This result confirms the institution' strong commitment to asset quality and risk control.

| | 31/12/2020 | 30/06/2020 | Chg. |
|---|---|---|---|
| | €m | €m | % |
| Loans and receivables (banks) | 878,2 | 780,4 | 12,5% |
| *of which: non performing* | - | - | |
| Loans and receivables (customers) | 4.369,5 | 4.132,2 | 5,7% |
| *of which: non performing* | *27,2* | *29,5* | *-7,8%* |
| **Loans and advances** | **5.247,8** | **4.912,6** | **6,8%** |

[3] EBC introduced, with effective date as of 30 October 2019, a two-tier system for reserve remuneration which exempts part of credit institutions' excess liquidity holdings from negative remuneration.

Equity investment – in September 2011, the Bank has purchased via a share deal all the 1.000 shares of Jodewa S.à r.l. (following renamed as Mediobanca International Immobilière S.à r.l.) a real estate company which owns the building where the Bank has moved its head office in April 2012. In February 2020, an independent evaluation was carried out by a primary real estate advisor to assess whether the carrying amount of the immovable property may be higher than its recoverable amount (as well as evaluating any impairment indicator). The final 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 €74,1m at the end of June2020 to €58,6m at the end of December 2020 (21,0% in percentage terms) and is composed by (i) fair value of hedging derivatives, (ii) tax assets, and (iii) other receivables. In detail:

| | 31/12/2020 | 30/06/2020 | Chg. |
|---|---|---|---|
| | €m | €m | % |
| Hedging derivatives | 34,9 | 38,8 | -10,0% |
| Tax assets | 13,2 | 10,6 | 24,5% |
| Transitory accounts and other receivables | 10,4 | 24,7 | -57,9% |
| **Other assets** | **58,6** | **74,1** | **-21,0%** |

Fair value of hedging derivative instruments decreased slightly as a consequence of the dynamics of the underlying input market parameters together with the reduction of hedged positions. No particular deviations to be reported with reference to the Tax assets. Transitory accounts and other receivables decreased also as a result of the reduction of receivables generated in the context of the asset encumbrance, where payments received on the financial instruments posted as collateral are initially collected by the third-party lenders (i.e. collateral receiver) and subsequently transferred to the Bank (i.e. the collateral giver) in accordance with the contractual arrangements in place between parties. The suspended amounts originated by these transactions are generally cleared in a very short period of time.

## LIABILITIES

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

Loans and borrowings **–** this item increased by +16,9%, passing from €3.326,0m to €3.888,7m. In detail:

- Amount due to banks increased by +30,2% passing from €2.343,9m to €3.050,9m. Such a trend is justified by the upward evolution of the assets volume as well as replacing the lower needs deriving from the treasury borrowings.
- Amount due to customers is stable at €110,0m.
- Borrowings under the NEU CP and the Euro CP Programmes decreased by -16,1% from €829,0m to €695,1m.
- Change in fair value of hedged debt instruments valued at amortised costs slightly decreased from €43,1m at the end of June 2020 to €32,7m at the end of December 2020. As already stated above relating to the dynamic of the fair value of hedging derivatives, one of the leading causes of this variation was the dynamic of the underlying input market parameters.

| | 31/12/2020 | 30/06/2020 | Chg. |
|---|---|---|---|
| | **€m** | **€m** | **%** |
| Amount due to banks | 3.050,9 | 2.343,9 | 30,2% |
| Amount due to customers | 110,0 | 110,0 | -0,1% |
| Commercial papers | 695,1 | 829,0 | -16,1% |
| CFV notes issued | 32,7 | 43,1 | -24,2% |
| **Loans and borrowings** | **3.888,7** | **3.326,0** | **16,9%** |

Debt securities issued – this item increased by +1.8% passing from €2.265,6m in June 2020 to €2.306,9m at the end of December 2020, primarily due to a non-structured bond issuance of €100m, partially offset by the contractual repayments expected in the portfolio.

| | 31/12/2020 | 30/06/2020 | Chg. |
|---|---|---|---|
| | **€m** | **€m** | **%** |
| Debt securities issued - non structured | 2.212,0 | 2.162,6 | 2,3% |
| Debt securities issued - structured | 95,0 | 103,0 | -7,8% |
| **Debt securities issued** | **2.306,9** | **2.265,6** | **1,8%** |

Financial liabilities at FVTPL – the carrying value of financial liabilities at fair value through profit or loss (FVTPL) decreased significantly by -62,4% (from €118,8m to €44,6m) primarily as a consequence of the mark to market value of the credit derivative contracts negotiated with the Parent Company or embedded in other financial instruments which amounts to € 16,3m (€91,9m at the end of June 2020). It is worth mentioning that such variation was de facto compensated by an equivalent downward movement of the financial assets valued at fair value through profit or loss (cf. above).

Other liabilities – this item of the reclassified statement of financial position decreased from €12,7m at the end of June 2020 to €11,4m at the end of December 2020 and is composed by (i) fair value of hedging derivatives, (ii) tax liabilities, and (iii) transitory accounts and other payables. In detail:

| | 31/12/2020 | 30/06/2020 | Chg. |
|---|---|---|---|
| | **€m** | **€m** | **%** |
| Hedging derivatives | - | - | - |
| Tax liabilities | 3,1 | 3,2 | -1,8% |
| Other payables | 8,3 | 9,6 | -13,4% |
| **Other liabilities** | **11,4** | **12,7** | **-10,5%** |

Fair value of hedging derivative instruments equal to nil, in line with June 2020. Tax liabilities remain stable in terms of amounts as well as the transitory accounts and other payables.

Provisions for risks and charges – this item of the reclassified statement of financial position increased by 155,9% – from € 1,1m (June 2020) to € 2,9m (December 2020) – mostly as a result of the growing provisions for credit losses on credit commitments as provided for by the new accounting principle IFRS9.

Net equity –the decrease from € 341,5m to €330,7m (-3,2,0%) is entirely attributable to the deduction of the losses experienced during the previous financial year.

## RESTATED STATEMENT OF COMPREHENSIVE INCOME

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

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

| | 6 mths to 31/12/2020 | 6 mths to 31/12/2019 | Chg. |
|---|---|---|---|
| | €m | €m | % |
| Net interest income | 7,1 | 3,3 | 115,3% |
| Net trading income | 1,5 | 1,5 | 2,5% |
| Net fee and commission income | 1,0 | 4,0 | -73,8% |
| **TOTAL INCOME** | **9,7** | **8,8** | **10,2%** |
| Wages and salaries | -1,5 | -1,4 | 9,4% |
| Other administrative expenses | -2,9 | -5,4 | -45,5% |
| **OPERATING COSTS** | **-4,5** | **-6,8** | **34,2%** |
| Loans impairment | -7,9 | -2,1 | 277,9% |
| Provisions for other financial assets | 0,1 | 1,2 | -94,9% |
| Other profit (losses) | – | – | – |
| **PROFIT BEFORE TAX** | **-2,7** | **1,1** | **-341,2%** |
| Fiscal provision | 0,7 | -0,3 | -320,4% |
| **TOTAL COMPREHENSIVE INCOME** | **2,0** | **0,8** | **-348,9%** |

Total income for the first six months of the financial year increased at €9,7m, however the mix between interest, trading and commission margin has changed importantly. The following variations are in particular worth to be noted:

Net interest income **–** this item increased by +115,3% (from €3,3m to €7,1m) due to the followings:

- interest income from lending activities decreased at €34,0m (€51,7m at December 2019) due to a generalized repricing of the corporate lending portfolio, spread included, despite the average volumes remain quite stable;
- interest expense from borrowing activities decreased by 37,6% (from -€48,9m to -€30,5m) mostly as a consequence of the lower average cost of funding, also due to the expiring of the oldest notes among the bond issues;
- the above effects are partially offset by the negative contribution from treasury activities (from +€0,5m at December 2019 to -€0,2m).

| | 6 mths to 31/12/2020 | 6 mths to 31/12/2019 | Chg. |
|---|---|---|---|
| | €m | €m | % |
| Interest income - lending | 34,0 | 51,7 | -34,3% |
| Interest expense - funding | -26,7 | -48,9 | -45,4% |
| Net interest income (expense) - Treasury | -0,2 | 0,5 | -140,0% |
| **Net interest income** | **7,1** | **3,3** | **114,9%** |

Net trading income – the contribution of the trading portfolio was significantly flat compared to the previous FY and remain approx. at €0,5m at the end of December 2020. This category is composed as follows:

| | 6 mths to 31/12/2020 | 6 mths to 31/12/2019 | Chg. |
|---|---|---|---|
| | €m | €m | % |
| Derivatives - realised gains and losses | -0,2 | 0,9 | -120,6% |
| Derivatives - unrealised gains and losses (mtm) | -0,4 | -1,1 | -66,8% |
| Forex gains and losses | 0,9 | -0,9 | -196,5% |
| Other realised gains and losses | 1,2 | 2,6 | -54,3% |
| **Net trading income** | **1,5** | **1,5** | **2,5%** |

- Realized gains and losses on financial instruments valued at FVTPL amounts to -€0,2m (€0,9m at the end of December 2019);
- Unrealised mark to market valuation generated a loss of -€0,4m (-€1,1m at December 2019) which principally originates from derivative contracts negotiated with the Parent and/or embedded in other non-derivative instruments;
- Forex exposures has generated a profit of €0,9m (whilst at December 2019 this item recorded a symmetric loss);
- Other realized gains and losses primarily refer *a)* to securities lending transactions and *b)* to net gain on disposals of financial assets, which have generated a net contribution of +€1,2m, in strong contraction compared to December 2019 (+€2.6m).

Net fee and commission income – this item of the reclassified statement of comprehensive income, which is mostly driven by corporate lending and treasury services, turned from €4,0m at the end of December 2019 to €1,0m at the end of December 2020. Main reason for such an decrease has been the rise in commission expenditures (from -€2,7m of December 2019 to -€4,4m of December 2020) mainly due to a medium-term liquidity rebalancing which led to the early renewal - with the Parent Company - of loans expiring within the end of Dec-20 (also in foreign currency); a slight decrease also for the fee income aggregate (-10,4%).

| | 6 mths to 31/12/2020 | 6 mths to 31/12/2019 | Chg. |
|---|---|---|---|
| | **€m** | **€m** | **%** |
| Fee and commission income | 5,7 | 6,4 | -10,4% |
| Fee and commission expense | -4,4 | -2,7 | 63,5% |
| Other income/expense | -0,3 | 0,3 | -190,6% |
| **Net fee and commission income (expense)** | **1,0** | **4,0** | **-73,8%** |

Operating costs – this item decreased importantly at -€4,5m (-€6,8m at December 2019) with the main components which performed as follows:

- wages and salaries increased by 9,4% (from -€1,4m to -€1,5m) essentially because of the hiring of new personnel.
- other costs decreased by 45,5% (from -€5,4m to -€2,9m) mostly by reason of a non-recurrent expense incurred with the Parent Company last year.

Loans impairment – impairment provisions for credit exposures worth a total of -€7,8m were accounted for during the semester (-€0,9m at December 2019) due to a further increase of credit loss provisioning.

pp. BOARD OF DIRECTORS
CHAIRMAN
(Mr. Giovanni Mancuso)

# MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.

## Statement of Directors' responsibilities

To the best of our knowledge, the interim accounts of MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A. (the "Bank") give a true and fair view of the assets, liabilities, financial position and profit and loss of the Bank in accordance with applicable accounting standards. The Directors' report includes a fair view of (I) the Bank's development, (II) its position, and (III) a description of the opportunities and risks relevant to the Bank that arose during the period ended 31 December 2020.

Luxembourg, 5 February 2021

The Board of Directors

Giovanni Mancuso    Alessandro Ragni    Massimo Amato

Stephane Bosi    Piero Pezzati    Lara Pizzimiglia

Jessica Spina

# INTERIM ACCOUNTS

## STATEMENT OF FINANCIAL POSITION

(€)

| Assets | | 31/12/2020 | 30/06/2020 |
|---|---|---|---|
| 10. | Cash and cash equivalents | 511 | 697 |
| 20. | Financial assets valued at FVTPL | 98.413.340 | 121.303.811 |
| 40. | Financial assets valued at amortised cost | 6.597.768.952 | 6.228.742.591 |
| | *a) Due from banks* | *2.218.056.619* | *2.086.445.789* |
| | *b) Due from customers* | *4.379.712.332* | *4.142.296.802* |
| 50. | Hedging derivatives | 34.921.082 | 38.812.523 |
| 70. | Equity investments | 4.150.000 | 4.150.000 |
| 90. | Property, plant and equipment | 177.619 | 268.468 |
| 110. | Tax assets | 13.236.789 | 10.631.705 |
| | *a) current* | *9.183.199* | *7.239.419* |
| | *b) deferred* | *4.053.590* | *3.392.286* |
| 130. | Other assets | 10.393.119 | 24.687.139 |
| **Total assets** | | **6.759.061.411** | **6.428.596.934** |

(€)

| Liabilities and equity | | 31/12/2020 | 30/06/2020 |
|---|---|---|---|
| 10. | Financial liabilities valued at amortised cost | 6.371.520.244 | 5.967.482.151 |
| | *a) Due to banks* | *3.203.644.191* | *2.696.498.699* |
| | *b) Due to customers* | *133.168.224* | *133.305.395* |
| | *b) Debt securities in issue* | *3.034.707.830* | *3.137.678.056* |
| 20. | Financial liabilities valued at FVTPL | 44.644.988 | 118.768.418 |
| 40. | Hedging derivatives | - | - |
| 60. | Tax liabilities | 3.130.650 | 3.187.256 |
| | *a) current* | *3.130.650* | *3.187.256* |
| | *b) deferred* | - | - |
| 80. | Other liabilities | 8.120.012 | 7.331.045 |
| 100. | Provisions for risks and charges | 2.922.336 | 1.142.332 |
| 150. | Reserves | 320.713.455 | 331.470.434 |
| 160. | Share capital | 10.000.000 | 10.000.000 |
| 200. | Profit (Loss) of the year | -1.990.275 | -10.784.702 |
| **Total liabilities and shareholders' equity** | | **6.759.061.411** | **6.428.596.934** |

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

**STATEMENT OF COMPREHENSIVE INCOME**

*(€)*

| **Items** | | **31/12/2020** | **31/12/2019** |
|---|---|---|---|
| 010. | Interests and similar income | 38.498.221 | 53.240.318 |
| 020. | Interest expense and similar charges | -31.431.727 | -49.873.687 |
| **030.** | **Net interest income** | **7.066.494** | **3.366.631** |
| 040. | Fee and commission income | 7.045.586 | 7.699.322 |
| 050. | Fee and commission expense | -8.667.454 | -3.272.416 |
| **060.** | **Net fee and commission income** | **-1.621.868** | **4.426.906** |
| 080. | Net trading income (expense) | 353.620 | -1.067.186 |
| 090. | Net hedging income (expense) | 63.669 | -56.420 |
| 100. | Gain or loss on disposal or repurchase of: | 324.111 | 1.777.254 |
| | *a) financial assets valued at amortised cost* | *226.647* | *674.578* |
| | *b) financial assets valued at FVOCI* | – | – |
| | *c) financial liabilities* | *97.463* | *1.102.676* |
| **120.** | **Total income** | **6.186.025** | **8.447.186** |
| 130. | Adjustment for impairment to: | -6.095.142 | -948.461 |
| | *a) financial assets valued at amortised cost* | *-6.095.142* | *-948.461* |
| | *b) financial assets valued at FVOCI* | – | – |
| **150.** | **Net income from financial operations** | **90.884** | **7.498.725** |
| 190. | Administrative expenses | -4.346.285 | -3.838.757 |
| | *a) personnel costs* | *-1.531.787* | *-1.387.975* |
| | *b) other administrative expenses* | *-2.814.498* | *-2.450.782* |
| 200. | Net provisions for risks and charges | -1.780.004 | 10.268 |
| 210. | Value adjustments in respect of tangible assets | -127.424 | -112.937 |
| 230. | Other operating income (expense) | 3.511.252 | -2.484.286 |
| **290.** | **Profit (loss) of the ordinary activity before tax** | **-2.651.578** | **1.073.012** |
| 300. | Income tax on the ordinary activity | 661.304 | -274.924 |
| **330.** | **Profit (loss) for the period** | **-1.990.275** | **798.088** |
| 340. | Other comprehensive income, net of tax | — | — |
| **350.** | **Comprehensive income (loss) for the year, net of tax** | **-1.990.275** | **798.088** |

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

## STATEMENT OF CHANGES IN EQUITY FROM 01/07/2020 TO 31/12/2020

| | Balance as of June 30, 2020 | Allocation of the profit for the previous period | | Changes during the reference period | | | | | Balance as of December 31, 2020 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Transactions involving equity | | | | |
| | | Reserves | Dividends and other fund applications | Changes in reserves | New shares issued | Treasury shares derivatives | Stock options and others | Profit (loss) of the period | |
| **Share capital** | **10.000.000** | — | — | — | — | — | — | — | **10.000.000** |
| a) ordinary shares | 10.000.000 | — | — | — | — | — | — | — | 10.000.000 |
| b) other shares | — | — | — | — | — | — | — | — | — |
| **Profit brought forward** | — | — | — | — | — | — | — | — | — |
| **Reserves** | **331.470.435** | **-10.784.702** | — | — | — | — | **27.723** | — | **320.713.455** |
| a) legal reserve | 1.000.000 | — | — | — | — | — | — | — | 1.000.000 |
| b) free reserve | 297.480.117 | -10.784.702 | — | — | — | — | — | — | 286.695.415,3 |
| c) special reserve (1) | 35.669.614 | — | — | — | — | — | — | — | 35.669.613,7 |
| d) other (2) | -2.679.296 | — | — | — | — | — | 27.723 | — | -2.651.573,6 |
| **Valuation reserves** | — | — | — | — | — | — | — | — | — |
| a) AFS securities | — | — | — | — | — | — | — | — | — |
| b) cash flow hedges | — | — | — | — | — | — | — | — | — |
| c) special laws – others | — | — | — | — | — | — | — | — | — |
| **Own shares** | — | — | — | — | — | — | — | — | — |
| **Comprehensive income of the period** | **-10.784.702** | **10.784.702** | — | — | — | — | — | **-1.990.275** | **-1.990.275** |
| **Total equity** | **330.685.733** | — | — | — | — | — | **27.723** | **-1.990.275** | **328.723.180** |

(1) As of 31 December 2020 the bank has opted for the exoneration of the net wealth tax charge provided that the following conditions have been respected: (i) a reserve equivalent to five times the net wealth tax charge for the year is recorded following the decision of the Shareholders meeting, and (ii) the reserve will be maintained for a period of at least five years.

(2) The account comprises the FTA reserve created on the transition to IFRS9.

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

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

| | Balance as of June 30, 2019 | First time adoption IFRS9 | Allocation of the profit for the previous period | | Changes during the reference period | | | | | Balance as of December 31, 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Changes in reserves | Transactions involving equity | | | Profit (loss) of the period | |
| | | | Reserves | Dividends and other fund applications | | New shares issued | Treasury shares derivatives | Stock options and others | | |
| **Share capital** | **10.000.000** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **10.000.000** |
| a) ordinary shares | 10.000.000 | — | — | — | — | — | — | — | — | 10.000.000 |
| b) other shares | — | — | — | — | — | — | — | — | — | — |
| **Profit brought forward** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| **Reserves** | **328.247.674** | **3.222.760** | — | **—** | **—** | **—** | **—** | **—** | **—** | **331.470.434** |
| a) legal reserve | 1.000.000 | — | — | — | — | — | — | — | — | 1.000.000 |
| b) free reserve | 292.552.970 | — | — | — | 4.927.147 | — | — | — | — | 297.480.117 |
| c) special reserve(1) | 37.374.000 | 3.222.760 | — | — | -4.927.147 | — | — | — | — | 35.669.613 |
| d) FTA reserve | -2.679.296 | — | — | — | — | — | — | — | — | -2.679.296 |
| **Valuation reserves** | **—** | **—** | **—** | — | — | — | — | — | **—** | **—** |
| a) AFS securities | — | — | — | — | — | — | — | — | **—** | **—** |
| b) cash flow hedges | — | — | — | — | — | — | — | — | **—** | **—** |
| c) special laws – others | — | — | — | — | — | — | — | — | **—** | **—** |
| **Own shares** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| **Comprehensive income of the period** | **3.222.760** | **-3.222.760** | **—** | **—** | **—** | **—** | **—** | **—** | **798.088** | **798.088** |
| **Total equity** | **341.470.434** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **798.088** | **342.268.522** |

(1) As of 31 December 2019 and 2018 the bank has opted for the exoneration of the net wealth tax charge provided that the following conditions have been respected: (i) a reserve equivalent to five times the net wealth tax charge for the year is recorded following the decision of the Shareholders meeting, and (ii) the reserve will be maintained for a period of at least five years.

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

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

| | | Amount | |
|---|---|---|---|
| | | 31/12/2020 | 31/12/2019 |
| **A.** | **Cash flow from operating activity** | **6.778** | **—** |
| **1.** | **Operating activity** | **2.785** | **12.189** |
| | – interests received (+) | 44.999 | 65.545 |
| | – interests paid (-) | -22.044 | -53.827 |
| | – net fees and commissions received/paid (+/-) | 5.503 | 1.625 |
| | – dividends and similar income (+) | — | — |
| | – net premiums collected (+) | — | — |
| | – personnel expenses (-) | -1.588 | -1.134 |
| | – other income (expenses) (+/-) | -22.267 | -2.292 |
| | – taxes and duties (+/-) | -1.818 | 2.272 |
| **2.** | **Cash generated/absorbed by financial assets** | -486.966 | 1.141.921 |
| | – financial assets valued at FVTPL | -51.588 | 46 |
| | – financial assets valued at FVOCI | — | 817.473 |
| | – financial assets valued at amortised cost | -204.671 | 324.402 |
| | – other assets | -230.707 | — |
| **3.** | **Cash generated/absorbed by financial liabilities** | 490.959 | -1.154.110 |
| | – financial liabilities valued at FVTPL | -2.771 | -122 |
| | – financial liabilities valued at amortised cost | 493.922 | -1.153.988 |
| | – financial liabilities designated at fair value | — | — |
| | – other liabilities | -192 | — |
| **B.** | **Cash flow from investing activity** | — | — |
| | – disposal/purchase of shareholdings | — | — |
| | – disposal/purchase of tangible assets | — | — |
| | – disposal/purchase of intangible assets | — | — |
| **2.** | **Cash flow from funding activityabsorbed by:** | — | — |
| | – issue/redemption of T1 capital instruments | — | — |
| | – issue/redemption of T2 capital instruments | — | — |
| | **Net cash inflow (outflow) during the fiscal year** | **6.778** | **—** |

| | Amount | |
|---|---|---|
| | 31/12/2020 | 31/12/2019 |
| Cash and cash equivalents: balance at 31 December | -6.778 | — |
| Total cash inflow (outflow) during year | 6.778 | — |
| **Cash and cash equivalents: balance at 31 December** | **—** | **—** |

# NOTES TO THE INTERIM ACCOUNTS

# PART A - ACCOUNTING POLICIES

## A.1 – GENERAL PART

### Section 1

### Statement of compliance with the International Accounting Standards

The interim financial statements of the Bank are prepared in accordance with the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) promulgated by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and adopted by the European Commission in accordance with the procedure per Article 6 of the Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002. Account has been taken in particular of IAS 34 on interim financial reporting and the financial statements have been prepared based on the template of the Parent company which, in turn, was based on the "Instructions for drawing up separate and consolidated financial statements for banks and financial companies that head banking groups", issued by the Banca d'Italia (Bank of Italy) through Circular no. 262 of 22 December 2005 – 6$^{th}$ update of 30 November 2018 – which sets out the financial statements layouts and compilation methods, as well as the content of the explanatory notes.

### Section 2

### General principles

The interim accounts comprise:

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

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

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

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

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

For completeness of disclosure, it should be noted that during the six months under review, the European Commission has approved the following regulations, which include certain changes to accounting standards already in force: Regulation (EU) 2020/1434 of 9 October 2020 and Regulation (EU) 2020/2097 of 15 December 2020. The former adopts the amendments to IFRS 16 proposed by the IASB 1 in relation to the ongoing Covid-19 pandemic; the latter (Regulation (EU) 2020/2097) provides for an extension to the exemption from applying IFRS 9 granted to insurance companies, allowing them to continue applying IAS 39 until 2023. For the Group Mediobanca, all such amendments and additions will apply starting from 1 July 2021.

The measures and statements published by the regulatory and supervisory authorities regarding the most suitable means for applying the reporting standards in relation to the Covid-19 situation are summarized below. In particular, the following were issued during the six months under review, in addition to those described in the annual report for the twelve months ended 30 June 2020:

ESMA:

*Public Statement* of 28 October 2020, "European common enforcement priorities for 2020 annual financial reports", which highlights the attention which ESMA is devoting to enforcement of some accounting standards (i.e. IAS 1, IAS 36, IFRS 9 and IFRS 16), to non-financial statements with reference to the impact of the Covid-19 pandemic on non-financial matters; social and employee matters and risk relating to climate change. Considerations are also provided on application of the ESMA Guidelines on Alternative Performance Measures (APM) in relation to Covid-19.

EBA:

*Guidelines of 2 December 2020: "Guidelines[4] on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID 19 crisis"*, extending the application period for the regulations governing EBA-compliant moratoria.

ECB:

*Letter from the Chair of the Supervisory Board to all Significant Institutions of 4 December 2020 "Identification and measurement of credit risk in the context of the coronavirus (COVID-19) pandemic"*: the ECB underlined the importance of striking the right balance between avoiding excessive pro-cyclicality and ensuring that the risks faced by the banks are adequately reflected in their internal risk measurement and management processes, financial statements and regulatory reporting.

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

[4] *The aim of these Guidelines is to clarify the requirements for public and private moratoria, which if fulfilled, will help avoid the classification of exposures under the definition of forbearance or as defaulted under distressed restructuring.*

## Section 3

### *Group project on interbank benchmark rates*

Compared to the situation described in the annual report for the twelve months ended 30 June 2020, regarding the Group-wide project launched by Mediobanca to manage the transition to the new interbank benchmark rates, the working group set up has continued its monitoring activities and preparing all the necessary operating procedures to allow the changes to be implemented and applied as from 2022. In particular, work has begun on analysing the fallback clauses provided for in the existing contracts (i.e. how cases will be managed if the benchmark rate is discontinued and so becomes unavailable), with the aim of planning any actions and/or improvements that might be necessary, in line with the recommendations made by the regulators and category associations.

The uncertainty caused by the lack of a single alternative parameter for the whole market, in particular in the valuation of the economic relationship between hedged item and hedging instrument, could lead to hedging arrangements being discontinued. To prevent this from happening, on 26 September 2019 IASB made some temporary exceptions to the regulations (chiefly regarding IFRS 9, IAS 39 and IFRS 7) that will remain in force until the reform of the benchmark indicators is complete. The exceptions mainly refer to the possibility, in valuing the economic relationship, of the benchmark used to determine the interest rate on the hedged or hedging instrument not being altered following the reform of the rates themselves, until the change itself has taken place. These exceptions have been incorporated by the European Union through Regulation (EU) 2020/34 of 15 January 2020 (“Regulation 34”).

For the purpose of this interim report, the Group has decided the adoption of the Regulation 34, preventing the uncertainties due to interpretative clarifications about some hedging contracts index-linked to underlying to be revised (or replaced).

## Section 4

### Events subsequent to the interim reporting date

After the closing date, no events took place that would induce to adjust the results posted in the interim report as at 31 December 2020.

## Summary of significant accounting policies

### Cash and cash equivalents

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

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

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

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

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

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

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

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

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

### Financial assets measured at amortised cost

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

- the financial instrument is held and managed on the basis of the *hold-to-collect* business model, i.e. with the goal of holding it to collect the contractually prescribed cash flows.

– the contractual cash flows represent exclusively the payment of capital and interest (and therefore meet the requirements of the SPPI test).

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

– operating procedures adopted by management in the measurement of performance;

– type of risk and procedures for managing the risks undertaken, including portfolio turnover ratios;

– procedures for determining the mechanisms for the remuneration of managers.

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

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

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

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

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

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

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

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

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

– *stage 1*: includes exposures at the date of initial recognition in the financial statements and as long as their credit rating does not undergo a significant deterioration. For these instruments, the expected loss is to be calculated on the basis of default events that are possible within twelve months from the reporting date;

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

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

In view of the economic recovery which started in 3Q 2020, after the recession peak reached in the previous quarter, although negative growth rates remain until 1Q 2021, it has been decided to limit the use of the "spline" technique, applied at the balance-sheet date at end-June 2020 to the estimates provided by the models used in the IFRS 9 methodological framework (the so-called "satellite models") for the transmission of macroeconomic scenario. In particular, the spline has been abandoned for the PD satellite model for the wholesale portfolio but has been maintained for the LGD satellite models.

Furthermore, considering the consensus scenario used for the projections (which predicts sustained growth for period 2021/22) not without uncertainties related to the evolution of the pandemic crisis, the model estimates for provisioning have been complemented by additional adjustments based on specific aspects that cannot be valued by modelling techniques. For the corporate loan book, overlays have been added to the model estimates for the performing positions, to manage uncertainties linked to the macroeconomic scenario and specific uncertainties related to the possible impact of the crisis on individual counterparties. In particular, the following aspects have been considered: existence of temporary contractual waivers, operations in industrial sectors considered to be most vulnerable and possible revision of credit risk to be assessed in view of the consolidation of the financial statement data impacted by the last year's crisis.

At end-June 2020, in order to limit the impact of the risk factors' excessive volatility, a further requirement was added to main criterion for positions to be reclassified as Stage 2 (i.e. an observed increase in the Probability of Default), namely the internal rating having to have been downgraded by at least two notches compared to the original rating. At end-December 2020 the downgrade requirement was revised to make it more conservative, with only a one notch downgrade required for risk positions rated BB- or lower. This change allows the significant increase in credit risk in relation to the Covid-19 emergency to be captured, not least because the entire loan book has been reviewed on the basis of individual analysis.

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

**Derecognition of assets**

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

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

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

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

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

**Leasing (IFRS 16)**

The classification of an agreement as a lease[5] (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.

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[5] Lease agreements in which the Group 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 recognised in the income statement.

The right of use recognised under “tangible assets” is equal to the sum of the present value of future payments (corresponding to the present value of the liability recognised), 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 recognised 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 behaviours, 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.

**Hedging transactions**

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

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

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

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

- *Fair value hedging*: the change in the fair value of the hedged item is offset by the change in the fair value of the hedging instrument, both recognised in the statement of comprehensive income, where a difference between the two emerges as a result of the partial ineffectiveness of the hedge;
- *Cash flow hedging*: the changes in fair value are recognized in net equity in the amount of the effective portion of the hedging, while the gain or loss deriving from the ineffective portion is recognised through the statement of comprehensive income only as and when, with reference to the hedged item, the change in cash flow to be offset crystallizes.

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

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

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

*Fair value hedges*

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

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

*Cash flow hedges*

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

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

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

As at 31 December 2020, the Bank does not hold any cash flow hedged transaction.

### Equity investments

The item includes the stakes held in subsidiaries.

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

### Tangible assets

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

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

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

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

### Financial guarantees

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

### Financial liabilities measured at amortised cost

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

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

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

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

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

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

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

**Tax assets and liabilities**

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

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

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

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

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

**Provisions for risks and charges**

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

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

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

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

**Pension plans**

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

**Foreign currency transactions**

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

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

**Offsetting**

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

**“Day1” profit or loss**

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

**Fair Value hierarchy**

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

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

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

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

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

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

**Securities lending and borrowing**

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

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

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

**Interest income and expenses**

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

**Fee and commission income and expenses**

Fee and commission incomes arise on financial services provided by the bank. Fee and commission incomes are recognised when the corresponding service is provided.

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

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

**Net trading income/expense**

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

## Administrative expenses

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

## Related parties

Related parties are defined by IAS 24 as:

a) Individuals or entities which directly or indirectly:

1. are subject to joint control by the Bank (including parent companies, subsidiaries and associates);
2. own an interest in the Bank which enables them to exert a significant influence over it: "significant influence" is presumed to exist in cases where an individual or entity owns a shareholding of more than 3% 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.

# Section 6

## Significant accounting estimates and judgment

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

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

Fair value of financial instruments

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

Impairment losses on loans and advances

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

Deferred tax assets

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

# PART B - NOTES TO THE STATEMENT OF FINANCIAL POSITION

## ASSETS

### Section 1

### Heading 10 – Cash and cash equivalents

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

| | 31/12/2020 | 30/06/2020 |
|---|---|---|
| a) Cash | 1 | 1 |
| b) Demand deposit held at Central Banks | — | — |
| **Total** | **1** | **1** |

### Section 2

### Heading 20 – Financial assets valued at FVTPL

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

| Item/Values | 31/12/2020 | | | 30/06/2020 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| A. Cash assets | | | | | | |
| 1. Debt securities | — | 52.352 | — | — | — | — |
| 1.1 Structured | — | — | — | — | — | — |
| 1.2 Other debt securities | — | 52.352 | — | — | — | — |
| 2. Equities | — | — | — | — | — | — |
| 3. UCITS units | — | — | — | — | — | — |
| 4. Loans and advances | — | — | — | 13 | — | — |
| 4.1 Repos | — | — | — | — | — | — |
| 4.2 Others | | — | — | 13 | — | — |
| **Total A** | **—** | **52.352** | **—** | **13** | **—** | **—** |
| B. Derivative products | | | | | | |
| 1. Financial derivatives | — | 24.396 | 3.604 | — | 26.810 | — |
| 1.1 Trading | — | 24.396 | 3.604 | — | 26.810 | — |
| 1.2 Linked to FV options | — | — | — | — | — | — |
| 1.3 Others | — | — | — | — | — | — |
| 2. Credit derivatives | — | 18.061 | — | — | 94.481 | — |
| 2.1 Trading | — | 18.061 | — | — | 94.481 | — |
| 2.2 Linked to FV options | — | — | — | — | — | — |
| 2.3 Others | — | — | — | — | — | — |
| **Total B** | **—** | **42.457** | **3.604** | **—** | **121.291** | **—** |
| **Total (A+B)** | **—** | **94.809** | **3.604** | **13** | **121.291** | **—** |

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

| **Item/Value** | **31/12/2020** | **30/06/2020** |
|---|---|---|
| A. CASH ASSETS | | |
| 1. Debt securities | 52.352 | — |
| 2. Equities | — | — |
| 3. UCITS units | — | — |
| 4. Loans and advances | — | 13 |
| **Total A** | **52.352** | **13** |
| B. DERIVATIVE PRODUCTS | | |
| a. Banks | 46.061 | 121.291 |
| - *Fair value* | 46.061 | 121.291 |
| b. Customers | — | — |
| - *Fair value* | — | — |
| **Total B** | **46.061** | **121.291** |
| **Total A+B** | **98.413** | **121.304** |

Section 4

## Heading 40 – Financial assets valued at amortised cost

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

| Type of transactions/Values | Total 31/12/2020 | | | | | | Total 30/06/2020 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying value | | | Fair value | | | Carrying value | | | Fair value | | |
| | Stage1 and stage2 | Stage3 | o/w: non performing acquired or originated | Level 1 | Level 2 | Level 3 | Stage1 and stage2 | Stage3 | o/w: non performing acquired or originated | Level 1 | Level 2 | Level 3 |
| A. Due from Central Banks | 47.448 | — | — | — | 47.448 | — | 68.211 | — | — | — | 68.211 | — |
| 1. Term deposits | — | — | — | X | X | X | — | — | — | X | X | X |
| 2. Compulsory reserve | 47.448 | — | — | X | X | X | 68.211 | — | — | X | X | X |
| 3. Repos | — | — | — | X | X | X | — | — | — | X | X | X |
| 4. Others | — | — | — | X | X | X | — | — | — | X | X | X |
| B. Due from banks | 2.170.609 | — | — | — | 2.122.235 | — | 2.018.235 | — | — | — | 2.027.130 | — |
| 1. Loans and advances | 2.167.807 | — | — | — | 2.119.436 | — | 2.015.430 | — | — | — | 2.024.344 | — |
| 1.1 Current accounts and demand deposits | 874.549 | — | — | X | X | X | 610.195 | — | — | X | X | X |
| 1.2 Term deposits | 414.750 | — | — | X | X | X | 624.632 | — | — | X | X | X |
| 1.3 Other financings: | 878.508 | — | — | X | X | X | 780.603 | — | — | X | X | X |
| - Repos | — | — | — | X | X | X | — | — | — | X | X | X |
| - Finance leases | — | — | — | X | X | X | — | — | — | X | X | X |
| - Others | 878.508 | — | — | X | X | X | 780.603 | — | — | X | X | X |
| 2. Debt securities | 2.802 | — | — | — | 2.799 | — | 2.805 | — | — | — | 2.786 | — |
| 2.1 Structured debt securities | 2.802 | — | — | X | X | X | 2.805 | — | — | X | X | X |
| 2.2 Other debt securities | — | — | — | X | X | X | — | — | — | X | X | X |
| **Total** | **2.218.057** | **—** | **—** | **—** | **2.169.683** | **—** | **2.086.446** | **—** | **—** | **—** | **2.095.341** | **—** |

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

| Type of transactions/Values | Total 31/12/2020 | | | | | | Total 30/06/2020 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying value | | | Fair Value | | | Carrying value | | | Fair Value | | |
| | Stage1 | Stage2 | Stage3 | Level 1 | Level 2 | Level 3 | Stage1 | Stage2 | Stage3 | Level 1 | Level 2 | Level 3 |
| 1. Loans and advances | 4.030.459 | 311.815 | 27.241 | — | 4.580.853 | — | 3.881.592 | 221.089 | 29.542 | — | 4.347.533 | — |
| 1.1 Current accounts | — | — | — | X | X | X | — | — | — | X | X | X |
| 1.2 Repos | — | — | — | X | X | X | — | — | — | X | X | X |
| 1.3 Term loans | 4.030.459 | 311.815 | 27.241 | X | X | X | 3.881.592 | 221.089 | 29.542 | X | X | X |
| 1.4 Credit cards and personal loan | — | — | — | X | X | X | — | — | — | X | X | X |
| 1.5 Finance leases | — | — | — | X | X | X | — | — | — | X | X | X |
| 1.6 Factoring | — | — | — | X | X | X | — | — | — | X | X | X |
| 1.7 Other loans | — | — | — | X | X | X | — | — | — | X | X | X |
| 2. Debt securities | 10.197 | — | — | — | 10.145 | — | 10.074 | — | — | — | 10.167 | — |
| 2.1 Structured debt securities | — | — | — | X | X | X | — | — | — | X | X | X |
| 2.2 Other debt securities | 10.197 | — | — | X | X | X | 10.074 | — | — | X | X | X |
| **Total** | **4.040.656** | **311.815** | **27.241** | **—** | **4.590.998** | **—** | **3.891.666** | **221.089** | **29.542** | **—** | **4.357.700** | **—** |

Section 5

## Heading 50 – Hedging derivatives

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

| | 31/12/2020 | | | Notional value | 30/06/2020 | | | Notional value |
|---|---|---|---|---|---|---|---|---|
| | *Fair value* | | | | *Fair value* | | | |
| | Level 1 | Level 2 | Level 3 | | Level 1 | Level 2 | Level 3 | |
| A. Financial derivatives | | | | | | | | |
| 1) Fair value | — | 34.921 | — | 437.636 | — | 38.813 | — | 495.024 |
| 2) Cash flow | — | — | — | — | — | — | — | — |
| B. Credit derivatives | | | | | | | | |
| 1) Fair value | — | — | — | — | — | — | — | — |
| 2) Cash flow | — | — | — | — | — | — | — | — |
| **Total** | **—** | **34.921** | **—** | **437.636** | **—** | **38.813** | **—** | **495.024** |

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

| 31/12/2020 Operations/Type of hedging | Fair Value Hedge | | | | | | Cash Flow Hedge | | Net Investments in foreign subsidiaries |
|---|---|---|---|---|---|---|---|---|---|
| | Micro | | | | | Macro | Specific | Generic | |
| | Interest risk | Currency risk | Credit risk | Price risk | Multiple risk | | | | |
| 1. Financial assets valued at 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 | 34.921 | — | — | — | — | — | — | — | — |
| 2. Portfolio | X | X | X | X | X | — | X | — | X |
| **TOTAL LIABILITIES** | **34.921** | — | — | — | — | — | — | — | — |
| 1. Highly probable transactions | X | X | X | X | X | X | — | X | X |
| 2. Financial assets and liabilities portfoglio | X | X | X | X | X | — | X | — | — |

| 30/06/2020 Operations/Type of hedging | Fair Value Hedge | | | | | | Cash Flow Hedge | | Net Investments in foreign subsidiaries |
|---|---|---|---|---|---|---|---|---|---|
| | Micro | | | | | Macro | Specific | Generic | |
| | Interest risk | Currency risk | Credit risk | Price risk | Multiple risk | | | | |
| 1. Financial assets valued at 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 | 38.813 | — | — | — | — | — | — | — | — |
| 2. Portfolio | X | X | X | X | X | — | X | — | X |
| **TOTAL LIABILITIES** | **38.813** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| 1. Highly probable transactions | X | X | X | X | X | X | — | X | X |
| 2. Financial assets and liabilities portfoglio | 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 | Ownership | | Voting rights (%) |
|---|---|---|---|---|---|
| | | | Controlling entity | % shareholding | |
| Mediobanca International Immobiliere S.à r.l. | Luxembourg | 3 | Mediobanca International (Luxembourg) S.A. | 100 | 100 |

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

| Company Name | Total assets | Total revenues | Net profit (loss) | Shareholders' equity | Carrying value |
|---|---|---|---|---|---|
| Mediobanca International Immobiliere S.à r.l. | 1.920 | 86 | 27 | 1.867 | 4.150 |

## Section 9

# Heading 90 – Property, plant and equipment

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

| Assets/value | 31/12/2020 | 30/06/2020 |
|---|---|---|
| 1. Assets owned by Bank | 6 | 10 |
| a) land | — | — |
| b) buildings | — | — |
| c) furniture and fitting | | 1 |
| d) electronic equipment | — | — |
| e) other assets | 6 | 9 |
| 2. Right-of-use assets | 171 | 259 |
| a) land | — | — |
| b) buildings | 102 | 202 |
| c) furniture | — | — |
| d) electronic equipment | — | — |
| e) other assets | 69 | 57 |
| **Total** | **177** | **268** |

## Section 11

# Heading 110 – Tax assets

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

| | IRC | ICC | Other | Total |
|---|---|---|---|---|
| **Balance at the beginning of the year** | **4.896** | **2.021** | **322** | **7.239** |
| **Increase of the period (+)** | **1.632** | **571** | **144** | **2.347** |
| - advances paid | 1.632 | 571 | — | 2.203 |
| - transfers | — | — | — | — |
| - others | — | — | 144 | 144 |
| **Decrease of the period (-)** | **0** | **0** | **-403** | **-403** |
| - releases of the year (assessments) | — | — | — | 0 |
| - transfers | — | — | — | — |
| - others | — | — | -403 | — |
| **Balance at the end of the fiscal year** | **6.528** | **2.593** | **62** | **9.183** |

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

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

| | 31/12/2020 | 30/06/2020 |
|---|---|---|
| - deferred tax assets recognised in the statement of comprehensive income | 3.151 | 2.489 |
| - deferred tax assets recognised in the net equity | 903 | 903 |
| **Total** | **4.054** | **3.392** |

## Section 13

## Heading 130 – Other assets

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

| | 31/12/2020 | 30/06/2019 |
|---|---|---|
| 1. Gold, silver and precious metal | — | — |
| 2. Accrued income other than capitalized income | 922 | 789 |
| 3. Trade receivables or invoice to be issued | 35 | 2 |
| 4. Amount due from tax revenue Authorities (not attributed to heading 110) | 16 | 208 |
| 5. Other | 9.420 | 23688 |
| - transitory accounts | *9.420* | *23.595* |
| - prepayments | — | *93* |
| **Total** | **10.393** | **24.687** |

## LIABILITIES

### Section 1

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

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

| **Type of transactions/Values** | **31/12/2020** | | | | **30/06/2020** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Carrying value** | **Fair value** | | | **Carrying value** | **Fair value** | | |
| | | **Level 1** | **Level 2** | **Level 3** | | **Level 1** | **Level 2** | **Level 3** |
| 1. Due to Central Banks | — | X | X | X | — | X | X | X |
| 2. Due to banks | 3.203.644 | X | X | X | 2.696.499 | X | X | X |
| 2.1 Current accounts and demand depo: | 55.474 | X | X | X | 50.494 | X | X | X |
| 2.2 Term deposits | — | X | X | X | 300.000 | X | X | X |
| 2.3 Loans | 3.050.915 | X | X | X | 2.343.947 | X | X | X |
| 2.3.1 Repos | — | X | X | X | — | X | X | X |
| 2.3.2 Others | 3.050.915 | X | X | X | 2.343.947 | 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 | 97.255 | X | X | X | 2.058 | X | X | X |
| **Total** | **3.203.644** | **—** | **3.203.644** | **—** | **2.696.499** | **—** | **2.691.484** | **—** |

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

| Type of transactions/Values | 31/12/2020 | | | | 30/06/2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying value | Fair value | | | Carrying value | Fair value | | |
| | | Level 1 | Level 2 | Level 3 | | Level 1 | Level 2 | Level 3 |
| 1. Current accounts and demand deposits | — | X | X | X | — | X | X | X |
| 2. Term deposits | 23.031 | X | X | X | 23.007 | X | X | X |
| 3. Loans | 109.964 | X | X | X | 110.038 | X | X | X |
| 3.1 Repos | — | X | X | X | — | X | X | X |
| 3.2 Others | 109.964 | X | X | X | 110.038 | X | X | X |
| 4. Liabilities in respect of commitments to repurchase own equity instruments | — | X | X | X | — | X | X | X |
| 5. Lease payables [1] | 173 | X | X | X | 260 | X | X | X |
| 6. Other liabilities | — | X | X | X | — | X | X | X |
| **Total** | **133.168** | **—** | **133.168** | **—** | **133.305** | **—** | **133.046** | **—** |

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

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

| Type of transactions/Values | 31/12/2020 | | | | 30/06/2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 2.339.564 | — | 2.341.787 | — | 2.308.701 | — | 2.358.337 | — |
| 1.1 Structured | 94.954 | — | 103.885 | — | 102.997 | — | 110.990 | — |
| 1.2 Other | 2.244.610 | — | 2.237.902 | — | 2.205.704 | — | 2.247.347 | — |
| 2. Other securities | 695.144 | — | 695.144 | — | 828.977 | — | 828.977 | — |
| 2.1 Structured | — | — | — | — | — | — | — | — |
| 2.2 Other | 695.144 | — | 695.144 | — | 828.977 | — | 828.977 | — |
| **Total** | **3.034.708** | **—** | **3.036.931** | **—** | **3.137.678** | **—** | **3.187.314** | **—** |

## Section 2

# Heading 20 – Financial liabilities valued at FVTPL

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

| Transaction type/Values | 31/12/2020 | | | | 30/06/2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 1.748.164 | — | 27.553 | 795 | 1.107.028 | — | 26.863 | — |
| 1.1 Trading | 1.748.164 | — | 27.553 | 795 | 1.107.028 | — | 26.863 | — |
| 1.2 Related to the fair value option | — | — | — | — | — | — | — | — |
| 1.3 Others | — | — | — | — | — | — | — | — |
| 2. Credit derivatives | 1.127.238 | — | 16.297 | — | 1.789.302 | — | 91.905 | — |
| 2.1 Trading | 1.127.238 | — | 16.297 | — | 1.789.302 | — | 91.905 | — |
| 2.2 Related to the fair value option | — | — | — | — | — | — | — | — |
| 2.3 Others | — | — | — | — | — | — | — | — |
| **Total (B)** | **2.875.402** | **—** | **43.850** | **795** | **2.896.330** | **—** | **118.768** | **—** |
| **Total (A+B)** | **2.875.402** | **—** | **43.850** | **795** | **2.896.330** | **—** | **118.768** | **—** |

Section 4

## Heading 40 – Hedging derivatives

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

| **Items/Values** | **31/12/2020** | | | | **30/06/2020** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Notional value** | **Fair value** | | | **Notional value** | **Fair value** | | |
| | | **Level 1** | **Level 2** | **Level 3** | | **Level 1** | **Level 2** | **Level 3** |
| A. Financial derivatives | — | — | — | — | — | — | — | — |
| 1) Fair value hedges | — | — | — | — | — | — | — | — |
| 2) Cash flow hedges | — | — | — | — | — | — | — | — |
| 3) Foreign investments | — | — | — | — | — | — | — | — |
| B. Credit derivatives | — | — | — | — | — | — | — | — |
| 1) Fair value hedges | — | — | — | — | — | — | — | — |
| 2) Cash flow hedges | — | — | — | — | — | — | — | — |
| **Total** | — | — | — | — | — | — | — | — |

Section 6

## Heading 60 – Tax liabilities

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

| | IRC | ICC | Other | Total |
|---|---|---|---|---|
| **Balance at the beginning of the year** | **1.568** | **414** | **1.205** | **3.187** |
| **Increase of the period (+)** | **—** | **—** | **406** | **406** |
| - advances paid | — | — | — | — |
| - transfers | — | — | — | — |
| - others | — | — | 406 | 406 |
| **Decrease of the period (-)** | **—** | **—** | **-463** | **-463** |
| - releases of the year (assessments) | — | — | — | — |
| - transfers | — | — | — | — |
| - others | — | — | -463 | -463 |
| **Balance at the end of the fiscal year** | **1.568** | **414** | **1.149** | **3.131** |

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

| Deferred tax liabilities | 31/12/2020 | 30/06/2020 |
|---|---|---|
| **1. Initial amount** | 0 | **748** |
| 1.1 Initial amount | **—** | 748 |
| **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 (-)** | **0** | **-748** |
| 3.1 Deferred tax reversed during the period | — | -748 |
| 3.2 Lowering of tax rates | — | — |
| 3.3 Other reductions | — | — |
| **Total** | **0** | **0** |

## Section 8

## Heading 80 – Other liabilities

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

| | 31/12/2020 | 30/06/2020 |
|---|---|---|
| 1. Payment agreements (IFRS 2) | — | — |
| 2. Impaired endorsements | — | — |
| 3. Working capital payables and invoices pending receipt | 3.667 | 3.001 |
| 4. Prepaid expenses other than capitalized expenses on related financial assets | — | — |
| 5. Amounts due to revenue authorities | — | — |
| 6. Amounts due to staff | 50 | 34 |
| 7. Other items: | 4.403 | 4.296 |
| - bills for collection | — | — |
| - coupons and dividends pending collection | — | 192 |
| - available sums payable to third parties | 4.403 | 4.104 |
| - premiums, grants and other items in respect of lending transactions | — | — |
| - credit notes to be issued | — | — |
| - other | — | — |
| **Total** | **8.120** | **7.331** |

## Section 10

## Heading 100 – Provisions for risks and charges

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

| Items / Values | 31/12/2020 | 30/06/2020 |
|---|---|---|
| 1. Provisions for credit risk related to commitments and financial guarantees issued | 2.922 | 1.142 |
| 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** | **2.922** | **1.142** |

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

| Provisions for credit risk related to financial obligations and guarantees issued | 31/12/2020 | | | | 30/06/2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage1 | Stage2 | Stage3 | Total | Stage1 | Stage2 | Stage3 | Total |
| Commitments to distribute funds | 1.730 | 1.191 | 1 | 2.922 | 1.122 | 20 | — | 1.142 |
| Financial guarantees issued | — | — | — | — | — | — | — | - |
| **Total** | **1.730** | **1.191** | **1** | **2.922** | **1.122** | **20** | **—** | **1.142** |

## Section 15

## Heading 150 - Reserves

*15.1 Reserves: composition (in € k)*

| | 31/12/2020 | 30/06/2020 |
|---|---|---|
| **A. Reserves** | **320.713** | **331.470** |
| A.1 Legal reserve (A) | 1.000 | 1.000 |
| A.2 Free reserve | 286.695 | 297.479 |
| A.3 NWT reserve (B) | 35.670 | 35.670 |
| A.4 Other (C) | -2.652 | -2.679 |

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

(B): 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.

(C): the account comprises: *a)* the FTA reserve created on the transition to IFRS9, *b)* the performance shares granted starting from the current fiscal year.

## Section 16

## Heading 160 – Share capital

*16.1 Share capital*

As of 31 December 2020, same as June 2020, the issued capital of the Bank amounts to € 10.000.000 and is divided into 1 million shares fully paid with a pair value of € 10 each.

Authorised capital and issue share capital coincide.

## Other information

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

| | Nominal value of commitments and financial guarantees | | | 31/12/2020 | Nominal value of commitments and financial guarantees | | | 30/06/2020 |
|---|---|---|---|---|---|---|---|---|
| | Stage1 | Stage2 | Stage3 | Total | Stage1 | Stage2 | Stage3 | Total |
| **1. Commitments to disburse funds** | **1.613.231** | **72.972** | **1.961,0** | **1.688.164** | **1.417.919** | **1.921** | **—** | **1.419.840** |
| a ) Central Banks | — | — | — | — | — | — | — | — |
| b) Public Administrations | — | — | — | — | — | — | — | — |
| c) Banks | — | — | — | — | — | — | — | — |
| d) Other financial companies | 402.978 | 57.227 | — | 460.205 | 306.649 | — | — | 306.649 |
| e) Non-financial companies | 1.210.253 | 15.745 | 1961 | 1.227.959 | 1.111.270 | 1.921 | — | 1.113.191 |
| f) Retail clients | — | — | — | — | — | — | — | — |
| **2. Financial guarantees given** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| a ) Central Banks | — | — | — | — | — | — | — | — |
| b) Public Administrations | — | — | — | — | — | — | — | — |
| c) Banks | — | — | — | — | — | — | — | — |
| d) Other financial companies | — | — | — | — | — | — | — | — |
| e) Non-financial companies | — | — | — | — | — | — | — | — |
| f) Retail clients | — | — | — | — | — | — | — | — |

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

| Portfolios | Amount | |
|---|---|---|
| | **31/12/2020** | **30/06/2020** |
| Financial instruments valued at FVTPL | — | — |
| Financial instruments valued at FVOCI | — | — |
| Financial instruments valued at amortised cost | 1.213.912 | 1.344.274 |
| Tangible assets | — | — |
| **Total** | **1.213.912** | **1.344.274** |

As at 31 December 2020, the Bank has pledged collateral in form of securities and loans for an amount of € 1.358m of which € 1.214m originated by the Bank itself, whereas € 144m represents the re-use of collateral borrowed from the Parent Bank.

Among the secured financing operations which are outstanding as at 31 December 2020 it might be reported the issue of a senior unsecured floating rate note due 10 March 2022 for a nominal value of USD 100m guaranteed by the Parent (ISIN XS1496191864). This note has been issued in contemplation of its subsequent sale by Mediobanca S.p.A. to Titanium DAC (an Irish special purpose vehicle) in the context of a total return swap transaction whereby, inter alia, Mediobanca S.p.A. has undertaken to repurchase the note from Titanium DAC upon contractual maturity. Mediobanca S.p.A.'s obligation to repurchase the note is collateralised by a portfolio of assets (mostly originated by Mediobanca International) with a market value on any day greater than the principal amount of the note. The market value of the collateral pool at the reporting date is equal to approx. USD 140m (USD 104m post-haircut).

# PART C - NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

Section 1

## Headings 10 and 20 – Net interest income

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

| Items/Technical forms | 31/12/2020 | | | | 31/12/2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Debt securities** | **Loans** | **Other operations** | **Total** | **Debt securities** | **Loans** | **Other operations** | **Total** |
| 1. Financial assets valued at FVTPL: | — | — | — | — | — | 16 | — | 16 |
| 1.1. Financial assets held for trading | — | — | — | — | — | 16 | — | 16 |
| 1.2. Financial assets designated at fair value | — | — | — | — | — | — | — | — |
| 1.3. Other financial assets mandatorily at fair value | — | — | — | — | — | — | — | — |
| 2. Financial assets valued at FVOCI | — | — | — | — | — | — | — | — |
| 3. Financial assets at amortized cost | 531 | 34.132 | X | 34.663 | 13 | 53.211 | — | 53.224 |
| 3.1 Due from banks | 477 | 815 | X | 1.292 | 4 | 4.047 | — | 4.051 |
| 3.2 Due from customers | 54 | 33.317 | X | 33.371 | 9 | 49.165 | — | 49.174 |
| 4. Hedging derivatives | X | X | 3.822 | 3.822 | — | — | — | — |
| 5. Other assets | X | X | — | — | — | — | — | — |
| 6. Financial liabilities bearing negative interests | X | X | X | 13,00 | — | — | — | — |
| **Total** | **531** | **34.132** | **3.822** | **38.498** | **13** | **53.227** | **—** | **53.240** |

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

| Items/Technical forms | 31/12/2020 | | | | 31/12/2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Borrowings | Securities issued | Other operations | Total | Borrowings | Securities issued | Other operations | Total |
| 1. Financial liabilities at amortized cost | -14.819 | -16.047 | — | -30.866 | -30.965 | -17.768 | X | -48.733 |
| 1.1 Due to central banks | — | X | X | — | — | X | X | — |
| 1.2 Due to banks | -14.630 | X | X | -14.630 | -30.743 | X | X | -30.743 |
| 1.3 Due to customers | -189 | X | X | -189 | -222 | X | X | -222 |
| 1.4 Debt securities in issue | X | -16.047 | X | -16.047 | X | -17.768 | X | -17.768 |
| 2. Trading financial liabilities | — | — | — | — | — | — | — | — |
| 3. Financial liabilities designated at fair value | — | — | — | — | — | — | — | — |
| 4. Other liabilities and funds | X | X | — | — | X | X | — | — |
| 5. Hedging derivatives | X | X | — | — | X | X | -189 | -189 |
| 6. Financial assets bearing negative interests | X | X | X | -565 | X | X | X | -952 |
| **Total** | **-14.819** | **-16.047** | — | **-31.431** | **-30.965** | **-17.768** | **-189** | **-49.874** |

Section 2

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

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

| **Type of service/Values** | **31/12/2020** | **31/12/2019** |
|---|---|---|
| a) guarantees given | — | 32 |
| b) credit derivatives | — | — |
| c) management and brokerage services | — | — |
| 1. trading in financial instruments | — | — |
| 2. currency trading | — | — |
| 3. portfolio management | — | — |
| 4. securities custody and administration | — | — |
| 5. custodian bank | — | — |
| 6. placement of financial instruments | — | — |
| 7. reception and transmission of orders | — | — |
| 8. advisory services | — | — |
| 8.1. related to investments | — | — |
| 8.2. related to financial structure | — | — |
| 9. distribution of third parties services | — | — |
| 9.1. portfolio management | — | — |
| 9.1.1. individual | — | — |
| 9.1.2. collective | — | — |
| 9.2. insurance products | — | — |
| 9.3. other products | — | — |
| d) collection and payment services | — | — |
| e) securitization servicing | — | — |
| f) factoring services | — | — |
| g) tax collection services | — | — |
| h) management of multilateral trading facilities | — | — |
| i) management of current account | — | — |
| j) other services | 7.046 | 7.667 |
| **Total** | **7.046** | **7.699** |

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

| **Services/Amounts** | | | **31/12/2020** | **31/12/2019** |
|---|---|---|---|---|
| a) | guarantees received | | — | -135 |
| b) | credit derivatives | | — | — |
| c) | management and brokerage services | | -4.330 | -989 |
| | 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 | -4.330 | -989 |
| | 6. | off-site distribution of financial instruments, products and services | — | — |
| d) | collection and payment services | | -1.056 | -22 |
| e) | other services | | -3.281 | -2.127 |
| **Total** | | | **-8.667** | **-3.273** |

Section 3

## Heading 80 – Net trading income (expense)

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

| Transactions / Income | Unrealized profit (A) | Realized profit (B) | Unrealized losses (C) | Realized losses (D) | Net Profit 31/12/2020 | Net Profit 31/12/2019 |
|---|---|---|---|---|---|---|
| 1. Financial trading assets | 840 | — | -47 | — | 793 | -14 |
| 1.1 Debt securities | 840 | — | -47 | — | 793 | — |
| 1.2. Equity | — | — | — | — | — | — |
| 1.3. O.I.C.R. shares | — | — | — | — | — | — |
| 1.4. Loans | — | — | — | — | — | -14 |
| 1.5. Others | — | — | — | — | — | — |
| 2. Financial trading liabilities | — | — | — | — | — | — |
| 2.1. Debt securities | — | — | — | — | — | — |
| 2.2. Borrowings and deposits | — | — | — | — | — | — |
| 2.3. Others | — | — | — | — | — | — |
| 3. Financial assets and liabilities in foreign currencies: exchange differences | X | X | X | X | 4.551 | 3.185 |
| 4. Derivatives | 99.092 | 4.834 | -100.244 | -5.029 | -4.991 | -4.238 |
| 4.1 Financial derivatives: | 11.832 | 4.819 | -11.402 | -4.534 | -2.929 | -4.258 |
| 4.1.1 on debt securities and interest rates | 1.290 | 4.767 | -1.405 | -4.534 | 118 | -124 |
| 4.1.2 on equity securities and shares indexes | 10.542 | 52 | -9.997 | — | 597 | -77 |
| 4.1.3 on currencies and gold | X | X | X | X | -3.644 | -4.057 |
| 4.1.4 other | — | — | — | — | 0 | 0 |
| 4.2. Credit derivatives | 87.260 | 15 | -88.842 | -495 | -2.062 | 20 |
| **Total** | **99.932** | **4.834** | **-100.291** | **-5.029** | **353** | **-1.067** |

## Section 4

# Heading 90 – Net hedging income (expense)

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

| | **31/12/2020** | **31/12/2019** |
|---|---|---|
| A. Income from: | | |
| A.1 Fair value hedge derivatives | — | 47 |
| A.2 Financial assets hedged (fair value) | — | — |
| A.3 Financial liabilities hedged (fair value) | 9.813 | 12.030 |
| A.4 Cash flow hedge financial derivatives | — | — |
| A.5 Assets and liabilities in foreign currency | — | — |
| Total hedging income (A) | 9.813 | 12.077 |
| B. Expenses relating to: | | |
| B.1 Fair value hedge derivatives | -6.285 | -12.056 |
| B.2 Financial assets hedged (fair value) | — | — |
| B.3 Financial liabilities hedged (fair value) | -3.464 | -77 |
| B.4 Cash flow hedge financial liabilities | — | — |
| B.5 Assets and liabilities in foreign currency | — | — |
| Total hedging expenses (B) | -9.749 | -12.133 |
| **C. Net hedging income (A-B)** | **64** | **-56** |

Section 5

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

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

| Items/Income | | 31/12/2020 | | | 31/12/2019 | | |
|---|---|---|---|---|---|---|---|
| | | Gains | Losses | Net profit (loss) | Gains | Losses | Net profit (loss) |
| A | Financial assets | | | | | | |
| 1. | Financial assets valued at amortized cost | 371 | -144 | 227 | 675 | — | 675 |
| | 1.1 Loans and receivables from banks | — | — | — | 382 | -6 | 376 |
| | 1.2 Loans and receivables from customers | 371 | -144 | 227 | 293 | 6 | 299 |
| 2. | Financial assets valued at FVOCI | — | — | — | — | — | — |
| | 2.1 Debt securities | — | — | — | — | — | — |
| | 2.2 Loans | | | | — | — | — |
| **Total assets (A)** | | **371** | **-144** | **227** | **675** | **—** | **675** |
| B | Financial liabilities valued at amortized cost | | | | | | |
| 1. | Deposits with banks | — | — | — | — | — | — |
| 2. | Deposits with customers | — | — | — | — | — | — |
| 3. | Debt securities issue | 2.531 | -2.434 | 97 | 1.111 | -8 | 1.103 |
| **Total liabilities (B)** | | **2.531** | **-2.434** | **97** | **1.111** | **-8** | **1.103** |

## Section 6

# Heading 130 – Net value adjustments for credit risk

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

| Items/Income | | Writedowns (1) | | | Writebacks (2) | | 31/12/2020 (1)+(2) | ended 31/12/2019 |
|---|---|---|---|---|---|---|---|---|
| | | First and Second stage | Third stage | | First and Second stage | Third stage | | |
| | | | Write-off | Others | | | | |
| A | Loans and receivables with banks | -122 | | | | | -122 | 1.301 |
| | - Loans and receivables | -122 | | | | | | 1.299 |
| | - Notes | — | | | | | | 2 |
| | of which: financial assets purchased or originated | | | | | | | |
| | credit impaired | — | | | | | | — |
| B | Loans and receivables with customers | -2.456 | | -3.615 | 98 | | -5.973 | -2.249 |
| | - Loans and receivables | -2.456 | | -3.615 | | | -6.071 | -2.352 |
| | - Notes | — | — | — | 98 | — | 98 | 103 |
| | of which: financial assets purchased or originated | | | | — | — | — | |
| | credit impaired | | | | | | — | — |
| **Total** | | **-2.578** | **—** | **-3.615** | **98** | **—** | **-6.095** | **-948** |

## Section 7

# Heading 190 – Administrative expenses

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

| Type of expense/Amounts | 31/12/2020 | 31/12/2019 |
|---|---|---|
| 1.Employees | **-1.297** | **-1.228** |
| a) wages and salaries | -1.015 | -1.043 |
| b) social security contributions | -96 | -92 |
| c) severance indemnities | -33 | — |
| d) pension contributions | — | — |
| 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: | -93 | -54 |
| – defined contribution | *-93* | *-54* |
| – defined benefit | — | — |
| h) expenses incurred in connection with share payment schemes | -28 | — |
| i) other staff benefits | -32 | -39 |
| 2. Other staff | **—** | **-40** |
| 3. Board members | **-235** | **-120** |
| **Total** | **-1.532** | **-1.388** |

*7.2 Average number of employees by category*

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Employees | 18 | 18 |
| a) senior executives | 4 | 3 |
| b) executives | 2 | 1 |
| c) other employees | 12 | 14 |
| Other staff | — | 1 |
| **Total** | **18** | **19** |

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

| Type of expense/Amounts | 31/12/2020 | 31/12/2019 |
|---|---|---|
| – legal, tax and professional services | -494 | -263 |
| – loan recovery activity | 0 | 0 |
| – marketing and communication | -1 | -6 |
| – property expenses | -21 | -23 |
| – IT and data processing | -1.010 | -910 |
| – Info-provider | -20 | -23 |
| – bank charges, collection and payment fees | -14 | -13 |
| – operating expenses | -856 | -742 |
| – other staff expenses | -17 | -65 |
| – other costs | -84 | -139 |
| – indirect and other taxes | -297 | -267 |
| **Total** | **-2.814** | **-2.451** |

Section 8

## Heading 200 – Net provisions for risks and charges

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

| | 31/12/2020 | | | 31/12/2019 | | |
|---|---|---|---|---|---|---|
| | **Net provisions** | **Net releases of surplus** | **Total** | **Net provisions** | **Net releases of surplus** | **Total** |
| Loan commitments | -1.780 | — | -1.780 | — | -10 | -10 |
| Financial guarantees issued | — | — | — | 20 | — | 20 |
| **Total** | **-1.780** | **0** | **-1.780** | **20** | **-10** | **10** |

Section 9

## Heading 210 – Net adjustments to tangible assets

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

| **Asset/Income** | **Depreciation (a)** | **Impairment (b)** | **Write-back (c)** | **Net result (a+b-c)** |
|---|---|---|---|---|
| A. Property, equipment and investment properties | | | | |
| 1 For operational use | -128 | — | — | -128 |
| - Owned | -4 | — | — | -4 |
| - Licences acquired through leases | -124 | — | — | -124 |
| 2 Held for investment purpose | — | — | — | — |
| - Owned | — | — | — | — |
| - Licences acquired through leases | — | — | — | — |
| **Total 31/12/2020** | **-128** | **—** | **—** | **-128** |
| **Total 31/12/2019** | **-113** | **—** | **—** | **-113** |

## Section 10

## Heading 230 – Other operating income (expense)

*10.1 Other operating income: breakdown (in € k)*

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| a) Leasing activity | — | — |
| b) Other expenses | — | -2.833 |
| **Total expense** | **—** | **-2.833** |
| a) Amounts recovered from customers | — | — |
| b) Leasing activity | — | — |
| c) Other income | 3.511 | 349 |
| **Total income** | **3.511** | **349** |
| **Net income (expense)** | **3.511** | **-2.484** |

## Section 11

## Heading 300 – Income tax on the ordinary activity

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

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| 1. Current tax expenses | — | -275 |
| 2. Changes in current tax expenses of the previous years | — | — |
| 3. Changes of deferred tax assets | 661 | — |
| 4. Changes of deferred tax liabilities | — | — |
| **Total** | **661** | **-275** |

# PART D – OPERATING SEGMENT REPORTING

## A. PRIMARY SEGMENT REPORTING

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

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

| | | CORPORATE LENDING | EXPORT FINANCE | LEVERAGE FINANCE | PROJECT FINANCE | OTHER |
|---|---|---|---|---|---|---|
| 10. | Cash and cash equivalents | - | - | - | - | 1 |
| 20. | Financial assets valued at FVTPL | 56.564 | - | 41.086 | 762 | - |
| 40. | Financial assets valued at amortised cost | 3.792.163 | - | 2.754.503 | 51.103 | - |
| | *a) Due from banks* | 1.274.860 | - | 926.017 | 17.180 | - |
| | *b) Due from customers* | 2.517.303 | - | 1.828.486 | 33.923 | - |
| 50. | Hedging derivatives | 20.071 | - | 14.579 | 270 | - |
| 70. | Equity investments | - | - | - | - | 4.150 |
| 90. | Property, plant and equipments | - | - | - | - | 178 |
| 110. | Tax assets | 7.608 | - | 5.526 | 102 | - |
| | *a) current* | *5.278* | - | 3.834 | 71 | - |
| | *b) deferred* | *2.330* | - | 1.692 | 31 | - |
| 130. | Other assets | 5.974 | - | 4.339 | 80 | - |
| | **Total assets at 31/12/2020** | **3.882.380** | **-** | **2.820.033** | **52.317** | **4.329** |
| | **Total assets at 30/06/2020** | **3.427.174** | **-** | **2.936.283** | **60.721** | **4.419** |
| 10. | Financial liabilities valued at amortised cost | -3.662.123 | - | -2.660.046 | -49.350 | - |
| | *a) Due to banks* | *-1.841.341* | - | *-1.337.490* | *-24.814* | - |
| | *b) Due to customers* | *-76.540* | - | *-55.596* | *-1.031* | - |
| | *b) Debt securities in issue* | *-1.744.242* | - | *-1.266.960* | *-23.505* | - |
| 20. | Financial liabilities valued at FVTPL | -25.660 | - | -18.639 | -346 | - |
| 40. | Hedging derivatives | - | - | - | - | - |
| 60. | Tax liabilities | -1.799 | - | -1.307 | -24 | - |
| | *a) current* | *-1.799* | - | *-1.307* | *-24* | - |
| | *b) deferred* | - | - | - | - | - |
| 80. | Other liabilities | -4.667 | - | -3.390 | -63 | - |
| 100. | Provisions for risks and charges | -1.680 | - | -1.220 | -23 | - |
| 150. | Reserves | -184.335 | - | -133.895 | -2.484 | - |
| 160. | Share capital | -5.748 | - | -4.175 | -77 | - |
| | **Total liabilities at 31/12/2020 (1)** | **-3.886.012** | **-** | **-2.822.672** | **-52.367** | **-** |
| | **Total liabilities at 30/06/2020 (1)** | **-3.435.285** | **-** | **-2.943.232** | **-60.865** | **-** |

(1) Profit for the period excluded

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

Assets have been allocated on the basis of the originator business unit, while break down of liabilities has been performed following criteria of economic pertinence.

| | Items | CORPORATE LENDING | EXPORT FINANCE | LEVERAGE FINANCE | PROJECT FINANCE | OTHER |
|---|---|---|---|---|---|---|
| 010. | Interests and similar income | 22.125 | _ | 16.071 | 298 | _ |
| 020. | Interest expense and similar charges | -18.061 | _ | -13.122 | -243 | _ |
| **030.** | **Net interest income** | **4.065** | **_** | **2.949** | **55** | **_** |
| 040. | Fee and commission income | 4.050 | _ | 2.941 | 55 | _ |
| 050. | Fee and commission expense | -4.982 | _ | -3.619 | -67 | _ |
| **060.** | **Net fee and commission income** | **-932** | **_** | **-678** | **-12** | **_** |
| 080. | Net trading income/expense | 202 | _ | 147 | 3 | _ |
| 090. | Net hedging income/expense | 37 | _ | 27 | 0 | _ |
| 100. | Gain or loss on disposal or repurchase of: | 173 | _ | 149 | 3 | _ |
| | *a) financial assets valued at amortised cost* | *173* | _ | *148* | *3* | _ |
| | *b) financial assets valued at FVOCI* | _ | _ | _ | _ | _ |
| | *c) financial liabilities* | _ | _ | _ | _ | _ |
| **120.** | **Total income** | **3.545** | **_** | **2.594** | **49** | **_** |
| 130. | Adjustment for impairment to: | -3.503 | _ | -2.545 | -47 | _ |
| | *a) financial assets valued at amortised cost* | *-3.503* | _ | *-2.545* | *-47* | _ |
| | *b) financial assets valued at FVOCI* | _ | _ | _ | _ | _ |
| **150.** | **Net income from financial operations** | **42** | **_** | **49** | **2** | **_** |
| 190. | Administrative expenses | -2.319 | _ | -1.987 | -41 | _ |
| | *a) personnel costs* | *-817* | _ | *-700* | *-14* | _ |
| | *b) other administrative expenses* | *-1.502* | _ | *-1.287* | *-27* | _ |
| 200. | Net provisions for risks and charges | -1.023 | _ | -743 | -14 | _ |
| 210. | Value adjustments in respect of tangible assets | -73 | _ | -53 | -1 | _ |
| 230. | Other operating income/expense | 2.018 | _ | 1.466 | 27 | _ |
| **290.** | **Profit (loss) of the ordinary activity before tax** | **-1.356** | **_** | **-1.268** | **-27** | **_** |
| 300. | Income tax on the ordinary activity | 380 | _ | 276 | 5 | _ |
| **330.** | **Profit (loss) for the period** | **-976** | **_** | **-992** | **-22** | **_** |
| 340. | Other comprehensive income, net of tax | – | – | – | – | – |
| **350.** | **Profit (Loss) of the year 31/12/2020** | **-976** | **_** | **-992** | **-22** | **_** |
| | **Profit (Loss) of the year 30/06/2020** | **-5.755** | **_** | **-4.929** | **-101** | **_** |

## B. SECONDARY SEGMENT REPORTING

The Bank operates in four geographical markets: Luxembourg, Other EU Countries, Americas and Asia. The following tables show the distribution of the Bank's financial and income statements based on the location of the customers for the mid years ended 31 December 2020.

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

| | LUXEMBOURG | OTHER EUROPEAN COUNTRIES | AMERICAS | OTHER EMEA |
|---|---|---|---|---|
| Cash and cash equivalents | 1 | — | — | — |
| Financial assets valued at FVTPL | 36.119 | 62.294 | — | — |
| Financial assets valued at amortised cost | 982.646 | 4.587.772 | 895.793 | 131.558 |
| *a) Due from banks* | *47.624* | *2.170.437* | — | — |
| *b) Due from customers* | *935.022* | *2.417.336* | *895.793* | *131.558* |
| Hedging derivatives | — | 34.921 | — | — |
| Equity investments | 4.150 | — | — | — |
| Property, plant and equipments | 170 | 7 | — | — |
| Tax assets | 13.237 | — | — | — |
| *a) current* | *9.183* | — | — | — |
| *b) deferred* | *4.054* | — | — | — |
| Other assets | 5.810 | 2.744 | 1.839 | — |
| **A. Total assets at 31/12/2020** | **1.042.132** | **4.687.739** | **897.632** | **131.558** |
| **A. Total assets at 30/06/2020** | **951.214** | **4.502.203** | **963.399** | **11.782** |
| Financial liabilities valued at amortised cost | -3.167.843 | -3.203.678 | — | — |
| *a) Due to banks* | — | *-3.203.644* | — | — |
| *b) Due to customers* | *-133.106* | *-62* | — | — |
| *c) Debt securities in issue* | *-3.034.737* | *29* | — | — |
| Financial liabilities valued at FVTPL | -16.067 | -28.577 | — | — |
| Hedging derivatives | — | — | — | — |
| Tax liabilities | -3.131 | — | — | — |
| *a) current* | *-3.131* | — | — | — |
| *b) deferred* | — | — | — | — |
| Other liabilities | -79 | -7.976 | -0 | -66 |
| Provisions for risks and charges | -162 | -2.569 | -93 | -99 |
| Reserves | -323.049 | 1.358 | 978 | — |
| Share capital | -10.000 | — | — | — |
| **B. Total liabilities at 31/12/2020** | **-3.520.330** | **-3.241.442** | **884** | **-165** |
| **B. Total liabilities at 30/06/2020** | **-3.639.835** | **-2.800.439** | **893** | **—** |

(1) Profit for the period excluded

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

| | LUXEMBOURG | OTHER EUROPEAN COUNTRIES | AMERICAS | OTHER EMEA |
|---|---|---|---|---|
| Net interest income | -6.518 | 3.071 | 10.465 | 44 |
| Net fee and commission income | 498 | -2.465 | 346 | — |
| Net trading income/expense | 42.282 | -35.443 | -5.363 | -1.122 |
| Net hedging income/expense | 6.349 | -6.285 | — | — |
| Gain or loss on disposal or repurchase of: | 98 | 10 | 216 | — |
| Value Adjustments - impairment | 337 | -1.742 | -448 | -4.242 |
| Administrative expenses | -1.961 | -2.331 | -54 | — |
| Net provisions for risks and charges | -112 | -1.659 | -8 | -1 |
| Value adjustments in respect of tangible assets | -99 | -29 | — | — |
| Other operating income/expense | 64 | 3.440 | 11 | — |
| Income tax | 661 | — | — | — |
| **Profit (Loss) of the year 31/12/2020** | **41.598** | **-43.433** | **5.165** | **-5.321** |
| **Profit (Loss) of the year 30/06/2020** | **18.883** | **-59.806** | **34.637** | **-4.499** |

# PART E - SUBSEQUENT EVENTS

The bank is not aware of any subsequent events (other than those already reflected in the financial statement), that occurred between 31 December 2020 and the date when the present financial statements were authorised for issue.