MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.

RCSL n. B112885

Annual Accounts and Report
30 June 2021

MEDIOBANCA INTERNATIONAL (Luxembourg)

SOCIÉTÉ ANONYME

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

Annual General Meeting
20 October 2021

www.mediobancaint.lu

BOARD OF DIRECTORS

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

INDEPENDENT AUDITOR

PRICEWATERHOUSECOOPERS S.C.	LUXEMBOURG

CONTENTS

MANAGEMENT REPORT

Mediobanca International (Luxembourg) S.A.

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

Mediobanca Banking Group

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

FINANCIAL SITUATION AS AT 30 JUNE 2021

MANAGEMENT REPORT

DEVELOPMENT IN MACROECONOMIC SCENARIO

Financial year 2020-21 was characterised by the extraordinarily positive performance of the global economy, buoyed by enormous economic policy interventions and the positive effects of the global Covid-19 vaccination campaign.

In the second half of 2020, the crisis began to normalise and there was growing confidence in the ability to contain the pandemic phenomenon, despite the resurgence of cases in the third and fourth quarters, made possible by the significant fiscal policy measures allocated by the governments of the major industrialised nations to stabilise their economies and revitalise growth. In December 2020, these measures amounted to 19,2% of GDP for the USA, 6,0% for China, 10,6% for the European Union and 44,0% for Japan. The deployment of fiscal and monetary policy measures and then the vaccination campaign were accompanied by a gradual strengthening of the global economy, which gained momentum in the first half of 2021.

In particular, in the second half of 2020 there were average period-on-period GDP increases of 4,8% in the US, 2,9% in China, 5,9% in the Eurozone and 4,1% in Japan. However, in the first half of 2021 growth then slowed significantly due to the withdrawal of fiscal stimulus and the ensuing return to more usual growth rates, with average period-on-period GDP growth of 1,6% in the US, 0,8% in China, 0,9% in the European Union and -0,3% in Japan.

The recovery of economic activity yielded raw material price growth on an annual level of 87% for US oil, 58% for copper and 45% for the industrial raw materials index.

Starting in the first quarter of 2021, the combined effect of the increase in raw materials prices, the costs associated with the emergence of bottlenecks in various production processes and the decline in prices in the previous year resulted in widespread increases in inflation in various geographical areas, chiefly attributable to a few elements in the baskets of reference. From December 2020 to June 2021, inflation rose from -0,3% YoY to 1,9% YoY in the Euro Area and from 1,4% YoY to 5,4% YoY in the USA. There is a widespread conviction among central banks that inflation will decline, yet inflation trends are being observed very closely to avoid the need for strict financial conditions to snuff out flare-ups of inflation.

Within this scenario, equity prices continued the robust rally that began in the second quarter of 2020 (in June 2021 YTD, +38,6% for the S&P500, +37,0% for the MSCI World Index, +25,7% for the Eurostoxx 600, +31,7% for the MSCI Asia Pacific and 29,2% for the Nikkei), credit spreads fell back to the lows seen prior to the spread of the pandemic (the iTraxx Europe fell from 67 to 46 bps and US high-grade CDSs from 76 to 48 bps) and absolute rate levels only rose to a moderate degree (10-year Treasuries rose from 0,66% to 1,47% and Bunds with the same maturity from -0,45% to -0,21%).

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Turning to European economic performance, in the second half of 2020 the economic growth rate slowed, losing the momentum imparted by economic policy in the second quarter, and a clear dichotomy emerged between the manufacturing and service sectors. The expansion of the service sector began to slow in sector confidence surveys beginning in July, falling into negative territory from September to March 2021 following the aforementioned resurgence of Covid-19 after the summer break (the Euro Area index fell from 54,7 in July to 48 in September). Only the deployment of the vaccination campaign enabled a return to growth in the second quarter of 2021 (58,3 in June 2021). Confidence surveys of the manufacturing sector – less sensitive to pandemic flows – were more stable and constantly in positive territory. As the counterpart to services, they gained momentum as the economy reopened and the vaccination campaign progressed (the indicator rose from 51,8 to July 2020 to 63,4 in June 2021).

GDP growth paralleled the performance of the service sector, with average growth of +5,9% QoQ in the second half of 2020, strongly influenced by the performance in the third quarter, and of +0,9% QoQ in the first half of 2021.

These results were supported by public financial commitments, estimated from the beginning of the crisis to July 2021 at 10,5% of 2020 GDP for the Euro Area, 41,4% for Germany, 24,8% for France, 46,2% for Italy and 22.0% for Spain. The impact at the level of government debt was considerable. At the end of 2020 Eurostat reported government debt levels of 97,8% of GDP for the Euro Area (100,5% in the first quarter of 2021), 69,7% for Germany (71,1%), 115,1% for France (118,0%), 155,8% for Italy (160,0%) and 119,9% for Spain (125,2%).

In support of national fiscal policy initiatives, the process of innovation of governance of the European Union launched in the aftermath of the crisis took concrete form in the second half of 2020. The principle of common financing in return for economic reforms in the beneficiary nation was superseded by financial subsidiarity amongst member states. The most innovative element introduced is Next Generation EU, which consists of 360 billion euros of facilitated loans and 390 billion euros in national subsidies to finance public interventions proportionate to the economic impact of the pandemic on the member states. For the first time, ample fiscal transfers by European entities to individual countries are permitted without any external conditions, being instead contingent on the prompt execution of the Recovery and Resilience Plans (RRPs) presented by each government and approved by the Commission. As a corollary to the RRP financing mechanism, a plan for bond issues guaranteed jointly by each European Union Member State was also prepared.

In pursuing its policy goals, the ECB also boosted economic activity by expanding its Pandemic Emergency Purchase Programme (PEPP) of 500 billion euros, increasing it to a maximum of 1,850 billion euros and postponing its conclusion until no earlier than March 2022 (from the previous June 2021), and also taking measures designed to increase the attractiveness of financing of bank lending through its Targeted Long Term Refinancing Operations III (TLTRO III).

During the year, the economic recovery, the prospect of long-term favourable financing conditions, the overall base effect on commodities and the increase in production costs due to the relocation of production processes to low-cost areas resulted in favourable financial market conditions and consolidated inflationary pressures. In particular, between the end of June 2020 and the end of June 2021:

– market inflation expectations rose: by 90 bps to 1,47% for five years and by 70 bps to 1,56% for ten years.

– equity prices rose: the EuroStoxx 600 was up by 26% and the indices for Germany, France, Italy and Spain by 22% to 30%;

– European government spreads on the German curve narrowed, falling to levels near the pre-pandemic situation. Ten-year Italian spreads narrowed by approximately 70 bps to 100 bps and Spanish spreads by approximately 32 bps to 62 bps;

– high-yield credit was up by approximately 11%;

– the EUR, weighted according to trade, remained essentially unchanged (after an appreciation of nearly 2,6% at the end of 2020), but appreciated by around 5,4% against the USD.

* * *

In line with the European economy, Italy enjoyed a very robust rally in the third quarter of 2020 (16% QoQ), benefiting from both economic support policies and the natural increase in economic activities in the summer months. The natural slowing of growth in the fourth quarter brought average growth for the half-year to 7,1% QoQ. The consolidation of the recovery in the first half of 2021 yielded average growth of 1,5% QoQ.

The Italian growth outlook remains promising. Government action made it possible to quickly draw up a plan to use the European funds distributed as part of the Next Generation EU programme, which met with the European Commission’s approval.

In Italy, where economic activity is struggling to return to pre-Covid 19 levels, inflation is growing less vigorously than the European average. The average measurement was -0,3% YoY, compared to -0,2% in the Eurozone, in the second half of 2020, compared to 1,0% YoY in Italy and 1,4% YoY in the Eurozone in the first half of 2021.

In Luxembourg, after an estimated q-o-q growth rate of 1,4% in the first quarter of this year, real GDP growth is expected to bounce back to 4,8% on an annual basis in 2021, before moderating to 3,3% in 2022. Luxembourg’s economy performed relatively well in 2020, thanks to information and communication exports and the financial services sector. As a result, real GDP had already reached its pre-crisis level in the fourth quarter of 2020.

GENERAL PRINCIPLES OF DRAWING UP THE MANAGEMENT REPORT

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

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

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

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

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

	30/06/2021	30/06/2020	Chg.
	€m	€m	%
Financial assets at FVTPL	103,5	121,3	-14,7%
Treasury investments	1.726,7	1.303,3	32,5%
Debt securities - banking book	10,2	12,9	-21,0%
Loans and advances	5.185,6	4.912,6	5,6%
Equity investments	4,2	4,2	0,0%
Tangible and intangible assets	1,6	0,3	484,0%
Other assets	96,8	74,1	30,5%
Total Assets	**7.128,5**	**6.428,6**	**10,9%**
Loans and borrowings	4.407,2	3.326,0	32,5%
Debt securities issued	2.156,0	2.265,6	-4,8%
Treasury borrowings	183,1	373,6	-51,0%
Financial liabilities at FVTPL	28,2	118,8	-76,3%
Other liabilities	16,1	12,7	25,9%
Provisions for risks and charges	1,9	1,1	62,3%
Net equity	330,8	341,5	-3,1%
Net profit	5,3	-10,8	-148,8%
Total Liabilities	**7.128,5**	**6.428,6**	**10,9%**

ASSETS

Despite the persistence of a difficult market environment, the Bank's exposures increased appreciably throughout the financial year, reaching the value of € 7,1bn at the end of June 2021 (+10,9% compared to June 2020). In particular, 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) slightly decreased by -14,7%, primarily as a consequence of a) the mark to market reduction of the financial and credit derivative contracts negotiated with the Parent Company (or embedded in other financial instruments) which amounts to € 30,0m (€ 121,5m at the end of June 2020) and b) partially compensated by 73,0m of corporate securities purchases. It is worth mentioning that the Bank is not taking any speculative position in derivatives and the aforementioned variation was de facto compensated by an equivalent increase of the carrying value of financial liabilities valued at fair value through profit or loss (cf. infra).

Treasury investment – the carrying value of treasury investments has increased considerably compared to June 2020 (+32,5%, from € 1.303,3m to € 1.726,7m) mainly as a consequence of temporary excess liquidity reinvested with the Group Treasury by means of money market instruments. In details:

- Reserve requirement at Central Bank amounts to € 51,1m and is decreasing compared to June 2020 (-25,1% in percentage terms) when it totalled € 68,2m. Given the two-tier system for remunerating excess reserve holdings, introduced by the ECB and started on 30 October 2019, the tiering reserve towards ECB is equals to € 43,8m at the end of June 2021 (€ 50,0m at the end of June 2020).
- Demand deposits with banks amounts to € 741,2m which corresponds to an increase of +21,5% compared to June 2020 when they stood at € 610,2m.
- Term deposits with the Parent Company amounts to € 934,2m which corresponds to an increase of +49,6% compared to June 2020 when they stood at € 624,6m. This variation was primarily driven by the excess liquidity holdings borrowed from the Parent to do pre-funding in view of the pipeline expected in the first quarter of the new FY.
- The carrying value of repo transactions is nil at the reference date (same as previous financial year).
- Other treasury exposures are negligible in terms of outstanding carrying values (and substantially stable compared to June 2020).

	30/06/2021	30/06/2020	Chg.
	€m	€m	%
Reserve requirement at Central Bank	51,1	68,2	-25,1%
Demand deposits	741,2	610,2	21,5%
Term deposits	934,2	624,6	49,6%
Repo transactions	-	-	-
Other money market operations	0,2	0,3	-12,3%
Treasury investments	**1.726,7**	**1.303,3**	**32,5%**

Debt securities – this item of the reclassified statement of financial position amounts to € 10,2m (-21% compared to June 2020). Securities holdings consist of debt securities issued by the Parent and/or other Group affiliates which have been classified as financial assets valued at amortised cost under IFRS 9.

Loans and advances – the carrying value of loans and advances has increased compared to June 2020 (+5,6%, from € 4.912,6m to € 5.185,6m). The institution's net credit risk exposure (i.e. drawn amounts to corporate clients excluding the portion secured by financial guarantees issued by the Parent and/or the direct exposures towards the Parent) has followed an opposite trend, with a decrease from € 1.353,1m at the end of June 2020 to € 1.172,1m at the end of June 2021 (-15,4%). The quality of the credit portfolio remains satisfactory, as demonstrated by the value of the Texas ratio which amounts to 9,0% (8,9% at the end of June 2020).

In an environment which continues to be extremely challenging, the net carrying value of non-performing exposures (i.e. net book value after any impairment recognition) corresponds to € 30,2m (+2,4% at June 2020) demonstrating once again the risk sensitive approach of the Bank, so as its ability to select those investment opportunities which show a fair balance between risk and return.

	30/06/2021	30/06/2020	Chg.
	€m	€m	%
Loans and receivables (banks)	876,0	780,4	12,3%
of which: non performing	-	-	
Loans and receivables (customers)	4.309,6	4.132,2	4,3%
of which: non performing	*30,2*	*29,5*	*2,4%*
Loans and advances	**5.185,6**	**4.912,6**	**5,6%**

Equity investment – in September 2011, the Bank purchased via a share deal all the 1.000 shares of Jodewa S.à r.l. (following renamed as Mediobanca International Immobilière S.à r.l.) a company owning the building where the Bank has moved its head office in April 2012. In February 2020, an independent evaluation was carried out by a primary real estate advisor to assess the presence of any impairment indicator and, in particular, whether the carrying amount of the immovable property may be higher than its recoverable amount. The evaluation report has largely confirmed the fairness of the Bank's carrying amount.

Other assets – this item of the reclassified statement of financial position increased from € 74,1m at the end of June 2020 to € 96,8m at the end of June 2021 (+30,5% in percentage terms) and is composed by (i) fair value of hedging derivatives, (ii) tax assets, and (iii) other receivables. In detail:

	30/06/2021	30/06/2020	Chg.
	€m	€m	%
Hedging derivatives	25,4	38,8	-34,5%
Tax assets	13,6	10,6	28,1%
Transitory accounts and other receivables	57,7	24,7	133,8%
Other assets	**96,8**	**74,1**	**30,5%**

Fair value of hedging derivative instruments decreased as a consequence of the dynamics of the underlying input market parameters. Tax assets slightly increased following the assessments received during the course of the financial year (with reference to which there are no particular deviations to be reported as compared with the amounts originally provisioned). Transitory accounts and other receivables increased primarily as a result of the receivables generated in the context of the asset encumbrance, where payments received on the financial instruments posted as collateral are initially collected by the third-party lenders (i.e. collateral receiver) and subsequently transferred to the Bank (i.e. the collateral giver) in accordance with the contractual arrangements in place. This kind of transactions create various suspended amounts which are generally cleared in a very short period of time (indeed most of the receivables accounted at the end of June were already cleared in August 2021).

LIABILITIES

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

Loans and borrowings – the carrying value of loans and borrowings increased from € 3.326,0m (June 2020) to € 4.407,2m (June 2021). In detail:

- Amount due to banks increased by +52,0% from € 2.343,9m (June 2020) to € 3.563,1m (June 2021) mainly as a result of the higher endowment in treasury activities.
- Amount due to customers declined of 43,7% (€ 110,0m at the end of June 2020).
- Borrowings under the commercial paper programmes remained in line with the previous year from € 829,0m (June 2020) to € 755,3m (June 2021) given the stable conditions of the interbank market.
- Change in fair value of hedged debt instruments valued at amortised costs decreased from € 43,1m (June 2020) to € 26,9m (June 2021). As already stated above with regard 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 (in particular, the dollar exchange rate).

	30/06/2021	30/06/2020	Chg.
	€m	€m	%
Amount due to banks	3.563,1	2.343,9	52,0%
Amount due to customers	62,0	110,0	-43,7%
Commercial papers	755,3	829,0	-8,9%
CFV notes issued	26,9	43,1	-37,5%
Loans and borrowings	**4.407,2**	**3.326,0**	**32,5%**

Debt securities issued – the carrying value of notes issued under the existing medium-term programmes decreased by -4,8%, from € 2.265,6m (June 2020) to 2.156,0m (June 2021). The variation was greater with reference to structured notes (-11,8%) which decreased from € 103,0m (June 2020) to € 90,8m (June 2021), whilst the decrease of non-structured notes (-4,5%) was more pronounced in absolute terms, from € 2.162,6m (June 2020) to € 2.065,2m (June 2021).

	30/06/2021	30/06/2020	Chg.
	€m	€m	%
Debt securities issued - non structured	2.065,2	2.162,6	-4,5%
Debt securities issued - structured	90,8	103,0	-11,8%
Debt securities issued	**2.156,0**	**2.265,6**	**-4,8%**

Treasury borrowings – this item of the reclassified statement of financial position decreased compared to June 2020 (-51,0%, from € 373,6m to € 183,1m) primarily by reason of the term deposit borrowings with the Parent, which passed from € 300,0m to € 142,1m. The rest of the outstanding balance as at

30 June 2021 is attributable to the cash collateral received under two-way credit support annex (CSA) agreement with the Parent (for a carrying value of € 40,8m) while the term deposit borrowing with other Group's affiliates reduced to zero (from a carrying value of € 23,0m at the end of June 2020).

Financial liabilities at FVTPL – the carrying value of financial liabilities at fair value through profit or loss (FVTPL) decreased by -76,3%, primarily as a consequence of the mark to market value of the financial and credit derivative contracts negotiated with the Parent Company or embedded in other financial instruments which amounts to € 11,5m (€ 91,1m at the end of June 2020). It is worth mentioning that the Bank is not taking any speculative position in derivatives and the aforementioned variation was *de facto* compensated by an equivalent increase of the financial assets valued at fair value through profit or loss (cf. above).

Other liabilities – this item of the reclassified statement of financial position increased from € 12,7m at the end of June 2020 to € 16,1m at the end of June 2021 (+25,9% in percentage terms) and is composed by (i) fair value of hedging derivatives, (ii) tax liabilities, and (iii) transitory accounts and other payables. In detail:

	30/06/2021	**30/06/2020**	**Chg.**
	€m	**€m**	**%**
Hedging derivatives	-	-	-
Tax liabilities	4,8	3,2	51,3%
Other payables	11,2	9,6	17,5%
Other liabilities	**16,1**	**12,7**	**25,9%**

Fair value of hedging derivative instruments at the reference date is nil. The carrying value of tax liabilities slightly increased in absolute terms, from € 3,2m to € 4,8m, following the assessments received during the course of the financial year (with reference to which there are no particular deviations to be reported). Transitory accounts and other payables increased (+17,5% in percentage terms, from € 9,6m to € 11,2m), in particular with regard to the amounts owed to the Parent.

Provisions for risks and charges – this item of the reclassified statement of financial position increased from € 1,1m (June 2020) to € 1,9m (June 2021) – 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 – No dividends were distributed during the fiscal year and the decrease from € 341,5m to € 330,8m (-3,1%) is attributable to the net loss from 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 for the previous annual report (for further details please refer to Annex I).

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

	30/06/2021	30/06/2020	Chg.
	€m	**€m**	**%**
Net interest income	15,8	5,3	198,3%
Net trading income	1,0	2,9	80,0%
Net fee and commission income	6,1	4,7	29,4%
TOTAL INCOME	**22,8**	**12,9**	**76,7%**
Wages and salaries	-3,1	-2,5	24,1%
Other administrative expenses	-8,8	-8,9	-2,0%
OPERATING COSTS	**-11,8**	**-11,4**	**3,6%**
Loans impairment	-2,6	-15,5	-83,5%
Provisions for other financial assets	-0,3	0,8	-133,9%
Other profit (losses)	–	–	-
PROFIT BEFORE TAX	**8,1**	**-13,2**	**-161,5%**
Fiscal provision	-2,8	2,4	-218,3%
TOTAL COMPREHENSIVE INCOME	**5,3**	**-10,8**	**-74,0%**

Net interest income – net interest income increased by +198,3% (from € 5,3m to € 15,8m). During the reference period, the different components performed as follows:

- Interest received from lending business decreased by -26,1% (from € 92,8m to € 68,6m) primarily as a result of the lower average yields on corporate lending.
- The decrease of interest paid on proprietary funding was more pronounced in percentage terms (-39,0%, from € -87,7m to € -53,5m), compensating for the lower active component above. Here the main driver has been the lowering of the weighted average spreads on proprietary funding.
- Contribution of the treasury management remains marginal at € 0,7m (€ 0,2m in June 2020).

	30/06/2021	30/06/2020	Chg.
	€m	**€m**	**%**
Interest income - lending	68,6	92,8	-26,1%
Interest expense - funding	-53,5	-87,7	-39,0%
Net interest income (expense) - Treasury	0,7	0,2	286,3%
Net interest income	**15,8**	**5,3**	**198,3%**

Net trading income – the contribution from trading activities remains positive at € 1,0m (€ 2,9m as at June 2020). The foregoing was essentially a consequence of the followings:

- Realized gains on derivatives for € -0,9m (€ +1,9m at June 2020);
- Loss from unrealised mark to market valuations of financial instruments remains stable and amounts to € -0,4m (€ -0,6m at the end of June 2020) (principally derivative contracts negotiated with the Parent and/or embedded in other non-derivative instruments).
- The profit generated by forex exposures increased from € -1,6m (June 2020) to € +0,4m (June 2021).
- Gain on disposals and repurchases amounts to € 0,4m and is mainly attributable to the profit on sale financial asset at amortised cost (€ 0,3m) and the difference between the repurchase proceeds and

the net carrying value of financial liabilities issued by the Bank (which have been repurchased during the course of the financial year).

- Net fee income generated by securities lending transactions amounts to € 1,5m at the end of June 2021 (€ 1,6m at the end of June 2020),

	30/06/2021	30/06/2020	Chg.
	€m	€m	%
Derivatives - realised gains and losses	-0,9	1,9	-147,3%
Derivatives - unrealised gains and losses (mtm)	-0,4	-0,6	-25,5%
Forex gains and losses	0,4	-1,6	-125,6%
Gain/loss on disposals/repurchases	0,4	1,6	-78%
Securities lending/borrowing	1,5	1,6	-1,7%
Net trading income	**1,0**	**2,9**	**-67,0%**

Net fee and commission income – this item of the reclassified statement of comprehensive income, which remains mostly driven by corporate lending and treasury services, increased by 29,4% when compared to June 2020 (from € 4,7m to € 6,1m). In particular, it is worth noting how the core components performed better than the previous financial year (commission income +10,2%, commission expense -5,1%), whilst the contribution from the non-recurring components reduced to € 0,2m (€ 0,5m at the end of June 2020).

	30/06/2021	30/06/2020	Chg.
	€m	€m	%
Fee and commission income	13,8	12,5	10,2%
Fee and commission expense	-7,9	-8,4	-5,1%
Other income/expense	0,2	0,5	-59,8%
Net fee and commission income (expense)	**6,1**	**4,7**	**29,4%**

Operating costs – this item of the reclassified statement of comprehensive income increased by +3,0%, from € -11,4m to € -11,8m. In detail:

- expenditure on salaries totalled € -3,1m which corresponds to an increase of +24,1% compared to June 2020 (€ -2,5m) primarily associated with staff severance payment during the FY and the introduction of the bonus pool provision.
- administrative expenses increased to € -6,3m (€ -5,1m at June 2020) principally by reason of the service agreement expenses with Parent due to the new group projects settlement costs and IT systems improvement. Other legal and professional services increased sharply mainly due to audit fees not billed during the previous fiscal year.
- Amortisation of tangible assets amounts to € -0,2m and remain stable compared to the last year; it's entirely attributable to the depreciation of the right-of-use asset under the new accounting principle IFRS16.
- Contribution to the single resolution fund (SRF) slightly increased during the financial year (+3,9%, from € -2,0m to € -2,1m).

	30/06/2021	30/06/2020	Chg.
	€m	€m	%
Personnel expenses	-3,1	-2,5	24,1%
Administrative expenses	-6,3	-5,1	25,4%
Amortisation	-0,2	-0,2	-1,7%
Other expenses	0,0	-1,6	-100,0%
Contribution to the SRF	-2,1	-2,0	3,9%
Operating costs	**-11,8**	**-11,4**	**3,0%**

Loans impairment – impairment provisions for credit exposures worth a total of € -2,6m were accounted for during the financial year (€ -15,5m at June 2020). The lower provisioning experienced in particular during Q4 is mostly driven by the positive update of macroeconomic scenario overperforming the negative impact given by the overlays, together with a greater recourse to the Parent guarantee; last year, conversely, the strong worsening (due to the coronavirus outbreak) of the forward looking macroeconomic forecasts used for calculation of the expected credit losses under IFRS9 led to a significant increase of the credit loss provisioning and to a greater UTP classification.

Fiscal provision – The contribution of fiscal provision at the end of June 2021 amounts to € -2,8m compared to the positive contribution recorded at the end of June 2020 (€ +2,4m), where the Bank recognized deferred tax assets following an economic loss (the fiscal provision is linked to partial reversal of PY deferred tax asset).

Alternative performance measures

The results achieved at the end of the financial year are accompanied by the soundness of the capital ratios (CET1 ratio is equal to 10,7%), the adequacy of liquidity indicators (already in line with all Basel 3 requirements) and the low risk profile of our business model (cf. below):

Capital Ratios

	12 months to	
	30/06/2021	30/06/2020
Common Equity Tier1 Capital Ratio (in %)	10,7	10,3
Total Capital Ratio (in %)	12,7	12,3
Leverage Ratio (in %)	4,2	4,8
Risk Weighted Assets (in Euro million)	3.158,1	3.230,4

Liquidity Ratios

	12 months to	
	30/06/2021	30/06/2020
Liquidity Coverage Ratio (in %)	125,6	133,6
Net Stable Funding Ratio (in %)	105,7	103,4

Profitability Ratios

	12 months to	
	30/06/2021	30/06/2020
ROE - Return On Equity (in %)	1,6	-3,2
ROA - Return On Assets (in %)	0,1	-0,15

In the broader context of an efficient capital allocation, taking into account the dynamics of the business in recent years and the growth of the Bank's core activity, in order to operate with an adequate amount of capital in compliance with the minimum regulatory requirements , in coordination with the Parent Company the Bank requested authorization to the Regulatory Authorities to proceed with the issuance of the AT1 instrument, which will strengthen the Tier1 capital of Mediobanca International and improve Leverage Ratio at an individual level.

Significant events

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

– In December 2020, the CSSF notified the Bank about the determination of the minimum requirement for own funds and eligible liabilities (‘MREL’) at individual level. In particular, the binding MREL determination by the Single Resolution Board (‘SRB’) for Mediobanca International - which shall be met at all times - is equal to 8% of the *total risk exposure amount* (“TREA”). A transitional period is not applicable, given that Mediobanca International already meets the aforementioned MREL target as of the date of the decision.

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

- CRDV/CRR2: the CRDV/CRR2 package is amongst the most important regulatory development for credit institutions operating in the EU in the coming years. Rather than piecemeal regulatory updates, CRDV and CRR2 are refinements of reforms that started after the 2008 financial crisis. The proposed amendments to the package, implement the most recent international regulatory standards for banks and address some regulatory shortcomings to contribute to sustainable bank financing of the economy. CRDV and CRR2 were published in the Official Journal of the European Union on 7 June 2019 and entered into force on 27 June 2019. However, most provisions in CRR2 started to apply on June 2021, whereas the national transposition deadline for most provisions in CRDV was on December 2020. Remaining provisions will start to apply in 2022 and 2023.
- EU action plan on sustainable finance: the action plan on sustainable finance adopted by the European Commission has three main objectives: (i) reorient capital flows towards sustainable investment in order to achieve sustainable and inclusive growth, (ii) manage financial risks stemming from climate change, and (iii) foster transparency and long-termism in financial and economic activity.

CORPORATE GOVERNANCE STATEMENT

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

The corporate bodies are as follows:

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

General meeting of Shareholders

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

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

- Approval of the financial statements and allocation of profit;

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

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

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

Board of Directors

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

The essential duties and responsibilities of the Board are defined primarily by the Articles of Association and Luxembourg law. According to the Articles of Association, the Board of Directors is composed of at least three members who need not to Shareholders and who are elected by General Meeting of Shareholders for a term of office as determined by the Shareholders but not exceeding six years. As at September 2021, the Board was composed of seven Directors who have been originally appointed for a term of office three years.

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

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

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

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

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

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

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

During the fiscal year, the Board of Directors was convened 5 (five) times and passed 3 (three) circular resolutions. The attendance rate of the physical meetings was 100%.

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

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

The Board has approved internal regulations in the area of self-assessment to govern the various phases into which the process is structured, identifying the means and instruments by which it is implemented. Such formalization enables a standardized process to be developed over the years meaning that results can also be compared more easily. The process of self-assessment of the size, composition and functioning of the Board of Directors and its Committees, required inter alia by the supervisory instructions for banks in the area of corporate governance, was conducted throughout the months of May and July 2021.

Authorised Management

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

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

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

Audit Committee

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

The Audit Committee shall comprise at least three non-executive Directors appointed by the General Meeting of Shareholders of the bank. The Audit Committee presently is composed by three Directors, namely: 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. The entire Audit Committee or any individual member of the Committee may be removed with or without cause by a resolution approved by the majority of the member of the Board.

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

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

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

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

- to meet with bank's officers, external auditors, or outside counsel, as necessary.

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

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

During the course of the financial year, the Audit Committee convened 5 (five) times and the attendance rate was 100%.

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

Credit Committee

The Board of Directors appoints a Credit Committee, 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 & Chief Executive Officer), Rocco Cosimo Damiano Di Leo (Chief Financial Officer), Daniela De Salvo (Chief Risk Officer), and Antonio Santese (Director).

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

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

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

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

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

OTHER INFORMATION

During the fiscal year ended on 30 June 2021, the Bank has not purchased own shares nor has undertaken activities in the field of research and development.

ECONOMIC OUTLOOK FOR THE NEXT TWELVE MONTHS

Based on latest forecasts from the Organization for Economic Co-operation and Development (‘OECD’), the global economic growth is now expected to be 5,8% this year, a sharp upwards revision from the December 2020 Economic Outlook projection of 4,2% for 2021. The vaccines rollout in many of the advanced economies has been driving the improvement, as has the massive fiscal stimulus by the United States. World GDP growth is expected to be 4,4% next year but global income will still be some USD 3 trillion less by end 2022 than was expected before the crisis hit. USD 3 trillion is about the size of the entire French economy.

Countries that have been quick to vaccinate their population against COVID-19 and that are managing to control infections through effective public health strategies are seeing their economies recover more quickly. Job vacancy postings in the United States are picking up, including in sectors such as tourism. But while vaccination rates are progressing well in many advanced economies, poorer and emerging-market countries are being left behind. Unless everyone is protected, no one is protected.

Differences in the strength of economic recovery across countries are being driven by the extent of government support to vulnerable workers and businesses, by a country’s dependency on particular sectors such as tourism (Rebuilding tourism for the future), as well as by public health and vaccination policies. Trade is also playing a role. The pick-up in merchandise trade has benefitted countries heavily involved in supply chains, particularly pharmaceuticals, medical supplies and IT material.

World trade growth remains buoyant: the disruptions and bottlenecks affecting global value chains, the closures of some Chinese harbours due to the COVID-19 pandemic, and shortages of cargoes for delivery from Asia are negatively affecting trade, capping its growth at around 10% in 2021 (a decrease of 6,2% in 2020). China’s economic growth remains fairly buoyant but is showing some signs of deceleration; the industry sector is signalling shortages of intermediate products and an upsurge in production costs.

In Euro area, the easing of restrictions is reflected in increased mobility, which is boosting the confidence of households and firms. The composite PMI was well above 50 in June, in both the manufacturing and nonmanufacturing segments. Although order books are now filling up, industrial production is sluggish in some countries, especially Germany, and continues to be affected by shortages in the supply of semiconductors.

Overall, GDP is now forecast to grow by 4,8% in 2021 and 4,5% in 2022 in both the EU and the euro area. The volume of output is projected to return to its pre-crisis level (2019-Q4) in the last quarter of 2021 (which is one quarter earlier than expected in the Spring Forecast for the euro area).

The forecast for inflation this year and next has also been revised upwards, though retaining a hump-shaped profile. Rising energy and commodity prices, production bottlenecks due to the shortage of some input components and raw materials and capacity constraints vis-à-vis booming demand both at home and abroad are expected to put upward pressure on consumer prices this year. In 2022, pressures are assumed to moderate gradually as supply constraints resolve, order backlogs clear, and demand growth moderates. Accordingly, inflation in the EU is now forecast to average 2,2% this year and 1,6% in 2022. In the euro area, inflation is forecast to average 1,9% in 2021 and 1,4% in 2022.

Inflationary pressures in the euro area remain subdued which should allow the European Central Bank to maintain its current policy rate level to end 2023. However, the PEPP (Pandemic Emergency Purchase

Programme) is expected to end, as scheduled, in March 2022. The elevated inflation in US, conversely, will compel the Federal Reserve to raise US interest rates at least twice by the end of 2023.

Sentiment indicators also suggest a positive outlook for Luxembourg's economy. Business sentiment has improved, also outside the financial services sector as well as the consumer sentiment concerning expectations about consumers' future financial situation. Improvements in the economic outlook for Luxembourg's commercial partners bode well for export growth. Furthermore, the upward movement in stock market indexes in the first half of the year is casting a positive light on financial markets, which should support the financial sector. HICP inflation is projected to rise to 2,5% in 2021 due to oil price increases, the introduction of a carbon tax, the rebound in consumption, and base effects linked to the introduction of free public transportation in 2020. However, this pressure on prices is expected to be temporary and to ease in 2022. Consequently, HICP inflation is expected to decline to 1,7% in 2022, more in line with core inflation.

In this scenario, the business model of the Bank is expected to remain unchanged and focused on lending to large and midsized corporations established (mostly) in northern Europe and United States; the profitability is expected to remain stable thanks to – inter alia – the combined effect of the following factors:

- minor interest receivable on corporate lending (due to persistence of low credit spreads) partially compensated by a curve of expected cost of funding that remains low and does not differ significantly from the previous one;
- net fee income is forecasted to remain on the same levels as the previous financial year;
- cost-income ratio is expected to remain flat;
- allowance for credit losses is projected to decrease thanks to the improvement of the forward-looking macroeconomic forecasts.

PROPOSAL FOR ALLOCATION OF THE RESULT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

The Board of Directors of Mediobanca International (Luxembourg) S.A. proposes to the Annual General Meeting the following allocation of the result for the financial year ended 30 June 2021:

– Profit of the year	€	5.260.020
– Balance on retained earnings	€	-
– **Total profit to be allocated**	**€**	**5.260.020**
– To specific reserve for N.W.T.	€	-
– To free reserve	€	**5.260.020**

Luxembourg, 15 September 2021

pp. BOARD OF DIRECTORS

CHIARMAN

(Mr. Giovanni Mancuso)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.

Statement of Directors' responsibilities

To the best of our knowledge, the financial statements of MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A. (the "Bank") give a true and fair view of the assets, liabilities, financial position and profit and loss of the Bank in accordance with applicable accounting standards. The management report includes a fair view of (I) the Bank's development, (II) its position, and (III) a description of the opportunities and risks relevant to the Bank that arose during the period ended 30 June 2021.

Luxembourg, 15 September 2021

The Board of Directors

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

INDEPENDENT AUDITOR’S REPORT

Audit report

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

Report on the audit of the financial statements

Our opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Mediobanca International (Luxembourg) S.A. (the "Bank") as at 30 June 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 30 June 2021;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

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

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

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

- Inter-office Report on review of interim financial information as of 31 December 2020;
- Inter-office Report on review of interim financial information as of 31 March 2021.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Valuation of loans to customers Customer loans are one of the key items on the Bank's balance sheet representing 61% of total assets. The Bank's customer lending operations primarily consist of loans to corporate clients, including syndicated loans arranged by leading non-Italian banks and high return finance (e.g. mezzanine and subordinated finance). The loans are grouped in different categories (corporate lending, leverage acquisition, project finance, export finance). The major part of corporate loans is guaranteed, in total or partially, by the Parent Bank Mediobanca - Banca di Credito Finanziario S.p.A.. As it relates to its credit activities, there is a considerable inherent risk because measurement of loans and receivables is based on estimates of the borrower's credit risk. However, the Bank has a low record of non-performing loans since its incorporation and in general has maintained a good quality loan portfolio of well recognised international groups. The current market conditions may worsen the quality of credit, with a significant adverse impact on this item. This matter was of particular importance during our audit.	We firstly tested and assessed the Bank’s relevant internal control system with respect to the valuation of loans to customers. We considered the respective business organisation, IT systems and valuation models. We tested for a selection of dates the controls regarding the loan origination, loan monitoring and credit assessment processes. We also tested and assessed the Bank’s processes on credit assessment and valuation of loans as part of our specialists in the fields of IT audits to test the relevant IT applications. Regarding substantive testings, the following audit procedures were performed: • Overall analysis of the loan portfolio by comparison to prior years to identify trends and areas of particular risk; • Comparison on sample basis of internal ratings used in the Bank’s credit assessments to external publicly available; • Credit assessment for a sample of 41 items representing groups of related borrowers, covering at least the following: – All loans in the Watchlist, including those categorised as “Black”, “Red”, “Amber” and “Green”, which are subject to close monitoring (non performing loans included); – Top 15 exposures; – Exposures of particular risk identified (low rating, higher country risk exposures); – Exposures to new customers.

The Bank's disclosures on the accounting for loan loss provisions are provided in Part B Section 6 within the notes of the financial statements.	• Assessment of impairment model used by the Bank: – We ensured that the calculation of the loss allowance (ECL) is compliant with IFRS 9 requirements (staging, determination of probabilities of default, application of multiple scenarios, use of forward-looking information); – We assessed the adequacy of the IFRS 9 methodological framework with respect to the effects of COVID-19 pandemic and general market conditions; – We assessed the appropriateness of the individual impairments for exposures in stage 3 (non performing exposures).

Other information

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

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

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

Responsibilities of the Board of Directors for the financial statements

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

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

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

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion.

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

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

We have been appointed as "Réviseur d'Entreprises Agréé" by the Board of Directors on 14 December 2016 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 9 years.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 30 September 2021

Electronically signed by:
Holger von Keutz

Holger von Keutz

FINANCIAL STATEMENTS AS AT 30 JUNE 2021

STATEMENT OF FINANCIAL POSITION

	Assets	30.06.2021	30.06.2020
		€	€
10.	Cash and cash equivalents	43.802.585	697
20.	Financial assets valued at FVTPL	103.467.003	121.303.811
40.	Financial assets valued at amortised cost	6.878.695.415	6.228.742.591
	a) Due from banks	*2.558.900.217*	*2.086.445.789*
	b) Due from customers	*4.319.795.198*	*4.142.296.802*
50.	Hedging derivatives	25.420.372	38.812.523
70.	Equity investments	4.150.000	4.150.000
90.	Property, plant and equipments	1.569.989	268.468
110.	Tax assets	13.623.593	10.631.705
	a) Current	*10.231.307*	*7.239.419*
	b) Deferred	*3.392.286*	*3.392.286*
130.	Other assets	57.723.057	24.687.139
	Total assets	**7.128.452.014**	**6.428.596.934**

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

	Liabilities and equity	30.06.2021	30.06.2020
		€	€
10.	Financial liabilities valued at amortised cost	6.747.884.996	5.967.482.151
	a) Due to banks	*3.746.133.843*	*2.696.498.699*
	b) Due to customers	*63. 553.407*	*133.305.395*
	c) Debt securities in issue	*2.938.197.746*	*3.137.678.056*
20.	Financial liabilities valued at FVTPL	28.172.958	118.768.418
40.	Hedging derivatives	–	–
60.	Tax liabilities	4. 823.721	3.187.256
	a) Current	*4.823.721*	*3.187.256*
	b) Deferred	–	–
80.	Other liabilities	9.673.431	7.331.045
100.	Provisions for risks and charges	1.854.124	1.142.332
150.	Reserves	320.782.764	331.470.434
170.	Share capital	10.000.000	10.000.000
200.	Profit (Loss) of the year	5.260.020	-10.784.702
	Total liabilities and shareholders' equity	**7.128.452.014**	**6.428.596.934**

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

STATEMENT OF COMPREHENSIVE INCOME

	Balance sheet items	30.06.2021	30.06.2020
		€	€
010.	Interests and similar income	79.915.274	96.559.930
020.	Interest expense and similar charges	-64.151.125	-91.187.210
030.	**Net interest income**	**15.764.149**	**5.372.720**
040.	Fee and commission income	16.420.917	15.112.364
050.	Fee and commission expense	-15.057.190	-9.407.155
060.	**Net fee and commission income**	**1.363.727**	**5.705.208**
080.	Net trading income/expense	-1.083.110	-275.106
090.	Net hedging income/expense	114.135	-90.170
100.	Gain or loss on disposal or repurchase of:	361.334	1.279.329
	a) financial assets valued at amortised cost	*267.824*	*114.927*
	b) financial assets valued at FVOCI	–	–
	c) financial liabilities	*93.510*	*1.164.402*
120.	**Total income**	**16.520.235**	**11.991.982**
130.	Adjustment for impairment to:	-2.124.228	-13.895.790
	a) financial assets valued at amortised cost	*-2.124.228*	*-13.895.790*
	b) financial assets valued at FVOCI	–	–
150.	**Net income from financial operations**	**14.396.007**	**-1.903.809**
190.	Administrative expenses	-11.836.883	-9.568.819
	a) personnel costs	*-3.082.752*	*-2.484.188*
	b) other administrative expenses	*-8.754.131*	*-7.084.631*
200.	Net provisions for risks and charges	-711.793	-403.580
210.	Value adjustments in respect of tangible assets	-235.671	-238.879
230.	Other operating income/expense	6.495.161	-1.075.134
290.	**Profit (loss) of the ordinary activity before tax**	**8.106.821**	**-13.190.220**
300.	Income tax on the ordinary activity	-2.846.801	2.405.518
330.	**Profit (loss) for the period**	**5.260.020**	**-10.784.702**
340.	Other comprehensive income, net of tax	–	–
350.	**Profit (Loss) of the year**	**5.260.020**	**-10.784.702**

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

STATEMENT OF CHANGES IN EQUITY FROM 01.07.2020 TO 30.06.2021 (in €)

	Balance as of June 30, 2020	Allocation of the profit for the previous period		Changes during the reference period					Balance as of June 30, 2021
					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	**331.470.434**	**-10.784.702**	—	—	—	—	**97.032**	—	**320.782.764**
a) legal reserve	1.000.000	—	—	—	—	—	—	—	1.000.000
b) free reserve	297.480.117	—	—	—	—	—	97.032	—	286.792.447
c) special reserve[1]	35.669.613	-10.784.702	—	—	—	—	—	—	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	**-10.784.702**	**10.784.702**	—	—	—	—	—	**5.260.020**	**5.260.020**
Total equity	**330.685.732**	—	—	—	—	—	**97.032**	**5.260.020**	**336.042.784**

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

[1] Luxembourg resident companies are subject to a Net Worth Tax ('NWT') of 0.5% of taxable wealth. This charge may be reduced provided the following conditions have been respected: (i) a special reserve account equivalent to five-times the net wealth tax charge for the year is recorded following the decision of the Shareholders meeting, and (ii) the reserve will be maintained for a period of at least five years.

STATEMENT OF CHANGES IN EQUITY FROM 01.07.2019 TO 30.06.2020 (in €)

	Balance as of June 30, 2019	Allocation of the profit for the previous period		Changes during the reference period					Balance as of June 30, 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	**328.247.674**	**3.222.761**	—	—	—	—	—	—	**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	3.222.761	—	-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	**3.222.761**	**-3.222.761**	—	—	—	—	—	**-10.784.702**	**-10.784.702**
Total equity	**341.470.435**	—	—	—	—	—	—	**-10.784.702**	**330.685.732**

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

[1] Luxembourg resident companies are subject to a Net Worth Tax ('NWT') of 0.5% of taxable wealth. This charge may be reduced provided the following conditions have been respected: (i) a special reserve account equivalent to five-times the net wealth tax charge for the year is recorded following the decision of the Shareholders meeting, and (ii) the reserve will be maintained for a period of at least five years.

CASH FLOW STATEMENT - Direct Method (in €k)

		Amount	
		30/06/2021	**30/06/2020**
A.	**Cash flow from operating activity**	**43.802**	**—**
1.	**Operating activity**	**3.011**	**-2.366**
	– interests received (+)	87.305	114.503
	– interests paid (-)	-49.490	-105.483
	– net fees and commissions received/paid (+/-)	9.322	6.535
	– dividends and similar income (+)	—	—
	– net premiums collected (+)	—	—
	– personnel expenses (-)	-2.629	-2.428
	– other income (expenses) (+/-)	-36.571	-14.894
	– taxes and duties (+/-)	-4.926	-599
2.	**Cash generated/absorbed by financial assets**	**-701.002**	**1.641.287**
	– financial assets valued at FVTPL	-71.259	23.101
	– financial assets valued at FVOCI	—	—
	– financial assets valued at amortised cost	-637.500	1.752.003
	– other assets	7.757	-133.817
3.	**Cash generated/absorbed by financial liabilities**	**741.793**	**-1.638.921**
	– financial liabilities valued at FVTPL	755.076	-365
	– financial liabilities valued at amortised cost	-13.091	-1.638.556
	– 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	**43.802**	**—**

	Amount	
	30/06/2021	**30/06/2020**
Cash and cash equivalents: balance at 1 July	1	1
Total cash inflow (outflow) during year	43.802	—
Cash and cash equivalents: balance at 30 June	**43.803**	**1**

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

NOTES TO THE FINANCIAL STATEMENTS

PART A – CORPORATE INFORMATION

Corporate matters

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

Nature of the bank's business

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

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

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

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

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

Outsourcing

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

Financial statements

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

The financial statements as at 30 June 2021 were authorised for issue by the Board of Directors on 15 September 2021.

Parent Bank

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

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

PART B – ACCOUNTING POLICIES

Section 1

Statement of compliance with the International Accounting Standards

The individual financial statements of the Bank are prepared in accordance with the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) promulgated by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and adopted by the European Commission in accordance with the procedure per Article 6 of the Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002. The financial statements as at 30 June 2021 have been prepared based on the template of the Parent company which, in turn, was based on the "Instructions for drawing up separate and consolidated financial statements for banks and financial companies that head banking groups", issued by the Banca d'Italia (Bank of Italy) through Circular no. 262 of 22 December 2005 – 6th update of 30 November 2018 – which sets out the financial statements layouts and compilation methods, as well as the content of the explanatory notes[1].

Section 2

General principles for preparation

The financial statements comprise:

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

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

Over the twelve months, the European Commission has adopted the following regulations, which incorporate some changes to the accounting standards currently in force: 2020/1434 of 9 October 2020, 2020/2097 of 15 December 2020, 2021/25 of 13 January 2021 and 2021/1080 of 28 June 2021. In particular:

- Regulation 2020/1434 adopted the IFRS16[2] amendments proposed by the IASB and relating to the ongoing Covid pandemic: they contain a practical expedient granted to lessor companies that have benefited from concessions on payments due contractually; it has retroactive effect from 1 July 2020;

[1] Banca d'Italia (Bank of Italy) published the 6th update of Circular 262/2005, which for the Mediobanca Group shall be applied from 1 July 2019.
[2] International Accounting Standards Board, Covid-19-Related Rent Concessions – Amendment to IFRS 16 – May 2020.

- Regulation 2021/25 contains amendments to IAS39, IFRS4, IFRS7, IFRS9 and IFRS16; they implement the document[3] "Reform of the reference indexes of interest rates - phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16" published by the IASB on 27 August 2020 It too is valid for the Group from 1 July 2021;

Regulation 2021/1080 introduced some minor changes to IAS16, IAS37, IAS41, IFRS1, IFRS3, IFRS9. These amendments are valid for the Group from 1 July 2022.

Regulatory and supervisory authority announcements were also made regarding the most suitable methods for applying accounting standards in relation to the COVID-19 emergency. Some of the most significant, issued primarily with reference to periodic reporting (quarterly and half-yearly) and, therefore, applicable for annual reporting as well, include:

- ESMA: Public Statement of 28 October 2020, "*European common enforcement priorities for 2020 annual financial reports*", in which it is stated that an entity may apply the standards IAS 1, IAS 36, IFRS 9, IFRS 7 and IFRS 16 to non-financial statements relating to the impact of the Covid-19 pandemic on non-financial matters; company and employee matters; the business model and value creation; and climate change risk. Remarks are also provided on the application of the ESMA guidelines on alternative performance measures (APMs) in relation to Covid-19.
- EBA: Guideline 2 December 2020 (EBA/GL/2020/15) "*Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID 19 crisis*" relating to the extension of the period of application of the "EBA-compliant" moratorium rules.
- 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*" in which additional guidelines are provided on the identification and measurement of credit risk in the current pandemic scenario. The ECB emphasises the importance of balancing the need to avoid excessive pro-cyclicity against the need to ensure that risks are adequately reflected in the internal measures and management processes, financial reports and regulatory reporting. In view of this, further details are provided regarding the procedures for recognising forborne exposures, the process of periodically assessing debtors' unlikely-to-pay positions (including exposures that benefit from general payment moratoria), the identification and recording of all increases in credit risk, starting with the initial phases, the proper estimation of provision levels using realistic assumptions and parameters that are appropriate to the current scenario and governance and involvement of governing bodies.
- CSSF: FAQ related to COVID-19 (as updated from time to time).
- CSSF: the circular defines the governance and security requirements with respect to the implementation and utilisation by an entity under the supervision of the CSSF of work processes based on Telework solutions. It contributes to the sound and prudent management, the proper organisation of these Supervised Entities and the preservation of information security by providing guidance on the requirements the Supervised Entities have to comply with.
- CSSF: update of Circular CSSF 12/552, as amended by Circulars CSSF 13/563, CSSF 14/597, CSSF 16/642, CSSF 16/647, CSSF 17/655, CSSF 20/750 and CSSF 20/759, on the central administration,

[3] This document takes account of the consequences of the actual replacement of existing interest rate benchmarks with alternative benchmarks; this replacement takes place within the framework of the report Reforming major interest rate benchmarks published by the Financial Stability Board (FSB) in 2014.

internal governance and risk management. The main changes to be reported concern: a) specification of the concept of proportionality by linking it to the notion of systemic institution within the meaning of the Law of 5 April 1993 on the financial sector; b) clarifications regarding the application of proportionality when implementing the internal control functions; c) strengthening of the management body, in its supervisory function, via enhanced provisions with respect to diversity and independence; d) consideration of environmental, social and governance (ESG) risk factors with a view to ensuring viability of the business model.

Section 3

Interest rates benchmark transition: Group project

Regulation (EU) of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts (the 'BMR') introduces a regime for benchmark administrators that ensures the accuracy and integrity of benchmarks.

The BMR incorporates the recommendations of the Financial Stability Board (FSB-IOSCO) on the need to reform interbank rates with a view to restore the integrity of these indicators following various cases of abusive manipulation and is also applied to those interest rates which are most commonly used on the financial markets, such as EURIBOR, EONIA and LIBOR (so-called "critical benchmarks") which, with the exception of Euribor[4], will be no longer usable as from 1 January 2022.

The internal working group continued to monitor and prepare all operating processes required to complete the transition to the new interbank rates planned for the beginning of 2022. In particular, renegotiation continued for products indexed on the interest rates soon to be discontinued, adopting, where possible, the protocols developed by sector associations (e.g., the ISDA Benchmark & IBOR Protocol) and urging counterparties to adhere to them without delay.

The Group is adopting internal operational and technological measures to manage the transition effectively. Regulation No 25/2021 of 13 January 2021 applied additional amendments to accounting standards (IAS 39, IFRS 4, IFRS 7, IFRS 9 and IFRS 16); in particular, "simplified" methods were introduced for managing and accounting for derecognition/modification and discontinuing for hedge accounting. The amendments in question will be applicable on a mandatory basis to the Group from financial statements beginning on or after 1 July 2021.

Mediobanca International participates to the Working Group established by the Parent to monitor the trend of the rate reform, supervise its implementation for the Group and prepare all the operational processes necessary for its implementation and application in 2022.

It bears recalling that the Group has already applied Regulation (EU) No 2020/34 of 15 January 2020 ("Regulation 34"), which endorses the IASB exceptions of September 2019 to prevent the uncertainty

[4] The Financial Services and Markets Authority (FSMA) of Belgium, on 2 July 2019, has authorised the European Money Markets Institute (EMMI) as the administrator of EURIBOR under the BMR. As a consequence, EURIBOR is now considered BMR-compliant and European Union supervised entities will be able to use EURIBOR also after the end of the applicable BMR transitional period (i.e. 1 January 2022). For this reason, fair value hedge strategies linked to EURIBOR are not directly impacted by the BMR reform.

resulting from the absence of a single alternative benchmark for the entire market from resulting in the discontinuing of a hedging relationship.

Section 4

Basis of preparation

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

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

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

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

Section 5

Summary of significant accounting policies

Cash and cash equivalents

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

Financial assets designated at fair value through profit or 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 recognized 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 recognized at fair value without considering the transaction costs or income directly attributed to the instrument itself, which are recognized in the statement of comprehensive income. After the initial recognition, they continue to be measured at fair value and changes in fair value are recognized in the statement of comprehensive income. Interest on instruments mandatorily measured at fair value are recognized using the contractual rate. Dividends deriving from equity instruments are recognized 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 realized on sale or repayment and the (positive and negative) effects deriving from periodic changes in fair value are recognized 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 amortised cost, i.e. the initial value minus/plus principal repayments, write-downs/write-backs and amortization - calculated with the effective interest rate method - of the difference between the amount disbursed and the amount repayable at maturity, adjusted to take into account the expected losses.

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

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

After initial recognition, all financial assets recognized at amortised 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 IFRS9, financial assets are divided in three categories:

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

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

POCI (Purchased or Originated Credit Impaired) comprises loans that are already impaired at the time of purchase or disbursement. At the date of first-time application, they are recognized 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 recognized and released only the amount in which changes are verified. For financial instruments that are considered in default, the Group recognizes an expected loss on the residual maturity of the instrument (similar to that indicated for stage 2 above). Value adjustments are determined for all exposures, broken down into the various categories, taking account of the forward-looking information that considers macroeconomic factor.

Hedging transactions

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

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

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

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

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

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

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

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

Fair value hedges

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

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

Cash flow hedges

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

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

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

As at 30 June 2021, 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 recognized 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 recognized as increases to the value of the assets: ordinary maintenance expenses are recognized 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 recognized 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.

Leasing (IFRS16)

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.

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

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

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

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

[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 recognized in the income statement.

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 amortised cost on the basis of the original effective interest rate, with the exception of short-term liabilities which continue to be stated at the original amount collected.

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

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

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

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

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

Tax assets and liabilities

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

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

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

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

Contribution to resolution funds are accounted for according to IFRIC21.

Provisions for risks and charges

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

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

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

This heading also includes credit risk provisions in respect of commitments to disburse funds and guarantees issued falling within the scope of application of the rules on impairment introduced by IFRS9. In such cases the same staging and expected loss calculation criteria are used for both financial assets recognized at amortised cost and/or fair value through other comprehensive income.

Pension plans

The Bank operates a defined contribution pension plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Bank by the employees and is recorded as an expense under personnel costs. The Bank has no defined benefit obligation regarding post employee benefit to be recognized under IAS19.

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, recognized separately as an asset or liability. If, on the contrary, the Bank maintains substantially all the risks and rewards, then the financial asset must continue to be recognized.

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

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

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

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

Foreign currency transactions

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

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

Offsetting

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

“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 recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in net trading income/expense. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the comprehensive income when the inputs become observable, or when the instrument is derecognized.

Fair value hierarchy

In accordance with IFRS 13, fair value must be presented according to a hierarchy based on the quality of the inputs used[6] to determine it.

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

In particular, the following levels are distinguished:

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

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

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

1. Fair value levels: valuation techniques

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

However, all instruments within which the component attributable to unobservable inputs (such as implicit volatility beyond certain observability thresholds, or equity and credit correlation) is prevalent within fair value, or where there are adjustments that significantly modify the most liquid input parameters used, are classified to Level 3[7].

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

2. Inputs used to determine fair value levels

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

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

- *Prices*: the instruments traded on a regulated market or for which quoted prices are available for bilateral trades are valued using prices taken from info-providers;
- *Interest rates / Inflation swap rates*: these are valuation inputs for derivative instruments that involve an exchange of flows between two counterparties. Interest rates represent market expectations of future rate performance and are quoted for various maturities. Inflation swap rates represent the market's expectations of future inflation performance. The illiquidity of such inputs has a direct impact on the measurement of a debt security or derivative;
- *Repo rates*: interest rates applied to repurchase agreements on securities;
- *Volatility*: this is a measurement of expectations regarding the variability of quoted market prices in respect of certain parameters. They may be quoted directly or derived from the prices of quoted instruments. Volatility may refer to, inter alia, various types of underlying (shares/indices, interest rates: caps/floors or swaptions, exchange rates, inflation);
- *Correlation*: it measures the relationship that exists between movements of two variables and is an input in the valuation of a derivative product, where the payoff is determined by multiple risk factors/underlying;

[7] *See paragraphs 73 and 75 of IFRS 13.*

– *Dividends*: the dividend yields of equity instruments are an estimate of the possible yields that such instruments will offer in the future in terms of cash flows. The yield and periodicity of the dividends is the most significant parameter for determining the fair value of instruments sensible to the forward price of a share;

– *Credit spreads*: these are the estimate of the risk of insolvency of a counterparty and are quoted with respect to a benchmark; credit spreads refer to a wide range of underlying (indices and single names), regions, sectors, maturities and credit qualities (high yield and investment grade). The wide range of this category is the reason for the breadth of ranges of unobservable inputs.

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

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

Level 1

This level comprises all instruments quoted on active markets or for which quotations are available on an ongoing basis. The former instance covers cash equity instruments, funds and listed derivatives18 (futures and options with equity, interest rates and sovereign debt as the underlying) traded on regulated markets for which an official closing price was available. The second instance covers liquid debt securities for which quotations are available on an ongoing basis, and ABS and CLOs for which tradable quotations are available at the reporting date.

Level 2

– Bonds: securities traded on less liquid markets that show bid/ask spreads above adequate levels are classified as Level 2; as are instruments not traded on active markets that are marked to model using the implied credit spread curves obtained from Level1 or Level 2 instruments, to which a further spread is added to reflect their illiquidity. The model makes maximum use of observable inputs and minimum use of non-observable inputs. In this way, only if the credit spread curve applied is representative, the bonds are categorized as Level 2. In fair value measurement, fair value adjustments can be used in cases where there is reduced liquidity and model risk, to compensate for the lack of observable market inputs;

– Derivatives: the fair value of derivatives not traded on an active market derives from application of mark-to-model measurement techniques. In accordance with the definitions provided in paragraphs 3, 61 and 67 of IFRS 13, where possible the Bank uses models that maximize observable parameters, which are preferable to models where the use of unobservable parameters is predominant. When there is an active market for the input parameters to be used for the different components of the valuation model, the fair value is established on the basis of their market quotations. Hence an OTC derivative that mainly uses observable inputs deriving from Level 1 instruments (quoted prices, as established in paragraphs 76-80 of IFRS 13) or Level 2 instruments (interest rate curves, implicit volatilities and credit spreads, as stipulated in paragraph 82 of IFRS 13) is classified as Level 2. These derivatives include:

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

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

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

Level 3

- Bonds: instruments whose fair value is determined using prices that cannot be corroborated are classified as Level 3, as are instruments not traded on active markets which are marked to model using the credit spread curves implicitly derived from Level 1 or Level 2 instruments, to which a spread Notes to the accounts | Part A - Accounting policies 157 is added in order to factor in their unobservable illiquidity. Fair value adjustments may be used in recognizing such instruments at fair value when there is low liquidity, in order to compensate for the lack of observable market parameters for the Level 3 positions;

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

- Equity certificates for which the valuation inputs show a high degree of uncertainty (as it emerges during the Independent Price Verification process) in terms of volatility or future dividends[8];
- Exotic instruments that use certain payoffs (ie. Knock-in/Knock-out reverse notes) on a single security (or baskets) for which the valuation inputs are not directly observable;
- Bespoke CDO tranches.

Securities lending and borrowing

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

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

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

Interest income and expenses

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

[8] New rules application in order to establish whether an instrument is level 3 and the consequent DOP deferral are in force starting from January 2021.

Fee and commission income and expense

Fee and commission income arise from financial services provided by the bank. Fee and commission income are recognized when the corresponding service is provided.

Fee and commission expense 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 amortised 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 IAS24 as:

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

b) Associate companies;

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

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

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

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

Section 6

Significant accounting estimates and judgment

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

Going concern

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

Fair value of financial instruments

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

Impairment losses on loans and advances

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

Deferred tax assets

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

PART C - NOTES TO THE STATEMENT OF FINANCIAL POSITION

ASSETS

Section 1

Heading 10 – Cash and cash equivalents

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

	30/06/2021	30/06/2020
a) Cash	—	1
b) Demand deposit held at Central Banks	43.802	—
Total	**43.802**	**1**

The carrying value moves importantly from € 1k (June 2020) to € 43.802k (June 2021) by reason of the Group reclassification on the available reserve towards ECB (tiering system) introduced by the ECB as from October 2019.

Section 2

Heading 20 – Financial assets valued at FVTPL

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

Financial assets valued at FVTPL amount to € 103.467k as at 30 June 2021. The balance is entirely made by the gross positive fair value of financial and credit derivatives contracts negotiated with the Parent Company or embedded in other financial instruments[9].

Item/Values	30/06/2021			30/06/2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	—	73.421	—	—	—	—
1.1 Structured	—	62.485	—	—	—	—
1.2 Other debt securities	—	10.936	—	—	—	—
2. Equities	—	—	—	—	—	—
3. UCITS units	—	—	—	—	—	—
4. Loans and advances	—	—	—	13	—	—
4.1 Repos	—	—	—	—	—	—
4.2 Others	—	—	—	13	—	—
Total A	**—**	**73.421**	**—**	**13**	**—**	**—**
B. Derivative products						
1. Financial derivatives	—	15.430	2.976	—	26.810	—
1.1 Trading	—	15.430	2.976	—	26.810	—
1.2 Linked to FV options	—	—	—	—	—	—
1.3 Others	—	—	—	—	—	—
2. Credit derivatives	—	11.640	—	—	94.481	—
2.1 Trading	—	11.640	—	—	94.481	—
2.2 Linked to FV options	—	—	—	—	—	—
2.3 Others	—	—	—	—	—	—
Total B	**—**	**27.070**	**2.976**	**—**	**121.291**	**—**
Total (A+B)	**—**	**100.491**	**2.976**	**13**	**121.291**	**—**

[9] Financial derivatives include certificates to be valued at Level 3 starting from January 2021. See "Fair Value Hierarchy", par. 57.

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

- Level 1, quoted (unadjusted) prices available on active markets for identical assets or liabilities;

- Level 2, other techniques for which all inputs which have a significant effect on the recorded fair value are based on observable (either directly or indirectly) market data;

- Level 3, other techniques for which all inputs which have a significant effect on the recorded fair value are based on not observable market data.

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

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

Item/Value	30/06/2021	30/06/2020
A. CASH ASSETS		
1. Debt securities	73.421	—
2. Equities	—	—
3. UCITS units	—	—
4. Loans and advances	—	13
Total A	**73.421**	**13**
B. DERIVATIVE PRODUCTS		
a. Banks	30.046	121.291
- Fair value	30.046	121.291
b. Customers	—	—
- Fair value	—	—
Total B	**30.046**	**121.291**
Total A+B	**103.467**	**121.304**

Heading 40 – Financial assets valued at amortised cost

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

Type of transactions/Values	Total 30/06/2021						Total 30/06/2020					
	Carrying value			Fair value			Carrying value			Fair value		
	Stage1 and stage2	Stage3	of which: non performing acquired or originated	Level 1	Level 2	Level 3	Stage1 and stage2	Stage3	of which: non performing acquired or originated	Level 1	Level 2	Level 3
A. Due from Central Banks	7.300	—	—	—	7.300	—	68.211	—	—	—	68.211	—
1. Term deposits	—	—	—	X	X	X	—	—	—	X	X	X
2. Compulsory reserve	7.300	—	—	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	2.551.600	—	—	—	2.562.378	—	2.018.235	—	—	—	2.027.130	—
1. Loans and advances	2.551.600	—	—	—	2.562.378	—	2.015.430	—	—	—	2.024.344	—
1.1 Current accounts and demand deposits	741.206	—	—	X	X	X	610.195	—	—	X	X	X
1.2 Term deposits	934.189	—	—	X	X	X	624.632	—	—	X	X	X
1.3 Other financings:	876.205	—	—	X	X	X	780.603	—	—	X	X	X
- Repos	—	—	—	X	X	X	—	—	—	X	X	X
- Finance leases	—	—	—	X	X	X	—	—	—	X	X	X
- Others	876.205	—	—	X	X	X	780.603	—	—	X	X	X
2. Debt securities	0	—	—	—	—	—	2.805	—	—	—	2.786	—
2.1 Structured debt securiti	0	—	—	X	X	X	2.805	—	—	X	X	X
2.2 Other debt securities	—	—	—	X	X	X	—	—	—	X	2.786	X
Total	**2.558.900**	—	—	—	**2.569.678**	—	**2.086.446**	—	—	—	**2.095.341**	—

The carrying value of financial assets due to banks valued at amortised cost increased significantly throughout the reference period, passing from € 2.086.446k (June 2020) to € 2558.900k (June 2021). The vast majority of the transactions reported under this caption are de facto concluded with the Parent company. With reference to the exposures towards the Central Bank the tiering reserve towards ECB, equals to € 43.802k at the end of June 2021, was reclassified (please refer to the table “*Cash and cash equivalents”*).

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

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

Type of transactions/Values	Total 30/06/2021						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	4.002.837	276.554	30.234	—	4.522.174	—	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	4.002.837	276.554	30.234	X	X	X	3.881.592	221.089	29.542	X	X	X
1.4 Credit cards and personal loai	—	—	—	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	10.170	—	—	—	10.110	—	10.074	—	—	—	10.167	—
2.1 Structured debt securities	—	—	—	X	X	X	—	—	—	X	X	X
2.2 Other debt securities	10.170	—	—	X	10110	X	10.074	—	—	X	10167	X
Total	**4.013.007**	**276.554**	**30.234**	**—**	**4.532.284**	**—**	**3.891.666**	**221.089**	**29.542**	**—**	**4.357.700**	**—**

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

Type of transactions/Value	30/06/2021			30/06/2020		
	Stage1 / Stage2	Stage3	of which: impaired assets aquired or created	Stage1 / Stage2	Stage3	of which: impaired assets aquired or created
1. Debt securities:	10.170	—	—	10.074	—	—
a) Public administration	10.170	—	—	10.074	—	—
b) Other financial company	—	—	—	—	—	—
of which: insurance companies	—	—	—	—	—	—
c) Non financial companies	—	—	—	—	—	—
2. Loans and advances to:	4.279.391	30.234	—	4.102.681	29.542	29.542
a) Public administration	83.928	—	—	—	—	—
b) Other financial company	1.001.009	—	—	1.167.022	—	—
of which: insurance companies	47.469	—	—	—	—	—
c) Non financial companies	3.194.454	30.234	—	2.935.659	29.542	29.542
d) Households	—	—	—	—	—	—
Total	**4.289.561**	**30.234**	**—**	**4.112.755**	**29.542**	**29.542**

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

	Gross value			Expected Credit Loss			Write off partial/total
	Stage1	Stage2	Stage3	Stage1	Stage2	Stage3	
Debt securities	10.185	—	—	-15	—	—	—
Loans	6.570.026	280.355	43.982	-8.289	-3.801	-13.748	—
Total 30/06/2021	**6.580.211**	**280.355**	**43.982**	**-8.304**	**-3.801**	**-13.748**	**—**
Total 30/06/2020	**5.987.865**	**225.825**	**39.399**	**-9.752**	**-4.736**	**-9.857**	**—**

Section 5

Heading 50 – Hedging derivatives

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

	30/06/2021			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	—	**25.420**	—	**445.114**	—	**38.813**	—	**495.024**
1) Fair value	—	25.420	—	445.114	—	38.813	—	495.024
2) Cash flow	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	—	**25.420**	—	**445.114**	—	**38.813**	—	**495.024**

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

30/06/2021 Operations/Type of hedging	Fair Value Hedge						Cash Flow Hedge		Net Investments in foreign
	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	25.420	—	—	—	—	X	—	—	X
2. Portfolio	X	X	X	X	X	—	X	—	X
TOTAL LIABILITIES	**25.420**	—	—	—	—	—	—	—	—
1. Highly probable transactions	X	X	X	X	X	X	—	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	—	X	—	—

30/06/2020 Operations/Type of hedging	Fair Value Hedge						Cash Flow Hedge		Net Investments in foreign
	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
4. Portfolio	X	X	X	X	X	—	X	—	X
5. Other	—	—	—	—	—	X	—	X	—
TOTAL ASSETS	—	—	—	—	—	—	—	—	—
1. Financial liabilities	38.813	—	—	—	—	X	—	—	X
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[10]	Ownership		Voting rights (%)
			Controlling entity	% shareholding	
Mediobanca International Immobilière S.à r.l.	Luxembourg	3	Mediobanca International (Luxembourg) S.A.	100	100

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

7.2 Equity investments: financial information (in € k)

Company Name	Total assets	Total revenues	Net profit (loss)	Shareholders' equity	Carrying value
Mediobanca International Immobilière S.à r.l.	1.947	175	68	1.935	4.150

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

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

Section 9

Heading 90 – Property, plant and equipment

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

Assets/value	30/06/2021	30/06/2020
1. Assets owned by Bank	3	10
a) land	—	—
b) buildings	—	—
c) furniture and fitting	—	1
d) electronic equipment	—	—
e) other assets	3	9
2. Right-of-use assets	1.567	259
a) land	—	—
b) buildings	1.488	202
c) furniture	—	—
d) electronic equipment	—	—
e) other assets	79	57
Total	**1.570**	**269**

Section 11

Heading 110 – Tax assets

11.1 Current tax assets: composition (in € k)

	CIT [A]	MBT [B]	Other [C]	Total
Balance at the beginning of the year	**4.896**	**2.021**	**322**	**7.239**
Increase of the period (+)	**3.264**	**1.143**	**420**	**4.827**
- advances paid	3.264	1.143	—	4.407
- transfers	—	—	—	—
- others	—	—	420	420
Decrease of the period (-)	**-835**	**-309**	**-691**	**-1.835**
- releases of the year (assessments)	-835	-309	—	-1.144
- transfers	—	—	—	—
- others	—	—	-691	-691
Balance at the end of the fiscal year	**7.325**	**2.855**	**51**	**10.231**

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

[B] Impôt Commercial Communal ('Municipal Business Tax', MBT) is a municipal tax levied on gains made by corporations

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

11.2 Deferred tax assets: composition (in € k)

	30/06/2021	30/06/2020
- Deferred tax assets recognised in the statement of comprehensive income	2.489	2.489
- Deferred tax assets recognised in the net equity	903	903
Total	**3.392**	**3.392**

The total deferred tax assets (€ 3.392 k) remain unchanged from the PY.

In order to better show the positive result of the current FY we booked the CIT and MBT as a liability (please see Section 6, Heading 60 – Tax liabilities).

Section 13

Heading 130 – Other assets

13.1 Other assets: composition (in € k)

	30/06/2021	30/06/2020
1. Gold, silver and precious metal	—	—
2. Accrued income other than capitalized income	1.076	789
3. Trade receivables or invoice to be issued	—	2
4. Amount due from tax revenue Authorities (not attributed to heading 110)	16	208
5. Other	56.631	23.688
- transitory accounts	*56.545*	*23.595*
- prepayments	*86*	*93*
Total	**57.723**	**24.687**

Transitory accounts increased primarily as a result of the receivables generated in the context of the asset encumbrance, where payments received on the financial instruments posted as collateral are initially collected by the third-party lenders (i.e. collateral receiver) and subsequently transferred to the Bank (i.e. the collateral giver) in accordance with the contractual arrangements in place. This kind of transactions create various suspended amounts which are generally cleared in a very short period of time[11].

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

11 As per today an amount of € 31m is still outstanding.

LIABILITIES

Section 1

Heading 10 – Financial liabilities valued at amortised cost

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

Type of transactions/Values	30/06/2021				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	3.746.133	X	X	X	2.696.499	X	X	X
2.1 Current accounts and demand deposit	40.860	X	X	X	50.494	X	X	X
2.2 Term deposits	142.110	X	X	X	300.000	X	X	X
2.3 Loans	3.563.064	X	X	X	2.343.947	X	X	X
2.3.1 Repos	—	X	X	X	—	X	X	X
2.3.2 Others	3.563.064	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	99	X	X	X	2.058	X	X	X
Total	**3.746.133**	—	**3.761.874**	—	**2.696.499**	—	**2.691.684**	—

The carrying value of due to banks valued at amortised cost increased by +39% at the end of the reference period, passing from € 2.696.499k (June 2020) to € 3.746.134k (June 2021). The vast majority of the transactions reported under this caption are de facto concluded with the Parent company, as an internal source of funding to finance the core lending activities. The carrying value of € 3.563.065k reported at the end of June 2021 under 'other loans' includes € 65.006k of subordinated loan assimilated to Tier 2 and concluded with the Parent for regulatory capital purposes.

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

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

Type of transactions/Values	30/06/2021				30/06/2020			
	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 depos	—	X	X	X	—	X	X	X
2. Term deposits	—	X	X	X	23.007	X	X	X
3. Loans	61.985	X	X	X	110.038	X	X	X
3.1 Repos	—	X	X	X	—	X	X	X
3.2 Others	61.985	X	X	X	110.038	X	X	X
4. Liabilities in respect of commitments	—	X	X	X	—	X	X	X
to repurchase own equity instruments								
5. Lease payables [1]	1568	X	X	X	260	X	X	X
6. Other liabilities	—	X	X	X	—	X	X	X
Total	**63.553**	—	**61.985**	—	**133.305**	—	**133.046**	—

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

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

Type of transactions/Values	30/06/2021				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	2.182.917	—	2.191.602	—	2.308.701	—	2.358.337	—
1.1 Structured	90.849	—	91.945	—	102.997	—	110.990	—
1.2 Other	2.092.068	—	2.099.657	—	2.205.704	—	2.247.347	—
2. Other securities	755.281	—	755.281	—	828.977	—	828.977	—
2.1 Structured	—	—	—	—	—	—	—	—
2.2 Other	755.281	—	755.281	—	828.977	—	828.977	—
Total	**2.938.198**	**—**	**2.946.883**	**—**	**3.137.678**	**—**	**3.187.314**	**—**

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

Section 2

Heading 20 – Financial liabilities valued at FVTPL

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

Transaction type/Values	30/06/2021				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	1.771.087	—	13.706	2.976	1.107.028	—	26.863	—
1.1 Trading	1.771.087	—	13.706	2.976	1.107.028	—	26.863	—
1.2 Related to the fair value option	—	—	—	—	—	—	—	—
1.3 Others	—	—	—	—	—	—	—	—
2. Credit derivatives	1.355.179	—	11.491	—	1.789.302	—	91.905	—
2.1 Trading	1.355.179	—	11.491	—	1.789.302	—	91.905	—
2.2 Related to the fair value option	—	—	—	—	—	—	—	—
2.3 Others	—	—	—	—	—	—	—	—
Total (B)	**3.126.266**	**—**	**25.197**	**2.976**	**2.896.330**	**—**	**118.768**	**—**
Total (A+B)	**3.126.266**	**—**	**25.197**	**2.976**	**2.896.330**	**—**	**118.768**	**—**

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

Section 4

Heading 40 – Hedging derivatives

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

Items/Values	30/06/2021				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	—	—	—	—	—	—	—	—

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

Section 6

Heading 60 – Tax liabilities

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

	CIT	MBT	Other	Total
Balance at the beginning of the year	**1.568**	**414**	**1.205**	**3.187**
Increase of the period (+)	**1.497**	**555**	**2.738**	**4.790**
- provisions of the year	1.497	555	1.634	3.686
- transfers	—	—	—	—
- others	—	—	1.104	1.104
Decrease of the period (-)	**-1.568**	**-414**	**-1.172**	**-3.154**
- releases of the year (fiscal assessments)	-1.568	-414	—	-1.982
- transfers	—	—	—	—
- others	—	—	-1.172	-1.172
Balance at the end of the fiscal year	**1.497**	**555**	**2.771**	**4.823**

*

[A] Impôt sur le Revenu des Collectivités (‘Corporate Income Tax’, CIT) is a proportional tax levied on gains made by corporations

[B] Impôt Commercial Communal (‘Municipal Business Tax’, MBT) is a municipal tax levied on gains made by corporations

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

The positive result of the current FY lead to a CIT and MBT liability (€ 1.497k and € 555k respectively). This liability needs to be taken into consideration together with the tax asset as shown in the Section 11, Heading 110 – 11.2 Deferred Tax Assets. The cost of the “reversal of deferred tax asset” is recorded as income tax expense in the Profit and Loss.

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

Deferred tax liabilities	30/06/2021	30/06/2020
1. Initial amount	**—**	**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 (-)	**—**	**-748**
3.1 Deferred tax reversed during the period	—	-748
3.2 Lowering of tax rates	—	—
3.3 Other reductions	—	—
Total	—	**—**

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

	30/06/2021		30/06/2020	
	Valuation difference	Tax Rate 24,94%	Valuation difference	Tax Rate 24,94%
Cash and cash equivalent	—	—	—	—
Financial assets valued at FVTPL	—	—	—	—
Financial assets value at amortized cost	—	—	—	—
Hedging derivatives	—	—	—	—
Other assets	—	—	—	—
Total assets	—	—	—	—
Financial liabilities value at amortized cost	—	—	—	—
Financial liabilities valued at FVTPL	—	—	—	—
Hedging derivatives	—	—	—	—
Other liabilities	—	—	—	—
Shareholders' equity	—	—	—	—
Total liabilities	—	—	—	—
Total deferred tax liabilities	—	—	—	—

There are no movements to be reported through the period.

Section 8

Heading 80 – Other liabilities

8.1 Other liabilities: composition (in € k)

	30/06/2021	30/06/2020
1. Payment agreements (IFRS 2)	—	—
2. Impaired endorsements	—	—
3. Working capital payables and invoices pending receipt	4.216	3.001
4. Prepaid expenses other than capitalized expenses on related financial assets	—	—
5. Amounts due to revenue authorities	—	—
6. Amounts due to staff	295	34
7. Other items:	5.162	4.296
- bills for collection	—	—
- coupons and dividends pending collection	—	192
- available sums payable to third parties	5.162	4.104
- premiums, grants and other items in respect of lending transactions	—	—
- credit notes to be issued	—	—
- other	—	—
Total	**9.673**	**7.331**

The carrying value of ‘other items - available sums payable to third parties’ (€ 5.162k at the end of June 2021) consists of accrued commissions payable to related parties for the financial guarantees received on the lending portfolio.

Section 10

Heading 100 – Provisions for risks and charges

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

Items / Values	30/06/2021	30/06/2020
1. Provisions for credit risk related to commitments and financial guarantees issued	1.854	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	**1.854**	**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	30/06/2021				30/06/2020			
	Stage1	Stage2	Stage3	Total	Stage1	Stage2	Stage3	Total
Commitments to distribute funds	1.507	344	—	1.851	1.122	20	—	1.142
Financial guarantees issued	3		—	3	—	—	—	—
Total	**1.510**	**344**	**—**	**1.854**	**1122**	**20**	**—**	**1.142**

Section 15

Heading 150 - Reserves

15.1 Reserves: composition (in € k)

	30/06/2021	30/06/2020
A. Reserves	**320.783**	**331.470**
A.1 Legal reserve (A)	1.000	1.000
A.2 Free reserve	286.792	297.480
A.3 NWT reserve (B)	35.670	35.670
A.4 Other (C)	-2.679	-2.679

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

(B): 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 the FTA reserve created on the transition to IFRS9.

Section 16

Heading 160 – Share capital

16.1 Share capital

As at 30 June 2021 and 2020, the issued capital of the Bank amounts to € 10.000.000 and is divided into one million shares fully paid with a pair value of € 10 each.

Authorised capital and issue share capital coincide.

Other information

1. Guarantees and commitments (in € k)

	Nominal value of commitments and financial guarantees			30/06/2021	Nominal value of commitments and financial guarantees			30/06/2020
	Stage1	Stage2	Stage3	Total	Stage1	Stage2	Stage3	Total
1. Commitments to disburse funds	**1.843.527**	**114.457**	**681,0**	**1.958.665**	**1.417.919**	**1.921**	**—**	**1.419.840**
a) Central Banks	—	—	—	—	—	—	—	—
b) Public Administrations	—	—	—	—	—	—	—	—
c) Banks	—	—	—	—	—	—	—	—
d) Other financial companies	162.183	82.852	—	245.035	306.649	—	—	306.649
e) Non-financial companies	1.681.344	31.605	681	1.713.630	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	
	30/06/2021	30/06/2020
Financial instruments valued at FVTPL	—	—
Financial instruments valued at FVOCI	—	—
Financial instruments valued at amortised cost	1.068.430	1.344.274
Tangible assets	—	—
Total	**1.068.430**	**1.344.274**

As at 30 June 2021, the Bank has pledged collateral in form of securities and loans for an amount of € 1.289m of which € 1.068m originated by the Bank itself, whereas € 221m represents the re-use of collateral borrowed from the Parent Bank.

Among the secured financing operations which are outstanding as at 30 June 2021 it might be reported the issue of a senior unsecured floating rate note due 10 March 2022 for a nominal value of USD 100mln guaranteed by the Parent (ISIN XS1496191864). This note has been issued in contemplation of its subsequent sale by Mediobanca S.p.A. to Titanium DAC (an Irish special purpose vehicle) in the context of a total return swap transaction whereby, inter alia, Mediobanca S.p.A. has undertaken to repurchase the note from Titanium DAC upon contractual maturity. Mediobanca S.p.A.'s obligation to repurchase the note is collateralised by a portfolio of assets (mostly originated by Mediobanca International Luxembourg S.A.) 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 132m (USD 104m post haircut).

PART D - NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

Section 1

Headings 10 and 20 – Net interest income

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

Items/Technical forms	30/06/2021				30/06/2020			
	Debt securities	Loans	Other operations	Total*	Debt securities	Loans	Other operations	Total*
1. Financial assets valued at FVTPL:	2.423	—	—	2.423	—	—	—	—
1.1. Financial assets held for trading	—	—	—	—	—	—	—	—
1.2. Financial assets designated at fair value	—	—	—	—	—	—	—	—
1.3. Other financial assets mandatorily at fair	—	—	—	—	—	—	—	—
2. Financial assets valued at FVOCI	—	—	—	—	—	—	—	—
3. Financial assets at amortized cost	10	68.854	—	68.864	24	94.934	—	94.958
3.1 Due from banks	4	3.715	—	3.719	8	4.376	—	4.384
3.2 Due from customers	6	65.139	—	65.145	16	90.558	—	90.574
4. Hedging derivatives	—	—	8.545	8.545	—	—	1.557	1.557
5. Other assets	—	—	—	—	—	—	—	—
6. Financial liabilities bearing negative interests	X	X	X	83	X	X	X	45
Total	**2.433**	**68.854**	**8.545**	**79.915**	**24**	**94.934**	**1.557**	**96.560**

* please refer to the column Total as the valid amount

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

Items/Technical forms	30/06/2021				30/06/2020			
	Borrowings	Securities issued	Other operations	Total*	Borrowings	Securities issued	Other operations	Total*
1. Financial liabilities at amortized cost	-31.436	-31.023	—	-62.459	-55.435	-34.122	—	-89.557
1.1 Due to central banks	—	X	X	—	—	X	X	—
1.2 Due to banks	-31.431	X	X	-31.431	-54.994	X	X	-54.994
1.3 Due to customers	-5	X	X	-5	-441	X	X	-441
1.4 Debt securities in issue	X	-31.023	X	-31.023	X	-34.122	X	-34.122
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	—	—
6. Financial assets bearing negative interests	X	X	X	-1.692	X	X	X	-1.630
Total	**-31.436**	**-31.023**	—	**-64.151**	**-55.435**	**-34.122**	—	**-91.187**

* please refer to the column Total as the valid amount

Section 2

Headings 40 and 50 – Net fee and commission income

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

Type of service/Values			30/06/2021	30/06/2020
a)	guarantees given		13	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		16.408	15.080
Total			**16.421**	**15.112**

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

Services/Amounts			30/06/2021	30/06/2020
a)	guarantees received		—	-451
b)	credit derivatives		—	—
c)	management and brokerage services		-6.425	-1.833
	1.	trading in financial instruments	—	-268
	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	-6.425	-1.565
	6.	off-site distribution of financial instruments, products and services	—	—
d)	collection and payment services		-1.550	—
e)	other services		-7.082	-7.123
Total			**-15.057**	**-9.407**

Section 3

Heading 80 – Net trading income/expense

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

Transactions / Income	Unrealized profit (A)	Realized profit (B)	Unrealized losses (C)	Realized losses (D)	Net Profit 30/06/2021*	Net Profit 30/06/2020*
1. Financial trading assets	1.752	—	—	—	1.752	-29
1.1 Debt securities	1.752	—	—	—	1.752	—
1.2. Equity	—	—	—	—	—	—
1.3. O.I.C.R. shares	—	—	—	—	—	—
1.4. Loans	—	—	—	—	—	-29
1.5. Others	—	—	—	—	—	—
2. Financial trading liabilities	—	—	—	—	—	—
2.1. Debt securities	—	—	—	—	—	—
2.2. Borrowings and deposits	—	—	—	—	—	—
2.3. Others	—	—	—	—	—	—
3. Financial assets and liabilities in foreign currencies: exchange differences	X	X	X	X	8.178	5.658
4. Derivatives	101.929	14.505	-109.125	-10.542	-11.013	-5.904
4.1 Financial derivatives:	11.837	14.475	-17.216	-8.871	-7.555	-6.912
4.1.1 on debt securities and interest rates	4.945	9.118	-5.616	-8.509	-62	1.094
4.1.2 on equity securities and shares indexe	6.892	5.357	-11.600	-362	287	-794
4.1.3 on currencies and gold	X	X	X	X	-7.780	-7.212
4.1.4 other	—	—	—	—	—	—
4.2. Credit derivatives	90.092	30	-91.909	-1.671	-3.458	1.008
Total	**103.681**	**14.505**	**-109.125**	**-10.542**	**-1.083**	**-275**

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

Section 4

Heading 90 – Net hedging income/expense

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

	30/06/2021	30/06/2020
A. Income from:		
A.1 Fair value hedge derivatives	22.418	34.141
A.2 Financial assets hedged (fair value)	—	—
A.3 Financial liabilities hedged (fair value)	15.925	1.325
A.4 Cash flow hedge financial derivatives	—	—
A.5 Assets and liabilities in foreign currency	—	—
Total hedging income (A)	38.343	35.466
B. Expenses relating to:		
B.1 Fair value hedge derivatives	-33.771	-13.361
B.2 Financial assets hedged (fair value)	—	—
B.3 Financial liabilities hedged (fair value)	-4.458	-22.195
B.4 Cash flow hedge financial liabilities	—	—
B.5 Assets and liabilities in foreign currency	—	—
Total hedging expenses (B)	-38.229	-35.556
C. Net hedging income (A-B)	**114**	**-90**

Section 5

Heading 100 – Gain or loss on disposals or repurchases

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

Items/Income	30/06/2021			30/06/2020		
	Gains	Losses	Net profit (loss)	Gains	Losses	Net profit (loss)
A Financial assets						
1. Financial assets valued at amortized cost	575	-307	268	298	-183	115
1.1 Loans and receivables from banks	-23	—	-23	—	-183	-183
1.2 Loans and receivables from customers	598	-307	291	298	—	298
2. Financial assets valued at FVOCI	—	—	—	—	—	—
2.1 Debt securities	—	—	—	—	—	—
2.2 Loans	—	—	—	—	—	—
Total assets (A)	**575**	**-307**	**268**	**298**	**-183**	**115**
B Financial liabilities valued at amortized cost						
1. Deposits with banks	—	—	—	—	—	—
2. Deposits with customers	—	—	—	—	—	—
3. Debt securities in issue	104	-10	94	1.190	-26	1.164
Total liabilities (B)	**104**	**-10**	**94**	**1.190**	**-26**	**1.164**

Section 6

Heading 130 – Adjustments for impairment

6.1 Adjustment for impairment: breakdown (in € k)

Items/Income	Writedowns (1)			Writebacks (2)		30/06/2021 (1)+(2)	30/06/2020
	Stage1 and Stage2	Stage3		Stage1 and Stega2	Stage3		
		Write-off	Others				
A Loans and receivables with banks	-468	—	—	4	—	-464	442
- Loans and receivables	-468	—	—	4	—	-464	446
- Notes	—	—	—	—	—	—	-4
of which: financial assets purchased or originated credit impaired	—	—	—	—	—	—	—
B Loans and receivables with customers	-13.421	—	-7.220	16.232	2.748	-1.661	-14.338
- Loans and receivables	-13.421	—	-7.220	16.134	2.748	-1.759	-14.327
- Notes	—	—	—	98	—	98	-11
of which: financial assets purchased or originated credit impaired	—	—	—	—	—	—	—
Total	**-13.889**	**—**	**-7.220**	**16.236**	**2.748**	**-2.125**	**-13.896**

Impairment provisions for credit exposures are lower than June 2020. The provisioning made in FY (Stage 1 and Stage 2) and a significant provision level on Stage 3 due to a non performing exposures, in comparison to the previous FY, have been largely absorbed by the writebacks mainly attributable to a) the increased average level of guarantees by the Parent (new disbursements as well as existing exposures) together with the exit/reimbursement of part of the Stage 2 exposures, b) the updates in the ECL due to macroeconomic scenarios.

Section 7

Heading 190 – Administrative expenses

7.1 Personnel costs: composition (in € k)

Type of expense/Amounts	30/06/2021	30/06/2020
1.Employees	-2.759	-2.235
a) wages and salaries	-2.045	-1.822
b) social security contributions	-64	-62
c) severance indemnities	-168	—
d) pension contributions	-119	-118
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:	-187	-135
– defined contribution	-187	-135
– defined benefit	—	—
h) expenses incurred in connection with share payment schemes	-97	—
i) other staff benefits	-79	-98
2. Other staff	—	-40
3. Board members	-323	-210
Total	**-3.082**	**-2.484**

Expenditure on salaries have increased compared to June 2020 (+€ 536k) primarily by reason of ***a)*** the staff severance payment experienced during the FY and ***b)*** the payment in September of the bonus for the FY 2020, and the first time adoption of the bonus pool provision for the FY 2020/21.

7.2 Number of employees by category

	30/06/2021	30/06/2020
Employees	18	19
a) senior executives	3	3
b) executives	2	2
c) other employees	13	14
Other staff	—	1
Total	**18**	**20**

7.3 Other administrative expenses: composition (in € k)

Type of expense/Amounts	30/06/2021	30/06/2020
OTHER ADMINISTRATIVE EXPENSES		
– legal, tax and professional services	-1.391	-592
– loan recovery activity	—	—
– marketing and communication	-2	-9
– property expenses	-59	-48
– IT and data processing	-2.084	-1.736
– Info-provider	-40	-46
– bank charges, collection and payment fees	-31	-24
– operating expenses	-1.772	-1.303
– other staff expenses	-47	-121
– other costs	-2.741	-2.710
– indirect and other taxes	-587	-496
Total	**-8.754**	**-7.085**

Other administrative expenses amount to € 8.754k which corresponds to a deviation of approx. +23% compared to June 2020. The main reasons for the aforesaid increase have been the increase of the service agreement expenses with Parent compared with the previous FY as a result of the settlement costs due to new projects implemented and to the improvement of the IT systems. The Legal and professional services increase sharply mainly due to audit fees not billed during the previous fiscal year.

Section 8

Heading 200 – Net provisions for risks and charges

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

	30/06/2021			30/06/2020		
	Net provisions	Net releases of surplus	Total	Net provisions	Net releases of surplus	Total
Loan commitments	-709	-3	-712	-424	—	-424
Financial guarantees issued	—	—	—	—	20	20
Total	**-709**	**-3**	**-712**	**-424**	**20**	**-404**

Section 9

Heading 210 – Value adjustments in respect of tangible assets

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

Asset/Income	Depreciation (a)	Impairment (b)	Write-back (c)	Net result (a+b-c)
A. Property, equipment and investment properties				
1 For operational use	-236	—	—	-236
- Owned	-5	—	—	-5
- Licences acquired through leases	-231	—	—	-231
2 Held for investment purpose	—	—	—	—
- Owned	—	—	—	—
- Licences acquired through leases	—	—	—	—
Total 30/06/2021	**-236**	**—**	**—**	**-236**
Total 30/06/2020	**-239**	**—**	**—**	**-239**

Section 10

Heading 230 – Other operating income (expense)

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

	30/06/2021	30/06/2020
a) Leasing activity	—	—
b) Other expenses	-36	-1.621
Total expense	**-36**	**-1.621**
a) Amounts recovered from customers	—	—
b) Leasing activity	—	—
c) Other income	6.531	546
Total income	**6.531**	**546**
Net income (expense)	**6.495**	**-1.075**

Net contribution for the Bank deriving from “Other operating” is positive compared to the last year.

In particular the positive flows is generated by the management of the transfer price framework with the parent company which represent part of the cost recovery share (in return of the commission expenses falling down under the section "Fee and commission expense" - other services).

Section 11

Heading 300 – Income tax on the ordinary activity

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

	30/06/2021	30/06/2020
1. Current tax expenses	-2.847	-853
2. Changes in current tax expenses of the previous years	-	22
3. Changes of deferred tax assets	-	2.489
4. Changes of deferred tax liabilities	-	748
Total	**-2.847**	**2.406**

Current tax expenses in the amount of € -2,847k consists of:

a) the Net Wealth Tax ('NWT') charge for 2021 amounting to approx. €1.633K;

b) the income taxes for an amount of €1,214k, as result of:

€2,052k on the results for the year ended 30 June 2021 (€1,497k and €555k respectively for Corporate income tax ('CIT') and Municipality business tax ('MBT'));

€ 838k of positive adjustments for previous years CIT and MBT, accounted for as reversals during the fiscal year ended on 30 June 2021, have been deducted from the taxable result.

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

	30/06/2021				30/06/2020			
	IRC		ICC		IRC		ICC	
	Applicable rate	Absolute value	Applicable rate	Absolute value	Applicable rate	Absolute value	Applicable rate	Absolute value
Total profit or loss before tax from the current operations		**8.107,00**		**8.107,00**		**- 10.785,00**		**- 10.785,00**
Theoretical tax expense at a standard rate	**18,19%**	**1.474,00**	**6,75%**	**547,00**	**18,19%**	X	**6,75%**	X
Non deductible expenses (+)	18,19%	23	6,75%	8	18,19%	X	6,75%	X
Director fees	18,19%	20	6,75%	6	18,19%	X	6,75%	X
Witholding tax on director fees	18,19%	3	6,75%	2	18,19%	X	6,75%	X
Tax allowance (-)	18,19%	—	6,75%	—	18,19%	X	6,75%	X
Effective tax expense at standard rates	**18,47%**	**1.497**	**6,85%**	**555**	**18,19%**	—	**6,75%**	—

PART E – OPERATING SEGMENT REPORTING

A. PRIMARY SEGMENT REPORTING

The Bank does not run separate accounts or reporting for individual divisions or other business segments, primary because the business is essentially focused on wholesale banking. Local management uses specific markets segment reporting (i.e. geographical, economic sector, ratings) to evaluate segment's income, expenses, assets, liabilities and so on in order to assess profitability and riskiness of the business. The Bank's segmental reporting is based on the following operating segments: corporate lending, 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	24.962	-	18.538	302	-
20.	Financial assets valued at FVTPL	58.964	-	43.789	714	-
40.	Financial assets valued at amortised cost	3.920.045	-	2.911.167	47.483	-
	a) Due from banks	1.458.271	-	1.082.965	17.664	-
	b) Due from customers	2.461.774	-	1.828.202	29.819	-
50.	Hedging derivatives	14.487	-	10.758	175	-
70.	Equity investments	-	-	-	-	4.150
90.	Property, plant and equipments	-	-	-	-	1.570
110.	Tax assets	7.764	-	5.766	94	-
	a) current	*5.831*	-	4.330	71	-
	b) deferred	*1.933*	-	1.436	23	-
130.	Other assets	32.895	-	24.429	398	-
	Total assets at 30/06/2021	**4.059.117**	**-**	**3.014.447**	**49.166**	**5.720**
	Total assets at 30/06/2020	**3.427.174**	**-**	**2.936.283**	**60.721**	**4.419**
10.	Financial liabilities valued at amortised cost	-3.845.498	-	-2.855.807	-46.580	-
	a) Due to banks	*-2.134.854*	-	*-1.585.420*	*-25.859*	-
	b) Due to customers	*-36.218*	-	*-26.897*	*-439*	-
	c) Debt securities in issue	*-1.674.426*	-	*-1.243.490*	*-20.282*	-
20.	Financial liabilities valued at FVTPL	-16.055	-	-11.923	-194	-
40.	Hedging derivatives	-	-	-	-	-
60.	Tax liabilities	-2.749	-	-2.041	-33	-
	a) current	*-2.749*	-	*-2.041*	*-33*	-
	b) deferred	-	-	-	-	-
80.	Other liabilities	-5.513	-	-4.094	-67	-
100.	Provisions for risks and charges	-1.057	-	-785	-13	-
150.	Reserves	-182.808	-	-135.760	-2.214	-
160.	Share capital	-5.699	-	-4.232	-69	-
	Total liabilities at 30/06/2021 *	**-4.059.379**	**-**	**-3.014.642**	**-49.170**	**-**
	Total liabilities at 30/06/2020 *	**-3.435.285**	**-**	**-2.943.232**	**-60.865**	**-**

(*) 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 receivable and similar income	45.542	0	33.822	553	—
020.	Interests espenses and similar charges	-36.559	0	-27.150	-443	—
030.	**Net interest income**	**8.983**	**—**	**6.672**	**110**	**—**
040.	Fee and commission income	9.358	0	6.950	113	—
050.	Fee and commission expense	-8.581	0	-6.372	-104	—
060.	**Net fee and commission income**	**777**	**—**	**578**	**9**	**—**
080.	Net trading income/expense	-617	—	-458	-7	—
090.	Net hedging income/expense	65	—	48	1	—
100.	Gain or loss on disposal or repurchase of:	206	—	153	2	—
	a) financial assets valued at amortised cost	*152*	—	*113*	*1*	—
	b) financial assets valued at FVOCI	—	—	—	—	—
	c) financial liabilities	*54*	—	*40*	*1*	—
120.	**Total income**	**9.414**	**—**	**6.993**	**115**	**—**
130.	Adjustment for impairment to:	-1.211	—	-899	-15	—
	a) financial assets valued at amortised cost	*-1.211*	—	*-899*	*-15*	—
	b) financial assets valued at FVOCI	—	—	—	—	—
150.	**Net income from the financial operations**	**8.203**	**—**	**6.094**	**100**	**—**
190.	Administrative expenses	-6.746	—	-5.010	-81	—
	a) personnel costs	*-1.757*	—	*-1.305*	*-21*	—
	b) other administrative expenses	*-4.989*	—	*-3.705*	*-60*	—
200.	Net provisions for risks and charges	-406	—	-301	-5	—
210.	Value adjustments in respect of tangible assets	-134	—	-100	-2	—
230.	Other operating income/expense	3.701	—	2.749	45	—
290.	**Profit (loss) of the ordinary activity before tax**	**4.618**	**—**	**3.432**	**57**	**—**
300.	Income tax on the ordinary activity	-1.622	—	-1.205	-20	—
330.	**Profit (loss) for the period**	**2.996**	**—**	**2.227**	**37**	**—**
340.	Other comprehensive income, net of tax	—	—	—	—	—
350.	**Profit (Loss) of the year 30/06/2021**	**2.996**	**—**	**2.227**	**37**	**—**
	Profit (Loss) of the year 30/06/2020	**-5.755**	**—**	**-4.929**	**-101**	**—**

B. Secondary segment reporting

The Bank operates in four main geographical markets: Luxembourg, Other EU Countries, Americas and Asia. The following tables show the distribution of the Bank's financial and statement of comprehensive incomes based on the location of the customers for the years ended 30 June 2021 and 2020.

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

	LUXEMBOURG	OTHER EUROPEAN COUNTRIES	AMERICAS	OTHER EMEA
Cash and cash equivalents	43.803	—	—	—
Financial assets valued at FVTPL	42.863	60.604	—	—
Financial assets valued at amortised cost	843.056	5.070.113	822.498	143.028
a) Due from banks	*7.472*	*2.551.428*	—	—
b) Due from customers	*835.584*	*2.518.685*	*822.498*	*143.028*
Hedging derivatives	—	25.420	—	—
Equity investments	4.150	—	—	—
Property, plant and equipments	1.570	—	—	—
Tax assets	13.623	—	—	—
a) current	*10.231*	—	—	—
b) deferred	*3.392*	—	—	—
Other assets	105	13.602	44.016	—
A. Total assets 30/06/2021	**949.170**	**5.169.739**	**866.514**	**143.028**
A. Total assets 30/06/2020	**951.214**	**4.502.203**	**963.399**	**11.782**
Financial liabilities at amortised cost	-3.001.784	-3.746.100	—	—
a) Due to banks	—	*-3.746.134*	—	—
b) Due to customers	*-63.553*	—	—	—
c) Debt securities in issue	*-2.938.231*	*34*	—	—
Financial liabilities valued at FVTPL	-16.969	-11.204	—	—
Hedging derivatives	—	—	—	—
Tax liabilities	-4.824	—	—	—
a) current	*-4.824*	—	—	—
b) deferred	—	—	—	—
Other liabilities	-448	-9.226	—	—
Provisions for risks and charges	-72	-1.663	-119	—
Reserves	-323.118	1.358	978	—
Share capital	-10.000	—	—	—
B. Total liabilities 30/06/2021 (1)	**-3.357.215**	**-3.766.835**	**858**	**—**
B. Total liabilities 30/06/2020 (1)	**-3.639.835**	**-2.800.439**	**893**	**—**

(1) Profit for the period excluded

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

	LUXEMBOURG	OTHER EUROPEAN COUNTRIES	AMERICAS	OTHER EMEA
Net interest income	-10.041	4.540	20.632	633
Net fee and commission income	943	-1.475	1.810	86
Net trading income/expense	-26.323	23.606	1.935	-301
Net hedging income/expense	11.467	-11.353	—	—
Gain or loss on disposal or repurchase of:	71	70	220	—
Value Adjustments - impairment	536	781	1.101	-4.542
Administrative expenses	-6.777	-4.803	-257	—
Net provisions for risks and charges	-25	-653	-34	—
Value adjustments in respect of tangible assets	-199	-36	—	—
Other operating income/expense	39	6.445	11	—
Income tax	-2.847	—	—	—
Profit (Loss) of the year 30/06/2021	**-33.155**	**17.122**	**25.418**	**-4.124**
Profit (Loss) of the year 30/06/2020	**18.883**	**-59.806**	**34.637**	**-4.499**

PART F – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

Introduction

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

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

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

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

The Risk Appetite Framework ("RAF"):

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

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

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

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

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

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

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

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

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

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

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

Section 1

1.1 CREDIT RISK

QUALITATIVE INFORMATION

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

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

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

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

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

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

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

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

During the year there were no significant changes in the Bank's objectives, policies and process for managing credit risk. After outbreak of Covid pandemic, Risk management has further strengthened the monitoring on portfolio in order to better understand ongoing activity and expected financial/operating impacts. In order to mitigate potential negative impact a higher level of protection from Parent Company was requested, especially on new exposures approved. Dedicated monitoring has been set out for those borrowers requesting a waiver coupled with a reinforced process focused on Covid impact, potential liquidity implications, reassessment of the internal ratings.

Corporate banking

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

Leverage finance

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

Loan impairment provisions

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

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

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

The expected loss is the result of the combined valuation of three scenarios (baseline, mild-positive and mild-negative), weighted according to their likelihood of occurring (respectively 50%, 25%, 25%). The scenarios, determined at Group level, are revised at least once every six months. In particular, the Group sets the estimates for the baseline scenario, compiling the economic variables using an external macroeconomic model which factors in the internal expectations for interest rates. Levels of deviation from the baseline scenario are established in order to determine the mild-negative and mild-positive scenarios; these deviations are obtained from historical analysis of trends in the macroeconomic parameters used in the risk parameter conditioning models.

Considering the economic recovery from the 3rd quarter 2020 compared to the peak of the recession observed in the previous quarter, it was decided (as of December 2020) to limit the use of "Spline", the mathematical technique applied in June 2020, on the forecasts provided by the models used in the scope of the IFRS9 methodological framework for the transmission of macroeconomic effects (so-called “satellite models”). In particular, the application of the Spline was abandoned for the PD satellite model of the Wholesale portfolio, while it was maintained for the LGD satellite model, whose projections would otherwise remain characterized by excessive volatility.

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

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 reclassification to watch list status according to credit risk monitoring rules. The Group uses the simplified approach of the ‘‘low credit risk exemption’’ to a very limited extent.

The criterion for Stage 2 classification, which is based on an increase in the PD above defined thresholds, has been supplemented with the additional request that a minimum number of notches downgrade have occurred between the origination of the credit and the reference date. Revisions of single name classifications are also possible on the basis of internal decisions supported by monographic analysis.

MACROECONOMIC SCENARIO AND COVID-19 IMPACT

Loan loss provisioning at 30 June 2021 is subject to the most recently updated macroeconomic scenario. In particular, with reference to the closing at 30 June 2021, the macroeconomic scenario used in the provisioning process for updating risk parameters incorporates an estimate of a sudden rise in GDP for all world economies.

The estimates used by the Group for 2021 foresee an increase in Italy's GDP of 4,51%, 3,97% for the EU area and 6,59% for the US. Conversely, the estimate of the unemployment rate settles on a level equal to: 9,80% in Italy, 7,60% in Europe and 5,35% in the United States.

These data are mostly revised with a significant improvement compared to what was recorded in 2020 (Italy's GDP -8,93%; EU -6,31%; USA -3,49%).

Tab. 1 –Macroeconomic scenario (*)

GDP	2021	2022	2023	2024
ItalY	4,51%	4,35%	1,46%	1,21%
UE	3,97%	4,33%	2,20%	2,03%
USA	6,59%	3,86%	1,84%	1,39%
UNEMPLOYMENT RTE	2021	2022	2023	2024
Italy	9,80%	9,88%	9,46%	9,07%
UE	7,60%	7,45%	7,01%	6,60%
USA	5,35%	4,18%	3,79%	3,69%
10Y GOVERNEMENT BOND YIELDS	2021	2022	2023	2024
Italy	0,64%	1,23%	1,85%	2,38%
UE	-0,24%	0,08%	0,30%	0,48%
USA	1,92%	2,51%	2,79%	3,03%

As mentioned, the macroeconomic scenario foresees a significant improvement of the main indicators for the future years, consistent with the expectations of a progressive return to a pre-Covid situation. However, taking into account the current uncertainties relating to the evolution of the pandemic crisis (possible removal of government support measures, implementation and effectiveness of the vaccination plan, evolution of virus variants, etc.), additional provisions were added to the impairment estimates deriving from the application of the models, determined on the basis of specific aspects that cannot be assessed through modeling.

On the corporate portfolio, overlays have been applied to exposures in sectors considered more vulnerable and impacted by the pandemic context and in case of contractual waivers. Moreover, corrective measures were applied in order to neutralize the releases deriving from the improvement of the macroeconomic scenario factored into the models during the last six months; this second type of overlay ensures the maintenance of the coverage of the positions observed before updating the macroeconomic scenario.

QUANTITATIVE INFORMATION

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

Portfolio/Quality	Non performing loans	Unlikely to pay	Impaired past due exposures	Not impaired past due exposures	Other not impaired exposures	Total
1. Financial asset at amortized cost	—	30.238	—	—	6.848.457	6.878.695
profitability	—	—	—	—	—	—
3. Financial assets designated to FV	—	—	—	—	—	—
4. Other fin.ass. mandatorily at FV	—	—	—	—	—	—
5. Financial instruments as held for sale	—	—	—	—	—	—
Total 30/06/2021	—	**30.238**	—	—	**6.848.457**	**6.878.695**
Total 30/06/2020	—	**29.542**	—	—	**6.320.505**	**6.350.047**

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

Asset portfolio/quality	Non-performing loans			Performing loans			Total (net exposure)
	Gross exposure	Accumulated impairment	Net exposure	Gross exposure	Accumulated impairment	Net exposure	
1. Financial assets at amortized cost	43.986	-13.748	30.238	6.860.562	-12.105	6.848.457	6.878.695
2. Financial assets at FVOCI	—	—	—	—	—	—	—
3. Financial assets at FVTPL	—	—	—	—	—	—	—
4. Other financial assets mandatorily at fair value	—	—	—	—	—	—	—
5. Financial assets being sold	—	—	—	—	—	—	—
Total 30/06/2021	**43.986**	**-13.748**	**30.238**	**6.860.562**	**-12.105**	**6.848.457**	**6.878.695**
Total 30/06/2020	**39.399**	**-9.857**	**29.542**	**6.213.688**	**-14.488**	**6.320.505**	**6.350.047**

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

Type of exposure/Amounts	Gross exposure	Specific value adjustments	Portfolio value adjustments	30/06/2021	30/06/2020
A. CASH EXPOSURES					
a) Non-performing loans	—	—	—	—	—
- *of which: forborne exposures*	—	—	—	—	—
b) Unlikely to pay	—	—	—	—	—
- *of which: forborne exposures*	—	—	—	—	—
c) Impaired past due exposures	—	—	—	—	—
- *of which: forborne exposures*	—	—	—	—	—
d) Not impaired past due exposures	—	—	—	—	—
- *of which: forborne exposures*	—	—	—	—	—
e) Other not impaired exposures	2.561.126	—	-2.226	2.558.900	2.086.446
- *of which: forborne exposures*	—	—	—	—	—
Total A	**2.561.126**	**—**	**-2.226**	**2.558.900**	**2.086.446**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Non-performing	—	—	—	—	—
b) Other assets	—	—	—	—	—
Total B	**—**	**—**	**—**	**—**	**—**
Total A+Total B	**2.561.126**	**—**	**-2.226**	**2.558.900**	**2.086.446**

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

Type of exposure/Amounts	Gross exposure	Specific value adjustments	Portfolio value adjustments	30/06/2021	30/06/2020
A. CASH EXPOSURES					
a) Non-performing loans	—	—	—	—	—
- of which: forborne exposures	—	—	—	—	—
b) Unlikely to pay	43.986	—	-13.748	30.238	29.542
- of which: forborne exposures	—	—	—	—	—
c) Impaired past due exposures	—	—	—	—	—
- of which: forborne exposures	—	—	—	—	—
d) Not impaired past due exposures	—	—	—	—	—
- of which: forborne exposures	—	—	—	—	—
e) Other not impaired exposures	4.299.437	—	-9.880	4.289.557	4.112.755
- of which: forborne exposures	18.085	—	-837	17.248	—
Total A	**4.343.423**	**—**	**-23.628**	**4.319.795**	**4.142.297**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Non-performing	681	—	—	681	—
b) Other assets	1.957.984	—	-1.854	1.956.130	1.418.698
Total B	**1.958.665**	**—**	**-1.854**	**1.956.811**	**1.418.698**
Total A + Total B	**6.302.088**	**—**	**-25.482**	**6.276.606**	**5.560.995**

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

Description/Category	30/06/2021	30/06/2020
A. Gross exposure at start of period	39.399	—
of which: accounts sold but not derecognized	—	—
B. Additions	4.587	39.399
B.1 transfers from performing loans	—	39.399
B.2 transfer from other categories of impaired assets	—	—
B.3 other additions	4.587	—
C. Reductions	—	—
C.1 transfer to performing loans	—	—
C.2 amounts written off	—	—
C.3 amounts collected	—	—
C.4 gains realized on disposal	—	—
C.5 transfers to other categories of impaired assets	—	—
C.6 other reductions	—	—
D. Gross exposure at end of period	43.986	39.399
of which: accounts sold but not derecognized	—	—

1.1a CREDIT RISK – CONCENTRATION RISK

QUALITATIVE INFORMATION

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

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

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

The Bank's concentrations of risk are managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to a single client (or group of connected clients) other than the Parent as at June 30 June 2021 was € 379 million (June 2020: € 470 million) before taking account of collateral or other credit enhancements and € 71 million (June 2020: € 73 million) net of such protection.

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

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

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

QUANTITATIVE INFORMATION

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

	Governments and Central Banks	Other Public agencies	Financial companies	Insurances	Non-financial undertakings	Other entities
A. Cash exposures						
A.1 Non-performing						
Gross exposure	—	—	—	—	43.986	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	—	—	-13.748	—
Net exposure	—	—	—	—	30.238	—
A.2 Other exposures						
Gross exposure	83.957	—	1.013.679	—	3.201.801	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	-29	—	-2.465	—	-7.386	—
Net exposure	83.928	—	1.011.214	—	3.194.415	—
Total A						
Gross exposure	83.957	—	1.013.679	—	3.245.787	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	-29	—	-2.465	—	-21.134	—
Net exposure	83.928	—	1.011.214	—	3.224.653	—
B. Off-balance sheet exposures						
B.1 Non-performing						
Gross exposure	—	—	—	—	—	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	—	—	—	—
Net exposure	—	—	—	—	—	—
B.2 Other exposures						
Gross exposure	—	—	244.627	—	1.714.038	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-408	—	-1.446	—
Net exposure	—	—	244.219	—	1.712.592	—
Total B						
Gross exposure	—	—	244.627	—	1.714.038	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-408	—	-1.446	—
Net exposure	—	—	244.219	—	1.712.592	—
Total 30/06/2021						
Gross exposure	83.957	—	1.258.306	—	4.959.825	—
Value adjustments to gross exposure	—	—	—	—	—	—
Value adjustments to portfolio	-29	—	-2.873	—	-22.580	—
Net exposure	83.928	—	1.255.433	—	4.937.245	—
Net exposure 30/06/2020	**—**	**—**	**1.483.479**	**—**	**4.077.515**	**—**

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

Exposure/geographical areas	Luxembourg		Other European countries		America		Asia		Oceania	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A) Cash exposures										
A.1 Non-performing	—	—	—	—	—	—	—	—	—	—
A.2 Unlikely to pay	—	—	4.035	1.611	20.706	20.290	19.245	8.336	—	—
A.3 Impaired past due	—	—	—	—	—	—	—	—	—	—
A.4 Not impaired past due	—	—	—	—	—	—	—	—	—	—
A.5 Performing	837.422	835.583	2.353.145	2.348.236	974.113	971.046	134.757	134.692	—	—
Total A	837.422	835.583	2.357.180	2.349.847	994.819	991.336	154.002	143.028	—	—
B) Off-balance-sheet exposures										
B.1 Non-performing	—	—	—	—	—	—	—	—	—	—
B.2 Performing	68.986	68.914	1.686.450	1.684.788	202.548	202.429	681	680	—	—
Total B	68.986	68.914	1.686.450	1.684.788	202.548	202.429	681	680	—	—
Total 30/06/2021	**906.408**	**904.497**	**4.043.630**	**4.034.635**	**1.197.367**	**1.193.765**	**154.683**	**143.708**	**—**	**—**
Total 30/06/2020	**884.919**	**882.089**	**3.644.266**	**3.634.653**	**1.037.469**	**1.032.614**	**18.071**	**11.639**	**—**	**—**

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

Exposure/geographical areas	Luxembourg		Other European countries		United States		Asia		Oceania	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A) Cash exposures										
A.1 Non-performing	—	—	—	—	—	—	—	—	—	—
A.2 Unlikely to pay	—	—	—	—	—	—	—	—	—	—
A.3 Impaired past due	—	—	—	—	—	—	—	—	—	—
A.4 Not impaired past due	—	—	—	—	—	—	—	—	—	—
A.5 Performing	7.300	7.300	2.553.826	2.551.600	—	—	—	—	—	—
Total A	7.300	7.300	2.553.826	2.551.600	—	—	—	—	—	—
B) Off-balance-sheet exposures										
B.1 Non-performing	—	—	—	—	—	—	—	—	—	—
B.2 Performing	—	—	—	—	—	—	—	—	—	—
Total B	—	—	—	—	—	—	—	—	—	—
Total 30/06/2021	**7.300**	**7.300**	**2.553.826**	**2.551.600**	**—**	**—**	**—**	**—**	**—**	**—**
Total 30/06/2020	**68.336**	**68.336**	**2.019.868**	**2.018.110**	**—**	**—**	**—**	**—**	**—**	**—**

Section 2

1.2 MARKET RISK

1.2.1 Interest rate risk

QUALITATIVE INFORMATION

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

According to CSSF Regulation 15-02, the Bank performs a "*test de résistance, en matière de risque de taux dintérêt*" implementing systems to identify, evaluate and manage the risk arising from potential changes in interest rates that affect its non-trading activities. The CSSF determines in particular to which extent the interest rate risk after a parallel shift up or down by 200 basis points of the yield curve is likely to exceed 20% of their own funds or 15% of their TIER1 capital after change in EVE deriving from the application of 6 additional EBA scenarios.

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

According to CSSF Circular 08/338 (as amended, institutions should calculate the impact of the two parallel shock scenarios set out in paragraph 113 of the EBA/GL/2018/02 and the six additional scenarios according to paragraph 114 of the EBA/GL/2018/02. A maturity-dependent post-shock interest rate floor are applied for each currency starting with -100 basis points for immediate maturities. This floor increase by 5 basis points per year, eventually reaching 0% for maturities of 20 years and more. However, if observed rates are lower than the current lower reference rate of -100 basis points, institutions should apply the lower observed rate.

For this calculation, institutions should apply an appropriate general "risk-free" yield curve appurtenant for each currency. That curve should not include instrument-specific or entity-specific credit risk spreads or liquidity risk spreads.

Interest rate risk is controlled on a quarterly basis by the management using specific risk management reports. The gap analysis report shows the sensitivity of the statement of financial position for a 1 (one) basis point shift of the interest rate curve. A monthly ALM report points out the mismatching of the statement of financial position in terms of maturity and rate re-fixing. Based on reporting evidences, the management of the Bank - in coordination with the treasury department of the Parent Bank - decides on possible remedial measures (if needed) concerning the "mix" of funding (notes, overdraft on current account, time deposits, loans, etc.) in order to obtain a better matching with the lending.

According to the part III of the Circular CSSF 08/338 as amended by Circular CSSF 20/762, a "résistance test" of interest rate risk was carried out as at 30 June 2021. The simulation was based on 6 EBA scenarios – *Parallel shock up, Parallel shock down, Steepener shock* (shock down for short-term interest rates and shock up for long-term interest rates), *Flattener shock* (shock up for short-term interest rates and shock down for long-term interest rates), *Short rates shock up*, *Short rates shock down* – for EVE sensitivity. Only parallel shocks have been considered for Net Interest Income (NII) simulation.

The results achieved are described herein after (showing the most detrimental scenario):

- EVE: €0 mln (positive impact of stressed scenarios should not be reported);
- NII: Parallel Down equals to €-6.1mln.

Fair value hedge

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

QUANTITATIVE INFORMATION

C.1a Regulatory trading book: breakdown by outstanding maturity (repricing date) of cash assets and liabilities and financial derivative products as at 30 June 2021 (in € k)

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets								
1.1 Debt securities	—	—	—	—	—	—	—	—
– with early redemption option	—	—	—	—	—	—	—	—
– other	—	—	—	—	—	—	—	—
1.2 Loans to Banks	—	—	—	—	—	—	—	—
1.3 Loans to customers	—	—	—	—	—	—	—	—
Total cash assets at 30/06/2021	—	—	—	—	—	—	—	—
2. Cash liabilities								
2.1 Amounts due to Banks	—	—	—	—	—	—	—	—
2.2 Amounts due to customers	—	—	—	—	—	—	—	—
2.3 Debt securities in issue	—	—	—	—	—	—	—	—
Total cash liabilities at 30/06/2021	—	—	—	—	—	—	—	—
3. Financial derivatives								
3.1 With underlying securities								
– Options								
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others								
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities								
– Options								
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others								
+ Long positions	—	419.540	—	200.000	507.140	—	—	—
+ Short positions	—	419.540	—	200.000	507.140	—	—	—

C.1b Regulatory trading book: breakdown by outstanding maturity (repricing date) of cash assets and liabilities and financial derivative products as at 30 June 2020 (in € k)

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets								
1.1 Debt securities	—	—	—	—	—	—	—	—
– with early redemption option	—	—	—	—	—	—	—	—
– other	—	—	—	—	—	—	—	—
1.2 Loans to Banks	—	—	—	—	—	—	—	—
1.3 Loans to customers	—	—	—	—	—	—	—	—
Total cash assets at 30/06/2020	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
2. Cash liabilities								
2.1 Amounts due to Banks	—	—	—	—	—	—	—	—
2.2 Amounts due to customers	—	—	—	—	—	—	—	—
2.3 Debt securities in issue	—	—	—	—	—	—	—	—
Total cash liabilities at 30/06/2020	—	—	—	—	—	—	—	—
3. Financial derivatives								
3.1 With underlying securities								
– Options								
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others								
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities								
– Options								
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others								
+ Long positions	2.817	144.017	92.628	167.680	119.008	5.000	—	—
+ Short positions	2.817	298.877	61.486	5.963	865.808	—	—	—

C.2a Regulatory banking book: breakdown by outstanding maturity (repricing date) of cash assets and liabilities and financial derivative products as at 30 June 2021 (in € k)

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets								
1.1 Debt securities	—	10.003	—	28	139	—	—	—
– with early redemption option	—	—	—	—	—	—	—	—
– other	—	10.003	—	28	139	—	—	—
1.2 Loans to Banks	841.125	1.667.714	50.061	—	—	—	—	—
1.3 Loans to customers	235.596	3.451.171	445.729	32.162	114.906	9.767	20.294	—
Total cash assets at 30/06/2021	**1.076.721**	**5.128.888**	**495.790**	**32.190**	**115.045**	**9.767**	**20.294**	**—**
2. Cash liabilities								
2.1 Amounts due to customers	—	61.985	—	1.568	—	—	—	—
2.2 Amounts due to Banks	367.858	3.086.196	49.972	142.149	100.000	—	—	—
2.3 Debt securities in issue	—	1.767.170	103.578	916.521	150.887	—	—	—
Total cash liabilities at 30/06/2021	**367.858**	**4.915.351**	**153.550**	**1.060.238**	**250.887**	**—**	**—**	**—**
3. Financial derivatives								
3.1 With underlying securities								
– Options								
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others								
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities								
– Options								
+ Long positions	—	—	—	200.000	500.000	—	—	—
+ Short positions	—	—	—	200.000	500.000	—	—	—
– Others								
+ Long positions	—	41.350	50.209	445.114	—	—	—	—
+ Short positions	—	536.673	—	—	—	—	—	—
4. Other off-balance sheet								
+ Long positions	—	241.844	2.503	81.735	1.486.506	91.535	—	—
+ Short positions	—	241.844	2.503	81.735	1.486.506	91.535	—	—

C.2b Regulatory banking book: breakdown by outstanding maturity (repricing date) of cash assets and liabilities and financial derivative products as at 30 June 2020 (in € k)

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets								
1.1 Debt securities	—	12.712	—	—	167	—	—	—
– with early redemption option	—	—	—	—	—	—	—	—
– other	—	12.712	—	—	167	—	—	—
1.2 Loans to Banks	682.720	1.238.750	60.045	102.127	—	—	—	—
1.3 Loans to customers	462.526	2.785.013	567.835	107.620	199.325	10.000	—	—
Total cash assets at 30/06/2020	**1.145.247**	**4.036.475**	**627.880**	**209.747**	**199.492**	**10.000**	**—**	**—**
2. Cash liabilities								
2.1 Amounts due to customers	—	-110.038	—	-23.260	—	—	—	—
2.2 Amounts due to Banks	-50.493	-1.833.190	-412.816	-300.000	-100.000	—	—	—
2.3 Debt securities in issue	—	-1.747.092	-65.581	-997.101	-327.904	—	—	—
Total cash liabilities at 30/06/2020	**-50.493**	**-3.690.320**	**-478.397**	**-1.320.361**	**-427.904**	**—**	**—**	**—**
3. Financial derivatives								
3.1 With underlying securities								
– Options								
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
– Others								
+ Long positions	—	—	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities								
– Options								
+ Long positions	—	—	—	—	780.000	—	—	—
+ Short positions	—	—	—	—	780.000	—	—	—
– Others								
+ Long positions	—	119.850	56.313	495.024	—	—	—	—
+ Short positions	—	671.187	—	—	—	—	—	—
4. Other off-balance sheet								
+ Long positions	12	542.338	12.497	—	756.239	108.753	—	—
+ Short positions	12	542.338	12.497	—	756.239	108.753	—	—

1.2.2 Exchange rate risk

QUALITATIVE INFORMATION

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

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

Currency exposure is constantly monitored by management through dedicated ALM reports, corrective actions are dealt if necessary. As at 30 June 2021, the Bank has not registered any forex capital allowance.

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

QUANTITATIVE INFORMATION

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

Line items	Currency				
	US dollars	Pounds sterling	Swiss francs	Zloty	Other
A. Assets					
A.1 Debt securities	—	—	—	—	—
A.2 Equities	—	—	—	—	—
A.3 Loans and advances to Banks	254.947	52.452	137.241	64	3.354
A.4 Loans and advances to customers	1.368.748	438.222	185.018	29.588	27.445
A.5 Other financial assets	45.273	209	—	—	—
B. Financial liabilities					
B.1 Due to Banks	-1.256.825	-419.832	-138.310	—	—
B.2 Due to customers	—	—	—	—	—
B.3 Debt securities	-460.717	—	-137.737	—	—
B.4 Other financial liabilities	-1.622	-1.952	-12	—	-41
C. Financial Derivatives					
- Options					
+ long positions	5.681	—	—	—	—
+ short positions	-1.612	—	—	—	—
- Other					
+ long positions	33.236	—	1.768	—	—
+ short positions	-11.166	-69.926	-47.452	-29.422	-30.046
Total assets 30/06/2021	1.707.885	490.883	324.027	29.652	30.799
Total liabilities 30/06/2021	-1.731.942	-491.710	-323.511	-29.422	-30.087
Difference (+/-) 30/06/2021	**-24.057**	**-827**	**516**	**230**	**712**
Total assets 30/06/2020	1.344.697	459.969	2.744	342.037	33.641
Total liabilities 30/06/2020	-1.369.366	-463.183	-2.591	-343.007	-29.923
Difference (+/-) 30/06/2020	**-24.669**	**-3.214**	**153**	**-970**	**3.718**

1.2.3 Derivative contracts

QUALITATIVE INFORMATION

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

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

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

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

QUANTITATIVE INFORMATION

FINANCIAL DERIVATIVES

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

Type of transactions	30/06/2021		30/06/2020	
	Over-the-counter	**Listed**	**Over-the-counter**	**Listed**
1. Debt securities and interest rates	1.739.899	—	1.879.503	—
a) Options	700.000	—	780.000	—
b) Swap	1.039.899	—	1.099.503	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
2. Equities and share indexes	23.436	—	25.376	—
a) Options	12.513	—	12.688	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	10.923	—	12.688	—
3. Exchange rates and Gold	176.342	—	308.564	—
a) Options	—	—	—	—
b) Swap	55.602	—	143.898	—
c) Forward	120.740	—	164.666	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	**1.939.677**	—	**2.213.443**	—

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

Type of transactions	30/06/2021		30/06/2020	
	Over-the-counter	Listed	Over-the-counter	Listed
1. Debt securities and interest rates	445.114	—	495.024	—
a) Options	—	—	—	—
b) Swap	445.114	—	495.024	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
2. Equities and share indexes	—	—	—	—
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Exchange rates and Gold	—	—	—	—
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other assets	—	—	—	—
Total	**445.114**	**—**	**495.024**	**—**

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

Type of transactions	Positive fair value			
	30/06/2021		30/06/2020	
	Over-the-counter	Listed	Over-the-counter	Listed
A. Regulatory trading book	18.407	—	26.811	—
a) Options	13.818	—	16.517	—
b) Interest Rate Swap	3.132	—	8.036	—
c) Cross Currency Swap	818	—	1.467	—
d) Equity Swap	—	—	—	—
e) Forward	639	—	791	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
B. Banking book: Hedge derivatives	25.420	—	38.813	—
a) Options	—	—	—	—
b) Interest Rate Swap	—	—	—	—
c) Cross Currency Swap	25.420	—	38.813	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
C. Banking book: Others derivatives	—	—	—	—
a) Options	—	—	—	—
b) Interest Rate Swap	—	—	—	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	**43.827**	—	**65.624**	—

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

Type of transactions	Negative fair value			
	30/06/2021		30/06/2020	
	Over-the-counter	Listed	Over-the-counter	Listed
A. Regulatory trading book	-16.683	—	-26.863	—
a) Options	-2.099	—	-16.032	—
b) Interest Rate Swap	-2.829	—	-6.538	—
c) Cross Currency Swap	-26	—	-3.932	—
d) Equity Swap	—	—	—	—
e) Forward	-201	—	-362	-362
f) Futures	—	—	—	—
g) Others	-11.528	—	—	—
B. Banking book: Hedge derivatives	—	—	—	—
a) Options	—	—	—	—
b) Interest Rate Swap	—	—	—	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others		—	—	—
C. Banking book: Others derivatives	—	—	—	—
a) Options	—	—	—	—
b) Interest Rate Swap	—	—	—	—
c) Cross Currency Swap	—	—	—	—
d) Equity Swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	**-16.683**	**—**	**-26.863**	**—**

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

Contracts not forming part of netting arrangements	30/06/2021							30/06/2020
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—
2. Equities and share indexes								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—
3. Exchange rates and Gold			—	—				—
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—
4. Other assets			—	—				
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—

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

Contracts forming part of netting arrangements	30/06/2021							30/06/2020
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	799.898	940.000	—	—	—	1.879.503
- positive fair value	—	—	3.810	—	—	—	—	9.959
- negative fair value	—	—	3.130	186	—	—	—	7.976
2. Equities and share indexes								
- notional value	—	—	23.436	—	—	—	—	25.376
- positive fair value	—	—	13.140	—	—	—	—	14.594
- negative fair value	—	—	13.140	—	—	—	—	14.593
3. Exchange rates and Gold								
- notional value	—	—	176.342	—	—	—	—	308.564
- positive fair value	—	—	1.457	—	—	—	—	2.258
- negative fair value	—	—	227	—	—	—	—	4.294
4. Other assets								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—

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

Contracts not forming part of netting arrangements	30/06/2021							30/06/2020
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—
2. Equities and share indexes								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—
3. Exchange rates and Gold								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—
4. Other assets								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure[1]	—	—	—	—	—	—	—	—

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

Contracts forming part of netting arrangements	30/06/2021							30/06/2020
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	445.114	—	—	—	—	495.024
- positive fair value	—	—	25.420	—	—	—	—	38.813
- negative fair value	—	—	—	—	—	—	—	—
2. Equities and share indexes								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
3. Exchange rates and Gold								—
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
4. Other assets								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—

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

Underlying/Residual maturity	Up to 1 year	From 1 to 5 years	Over 5 years	Total
1. Financial derivatives on debt securities and interest rates	486.559	1.253.340	—	1.739.899
2. Financial derivatives on equities and share indexes	18.433	5.003	—	23.436
3. Financial derivatives on foreign curencies and gold	151.928	24.414	—	176.342
4. Financial derivatives on commodities	—	—	—	—
5. Other financial derivatives	—	—	—	—
Total at 30/06/2021	**656.920**	**1.282.757**	**—**	**1.939.677**
Total at 30/06/2020	**508.254**	**1.700.189**	**5.000**	**2.213.443**

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

Underlying/Residual maturity	Up to 1 year	From 1 to 5 years	Over 5 years	Total
1. Financial derivatives on debt securities and interest rates	—	445.114	—	445.114
2. Financial derivatives on equities and share indexes	—	—	—	—
3. Financial derivatives on foreign curencies and gold	—	—	—	—
4. Financial derivatives on commodities	—	—	—	—
5. Other financial derivatives	—	—	—	—
Total at 30/06/2021	**—**	**445.114**	**—**	**445.114**
Total at 30/06/2020	**—**	**495.024**	**—**	**495.024**

CREDIT DERIVATIVES

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

Transaction categories	Regulatory trading book		Other transactions	
	Individual assets	Baskets	Individual assets	Baskets
1. Protection purchase				
a) Credit default	1.356.379	—	—	—
b) Credit spread products	—	—	—	—
c) Total rate of return swap	—	—	—	—
d) Others	—	—	—	—
Total at 30/06/2021	**1.356.379**	**—**	**—**	**—**
Total at 30/06/2020	**1.315.465**	**—**	**—**	**—**
2. Protection sale				
a) Credit default	1.285.347	—	—	—
b) Credit spread products	—	—	—	—
c) Total rate of return swap	—	—	—	—
d) Others	—	—	—	—
Total at 30/06/2021	**1.285.347**	**—**	**—**	**—**
Total at 30/06/2020	**1.290.502**	**—**	**—**	**—**

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

Transaction categories	Fair Value	
	30/06/2021	30/06/2020
1. Positive fair value		
a) Credit default	11.639	94.481
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
Total	**11.639**	**94.481**
2. Negative fair value		
a) Credit default	-11.491	-91.905
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
Total	**-11.491**	**-91.905**

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

	30/06/2021				30/06/2020
	Central counterparts	**Banks**	**Other financial companies**	**Other counterparties**	
OTC contracts not covered by clearing agreements					
1. Protection purchase					
- notional value	—	1.285.347	71.032	—	1.315.465
- positive fair value	—	3.195	—	—	30.254
- negative fair value	—	2.998	2.129	—	-52.852
2. Protection sale					
- notional value	—	1.285.347	—	—	1.290.502
- positive fair value	—	8.444	—	—	64.227
- negative fair value	—	6.365	—	—	-39.087
OTC contracts covered by clearing agreements					
1. Protection purchase					
- notional value	—	—	—	—	—
- positive fair value	—	—	—	—	—
- negative fair value	—	—	—	—	—
2. Protection sale					
- notional value	—	—	—	—	—
- positive fair value	—	—	—	—	—
- negative fair value	—	—	—	—	—

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

Transaction categories	Up to 1 year	From 1 to 5 years	Over 5 years	Total
1. Regulatory trading book				
a) Protection purchase	284.147	1.001.200	71.032	1.356.379
b) Protection sale	284.147	1.001.200	—	1.285.347
Total at 30/06/2021	**568.294**	**2.002.400**	**71.032**	**2.641.726**
Total at 30/06/2020	**5.000**	**2.581.004**	**19.963**	**2.605.967**

1.3 Liquidity risk

QUALITATIVE INFORMATION

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

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

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

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

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

Throughout the observation period, Mediobanca International has managed to keep its liquidity indicators well above the limits set by the regulators, closing the fiscal year with an LCR of 125.6% (compared with 133.6% at 30 June 2020) and an NSFR of 105.7% (compared with 103.4% at 3 June 2020).

Contingency Funding Plan

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

QUANTITATIVE INFORMATION

G.1 Financial assets and liabilities by outstanding life as at 30 June 2021 (in € k)

Type	On demand	From 1 days to 7 days	From 7 days to 15 days	From 15 days to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Unlimited
Cash assets	**-867.276**	**-187.373**	**-135.261**	**-160.419**	**-1.057.727**	**-270.902**	**-216.743**	**-3.527.281**	**-532.386**	**-7.300**
A.1 Government securities	—	—	—	—	—	—	—	—	—	—
A.2 Listed debt securities	—	—	—	—	—	—	—	-10.000	-71.032	—
A.3 Other debt securities	—	—	—	—	—	—	—	—	—	—
A.4 OICR units	—	—	—	—	—	—	—	—	—	—
A.5 Loans and advances	-867.276	-187.373	-135.261	-160.419	-1.057.727	-270.902	-216.743	-3.517.281	-461.354	-7.300
– to Banks	-841.212	-20.223	-90.005	—	-675.737	-50.901	-1.593	-764.419	-100.000	-7.300
– to customers	-26.064	-167.150	-45.256	-160.419	-381.990	-220.001	-215.150	-2.752.862	-361.354	—
Cash liabilities	**41.553**	**20.099**	**110.151**	**26.375**	**82.531**	**785.843**	**1.849.237**	**3.658.343**	**165.000**	—
B.1 Deposits	40.860	—	—	—	—	—	—	—	—	—
– to banks	40.860	—	—	—	—	—	—	—	—	—
– to customers	—	—	—	—	—	—	—	—	—	—
B.2 Debt securities	—	20.000	110.066	372	77.485	106.919	885.806	1.638.884	100.000	—
B.3 Other liabilities	693	99	85	26.003	5.046	678.924	963.431	2.019.459	65.000	—
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
– long positions	—	—	—	—	1.998	—	—	—	—	—
– short positions	—	—	—	99.070	23.668	—	—	53.604	—	—
C.2 Financial derivatives without exch. of principal										
– long positions	887.853	—	—	372	53	869	14.631	—	—	—
– short positions	886.861	—	—	349	1.065	1.410	2.642	—	—	—
C.3 Irrevocable commitments to disburse funds										
– long positions	—	—	—	—	—	—	—	—	—	—
– short positions	—	—	—	—	—	—	—	—	—	—
C.4 Financial guarantees issued	—	—	—	—	—	—	—	—	—	—
C.5 Credit derivatives with exchange of principal										
– long positions	—	—	—	—	—	—	—	1.200	71.032	—
– short positions	—	—	—	—	—	—	—	1.200	71.032	—
C.6 Credit derivatives without exchange of principal										
– long positions	1.285.347	—	—	—	—	—	—	—	—	—
– short positions	1.285.347	—	—	—	—	—	—	—	—	—

G.2 Financial assets and liabilities by outstanding life as at 30 June 2020 (in € k)

Type	On demand	From 1 days to 7 days	From 7 days to 15 days	From 15 days to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Unlimited
Cash assets	**638.791**	**9.471**	**44.431**	**378.876**	**559.920**	**183.329**	**309.004**	**2.750.751**	**1.142.984**	**18.170**
A.1 Government securities	—	—	—	—	—	—	—	—	—	—
A.2 Listed debt securities	—	—	—	—	—	—	—	—	—	—
A.3 Other debt securities	—	—	—	—	6	6	11	12.796	—	—
A.4 OICR units	—	—	—	—	—	—	—	—	—	—
A.5 Loans and advances	638.791	9.471	44.431	378.876	559.914	183.323	308.993	2.737.955	1.142.984	18.170
– to Banks	635.754	232	30.001	184.992	226.074	61.015	102.068	132.224	640.000	18.170
– to customers	3.037	9.239	14.430	193.884	333.840	122.308	206.925	2.605.731	502.984	—
Cash liabilities	**-50.494**	**-78**	**-65.099**	**-90.978**	**-132.992**	**-624.445**	**-1.038.390**	**-3.219.440**	**-705.000**	**—**
B.1 Deposits	-50.494	—	—	—	—	—	—	—	—	—
– to banks	-50.494	—	—	—	—	—	—	—	—	—
– to customers	—	—	—	—	—	—	—	—	—	—
B.2 Debt securities	—	—	-65.099	-89.932	-127.462	-69.457	-668.610	-1.470.098	-640.000	—
B.3 Other liabilities	—	-78	—	-1.046	-5.530	-554.988	-369.780	-1.749.342	-65.000	—
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
– long positions	—	—	—	—	—	58.349	14.168	—	—	—
– short positions	2.817	—	—	—	87.678	151.793	20.211	48.275	—	—
C.2 Financial derivatives without exch. of principal										
– long positions	866.430	—	—	961	18	1.083	14.526	—	—	—
– short positions	871.264	—	—	741	1.350	1.941	2.240	—	—	—
C.3 Irrevocable commitments to disburse funds										
– long positions	—	—	—	—	—	—	—	—	—	—
– short positions	—	—	—	—	—	—	—	—	—	—
C.4 Financial guarantees issued	—	—	—	—	—	—	—	—	—	—
C.5 Credit derivatives with exchange of principal										
– long positions	—	—	—	—	—	—	—	1.200	19.963	—
– short positions	—	—	—	—	—	—	—	1.200	19.963	—
C.6 Credit derivatives without exchange of principal										
– long positions	1.385.459	—	—	—	—	—	—	—	—	—
– short positions	1.382.931	—	—	—	—	—	—	—	—	—

1.4 Operational risk

QUALITATIVE INFORMATION

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

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

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

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

As at 30 June 2021 and 2020, the Bank doesn’t face any litigation risk.

1.5 Other risks

QUALITATIVE INFORMATION

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

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

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

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

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

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

Capital adequacy is assessed considering the balance between the assumed risk, both Pillar I and Pillar II, and the available capital. The internal economic capital measurements and the resulting Risk-Taking Capacity showed an adequate capitalization at 30 June 2020. In detail, the Bank reported an amount of € 394,8 million of available own funds, which was above the internal capital estimates in the ordinary scenario (€ 341,6 million) leaving a capital surplus of € 53,2 million.

The ICAAP process for the exercise ended 30 June 2021 is currently being implemented.

PART G – CAPITAL MANAGEMENT

Section 1

Regulatory and supervisory capital requirements

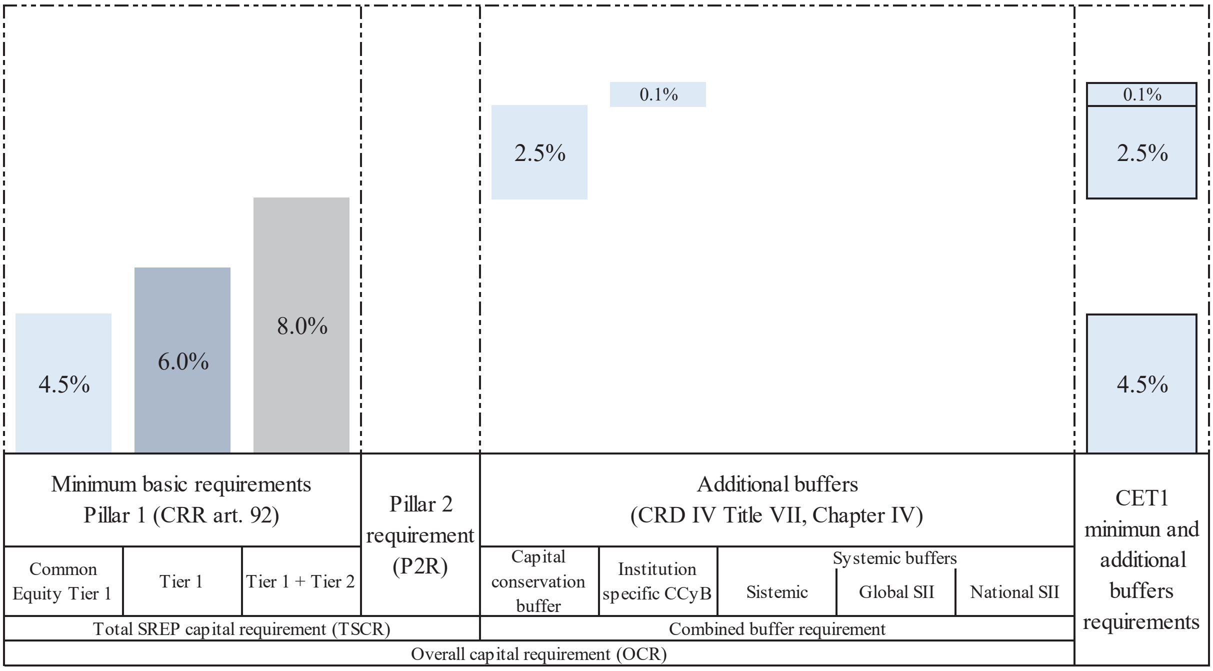
Capital is the first and most important safeguard of a bank's stability. For this reason, the international and domestic supervisory bodies have established rigorous rules for calculating regulatory capital and the minimum capital requirements with which banks are bound to comply.

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

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

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

Based on the above, the institution must always comply with the minimum basic requirement set forth in art. 92 of the CRR Regulation, and with the minimum combined buffer requirement specified in Chapter 4 of Title VII of the CRD IV Directive. Considering the absence of pillar 2 requirement (P2R) and of pillar 2 guidance (P2G), the minimum capital requirement imposed at June 2021 to the Bank can be summarized as follows:



Section 2

Capital adequacy – quantitative information

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

No additional Tier 1 (AT1) instruments have been issued by the Bank since establishment, whilst the structure of Tier 2 (T2) capital has changed during the financial year ended 30 June 2019 due to the issuance of subordinated loan for EUR 65 million with a maturity of 10 years. The issuance was concluded with the Parent Company as the sole counterparty.

2.1 Total own funds: breakdown (in € k)

	30/06/2021	**30/06/2020**
A. Common Equity Tier 1 (CET1) before application of the prudential filters	336.043	330.686
a.1 Share capital	10.000	10.000
a.2 Share premium reserve	—	—
a.3 Reserves	320.783	331.470
a.4 Equity instruments	—	—
a.5 Treasury shares	—	—
a.6 Valuation reserves	—	—
a.7 Net profit (loss) for the period	5.260	-10.785
B. CET1 prudential filters (+/-)	-775	-117
C. Items to be deducted from CET1	—	—
D. Phase-in regime impact on CET1 (+/-)	1.876	2.277
E. Total Common Equity Tier 1 (CET1)	337.143	332.846
F. Additional Tier 1 (AT1) instruments	—	—
G. Items to be deducted from AT1	—	—
H. Phase-in regime impact on AT1 (+/-)	—	—
I. Total Additional Tier 1 (AT1)	—	—
J. Tier 2 (T2) instruments	65.000	65.000
K. Items to be deducted from T2	—	—
L. Phase-in regime impact on T2 (+/-)	—	—
M. Total Tier 2 (T2)	65.000	65.000
N. Total own funds (E+I+M)	**402.143**	**397.846**

Capital adequacy – qualitative information

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

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

At the end of June 2021, the Bank complies with all imposed capital ratios and additional buffers. In detail:

- Common Equity Tier 1 (CET1) capital ratio: 10.7% (higher than June 2020 at 10.3%);
- Tier 1 capital ratio: 10.7% (10.3% at June 2020);
- Total capital ratio: 12.7% (12.3% at June 2020).

During the fiscal year, the Leverage Ratio decreased from 4.8% (June 2020) to 4.2% (June 2021) which remains above the regulatory limit of 3%.

(in € K)	**30/06/2021**	**30/06/2020**
A. Total own funds		
A.1 CET1 capital	337.143	332.846
A.2 T1 capital	337.143	332.846
A.3 Own funds	402.143	397.846
B. Total Risk Weighted Assets (RWA)	3.158.144	3.230.390
B.1 Credit and counterparty risk (standard methodology)	3.021.601	3.098.375
B.2 Credit valuation risk	26.245	—
B.3 Settlement risk	—	—
B.4 Market risk (standard methodology)	78.911	98.206
B.5 Operational risk (basic indicator approach)	31.387	33.809
B.6 Other	—	—
C. Regulatory ratios		
C.1 CET1 capital ratio (CET1 Capital/RWA)	10,7%	10,3%
C.2 T1 capital ratio (T1 Capital/RWA)	10,7%	10,3%
C.3 Total capital ratio (own funds/RWA)	12,7%	12,3%

PART H – RELATED PARTIES DISCLOSURES

Related parties' disclosures

Accounts with related parties fall within the ordinary operations of the Bank, are maintained on an arm's length basis and are entered into in the interests of the individual companies concerned. No atypical or unusual transaction with related parties is to be reported for the financial year ended on 30 June 2021. Related parties for the purpose hereof include local strategic management, Parent Bank, entities of the Group and its Directors and executive officers (and any company owned by them).

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

Assets and liabilities (in € k)	**30/06/2021**	
	Parent bank	**Other related parties**
Cash and cash equivalents	—	—
Financial assets valued at FVTPL	21.172	—
Financial assets valued at amortised cost	2.584.826	9.985
Hedging derivatives	25.420	—
Other assets	—	—
Total assets	**2.631.418**	**9.985**
Financial liabilities valued at amortised cost	4.525.479	213.415
Financial liabilities valued at FVTPL	14.170	—
Hedging derivatives	—	—
Tax liabilities	—	—
Other liabilities	9.118	104
Provisions for risks and charges	-4.790	—
Total liabilities and shareholders' equity	**4.543.977**	**213.519**

Comprehensive income (in € k)	**30/06/2021**	
	Parent bank	**Other related parties**
Interest and similar income	-6.088	—
Interest expense and similar charges	-45.506	3
Fee and commission income	2.969	—
Fee and commission expense	-14.841	-129
Net trading income (expense)	71.605	—
Net hedging income (expense)	-11.353	—
Administrative expenses	-1.742	-1.970
Other income (expense)	6.292	32
Total comprehensive income	**1.336**	**-2.064**

The tables below show the amounts as at 30 June 2020:

Assets and liabilities (in € k)	30/06/2020	
	Parent bank	**Other related parties**
Cash and cash equivalents	—	—
Financial assets valued at FVTPL	29.151	—
Financial assets valued at amortised cost	2.042.387	9.878
Hedging derivatives	38.813	—
Other assets	—	—
Total assets	**2.110.351**	**9.878**
Financial liabilities valued at amortised cost	3.514.531	436.923
Financial liabilities valued at FVTPL	95.856	—
Hedging derivatives	—	—
Tax liabilities	—	—
Other liabilities	6.696	85
Provisions for risks and charges	1.266	—
Total liabilities and shareholders' equity	**3.618.349**	**437.008**

Comprehensive income (in € k)	30/06/2020	
	Parent bank	**Other related parties**
Interest and similar income	-13.209	—
Interest expense and similar charges	-69.478	-376
Fee and commission income	2.683	—
Fee and commission expense	-9.158	-171
Net trading income (expense)	-33.950	—
Net hedging income (expense)	20.685	—
Administrative expenses	-1.288	-1.681
Other income (expense)	-1.581	51
Total comprehensive income	**- 105.296**	**- 2.177**

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

in € k	**30/06/2021**	**30/06/2020**
Administrative bodies	323	258
Key management personnel	476	508
Total	**799**	**766**

As at 30 June 2021 and 2020, neither advances nor guarantees were granted to Directors or senior management. Remuneration to key management personnel includes salary, benefits and bonus.

PART I – OTHER INFORMATION

Audit fees

As at 30 June 2021 and 2020, expenses incurred in connection with the statutory audit of the accounts and the other related services provided by the external independent auditor PricewaterhouseCoopers Société Coopérative (Luxembourg)) can be summarized as follow (in €):

	30/06/2021	30/06/2020
Audit fees	282.900	48.387
Audit related fees	18.450	18.450
Other fees	—	
Total	**301.350**	**66.837**

The table contains the aggregate fees billed by PricewaterhouseCoopers Société Coopérative (Luxembourg) during the financial year.

For the sake of clarity, it should be noted that professional fees as at 30 June 2021 include approx. € 216k for the statutory audit of the financial statement as at 30 June 2020, not billed during the previous fiscal year, and an amount of € 67k of interim review.

Furthermore, an amount of € 135k of audit fees for the statutory audit of the of the financial statement as at 30 June 2021 haven't been billed or accrued in the accounts.

Staff number

As at 30 June 2021 and 2020, the bank's staff is as follows:

	30/06/2021	30/06/2020
Employees	18	19
a) senior executives	3	3
b) executives	2	2
c) other employees	13	14
Other staff	—	1
Total	**18**	**20**

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

PART J - SUBSEQUENT EVENTS

The Bank is not aware of any subsequent events (other than those already reflected in the financial statement), that occurred between 30 June 2021 and the date when the present financial statements were authorised for issue.

ANNEX I

RECONCILIATION BETWEEN OFFICIAL AND RESTATED FINANCIAL STATEMENTS

Executive summary

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

1.1 Statement of financial position as at 30 June 2021 (in € k)

		Total assets (restated)						
30/06/2021		**Financial assets at FVTPL**	**Treasury Investments**	**Debt securrities - banking book**	**Loans and advances**	**Equity Investments**	**Tangible assets**	**Other assets**
10. Cash and cash equivalents	43.802	—	43.802	—	—	—	—	—
20. Financial assets valued at FVTPL	103.467	103.467	—	—	—	—	—	—
40. Financial assets valued at amortised cost	6.878.695	—	1.682.917	10.170	5.185.608	—	—	—
50. Hedging derivatives	25.420	—	—	—	—	—	—	25.420
70. Equity investments	4.150	—	—	—	—	4.150	—	—
90. Property, plant and equipment	1.570	—	—	—	—	—	1.570	—
110. Tax assets	13.624	—	—	—	—	—	—	13.624
130. Other assets	57.723	—	—	—	—	—	—	57.723
Total assets	**7.128.451**	**103.467**	**1.726.719**	**10.170**	**5.185.608**	**4.150**	**1.570**	**96.767**

		Total liabilities (restated)						
30/06/2021		**Loans and borrowings**	**Debt securrities issued**	**Treasury borrowings**	**Fin. liabilities at FVTPL**	**Other liabilities**	**Prov. for risks and charges**	**Net equity and profit**
10. Financial liabilities valued at amortised cost	6.747.885	4.407.227	2.156.020	183.082	—	1.556	—	—
20. Financial liabilities valued at FVTPL	28.173	—	—	—	28.173	—	—	—
40. Hedging derivatives	—	—	—	—	—	—	—	—
60. Tax liabilities	4.823	—	—	—	—	4.823	—	—
80. Other liabilities	9.673	—	—	—	—	9.673	—	—
100. Provisions for risks and charges	1.854	—	—	—	—	—	1.854	—
150. Reserves	320.783	—	—	—	—	—	—	320.783
170. Share capital	10.000	—	—	—	—	—	—	10.000
200. Profit (Loss) of the year	5.260	—	—	—	—	—	—	5.260
Total liabilities and shareholders' equity	**7.128.451**	**4.407.227**	**2.156.020**	**183.082**	**28.173**	**16.052**	**1.854**	**336.043**

1.2 Statement of financial position as at 30 June 2020 (in € k)

		Total assets (restated)						
30/06/2020		**Financial assets at FVTPL**	**Treasury investments**	**Debt securities - banking book**	**Loans and advances**	**Equity investments**	**Tangible assets**	**Other assets**
10. Cash and cash equivalents	1	—	1	—	—	—	—	—
20. Financial assets valued at FVTPL	121.304	121.304	—	—	—	—	—	—
40. Financial assets valued at amortised cost	6.228.743	—	1.303.270	12.879	4.912.594	—	—	—
50. Hedging derivatives	38.812	—	—	—	—	—	—	38.812
70. Equity investments	4.150	—	—	—	—	4.150	—	—
90. Property, plant and equipment	268	—	—	—	—	—	268	—
110. Tax assets	10.632	—	—	—	—	—	—	10.632
130. Other assets	24.687	—	—	—	—	—	—	24.687
Total assets	**6.428.597**	**121.304**	**1.303.271**	**12.879**	**4.912.594**	**4.150**	**268**	**74.131**

		Total liabilities (restated)						
30/06/2020		**Loans and borrowings**	**Debt securities issued**	**Treasury borrowings**	**Fin. liabilities at FVTPL**	**Other liabilities**	**Prov. for risks and charges**	**Net equity and profit**
10. Financial liabilities valued at amortised cost	5.967.482	3.326.030	2.265.633	373.579	—	2.240	—	—
20. Financial liabilities valued at FVTPL	118.769	—	—	—	118.769	—	—	—
40. Hedging derivatives	—	—	—	—	—	—	—	—
60. Tax liabilities	3.187	—	—	—	—	3.187	—	—
80. Other liabilities	7.331	—	—	—	—	7.318	—	—
100. Provisions for risk and charges	1.142	—	—	—	—	—	1.142	—
160. Reserves	331.471	—	—	—	—	—	—	331.471
190. Share capital	10.000	—	—	—	—	—	—	10.000
200. Profit for the year	-10.785	—	—	—	—	—	—	-10.785
Total liabilities and equity	**6.428.597**	**3.326.030**	**2.265.633**	**373.579**	**118.769**	**12.745**	**1.142**	**330.686**

2.1 Statement of comprehensive income as at 30 June 2021 (in € k)

			Statement of comprehensive income (restated)							
30/06/2021			**Net interest income**	**Net trading income**	**Net fee and commission income**	**Wages and salaries**	**Other administrative expenses**	**Loans impairment**	**Provision for other financial assets**	**Fiscal provision**
010.	Interests and similar income	79.915	79.915	—	—	—	—	—	—	—
020.	Interest expense and similar charges	-64.151	-64.151	—	—	—	—	—	—	—
030.	**Net interest income**	**15.764**	**15.764**	—	—	—	—	—	—	—
040.	Fee and commission income	16.421	—	2.635	13.786	—	—	—	—	—
050.	Fee and commission expense	-15.057	—	-998	-14.059	—	—	—	—	—
060.	**Net fee and commission income**	**1.364**	—	**1.637**	**-273**	—	—	—	—	—
080.	Net trading income (expense)	-1.083	—	-1.083	—	—	—	—	—	—
090.	Net hedging income (expense)	114	—	114	—	—	—	—	—	—
100.	Gain or loss on disposal or repurchase of:	361	—	361	—	—	—	—	—	—
120.	**Total income**	**16.520**	**15.764**	**1.029**	**-273**	—	—	—	—	—
130.	Adjustment for impairment to:	-2.124	—	—	—	—	—	-1.842	-282	—
150.	**Net income from financial operations**	**14.396**	**15.764**	**1.029**	**-273**	—	—	**-1.842**	**-282**	—
190.	Administrative expenses	-11.837	—	—	—	-3.083	-8.754	—	—	—
	a) personnel costs	-3.083	—	—	—	*-3.083*	—	—	—	—
	b) other administrative expenses	-8.754	—	—	—	—	*-8.754*	—	—	—
200.	Net provisions for risks and charges	-712	—	—	—	—	—	-712	—	—
210.	Value adjustments in respect of tangible assets	-236	—	—	—	—	-236	—	—	—
230.	Other operating income (expense)	6.495	—	—	6.495	—	—	—	—	—
290.	**Profit (loss) of the ordinary activity before tax**	**8.107**	**15.764**	**1.029**	**6.223**	**-3.083**	**-8.990**	**-2.554**	**-282**	—
300.	Income tax on the ordinary activity	-2.847	—	—	—	—	—	—	—	-2.847
330.	**Profit (loss) for the period**	**5.260**	**15.764**	**1.029**	**6.223**	**-3.083**	**-8.990**	**-2.554**	**-282**	**-2.847**
340.	Other comprehensive income, net of tax	—	—	—	—	—	—	—	—	—
350.	**Comprehensive income (loss) for the year, net of ta**	**5.260**	**15.764**	**1.029**	**6.223**	**-3.083**	**-8.990**	**-2.554**	**-282**	**-2.847**

2.3 Statement of comprehensive income as at 30 June 2020 (in € k)

			Statement of comprehensive income (restated)							
30/06/2020			**Net interest income**	**Net trading income**	**Net fee and commission income**	**Wages and salaries**	**Other administrative expenses**	**Loans impairment**	**Provisions for other financial assets**	**Fiscal provision**
10.	Interests and similar income	96.560	96.560	—	—	—	—	—	—	—
20.	Interest expense and similar charges	-91.187	-91.187	—	—	—	—	—	—	—
30.	**Net interest income**	**5.373**	**5.373**	—	—	—	—	—	—	—
40.	Fee and commission income	15.112	—	2.600	12.512	—	—	—	—	—
50.	Fee and commission expense	-9.407	—	-1.038	-8.369	—	—	—	—	—
60.	**Net fee and commission income**	**5.705**	—	**1.562**	**4.143**	—	—	—	—	—
80.	Net trading income (expense)	-275	1	-276	—	—	—	—	—	—
90.	Net hedging income (expense)	-90	-90	—	—	—	—	—	—	—
100.	Gain or loss on disposal or repurchase	1.279	—	1.648	—	—	—	-369	—	—
120.	**Total income**	**11.992**	**5.284**	**2.934**	**4.143**	—	—	**-369**	—	—
130.	Adjustments for impairment	-13.896	—	—	—	—	—	-14.732	836	—
150.	**Net income from financial operations**	**-1.904**	**5.284**	**2.934**	**4.143**	—	—	**-15.101**	**836**	—
190.	Administrative expenses	-9.569	—	—	—	-2.484	-7.085	—	—	—
	a) personnel costs	*-2.484*	—	—	—	*-2.484*	—	—	—	—
	b) other administrative expenses	*-7.085*	—	—	—	—	*-7.085*	—	—	—
200.	Net provisions for risks and charges	-403	—	—	—	—	—	-403	—	—
210.	Value adjustments in respect of tangible assets	-239	—	—	—	—	-239	—	—	—
230.	Other operating income (expense)	-1.075	—	—	537	—	-1.612	—	—	—
290.	**Profit (loss) of the ordinary activity before tax**	**-13.190**	**5.284**	**2.934**	**4.680**	**-2.484**	**-8.936**	**-15.504**	**836**	—
300.	Income tax on the ordinary activity	2.405	—	—	—	—	—	—	—	2.405
330.	**Profit (loss) for the year**	**-10.785**	**5.284**	**2.934**	**4.680**	**-2.484**	**-8.936**	**-15.504**	**836**	**2.405**
340.	Other comprehensive income, net of tax	—	—	—	—	—	—	—	—	—
350.	**Total comprehensive income for the year, net of tax**	**-10.785**	**5.284**	**2.934**	**4.680**	**-2.484**	**-8.936**	**-15.504**	**836**	**2.405**

ANNEX II

GUIDELINES ON ALTERNATIVE PERFORMANCE MEASURES

Executive summary

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

Alternative performance measures

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

- Texas Ratio (cf. p. 13 of the management report) which compares the net book value (i.e. after impairment and/or depreciation) of the exposures reported as non-performing with the tangible common equity (i.e. the subset of shareholders' equity which is not preferred equity and not intangible assets).

(in €)		30/06/2021	30/06/2020
Texas ratio =	Non-Performing Exposures (net book value)	30.237.770	29.542.136
	Tangible Common Equity	336.042.786	330.685.732
	ratio %	**9,0**	**8,9**

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

- Return On Equity (ROE, cf. p. 19 of the management report) is the amount of net income returned as a percentage of the shareholders' equity.

(in €)		30/06/2021	30/06/2020
Return on equity =	Net income	5.260.022	-10.784.702
	Shareholders' equity	330.782.764	341.470.434
	ratio %	**1,6**	**-3,2**

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

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

- Return On Assets (ROA, cf. p. 19 of the management report) is the amount of net income returned as a percentage of the average total assets.

(in €)		30/06/2021	30/06/2020
Return on assets =	Net income	5.260.022	-10.784.702
	Average Total Assets	6.834.748.126	7.144.117.943
	ratio %	**0,08**	**-0,15**

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

ANNEX III

GLOSSARY

Executive summary

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

* * *

ABS – Asset Backed Security

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

APM – Alternative Performance Measures

Cf. Annex II – Guidelines on Alternative Performance Measures.

ASF – Available Stable Funding

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

AT1 – Additional Tier 1

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

Basel 2

Reference prudential regulations based on three pillars:

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

Pillar 2: this requires that banks implement processes and instruments to determine the adequate level of total internal capital (Internal Capital Adequacy Assessment Process – ICAAP) which is needed to cover all risks, including risks different from those covered under the “Pillar 1” (cf. above), taking into account the business strategies and the economic environment. The process must be formalized, documented and approved by the relevant bodies and submitted to internal review on a regular basis.

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

Basel 3

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

Basel 4

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

CEO

Chief Executive Officer.

CET1 – Common Equity Tier 1

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

CET1 Ratio – Common Equity Tier1 Ratio

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

CFO

Chief Financial Officer.

COVID-19

Severe Acute Respiratory Syndrome Coronavirus-2 (SARS-CoV-2) is the name given to the 2019 novel coronavirus. COVID-19 is the name given to the disease associated with the virus. SARS-CoV-2 is a new strain of coronavirus not previously found in human beings. Current evidence suggests that SARSCoV-2 is spread from person to person: directly, indirectly (via contaminated objects or surfaces) and through close contact with infected persons, in the form of oral and nasal secretions (saliva, respiratory secretions or droplets). To halt the spread of the virus, the free circulation of people has been limited, leading to some economic activities being halted, which has in turn led to an unprecedented economic crisis.

CRDIV

EU Directive n. 36/2013.

CRDV

EU Directive n. 878/2019.

CRR

EU Regulation n. 575/2013.

CRRII

EU Regulation n. 876/2019.

CSSF – Commission de Surveillance du Secteur Financier

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

CRO

Chief Risk Officer.

EBA – European Banking Authority

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

EBIT – Earnings Before Interest and Taxes

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

ECB – European Central Bank

The ECB is the central bank responsible for monetary policy of those European Union member countries which have adopted the euro currency (https://www.ecb.europa.eu/home/html/index.en.html). The European Central Bank is also the European body responsible for banking supervision. In conjunction with national supervisors, it operates what is called the Single Supervisory Mechanism (SSM).

ESMA – European Security and Markets Authority

The ESMA is an independent European Authority that contributes to safeguarding the stability of the European Union's financial system by enhancing the protection of investors and promoting stable and orderly financial markets (https://www.esma.europa.eu/about-esma/who-we-are).

FED – Federal Reserve System

The FED is the central bank of the United States of America. It promotes the effective operation of the U.S. economy and, more generally, the public interest (https://www.federalreserve.gov/aboutthefed.htm).

Forborne Exposures

Forborne exposures are defined as debt contracts in which concessions have been granted to a borrower which is in, or is shortly to find itself in, a situation where it is unable to meet its financial commitments (referred to as “financial difficulties”). This situation may apply to both performing and non-performing contracts.

GDP – Gross Domestic Product

The GDP is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.

HQLA – High Quality Liquid Assets

Unencumbered assets which can be included as part of the bank's LCR evaluation thanks to their high liquidity (which is considered to stay preserved also during time of stress). Ideally, HQLA are eligible for discounting with the central bank.

IMF – International Monetary Fund

The IMF is an organization of 189 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. Created in 1945, the IMF is governed by and accountable to the 189 countries that make up its near-global membership (http://www.imf.org/en/About).

IAS/IFRS – International Accounting Standards

The IAS (International Accounting Standards) are issued by the International Accounting Standards Board (IASB). The standards issued after July 2002 are called IFRS (International Financial Reporting Standards).

IASB – International Accounting Standard Board

The IASB is the entity responsible for issuing international accounting standards (IAS/IFRS).

ICAAP – Internal Capital Adequacy Assessment Process

Cf. above "Basel 2 – Pillar 2".

ICC – Impôt Commercial Communal

Communal business tax levied on the profits of Luxembourg commercial companies.

IFRIC – International Financial Reporting Interpretations Committee

A committee within the IASB that establishes official interpretations of international accounting standards (IAS/IFRS).

IRC - Impôt sur le Revenu des Collectivités

Corporate income tax levied on gains made by certain Luxembourg corporations (including capital companies) during the financial year.

Leverage Ratio

The ratio of Common Equity Tier 1 capital (CET1) to total assets and certain off-balance sheet exposures. Similarly to CET1 Ratio, the Leverage Ratio is used as indicator of the institution's capital adequacy.

LCR – Liquidity Coverage Ratio

Ratio which refers to the amount of High-Quality Liquid Assets (HQLA) held by the institution to meet its short-term liquidity obligations (30 days). LCR is a generic stress test, which aims to ensure that banks have the necessary assets on hand to ride out any short-term liquidity disruptions.

Non-performing

Non performing exposures are debt instruments and off-balance sheet exposures which satisfy either or both of the following criteria: (i) material exposures which are more than 90 days past-due; (ii) the debtor is assessed as unlikely to pay its credit obligations in full without realization of collateral (regardless of the existence of any past-due amount or of the number of days past due).

NSFR – Net Stable Funding Ratio

The NSFR is defined as the amount of available stable funding (ASF) relative to the amount of required stable funding (RSF).

NWT – Net Wealth Tax

Public limited company in Luxembourg are subject to a net wealth tax established by assessing the taxable wealth (in other words, net assets as they appear on the balance sheet at the end of a tax period).

OECD – Organization for the Economic Co-Operation and Development

The OECD is an intergovernmental economic organisation with 37 member countries, founded in 1961 to stimulate economic progress and world trade (further information https://www.oecd.org/about/).

P2G – Pillar 2 Guidance

Additional non-binding capital requirement which might be required by supervisors in order to have sufficient capital as a buffer to withstand stressed situations.

P2R – Pillar 2 Requirement

Additional binding capital requirement which might be imposed by the supervisors to cover those risks that are not fully targeted by the capital requirements and buffers dictated by CRR and CRD IV (e.g. unexpected losses, under-provisioned expected losses, deficiencies in risk measurement models, deficiencies in governance and internal controls).

Provisioning (loans)

This term refers to transfer to provisions made in order to cover the expected credit loss. In particular:

– if at the reporting date there is no significant increase in the financial asset credit risk since its initial recognition, the corresponding provision should be valued for 12-months expected losses;

– if at the reporting date there is a significant increase in the financial asset credit risk since its initial recognition, the corresponding provision should be valued for its lifetime expected losses.

ROA – Return On Assets

ROA is the amount of net income returned as a percentage of the average total assets.

ROE – Return On Equity

ROE is the amount of net income returned as a percentage of the shareholders' equity.

RWA – Risk Weighted Assets

On-balance sheet assets and off-balance sheet assets classified and weighted by different coefficients referring to risks, following banking rules issued by local Supervisors to calculate solvency ratios.

RSF – Required Stable Funding

Required Stable Funding (RSF) is an input to the calculation of the net stable funding ratio (NSFR) for Bank prudential management purposes. A bank's Required Stable Funding is calculated from its assets, weighted according to their maturity, credit quality and liquidity, together with an amount in relation to off balance sheet commitments.

SPPI – Solely Payments of Principal and Interest

Test prescribed by the accounting standard IFRS 9 which must be carried out on an instrument by instrument basis to assess whether the contractual terms of a given financial asset (as a whole) give rise to cash flows that are solely payments of principal and interest on the principal amounts outstanding (i.e. cash flows that are consistent with a basic lending arrangement).

SPV – Special Purpose Vehicle

A legal entity established to facilitate a single transaction or purpose.

SREP - Supervisory Review and Evaluation Process

Evaluation activity carried out by the supervisors once a year to assess and measure the risks for each bank.

Tier 1

Tier 1 equity includes Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1).

Tier 2

Tier 2 capital includes eligible subordinated debt and certain hybrid instruments. Tier 2 is of lower loss-absorbing quality than Tier 1 capital, and its eligible amount for capital adequacy calculation purposes is restricted accordingly.

TLTROs – Targeted Longer-Term Refinancing Operation

The Targeted Longer-Term Refinancing Operations (TLTROs) are Euro system operations that provide financing to credit institutions for periods of up to four years. They offer long-term funding at attractive conditions to banks in order to further ease private sector credit conditions and stimulate bank lending to the real economy.

Total Capital Ratio

The ratio of the bank’s total capital (Tier 1 plus Tier 2) to its RWA.

WL Ratio – Watch List Ratio

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

ZLB – Zero Lower Bound

Macroeconomic problem that occurs when the short-term nominal interest rate is at (or near) zero, causing a liquidity trap and limiting the capacity that the central banks have to stimulate economic growth.