MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.

RCSL n. B112885

Financial Statements
30 June 2022

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 2022

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BOARD OF DIRECTORS

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

INDEPENDENT AUDITOR

ERNST AND YOUNG S.A.	LUXEMBOURG

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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 2022

MANAGEMENT REPORT

DEVELOPMENT IN MACROECONOMIC SCENARIO

The year 2021 was characterized by a recovery of the global economy. World GDP, expected to grow by 5.9% y/y according to the most recent International Monetary Fund (IMF) projections, recovered above its pre-pandemic level, thanks in particular to the decisive contribution of two factors: the progress of vaccination campaigns, especially in Western countries, and the presence of generally expansionary economic policies.

The course of the recovery over the twelve months was marked by the evolution of the pandemic situation which, in alternating phases - following the discovery of new Covid-19 variants such as Delta and Omicron - forced many countries to adopt restrictive measures to mitigate the increase of the infection. Furthermore the resurgence of the pandemic has contributed to the persistence of bottlenecks in production processes which, in conjunction with significant hikes in prices on a wide range of raw materials (energy raw materials, in particular), have fueled major inflationary pressures; consequently, the first signs of normalization of monetary policy multiplied in the last part of the year, with the Federal Reserve (FED) announcing the forthcoming tapering, or the process of gradually reducing the bond purchases implemented to ensure liquidity to the financial system. In the United States, a positive contribution to the growth came from the development of the vaccination campaign which, by flattening the curve of infections, allowed a partial return to normality. A strong contribution to aggregate demand also came from private consumption, which rose sharply in correspondence with the disbursement of public subsidies, while the labor market showed a rapid recovery, with the unemployment rate starting to fall steadily and progressive from 6.4% in January. At the same time, however, the dynamics of the recovery began to show an important side effect: the development of aggregate demand, the resumption in travel, higher energy prices and material shortages all had an impact on inflation, which began to climb steeply in April 2021.

However, despite the data, the FED initially decided to kept its monetary policy unchanged, considering the rise in consumer prices to be a "transitory" phenomenon but in the second half of the year, the US business cycle partially slowed down due to several factors, among others a) the spread of the Delta variant of Covid-19, which has not helped the private consumption to growth, b) the partial exhaustion of the positive effects linked to the generous public aid launched to deal with the pandemic, c) the bottlenecks in supply chains and the tensions on raw materials which, showing no sign of abating, have begun to affect the productive side. The most important economic aspect, however, is the price trend: the inflation rate started to rise again, driven among other things by more structural components in addition to the transitory items linked to the pandemic situation. The persistent pressure on price convinced the FED to change its monetary policy stance in the final months of the year, announcing the path to normalization: the first step was the start of tapering, i.e. the process of gradually reducing securities purchases, which was further accelerated in December. On the interest rate front, however, projections by individual Governing Council members have started to indicate several increases in the course of 2022 and the years to come.

In the Eurozone, despite the effects of the strong rebound in tourism thanks to the gradual improvement in the vaccination campaigns, and the consequent relaxation of restrictive measures, the economic cycle stabilized, held back by the same problems that affected the rest of the world's major economies. While demand has remained robust, increasingly bottlenecks have arisen on the supply side: from shortages of components and raw materials to delays in deliveries and sharp rises in transport costs. The interruption of the production chains, largely attributable to the spread of the Delta and Omicron variants of Covid-19, put the brakes on investments and production and increased the pressures on prices. Consequently, inflation also accelerated in the Euro area, up from 1.9% y/y in June to 5.0% y/y in December.

The European Central Bank (ECB) continued to minimize inflationary dynamics on the monetary policy, reaffirming an overall accommodative stance on the PEPP Programme (Pandemic Emergency Purchase Programme) but at the same time increased the purchase plan of the conventional Programme, the APP (Asset Purchase Programme). While the ECB preferred to maintain a cautious approach, looking at Europe as a whole, there was no shortage of central banks that, in order to stem inflationary pressures, acted more restrictively by raising the cost of money: these included UKs Bank of England and the Norways Norges Bank. As regards Italy, the economy has followed the trend of the entire Eurozone. In the second half of the year there was a slowdown due to the resurgence of the pandemic, which forced the government to adopt other restrictive measures.

Finally, the Emerging Countries as a whole, historically strongly integrated in global technological-productive chains and very sensitive to the trend in international trade, have naturally benefited from the global economic recovery, so much so that in 2021 - according to the latest IMF projections - the block of emerging and developing economies is expected to grow in terms of GDP by 6.4% y/y. However, the path to recovery was hampered by the proliferation of different Covid-19 variants, due also to inadequate vaccination campaigns. The downtrend in China is due to several factors, most notably the energy shocks, which have at times hindered the regular flow of production, the regulatory tightening by local Authorities against some companies and private sectors, including technology, in order to promote less wild and uncontrolled economic growth and combat damaging behavior by competitors, and the debt crisis involving the real estate sector.

About the monetary policy, the context of persistent inflationary pressures led most central banks to raise the cost of money several times in order to prevent an acceleration of consumer prices or an excessive depreciation of currencies following large capital outflows.

* * *

At the beginning of year 2022 the Covid-19 Omicron variant still put economic pressure on advanced economies. A new wave of contagion initiated with limited damages to economic activity thanks to high vaccination and therefore immunity rates. Already in March, many Governments lifted most of the Covid-19- related restrictions, marking an acceleration in the return to the new post-pandemic normal. In China, to the other side, the central government imposed a high toll on its economy with its zero-Covid 19 policy exacerbating problems of global supply bottlenecks (in relation to shipping industry).

The economic outlook drastically deteriorated following the Russian invasion of Ukraine in late February. The conflict hit the global economy by raising commodity and energy prices, disrupting global value chains, and increasing geopolitical uncertainty as it reached countries Worldwide through trade and financial linkages. The conflict has not only slowed the growth recovery of the global economy, but it has added to already heightened inflationary pressures, imposing a difficult balancing act on central banks in their attempt to tackle inflation without triggering a recession.

In the eurozone, economic activity showed a better performance in the second quarter 2022 than expected (+0.7% qoq), after posting decent pace of growth also in the first quarter. Economic growth in the second quarter was mainly driven by services, which benefitted from the reopening of the economy, while there was a slowdown in manufacturing activity (mostly due to the supply chain problems discussed above). Business survey indicators point to a weakening of growth momentum in the second half of the year. Increased interest rates are stressing the economic activity, compounding the erosion of real incomes amid high inflation and the effect of uncertainty surrounding energy supply and the evolution of the conflict in Ukraine. CPI (Consumer Price Index) inflation kept rising throughout first half 2022, hitting 8.6% yoy in June.

Survey indicators suggest that underlying price pressure might have finally started to ease from extremely high levels. If that is the case, then inflation is likely to gradually move down in the second semester. The ECB will reinvest the principal payments from maturing securities purchased under the program PEPP (Pandemic Emergency Purchase Programme) until at least the end of 2024 and, informed in the event of renewed market fragmentation related to the pandemic, PEPP reinvestments can be adjusted flexibly across time, asset classes and jurisdictions. In addition, instead, of phasing out net asset purchases under APP (Asset Purchase Programme) in October 2022 as it was announced at the end of 2021, the ECB accelerated the termination to July 2022. Given the deterioration in the inflation outlook, the ECB was forced to accelerate the normalization of its monetary policy and increased interest rates of the 0.75% on the 8th of September 2022. Beside the first interest rate increase in years, the ECB is expected to continue the rate tightening cycle in order to decrease inflation expectations. In its July meeting, the central bank also announced an antifragmentation tool to keep under control spreads in the peripheral countries. While all the details are not fully disclosed yet, the tool will be sufficiently unlimited in size to ensure a homogeneous transmission of monetary policy to all member states.

In the US, real GDP contracted in the first and the Q2 of the year, while the labor market remained buoyant. In the first quarter, domestic demand showed a sustained growth, while signs of weakening have been emerging for both private consumption and fixed investment in the second quarter. Despite the cyclical slowdown, CPI kept moving high. In June, it came in at 9.1% yoy, with clear signs of broadening price pressures. Given the inflation outlook, the Fed announced its first 25 basis points rate hike in March, then 50 in May, 75 in both June and July reaching the level of 2.25-2.50%, while it stated a continued inflation pressure may trigger another 75 plus 75 basis points increase in the next meetings.

As regards the banking and financial markets, the first half of 2022 was characterized by growing uncertainty related to macroeconomic prospects for the reasons discussed above, with a strengthening of the pace of expansion of lending to the private sector in the euro area, with its growth rate increasing to around 6.0% yoy, as opposed to 4.0% at the end of 2021. This growth in lending to the private sector was mainly driven by a recovery in the dynamics of loans to non-financial corporations. The inflation pressure also raised government-bond yields and yields on credit bonds and a sharp increase in volatility during the first half of 2022.

The looming end of accommodative monetary-policy globally, uncertainty related to the Russia-Ukraine conflict and its impact on energy supplies, high inflation and its potential impact on growth have affected the performance of financial markets. This has resulted in a deterioration in the performance of equity markets.

* * *

Considering the challenging economic environment[1], In the United States, the pace of GDP growth is anticipated to weaken from its recent very high levels to 2.5% in 2022 and 1.2% in 2023. Supply disruptions may take some time to fully ease, especially given the impacts of the war in Ukraine and COVID-related lockdowns in China. Wage growth will stay strong, as the labour market is expected to remain tight, despite an increase in labour force participation as receding health risks and higher wages prompt workers to return to the labour force. Inflation will remain above the Federal Reserve's 2% target at the end of 2023. A further significant normalisation of monetary policy will weigh on economic growth. Despite limited direct trade linkages with Russia, the further decarbonisation of the United States energy system has become more pressing given the rise in global energy prices.

In the United Kingdom, GDP is projected to increase by 3.6% in 2022, before stagnating in 2023. Inflation will keep rising and peak at over 10% at the end of 2022 due to continuing labour and supply shortages and high energy prices, before gradually declining to 4.7% by the end of 2023. Private consumption is expected to slow as rising prices erode households' income. Public investment will weaken in 2022 as supply bottlenecks hamper the implementation of planned investment but is set to rise again in 2023 as these effects subside. A tight labour market will help to keep unemployment low. Monetary policy should continue to normalise gradually to help bring inflation to target.

In Germany, the economy is projected to grow by 1.9% in 2022 and 1.7% in 2023, with the recovery hampered by the war in Ukraine, and an embargo on Russian oil. Rising inflation is reducing household purchasing power, damping the rebound of private consumption. Investor and consumer confidence have collapsed, and supply chain bottlenecks have worsened, postponing the recovery of industrial production and exports towards the end of 2022, despite a large order backlog. The recovery could be further derailed by a sudden stop of gas imports from Russia or more persistent lockdowns in China.

In Italy, after a sharp 6.6% rebound in 2021, Italy's GDP growth will be hit by the war. Growth is expected to be 2.5% in 2022, supported by strong base effects, and 1.2% in 2023. Persistent war-related inflationary pressures and uncertainty will hold back household consumption, slowing the recovery in services. New incentives for the private sector and the National Recovery and Resilience Plan will mitigate some of the negative impact of supply disruptions and uncertainty on investment. With gas constituting

[1] OECD Economic Outlook, Volume 2022 Issue 1

42% of total energy consumption, the main risks to the outlook are energy prices and supplies. Sharply higher bond yields could also lower growth.

In Luxembourg, the growth is set to slow in 2022 to around 2.9% and will slow further in 2023 to 2.1%. The war in Ukraine will weigh on consumer confidence and consumption but investment, including residential construction, will support growth alongside government spending. Employment and wage growth will remain robust. Rising prices of intermediary goods will push up core inflation. Downside risks include a prolonged war or lingering high inflation, eroding confidence. To embed resilience, economic diversification will require investments in ICT and continued green policy reforms, alongside an acceleration in the transition to a low-carbon economy.

GENERAL PRINCIPLES OF DRAWING UP THE MANAGEMENT REPORT

The Bank's financial statements have been drawn up in accordance with the IAS/IFRS international accounting standards as adopted, and in line with the structure of the Parent Bank[2] as disciplined by the circular of Bank of Italy no. 262 of 22 December 2005 as amended from time to time (for further details please refer to Part B of the notes to the financial statements – accounting policies).

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

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

[2] Please refer to page 46 for the definition of "Parent bank".

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

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

	30/06/2022	30/06/2021	Chg.
	€m	€m	%
Financial assets at FVTPL	172,2	103,5	66,4%
Treasury investments	1.784,5	1.726,7	3,3%
Debt securities - banking book	10,2	10,2	0,0%
Loans and advances	5.412,6	5.185,6	4,4%
Equity investments	4,2	4,2	0,0%
Tangible and intangible assets	1,4	1,6	-12,5%
Other assets	97,4	96,8	0,6%
Total Assets	**7.482,5**	**7.128,5**	**5,0%**
Loans and borrowings	4.681,6	4.407,2	6,2%
Debt securities issued	2.217,7	2.156,0	2,9%
Treasury borrowings	16,5	183,1	-91,0%
Financial liabilities at FVTPL	102,1	28,2	262,1%
Other liabilities	20,0	16,1	24,2%
Provisions for risks and charges	1,5	1,9	-21,1%
Net equity	436,1	330,8	31,8%
Net profit	7,0	5,3	32,1%
Total Liabilities	**7.482,5**	**7.128,5**	**5,0%**

ASSETS

In a challenging market environment, the Bank's balance sheet increased further throughout the financial year, reaching the value of €. 7,482bn at 30 June 2022 (+5,0% compared to June 2021). 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 increased by +66,5%, primarily as a consequence of the mark to market value of the financial and credit derivative contracts negotiated with the Parent Bank (or embedded in other financial instruments) which amounts to € 108,8m (€ 30,0m at 30 June 2021). It is worth mentioning that the Bank is not taking any speculative position in derivatives and the aforementioned variation was de facto compensated by a barely equivalent increase of the carrying value of financial liabilities valued at fair value through profit or loss.

Treasury investment – the carrying value of treasury investments has slightly increased compared to June 2021 (+3,3%, from € 1.726,7m to € 1.784,5m) mainly as a consequence of temporary excess liquidity reinvested with the Group Treasury by means of money market instruments. In details:

- Cash available at Central Bank amounts to € 321,9m, 270,8m up compared to June 2021, including an additional deposit for approx. € 266,0m, plus a tiering[3] reserve equals to € 47,6m (€ 43,8m at the end of June 2021).

[3] A two-tier system for reserve remuneration introduced by EBC as of 30 October 2019.

- Demand deposits with banks amounts to € 382,2m which corresponds to a decrease of -48,4% compared to June 2021 (stood at € 741,2m) due to the liquidity reinvestment in the National Central Bank of Luxembourg, eligible inter-alia to the LCR requirement.
- Term deposits with the Parent Bank amounts to € 1.080,2m which corresponds to an increase of +15,6% compared to June 2021 when they stood at € 934,2m. This variation was primarily driven by the excess liquidity borrowed from the Parent to finance the lending pipeline expected close to the end of the year or in the following first quarter.
- 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 2021).

	30/06/2022	30/06/2021	Chg.
	€m	€m	%
Cash available at Central Bank	321,9	51,1	529,9%
Demand deposits	382,2	741,2	-48,4%
Term deposits	1.080,2	934,2	15,6%
Repo transactions	-	-	-
Other money market operations	0,2	0,2	0,0%
Treasury investments	**1.784,5**	**1.726,7**	**3,3%**

Debt securities – this item of the reclassified statement of financial position amounts to € 10,2m (+0.3% compared to June 2021). 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 2021 (+4,4%, from € 5.185,6m to € 5.412,6m). 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 € 1.172,1m at the end of June 2021 to € 1.042,5m at the end of June 2022 (-11,1%). The quality of the credit portfolio remains satisfactory, as demonstrated by the value of the Texas ratio which amounts to 1,40% (9,0% at the end of June 2021).

In a challenging market scenario that is continuously evolving for all domestic and international operators, the net carrying value of non-performing exposures (i.e. net book value after any impairment recognition) corresponds to € 4,6m (€ 30,2m at June 2021) 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.

	30/06/2022	30/06/2021	Chg.
	€m	**€m**	**%**
Loans and receivables (banks)	953,7	876,0	8,9%
of which: non performing	-	-	
Loans and receivables (customers)	4.458,9	4.309,6	3,5%
of which: non performing	*4,6*	*30,2*	*-84,8%*
Loans and advances	**5.412,6**	**5.185,6**	**4,4%**

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 € 96,8m at the end of June 2021 to € 97,4m at the end of June 2022 (+0,6% in percentage terms) and is composed by (i) fair value of hedging derivatives, (ii) tax assets, and (iii) other receivables. In details:

	30/06/2022	30/06/2021	Chg.
	€m	**€m**	**%**
Hedging derivatives	2,4	25,4	-90,6%
Tax assets	3,9	13,6	-71,3%
Transitory accounts and other receivables	91,0	57,7	57,7%
Other assets	**97,3**	**96,8**	**0,5%**

Fair value of hedging derivative instruments decreased as a consequence of the dynamics of the underlying input market parameters, as a result of market rates rise as well as the weakening of Euro. Tax assets slightly decreased following the assessments received during the course of the financial year (both tax reimbursement and reduced tax advances paid in the course of the financial year). Transitory accounts and other receivables 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 2022).

LIABILITIES

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

Loans and borrowings – the carrying value of loans and borrowings increased from € 4.407,2m (June 2021) to € 4.681,6m (June 2022). In detail:

- Amount due to banks increased by +9,1% from € 3.563,1m (June 2021) to € 3.886,1m (June 2022) mainly as a result of the higher endowment in short-term deposits and treasury activities.
- Amount due to customers moved from € 62,0m at the end of June 2021 to € 11,0m at the end of June 2022.
- Borrowings under the commercial paper programmes remained quite stable with the previous year from € 755,3m (June 2021) to € 782,6m (June 2022) given the good conditions of the interbank market.
- Change in fair value of hedged debt instruments valued at amortised costs decreased from € 26,9m (June 2021) to € 1,9m (June 2022). 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).

	30/06/2022	30/06/2021	Chg.
	€m	€m	%
Amount due to banks	3.886,1	3.563,1	9,1%
Amount due to customers	11,0	62,0	-82,3%
Commercial papers	782,6	755,3	3,6%
CFV notes issued	1,9	26,9	-92,9%
Loans and borrowings	**4.681,6**	**4.407,2**	**6,2%**

Debt securities issued – the carrying value of notes issued under the existing medium-term programmes increased by 2,9%, from € 2.156,0m (June 2021) to € 2.217,7m (June 2022). The most relevant change affected the structured notes (-44,5%) decreasing from € 90,8m (June 2021) to € 50,5m (June 2022), whilst the increase of non-structured notes (+4,6%) was more pronounced in absolute terms, from € 2.065,2m (June 2021) to € 2.159,7m (June 2022). Compared to the previous year, the table below provide with a new item of debt securities valued at FVO, equals to €7,6m.

	30/06/2022	30/06/2021	Chg.
	€m	€m	%
Debt securities issued - non structured	2.159,7	2.065,2	4,6%
Debt securities issued - structured	50,5	90,8	-44,4%
Debt securities valued at FV	7,6	-	n.a.
Debt securities issued	**2.217,8**	**2.156,0**	**2,9%**

Treasury borrowings – this item of the reclassified statement of financial position decreased compared to June 2021 (-91,0%, from € 183,1m to € 16,5m at June 2022) primarily by reason of the time deposits borrowings with the Parent Bank[4], which passed from € 142,0m to € 0m. The rest of the outstanding balance as at 30 June 2022 is attributable to the cash collateral received under two-way credit support annex (CSA) agreement with the Parent Bank for a carrying value of € 16,5m (€ 40,8m as at June 2021).

Financial liabilities at FVTPL – the carrying value of financial liabilities at fair value through profit or loss (FVTPL) increased from € 28,2m at the end of June 2021 to € 102,1m at the end of June 2022, primarily as a consequence of the mark to market value of the financial and credit derivative contracts negotiated with the Parent Bank or embedded in other financial instruments which amounts to € 86,7m (€ 16,6m at the end of June 2021). 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 € 16,1m at the end of June 2021 to € 20,0m at the end of June 2022 (+24,5% in percentage terms) and is composed of (i) tax liabilities and (ii) transitory accounts and other payables. In details:

	30/06/2022	**30/06/2021**	**Chg.**
	€m	**€m**	**%**
Hedging derivatives	-	-	-
Tax liabilities	4,5	4,8	-6,3%
Other payables	15,5	11,2	38,4%
Other liabilities	**20,0**	**16,1**	**24,2%**

Fair value of hedging derivative instruments at the reference date is nil. The carrying value of tax liabilities slightly decreased in absolute terms, from € 4,8m to € 4,5m, 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 (+37,8% in percentage terms, from € 11,2m to € 15,5m), in particular with regard to the amounts owed to the Parent.

Provisions for risks and charges – This item of the reclassified statement of financial position decreased from € 1,9m (June 2021) to € 1,5m (June 2022), mostly as result of the loan commitments reduction in June 2022 and the increase in the average guarantees requested to Parent Bank.

Net equity – No dividends were distributed during the fiscal year: the aggregate increased from € 330,8m to € 436,1m (+31,8%) due entirely to *a)* the allocation of the profit realized during the previous financial year to reserves, *b)* the issuance in December 2021 of € 100m AT1 - Additional Tier1 instrument (fully subscribed by Parent Bank) - which strengthen the capital structure of the Bank as for the purposes of regulatory capital requirement.

[4] Please refer to page 46 for the definition of "Parent bank".

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.

	30/06/2022	30/06/2021	Chg.
	€m	€m	%
Net interest income	14,9	15,8	-5,7%
Net trading income	-0,3	1,0	-130,0%
Net fee and commission income	5,0	6,1	-18,0%
TOTAL INCOME	**19,6**	**22,8**	**-14,0%**
Wages and salaries	-2,4	-3,1	-22,6%
Other administrative expenses	-9,9	-8,8	12,5%
OPERATING COSTS	**-12,3**	**-11,8**	**4,2%**
Loans impairment	3,4	-2,6	-230,8%
Provisions for other financial assets	1,0	-0,3	-433,3%
Other profit (losses)	–	–	n.a.
PROFIT BEFORE TAX	**11,7**	**8,1**	**44,4%**
Fiscal provision	-4,6	-2,8	64,3%
TOTAL COMPREHENSIVE INCOME	**7,1**	**5,3**	**34,0%**

Net interest income – net interest income decreased by -5,7% (from € 15,8m to € 14,9m). During the reference period, the different components performed as follows:

- Interests received from lending business increased by +6,0% (from € 68,6m to € 72,67) showing a higher average performance due to the generalized upshift of the market curves together with a higher contribution from costs capitalized due to the prepayment observed in H2.
- Interests paid on proprietary funding, including the hedging components, were in line with the previous figures (€ -53,5m); in particular, the positive contribution coming from short-term funding (commercial papers) are more than compensated by the higher funding cost of the intercompany loans.
- Contribution of the treasury management moved from € +0,7m in June 2021 to € -4,4m, mainly due to the need of managing a long period of excess liquidity preserving the Bank's liquidity ratio target; the extra-costs are due to liquidity reinvested with Parent through time deposits.

	30/06/2022	30/06/2021	Chg.
	€m	**€m**	**%**
Interest income - lending	72,7	68,6	6,0%
Interest expense - funding	-53,4	-53,5	-0,2%
Net interest income (expense) - Treasury	-4,4	0,7	-728,6%
Net interest income	**14,9**	**15,8**	**-5,7%**

Net trading income – the contribution from trading activities became negative at € -0,3m (€ 1,0m as at June 2021). The foregoing was essentially a consequence of the following:

- Realized losses on derivatives for € -1,1m (€ -0,9m at June 2021);
- Profit from unrealised mark to market valuations of financial instruments amounts to € +2,0m (€ -0,4m at the end of June 2021) (principally derivative contracts negotiated with the Parent and/or embedded in other non-derivative instruments);
- Forex exposures have generated a loss of €-3,2m compared to the profit of €0.4m at June 2021, due to a negative impact on the revaluation components linked to the forex rates movements and due to a partial mismatch in currency USD;
- Gain on disposals and repurchases totally amounts to € 0,5m and is mainly attributable to the *i)* profit on sale financial asset at amortised cost (€ +0,1m), *ii)* gain relating to assets and liabilities designated at FV (€ +0,2m), *iii*) gain relating to other assets and liabilities mandatory valued at FV (€ +0,2m);
- Net fee income generated by securities lending transactions amounts to € 1,5m at the end of June 2022, in line with June 2021.

	30/06/2022	30/06/2021	Chg.
	€m	**€m**	**%**
Derivatives - realised gains and losses	-1,1	-0,9	22,2%
Derivatives - unrealised gains and losses (mtm)	2,0	-0,4	-600,0%
Forex gains and losses	-3,2	0,4	-900,0%
Gain/loss on disposals/repurch. of A.C. instrument	0,1	0,4	-75%
Gain/loss on instruments designated at FVTPL	0,4	–	n.a.
Securities lending/borrowing	1,5	1,5	0,0%
Net trading income (expense)	**-0,3**	**1,0**	**-130,0%**

Net fee and commission income – this item of the reclassified statement of comprehensive income, which remains mostly driven by corporate lending and treasury services, decreased by -18,9% when compared to June 2021 (from € 6,1m to € 4,9m). In particular, it is worth noting how the better performance of commission income on core components (+18,8%) was more than compensate by increasing commission expense (+37,6%); in the same way, the negative contribution from the non-recurring components rose to € -0,5m (€ +0,2m at the end of June 2021).

	30/06/2022	30/06/2021	Chg.
	€m	**€m**	**%**
Fee and commission income	16,4	13,8	18,8%
Fee and commission expense	-10,9	-7,9	38,0%
Other income (expense)	-0,5	0,2	-350,0%
Net fee and commission income (expense)	**5,0**	**6,1**	**-18,0%**

Operating costs – this item of the reclassified statement of comprehensive income increased by +4,2%, from € -11,8m to € -12,3m. In details:

- expenditure on salaries totalled € -2,4m which corresponds to a decrease of -22,0% compared to June 2021 (€ -3,1m), primarily associated with one-off effects experienced during the previous FY.
- administrative expenses increased to € -6,8m (€ -6,3m at June 2021) principally by reason of the service agreement expenses with Parent (outsourcing services and regulatory compliance costs) and IT systems improvement.
- 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) significantly increased during the financial year (+33,9%) from € -2,1m to € -2,8m), due to an Annual Target Amount in Luxembourg higher than the previous one.

	30/06/2022	30/06/2021	Chg.
	€m	**€m**	**%**
Personnel expenses	-2,4	-3,1	-22,6%
Administrative expenses	-6,8	-6,3	7,9%
Amortisation	-0,2	-0,2	0,0%
Other expenses	-0,1	–	n.a.
Contribution to the SRF	-2,8	-2,1	33,3%
Operating costs	**-12,3**	**-11,8**	**4,2%**

Loans impairment – impairment provisions for credit exposures worth a positive net contribution of € +3,4m (€ -2,6m at June 2021). The lower provisioning, experienced in particular during H2, was mostly driven by a constant improvement of the portfolio credit quality due to both an important relief deriving from the non-performing loan decrease and to the reduction of the overlay across the year mainly attributable to total or partial repayment of exposures involved.

Fiscal provision – the contribution of fiscal provision at the end of June 2022 amounts to € -4,6m compared to the -2,8m recorded at the end of June 2021. The fiscal provision is linked to the reversal of residual PY deferred tax asset, current CIT and MBT, and the NWT for the year 2022.

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 11,0%), the adequacy of liquidity indicators (already in line with all Basel 3 requirements) and the low risk profile of our business model (cf. below):

CAPITAL RATIOS

	12 months to	
	30/06/2022	30/06/2021
Common Equity Tier1 Capital Ratio (in %)	11,0	10,7
Total Capital Ratio (in %)	16,3	12,7
Leverage Ratio (in %)	5,3	4,2
Risk Weighted Assets (in Euro million)	3.115,7	3.158,1

LIQUIDITY RATIOS

	12 months to	
	30/06/2022	30/06/2021
Liquidity Coverage Ratio (in %)	132,9	125,6
Net Stable Funding Ratio (in %)	107,4	105,7

PROFITABILITY RATIOS

	12 months to	
	30/06/2022	30/06/2021
ROE - Return On Equity (in %)	2,1	1,6
ROA - Return On Assets (in %)	0,1	0,1

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

SIGNIFICANT EVENTS

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

- In November 2021, 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.

- In order to strengthen the Bank's capital requirements (such as Tier1 and leverage ratio), the issuance of an Additional Tier 1 instrument of Euro 100m - structured in accordance with the provisions of Article 52 of the CRR (EU Regulation 575/2013) - was authorized during the meeting of the Board of Directors held in July 2021; as aforementioned, the issuance has been settled in December 2021.

CORPORATE GOVERNANCE STATEMENT

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

The corporate bodies are as follows:

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

General meeting of Shareholders

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

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

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

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

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

Board of Directors

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

The essential duties and responsibilities of the Board are defined primarily by the Articles of Association and Luxembourg law. According to the Articles of Association, the Board of Directors is composed of at least three members who do not have to be Shareholders and who are elected by General Meeting of Shareholders for a term of office as determined by the Shareholders but not exceeding six years. 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[5]): Mr. Giovanni Mancuso (Chairman), Mr. Alessandro Ragni (Managing Director), Mr. Massimo Amato, Mr. Stephane Bosi, Mr. Piero Pezzati, Mrs. Lara Pizzimiglia and Mrs. Jessica Spina. The Board includes prominent figures from the banking sectors, which ensures an appropriate degree of professionalism as required by the complexity of the bank's operations and given the Board's role in strategic supervision.

During the fiscal year, the Board of Directors was convened 5 (five) times and passed 1 (one) circular resolution. The attendance rate of the meetings was 95%.

Position	Member	Term of office Since	Term of office Until	Gender (M/F)	Executive (Y/N)	Independent (Y/N)	Attendance rate (%)	Other Directorships (*)
Chairman	Giovanni Mancuso	16 October 2020	Approval of the financial statement as at 30 June 2023	M	N	Y	100%	3
Managing Director	Alessandro Ragni	22 January 2020	Approval of the financial statement as at 30 June 2023	M	Y	N	100%	
Director	Massimo Amato	27 January 2021	Approval of the financial statement as at 30 June 2023	M	N	Y	100%	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	60%	-

(*) 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 2022.

[5] Not employee of the Mediobanca Group.

Authorised Management

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

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

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

Audit Committee

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

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

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

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

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

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

- to seek any information that it requires from any employee of the Bank for the purpose of performing its duties;
- to obtain, at the bank’s expense, outside legal or other professional advice on any matter within its terms of reference;
- to call any employee to be questioned at a meeting of the Audit Committee as and when required;

- to appoint, compensate and oversee the work of any registered public accounting firm employed by the Bank;
- to pursue and promote the resolution of any disagreements between management and the auditors regarding financial reporting; and
- to meet with bank's officers, external auditors, or outside counsel, as necessary.

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

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

During the 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: Mr. Alessandro Ragni (Managing Director & Chief Executive Officer), Mr. Rocco Cosimo Damiano Di Leo (Chief Financial Officer), Mrs. Daniela De Salvo (Chief Risk Officer) and Mr. Antonio Santese (Director).

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

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

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

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

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

OTHER INFORMATION

During the fiscal year ended on 30 June 2022, 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

The latest economic indicators point to a deterioration in the economic outlook, especially for the manufacturing sector. Global GDP is expected to be impacted by the inflation that continues to move upside and monetary stimulus that is withdrawn globally.

In the euro area, economic activity is expected to be weak in the second half of the year, amid a slowdown in world trade, persistently high energy costs as a result of increasing uncertainty regarding energy supply and tightening financing conditions. Inflation will remain high until the end of the year and is then projected to show a clear deceleration throughout the course of 2023.

The outlook is surrounded by risks, mainly related to a cessation of gas supply from Russia.

The European Central Bank (ECB) is expected to continue the rate tightening cycle that it began at its July meeting in order to counter the risk of a de-anchoring of inflation expectations. The anti-fragmentation tool announced by the ECB is expected to ensure the homogeneous transmission of monetary policy while the tightening cycle is implemented.

In the coming months, an acceleration of the rise in US rates is expected, reaching 3.25-3.50% by the end of the year. In the euro area, markets are discounting over 160 basis points of ECB official rate hikes by the end of 2022, of which 50 basis points already made on 21 July.

In Italy, a slowdown in private consumption growth is expected as household purchasing power deteriorates, partly offset by the possibility of using excess savings accumulated during the pandemic to support spending. The increase in financing costs for the private sector will weaken domestic demand, particularly from 2023.

The Group has entered this phase, in which challenges are expected for the global economy, with a resilient and profitable model, a high capitalization and with prudent level of provisions already in place. These characteristics will contribute in maintaining the strong stability of the Group, which will remain focused on the implementation of the 2022-24 Strategic Plan and continue to support the communities in which the Group operates, customers and the financial system.

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; if volumes remain confirmed, the profitability is expected to remain substantially aligned to the previous FY result despite an increasing expected cost of funding due to, inter alia, the change of Government in progress that is increasing tensions on the spread with a sharp rise in Italian government bond yields.

PROPOSAL FOR ALLOCATION OF THE RESULT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

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 2022:

– Profit of the year	€	6.967.199
– Balance on retained earnings	€	-
– **Total profit to be allocated**	**€**	**6.967.199**
– To specific reserve for N.W.T.	€	6.967.199
– To free reserve	€	-

Considering the CIT due, the Bank should be able to reduce the 2023 NWT. Based on current estimation the charge could be reduced by € 1,695,565.00 by creating an NWT special reserve of € 8,477,825.00. Beside the allocation of the profit suggested above, an additional € 1,510,626 will be reclassified from the free reserve to NWT reserve. This reserve must be kept in the accounts for a 5 years period.

Luxembourg, 15 September 2022

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 2022.

Luxembourg, 15 September 2022

The Board of Directors

Giovanni Mancuso   Alessandro Ragni   Massimo Amato

Stephane Bosi   Piero Pezzati   Lara Pizzimiglia

Jessica Spina

INDEPENDENT AUDITOR'S REPORT

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Independent auditor's report

To the Board of Directors of
Mediobanca international Luxembourg S.A.
Boulevard Joseph II
L-1840 Luxembourg

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Mediobanca international Luxembourg S.A., which comprise the statement of financial position as at 30 June 2022, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 30 June 2022, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Basis for opinion

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

Key audit matters

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

Impairment on loans and advances to customers

Description

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

As of 30 June 2022, loans and advances to customers amount to EUR 4,462 million (gross amount) representing 60% of the Bank total assets against which an impairment allowance of EUR 7.97 million is recorded (see Part F to the financial statements). Impairments are calculated in accordance with IFRS 9 “Financial instruments”, based on an expected credit loss (ECL) calculation model.

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

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

The qualitative information concerning in particular the recognition and procedures used to estimate expected credit losses is mainly described in Part B Section 6 of the financial statements.

We considered the assessment of impairment on loans and advances to customers to be a key audit matter for the following reasons:

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

How the matter was addressed in our audit

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

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

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

We also performed the following substantive audit procedures:

- we verified that the data used as a basis to calculate the ECL are complete and accurate; we also tested, on a sample basis, extraction of data used in the models including rating of loans and movements between various ratings;

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

Other information

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

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

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

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

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

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

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

Responsibilities of the “réviseur d’entreprises agréé” for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of Board of Directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the “réviseur d’entreprises agréé” to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the “réviseur d’entreprises agréé”. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Assess whether the financial statements have been prepared, in all material respects, in compliance with the requirements laid down in the ESEF Regulation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on other legal and regulatory requirements

We have been appointed as “réviseur d’entreprises agréé” by the Board of Directors on 2 November 2021 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is one year.

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

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

We have checked the compliance of the financial statements of the Bank as at 30 June 2022 with relevant statutory requirements set out in the ESEF Regulation that are applicable to the financial statements. For the Bank, it relates to the financial statements prepared in valid HTML format;

In our opinion, the financial statements of the Bank as at 30 June 2022, identified as 549300DV870NBWY5W279-2022-06-30-en.html , have been prepared, in all material respects, in compliance with the requirements laid down in the ESEF Regulation.

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

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

Ernst & Young
Société anonyme
Cabinet de révision agréé

Bernard Lhoest Alexander Kastendeuch

Luxembourg, 29 September 2022

FINANCIAL STATEMENTS AS AT 30 JUNE 2022

STATEMENT OF FINANCIAL POSITION

	Assets	30.06.2022	30.06.2021
		€	€
10.	Cash and cash equivalents	696.131.128	785.008.138
20.	Financial assets valued at FVTPL	180.401.031	103.467.003
	a) Financial assets held for trading	*172.244.484*	*103.467.003*
	b) Financial assets designated at fair value	*3.515.944*	—
	c) Other financial assets mandatorily at fair value	*4.640.603*	—
40.	Financial assets valued at amortised cost	6.503.033.237	6.137.489.862
	a) Due from banks	*2.038.547.198*	*1.817.694.664*
	b) Due from customers	*4.464.486.039*	*4.319.795.198*
50.	Hedging derivatives	2.424.667	25.420.372
70.	Equity investments	4.150.000	4.150.000
90.	Property, plant and equipment	1.401.173	1.569.989
110.	Tax assets	3.917.881	13.623.593
	a) Current	*3.014.749*	*10.231.307*
	b) Deferred	*903.132*	*3.392.286*
130.	Other assets	91.026.004	57.723.057
	Total assets	**7.482.485.121**	**7.128.452.014**

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

	Liabilities and Shareholders' equity	30.06.2022	30.06.2021
		€	€
10.	Financial liabilities valued at amortised cost	6.914.838.241	6.747.884.996
	a) Due to banks	*3.907.764.795*	*3.746.133.843*
	b) Due to customers	*12.433.556*	*63.553.407*
	c) Debt securities in issue	*2.994.639.890*	*2.938.197.746*
20.	Financial liabilities valued at FVTPL	102.084.552	28.172.958
30.	Financial liabilities designated at fair value	7.590.814	—
40.	Hedging derivatives	—	—
60.	Tax liabilities	4.518.137	4.823.721
	a) Current	*4.518.137*	*4.823.721*
	b) Deferred	—	—
80.	Other liabilities	8.903.992	9.673.431
100.	Provisions for risks and charges	1.459.641	1.854.124
120.	Valuation Reserves	79.760	—
140.	Equity instruments	100.000.000	—
150.	Reserves	326.042.785	320.782.764
160.	Share capital	10.000.000	10.000.000
200.	Profit (Loss) of the year	6.967.199	5.260.020
	Total liabilities and Shareholders' equity	**7.482.485.121**	**7.128.452.014**

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

STATEMENT OF COMPREHENSIVE INCOME

Income Statement items		30.06.2022	30.06.2021
		€	€
010.	Interests and similar income	87.355.873	79.915.274
020.	Interest expense and similar charges	-70.102.653	-64.151.125
030.	**Net interest income**	**17.253.220**	**15.764.149**
040.	Fee and commission income	19.001.088	16.420.917
050.	Fee and commission expense	-12.056.805	-15.057.190
060.	**Net fee and commission income**	**6.944.283**	**1.363.727**
080.	Net trading income (expense)	-4.706.644	-1.083.110
090.	Net hedging income (expense)	29.030	114.135
100.	Gain or loss on disposal or repurchase of:	90.012	361.334
	a) Financial assets valued at amortised cost	*92.457*	*267.824*
	b) Financial assets valued at FVOCI	—	—
	c) Financial liabilities	*-2.445*	*93.510*
110.	Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	410.956	—
120.	**Total income**	**20.020.857**	**16.520.235**
130.	Adjustment for impairment to:	3.998.968	-2.124.228
	a) Financial assets valued at amortised cost	*3.998.968*	*-2.124.228*
	b) Financial assets valued at FVOCI	—	—
150.	**Net income from financial operations**	**24.019.825**	**14.396.007**
190.	Administrative expenses	-11.992.446	-11.836.883
	a) Personnel costs	*-2.404.791*	*-3.082.752*
	b) Other administrative expenses	*-9.587.655*	*-8.754.131*
200.	Net provisions for risks and charges	394.483	-711.793
210.	Value adjustments in respect of tangible assets	-204.285	-235.671
230.	Other operating income (expense)	-601.334	6.495.161
290.	**Profit (loss) of the ordinary activity before tax**	**11.616.243**	**8.106.821**
300.	Income tax on the ordinary activity	-4.649.044	-2.846.801
330.	**Profit (loss) for the period**	**6.967.199**	**5.260.020**
340.	Other comprehensive income, net of tax	—	—
350.	**Profit (loss) of the period**	**6.967.199**	**5.260.020**

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

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

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

The accompanying notes form an integral part of the financial statements. The allocation of prior year result to the **free reserve** results is in line with the resolution taken by the AGM of October 2021.

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

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

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

	Balance as of June 30, 2020	Allocation of the profit for the previous period		Changes during the reference period					
				Changes in reserves	Transactions involving equity				Balance as of June 30, 2021
		Reserves	Dividends and other fund applications		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	-10.784.702	—	—	—	—	97.032	—	286.792.447
c) special reserve(1)	35.669.613	—	—	—	—	—	—	—	35.669.613
c) FTA reserve(2)	-2.679.296	—	—	—	—	—	—	—	-2.679.296
Valuation reserves	—	—	—	—	—	—	—	—	—
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.

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

CASH FLOW STATEMENT - Direct Method (in €k)

		Amount	
		30/06/2022	30/06/2021
A.	**Cash flow from operating activity**	**-188.877**	**43.802**
1.	**Operating activity**	**37.881**	**3.011**
	– interests received (+)	102.167	87.305
	– interests paid (-)	-64.535	-49.490
	– net fees and commissions received/paid (+/-)	15.845	9.322
	– dividends and similar income (+)	—	—
	– net premiums collected (+)	—	—
	– personnel expenses (-)	-2.036	-2.629
	– other income (expenses) (+/-)	-17.463	-36.571
	– taxes and duties (+/-)	3.903	-4.926
2.	**Cash generated/absorbed by financial assets**	**-141.363**	**-701.002**
	– financial assets valued at FVTPL	1.754	-71.259
	– financial assets designated at FVTPL	-3.526	
	– financial assets valued at FVOCI	—	—
	– financial assets valued at amortised cost	-136.451	-637.500
	– other assets	-3.140	7.757
3.	**Cash generated/absorbed by financial liabilities**	**-85.395**	**741.793**
	– financial liabilities valued at FVTPL	1.782	755.076
	– financial liabilities valued at amortised cost	-93.794	-13.091
	– financial liabilities designated at fair value	7.826	
	– other liabilities	-1.209	-192
B.	**Cash flow from investing activity**	—	—
	– disposal/purchase of shareholdings	—	—
	– disposal/purchase of tangible assets	—	—
	– disposal/purchase of intangible assets	—	—
C.	**Cash flow from funding activity absorbed by:**	**100.000**	**—**
	– issue/redemption of T1 capital instruments	100.000	—
	– issue/redemption of T2 capital instruments	—	—
	Net cash inflow (outflow) during the fiscal year	**-88.877**	**43.802**

	Amount	
	30/06/2022	30/06/2021
Cash and cash equivalents: balance at 1 July (*)	785.008	1
Total cash inflow (outflow) during year	-88.877	43.802
Cash and cash equivalents: balance at 30 June	**696.131**	**43.803**

(*) Following the update of Bank of Italy circular 262/2005, the restated amount of the cash as at 30/06/2021 is equals to € 785.008K. This amount is given by the current accounts (€ 741.206K) and the tiering reserve (€43.802K) as indicated in Section 1 heading 10 - Cash and cash equivalents.
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 2022 were authorised for issue by the Board of Directors on 15 September 2022.

Parent Bank

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

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

PART B – ACCOUNTING POLICIES

Section 1

Statement of compliance with the International Accounting Standards

The individual financial statements of the Bank are prepared in accordance with the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) promulgated by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), adopted by the European Commission in accordance with the procedure laid down in Article 6 of the Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002. The financial statements as at 30 June 2022 have been prepared based on the template of the Parent Bank which, in turn, was based on the "Instructions for drawing up separate and consolidated financial statements for banks and financial companies that head banking groups", issued by the Banca d'Italia (Bank of Italy) through Circular no. 262 of 22 December 2005 – 7th update of 30 November 2018 – which sets out the financial statements layouts and compilation methods, as well as the content of the explanatory notes[6].

Changes in accounting policies since the previous annual publication.

Standards effective for Mediobanca International (Luxembourg) S.A from or after 1 July 2021:

- IFRS 1 First-time Adoption of International Financial Reporting Standards -Annual Improvements to IFRSs 2018-2020 Cycle: Subsidiary as a First-Time Adopter
- IFRS 3 Business Combinations -Reference to the Conceptual Framework
- IFRS 9 Financial Instruments -Annual Improvements to IFRSs 2018-2020 Cycle: Fees in the '10per cent' test for derecognition of financial liabilities
- IAS 16 Property, Plant and Equipment-Proceeds before intended Use
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets -Onerous Contracts -Cost of Fulfilling a contract
- IAS 41 Agriculture -Annual Improvements to IFRSs 2018-2020 Cycle: Taxation in Fair Value Measurements

New standards and interpretations issued that are mandatory for the annual periods beginning on or after 1 July 2022 or later, and which Mediobanca International (Luxembourg) S.A has not early adopted:

- IFRS 17 Insurance Contracts including Amendments to IFRS 17-Amendments to IFRS 17
- IAS 1 Presentation of Financial Statements-Disclosure of Accounting Policies

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

- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors-Definition of accounting estimates

New standards and interpretations issued for the annual periods beginning on or after 1 July 2022 or later, and whose adoption by the EU remains open or has been postponed:

- IFRS 10 Consolidated Financial Statements-Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IFRS 17 Insurance Contracts including Amendments to IFRS 17-Initial Application of IFRS 17 and IFRS 9 – Comparative Information
- IAS 1 Presentation of Financial Statements-Classification of Liabilities as Current or Non-current
- IAS 12 Income Taxes -Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- IAS 28 Investments In Associates and Joint Venture-Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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

Section 2

General principles for preparation

The financial statements comprise:

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

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

Over the twelve months, the European Commission has adopted the following regulations, which incorporate some changes to the accounting standards currently in force: (EU) 2021/1421 of 30 August 2021, (EU) 2021/2036 of 19 November 2021 and (EU) 2022/357 of 2 March 2022. In particular:

- Commission Regulation (EU) 2021/1421 adopted the IFRS16[7] amendments proposed by the IASB and relating to the ongoing Covid pandemic: with this Regulation, the amendments to IFRS 16 have

[7] International Accounting Standards Board, -19-Related Rent Concessions beyond 30 June 2021 – Amendment to IFRS 16 – May 2020.

been extended to include payments due contractually until 30 June 2022 inclusive; it has retroactive effect from 1 July 2020;

- Commission Regulation (EU) 2022/357 contains amendments to IAS1 and IAS8; the amendments clarify the differences between accounting principles and accounting estimates in order to ensure the consistent application of accounting principles and the comparability of financial statements. These amendments are valid for the Group starting from 1 July 2023.

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 29 October 2021, "*European common enforcement priorities for 2021 annual financial reports"*, setting out priorities on which listed companies must focus in preparing their financial statements for the year ended 31 December 2021. ESMA underlines the responsibility of management and supervisory bodies of issuers as well as the importance of the oversight role of audit committees which is key to ensure the overall internal consistency of the annual financial report and contribute to high-quality annual financial reports; in particular, ESMA recommends that disclosure is provided in the IFRS-compliant financial statements for 2021 regarding the following topics:

- a) Longer-term impacts of the Covid-19 pandemic and the recovery from Covid-19, with careful assessment and transparency of accounting;
- b) Climate-related matters[8], impacts, estimates and strategies implemented to mitigate them and indicate how the company is positioned relative to its sustainability objectives;
- c) Measurement of Expected Credit Losses (ECL), including sensitivity analysis and details of management overlays (provided and used), material adjustments and significant increases in credit risk (SICR);
- d) Taxonomy-related disclosures and disclosure of the taxonomy alignment of economic activities in accordance with the obligations set out in Article 8 of Regulation (EU) 2020/852.

On 13 May 2022, ESMA published the Statement of the "Implications of Russia's invasion of Ukraine on half-yearly financial reports" to promote transparency and consistent application of European requirements for information provided in the half-yearly financial reports with regards to Russia's invasion of Ukraine. It highlights the need for issuers to provide information that is useful to users and adequately reflects the current and, to the extent possible, expected impact of Russia's invasion of Ukraine on the financial position, performance and cash-flows of issuers. ESMA also highlights the importance of providing information on the identification of the principal risks and uncertainties to which issuers are exposed. Previously, through the Public statement of 14 March 2022 "ESMA coordinates regulatory response to the war in Ukraine and its impact on EU financial markets", ESMA had already listed the different ways in which the agency has been active in supporting European markets and investors.

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

EBA:

Monitoring Report of 24 November 2021 (EBA/REP/2021/35) "*IFRS9 Implementation by EU institutions*" summarizing the results of the monitoring activity of implementation of the International Financial Reporting Standards (IFRS 9) by the European Union institutions in the context of the current pandemic. The findings of the analysis carried out by the EBA are meant to assist supervisors' evaluation of the quality and adequacy of application of the IFRS 9 framework, also considering the high expert judgement levels adopted by the banks concerned in terms of the level of provisioning (and overlays) and classifications as stage 2 and stage 3.

The EBA reminded banks that the use of overlays should assume a temporary measure, necessary in cases where the ECL models are unable to address the specific situation, and should not be used for the long term; it is therefore crucial that the overlays should be complemented by good governance measures to ensure that the credit risk is correctly reflected in the metrics of provisioning used.

CSSF:

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

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

Section 3

Interest rates benchmark transition: Group project

All the activities required to complete the transition to the new interbank benchmark rates by the start of 2022 have basically been completed. The discontinued index-linked products have all been amended without any problems being noted through the transition to Ester (for the Euro), Saron (for CHF), Sonia (for GBP) and Tonar (for JPY). The Bank has started preparatory activities for the disposal of the Libor USD rate - scheduled for June 2023 - and the introduction of "*fall-back clauses*" in line with the ECB 2021 recommendations relating to contracts and products indexed to the Euribor rate, although the disposal of the latter is not planned for the moment. Preliminary activities were also started for the operational management of the Term SOFR rate, in line with the market practice in force.

Section 4

New ESEF (European Single Electronic Format) requirement

ESEF is the new single electronic reporting for the preparation of annual financial reports to be published by listed companies in the European Union from 2021 onwards. Directive 2004/109/EC (the "*Transparency Directive*") and Delegated Regulation (EU) 2019/815 introduced the obligation for issuers of securities listed on regulated markets of the European Union to draw up the annual financial report in the language XHTML, based on the European Single Electronic Format (ESEF), approved by ESMA. This format provides for one single file (*prepared under XHTML*) which will include the financial statements, the management report and the responsibility statements of the persons responsible within the company. This file will be human-readable similar to a normal webpage. MBIL falls under the Transparency Directive[9]. Moreover, according to the ESEF Regulation, non-consolidated annual financial reports shall be prepared in XHTML format (the XBRL markup language shall be used in case the issuer was required to prepare IFRS consolidated annual financial statements).

Section 5

Basis of preparation

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

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

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

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

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

Section 6

Summary of significant accounting policies

Cash and cash equivalents

Cash and cash equivalents item of June 2022 (and June 2021 accordingly), following the VII update of Bank of Italy's Circular N. 262 of October 2021, includes the reclassification of current accounts previously held in financial assets at amortized cost. So that, "Cash and cash equivalents" now comprises cash balances on hand, short-term highly liquid investments with maturities of three months or less when purchased, non-restricted current accounts with the Central Bank and current accounts.

Financial assets 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. In this connection, the Group has developed a standardized process for performing the test, which involves analysing the loans using a specific tool, developed internally, which is structured on the basis of decision-making trees. If the test is not passed, the tool will show that the assets should be recognized at fair value through profit and loss (FVTPL). The method by which loans are tested differs according to whether or not the asset concerned is a retail or corporate loan: at product level for retail loans, individually for corporate loans. An external info-provider is used to test debt securities; if, however, the results of the test are unavailable, the instrument is analysed using the SPPI tool. When contractual cash flows do not represent solely payments of principal and interest on the outstanding amount, the Bank mandatorily classifies the instrument at fair value through profit and loss.

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

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

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

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

In accordance with IFRS9, financial assets are divided in three categories:

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

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

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

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

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

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

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

Hedging transactions

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

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

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

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

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

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

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

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

Fair value hedges

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

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 2022, 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[10] (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.

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

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

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.

Financial liabilities recognized at fair value

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

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

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

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

Tax assets and liabilities

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

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

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

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

Contributions to resolution funds are accounted for according to IFRIC21.

Provisions for risks and charges

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

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

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

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

Pension plans

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

Derecognition of assets

A financial asset must be derecognized from the balance sheet if, and only if, the contractual rights to the cash flows deriving from it have expired, or if the asset has been transferred in compliance with IFRS9. In this case, the Bank verifies that the contractual rights to receive the cash flows from the asset are transferred or, alternatively, said rights are maintained, but at the same time, there is a contractual obligation to pay them to one or more beneficiaries. It is necessary to verify that substantially all risks and rewards are transferred, and any rights and obligations originating from or maintained with the transfer, are, if the case warrants it, recognized separately as an asset or liability. If, on the contrary, the Bank maintains substantially all the risks and rewards, then the financial asset must continue to be recognized.

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

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

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

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

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[11] 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).

Fair Value Adjustment

Fair value adjustment is defined as the quantity to be added to, or subtracted, from the price observed on the market or the theoretical price generated by the model, to ensure that the fair value reflects the price that can be realized in a market transaction which is effectively possible. In line with the best market

[11] 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.

practice, during the six months under review the alignment of all fair value adjustments with the prudential categories defined in Article 105 of the CRR ("Prudent Valuation") was largely completed.

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

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

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

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

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

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

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

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

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

1. Fair value levels: valuation techniques

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

However, all instruments within which the component attributable to unobservable inputs (such as implicit volatility beyond certain observability thresholds, or equity and credit correlation) is prevalent within fair value, or where there are adjustments that significantly modify the most liquid input parameters used, are classified to Level 3[12].

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

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

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;

– *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[13];
  - Exotic instruments that use certain payoffs (i.e. Knock-in/Knock-out reverse notes) on a single security (or baskets) for which the valuation inputs are not directly observable;
  - Bespoke CDO tranches.

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

[13] 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.

premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Fee and commission income and expense

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 7

Significant accounting estimates and judgment

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

Going concern

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

Fair value of financial instruments

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

Impairment losses on loans and advances

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

Deferred tax assets

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

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)

	30/06/2022	30/06/2021
a) Cash	—	—
b) Demand deposit held at Central Banks	313.918	43.802
c) Current accounts and Demand Deposits	382.213	741.206
Total	**696.131**	**785.008**

The amount of the current accounts as of 30/06/2021 have been restated in December 2021 in order to be compliant to the Bank of Italy circular 262/2005 (VII update); the exposures towards the Central Bank - in particular, the tiering reserve equals to € 313.918k at the end of June 2022 - has been restated accordingly.

Section 2

Heading 20 – Financial assets valued at FVTPL

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

Financial assets held for trading amount to € 172.244k as at 30 June 2022. The balance is mainly made by the gross positive fair value of financial and credit derivatives contracts negotiated with the Parent Bank or embedded in other financial instruments[14]. Fair value hierarchy (classification) of the CLOs relating to 2021 have been adjusted to reflect the accurate presentation in the current year.

Item/Values	30/06/2022			30/06/2021		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	—	—	63.446	—	73.421	—
1.1 Structured	—	—	46.138	—	62.485	—
1.2 Other debt securities	—	—	17.308	—	10.936	—
2. Equities	—	—	—	—	—	—
3. UCITS units	—	—	—	—	—	—
4. Loans and advances	—	—	—	—	—	—
4.1 Repos	—	—	—	—	—	—
4.2 Others	—	—	—	—	—	—
Total A	**—**	**—**	**63.446**	**—**	**73.421**	**—**
B. Derivative products						
1. Financial derivatives	—	47.864	6.126	—	15.430	2.976
1.1 Trading	—	47.864	6.126	—	15.430	2.976
1.2 Linked to FV options	—	—	—	—	—	—
1.3 Others	—	—	—	—	—	—
2. Credit derivatives	—	46.687	8.121	—	11.640	—
2.1 Trading	—	46.687	8.121	—	11.640	—
2.2 Linked to FV options	—	—	—	—	—	—
2.3 Others	—	—	—	—	—	—
Total B	**—**	**94.551**	**14.247**	**—**	**27.070**	**2.976**
Total (A+B)	**—**	**94.551**	**77.693**	**—**	**100.491**	**2.976**

[14] Financial derivatives include certificates to be valued at Level 3 starting from January 2021. See "Fair Value Hierarchy", p. 61.

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

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

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

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

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

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

Item/Value	30/06/2022	30/06/2021
A. CASH ASSETS		
1. Debt securities	63.446	73.421
2. Equities	—	—
3. UCITS units	—	—
4. Loans and advances	—	—
Total A	**63.446**	**73.421**
B. DERIVATIVE PRODUCTS		
a. Banks	108.798	30.046
- *Fair value*	108.798	30.046
b. Customers	—	—
- *Fair value*	—	—
Total B	**108.798**	**30.046**
Total A+B	**172.244**	**103.467**

2.3 Financial assets designated at fair value: composition

Items/Values	**30/06/2022**			**30/06/2021**		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
A. Debt securities	—	—	—	—	—	—
1. Structured securities	—	—	—	—	—	—
1. Other debt securities	—	—	—	—	—	—
B. Loans	—	—	3.516	—	—	—
1. Structured	—	—	—	—	—	—
2. Others	—	—	3.516	—	—	—
Total	**—**	**—**	**3.516**	**—**	**—**	**—**

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

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

Items/Values	30/06/2022	30/06/2021
A. Debt securities	—	—
a) Central Banks	—	—
b) General Government	—	—
c) Banks	—	—
d) Other financial companies	—	—
of which: Insurance companies	—	—
e) Non financial companies	—	—
B. Loans	3.516	—
a) Central Banks	—	—
b) General Government	—	—
c) Banks[1]	3.516	—
d) Other financial companies	—	—
of which: Insurance companies	—	—
e) Non financial companies	—	—
f) Households	—	—
Total	**3.516**	**—**

(1) Counterparty refers to the Parent Bank.

2.5 Other financial assets mandatorily at fair value: composition

Items/Values	30/06/2022			30/06/2021		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Debt securities	—	—	—	—	—	—
1. Structured securities	—	—	—	—	—	—
2. Others	—	—	—	—	—	—
B. Equity instruments	—	—	—	—	—	—
C. UCITs	—	—	—	—	—	—
D. Loans	—	—	4.641	—	—	—
1. Reverse Repos	—	—	—	—	—	—
2. Others[1]	—	—	4.641	—	—	—
Total	**—**	**—**	**4.641**	**—**	**—**	**—**

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

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

Items/Values	**30/06/2022**	**30/06/2021**
1. Equity instruments	—	—
of which: banks	—	—
of which: other financial companies	—	—
of which: other non-financial companies	—	—
2. Debts securities	—	—
a) Central Banks	—	—
b) General Government	—	—
c) Banks	—	—
d) Other financial companies	—	—
of which: insurance companies	—	—
e) Non financial companies	—	—
3. UCITs	—	—
4. Loans	4.641	—
a) Central Banks	—	—
b) General Government	—	—
c) Banks	—	—
d) Other financial companies	—	—
of which: insurance companies	—	—
e) Non financial companies	4.641	—
f) Households	—	—
Total	**4.641**	**—**

Section 4

Heading 40 – Financial assets valued at amortised cost

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

Type of transactions/Values	Total 30/06/2022						Total 30/06/2021					
	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	7.947	—	—	—	7.947	—	7.300	—	—	—	7.300	—
1. Term deposits	—	—	—	X	X	X	—	—	—	X	X	X
2. Compulsory reserve	7.947	—	—	X	X	X	7.300	—	—	X	X	X
3. Repos	—	—	—	X	X	X	—	—	—	X	X	X
4. Others	—	—	—	X	X	X	—	—	—	X	X	X
B. Due from banks	2.030.601	—	—	—	2.020.669	—	1.810.394	—	—	—	1.821.172	—
1. Loans and advances	2.030.601	—	—	—	2.020.669	—	1.810.394	—	—	—	1.821.172	—
1.1 Current accounts and demand deposits	—	—	—	X	X	X	—	—	—	X	X	X
1.2 Term deposits	1.080.221	—	—	X	X	X	934.189	—	—	X	X	X
1.3 Other financings:	950.380	—	—	X	X	X	876.205	—	—	X	X	X
- Repos	—	—	—	X	X	X	—	—	—	X	X	X
- Finance leases	—	—	—	X	X	X	—	—	—	X	X	X
- Others	950.380	—	—	X	X	X	876.205	—	—	X	X	X
2. Debt securities	—	—	—	—	—	—	—	—	—	—	—	—
2.1 Structured debt securiti	—	—	—	X	X	X	—	—	—	X	X	X
2.2 Other debt securities	—	—	—	X	X	X	—	—	—	X	X	X
Total	**2.038.548**	**—**	**—**	**—**	**2.028.616**	**—**	**1.817.694**	**—**	**—**	**—**	**1.828.472**	**—**

(*) Values of the current accounts (€ 741m) as of 30/06/2021 have been restated - in order to be compliant to the Bank of Italy Circular 262/2005, amended in 11/2021- moving from the “Financial assets valued at amortised cost” to the “Cash and cash equivalent” items.

The carrying value of financial assets due to banks valued at amortised cost increased throughout the reference period, passing from € 1.817.694k (June 2021) to € 2.038.548k (June 2022). The vast majority of the transactions reported under this caption are de facto concluded with the Parent Bank. For further information about the criteria adopted for the determination of the fair value as well as the classification of the financial instruments within the three-levels of the fair value hierarchy, please refer to Part B - Accounting Policies.

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

Type of transactions/Values	Total 30/06/2022						Total 30/06/2021					
	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	4.136.472	317.818	—	—	4.701.337	—	4.002.837	276.554	30.234	—	4.522.174	—
1.1 Current accounts	—	—	—	X	X	X	—	—	—	X	X	X
1.2 Repos	—	—	—	X	X	X	—	—	—	X	X	X
1.3 Term loans	4.136.472	317.818	—	X	X	X	4.002.837	276.554	30.234	X	X	X
1.4 Credit cards and personal loans	—	—	—	X	X	X	—	—	—	X	X	X
1.5 Finance leases	—	—	—	X	X	X	—	—	—	X	X	X
1.6 Factoring	—	—	—	X	X	X	—	—	—	X	X	X
1.7 Other loans	—	—	—	X	X	X	—	—	—	X	X	X
2. Debt securities	10.196	—	—	—	10.052	—	10.170	—	—	—	10.110	—
2.1 Structured debt securities	—	—	—	X	X	X	—	—	—	X	X	X
2.2 Other debt securities	10.196	—	—	X	10.052	X	10.170	—	—	X	10.110	X
Total	**4.146.668**	**317.818**	—	**—**	**4.711.389**	**—**	**4.013.007**	**276.554**	**30.234**	**—**	**4.532.284**	**—**

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

Type of transactions/Value	30/06/2022			30/06/2021		
	Stage1 / Stage2	Stage3	of which: impaired assets acquired or created	Stage1 / Stage2	Stage3	of which: impaired assets acquired or
1. Debt securities:	10.196	—	—	10.170	—	—
a) Public administration	10.196	—	—	10.170	—	—
b) Other financial company	—	—	—	—	—	—
of which: insurance companies	—	—	—	—	—	—
c) Non financial companies	—	—	—	—	—	—
2. Loans and advances to:	4.454.290	—	—	4.279.391	30.234	—
a) Public administration	96.702	—	—	83.928	—	—
b) Other financial company	810.942	—	—	1.001.009	—	—
of which: insurance companies	42.459	—	—	47.469	—	—
c) Non financial companies	3.546.646		—	3.194.454	30.234	—
d) Households	—	—	—	—	—	—
Total	**4.464.486**	**—**	**—**	**4.289.561**	**30.234**	**—**

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	10.210	—	—	-14	—	—	—
Loans[1]	6.180.794	320.915	—	-5.774	-3.097	—	—
Total 30/06/2022	**6.191.004**	**320.915**	**0**	**-5.788**	**-3.097**	**0**	**—**
Total 30/06/2021	**5.839.005**	**280.355**	**43.982**	**-8.304**	**-3.801**	**-13.748**	**—**

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

The amount of the current accounts as of 30/06/2021 have been restated in order to be compliant with the Bank of Italy circular 262/2005 VII update.

Section 5

Heading 50 – Hedging derivatives

The Bank has concluded two derivatives under the hedge accounting regime, facing two unsecured notes issued in USD and CHF; both of them were booked at inception with Parent Bank. The accounting treatment is in line with the methodological and procedural choices for the accounting management of hedge transactions.[15]

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

	30/06/2022				**30/06/2021**			
	Fair value			**Notional value**	***Fair value***			**Notional value**
	Level 1	**Level 2**	**Level 3**		**Level 1**	**Level 2**	**Level 3**	
A. Financial derivatives	—	**2.425**	—	**503.567**	—	**25.420**	—	**445.114**
1) Fair value	—	2.425	—	503.567	—	25.420	—	445.114
2) Cash flow	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	**—**	**2.425**	**—**	**503.567**	**—**	**25.420**	**—**	**445.114**

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

30/06/2022	**Fair Value Hedge**						**Cash Flow Hedge**		**Net Investments in foreign**
Operations/Type of hedging	**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	2.425	—	—	—	—	X	—	—	X
2. Portfolio	X	X	X	X	X	—	X	—	X
TOTAL LIABILITIES	**2.425**	—	—	—	—	—	—	—	—
1. Highly probable transactions	X	X	X	X	X	X	—	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	—	X	—	—

[15] Please refers to Accounting policies (page 54) to see risk management strategy of the Bank.

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	—	—

Section 7

Heading 70 – Equity investments

7.1 Equity investments: disclosure on shareholdings

Company Name	Registered office	Control type[16]	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.	2.024	188	75	2.010	4.150

(*) Figures from Mediobanca International Immobilière S.à.r.l. are coming from unaudited accounts.

The financial year of Mediobanca International Immobilière S.à.r.l. runs from 1 July to 30 June (as modified by the extraordinary Shareholders' meeting held on 15 May 2012). The company owns and leases the building where the Bank has moved its head office in April 2012. Based on the last available evaluation report made in March 2020 by an independent advisor, which shows a market value higher than the carrying

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

amount and looking at the macro trends of the real estate market in Luxembourg, the Bank has decided to not perform any impairment test.

Section 9

Heading 90 – Property, plant and equipment

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

Assets/value	30/06/2022	30/06/2021
1. Assets owned by Bank	—	3
a) land	—	—
b) buildings	—	—
c) furniture and fitting	—	—
d) electronic equipment	—	—
e) other assets	—	3
2. Right-of-use assets	1.401	1.567
a) land	—	—
b) buildings	1.318	1.488
c) furniture	—	—
d) electronic equipment	—	—
e) other assets	83	79
Total	**1.401**	**1.570**

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	**7.325**	**2.855**	**51**	**10.231**
Increase of the period (+)	—	**81**	**2.316**	**2.397**
- advances paid	—	77	2.316	2.393
- transfers	—	4	—	4
- others	—	—	—	—
Decrease of the period (-)	**-5.693**	**-2.284**	**-1.637**	**-9.614**
- releases of the year (assessments)	-5.693	-2.284	-1.633	-9.610
- transfers	—	—	—	—
- others	—	—	-4	-4
Balance at the end of the fiscal year	**1.632**	**652**	**730**	**3.014**

[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)

	30/06/2022	30/06/2021
- Deferred tax assets recognised in the statement of comprehensive income	-	2.489
- Deferred tax assets recognised in the net equity	903	903
Total	**903**	**3.392**

The total deferred tax assets decreased from the previous year. Due to the positive result of the financial year, the deferred tax assets recognised in the statement of comprehensive income amounts are now to zero. The deferred tax assets recognised in the net equity is still applicable due to the restatement of annual accounts 2018/2019, in order to comply with the IFRS9 valuation.

Section 13

Heading 130 – Other assets

13.1 Other assets: composition (in € k)

	30/06/2022	30/06/2021
1. Gold, silver and precious metal	—	—
2. Accrued income other than capitalized income	1.240	1.076
3. Trade receivables or invoice to be issued	—	—
4. Amount due from tax revenue Authorities (not attributed to heading 110)	16	16
5. Other	89.770	56.631
- *transitory accounts*	*89.677*	*56.545*
- *prepayments*	*93*	*86*
Total	**91.026**	**57.723**

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[17].

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

17 Transitory accounts reduced to 0 by the end of July 2022...

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	30/06/2022				30/06/2021			
	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	3.907.765	X	X	X	3.746.133	X	X	X
2.1 Current accounts and demand deposits	16.460	X	X	X	40.860	X	X	X
2.2 Term deposits	—	X	X	X	142.110	X	X	X
2.3 Loans	3.886.089	X	X	X	3.563.064	X	X	X
2.3.1 Repos	—	X	X	X	—	X	X	X
2.3.2 Others	3.886.089	X	X	X	3.563.064	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	5.216	X	X	X	99	X	X	X
Total	**3.907.765**	**—**	**3.904.806**	**—**	**3.746.133**	**—**	**3.761.874**	**—**

The carrying value of due to banks valued at amortised cost increased by +4,3% at the end of the reference period, passing from € 3.746.133k (June 2021) to € 3.907.765k (June 2022). Transactions reported under this caption are de facto concluded with the Parent Bank, as an internal source of funding to finance the core lending activities. The carrying value of € 3.886.089k reported at the end of June 2022 under ‘other loans’ includes € 65.019k 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	30/06/2022				30/06/2021			
	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 deposi	—	X	X	X	—	X	X	X
2. Term deposits	—	X	X	X	—	X	X	X
3. Loans	11.027	X	X	X	61.985	X	X	X
3.1 Repos	26	X	X	X	—	X	X	X
3.2 Others	11.001	X	X	X	61.985	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	—	X	X	X	—	X	X	X
5. Lease payables [1]	1.406	X	X	X	1568	X	X	X
6. Other liabilities	—	X	X	X	—	X	X	X
Total	**12.433**	**—**	**12.411**	**—**	**63.553**	**—**	**61.985**	**—**

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

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

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

Type of transactions/Values	30/06/2022				30/06/2021			
	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	2.212.040	—	2.249.313	—	2.182.917	—	2.191.602	—
1.1 Structured	50.426	—	49.630	—	90.849	—	91.945	—
1.2 Other	2.161.614	—	2.199.683	—	2.092.068	—	2.099.657	—
2. Other securities	782.599	—	782.599	—	755.281	—	755.281	—
2.1 Structured	—	—	—	—	—	—	—	—
2.2 Other	782.599	—	782.599	—	755.281	—	755.281	—
Total	**2.994.639**	**—**	**3.031.912**	**—**	**2.938.198**	**—**	**2.946.883**	**—**

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

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	30/06/2022				30/06/2021			
	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	1.801.367	—	51.688	6.126	1.771.087	—	13.706	2.976
1.1 Trading	1.801.367	—	51.688	6.126	1.771.087	—	13.706	2.976
1.2 Related to the fair value option	—	—	—	—	—	—	—	—
1.3 Others	—	—	—	—	—	—	—	—
2. Credit derivatives	1.353.968	—	44.271	—	1.355.179	—	11.491	—
2.1 Trading	1.353.968	—	44.271	—	1.355.179	—	11.491	—
2.2 Related to the fair value option	—	—	—	—	—	—	—	—
2.3 Others	—	—	—	—	—	—	—	—
Total (B)	**3.155.335**	**—**	**95.959**	**6.126**	**3.126.266**	**—**	**25.197**	**2.976**
Total (A+B)	**3.155.335**	**—**	**95.959**	**6.126**	**3.126.266**	**—**	**25.197**	**2.976**

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

Section 3

Heading 30 – Financial liabilities valued at fair value

3.1 Financial liabilities designated at fair value: composition

Operation Type/Values	30/06/2022					30/06/2021				
	Nominal value	Fair Value			Fair Value	Nominal value	Fair Value			Fair Value
		Level1	Level2	Level3			Level1	Level2	Level3	
1. Due to banks	—	—	—	—	—	—	—	—	—	—
1.1 Structured	—	—	—	—	—	—	—	—	—	—
1.2 Others	—	—	—	—	—	—	—	—	—	—
of which:						—				
- commitments to disburse funds	—	—	—	—	—	—	—	—	—	—
- financial guarantees given	—	—	—	—	—	—	—	—	—	—
2. Due to customers	—	—	—	—	—	—	—	—	—	—
2.1 Structured	—	—	—	—	—	—	—	—	—	—
2.2 Others	—	—	—	—	—	—	—	—	—	—
of which:										
- commitments to disburse funds	—	—	—	—	—	—	—	—	—	—
- financial guarantees given	—	—	—	—	—	—	—	—	—	—
3. Debt securities	7.591	—	4.078	3.513	7.591	—	—	—	—	—
3.1 Structured	7.591	—	4.078	3.513	7.591	—	—	—	—	—
3.2 Others	—	—	—	—	—	—	—	—	—	—
Total	**7.591**	**—**	**4.078**	**3.513**	**7.591**	**—**	**—**	**—**	**—**	**—**

Section 4

Heading 40 – Hedging derivatives

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

Items/Values	30/06/2022				30/06/2021			
	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	**1.497**	**555**	**2.771**	**4.823**
Increase of the period (+)	**1.862**	**690**	**1.681**	**4.233**
- provisions of the year	1.862	690	1.659	4.211
- transfers	—	—	—	—
- others	—	—	22	22
Decrease of the period (-)	**-1.497**	**-555**	**-2.486**	**-4.538**
- releases of the year (fiscal assessments)	—	—	-2.486	-2.486
- transfers	-1497	-555	—	-2.052
- others	—	—	—	—
Balance at the end of the fiscal year	**1.862**	**690**	**1.966**	**4.518**

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

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

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

The positive result of the current FY lead to a CIT and MBT liability (€ 1.862k and € 690k respectively).

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

Deferred tax liabilities	30/06/2022	30/06/2021
1. Initial amount	**—**	**—**
1.1 Initial amount	—	—
2. Additions (+)	**—**	**—**
2.1 Deferred tax originated during the period	—	—
2.2 New taxes or increases in tax rates	—	—
2.3 Other additions	—	—
3. Reductions (-)	**—**	**—**
3.1 Deferred tax reversed during the period	—	—
3.2 Lowering of tax rates	—	—
3.3 Other reductions	—	—
Total	—	—

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

	30/06/2022		30/06/2021	
	Valuation difference	**Tax rate 24,94%**	**Valuation difference**	**Tax rate 24,94%**
Cash and cash equivalent	—	—	—	—
Financial assets valued at FVTPL	—	—	—	—
Financial assets valued at amortized cost	—	—	—	—
Hedging derivatives	—	—	—	—
Other assets	—	—	—	—
Total assets	—	—	—	—
Financial liabilities valued at FVTPL	—	—	—	—
Financial liabilities valued at amortized cost	—	—	—	—
Hedging derivatives	—	—	—	—
Other liabilities	—	—	—	—
Total liabilities	—	—	—	—
Total deferred liabilities	—	—	—	—

There are no movements to be reported through the period.

Section 8

Heading 80 – Other liabilities

8.1 Other liabilities: composition (in € k)

	30/06/2022	30/06/2021
1. Payment agreements (IFRS 2)	—	—
2. Impaired endorsements	—	—
3. Working capital payables and invoices pending receipt	6.577	4.216
4. Prepaid expenses other than capitalized expenses on related financial assets	—	—
5. Amounts due to revenue authorities	—	—
6. Amounts due to staff	295	295
7. Other items:	2.031	5.162
- bills for collection	—	—
- coupons and dividends pending collection	—	—
- available sums payable to third parties	2.031	5.162
- premiums, grants and other items in respect of lending transactions	—	—
- credit notes to be issued	—	—
- other	—	—
Total	**8.903**	**9.673**

Other liabilities are mostly composed of invoices accrued or payable for € 6.577k (€ 4.216k at the end of June 2021) and other items for € 2.031k (€ 5.162k at the end of June 2021). The last consists in particular of accrued commissions payable to related parties for the financial guarantees or retrocessions related to the lending portfolio.

Section 10

Heading 100 – Provisions for risks and charges

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

Items / Values	30/06/2022	30/06/2021
1. Provisions for credit risk related to commitments and financial guarantees issued	1.460	1.854
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	**1.460**	**1.854**

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

Provisions for credit risk related to financial obligations and guarantees issued	30/06/2022				30/06/2021			
	Stage1	Stage2	Stage3	Total	Stage1	Stage2	Stage3	Total
Commitments to distribute funds	861	227	—	1.088	1.507	344	—	1.851
Financial guarantees issued	372	—	—	372	3	—	—	3
Total	**1.233**	**227**	**—**	**1.460**	**1.510**	**344**	**—**	**1.854**

Section 15

Heading 150 - Reserves

15.1 Reserves: composition (in € k)

	30/06/2022	30/06/2021
A. Reserves	**326.043**	**320.783**
A.1 Legal reserve (1)	1.000	1.000
A.2 Free reserve	299.589	286.792
A.3 NWT reserve (2)	28.133	35.670
A.4 Other (3)	-2.679	-2.679
B. Valuation Reserves (4)	**80**	**—**

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

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

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

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

Section 16

Heading 160 – Share capital

16.1 Share capital

As at 30 June 2022 and 2021, 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			30/06/2022	Nominal value of commitments and financial guarantees			30/06/2021
	Stage1	Stage2	Stage3	Total	Stage1	Stage2	Stage3	Total
1. Commitments to disburse funds	**1.753.266**	**100.800**	—	**1.854.066**	**1.843.527**	**114.457**	**681,0**	**1.958.665**
a) Central Banks	—	—	—	—	—	—	—	—
b) Public Administrations	—	—	—	—	—	—	—	—
c) Banks	—	—	—	—	—	—	—	—
d) Other financial companies	253.018	81.185	—	334.203	162.183	82.852	—	245.035
e) Non-financial companies	1.500.248	19.615	—	1.519.863	1.681.344	31.605	681	1.713.630
f) Retail clients	—	—	—	—	—	—	—	—
2. Financial guarantees given	**62.893**	—	—	**62.893**	—	—	—	—
a) Central Banks	—	—	—	—	—	—	—	—
b) Public Administrations	—	—	—	—	—	—	—	—
c) Banks	—	—	—	—	—	—	—	—
d) Other financial companies	—	—	—	—	—	—	—	—
e) Non-financial companies	62.893	—	—	62.893	—	—	—	—
f) Retail clients	—	—	—	—	—	—	—	—

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

Portfolios	Amount	
	30/06/2022	**30/06/2021**
Financial instruments valued at FVTPL	—	—
Financial instruments valued at FVOCI	—	—
Financial instruments valued at amortised cost	1.050.708	1.068.430
Tangible assets	—	—
Total	**1.050.708**	**1.068.430**

As at 30 June 2022, the Bank has pledged collateral in form of securities and loans for an amount of approx. € 1.223m of which € 1.050m originated by the Bank itself, whereas € 172m represents the re-use of collateral borrowed from the Parent Bank.

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	30/06/2022 Debt securities	Loans	Other operations	Total*	30/06/2021 Debt securities	Loans	Other operations	Total*
1. Financial assets valued at FVTPL:	3.517	—	—	3.517	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 value	—	—	—	—	—	—	—	—
2. Financial assets valued at FVOCI	—	—	X	—	—	—	X	—
3. Financial assets at amortized cost	4	73.049	X	73.053	10	68.854	X	68.864
3.1 Due from banks	—	3.353	X	3.353	4	3.715	X	3.719
3.2 Due from customers	4	69.696	X	69.700	6	65.139	X	65.145
4. Hedging derivatives	X	X	10.669	10.669	X	X	8.545	8.545
5. Other assets	X	X	—	—	X	X	—	—
6. Financial liabilities bearing negative interests	X	X	X	116	X	X	X	83
Total	**3.521**	**73.049**	**10.669**	**87.355**	**2.433**	**68.854**	**8.545**	**79.915**

* please refer to the column Total as the valid amount

Interest and similar income are the result of the lending activity of the Bank.

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

Items/Technical forms	30/06/2022 Borrowings	Securities issued	Other operations	Total*	30/06/2021 Borrowings	Securities issued	Other operations	Total*
1. Financial liabilities at amortized cost	-36.417	-28.012	X	-64.429	-31.436	-31.023	X	-62.459
1.1 Due to central banks	—	X	X	—	—	X	X	—
1.2 Due to banks	-36.518	X	X	-36.518	-31.431	X	X	-31.431
1.3 Due to customers	101	X	X	101	-5	X	X	-5
1.4 Debt securities in issue	X	-28.012	X	-28.012	X	-31.023	X	-31.023
2. Trading financial liabilities	—	—	—	—	—	—	—	—
3. Financial liabilities designated at fair value	—	-9	—	-9	—	—	—	—
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	-5.664	X	X	X	-1.692
Total	**-36.417**	**-28.021**	—	**-70.102**	**-31.436**	**-31.023**	**—**	**-64.151**

* please refer to the column Total as the valid amount

Interest expense and similar charges is the result of the activity of the Bank in relation to the raising of capital.

Section 2

Headings 40 and 50 – Net fee and commission income

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

Type of service/Values				30/06/2022	30/06/2021
a)	guarantees given			92	13
b)	credit derivatives			—	—
c)	management and brokerage services			6.744	5.270
	1.	trading in financial instruments		—	—
	2.	currency trading		—	—
	3.	portfolio management		—	—
	4.	securities custody and administratic		—	—
	5.	custodian bank		—	—
	6.	placement of financial instruments		6.744	5.270
	7.	reception and transmission of order:		—	—
	8.	advisory services		—	—
		8.1.	related to investments	—	—
		8.2.	related to financial structu	—	—
	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			12.165	11.138
Total				**19.001**	**16.421**

Fee and commission income are connected to the lending activity of the Bank. These are related to the contracts and assume various forms as the followings: underwriting fees, waiver, amendment, extension, ongoing, bookrunning fees. As at 30 June 2022, an amount of € 6.744k (2021 €5.270k) has been reclassified from “Other services” to “Management and brokerage services” in order to be in line with the classification proposed in the table 2.2 “Fee and commission expense”.

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

Other services (breakdown)	30/06/2022	30/06/2021
Loans - ongoing fees	8.869	8.488
Stock lending fees	2.626	2.637
NSFR fees	45	13
Treasury fees	625	—
Total	**12.165**	**11.138**

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

Services/Amounts			30/06/2022	30/06/2021
a)	guarantees received		—	—
b)	credit derivatives		—	—
c)	management and brokerage services		-4.392	-6.425
	1.	trading in financial instruments	—	—
	2.	currency trading	—	—
	3.	portfolios management:	—	—
		3.1 own portfolio	—	—
		3.2 third parties portfolio	—	—
	4.	securities custody and administration	—	—
	5.	placement of financial instruments	-4.392	-6.425
	6.	off-site distribution of financial instruments, products and services	—	—
d)	collection and payment services		-512	-1.550
e)	other services		-7.153	-7.082
Total			**-12.057**	**-15.057**

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

Other services (breakdown)	30/06/2022	30/06/2021
Loans - ongoing fees	3.968	3.539
Stock lending fees	1.126	1.100
CD-CP fees	162	165
Treasury fees	1.897	2.278
Total	**-7.153**	**-7.082**

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 30/06/2022*	Net Profit 30/06/2021*
1. Financial trading assets	—	764	-8.529	-285	-8.050	1.752
1.1 Debt securities	—	182	-8.529	-285	-8.632	1.752
1.2. Equity	—	582	—	—	582	—
1.3. O.I.C.R. shares	—	—	—	—	—	—
1.4. Loans	—	—	—	—	—	—
1.5. Others	—	—	—	—	—	—
2. Financial trading liabilities	—	—	—	—	—	—
2.1. Debt securities	—	—	—	—	—	—
2.2. Borrowings and deposits	—	—	—	—	—	—
2.3. Others	—	—	—	—	—	—
3. Financial assets and liabilities in foreign currencies: exchange differences	X	X	X	X	782	8.178
4. Derivatives	95.894	13.725	-90.894	-12.186	2.562	-11.013
4.1 Financial derivatives:	37.447	13.695	-42.447	-10.290	-5.572	-7.555
4.1.1 debt securities and interest rates	3.392	8.059	-3.898	-9.233	-1.680	-62
4.1.2 equity securities and shares indexes	5.602	5.636	-10.096	-1.057	85	287
4.1.3 currencies and gold	X	X	X	X	-3.977	-7.780
4.1.4 other	28.453	—	-28.453	—	—	—
4.2. Credit derivatives	58.447	30	-48.447	-1.896	8.134	-3.458
Total	**95.894**	**14.489**	**-99.423**	**-12.471**	**-4.706**	**-1.083**

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

Net trading result decreased significantly compared to June 2021. One of the key drivers was the dynamic of the net foreign exchange loss, which can be expressed as the sum of (i) the exchange differences on financial assets and liabilities in foreign currencies (cf. caption 3. of the table above), and (ii) the net gain/loss on financial derivatives on currencies and gold (cf. caption 4.1.3 of the table above).

Net foreign exchange item, throughout the financial year, passed from a profit of € 398k (June 2021) to a loss of € -3.195k (June 2022), reflecting (i) the market correction starting in February due to the appreciation of the main currencies towards the EURO, thanks also to the geopolitical scenario, (ii) a mismatched (liabilities side) position in currency USD that was penalized by the revaluation of the USD-EUR exchange rate in Q2, that position was subsequently aligned.

However, it is also worth noting the positive contribution of the realized income on derivative products for an amount of € 2.018k.

Section 4

Heading 90 – Net hedging income/expense

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

	30/06/2022	30/06/2021
A. Income from:		
A.1 Fair value hedge derivatives	—	22.418
A.2 Financial assets hedged (fair value)	—	—
A.3 Financial liabilities hedged (fair value)	25.787	15.925
A.4 Cash flow hedge financial derivatives	—	—
A.5 Assets and liabilities in foreign currency	—	—
Total hedging income (A)	25.787	38.343
B. Expenses relating to:		
B.1 Fair value hedge derivatives	-23.724	-33.771
B.2 Financial assets hedged (fair value)	—	—
B.3 Financial liabilities hedged (fair value)	-2.034	-4.458
B.4 Cash flow hedge financial liabilities	—	—
B.5 Assets and liabilities in foreign currency	—	—
Total hedging expenses (B)	-25.758	-38.229
C. Net hedging income (A-B)	**29**	**114**

Section 5

Heading 100 – Gain or loss on disposals or repurchases

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

Items/Income	30/06/2022			30/06/2021		
	Gains	Losses	Net profit (loss)	Gains	Losses	Net profit (loss)
A Financial assets						
1. Financial assets valued at amortized cost	454	-362	92	575	-307	268
1.1 Loans and receivables from banks	188	-198	-10	-23	—	-23
1.2 Loans and receivables from customers	266	-164	102	598	-307	291
2. Financial assets valued at FVOCI	—	—	—	—	—	—
2.1 Debt securities	—	—	—	—	—	—
2.2 Loans	—	—	—	—	—	—
Total assets (A)	**454**	**-362**	**92**	**575**	**-307**	**268**
B Financial liabilities valued at amortized cost						
1. Deposits with banks	—	—	—	—	—	—
2. Deposits with customers	—	—	—	—	—	—
3. Debt securities in issue	1	-3	-2	104	-10	94
Total liabilities (B)	**1**	**-3**	**-2**	**104**	**-10**	**94**

Section 6

Heading 130 – Adjustments for impairment

6.1 Adjustment for impairment: breakdown (in € k)

Items/Income		Writedowns (1)			Writebacks (2)		30/06/2022 (1)+(2)	30/06/2021
		Stage1 and Stage2	Stage3		Stage1 and Stega2	Stage3		
			Write-off	Others				
A	Loans and receivables with banks	—	—	—	2.445	—	2.445	-464
	- Loans and receivables	—	—	—	2.445	—	2.445	-464
	- Notes	—	—	—	—	—	—	—
	of which: financial assets purchased or originated credit impaired	—	—	—	—	—	—	—
B	Loans and receivables with customers	-3.461	—	-20.815	5.236	20.594	1.554	-1.661
	- Loans and receivables	-3.461	—	-20.815	5.234	20.594	1.552	-1.759
	- Notes	—	—	—	2	—	2	98
	of which: financial assets purchased or originated credit impaired	—	—	—	—	—	—	—
Total		**-3.461**	**—**	**-20.815**	**7.681**	**20.594**	**3.999**	**-2.125**

Impairment provisions for credit exposures has changed the sign compared to June 2021. The provisioning made in FY (Stage 1 and Stage 2) together with a significant provision level on Stage 3 due to a non performing exposures in portfolio until Q3, have been widely absorbed by the writebacks mainly attributable to *a)* an increased average level of guarantees by the Parent , *b)* a positive effect from repayment and migration from stage 2 to stage 1 counterbalanced by the macroeconomic scenario update, which envisage the worsening of lifetime parameters (approx. 600k), *c)* a better quality portfolio following the NPL transactions closing.

Section 7

Heading 190 – Administrative expenses

7.1 Personnel costs: composition (in € k)

Type of expense/Amounts	30/06/2022	30/06/2021
1.Employees	-2.230	-2.759
a) wages and salaries	-1.766	-2.045
b) social security contributions	-70	-64
c) severance indemnities	—	-168
d) pension contributions	-116	-119
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:	-163	-187
– defined contribution	-163	-187
– defined benefit	—	—
h) expenses incurred in connection with share payment schemes	—	-97
i) other staff benefits	-115	-79
2. Other staff	—	—
3. Board members	-175	-323
Total	**-2.405**	**-3.082**

Expenditure on salaries has decreased compared to June 2021 (€ 677k) due to the one-off effects occurred during the FY 20/21. In particular in FY 20/21 we accounted for staff severance payment and first-time adoption of the bonus pool provision.

7.2 Number of employees by category

	30/06/2022	30/06/2021
Employees	18	18
a) senior executives	3	3
b) executives	2	2
c) other employees	13	13
Other staff	—	—
Total	**18**	**18**

7.3 Other administrative expenses: composition (in € k)

Type of expense/Amounts	30/06/2022	30/06/2021
OTHER ADMINISTRATIVE EXPENSES		
– legal, tax and professional services	-753	-1.391
– loan recovery activity	—	—
– marketing and communication	-7	-2
– property expenses	-65	-59
– IT and data processing	-2.003	-2.084
– Info-provider	-34	-40
– bank charges, collection and payment fees	-49	-31
– operating expenses	-2.484	-1.772
– other staff expenses	-41	-47
– other costs	-3.510	-2.741
– indirect and other taxes	-641	-587
Total	**-9.587**	**-8.754**

Other administrative expenses amounted to € 9.587k which corresponds to a deviation of approx. +9,5% compared to June 2021. Increase in operating and other costs (+32% compared with the previous FY) is mainly due to new regulatory and reporting projects - as well as relating infrastructure platforms - within the service agreement with Parent Bank.

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)

	30/06/2022			30/06/2021		
	Net provisions	Net releases of surplus	Total	Net provisions	Net releases of surplus	Total
Loan commitments	394	—	394	-709	-3	-712
Financial guarantees issued	—	—	—	—	—	—
Total	**394**	**—**	**394**	**-709**	**-3**	**-712**

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	-204	—	—	-204
- Owned	-3	—	—	-3
- Licences acquired through leases	-201	—	—	-201
2 Held for investment purpose	—	—	—	—
- Owned	—	—	—	—
- Licences acquired through leases	—	—	—	—
Total 30/06/2022	**-204**	**—**	**—**	**-204**
Total 30/06/2021	**-236**	**—**	**—**	**-236**

Section 10

Heading 230 – Other operating income (expense)

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

	30/06/2022	30/06/2021
a) Leasing activity	—	—
b) Other expenses	-907	-36
Total expense	**-907**	**-36**
a) Amounts recovered from customers	—	—
b) Leasing activity	—	—
c) Other income	306	6.531
Total income	**306**	**6.531**
Net income (expense)	**-601**	**6.495**

Net contribution for the Bank deriving from “Other operating” is negative compared to the last year, in particular due to the “other expense” item. This has been impacted mostly by other intercompany expenses.

Section 11

Heading 300 – Income tax on the ordinary activity

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

	30/06/2022	30/06/2021
1. Current tax expenses	-4.649	-2.847
2. Changes in current tax expenses of the previous years	-	-
3. Changes of deferred tax assets	-	-
4. Changes of deferred tax liabilities	-	-
Total	**-4.649**	**-2.847**

Current tax expenses in the amount of € -4.649k consists of:

a) the Net Wealth Tax ('NWT') charge for 2022 amounting to approx. €1.660K;

b) the income taxes for an amount of €2,989k, as result of: €2,181k and €808k respectively for Corporate income tax ('CIT') and Municipality business tax ('MBT')).

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

	30/06/2022				30/06/2021			
	IRC		ICC		IRC		ICC	
	Applicable rate	Absolute value	Applicable rate	Absolute value	Applicable rate	Absolute value	Applicable rate	Absolute value
Total profit or loss before tax from the current operations	18,19%	10.110	6,75%	10.110	18,19%	8.107	6,75%	8.107
Theoretical tax expense at a standard rate	18,19%	1.839	6,75%	682	18,19%	1.474	6,75%	547
Non deductible expenses (+)	18,19%	23	6,75%	8	18,19%	23	6,75%	8
Director fees	18,19%	20	6,75%	6	18,19%	20	6,75%	6
Witholding tax on director fees	18,19%	3	6,75%	2	18,19%	3	6,75%	2
Tax allowance (-)	18,19%	-	6,75%	-	18,19%	-	6,75%	-
Effective tax expense at standard rates	18,19%	1.862	6,75%	690	18,19%	1.497	6,75%	555

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	357.111	-	335.867	3.153	-
20.	Financial assets valued at FVTPL	92.545	87.039	817	-	-
	a) Financial assets held for trading	*88.360*	*83.104*	*780*	-	-
	b) Financial assets designated at FV	*1.804*	*1.696*	*16*	-	-
	c) Other financial assets mandatorily at fair value	*2.381*	*2.239*	*21*	-	-
40.	Financial assets valued at amortised cost	3.336.019	-	3.137.564	29.450	-
	a) Due from banks	*1.045.763*	-	*983.552*	*9.232*	-
	b) Due from customers	*2.290.256*	-	*2.154.012*	*20.218*	-
50.	Hedging derivatives	1.244	-	1.170	11	-
70.	Equity investments	-	-	-	-	4.150
90.	Property, plant and equipments	-	-	-	-	1.401
110.	Tax assets	2.009	-	1.891	18	-
	a) current	*1.546*	-	*1.455*	*14*	-
	b) deferred	*463*	-	*436*	*4*	-
130.	Other assets	46.696	-	43.918	412	-
	Total assets at 30/06/2022	**3.835.624**	**87.039**	**3.521.227**	**33.044**	**5.551**
	Total assets at 30/06/2021	**4.059.117**	**-**	**3.014.447**	**49.166**	**5.720**
10.	Financial liabilities valued at amortised cost	-3.549.791	-	-3.333.755	-31.291	-
	a) Due to banks	*-2.007.180*	-	*-1.882.911*	*-17.673*	-
	b) Due to customers	*-6.378*	-	*-5.999*	*-56*	-
	c) Debt securities in issue	*-1.536.233*	-	*-1.444.845*	*-13.562*	-
20.	Financial liabilities valued at FVTPL	-52.369	-	-49.253	-463	-
30.	Financial liabilities designated at FV	-3.894	-	-3.663	-34	-
40.	Hedging derivatives	-	-	-	-	-
60.	Tax liabilities	-2.318	-	-2.180	-20	-
	a) current	*-2.318*	-	*-2.180*	*-20*	-
	b) deferred	-	-	-	-	-
80.	Other liabilities	-2.048	-	-6.792	-64	-
100.	Provisions for risks and charges	-749	-	-704	-7	-
120.	Revaluation Reserves	-41	-	-39	-	-
140.	Equity instruments	-51.299	-	-48.248	-453	-
150.	Reserves	-167.258	-	-157.308	-1.477	-
160.	Share capital	-5.130	-	-4.825	-45	-
	Total liabilities at 30/06/2022 *	**-3.834.897**	**-**	**-3.606.767**	**-33.854**	**-**
	Total liabilities at 30/06/2021 *	**-4.059.379**	**-**	**-3.014.642**	**-49.170**	**-**

* Profit for the period excluded

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

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

Items		CORPORATE LENDING	EXPORT FINANCE	LEVERAGE FINANCE	PROJECT FINANCE	OTHER
010.	Interests and similar income	44.813	-	42.147	396	-
020.	Interest expense and similar charges	-35.962	-	-33.823	-317	-
030.	**Net interest income**	**8.851**	**-**	**8.324**	**78**	**-**
040.	Fee and commission income	9.747	-	9.168	86	-
050.	Fee and commission expense	-6.185	-	-5.817	-55	-
060.	**Net fee and commission income**	**3.562**	**-**	**3.350**	**31**	**-**
080.	Net trading income/expense	-2.414	-	-2.271	-21	-
090.	Net hedging income/expense	15	-	14	-	-
100.	Gain or loss on disposal or repurchase of:	46	-	43	1	-
	a) financial assets valued at amortised cost	*47*	-	*45*	-	-
	b) financial assets valued at FVOCI	-	-	-	-	-
	c) financial liabilities	*-1*	-	*-1*	-	-
110.	Gain or loss on financial assets and liabilities	211	-	198	2	-
120.	**Total income**	**10.271**	**-**	**9.660**	**91**	**-**
130.	Adjustment for impairment to:	2.051	-	1.929	18	-
	a) financial assets valued at amortised cost	*2.051*	-	*1.929*	*18*	-
	b) financial assets valued at FVOCI	-	-	-	-	-
150.	**Net income from financial operations**	**12.322**	**-**	**11.589**	**109**	**-**
190.	Administrative expenses	-6.152	-	-5.786	-54	-
	a) personnel costs	*-1.234*	-	*-1.160*	*-11*	-
	b) other administrative expenses	*-4.918*	-	*-4.626*	*-43*	-
200.	Net provisions for risks and charges	202	-	190	2	-
210.	Value adjustments in respect of tangible assets	-105	-	-99	-1	-
230.	Other operating income/expense	-308	-	-290	-3	-
290.	**Profit (loss) of the ordinary activity before tax**	**5.959**	**-**	**5.605**	**53**	**-**
300.	Income tax on the ordinary activity	-2.385	-	-2.243	-21	-
330.	**Profit (loss) for the period**	**3.574**	**-**	**3.362**	**32**	**-**
340.	Other comprehensive income, net of tax	–	–	–	–	–
350.	**Profit (Loss) of the year**	**3.574**	**-**	**3.362**	**32**	**-**
	Profit (Loss) of the year 30/06/2021	**2.996**	–	**2.227**	**37**	–

B. SECONDARY SEGMENT REPORTING

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

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

		LUXEMBOURG	OTHER EUROPEAN COUNTRIES	AMERICAS	OTHER EMEA
10.	Cash and cash equivalents	314.170	381.961	—	—
20.	Financial assets valued at FVTPL	110.291	57.348	12.762	—
	a) Financial assets held for trading	110.291	53.832	8.121	—
	b) Financial assets designated at FV	—	—	4.641	—
	c) Other financial assets mandatorily at fair valu	—	3.516	—	—
40.	Financial assets valued at amortised cost	791.933	4.104.975	1.451.245	154.880
	a) Due from banks	8.080	2.030.467	—	—
	b) Due from customers	783.853	2.074.508	1.451.245	154.880
50.	Hedging derivatives	—	2.425	—	—
70.	Equity investments	4.150	—	—	—
90.	Property, plant and equipments	1.401	—	—	—
110.	Tax assets	3.918	—	—	—
	a) current	*3.015*	—	—	—
	b) deferred	*903*	—	—	—
130.	Other assets	167	69.150	21.709	—
	A. Total assets at 30/06/2022	**1.226.031**	**4.615.859**	**1.485.715**	**154.880**
	A. Total assets at 30/06/2021	**949.170**	**5.169.739**	**866.514**	**143.028**
10.	Financial liabilities valued at amortised cost	-3.007.073	-3.907.764	—	—
	a) Due to banks	—	*-3.907.764*	—	—
	b) Due to customers	*-12.434*	—	—	—
	c) Debt securities in issue	*-2.994.640*	—	—	—
20.	Financial liabilities valued at FVTPL	*-33.167*	*-68.918*	—	—
30.	Financial liabilities designated at FV	*-7.591*	—	—	—
40.	Hedging derivatives	—	—	—	—
60.	Tax liabilities	-4.518	—	—	—
	a) current	*-4.518*	—	—	—
	b) deferred	—	—	—	—
80.	Other liabilities	-5.724	-3.180	—	—
100.	Provisions for risks and charges	-30	-1.356	-74	—
120.	Revaluation reserves	-80	—	—	—
140.	Equity instruments	-100.000	—	—	—
150.	Reserves	-327.328	1.317	-31	—
170.	Share capital	-10.000	—	—	—
	B. Total liabilities at 30/06/2022 *	**-3.495.511**	**-3.979.900**	**-106**	**—**
	B. Total liabilities at 30/06/2021 *	**-3.357.215**	**-3.766.835**	**858**	**—**

* 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	-5.961	-5.367	26.449	2.132
Net fee and commission income	2.971	2.478	1.497	-2
Net trading income/expense	-61.745	-20.657	65.214	12.481
Net hedging income/expense	23.753	-23.724	—	—
Gain or loss on disposal or repurchase of:	419	67	16	—
Value Adjustments - impairment	755	5.240	-1.607	-389
Administrative expenses	-6.948	-4.973	-71	—
Net provisions for risks and charges	42	307	45	—
Value adjustments in respect of tangible assets	-204	—	—	—
Other operating income/expense	217	-829	10	—
Income tax	-4.649	—	—	—
Profit (Loss) of the year 30/06/2022	**-51.350**	**-47.456**	**91.552**	**14.222**
Profit (Loss) of the year 30/06/2021	**-33.155**	**17.122**	**25.418**	**-4.124**

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 (at least annually). The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action. Credit risk management unit in Milan is responsible for executing the credit risk analysis entailed by lending and market transactions, and for assigning credit ratings to the counterparties in these transactions.

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

During the year there were no significant changes in the Bank's objectives, policies and process for managing credit risk. After outbreak of Covid pandemic, Risk management has further strengthened the monitoring of 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 Bank 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.

Impact Ukraine-Russia conflict

As a consequence of the Russia-Ukraine conflict, Risk Management carried out dedicated analysis in order to monitor the portfolio and the possible impacts on Mediobanca International. The analysis outlined that there are not substantial direct exposures in these countries (only one direct exposure linked to Russia - € 26m - completely insured by SACE[18], classified as Stage 2) and limited indirect exposure which doesn't imply critical issues.

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 parent.

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

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

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

In accordance with IFRS 9, financial assets are divided in three categories[19].

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" and the ''30 days past due" criterion (so-called backstop indicators) and to the classification in watch list status according to credit risk monitoring rules. The Group uses the simplified approach of the ''low credit risk exemption'' to a very limited extent.

The criterion for Stage 2 classification, which is based on an increase in the PD above defined thresholds, occurred between the origination of the credit and the reference date. Revisions of single name classifications are also possible on the basis of internal decisions supported by monographic analysis.

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

[19] For further details, refers to "Financial assets measured at amortised cost" at p. 52.

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

MACROECONOMIC SCENARIO IMPACTS

Loan loss provisioning at 30 June 2022 is subject to the most recent updated macroeconomic scenario that is strongly influenced by the conflict in Ukraine. The tensions induced on the energy and raw materials market, especially for the EU, accelerated the inflationary trend started at the beginning of the year as post-pandemic consumption recovery. The rapid rise in prices, which affected all commercial sectors from the energy sector, has had as immediate consequence the slowdown in almost all geographies, also due to its exogenous nature to macroeconomic dynamics. Indeed, at the end of 2021 the GDP growth expectations for 2022 in Italy were at 4.7% while in the current internal baseline scenario (named "Inflation") reached 2.7%. A similar trend is recorded in the European Union and USA with GDP estimates for 2022 at 2.8% and 2.9%, respectively, against 4.4% and 4.5% previously estimated for the same period.

Tab. 1 –Macroeconomic scenario

GDP	**2022**	**2023**	**2024**	**2025**
Italy	2,7%	2,1%	1,1%	0,3%
UE	2,8%	2,6%	2,0%	1,5%
USA	2,9%	2,0%	2,0%	2,3%
Unemployment Rate	**2022**	**2023**	**2024**	**2025**
Italy	9,2%	9,3%	9,1%	9,0%
UE	6,6%	6,7%	6,6%	6,6%
USA	3,6%	3,5%	3,5%	3,5%
10Yr Gov Bond Yield	**2022**	**2023**	**2024**	**2025**
Italy	2,5%	3,3%	3,3%	3,1%
UE	0,9%	1,4%	1,4%	1,3%
USA	2,9%	3,0%	2,6%	2,5%

In light of the current uncertainties related to the evolution of the conflict in Ukraine, the Group defined alternative scenarios based on different underlying assumptions. In particular, in addition to the baseline scenario, two alternative scenarios "Hard-Landing" and "Stagflation" were identified, both more conservative and based on different expectations regarding the length of the conflict in Ukraine and the evolution of the inflationary context.

Taking into account the uncertainties related to the evolution of the pandemic crisis, characterized by the appearance of new variants of the virus and the resumption of infections, additional provisions (overlays) were maintained on 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 loan portfolio, overlays have been applied to exposures in sectors considered more vulnerable and impacted by the pandemic context and in case of contractual waivers (as at December 2020). Moreover, as at June 2021 further 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. In June 2022, this latter overlay was redistributed over the entire performing portfolio.

The overlay moved from € 3.9m at June 2021 (33% of total ECL affected by the overlay, of which € 2.9m relating to Stage 1) to approximately € 2m at June 2022 (22,2% of total ECL affected by the overlay, of which € 1.4m relating to Stage 1). This reduction is mainly due to total or partial repayment of exposures, along with the reduction of overlay connected to the rating update, the expiry of some waivers and the exclusion of some sectors (in December 2021) from the ones considered highly Covid vulnerable (such as Automotive, Gaming and Luxury sectors).

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	—	—	—	—	6.503.034	6.503.034
2. Financial assets valued to fair value with impact on overall profitability	—	—	—	—	—	—
3. Financial assets designated to FV	—	—	—	—	3.516	3.516
4. Other financial assets mandatorily at FV	—	4.641	—	—	—	4.641
5. Financial instruments as held for sale	—	—	—	—	—	—
Total 30/06/2022	**—**	**4.641**	**—**	**—**	**6.506.550**	**6.511.191**
Total 30/06/2021	**—**	**30.238**	**—**	**—**	**6.107.251**	**6.137.489**

(*) Values of the current accounts as of 30/06/2021 have been restated in order to be compliant to the Bank of Italy Circular 262/2005, amended in 11/2021.

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	—	—	—	6.511.919	-8.885	6.503.034	6.503.034
2. Financial assets at FVOCI	—	—	—	—	—	—	—
3. Financial assets at FVTPL	—	—	—	3.516	—	3.516	3.516
4. Other financial assets mandatorily at fair value	4.641	—	4.641	—	—	—	4.641
5. Financial assets being sold	—	—	—	—	—	—	—
Total 30/06/2022	**4.641**	**—**	**4.641**	**6.515.435**	**-8.885**	**6.506.550**	**6.511.191**
Total 30/06/2021	**43.986**	**-13.748**	**30.238**	**6.118.709**	**-11.458**	**6.107.251**	**6.137.489**

(*) Values of the current accounts as of 30/06/2021 have been restated in order to be compliant to the Bank of Italy Circular 262/2005, amended in 11/2021.

*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	30/06/2022	30/06/2021
A. CASH EXPOSURES					
A.1 Sight deposit	696.437	—	-306	696.131	785.008
a) Non performing	—	—	—	—	—
b) Other assets	696.437	—	-306	696.131	785.008
A.2 Others	2.039.445	—	-898	2.038.547	1.817.694
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	2.039.445	—	-898	2.038.547	1.817.694
- *of which: forborne exposures*	—	—	—	—	—
Total A	**2.735.882**	**—**	**-1.204**	**2.734.678**	**2.602.702**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Non-performing	—	—	—	—	—
b) Other assets	205.000	—	—	205.000	—
Total B	**205.000**	**—**	**—**	**205.000**	**—**
Total A+Total B	**2.940.882**	**—**	**-1.204**	**2.939.678**	**2.602.702**

(*) Values of the current accounts as of 30/06/2021 have been restated in order to be compliant to the Bank of Italy Circular 262/2005, amended in 11/2021.

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	30/06/2022	30/06/2021
A. CASH EXPOSURES					
a) Non-performing loans	—	—	—	—	—
- of which: forborne exposures	—	—	—	—	—
b) Unlikely to pay	4.641	—	—	4.641	30.238
- of which: forborne exposures	4.641	—	—	—	—
c) Impaired past due exposures	—	—	—	—	—
- of which: forborne exposures	—	—	—	—	—
d) Not impaired past due exposures	—	—	—	—	—
- of which: forborne exposures	—	—	—	—	—
e) Other not impaired exposures	4.467.832	—	-7.987	4.459.845	4.289.557
- of which: forborne exposures	19.307	—	-592	18.715	17.248
Total A	**4.472.473**	**—**	**-7.987**	**4.464.486**	**4.319.795**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Non-performing	—	—	—	—	681
b) Other assets	1.916.959	—	-1.460	1.915.499	1.956.130
Total B	**1.916.959**	**—**	**-1.460**	**1.915.499**	**1.956.811**
Total A + Total B	**6.389.432**	**—**	**-9.447**	**6.379.985**	**6.276.606**

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

Description/Category	30/06/2022	30/06/2021
A. Gross exposure at start of period	43.986	39.399
of which: accounts sold but not derecognized	—	—
B. Additions	5.475	4.587
B.1 transfers from performing loans	—	—
B.2 transfer from other categories of impaired assets	—	—
B.3 other additions	5.475	4.587
C. Reductions	-44.820	—
C.1 transfer to performing loans	—	—
C.2 amounts written off	—	—
C.3 amounts collected	-22.797	—
C.4 gains realized on disposal	—	—
C.5 transfers to other categories of impaired assets	-2.778	—
C.6 other reductions	-19.245	—
D. Gross exposure at end of period	4.641	43.986
of which: accounts sold but not derecognized	—	—

(*) Following the update of Bank of Italy circular 262/2005, the restated amount of the cash as at 30/06/2021 is equals to € 785.008K. This amount is given by the current accounts (€ 741.206K) and the tiering reserve (€43.802K) as indicated in Section 1 heading 10 - Cash and cash equivalents.

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

Portfolio/Risk stages	Gross amounts / Nominal values					
	Transfers between stage 1 to stage 2		Transfers between stage 2 to stage 3		Transfers between stage 1 to stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets valued at amortised cost	125.671	—	—	—	—	—
2. Financial assets valued at fair value with impact taken to other comprehensive income	—	—	—	—	—	—
3. Assets classified as held for sale	—	—	—	—	—	—
4. Commitments to disburse funds and financial guarantees given	6.658	—	—	—	—	—
Totale 30/06/2022	**132.329**	**—**	**—**	**—**	**—**	**—**
Totale 30/06/2021	**255.388**	**40.824**	**—**	**—**	**20.706**	**—**

A.1.7 Financial assets, commitments to disburse funds and financial guarantees given by class of external ratings (gross value - in € k)

Exposures	External Rating Classes						Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets valued at amortised cost	**—**	**-264.335**	**-2.522.378**	**-489.068**	**-187.635**	**—**	**-3.048.503**	**-6.511.919**
- First stage	—	-264.335	-2.522.378	-423.926	-99.854	—	-2.880.510	-6.191.004
- Second stage	—	—	—	-65.142	-87.781	—	-167.993	-320.915
- Third stage	—	—	—	—	—	—	—	—
- Impaired acquired or originated	—	—	—	—	—	—	—	—
B. Financial assets designated at fair value	**—**	**—**	**-3.516**	**—**	**—**	**—**	**—**	**-3.516**
- First stage	—	—	-3.516	—	—	—	—	-3.516
- Second stage	—	—	—	—	—	—	—	—
- Third stage	—	—	—	—	—	—	—	—
- Impaired acquired or originated	—	—	—	—	—	—	—	—
C. Other financial assets mandatorily at fair value	**—**	**—**	**—**	**—**	**—**	**—**	**-4.641**	**-4.641**
- First stage	—	—	—	—	—	—	—	—
- Second stage	—	—	—	—	—	—	—	—
- Third stage	—	—	—	—	—	—	-4.641	-4.641
- Impaired acquired or originated	—	—	—	—	—	—	—	—
Total (A + B + C)	**—**	**-264.335**	**-2.525.894**	**-489.068**	**-187.635**	**—**	**-3.053.144**	**-6.520.076**
D. Commitments and financial guarantees given	**—**	**48.137**	**321.960**	**291.188**	**67.084**	**—**	**1.188.590**	**1.916.959**
- First stage	—	48.137	321.960	291.188	67.084	—	1.087.790	1.816.159
- Second stage	—	—	—	—	—	—	100.800	100.800
- Third stage	—	—	—	—	—	—	—	—
- Impaired acquired or originated	—	—	—	—	—	—	—	—
Total (D)	**—**	**48.137**	**321.960**	**291.188**	**67.084**	**—**	**1.188.590**	**1.916.959**
Total (A + B + C + D)	**—**	**312.472**	**2.847.854**	**780.256**	**254.719**	**—**	**4.241.734**	**8.437.035**

The Mediobanca Group adopts the Standard & Poor's ratings for all portfolios subject to assessment. The table is compliant with the classification provided by Bank of Italy circular 262/05 (sixth update) which requires external ratings to be divided into six different classes of credit standing. The first three risk classes (classes 1, 2 and 3) consist of investment grade exposures, with a Standard & Poor's rating of between

AAA and BBB-, and represent 75% of the entire portfolio, excluding unrated counterparties and nonperforming loans.

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

Exposures	Internal Rating Classes						Non performing exposures	Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6			
A. Financial assets valued at amortised cost	**-7.947**	**-619.753**	**-3.693.882**	**-1.852.248**	**-338.089**	**—**	**—**	**—**	**-6.511.919**
- First stage	-7.947	-619.753	-3.693.882	-1.664.921	-204.501	—	—	—	-6.191.004
- Second stage	—	—	—	-187.327	-133.588	—	—	—	-320.915
- Third stage	—	—	—	—	—	—	—	—	—
- Impaired acquired or originated	—	—	—	—	—	—	—	—	—
B. Financial assets designated at fair value	**—**	**—**	**-3.516**	**—**	**—**	**—**	**—**	**—**	**-3.516**
- First stage	—	—	-3.516	—	—	—	—	—	-3.516
- Second stage	—	—	—	—	—	—	—	—	—
- Third stage	—	—	—	—	—	—	—	—	—
- Impaired acquired or originated	—	—	—	—	—	—	—	—	—
C. Other financial assets mandatorily at fair value	**—**	**—**	**—**	**—**	**—**	**—**	**-4.641**	**—**	**-4.641**
- First stage	—	—	—	—	—	—	—	—	—
- Second stage	—	—	—	—	—	—	—	—	—
- Third stage	—	—	—	—	—	—	-4.641	—	-4.641
- Impaired acquired or originated	—	—	—	—	—	—	—	—	—
Total (A + B + C)	**-7.947**	**-619.753**	**-3.697.398**	**-1.852.248**	**-338.089**	**—**	**-4.641**	**—**	**-6.520.076**
D. Commitments and financial guarantees given	**—**	**48.137**	**985.304**	**766.114**	**67.404**	**—**	**—**	**50.000**	**1.916.959**
- First stage	—	48.137	985.304	665.314	67.404	—	—	50.000	1.816.159
- Second stage	—	—	—	100.800	—	—	—	—	100.800
- Third stage	—	—	—	—	—	—	—	—	—
- Impaired acquired or originated	—	—	—	—	—	—	—	—	—
Total (D)	**—**	**48.137**	**985.304**	**766.114**	**67.404**	**—**	**—**	**50.000**	**1.916.959**
Total (A + B + C + D)	**7.947**	**667.890**	**4.682.702**	**2.618.362**	**405.493**	**—**	**4.641**	**50.000**	**8.437.035**

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

1.1a CREDIT RISK – CONCENTRATION RISK

QUALITATIVE INFORMATION

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

In order to avoid excessive concentrations of risk, the Bank'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 30 June 2022 was € 268 million (June 2021: € 379 million) before taking account of collateral or other credit enhancements and € 34 million (June 2020: € 71 million) net of such protection.

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

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

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

QUANTITATIVE INFORMATION

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

	Governments and Central Banks	Other Public agencies	Financial companies	Insurances	Non-financial undertakings	Other entities	Totale
A. Cash exposures							
A.1 Non-performing							
Gross exposure	—	—	—	—	4.641	—	4.641
Value adjustments to gross exposure	—	—	—	—	—	—	—
Value adjustments to portfolio	—	—	—	—	—	—	—
Net exposure	—	—	—	—	4.641	—	4.641
A.2 Other exposures							
Gross exposure	96.729	—	886.144	—	3.553.047	—	4.535.920
Value adjustments to gross exposure	—	—	—	—	—	—	—
Value adjustments to portfolio	-27	—	-1.560	—	-6.400	—	-7.987
Net exposure	96.702	—	884.584	—	3.546.647	—	4.527.933
Total A							
Gross exposure	96.729	—	886.144	—	3.557.688	—	4.540.561
Value adjustments to gross exposure	—	—	—	—	—	—	—
Value adjustments to portfolio	-27	—	-1.560	—	-6.400	—	-7.987
Net exposure	96.702	—	884.584	—	3.551.288	—	4.532.574
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	—	—	334.202	—	1.582.757	—	1.916.959
Value adjustments to gross exposure	—	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-288	—	-1.172	—	-1.460
Net exposure	—	—	333.914	—	1.581.585	—	1.915.499
Total B							
Gross exposure	—	—	334.202	—	1.582.757	—	1.916.959
Value adjustments to gross exposure	—	—	—	—	—	—	—
Value adjustments to portfolio	—	—	-288	—	-1.172	—	-1.460
Net exposure	—	—	333.914	—	1.581.585	—	1.915.499
Total 30/06/2022							
Gross exposure	96.729	—	1.220.346	—	5.140.445	—	6.457.520
Value adjustments to gross exposure	—	—	—	—	—	—	—
Value adjustments to portfolio	-27	—	-1.848	—	-7.572	—	-9.447
Net exposure	96.702	—	1.218.498	—	5.132.873	—	6.448.073
Net exposure 30/06/2021	**83.928**	**—**	**1.255.433**	**—**	**4.937.245**	**—**	**6.276.606**

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	—	—	4.641	4.641	—	—	—	—	—	—
A.3 Impaired past due	—	—	—	—	—	—	—	—	—	—
A.4 Not impaired past due	—	—	—	—	—	—	—	—	—	—
A.5 Performing	831.200	830.116	2.095.291	2.091.691	1.454.487	1.451.245	154.941	154.881	—	—
Total A	831.200	830.116	2.099.932	2.096.332	1.454.487	1.451.245	154.941	154.881	—	—
B) Off-balance-sheet exposures										
B.1 Non-performing	—	—	—	—	—	—	—	—	—	—
B.2 Performing	64.149	64.119	1.723.055	1.721.699	129.754	129.680	—	—	—	—
Total B	64.149	64.119	1.723.055	1.721.699	129.754	129.680	—	—	—	—
Total 30/06/2022	**895.349**	**894.235**	**3.822.987**	**3.818.031**	**1.584.241**	**1.580.925**	**154.941**	**154.881**	**—**	**—**
Total 30/06/2021	**906.408**	**904.497**	**4.043.630**	**4.034.635**	**1.197.367**	**1.193.765**	**154.683**	**143.708**	**—**	**—**

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

Exposure/geographical areas	Luxembourg		Other European countries		America		Asia		Oceania	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A) Cash exposures										
A.1 Non-performing	—	—	—	—	—	—	—	—	—	—
A.2 Unlikely to pay	—	—	—	—	—	—	—	—	—	—
A.3 Impaired past due	—	—	—	—	—	—	—	—	—	—
A.4 Not impaired past due	—	—	—	—	—	—	—	—	—	—
A.5 Performing	322.117	322.117	2.417.281	2.416.077	—	—	—	—	—	—
Total A	322.117	322.117	2.417.281	2.416.077	—	—	—	—	—	—
B) Off-balance-sheet exposures										
B.1 Non-performing	—	—	—	—	—	—	—	—	—	—
B.2 Performing	—	—	205.000	205.000	—	—	—	—	—	—
Total B	—	—	205.000	205.000	—	—	—	—	—	—
Total 30/06/2022	**322.117**	**322.117**	**2.622.281**	**2.621.077**	**—**	**—**	**—**	**—**	**—**	**—**
Total 30/06/2021	**7.300**	**7.300**	**2.553.826**	**2.551.600**	**—**	**—**	**—**	**—**	**—**	**—**

Section 2

1.2 MARKET RISK

1.2.1 Interest rate risk

QUALITATIVE INFORMATION

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

According to CSSF Regulation 15-02, the Bank performs a "*test de résistance, en matière de risque de taux d'intérêt*" implementing systems to identify, evaluate and manage the risk arising from potential changes in interest rates that affect its non-trading activities. The CSSF determines in particular to which extent the interest rate risk 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 is applied for each currency starting with -100 basis points for immediate maturities. This floor increase by 5 basis points per year, eventually reaching 0% for maturities of 20 years and more. However, if observed rates are lower than the current lower reference rate of -100 basis points, institutions should apply the lower observed rate.

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.

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 2022. 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: Short Down € -1.98m;
- NII: Parallel Down equals to € -9.2m.

Interest rate risk is also controlled on a quarterly basis by using specific 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.

Fair value hedge

Hedges are intended to neutralize possible losses that may be incurred on a given asset or liability, due to the volatility of a certain financial risk factor (interest rate, exchange rate, credit or some other risk parameter), through the gains that may be realized on a hedge instrument which allow the changes in fair value to be offset. The Bank uses fair value hedges to neutralize the financial risk on interest rates by bringing the entire interest-bearing exposure in line with Euribor/Libor and new RFRs (typically on 3 months basis). 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 2022 (in € k).

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

C.1b 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.2a Regulatory banking book: breakdown by outstanding maturity (repricing date) of cash assets and liabilities and financial derivative products as at 30 June 2022 (in € k).

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

C.2b 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	—	—

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 2022, 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	215.991	53.655	158.360	294	655
A.4 Loans and advances to customers	1.912.306	396.435	65.798	28.922	8.629
A.5 Other financial assets	61.758	1.137	4	—	—
B. Financial liabilities					
B.1 Due to Banks	-1.681.393	-303.868	-152.530	—	—
B.2 Due to customers	—	—	—	—	—
B.3 Debt securities	-411.781	—	-150.319	—	—
B.4 Other financial liabilities	-787	-1.149	-1	—	—
C. Financial Derivatives					
- Options					
+ long positions	8.872	—	—	—	—
+ short positions	-2.232	—	—	—	—
- Other					
+ long positions	27.011	—	100.602	—	—
+ short positions	-134.882	-146.167	-20.458	-28.453	-7.143
Total assets 30/06/2022	2.225.938	451.227	324.764	29.216	9.284
Total liabilities 30/06/2022	-2.231.075	-451.184	-323.308	-28.453	-7.143
Difference (+/-) 30/06/2022	**-5.137**	**43**	**1.456**	**763**	**2.141**
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**

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	30/06/2022		30/06/2021	
	Over-the-counter	**Listed**	**Over-the-counter**	**Listed**
1. Debt securities and interest rates	1.706.976	—	1.739.899	—
a) Options	843.000	—	700.000	—
b) Swap	863.976	—	1.039.899	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
2. Equities and share indexes	33.564	—	23.436	—
a) Options	16.782	—	12.513	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	16.782	—	10.923	—
3. Exchange rates and Gold	301.337	—	176.342	—
a) Options	—	—	—	—
b) Swap	213.945	—	55.602	—
c) Forward	87.392	—	120.740	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	254.906	—	—	—
5. Other assets	—	—	—	—
Total	**2.296.783**	—	**1.939.677**	—

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

Type of transactions	30/06/2022		30/06/2021	
	Over-the-counter	Listed	Over-the-counter	Listed
1. Debt securities and interest rates	503.567	—	445.114	—
a) Options	—	—	—	—
b) Swap	503.567	—	445.114	—
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	**503.567**	**—**	**445.114**	**—**

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

Type of transactions	Positive fair value			
	30/06/2022		30/06/2021	
	Over-the-counter	Listed	Over-the-counter	Listed
A. Regulatory trading book	53.989	—	18.407	—
a) Options	17.826	—	13.818	—
b) Interest Rate Swap	4.068	—	3.132	—
c) Cross Currency Swap	3.642	—	818	—
d) Equity Swap	—	—	—	—
e) Forward	28.453	—	639	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
B. Banking book: Hedge derivatives	2.425	—	25.420	—
a) Options	—	—	—	—
b) Interest Rate Swap	2.425	—	—	—
c) Cross Currency Swap	—	—	25.420	—
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	**56.414**	**—**	**43.827**	**—**

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

Type of transactions	Negative fair value			
	30/06/2022		30/06/2021	
	Over-the-counter	**Listed**	**Over-the-counter**	**Listed**
A. Regulatory trading book	-57.814	—	-16.683	—
a) Options	-2.387	—	-2.099	—
b) Interest Rate Swap	-4.505	—	-2.829	—
c) Cross Currency Swap	-6.494	—	-26	—
d) Equity Swap	—	—	—	—
e) Forward	-29.104	—	-201	-362
f) Futures	—	—	—	—
g) Others	-15.324	—	-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	**-57.814**	**—**	**-16.683**	**—**

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	30/06/2022							30/06/2021
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—	—
2. Equities and share indexes								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—	—
3. Exchange rates and Gold			—	—				—
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—	—
4. Other assets			—	—				
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—	—

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

Contracts forming part of netting arrangements	30/06/2022							30/06/2021
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	906.976	800.000	—	—	—	1.739.898
- positive fair value	—	—	4.339	—	—	—	—	3.810
- negative fair value	—	—	4.479	181	—	—	—	3.316
2. Equities and share indexes								
- notional value	—	—	33.564	—	—	—	—	23.436
- positive fair value	—	—	17.555	—	—	—	—	13.140
- negative fair value	—	—	17.556	—	—	—	—	13.140
3. Exchange rates and Gold								
- notional value	—	—	301.337	—	—	—	—	176.342
- positive fair value	—	—	3.642	—	—	—	—	1.457
- negative fair value	—	—	7.145	—	—	—	—	227
4. Other assets								
- notional value	—	—	254.906	—	—	—	—	—
- positive fair value	—	—	28.453	—	—	—	—	—
- negative fair value	—	—	28.453	—	—	—	—	—

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

Contracts not forming part of netting arrangements	30/06/2022							30/06/2021
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—	—
2. Equities and share indexes								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—	—
3. Exchange rates and Gold								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—	—
4. Other assets								
- notional value	—	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—	—

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

Contracts forming part of netting arrangements	30/06/2022							30/06/2021
	Governments and central Bank	Other public agencies	Banks	Financial companies	Insurances	Non-Financial companies	Other counterparties	
1. Debt securities and interest rates								
- notional value	—	—	503.567	—	—	—	—	445.114
- positive fair value	—	—	2.425	—	—	—	—	25.420
- 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	43.000	1.163.976	500.000	1.706.976
2. Financial derivatives on equities and share indexes	28.838	4.726	—	33.564
3. Financial derivatives on foreign currencies and gold	243.076	58.261	—	301.337
4. Financial derivatives on commodities	14.256	240.650	—	254.906
5. Other financial derivatives	—	—	—	—
Total at 30/06/2022	**329.170**	**1.467.613**	**500.000**	**2.296.783**
Total at 30/06/2021	**656.920**	**1.282.757**	**—**	**1.939.677**

(*) Values of the current accounts as of 30/06/2021 have been restated in order to be compliant to the Bank of Italy Circular 262/2005, amended in 11/2021.

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	150.602	352.965	—	503.567
2. Financial derivatives on equities and share indexes	—	—	—	—
3. Financial derivatives on foreign currencies and gold	—	—	—	—
4. Financial derivatives on commodities	—	—	—	—
5. Other financial derivatives	—	—	—	—
Total at 30/06/2022	**150.602**	**352.965**	**—**	**503.567**
Total at 30/06/2021	**656.920**	**1.282.757**	**—**	**1.939.677**

(*) Values of the current accounts as of 30/06/2021 have been restated in order to be compliant to the Bank of Italy Circular 262/2005, amended in 11/2021.

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	1.521.408	—	—	—
b) Credit spread products	—	—	—	—
c) Total rate of return swap	—	—	—	—
d) Others	—	—	—	—
Total at 30/06/2021	**1.521.408**	**—**	**—**	**—**
Total at 30/06/2020	**1.356.379**	**—**	**—**	**—**
2. Protection sale				
a) Credit default	1.450.579	—	—	—
b) Credit spread products	—	—	—	—
c) Total rate of return swap	—	—	—	—
d) Others	—	—	—	—
Total at 30/06/2022	**1.450.579**	**—**	**—**	**—**
Total at 30/06/2021	**1.285.347**	**—**	**—**	**—**

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

Transaction categories	Fair Value	
	30/06/2022	**30/06/2021**
1. Positive fair value		
a) Credit default	54.808	11.639
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
Total	**54.808**	**11.639**
2. Negative fair value		
a) Credit default	-44.271	-11.491
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Others	—	—
Total	**-44.271**	**-11.491**

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

	30/06/2022				30/06/2021
	Central counterparts	**Banks**	**Other financial companies**	**Other counterparties**	
OTC contracts not covered by clearing agreements					
1. Protection purchase					
- notional value	—	1.450.579	70.829	—	1.356.379
- positive fair value	—	21.870	8.121	—	3.195
- negative fair value	—	22.432	—	—	5.127
2. Protection sale					
- notional value	—	1.450.579	—	—	1.285.347
- positive fair value	—	24.817	—	—	8.444
- negative fair value	—	21.839	—	—	6.365
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	—	1.450.579	70.829	1.521.408
b) Protection sale	—	1.450.579	—	1.450.579
Total at 30/06/2022	**—**	**2.901.158**	**70.829**	**2.971.987**
Total at 30/06/2021	**568.294**	**2.002.400**	**71.032**	**2.641.726**

1.3 LIQUIDITY RISK

QUALITATIVE INFORMATION

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

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

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

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

The 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 regulatory and internal limits, closing the fiscal year with an LCR of 132,9% (compared with 125,6% at 30 June 2021) and an NSFR of 107,4% (compared with 105,7% at 30 June 2021)

Contingency Funding Plan

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

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

The Bank, through the Risk Management and Treasury, measures and monitors the value of the specific warning indicators in order to detect any exceeding of the defined thresholds and to predict the occurrence of a potential alarm situation in case the emergency persists for a certain period deemed critical.

QUANTITATIVE INFORMATION

G.1 Financial assets and liabilities by outstanding life as at 30 June 2022 (in € k)

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

G.2 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	—	—	—	—	—	—	—	—	—

1.4 OPERATIONAL RISK

QUALITATIVE INFORMATION

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

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

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

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

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

As at 30 June 2022 and 2021, the Bank does not face any litigation risk.

1.5 OTHER RISKS

QUALITATIVE INFORMATION

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

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

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

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

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

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

Capital adequacy is assessed considering the balance between the assumed risk, both Pillar I and Pillar II, and the available capital. The internal economic capital measurements and the resulting Risk-Taking Capacity showed an adequate capitalization at 30 June 2021. In detail, the Bank reported an amount of € 402,1 million of available own funds, which was above the internal capital estimates in the ordinary scenario (€ 334,8 million) leaving a capital surplus of € 67,3 million.

The ICAAP process for the exercise ended 30 June 2022 is currently being implemented.

ESG and Climate Risk

The Mediobanca Group has always placed great importance on environmental issues and is strongly committed to playing an active role in the ecological transition process. The Group has become a member of the Net-Zero Banking Alliance (NZBA), the initiative promoted by the United Nations, with the objective of accelerating the sustainable transition of the international banking sector. The NZBA brings together a global alliance of over 90 banks that are committed to aligning their lending and investment portfolios with net-zero emissions by 2050, in line with the targets set by the Paris Climate Agreement. The Group, in line with its roadmap to reduce its own direct emissions, has renewed its commitment to neutralize “irreducible greenhouse gas emissions”, already cut sharply in the financial year ended 30 June 2021. Both commitments are consistent with the Group Sustainability Policy and the Group ESG policy, adopted by the Bank as well, the latter of which has been recently revised to include detailed sector guidelines introducing limitations on operations with counterparties with an adverse impact on the climate.

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

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

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

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

In this way the Group has set itself the objective of adopting a new framework for managing the opportunities and risks related to ESG issues, a transition that will continue throughout the next financial year.

As part of the update to the map of material risks facing the Bank, environmental factors have been integrated into the risk identification process and the various components included in the principal existing risk categories.

PART G – CAPITAL MANAGEMENT

Section 1

Regulatory and supervisory capital requirements

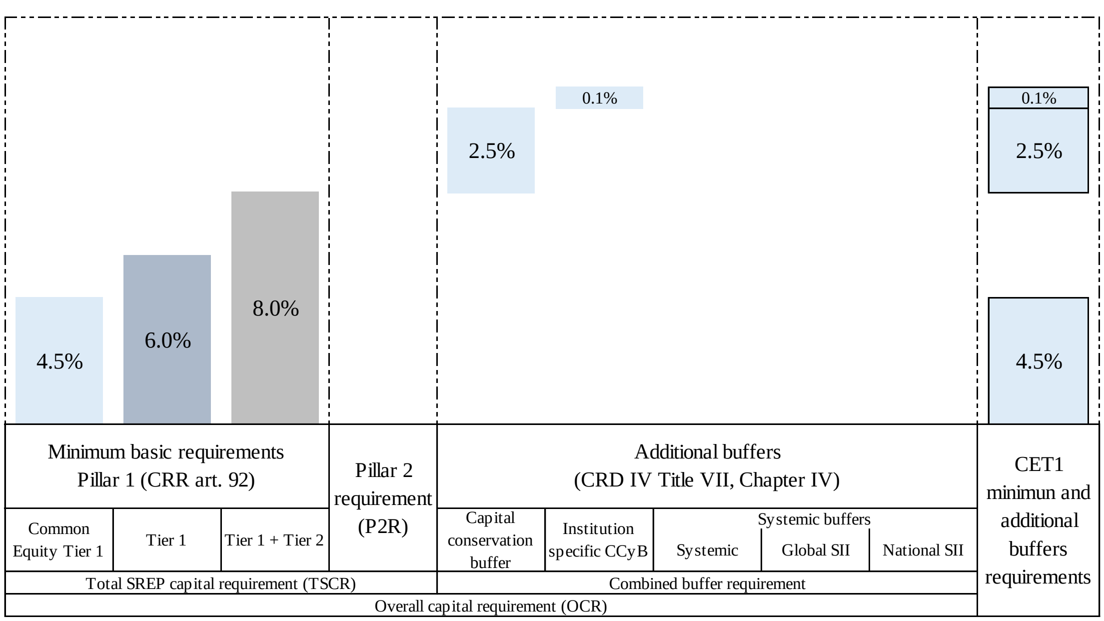
Capital is the first and most important safeguard of a bank’s stability. For this reason, the international and domestic supervisory bodies have established rigorous rules for calculating regulatory capital and the minimum capital requirements with which banks are bound to comply.

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 2022 to the Bank can be summarized as follows:



Section 2

Capital adequacy – quantitative information

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

The structure of capital has changed during the financial year ended 30 June 2019 due to the issuance of subordinated loan (Tier 2) for EUR 65 million with a maturity of 10 years. The issuance was concluded with the Parent Bank as the sole counterparty. Moreover, during the first semester of the FY2021, an additional Tier 1 (AT1) instrument, equals to €100 million, has been issued by the Bank; the AT1 issued, fully paid up by Mediobanca Spa, is qualified as instrument to enhance the Tier 1 ratio of the Bank.

2.1 Total own funds: breakdown (in € k)

	30/06/2022	**30/06/2021**
A. Common Equity Tier 1 (CET1) before application of the prudential filters	343.010	336.043
a.1 Share capital	10.000	10.000
a.2 Share premium reserve	—	—
a.3 Reserves	326.043	320.783
a.4 Equity instruments	—	—
a.5 Treasury shares	—	—
a.6 Valuation reserves	—	—
a.7 Net profit (loss) for the period	6.967	5.260
B. CET1 prudential filters (+/-)	-1.027	-775
C. Items to be deducted from CET1	—	—
D. Phase-in regime impact on CET1 (+/-)	1.340	1.876
E. Total Common Equity Tier 1 (CET1)	343.322	337.143
F. Additional Tier 1 (AT1) instruments	100.000	—
G. Items to be deducted from AT1	—	—
H. Phase-in regime impact on AT1 (+/-)	—	—
I. Total Additional Tier 1 (AT1)	100.000	—
J. Tier 2 (T2) instruments	65.000	65.000
K. Items to be deducted from T2	—	—
L. Phase-in regime impact on T2 (+/-)	—	—
M. Total Tier 2 (T2)	65.000	65.000
N. Total own funds (E+I+M)	**508.322**	**402.143**

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 2022, taking into account the AT1 issue of € 100m mentioned above, the Bank complies with all imposed capital ratios and additional buffers. In detail:

- Common Equity Tier 1 (CET1) capital ratio: 11,0% (higher than June 2021 at 10,7%);
- Tier 1 capital ratio: 14,2% (10,7% at June 2021);
- Total capital ratio: 16,3% (12,7% at June 2021).

During the fiscal year, the Leverage Ratio increased from 4,2% (June 2021) to 5,3% (June 2022), primarily due to the AT1 emission, well above the regulatory limit of 3%.

(in € K)	**30/06/2022**	**30/06/2021**
A. Total own funds		
A.1 CET1 capital	343.322	337.143
A.2 T1 capital	443.322	337.143
A.3 Own funds	508.322	402.143
B. Total Risk Weighted Assets (RWA)	3.115.702	3.158.144
B.1 Credit and counterparty risk (standard methodology)	2.976.033	3.021.601
B.2 Credit valuation risk	3.218	26.245
B.3 Settlement risk	—	—
B.4 Market risk (standard methodology)	104.189	78.911
B.5 Operational risk (basic indicator approach)	32.263	31.387
B.6 Other	—	—
C. Regulatory ratios		
C.1 CET1 capital ratio (CET1 Capital/RWA)	11,0%	10,7%
C.2 T1 capital ratio (T1 Capital/RWA)	14,2%	10,7%
C.3 Total capital ratio (own funds/RWA)	16,3%	12,7%

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

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

The tables below show the amounts as at 30 June 2021.

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 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	30/06/2022	30/06/2021
Administrative bodies	453	323
Key management personnel	591	476
Total	**1.044**	**799**

As at 30 June 2022 and 2021, 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 2022 and 2021, expenses incurred in connection with the statutory audit of the accounts and the other related services provided by the external independent auditors of the Bank can be summarized as follows (in €):

	30/06/2022	30/06/2021
Audit fees	197.400	282.900
Audit related fees	15.750	18.450
Other fees	—	—
Total	**213.150**	**301.350**

The table above shows the aggregate fees payable to Ernst & Young Luxembourg S.A. and paid to PWC (PricewaterhouseCoopers Société Coopérative Luxembourg) in relation to professional services rendered in their positions as external auditors of the Bank for the financial years 2022 and 2021 respectively.

Out of the total balance of € 197.4k reported above, an amount of € 84.5k in relation to professional services for the statutory audit of the financial statements as at 30 June 2022 has not been billed or accrued in the accounts.

During the year, the Bank paid and recorded an amount of € 158.8k as part of its professional fees relating to year end 30 June 2021 to PWC. These were not billed or accrued during the previous fiscal year.

Staff number

As at 30 June 2022 and 2021, the bank's staff is as follows:

	30/06/2022	30/06/2021
Employees	18	18
a) senior executives	3	3
b) executives	2	2
c) other employees	13	13
Other staff	—	—
Total	**18**	**18**

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 2022 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 2022 (in € k)

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

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

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

30/06/2021		Total assets (restated)						
		Financial assets at FVTPL	**Treasury Investments**	**Debt securities - banking book**	**Loans and advances**	**Equity Investments**	**Tangible assets**	**Other assets**
10. Cash and cash equivalents	785.008	—	785.008	—	—	—	—	—
20. Financial assets valued at FVTPL	103.467	103.467	—	—	—	—	—	—
40. Financial assets valued at amortised cost	6.137.489	—	941.711	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**

30/06/2021		Total liabilities (restated)						
		Loans and borrowings	**Debt securities issued**	**Treasury borrowings**	**Fin. liabilities at FVTPL**	**Other liabilities**	**Prov. for risks and charges**	**Net equity and profit**
10. 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**

(*) Following the update of Bank of Italy circular 262/2005, the restated amount of the cash as at 30/06/2021 is equals to € 785.008K. This amount is given by the current accounts (€ 741.206K) and the tiering reserve (€43.802K) as indicated in Section 1 heading 10 - Cash and cash equivalents.

2.1 Statement of comprehensive income as at 30 June 2022 (in € k)

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

(*) € 204k tangible assets amortisation.

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

2.2 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**

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:

- <u>Texas Ratio</u> (cf. p. 14 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 €)		30/06/2022	30/06/2021
Texas ratio =	Non-Performing Exposures (net book value)	4.640.603	30.237.770
	Tangible Common Equity	343.009.983	336.042.786
	ratio %	**1,4**	**9,0**

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.

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

(in €)		30/06/2022	30/06/2021
Return on equity =	Net income	6.967.199	5.260.022
	Shareholders' equity	336.042.784	330.782.764
	ratio %	**2,1**	**1,6**

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. 21 of the management report) is the amount of net income returned as a percentage of the average total assets.

(in €)		30/06/2022	30/06/2021
Return on assets =	Net income	6.967.199	5.260.022
	Average Total Assets	7.556.454.729	6.834.748.126
	ratio %	**0,09**	**0,08**

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 Bank and/or third-party insurers).

ZLB – Zero Lower Bound

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