MEDIOBANCA INTERNATIONAL
(LUXEMBOURG) S.A.

RCSL n. B112885

Interim Report
for the six months ended 31 December 2022

MEDIOBANCA INTERNATIONAL (Luxembourg)

SOCIÉTÉ ANONYME

SHARE CAPITAL € 10,000,000.00

HEAD OFFICE: 4, BOULEVARD JOSEPH II – L-1840 LUXEMBOURG

Board of Directors meeting

1st February 2023

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 & YOUNG S.A.	LUXEMBOURG

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MANAGEMENT REPORT

Mediobanca International (Luxembourg) S.A.

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

Mediobanca Banking Group

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

FINANCIAL SITUATION AT 31 DECEMBER 2022
BOARD OF DIRECTORS' REVIEW OF OPERATIONS

The six months under review have seen a widespread rise in interest rates, driven by the main western central banks' concerns over the persistently high rates of inflation in their respective countries.

The Russian war against Ukraine was source of massive price volatility for a variety of commodities, in particular crude oil, natural gas, and agricultural products. In turn, higher food and energy prices contributed to a spike in inflation across advanced economies that forced central banks to intervene by sharply tightening their monetary policies. In addition, the zero-Covid-19 policy in China that led to the implementation of strict lockdowns in key cities (ie. Shanghai) deprived the world economy of one of its key engines of growth.

Economic activity in the eurozone decelerated markedly in the second half of 2022 against the background of high inflation, weakening global demand, tightening financial conditions and ongoing uncertainty about the war in Ukraine.

Overall global growth slowed in the six months compared to the previous half-year, reflecting annualized average growth for the period of 0.6% (compared to 1.3% for the previous period). In Europe the economy grew by 0.3% QoQ in 3Q 2022, in the United States by 0.8%, and in China 3.9% (in 4Q 2021 the Chinese economy had shrunk by 2.4%). Inflation is expected to come down rapidly, due to the significant reduction in the cost of raw materials. The combination of wage growth driven by low unemployment and the Chinese economy reopening, against the economic slowdown caused by the restrictive monetary policies, is helping to fuel uncertainties over the speed with which inflation is likely to reduce in the various geographies. For example, inflation in the United States has fallen from 9.1% YoY to 6.5%; while in the Eurozone it rose from 8.6% to 10.6% by October - a historic high for the eurozone - and to 9.2% by December. In the Eurozone, the trajectory should correct further in the next three years, reaching 6.3%, 3.4% and 2.3% respectively according to the ECB estimates, still above the policy objective of 2%. The risk of further increases is also acknowledged, including in Europe, as a result of wage increases that would consolidate inflationary pressure.

With the inflation rate well above its 2% target, the European Central Bank (ECB) adopted a tighter monetary policy, raising its policy rate by 250bp between July and December. At its October meeting, the ECB changed the terms of Targeted Long-Term Refinancing Operations (TLTRO), making them less supportive for banks. At its December meeting, the ECB announced that its Quantitative Tightening (QT) will start in March 2023.

In the US, the economy expanded by 2% but there were clear signs of deceleration at the end of the year as a result of higher interest rates and a squeeze in real incomes. The US economy continued to face demand-supply imbalances in the labor market but there were signs of vacancies being off their peak in the fourth quarter 2022. Inflationary pressures remained intense throughout the year. Core goods inflation declined sharply in the second half 2022 as a result of tighter monetary conditions and the normalization of spending patterns away from goods towards services (CPI inflation more than 9% yoy in June). In reaction to high inflation, the Fed raised its policy rate by 425bp between March and December.

The UK economy expanded by around 4.0% in 2022 but the outlook deteriorated sharply after the summer as a result of financial tensions triggered by domestic politics in turmoil, higher imported energy and food prices, rising mortgage costs, and in general a tightening of financial conditions, a sharp rise in economic inactivity and the delayed impact of Brexit.

During the second half of 2022, international markets have benefited from the continued presence of the central banks on the market, plus the enhanced spending capabilities of households that are still able to draw on the savings they accumulated during the pandemic. Stock market performance has been positive on the whole despite some significant volatility which peaked at the time when concerns over companies' ability to source sufficient energy resources were at their highest. This performance helped mitigate the widespread reduction in share prices across the calendar year as a whole (the MSCI World index shed 19.5%, S&P 19.4%, Eurostoxx 600 12.9%, and FTSEMIB 13.3% in 12M 2022). High-risk credit asset prices have mirrored the high volatility of share prices, and like them have increased overall in the six months (the US CDX High Yield fell from 576 bps to 484 bps, having reached a high of 631 bps, while the European CDS iTraxx Crossover decreased from 598 bps to approx. 475 bps, having reached a high of 677 bps). In the same period, interest rates on long-term expiries have risen significantly as a result of the tighter monetary policy stance adopted by the authorities since June 2022: the 10Y US rate has risen from 3.01% to 3.87%, while the German 10Y rate has increased from 1.33% to 2.56%. The inflation priced in by the market for the same time horizon has remained largely unchanged at around 2.30% for the US market and rising from 2.03% to 2.27% for the German market. The summer months saw strong appreciation by the US dollar (the increase in the international trade weighted index was 5%) and the share index volatility also reached its peak in these months. These phenomena had already retreated by 4Q 2022 as concerns over energy sources diminished, and the first signs from the monetary authorities that the tightening of the financial conditions would be calibrated based on a weakening of the economic momentum rather than a brusque slowdown in activity. Economic activity levels in the six months slowed almost continuously, driven by uncertainty over how the Russia/Ukraine conflict would play out - which serious affected household confidence levels - and by uncertainty over energy resources in the first quarter in particular.

Unless the Russia/Ukraine conflict worsens sharply, the prospects for European growth remain promising, and rely mainly on China reopening to international trade, and to the monetary authorities' ability to dampen inflation without at the same time making it too expensive to finance industrial activities. With regard to the latter point, while the price of industrial raw materials in EUR decreased by 9.2% in the six months, the ongoing tensions on the labour market (the unemployment rate was 6.5% in November), high and robust wage increases, and indications from the inflation data stripped of the more volatile elements that are still not compatible with the monetary policy targets (core inflation was 5.2% YoY in December) could cause the European Central Bank to adopt a more restrictive stance that would inevitably penalize growth.

In this context, Luxembourg's economic growth[1] is set to slow to 1.5% in 2023, before picking up again in 2024. Activity has slowed due to broadening inflationary pressures, falling manufacturing activity, and the uncertain outlook on the back of the Russian war of aggression against Ukraine. Financial services growth will slow in 2023 and high interest rates will delay business investment and housing purchases. Government support to households will underpin incomes and spending. Annual public investment of 4% of GDP will continue into 2024. The labour market will remain tight despite the growth slowdown. Rising prices of services will lift core inflation. Business confidence has fallen from a high in early 2022 and manufacturing and residential construction activity have slowed. Consumer price inflation eased to 8.8% in October from a peak of 10.6% in June. Inflation was initially driven by energy prices, but price pressures are broadening, with core inflation rising to 5.2%. House price inflation has remained high.

In Italy, real GDP growth is projected at 3.7% in 2022, slowing to 0.2% in 2023, before picking up moderately to 1% in 2024. High energy prices will act as a brake on production in energy-intensive industries, while falling real incomes due to high inflation, increasing interest rates and subdued export market growth will moderate demand growth. CPI is expected to come down only gradually from about 10% at the end of 2022, as energy price caps are phased out in 2023 and recent increases in energy and food prices are triggering wider price pressures.

Despite the parliamentary elections and the new government appointed, throughout the six months the Italian credit risk has been boosted by the highly liquid domestic government security market, the attractive yields offered, and the ongoing efforts by the government in accordance with the directions set by the EU institutions (implementing the program of structural reforms and investments associated with Next Generation EU) to partially offset the Monetary policy tightening.

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During the six months under review the Bank has reported a positive net profit of €8,0m compared with €5,8m recorded in December 2021. A detailed analysis of the performance registered on the main income and financial items is made further in this report.

During the half year under review, the measures and statements published by regulatory and supervisory authorities in the past six months regarding the most suitable way to apply accounting standards that supplement the measures contained in the latest financial statements at 30 June 2022 are shown below. Please refer to the above financial statements for more details.

ESMA:

On 28 October 2022, ESMA published the annual statement "European common enforcement priorities for 2022 annual financial reports" outlining the priorities on which listed companies must focus when preparing the annual reports for December 2022. ESMA in particular recommended that the IFRS 2022 financial statements provide, inter alia, information on the following topics:

[1] Source: OECD economic outlook – December 2022

a) any impacts caused by the conflict between Russia and Ukraine 3 on the company's financial performance and Alternative Performance Measures (APM);
b) the current macroeconomic context, resulting from the end of the pandemic period, inflation, interest rate hikes and the deterioration of the business outlook;
c) information on the taxonomy and communication for the alignment of economic activities pursuant to Article 8 of Regulation (EU) 2020/852;
d) effects of climate risks (climate change), impacts, estimates and strategies implemented for their mitigation with special attention being placed on the consistency between assessments and estimates applied in the notes to the accounts and in the disclosure contained in the review of operations and Non-Financial Report.

CSSF:

- Repeal of Circular CSSF 20/748 adopting the Guidelines of the European Banking Authority on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07): following the EBA communication of 16 December 2022 concerning the repeal of its Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07), the CSSF would like to inform the concerned entities that Circular CSSF 20/748 adopting these EBA[2] Guidelines is repealed from 1 January 2023.

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[2] It has to be recalled that the temporary COVID-19 reporting and disclosure framework introduced by these EBA Guidelines in June 2020 was set up to monitor the measures taken by credit institutions in response to the COVID-19 crisis. It was originally meant to be in place for a limited period of time.

RESTATED STATEMENT OF FINANCIAL POSITION

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

	31/12/2022	30/06/2022	Chg.
	€m	€m	%
Financial assets at FVTPL	157,0	172,2	-8,9%
Treasury investments	1.715,6	1.784,5	-3,9%
Debt securities - banking book	10,8	10,2	5,9%
Loans and advances	4.752,3	5.412,6	-12,2%
Equity investments	4,2	4,2	0,0%
Tangible and intangible assets	1,3	1,4	-7,2%
Other assets	16,6	97,4	-82,9%
Total Assets	**6.657,8**	**7.482,5**	**-11,0%**
Loans and borrowings	3.791,2	4.681,6	-19,0%
Debt securities issued	2.292,0	2.217,7	3,3%
Treasury borrowings	14,6	16,5	-11,5%
Financial liabilities at FVTPL	80,7	102,1	-21,0%
Other liabilities	33,3	20,0	66,5%
Provisions for risks and charges	1,3	1,5	-13,3%
Net equity	437,0	436,1	0,2%
Net profit	8,0	7,0	14,3%
Total Liabilities	**6.658,1**	**7.482,5**	**-11,0%**

ASSETS

In the context of concerns related to the impact of the euro area's economic prospects, strong volatility in energy prices following the outbreak of the conflict between Russia and Ukraine and changes in expectations regarding monetary-policy decisions by central banks, the Bank's total exposures decreased throughout the semester, reaching at the end of December 2022 the carrying value of €6.7bn (-11,0% compared to June 2022).

The following variations are worth to be noted:

Financial assets at FVTPL – the carrying value of financial assets at fair value through profit or loss (FVTPL), which includes approx. €62,0 m of trading securities, drops by 8,9% compared to the end of June 2022. It is worth mentioning this variation was de facto mostly compensated by an equivalent decrease of the financial liabilities valued at fair value through profit or loss (cf. infra).

Treasury investments – this item slightly decreased during the first semester of the financial year (-3,9%, from €1.784,5m to € 1.715,6m) mainly as a result of the liquidity management in conjunction with the lower credit pipeline experienced. In details:

- Cash available at Central Bank decreased by -15,5% (from €321,9m to €272,1m).

- Demand deposits with third party credit institutions increased by +42,9% (from €382,2m to €546,2m) by reason of a prudential liquidity management at the end of the year;
- Term deposits with the Parent Company amounts to €897,1m which corresponds to a decrease of -16,9% compared to June 2022 when they stood at €1.080,2m, as a result of choices to rebalancing funding needs in order to be in line with managerial and regulatory liquidity metrics;
- Other money market operations refer to securities lending transactions and in terms of outstanding the carrying values are in line with June 2022).

	31/12/2022	30/06/2022	Chg.
	€m	€m	%
Cash available at Central Bank	272,1	321,9	-15,5%
Demand deposits	546,2	382,2	42,9%
Term deposits	897,1	1.080,2	-16,9%
Other money market operations	0,2	0,2	15,0%
Treasury investments	**1.715,7**	**1.784,5**	**-3,9%**

Loans and advances – the carrying value of loans and advances has decreased by -12,2% compared to June 2022, from €5.412,6m to €4.752,3m) due to reimbursements towards corporate customers higher than the new pipeline. 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 third party insurers) moved from €1.042,5m at the end of June 2022 to €902,4m at the end of December 2022 (-13,4%).

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, in line with June 2022 demonstrating once again the risk sensitive approach of the Bank.

	31/12/2022	30/06/2022	Chg.
	€m	€m	%
Loans and receivables (banks)	957,7	953,7	0,4%
of which: non performing	-	-	
Loans and receivables (customers)	3.794,6	4.458,9	-14,9%
of which: non performing	*4,6*	*4,6*	*0,0%*
Loans and advances	**4.752,3**	**5.412,6**	**-12,2%**

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

Other assets – this item of the reclassified statement of financial position decreased from €97,4m at the end of June2022 to €16,6m at the end of December 2022 (-82,9% in percentage terms) and is composed by (i) fair value of hedging derivatives, (ii) tax assets, and (iii) other receivables. In detail:

	31/12/2022	30/06/2022	Chg.
	€m	€m	%
Hedging derivatives	2,8	2,4	15,4%
Tax assets	4,9	3,9	24,9%
Transitory accounts and other receivables	9,0	91,1	-90,2%
Other assets	**16,6**	**97,4**	**-82,9%**

Fair value of hedging derivative instruments remained quite stable. No material deviations to be reported with reference to the Tax assets (the difference compared to June is related to tax advance payments). Transitory accounts and other receivables decreased as a result of the reduction of receivables generated in the context of the asset encumbrance, where payments received on the financial instruments posted as collateral are initially collected by the third-party lenders (i.e. collateral receiver) and subsequently transferred to the Bank (i.e. the collateral giver) in accordance with the contractual arrangements in place between parties. The suspended amounts originated by these transactions are generally cleared in a very short period of time (indeed most of the receivables accounted at the end of December were already cleared in January 2023).

LIABILITIES

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

Loans and borrowings – this item decreased by -19,0%, passing from €4.681,6m to €3.791,2m. In details:

- Amount due to banks decreased by -18,4% from €3.886,1m to €3.171,0m. Such a trend is justified by the downward evolution of the assets volume as well as the need to rebalancing the maturities of medium-term funding to comply with managerial and regulatory liquidity indicators.
- Amount due to customers remains stable at €11,0m.
- Borrowings under the NEU CP Programmes and the Euro CP Programmes decreased by -21,4% from €782,6m to €615,2m.
- Change in fair value of hedged debt instruments valued at amortized costs decreased from €1,9m at the end of June 2022 to €-6,0m at the end of December 2022. As it can happens with reference to the fair value of hedging derivatives (asset side), one of the leading causes of this variation was the dynamic of the underlying input market parameters (i.e. exchange rates).

	31/12/2022	30/06/2022	Chg.
	€m	**€m**	**%**
Amount due to banks	3.171,0	3.886,1	-18,4%
Amount due to customers	11,0	11,0	0,0%
Commercial papers	615,2	782,6	-21,4%
CFV notes issued	-6,0	1,9	-415,8%
Loans and borrowings	**3.791,2**	**4.681,6**	**-19,0%**

Debt securities issued – the carrying value of notes issued under the existing medium-term programmes increased by approx. 105 m (+4,8%) while the most relevant change affected the structured notes decreasing from € 50,5m (June 2022) to €1,2m (December 2022. As regards the debt securities item valued at FV (in particular, FVO), the amount moved from €7,6m to €26,4m at the end of December 22.

	31/12/2022	30/06/2022	Chg.
	€m	**€m**	**%**
Debt securities issued - non structured	2.264,4	2.159,7	4,8%
Debt securities issued - structured	1,2	50,5	-97,6%
Debt securities valued at FV	26,4	7,6	247,8%
Debt securities issued	**2.292,0**	**2.217,7**	**3,3%**

Financial liabilities at FVTPL – the carrying value of financial liabilities at fair value through profit or loss (FVTPL) decreased from € 102,1m at the end of June 2022 to € 80,7m at the end of December 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 € 68,6m (€ 86,7m at the end of June 2022). It is worth mentioning that the Bank is not taking any speculative position in derivatives and the aforementioned variation was de facto mostly 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 €20,0m at the end of June 2022 to €33,3m at the end of December 2022 and is composed by *(i)* fair value of hedging derivatives, *(ii)* tax liabilities, and *(iii)* transitory accounts and other payables. In detail:

	31/12/2022	30/06/2022	Chg.
	€m	**€m**	**%**
Hedging derivatives	0,3	-	n.a.
Tax liabilities	7,1	4,5	57,8%
Other payables	25,9	15,5	67,1%
Other liabilities	**33,3**	**20,0**	**66,5%**

Fair value of hedging derivative instruments in line with June 2022. Tax liabilities grew in terms of amounts (due to the tax provision for the new financial year 2022/23) as well as the transitory accounts included in other payables.

Provisions for risks and charges – this item of the reclassified statement of financial position slightly decreased from €-1,5m at June 2022) to €1,3m at December 2022.

Net equity – the stable amount at €437,0m is entirely attributable to *a)* the allocation of the profit realized during the previous financial year to reserves, *b*) the issuance in December 2021 of € 100,0m AT1 - Additional Tier1 instrument (fully subscribed by Parent Company) - which strengthen the capital structure of the Bank as for the purposes of regulatory capital requirement.

RESTATED STATEMENT OF COMPREHENSIVE INCOME

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

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

	31/12/2022	31/12/2021	Chg.
	€m	€m	%
Net interest income	10,8	7,5	44,9%
Net trading income	-1,5	1,4	-208,9%
Net fee and commission income	5,3	3,3	60,9%
TOTAL INCOME	**14,6**	**12,1**	**20,4%**
Wages and salaries	-1,3	-1,3	-3,0%
Other administrative expenses	-3,1	-3,3	-7,2%
OPERATING COSTS	**-4,4**	**-4,7**	**-6,0%**
Loans impairment	0,5	1,9	-73,7%
Provisions for other financial assets	-0,1	-0,5	-86,0%
Other profit (losses)	–	–	–
PROFIT BEFORE TAX	**10,6**	**8,9**	**20,2%**
Fiscal provision	-2,7	-3,1	-12,4%
TOTAL COMPREHENSIVE INCOME	**8,0**	**5,8**	**37,4%**

Total income for the first six months of the financial year increased at €8,0m, however the mix between interest, trading and commission margin has changed importantly. The following variations are in particular worth to be noted:

Net interest income **–** this item increased by +44,9% (from €7,5m to €10,8m) due to the followings:

– interest income from lending activities more than doubles at €80,5m (€34,5m at December 2021) driven by the sharp rise in interest rates that compensate lower average volumes;

– interest expense from borrowing activities increased from €-25,4m to €-74,1m mostly as a consequence of higher average cost of funding according to the refixing effect of the liability side at amortized cost;

– the abovementioned effects are supported by the positive performance of the treasury activities to approx. € +4,4m (from € -1,7m at December 2021), due to the higher remuneration on liquidity reinvested with Parent (in particular, time deposits).

	31/12/2022	**31/12/2021**	**Chg.**
	€m	**€m**	**%**
Interest income - lending	80,5	34,5	133,3%
Interest expense - funding	-74,1	-25,4	192,3%
Net interest income (expense) - Treasury	4,4	-1,7	-358,1%
Net interest income	**10,8**	**7,5**	**44,9%**

Net trading income - the contribution of the trading portfolio reversed in comparison with the previous FY (€+1,4m at the end of December 2021). This category is composed as follows:

	31/12/2022	**31/12/2021**	**Chg.**
	€m	**€m**	**%**
Derivatives - realised gains and losses	-1,4	0,4	-454,4%
Derivatives - unrealised gains and losses (mtm)	-1,0	0,8	-229,6%
Forex gains and losses	-1,0	-0,6	66,6%
Gain/loss on disposals/repurch. of A.C. instrument	0,3	0,1	214,4%
Gain/loss on instruments designated at FVTPL	0,6	0,0	n/a
Securities lending/borrowing	1,0	0,7	51,9%
Net trading income	**-1,5**	**1,4**	**-208,9%**

– Realized gains and losses on derivatives financial instruments amounts to €-1,4m (€+0,4m at the end of December 2021);

– Unrealised mark to market valuation generated a loss of €-1,0m (€+0,8m at December 2021) which principally originates from derivative contracts negotiated with the Parent and/or embedded in other non-derivative instruments;

– Forex exposures has generated a loss of €-1,0m (a slightly higher than December 2021 when it was €-0,6m), due to temporary long USD positioning in Q1;

– Realized gains primarily refer both to securities lending transactions equal €1,0m (€+0,7m at December 2021) and net gain on disposals of financial assets at amortized cost equals to €+0,3m (€0,1m at December 2021).

Net fee and commission income – this item of the reclassified statement of comprehensive income, which is mostly driven by corporate lending and treasury services, turned from €+3,3m at the end of December 2021 to €5,3m at the end of December 2022. Despite the stable performance of the fees receivable (from €8,4m of December 2021 to €7,9m of December 2021) the main contribution is attributable to the fees payable (from €-5,6 of December 2021 to €-4,1m of December 2021) in conjunction with an unexpected (positive) contribution recorded in Q1 on corporate lending activity.

	31/12/2022	**31/12/2021**	**Chg.**
	€m	**€m**	**%**
Fee and commission income	7,9	8,4	-5,8%
Fee and commission expense	-4,1	-5,6	-27,1%
Other income (expense)	1,5	0,5	196,0%
Net fee and commission income (expense)	**5,3**	**3,3**	**60,9%**

Operating costs – this item €0,3m lower than incurred expenses in previous H1 with Parent Company, mostly due to a negative one-off effect experienced in September 2021 about group projects and a positive effect due to a credit note received in September 2022 (approx. €250K); wages and salaries remain stable.

Loans impairment – impairment provisions for credit exposures worth a net positive contribution of +€0,4m during the semester (€+1,4m at December 2021). The slight improvement is mostly driven by the repayment in lending portfolio while the movements within stage 2 (entry/exit) had no substantial impact. A portion of overlays have been reduced compared to last June (€-0,2m) in consideration of the good responsiveness of the model parameters to the worsening of macroeconomic scenarios expected for 2023/24. The residual amount of overlay is allocated to sectors particularly exposed to inflationary pressure.

pp. BOARD OF DIRECTORS

CHAIRMAN

(Mr. Giovanni Mancuso)

MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.

Statement of Directors' responsibilities

To the best of our knowledge, the interim accounts of MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A. (the "Bank") give a true and fair view of the assets, liabilities, financial position and profit and loss of the Bank in accordance with applicable accounting standards. The Directors' report includes a fair view of (I) the Bank's development, (II) its position, and (III) a description of the opportunities and risks relevant to the Bank that arose during the period ended 31 December 2022.

Luxembourg, 1 February 2023

The Board of Directors

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

INTERIM ACCOUNTS

STATEMENT OF FINANCIAL POSITION

	Assets	31.12.2022	30.06.2022
		€	€
10.	Cash and cash equivalents	815.572.386	696.131.128
20.	Financial assets valued at FVTPL	166.690.655	180.401.031
	a) Financial assets held for trading	*156.984.851*	*172.244.484*
	b) Financial assets designated at fair value	*5.079.480*	*3.515.944*
	c) Other financial assets mandatorily at fair value	*4.626.324*	*4.640.603*
40.	Financial assets valued at amortised cost	5.653.506.982	6.503.033.327
	a) Due from banks	*1.852.745.997*	*2.038.547.198*
	b) Due from customers	*3.800.760.985*	*4.464.486.039*
50.	Hedging derivatives	2.774.056	2.424.667
70.	Equity investments	4.150.000	4.150.000
90.	Property, plant and equipment	1.316.638	1.401.173
110.	Tax assets	4.866.037	3.917.881
	a) Current	*3.962.905*	*3.014.749*
	b) Deferred	*903.132*	*903.132*
130.	Other assets	8.963.358	91.026.004
	Total assets	**6.657.840.112**	**7.482.485.121**

	Liabilities and Shareholders' equity	31.12.2022	30.06.2022
		€	€
10.	Financial liabilities valued at amortised cost	6.088.572.475	6.914.838.241
	a) Due to banks	*3.200.754.140*	*3.907.764.795*
	b) Due to customers	*13.058.873*	*12.433.556*
	c) Debt securities in issue	2.874.759.462	*2.994.639.890*
20.	Financial liabilities valued at FVTPL	80.713.305	102.084.552
30.	Financial liabilities designated at fair value	26.444.121	7.590.814
40.	Hedging derivatives	289.540	—
60.	Tax liabilities	7.070.470	4.518.137
	a) Current	*7.070.470*	*4.518.137*
	b) Deferred	—	—
80.	Other liabilities	8.441.834	8.903.992
100.	Provisions for risks and charges	1.285.392	1.459.641
120.	Valuation Reserves	-260.034	79.760
140.	Equity instruments-AT1	100.000.000	100.000.000
150.	Reserves	327.301.844	326.042.785
160.	Share capital	10.000.000	10.000.000
200.	Profit (Loss) of the year	7.981.165	6.967.199
	Total liabilities and Shareholders' equity	**6.657.840.112**	**7.482.485.121**

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

STATEMENT OF COMPREHENSIVE INCOME

	Balance sheet items	31.12.2022	31.12.2021
		€	€
010.	Interests and similar income	87.492.710	42.042.171
020.	Interest expense and similar charges	-75.203.435	-33.463.331
030.	**Net interest income**	**12.289.275**	**8.578.840**
040.	Fee and commission income	9.198.015	9.699.376
050.	Fee and commission expense	-4.324.297	-6.181.279
060.	**Net fee and commission income**	**4.873.718**	**3.518.097**
080.	Net trading income (expense)	-5.020.287	-575.394
090.	Net hedging income (expense)	76.445	28.558
100.	Gain or loss on disposal or repurchase of:	282.958	88.126
	a) Financial assets valued at amortised cost	*282.958*	*88.126*
	b) Financial assets valued at FVOCI	—	—
	c) Financial liabilities	—	—
110.	Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	611.886	1.383
120.	**Total income**	**13.113.995**	**11.639.610**
130.	Adjustment for impairment to:	242.440	1.228.512
	a) Financial assets valued at amortised cost	*242.440*	*1.228.512*
	b) Financial assets valued at FVOCI	—	—
150.	**Net income from financial operations**	**13.356.435**	**12.868.122**
190.	Administrative expenses	-4.074.737	-4.551.849
	a) Personnel costs	*-1.308.147*	*-1.289.009*
	b) Other administrative expenses	*-2.766.590*	*-3.262.840*
200.	Net provisions for risks and charges	174.249	186.073
210.	Value adjustments in respect of tangible assets	-104.016	-102.763
230.	Other operating income (expense)	1.309.431	451.729
290.	**Profit (loss) of the ordinary activity before tax**	**10.661.362**	**8.851.312**
300.	Income tax on the ordinary activity	-2.680.197	-3.080.995
330.	**Profit (loss) for the period**	**7.981.165**	**5.770.317**
340.	Other comprehensive income, net of tax	—	—
350.	**Profit (loss) of the period**	**7.981.165**	**5.770.317**

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

STATEMENT OF CHANGES IN EQUITY FROM 01/07/2022 TO 31/12/2022

	Balance as of June 30, 2022	Allocation of the profit for the previous period		Changes in reserves	Transactions involving equity				Profit (loss) of the period	Balance as of December 31, 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	**326.042.784**	—	—	**1.217.200**	—	—	—	**41.860**	—	**327.301.844**
a) legal reserve	1.000.000	—	—	—	—	—	—	—	—	1.000.000
b) free reserve	299.589.017	—	—	-7.260.625	—	—	—	41.860	—	292.370.252
c) special reserve(1)	28.133.063	—	—	8.477.825	—	—	—	—	—	36.610.888
c) FTA reserve(2)	-2.679.296	—	—	—	—	—	—	—	—	-2.679.296
Valuation reserves	**79.760**	—	—	**-339.794**	—	—	—	—	—	**-260.034**
Own shares	—	—	—	—	—	—	—	—	—	—
Capital instruments	**100.000.000**	—	—	—	—	—	—	—	—	**100.000.000**
Comprehensive income of the period	**6.967.199**	—	—	**-6.967.199**	—	—	—	—	**7.981.165**	**7.981.165**
Total equity	**443.089.743**	—	—	**-6.089.793**	—	—	—	**41.860**	**7.981.165**	**445.022.975**

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

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

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

STATEMENT OF CHANGES IN EQUITY FROM 01/07/2021 TO 31/12/2021

	Balance as of June 30, 2021	Allocation of the profit for the previous period		Changes during the reference period						Balance as of December 31, 2021
					Transactions involving equity					
		Reserves	Dividends and other fund applications	Changes in reserves	Additional Tier 1	New shares issued	Treasury shares derivatives	Stock options and others	Profit (loss) of the period	
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	—	—	—	—	—	—	—	292.052.467
c) special reserve [1]	35.669.614	—	—	—	—	—	—	—	—	35.669.613,7
d) FTA reserve	-2.679.296	—	—	—	—	—	—	—	—	-2.679.296,4
Valuation reserves	—	—	—	—	—	—	—	—	—	—
a) AFS securities	—	—	—	—	—	—	—	—	—	—
b) cash flow hedges	—	—	—	—	—	—	—	—	—	—
c) special laws – others	—	—	—	—	—	—	—	—	—	—
Additional Tier 1	—	—	—	—	100.000.000	—	—	—	—	**100.000.000**
Own shares	—	—	—	—	—	—	—	—	—	—
Comprehensive income of the period	**5.260.020**	**-5.260.020**	—	—	—	—	—	—	**5.770.317**	**5.770.317**
Total equity	**336.042.784**	—	—	—	**100.000.000**	—	—	—	**5.770.317**	**441.813.101**

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

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

CASH FLOW STATEMENT - Direct Method (in € k)

		Amount	
		31/12/2022	**30/06/2022**
A.	**Cash flow from operating activity**	**125.191**	**-188.877**
1.	**Operating activity**	**4.490**	**37.881**
	– interests received (+)	79.943	102.167
	– interests paid (-)	-63.864	-64.535
	– net fees and commissions received/paid (+/-)	8.768	15.845
	– dividends and similar income (+)	—	—
	– net premiums collected (+)	—	—
	– personnel expenses (-)	-1.170	-2.036
	– other income (expenses) (+/-)	-17.874	-17.463
	– taxes and duties (+/-)	-1.313	3.903
2.	**Cash generated/absorbed by financial assets**	**894.277**	**-141.363**
	– financial assets valued at FVTPL	—	1.754
	– financial assets designated at FVTPL	-1.208	-3.526
	– financial assets valued at FVOCI	46	—
	– financial assets valued at amortised cost	891.768	-136.451
	– other assets	3.671	-3.140
3.	**Cash generated/absorbed by financial liabilities**	**-773.576**	**-85.395**
	– financial liabilities valued at FVTPL	-2.719	1.782
	– financial liabilities valued at amortised cost	-789.495	-93.794
	– financial liabilities designated at fair value	18.822	7.826
	– other liabilities	-184	-1.209
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:**	**-5.750**	**100.000**
	– issue/redemption of T1 capital instruments	—	100.000
	– dividend distributions and other payments	-5.750	—
	– issue/redemption of T2 capital instruments	—	—
	Net cash inflow (outflow) during the fiscal year	**119.441**	**-88.877**

	Amount	
	31/12/2022	**30/06/2022**
Cash and cash equivalents: balance at 1 July (*)	696.131	785.008
Total cash inflow (outflow) during year	119.441	-88.877
Cash and cash equivalents: balance at 31 December	**815.572**	**696.131**

NOTES TO THE INTERIM ACCOUNTS

PART A - ACCOUNTING POLICIES

Section 1

Statement of compliance with the International Accounting Standards

The interim financial statements of the Bank are prepared in accordance with the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) promulgated by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), 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.

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 reference period compared with that for the previous financial year in the case of balance sheet figures, or with that for corresponding period of the previous financial year in the case of profit-and loss data.

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

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

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

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

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

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

Section 3

Interest rates benchmark transition: Group project

During the half year, preparatory activities continued for the discontinuation of the USD Libor rate - scheduled for June 2023 - and for the introduction of fallback clauses in line with the 2021 ECB recommendations relating to contracts and products indexed to the Euribor rate, although the latter's discontinuation has not been planned for the time being.

Section 4

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. MBIL falls under the Transparency Directive[3]. 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).

It should be noted that the format required by the ESEF Regulation is not required for interim statements.

[3] 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 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.

Section 6

Summary of significant accounting policies

Cash and cash equivalents

Cash and cash equivalents[4] comprise cash balances on hand, short-term highly liquid investments with maturities of three months or less when purchased, non-restricted current accounts with the Central Bank and current accounts.

Financial assets 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.

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

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 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 31 December 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[5] (or containing an element of a lease) is based on the substance of the agreement at the date on which it is entered into. An agreement is or contains a lease if it envisages the use of a specific asset (or assets) and grants the "Right of Use" (RoU) on that asset (or assets) for an established period of time and in exchange for consideration (lease liabilities); therefore, rental and long-term rental agreements are defined as leases.

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

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

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

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

Financial guarantees

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

[5] 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.

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[6] to determine it.

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

In particular, the following levels are distinguished:

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

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

Fair Value Adjustment

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

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

– 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[7].

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

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

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[8];
  - 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

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

or an applicable floating rate. Interest income and expenses include the amortization of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Fee and commission income and expense

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.

Section 7

Impacts deriving from the war in Ukraine

The Bank's portfolio shows direct credit exposures linked to Russia equals to €16m (100% insured by SACE) in Corporate exposures, classified as Stage 2 despite ongoing collections. The impacts were examined and deemed limited also in terms of indirect exposure.

PART B - NOTES TO THE STATEMENT OF FINANCIAL POSITION

ASSETS

Section 1

Heading 10 – Cash and cash equivalents

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

	31/12/2022	30/06/2022
a) Cash	—	—
b) Demand deposit held at Central Banks	-269.347	313.918
c) Current accounts and Demand deposits	-546.225	382.213
Total	**-815.572**	**696.131**

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 € 156.985k as at 31 December 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.

Item/Values	31/12/2022			30/06/2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	—	—	61.661	—	—	63.446
1.1 Structured	—	—	44.578	—	—	46.138
1.2 Other debt securities	—	—	17.083	—	—	17.308
2. Equities	—	—	—	—	—	—
3. UCITS units	—	—	—	—	—	—
4. Loans and advances	—	—	—	—	—	—
4.1 Repos	—	—	—	—	—	—
4.2 Others	—	—	—	—	—	—
Total A	**—**	**—**	**61.661**	**—**	**—**	**63.446**
B. Derivative products						
1. Financial derivatives	—	41.415	10.698	—	47.864	6.126
1.1 Trading	—	41.415	10.698	—	47.864	6.126
1.2 Linked to FV options	—	—	—	—	—	—
1.3 Others	—	—	—	—	—	—
2. Credit derivatives	—	33.200	10.011	—	46.687	8.121
2.1 Trading	—	33.200	10.011	—	46.687	8.121
2.2 Linked to FV options	—	—	—	—	—	—
2.3 Others	—	—	—	—	—	—
Total B	**—**	**74.615**	**20.709**	**—**	**94.551**	**14.247**
Total (A+B)	**—**	**74.615**	**82.370**	**—**	**94.551**	**77.693**

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments. 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	31/12/2022	30/06/2022
A. CASH ASSETS		
1. Debt securities	61.661	63.446
2. Equities	—	—
3. UCITS units	—	—
4. Loans and advances	—	—
Total A	**61.661**	**63.446**
B. DERIVATIVE PRODUCTS		
a. Banks	95.324	108.798
- Fair value	95.324	108.798
b. Customers	—	—
- Fair value	—	—
Total B	**95.324**	**108.798**
Total A+B	**156.985**	**172.244**

2.3 Financial assets designated at fair value: composition

Items/Values	31/12/2022			30/06/2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Debt securities	—	—	—	—	—	—
1. Structured securities	—	—	—	—	—	—
1. Other debt securities	—	—	—	—	—	—
B. Loans	—	—	5.079	—	—	3.516
1. Structured	—	—	—	—	—	—
2. Others	—	—	5.079	—	—	3.516
Total	**—**	**—**	**5.079**	**—**	**—**	**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	31/12/2022	30/06/2022
A. Debt securities	—	—
a) Central Banks	—	—
b) General Government	—	—
c) Banks	—	—
d) Other financial companies	—	—
of which: Insurance companies	—	—
e) Non financial companies	—	—
B. Loans	5.079	3.516
a) Central Banks	—	—
b) General Government	—	—
c) Banks[1]	5.079	3.516
d) Other financial companies	—	—
of which: Insurance companies	—	—
e) Non financial companies	—	—
f) Households	—	—
Total	**5.079**	**3.516**

(1) Loan counterparty is Mediobanca Spa

2.5 Other financial assets mandatorily at fair value: composition

Items/Values	31/12/2022			30/06/2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Debt securities	—	—	—	—	—	—
1. Structured securities	—	—	—	—	—	—
2. Others	—	—	—	—	—	—
B. Equity instruments	—	—	—	—	—	—
C. UCITs	—	—	—	—	—	—
D. Loans	—	—	4.626	—	4.641	—
1. Reverse Repos	—	—	—	—	—	—
2. Others[1]	—	—	4.626	—	4.641	—
Total	**—**	**—**	**4.626**	**—**	**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	**31/12/2022**	**30/06/2022**
1. Equity instruments	—	—
of which: banks	—	—
of which: other financial companies	—	—
of which: other non-financial companies	—	—
2. Debts securities	—	—
a) Central Banks	—	—
b) General Government	—	—
c) Banks	—	—
d) Other financial companies	—	—
of which: insurance companies	—	—
e) Non financial companies	—	—
3. UCITs	—	—
4. Loans	4.626	4.641
a) Central Banks	—	—
b) General Government	—	—
c) Banks	—	—
d) Other financial companies	—	—
of which: insurance companies	—	—
e) Non financial companies	4.626	4.641
f) Households	—	—
Total	**4.626**	**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 31/12/2022						Total 30/06/2022					
	Carrying value			Fair value			Carrying value			Fair value		
	Stage1 and stage2	Stage3	of which: non performing acquired or originated	Level 1	Level 2	Level 3	Stage1 and stage2	Stage3	of which: non performing acquired or originated	Level 1	Level 2	Level 3
A. Due from Central Banks	2.729	—	—	—	2.729	—	7.947	—	—	—	7.947	—
1. Term deposits	—	—	—	X	X	X	—	—	—	X	X	X
2. Compulsory reserve	2.729	—	—	X	X	X	7.947	—	—	X	X	X
3. Repos	—	—	—	X	X	X	—	—	—	X	X	X
4. Others	—	—	—	X	X	X	—	—	—	X	X	X
B. Due from banks	1.850.017	—	—	—	1.843.796	—	2.030.601	—	—	—	2.020.669	—
1. Loans and advances	1.850.017	—	—	—	1.843.796	—	2.030.601	—	—	—	2.020.669	—
1.1 Current accounts and demand deposits	—	—	—	X	X	X	—	—	—	X	X	X
1.2 Term deposits	897.135	—	—	X	X	X	1.080.221	—	—	X	X	X
1.3 Other financings:	952.882	—	—	X	X	X	950.380	—	—	X	X	X
- Repos	—	—	—	X	X	X	—	—	—	X	X	X
- Finance leases	—	—	—	X	X	X	—	—	—	X	X	X
- Others	952.882	—	—	X	X	X	950.380	—	—	X	X	X
2. Debt securities	0	—	—	—	—	—	0	—	—	—	—	—
2.1 Structured debt securities	0	—	—	X	X	X	0	—	—	X	X	X
2.2 Other debt securities	—	—	—	X	X	X	—	—	—	X	X	X
Total	**1.852.746**	**—**	**—**	**—**	**1.846.525**	**—**	**2.038.548**	**—**	**—**	**—**	**2.028.616**	**—**

The carrying value of financial assets due to banks valued at amortised cost increased throughout the reference period, passing from € 2.038.548k (June 2022) to € 1.852.746k (December 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 31/12/2022						Total 30/06/2022					
	Carrying value			Fair Value			Carrying value			Fair Value		
	Stage1	Stage2	Stage3	Level 1	Level 2	Level 3	Stage1	Stage2	Stage3	Level 1	Level 2	Level 3
1. Loans and advances	3.471.700	318.265	—	—	3.918.411	—	4.136.472	317.818	—	—	4.701.337	—
1.1 Current accounts	—	—	—	X	X	X	—	—	—	X	X	X
1.2 Repos	—	—	—	X	X	X	—	—	—	X	X	X
1.3 Term loans	3.471.700	318.265	—	X	X	X	4.136.472	317.818	—	X	X	X
1.4 Credit cards and personal loans	—	—	—	X	X	X	—	—	—	X	X	X
1.5 Finance leases	—	—	—	X	X	X	—	—	—	X	X	X
1.6 Factoring	—	—	—	X	X	X	—	—	—	X	X	X
1.7 Other loans	—	—	—	X	X	X	—	—	—	X	X	X
2. Debt securities	10.196	—	—	—	10.019	—	10.196	—	—	—	10.052	—
2.1 Structured debt securities	—	—	—	X	X	X	—	—	—	X	X	X
2.2 Other debt securities	10.196	—	—	X	10.019	X	10.196	—	—	X	10.052	X
Total	**3.481.896**	**318.265**	**—**	**—**	**3.928.430**	**—**	**4.146.668**	**317.818**	**—**	**—**	**4.711.389**	**—**

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

Type of transactions/Value	31/12/2022			30/06/2022		
	Stage1 / Stage2	**Stage3**	**of which: impaired assets acquired or**	**Stage1 / Stage2**	**Stage3**	**of which: impaired assets acquired or**
1. Debt securities:	10.796	—	—	10.196	—	—
a) Public administration	10.796	—	—	10.196	—	—
b) Other financial company	—	—	—	—	—	—
of which: insurance companies	—	—	—	—	—	—
c) Non financial companies	—	—	—	—	—	—
2. Loans and advances to:	3.789.965	—	—	4.454.290	—	—
a) Public administration	94.903	—	—	96.702	—	—
b) Other financial company	673.145	—	—	810.942	—	—
of which: insurance companies	29.993	—	—	42.459	—	—
c) Non financial companies	3.021.917	—	—	3.546.646	—	—
d) Households	—	—	—	—	—	—
Total	**3.800.761**	**—**	**—**	**4.464.486**	**—**	**—**

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	10.810	—	—	-14	—	—	—
Loans	5.329.714	321.494	—	-5.268	-3.229	—	—
Total 31/12/2022	**5.340.524**	**321.494**	**—**	**-5.282**	**-3.229**	**—**	**—**
Total 30/06/2022	**6.191.004**	**320.915**	**—**	**-5.788**	**-3.097**	**—**	**—**

Section 5

Heading 50 – Hedging derivatives

The Bank holds four strategies under the hedge accounting regime against as many unsecured notes issued; all of them are booked at inception with Parent Bank as counterparty. The accounting treatment is in line with the methodological and procedural choices for the accounting management of hedge transactions.[9]

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

	31/12/2022				30/06/2022			
	Fair value			Notional value	*Fair value*			Notional value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	—	**2.774**	—	**496.062**	—	**2.425**	—	**503.567**
1) Fair value	—	2.774	—	496.062	—	2.425	—	503.567
2) Cash flow	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	**—**	**2.774**	**—**	**496.062**	**—**	**2.425**	**—**	**503.567**

[9] Please refers to Accounting policies (from page 29) to see risk management strategy of the Bank.

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

31/12/2022 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	2.774	—	—	—	—	X	—	—	X
2. Portfolio	X	X	X	X	X	—	X	—	X
TOTAL LIABILITIES	**2.774**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
1. Highly probable transactions	X	X	X	X	X	X	—	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	—	X	—	—

30/06/2022 Operations/Type of hedging	Fair Value Hedge						Cash Flow Hedge		Net Investments in foreign
	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	—	—

Section 7

Heading 70 – Equity investments

7.1 Equity investments: disclosure on shareholdings

Company Name	Registered office	Control type[10]	Ownership		Voting rights (%)
			Controlling entity	% shareholding	
Mediobanca International Immobilière S.à r.l.	Luxembourg	3	Mediobanca International (Luxembourg) S.A.	100	100

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

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

Company Name	Total assets	Total revenues	Net profit (loss)	Shareholders' equity	Carrying value
Mediobanca International Immobilière S.à r.l.	2.059	93	24	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 amount and looking at the macro trends of the real estate market in Luxembourg, the Bank has decided to not perform any impairment test.

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

Section 9

Heading 90 – Property, plant and equipment

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

Assets/value	31/12/2022	30/06/2022
1. Assets owned by Bank	—	—
a) land	—	—
b) buildings	—	—
c) furniture and fitting	—	—
d) electronic equipment	—	—
e) other assets	—	—
2. Right-of-use assets	1.316	1.401
a) land	—	—
b) buildings	1.232	1.318
c) furniture	—	—
d) electronic equipment	—	—
e) other assets	84	83
Total	**1.316**	**1.401**

Section 11

Heading 110 – Tax assets

11.1 Current tax assets: composition (in € k)

	CIT [A]	MBT [B]	Other [C]	Total
Balance at the beginning of the year	**1.632**	**652**	**730**	**3.014**
Increase of the period (+)	**0**	**0**	**949**	**949**
- advances paid	—	—	940	940
- transfers	—	—	—	—
- others	—	—	9	9
Decrease of the period (-)	**0**	**0**	**0**	**0**
- releases of the year (assessments)	—	—	—	—
- transfers	—	—	—	—
- others	—	—	—	—
Balance at the end of the fiscal year	**1.632**	**652**	**1.679**	**3.963**

[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)

	31/12/2022	30/06/2022
- Deferred tax assets recognised in the statement of comprehensive income	0	0
- Deferred tax assets recognised in the net equity	903	903
Total	**903**	**903**

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)

	31/12/2022	30/06/2022
1. Gold, silver and precious metal	—	—
2. Accrued income other than capitalized income	1.475	1.240
3. Trade receivables or invoice to be issued	—	—
4. Amount due from tax revenue Authorities (not attributed to heading 110)	—	16
5. Other	7.488	89.770
- *transitory accounts*	*7.488*	*89.677*
- *prepayments*	—	*93*
Total	**8.963**	**91.026**

Transitory accounts decreased primarily as a result of other receivables received from clients. This kind of transactions create various suspended amounts which are generally cleared in a very short period of time[11].

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

11 Transitory accounts reduced to 0 by the end of January 2023.

LIABILITIES

Section 1

Heading 10 – Financial liabilities valued at amortised cost

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

Type of transactions/Values	31/12/2022				30/06/2022			
	Carrying value	Fair value			Carrying value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Due to Central Banks	—	X	X	X	—	X	X	X
2. Due to banks	3.200.754	X	X	X	3.907.765	X	X	X
2.1 Current accounts and demand deposits	13.774	X	X	X	16.460	X	X	X
2.2 Term deposits	—	X	X	X	—	X	X	X
2.3 Loans	3.171.037	X	X	X	3.886.089	X	X	X
2.3.1 Repos	—	X	X	X	—	X	X	X
2.3.2 Others	3.171.037	X	X	X	3.886.089	X	X	X
2.4 Liabilities in respect of commitments	—	X	X	X	—	X	X	X
to repurchase own equity instruments		X	X	X		X	X	X
2.5 Other liabilities	15.943	X	X	X	5.216	X	X	X
Total	**3.200.754**	**—**	**3.178.712**	**—**	**3.907.765**	**—**	**3.904.806**	**—**

The carrying value of due to banks valued at amortised cost decreased by -22.1% at the end of the reference period, passing from € 3.907.765k (June 2022) to € 3.200.754k (December 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 € 3.171.037k reported at the end of December 2022 under 'other loans' includes € 65.042k 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	31/12/2022				30/06/2022			
	Carrying value	Fair value			Carrying value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Current accounts and demand deposi	—	X	X	X	—	X	X	X
2. Term deposits	—	X	X	X	—	X	X	X
3. Loans	11.734	X	X	X	11.027	X	X	X
3.1 Repos	724	X	X	X	26	X	X	X
3.2 Others	11.010	X	X	X	11.001	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	—	X	X	X	—	X	X	X
5. Lease payables [1]	1.324	X	X	X	1.406	X	X	X
6. Other liabilities	—	X	X	X	—	X	X	X
Total	**13.058**	**—**	**13.041**	**—**	**12.433**	**—**	**12.411**	**—**

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

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

Type of transactions/Values	31/12/2022				30/06/2022			
	Carrying value	Fair value			Carrying value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Debt securities								
1. Bonds	2.259.574	—	2.301.489	—	2.212.040	—	2.249.313	—
1.1 Structured	1.245	—	1.222	—	50.426	—	49.630	—
1.2 Other	2.258.329	—	2.300.267	—	2.161.614	—	2.199.683	—
2. Other securities	615.186	—	615.186	—	782.599	—	782.599	—
2.1 Structured	—	—	—	—	—	—	—	—
2.2 Other	615.186	—	615.186	—	782.599	—	782.599	—
Total	**2.874.760**	**—**	**2.916.675**	**—**	**2.994.639**	**—**	**3.031.912**	**—**

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 A - Accounting Policies.

Section 2

Heading 20 – Financial liabilities valued at FVTPL

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

Transaction type/Values	31/12/2022				30/06/2022			
	Nominal value	Fair Value			Nominal value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Cash liabilities								
1. Due to banks	—	—	—	—	—	—	—	—
2. Due to customers	—	—	—	—	—	—	—	—
3. Debt securities	—	—	—	—	—	—	—	—
3.1 Bonds	—	—	—	—	—	—	—	—
3.1.1 Structured	—	—	—	—	—	—	—	—
3.1.2 Other bonds	—	—	—	—	—	—	—	—
3.2 Other securities	—	—	—	—	—	—	—	—
3.2.1 Structured	—	—	—	—	—	—	—	—
3.2.2 Other	—	—	—	—	—	—	—	—
Total (A)	—	**—**	—	**—**	—	**—**	—	**—**
B. Derivative instruments								
1. Financial derivatives	1.671.874	—	38.983	10.589	1.801.367	—	51.688	6.126
1.1 Trading	1.671.874	—	38.983	10.589	1.801.367	—	51.688	6.126
1.2 Related to the fair value option	—	—	—	—	—	—	—	—
1.3 Others	—	—	—	—	—	—	—	—
2. Credit derivatives	1.201.799	—	31.141	—	1.353.968	—	44.271	—
2.1 Trading	1.201.799	—	31.141	—	1.353.968	—	44.271	—
2.2 Related to the fair value option	—	—	—	—	—	—	—	—
2.3 Others	—	—	—	—	—	—	—	—
Total (B)	**2.873.673**	**—**	**70.124**	**10.589**	**3.155.335**	**—**	**95.959**	**6.126**
Total (A+B)	**2.873.673**	**—**	**70.124**	**10.589**	**3.155.335**	**—**	**95.959**	**6.126**

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

Section 3

Heading 30 – Financial liabilities valued at fair value

3.1 Financial liabilities designated at fair value: composition

Operation Type/Values	31/12/2022					30/06/2022				
	Nominal value	Fair Value			Fair Value	Nominal value	Fair Value			Fair Value
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
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	26.444	—	21.369	5.075	26.444	7.591	—	4.078	3.513	7.591
3.1 Structured	26.444	—	21.369	5.075	26.444	7.591	—	4.078	3.513	7.591
3.2 Others	—	—	—	—	—	—	—	—	—	—
Total	**26.444**	**—**	**21.369**	**5.075**	**26.444**	**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	31/12/2022				30/06/2022			
	Notional value	Fair value			Notional value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Financial derivatives	8.653	—	290	—	—	—	—	—
1) Fair value hedges	8.653	—	290	—	—	—	—	—
2) Cash flow hedges	—	—	—	—	—	—	—	—
3) Foreign investments	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value hedges	—	—	—	—	—	—	—	—
2) Cash flow hedges	—	—	—	—	—	—	—	—
Total	8.653	—	290	—	—	—	—	—

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 A - Accounting Policies.

Section 6

Heading 60 – Tax liabilities

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

	CIT [A]	MBT [B]	Other [C]	Total
Balance at the beginning of the year	**1.862**	**690**	**1.966**	**4.518**
Increase of the period (+)	**1.955**	**724**	**0**	**2.679**
- provisions of the year	1.955	724	—	2.679
- transfers	—	—	—	—
- others	—	—	—	—
Decrease of the period (-)	**0**	**0**	**-127**	**-127**
- releases of the year (fiscal assessments)	—	—	—	—
- transfers	—	—	—	—
- others	—	—	-127	-127
Balance at the end of the fiscal year	**3.817**	**1.414**	**1.839**	**7.070**

* [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 together with the provision of the previous one lead to a CIT and MBT liability (€ 3,817k and € 1,414k respectively).

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

Deferred tax liabilities	31/12/2022	30/06/2022
1. Initial amount	**—**	**—**
1.1 Initial amount	—	—
2. Additions (+)	**—**	**—**
2.1 Deferred tax originated during the period	—	—
2.2 New taxes or increases in tax rates	—	—
2.3 Other additions	—	—
3. Reductions (-)	**—**	**—**
3.1 Deferred tax reversed during the period	—	—
3.2 Lowering of tax rates	—	—
3.3 Other reductions	—	—
Total	—	—

Section 8

Heading 80 – Other liabilities

8.1 Other liabilities: composition (in € k)

	31/12/2022	30/06/2022
1. Payment agreements (IFRS 2)	—	—
2. Impaired endorsements	—	—
3. Working capital payables and invoices pending receipt	3.158	6.577
4. Prepaid expenses other than capitalized expenses on related financial assets	—	—
5. Amounts due to revenue authorities	—	—
6. Amounts due to staff	206	295
7. Other items:	5.079	2.031
- bills for collection	—	—
- coupons and dividends pending collection	—	—
- available sums payable to third parties	5.079	2.031
- premiums, grants and other items in respect of lending transactions	—	—
- credit notes to be issued	—	—
- other	—	—
Total	**8.443**	**8.903**

Other liabilities are mostly composed of invoices accrued or payable for € 3.158k (€ 6.577k at the end of June 2022) and other items for € 5.079k (€ 2.031k at the end of June 2022). The last consists in particular of accrued commissions payable to related parties for the financial guarantees or retrocessions related to the lending portfolio.

Section 10

Heading 100 – Provisions for risks and charges

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

Items / Values	31/12/2022	30/06/2022
1. Provisions for credit risk related to commitments and financial guarantees issued	1.285	1.460
2. Provisions on other obligations and warranties release	—	—
3. Provisions to retirement payment and similar	—	—
4. Other provisions for risks and obligations	—	—
4.1 Legal and fiscal controversies	—	—
4.2 Staff expenses	—	—
4.3 Others	—	—
Total	**1.285**	**1.460**

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

Provisions for credit risk related to financial obligations and guarantees issued	31/12/2022				30/06/2022			
	Stage1	Stage2	Stage3	Total	Stage1	Stage2	Stage3	Total
Commitments to distribute funds	1.168	116	—	1.284	861	227	—	1.088
Financial guarantees issued	1	—	—	1	372	—	—	372
Total	**1.169**	**116**	**—**	**1.285**	**1.233**	**227**	**—**	**1.460**

Section 15

Heading 150 - Reserves

15.1 Reserves: composition (in € k)

	31/12/2022	30/06/2022
A. Reserves	**327.302**	**326.044**
A.1 Legal reserve (A)	1.000	1.000
A.2 Free reserve (B)	292.370	299.590
A.3 NWT reserve (C)	36.611	28.133
A.4 Other (D)	-2.679	-2.679
B. Valuation Reserves (E)	**-260**	**80**

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

(B): free reserve movements in the period are mainly related to the following transactions: (i) €5,75m of AT1 coupon, (ii) €1,51m allocated to NWT reserve.

(C): 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.

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

(E): 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 31 December 2022, 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			31/12/2022	Nominal value of commitments and financial guarantees			30/06/2022
	Stage1	Stage2	Stage3	Total	Stage1	Stage2	Stage3	Total
1. Commitments to disburse funds	**2.219.347**	**20.783**	**—**	**2.240.130**	**1.753.266**	**100.800**	**—**	**1.854.066**
a) Central Banks	—	—	—	—	—	—	—	—
b) Public Administrations	—	—	—	—	—	—	—	—
c) Banks	253.825	—	—	253.825	—	—	—	—
d) Other financial companies	152.311	—	—	152.311	253.018	81.185	—	334.203
e) Non-financial companies	1.813.211	20.783	—	1.833.994	1.500.248	19.615	—	1.519.863
f) Retail clients	—	—	—	—	—	—	—	—
2. Financial guarantees given	**1.582**	**—**	**—**	**1.582**	**62.893**	**—**	**—**	**62.893**
a) Central Banks	—	—	—	—	—	—	—	—
b) Public Administrations	—	—	—	—	—	—	—	—
c) Banks	—	—	—	—	—	—	—	—
d) Other financial companies	—	—	—	—	—	—	—	—
e) Non-financial companies	1.582	—	—	1.582	62.893	—	—	62.893
f) Retail clients	—	—	—	—	—	—	—	—

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

Portfolios	Amount	
	31/12/2022	30/06/2022
Financial instruments valued at FVTPL	—	—
Financial instruments valued at FVOCI	—	—
Financial instruments valued at amortised cost	1.075.584	1.050.708
Tangible assets	—	—
Total	**1.075.584**	**1.050.708**

As at 31 December 2022, the Bank has pledged collateral in form of securities and loans for an amount of approx. € 1. 364m of which € 1.075m originated by the Bank itself, whereas € 307m represents the re-use of collateral borrowed from the Parent Bank.

PART C - NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

Section 1

Headings 10 and 20 – Net interest income

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

Items/Technical forms	31/12/2022 Debt securities	31/12/2022 Loans	31/12/2022 Other operations	31/12/2022 Total	31/12/2021 Debt securities	31/12/2021 Loans	31/12/2021 Other operations	31/12/2021 Total
1. Financial assets valued at FVTPL:	1.726	—	—	1.726	1.889	—	—	1.889
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	—	—	—	—	—	—	—	—
3. Financial assets at amortized cost	57	85.505	X	85.562	—	34.646	X	34.646
3.1 Due from banks	—	15.613	X	15.613	—	1.564	X	1.564
3.2 Due from customers	57	69.892	X	69.949	—	33.082	X	33.082
4. Hedging derivatives	X	X	—	—	X	X	5.429	5.429
5. Other assets	X	X	—	—	X	X	—	—
6. Financial liabilities bearing negative interests	X	X	X	0	X	X	X	78
Total	**1.783**	**85.505**	**—**	**87.288**	**1.889**	**34.646**	**5.429**	**42.042**

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

Items/Technical forms	31/12/2022 Borrowings	31/12/2022 Securities issued	31/12/2022 Other operations	31/12/2022 Total	31/12/2021 Borrowings	31/12/2021 Securities issued	31/12/2021 Other operations	31/12/2021 Total
1. Financial liabilities at amortized cost	-48.199	-26.126	—	-74.325	-16.819	-14.215	—	-31.034
1.1 Due to central banks	—	X	X	—	—	X	X	—
1.2 Due to banks	-48.134	X	X	-48.134	-16.815	X	X	-16.815
1.3 Due to customers	-65	X	X	-65	-4	X	X	-4
1.4 Debt securities in issue	X	-26.126	X	-26.126	X	-14.215	X	-14.215
2. Trading financial liabilities	—	—	—	—	—	—	—	—
3. Financial liabilities designated at fair	—	-119	—	-119	—	—	—	—
4. Other liabilities and funds	X	X	—	—	X	X	—	—
5. Hedging derivatives	X	X	204	204	X	X	—	—
6. Financial assets bearing negative int	X	X	X	-759	X	X	X	-2.429
Total	**-48.199**	**-26.245**	**204**	**-74.999**	**-16.819**	**-14.215**	—	**-33.463**

Section 2

Headings 40 and 50 – Net fee and commission income

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

Type of service/Values				31/12/2022	31/12/2021
a)	guarantees given			50	45
b)	credit derivatives			—	—
c)	management and brokerage services			2.686	3.353
	1.	trading in financial instruments		—	—
	2.	currency trading		—	—
	3.	portfolio management		—	—
	4.	securities custody and administration		—	—
	5.	custodian bank		—	—
	6.	placement of financial instruments		2.686	3.353
	7.	reception and transmission of orders		—	—
	8.	advisory services		—	—
		8.1.	related to investments	—	—
		8.2.	related to financial structure	—	—
	9.	distribution of third parties services		—	—
		9.1.	portfolio management	—	—
			9.1.1. individual	—	—
			9.1.2. collective	—	—
		9.2.	insurance products	—	—
		9.3.	other products	—	—
d)	collection and payment services			—	—
e)	securitization servicing			—	—
f)	factoring services			—	—
g)	tax collection services			—	—
h)	management of multilateral trading facilities			—	—
i)	management of current account			—	—
j)	other services			6.462	6.301
Total				**9.198**	**9.699**

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 31 December 2022, an amount of € 2,686k (2021 €3,353k) 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”.

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

Services/Amounts			31/12/2022	31/12/2021
a)	guarantees received		—	—
b)	credit derivatives		—	—
c)	management and brokerage services		-1.441	-2.471
	1.	trading in financial instruments	—	—
	2.	currency trading	—	—
	3.	portfolios management:	—	—
		3.1 own portfolio	—	—
		3.2 third parties portfolio	—	—
	4.	securities custody and administration	—	—
	5.	placement of financial instruments	-1.441	-2.471
	6.	off-site distribution of financial instruments, products and services	—	—
d)	collection and payment services		-76	-431
e)	other services		-2.807	-3.279
Total			**-4.324**	**-6.181**

Section 3

Heading 80 – Net trading income (expense)

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

Transactions / Income	Unrealized profit (A)	Realized profit (B)	Unrealized losses (C)	Realized losses (D)	Net Profit 31/12/2022	Net Profit 31/12/2021
1. Financial trading assets	182	—	-1.992	—	-1.810	253
1.1 Debt securities	182	—	-1.992	—	-1.810	-329
1.2. Equity	—	—	—	—	—	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	-9.998	3.650
4. Derivatives	98.881	705.622	-98.095	-708.586	6.787	-4.479
4.1 Financial derivatives:	46.204	705.607	-47.219	-707.646	5.911	-4.615
4.1.1 on debt securities and interest rates	13.924	704.499	-14.551	-706.773	-2.901	-160
4.1.2 on equity securities and shares indexes	1.635	1.108	-2.023	-873	-153	-229
4.1.3 on currencies and gold	X	X	X	X	8.965	-4.226
4.1.4 other	30.645		-30.645		—	—
4.2. Credit derivatives	52.677	15	-50.876	-940	876	136
Total	**99.063**	**705.622**	**-100.087**	**-708.586**	**-5.021**	**-576**

Section 4

Heading 90 – Net hedging income (expense)

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

	31/12/2022	31/12/2021
A. Income from:		
A.1 Fair value hedge derivatives	—	—
A.2 Financial assets hedged (fair value)	—	—
A.3 Financial liabilities hedged (fair value)	7.958	7.267
A.4 Cash flow hedge financial derivatives	—	—
A.5 Assets and liabilities in foreign currency	—	—
Total hedging income (A)	7.958	7.267
B. Expenses relating to:		
B.1 Fair value hedge derivatives	-6.811	-6.286
B.2 Financial assets hedged (fair value)	—	—
B.3 Financial liabilities hedged (fair value)	-1.071	-952
B.4 Cash flow hedge financial liabilities	—	—
B.5 Assets and liabilities in foreign currency	—	—
Total hedging expenses (B)	-7.882	-7.238
C. Net hedging income (A-B)	**76**	**29**

Section 5

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

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

Items/Income	31/12/2022			31/12/2021		
	Gains	Losses	Net profit (loss)	Gains	Losses	Net profit (loss)
A) Financial assets						
1. Financial assets valued at amortized cost	302	-19	283	450	-362	88
1.1 Loans and receivables from banks	-19	-19	-38	188	-198	-10
1.2 Loans and receivables from customers	321	—	321	262	-164	98
2. Financial assets valued at FVOCI	—	—	—	—	—	—
2.1 Debt securities	—	—	—	—	—	—
2.2 Loans	—	—	—	—	—	—
Total assets (A)	**302**	**-19**	**283**	**450**	**-362**	**88**
B) Financial liabilities valued at amortized cost						
1. Deposits with banks	—	—	—	—	—	—
2. Deposits with customers	—	—	—	—	—	—
3. Debt securities in issue	—	—	—	—	—	—
Total liabilities (B)	**—**	**—**	**—**	**—**	**—**	**—**

Section 6

Heading 130 – Net value adjustments for credit risk

6.1 Adjustment for impairment: breakdown (in € k)

Items/Income	Writedowns (1)			Writebacks (2)		31/12/2022 (1)+(2)	31/12/2021
	Stage1 and Stage2	Stage3		Stage1 and Stega2	Stage3		
		Write-off	Others				
A) Loans and receivables with banks	-133	—	—	58	—	-75	-432
- Loans and receivables	-133	—	—	58	—	-75	-432
- Notes	—	—	—	—	—	—	—
of which: financial assets purchased or originated credit impaired	—	—	—	—	—	—	—
B) Loans and receivables with customers	-1.392	—	—	1.709	—	317	1.661
- Loans and receivables	-1.392	—	—	1.709	—	317	1.659
- Notes	—	—	—	—	—	—	2
of which: financial assets purchased or originated credit impaired	—	—	—	—	—	—	—
Total	**-1.525**	**—**	**—**	**1.767**	**—**	**242**	**1.229**

Section 7

Heading 190 – Administrative expenses

7.1Personnel costs: breakdown (in € k)

Type of expense/Amounts	31/12/2022	31/12/2021
1.Employees	-1.220	-1.114
a) wages and salaries	-883	-930
b) social security contributions	-105	-98
c) severance indemnities	—	—
d) pension contributions	—	—
e) transfers to severance indemnity provision	—	—
f) transfers to post-employment and similar benefits:	—	—
– defined contribution	—	—
– defined benefit	—	—
g) payments to outside complementary pension schemes:	-96	-69
– defined contribution	-96	-69
– defined benefit	—	—
h) expenses incurred in connection with share payment schemes	-41	—
i) other staff benefits	-95	-17
2. Other staff	—	—
3. Board members	-88	-175
Total	**-1.308**	**-1.289**

7.2 Average number of employees by category

	31/12/2022	31/12/2021
Employees	19	18
a) senior executives	3	3
b) executives	2	2
c) other employees	14	13
Other staff	—	—
Total	**19**	**18**

7.3 Other administrative expenses: composition (in € k)

Type of expense/Amounts	31/12/2022	31/12/2021
OTHER ADMINISTRATIVE EXPENSES		
– legal, tax and professional services	-434	-457
– loan recovery activity	—	—
– marketing and communication	-3	-3
– property expenses	-27	-34
– IT and data processing	-984	-926
– Info-provider	-15	-21
– bank charges, collection and payment fees	-12	-20
– operating expenses	-715	-1.408
– other staff expenses	-21	-19
– other costs	-320	-65
– indirect and other taxes	-236	-310
Total	**-2.767**	**-3.263**

Section 8

Heading 200 – Net provisions for risks and charges

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

	31/12/2022			31/12/2021		
	Net provisions	**Net releases of surplus**	**Total**	**Net provisions**	**Net releases of surplus**	**Total**
Loan commitments	174	—	174	186	—	186
Financial guarantees issued	—	—	—	—	—	—
Total	**174**	**0**	**174**	**186**	**0**	**186**

Section 9

Heading 210 – Net adjustments to tangible assets

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

Asset/Income	Depreciation (a)	Impairment (b)	Write-back (c)	Net result (a+b-c)
A. Property, equipment and investment properties				
1 For operational use	-104	—	—	-104
- Owned	—	—	—	—
- Licences acquired through leases	-104	—	—	-104
2 Held for investment purpose	—	—	—	—
- Owned	—	—	—	—
- Licences acquired through leases	—	—	—	—
Total 31/12/2022	**-104**	**—**	**—**	**-104**
Total 31/12/2021	**-103**	**—**	**—**	**-103**

Section 10

Heading 230 – Other operating income (expense)

10.1 Other operating income: breakdown (in € k)

	31/12/2022	31/12/2021
a) Leasing activity	—	—
b) Other expenses	-166	-30
Total expense	**-166**	**-30**
a) Amounts recovered from customers	—	—
b) Leasing activity	—	—
c) Other income	1.475	482
Total income	**1.475**	**482**
Net income (expense)	**1.309**	**452**

Section 11

Heading 300 – Income tax on the ordinary activity

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

	31/12/2021	31/12/2021
1. Current tax expenses	-2.680	-3.081
2. Changes in current tax expenses of the previous years	—	—
3. Changes of deferred tax assets	—	—
4. Changes of deferred tax liabilities	—	—
Total	**-2.680**	**-3.081**

PART D – OPERATING SEGMENT REPORTING

A. PRIMARY SEGMENT REPORTING

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

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

		CORPORATE LENDING	EXPORT FINANCE	LEVERAGE FINANCE	PROJECT FINANCE	OTHER
10.	Cash and cash equivalents	387.023	-	425.074	3.475	-
20.	Financial assets valued at FVTPL	79.102	-	86.878	711	-
	a) Financial assets held for trading	*74.496*	-	*81.820*	*669*	-
	b) Financial assets designated at FV	*2.411*	-	*2.647*	*22*	-
	c) Other financial assets mandatorily at fair value	*2.195*	-	*2.411*	*20*	-
40.	Financial assets valued at amortised cost	2.682.829	-	2.946.590	24.088	-
	a) Due from banks	*879.207*	-	*965.645*	*7.894*	-
	b) Due from customers	*1.803.622*	-	*1.980.945*	*16.194*	-
50.	Hedging derivatives	*1.316*	-	1.446	12	-
70.	Equity investments	-	-	-	-	4.150
90.	Property, plant and equipments	-	-	-	-	1.317
110.	Tax assets	2.310	-	2.536	20	-
	a) current	*1.881*	-	*2.065*	*17*	-
	b) deferred	*429*	-	*471*	*3*	-
130.	Other assets	4.253	-	4.672	38	-
	Total assets at 31/12/2022	**3.156.833**	**-**	**3.467.196**	**28.344**	**5.467**
	Total assets at 30/06/2022	**3.835.624**	**87.039**	**3.521.227**	**33.044**	**5.551**
10.	Financial liabilities valued at amortised cost	-2.881.750	-	-3.165.069	-25.875	-
	a) Due to banks	*-1.511.358*	-	*-1.659.947*	*-13.570*	-
	b) Due to customers	*-6.197*	-	*-6.806*	*-56*	-
	c) Debt securities in issue	*-1.364.195*	-	*-1.498.316*	*-12.249*	-
20.	Financial liabilities valued at FVTPL	-38.302	-	-42.067	-344	-
30.	Financial liabilities designated at FV	-12.549	-	-13.782	-113	-
40.	Hedging derivatives	-138	-	-151	-1	-
60.	Tax liabilities	-3.355	-	-3.685	-30	-
	a) current	*-3.355*	-	*-3.685*	*-30*	-
	b) deferred	-	-	-	*0*	-
80.	Other liabilities	-11.541	-	-12.676	-104	-
100.	Provisions for risks and charges	-610	-	-670	-5	-
120.	Revaluation Reserves	123	-	136	1	-
140.	Equity instruments	-47.454	-	-52.120	-426	-
150.	Reserves	-155.319	-	-170.589	-1.394	-
170.	Share capital	-4.745	-	-5.212	-43	-
	Total liabilities at 31/12/2022 *	**-3.155.640**	**-**	**-3.465.885**	**-28.334**	**-**
	Total liabilities at 30/06/2022 *	**-3.834.897**	**-**	**-3.606.767**	**-33.854**	**-**

(*) 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	41.519	-	45.601	373	-
020.	Interest expense and similar charges	-35.687	-	-39.196	-320	-
030.	**Net interest income**	**5.832**	**-**	**6.405**	**52**	**-**
040.	Fee and commission income	4.365	-	4.794	39	-
050.	Fee and commission expense	-2.052	-	-2.254	-18	-
060.	**Net fee and commission income**	**2.313**	**-**	**2.540**	**21**	**-**
080.	Net trading income/expense	-2.382	-	-2.617	-21	-
090.	Net hedging income/expense	36	-	40	0	-
100.	Gain or loss on disposal or repurchase of:	134	-	147	1	-
	a) financial assets valued at amortised cost	*134*	-	*147*	*1*	-
	b) financial assets valued at FVOCI	-	-	-	-	-
	c) financial liabilities	-	-	-	-	-
110.	Gain or loss on financial assets and liabilities	290	-	319	3	-
120.	**Total income**	**6.223**	**-**	**6.835**	**56**	**-**
130.	Adjustment for impairment to:	115	-	126	1	-
	a) financial assets valued at amortised cost	*115*	-	*126*	*1*	-
	b) financial assets valued at FVOCI	-	-	-	-	-
150.	**Net income from financial operations**	**6.338**	**-**	**6.961**	**57**	**-**
190.	Administrative expenses	-1.934	-	-2.124	-17	-
	a) personnel costs	*-621*	-	*-682*	*-6*	-
	b) other administrative expenses	*-1.313*	-	*-1.442*	*-12*	-
200.	Net provisions for risks and charges	83	-	91	1	-
210.	Value adjustments in respect of tangible assets	-49	-	-54	0	-
230.	Other operating income/expense	621	-	682	6	-
290.	**Profit (loss) of the ordinary activity before tax**	**5.059**	**-**	**5.557**	**45**	**-**
300.	Income tax on the ordinary activity	-1.272	-	-1.397	-11	-
330.	**Profit (loss) for the period**	**3.787**	**-**	**4.160**	**34**	**-**
340.	Other comprehensive income, net of tax	–	–	–	–	–
350.	**Profit (Loss) of the year 31/12/2022**	**3.787**	**-**	**4.160**	**34**	**-**
	Profit (Loss) of the year 30/06/2022	**3.574**	–	**3.362**	**32**	–

B. SECONDARY SEGMENT REPORTING

The Bank operates in four geographical markets: Luxembourg, Other EU Countries, Americas and Asia. The following tables show the distribution of the Bank's financial and income statements based on the location of the customers for the mid years ended 31 December 2022.

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

		LUXEMBOURG	OTHER EUROPEAN COUNTRIES	AMERICAS	OTHER EMEA
10.	Cash and cash equivalents	269.600	545.972	—	—
20.	Financial assets valued at FVTPL	103.077	48.976	14.638	
	a) Financial assets held for trading	103.077	43.897	10.012	—
	b) Financial assets designated at FV	—	5.079	—	—
	c) Other financial assets mandatorily at fair value	—	—	4.626	—
40.	Financial assets valued at amortised cost	603.332	3.382.331	1.516.255	151.590
	a) Due from banks	2.940	1.849.806	—	—
	b) Due from customers	600.392	1.532.525	1.516.255	151.590
50.	Hedging derivatives	—	2.774	—	—
70.	Equity investments	4.150	—	—	—
90.	Property, plant and equipments	1.317	—	—	—
110.	Tax assets	4.866	—	—	—
	a) current	*3.963*	—	—	—
	b) deferred	*903*	—	—	—
130.	Other assets	1.298	6.906	592	166
	A. Total assets at 31/12/2022	**987.640**	**3.986.959**	**1.531.485**	**151.756**
	A. Total assets at 30/06/2022	**1.226.031**	**4.615.859**	**1.485.715**	**154.880**
10.	Financial liabilities valued at amortised cost	-2.887.818	-3.184.875	—	—
	a) Due to banks	*0*	*-3.184.875*	—	—
	b) Due to customers	*-13.059*	—	—	—
	c) Debt securities in issue	*-2.874.759*	—	—	—
20.	Financial liabilities valued at FVTPL	*-18.891*	*-61.822*	—	—
30.	Financial liabilities designated at FV	*-26.444*	—	—	—
40.	Hedging derivatives	—	*-290*	—	—
60.	Tax liabilities	-7.070	—	—	—
	a) current	*-7.070*	—	—	—
	b) deferred	—	—	—	—
80.	Other liabilities	-598	-23.723	—	—
100.	Provisions for risks and charges	-26	-1.041	-219	—
120.	Revaluation reserves	260	—	—	—
140.	Equity instruments	-100.000	—	—	—
150.	Reserves	-328.508	1.238	-31	—
170.	Share capital	-10.000	—	—	—
	B. Total liabilities at 31/12/2022 *	**-3.379.097**	**-3.270.512**	**-250**	**—**
	B. Total liabilities at 30/06/2022 *	**-3.357.215**	**-3.766.835**	**858**	**—**

(1) Profit for the period excluded.

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

	LUXEMBOURG	OTHER EUROPEAN COUNTRIES	AMERICAS	OTHER EMEA
Net interest income	-12.079	-13.559	34.686	3.241
Net fee and commission income	399	3.914	560	—
Net trading income/expense	22.553	-30.500	2.932	-5
Net hedging income/expense	6.888	-6.811	—	—
Gain or loss on disposal or repurchase of:	257	403	243	-8
Value Adjustments - impairment	-87	187	139	4
Administrative expenses	-2.023	-2.038	-14	—
Net provisions for risks and charges	3	315	-144	—
Value adjustments in respect of tangible assets	-104	—	—	—
Other operating income/expense	-130	302	1.138	—
Income tax	-2.680	—	—	—
Profit (Loss) of the year 31/12/2022	**12.998**	**-47.787**	**39.539**	**3.232**
Profit (Loss) of the year 30/06/2022	**-51.350**	**-47.456**	**91.552**	**14.222**

PART E - SUBSEQUENT EVENTS

The bank is not aware of any subsequent events (other than those already reflected in the financial statement), that occurred between 31 December 2022 and the date when the present financial statements were authorised for issue.