

MEDIOBANCA



Interim Report

for the six months ended 31 December 2021

MEDIOBANCA

LIMITED COMPANY

SHARE CAPITAL € 443,640,006.50

HEAD OFFICE: PIAZZETTA ENRICO CUCCIA 1, MILAN, ITALY

REGISTERED AS A BANK. PARENT COMPANY OF THE MEDIOBANCA
BANKING GROUP. REGISTERED AS A BANKING GROUP



Interim Report

for the six months ended 31 December 2021

(as required pursuant to Article 154-ter of the Italian Consolidated Financial Act)

www.mediobanca.com

translation from the Italian original which remains the definitive version

BOARD OF DIRECTORS

		Term expires
Renato Pagliaro	Chairman	2023
* Maurizia Angelo Comneno	Deputy Chairman	2023
* Alberto Nagel	Chief Executive Officer	2023
* Francesco Saverio Vinci	General Manager	2023
Virginie Banet	Director	2023
Maurizio Carfagna	Director	2023
Laura Cioli	Director	2023
Maurizio Costa	Director	2023
Angela Gamba	Director	2023
Valérie Hortefeux	Director	2023
Maximo Ibarra	Director	2023
Alberto Lupoi	Director	2023
Elisabetta Magistretti	Director	2023
Vittorio Pignatti Morano	Director	2023
* Gabriele Villa	Director	2023

* Member of Executive Committee

STATUTORY AUDIT COMMITTEE

Francesco Di Carlo	Chairman	2023
Elena Pagnoni	Standing Auditor	2023
Ambrogio Virgilio	Standing Auditor	2023
Marcella Caradonna	Alternate Auditor	2023
Roberto Moro	Alternate Auditor	2023
Stefano Sarubbi	Alternate Auditor	2023

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Massimo Bertolini Secretary of the Board of Directors

Emanuele Flappini Head of Company Financial Reporting

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REVIEW OF OPERATIONS



REVIEW OF GROUP OPERATIONS

The half-year results bear out the impressive performance recorded in the first quarter, with a net profit of €525.8m, higher than last year (up 28.1%, from €410.6m), with ROTE and EPS in line with the Strategic Plan 2019-23 objectives. Strong top-line growth (total income up 12.2%, to €1.5bn) shows a balanced contribution from the main divisions (Wealth Management 24.9%, Corporate and Investment Banking 26.8% and Consumer Finance 36%), reflecting an excellent commercial performance. In particular, Net New Money (NNM) in TFAs by the Wealth Management division totalled €4.4bn (€2.9bn in 2Q); and new loans in Consumer Finance returned to pre-Covid levels (€3.7bn, up 25.4%), with good acceleration in personal loans (up 42%) managed through the internet channel, which now accounts for more than one-quarter of direct loans. Development of the commercial network also continues: Wealth Management now has 635 bankers, 493 FAs, and 215 branches¹, whereas Consumer Finance has reached 287 points of sale² (versus 279 at 30 June 2021). Profit from ordinary activities was up 16.3% (from €592m to €688.7m), with loan loss provisions of €137.3m, which were higher than last year (€117.7m) due to the higher provisioning for the older NPL portfolios (€35m) with the objective of speeding up the derisking process and improving the Group's gross NPL ratio, which is already among the lowest in the banking system.³ Portfolio quality⁴ is reflected in the cost of risk, which remains at 55 bps (40 bps, net of one-off items), with the substantial overlays provided still intact (€292m, concentrated in the performing component).

The individual divisions' contributions to the €525.8m net profit were as follows: Consumer Finance, €190.1m (38.2% higher than last year); Principal Investing, €184.6m (up 43.8%); Corporate and Investment Banking, €131.7m (down 22.7%, due to the lower writebacks for the large corporate portfolio, and the one-off charge of €25m taken for the MBCS NPL portfolios); and Wealth Management, €72.4m (up 54.4%).

The Group's performance for the first six months reflects the strong growth rates recorded in 3Q 2021 both in Europe as a whole and in Italy (where

¹ Including 98 financial stores.

² 58 agencies, 50 POS (Compass Quinto).

³ Gross NPLs of €1,470.5m, with a ratio of 2.8%, without including MBCS (€424.1m).

⁴ Stage 2: 6.5% (net), with virtually no moratoria outstanding at 31 January 2022.

GDP grew by 2.3% and 2.6% respectively), with comforting signs of recovery in international tourism and labour demand, which meant that no material adverse effects were noted as a result of the ban on layoffs ending. Demand for credit by businesses was less strong than that from households, with the latter continuing to gather pace during the whole six-month period. This trend was consolidated in 4Q 2021, for which annualized GDP growth of 4.6% is expected for the Eurozone and 6.4% in Italy. However, the most recent signals suggest the improvement is slowing, due to the Omicron variant that is accentuating the inflationary pressures (driven by energy prices), and increasing uncertainty over the resilience of the recovery.

Financial markets have reflected this trend, with rising volatility and increased risk aversion on the part of investors. At the same time, the spread between Italian and German sovereign debt securities has widened once more, from the lows recorded in October last year (105 bps) back to around 135 bps, levels last seen at end-2019; and stock market prices have undergone corrections (with EU indexes down 2% since December, and more pronounced corrections of around 10% for the Japanese and US indexes).

The uncertainties that emerged in December have led the Bank not to update the IFRS 9 provisioning model based on the expected scenario for end-2021, but to maintain the data as at end-June 2021 along the relevant parameters.

* * *

Strong commercial activity and growth on financial markets are reflected in the increase in revenues referred to above (up 12.2%, from €1,300.8m to €1.459,4m), which was higher than expected:

- Net interest income, after slowing for six months, returned to growth in the period under review, and at €733.5m was 5.6% higher than in the previous half year, and 1.8% higher than twelve months previously; Consumer Finance was the main contributor (NII up 3.1%, from €448.4m to €462.2m) near to its highest-ever levels, on new loans and profitability once again at full steam, and helped by the change to the rules on early repayments since end-July 2021, suspending the effects of the Lexitor ruling⁵. The reduction in NII generated by Wholesale Banking (down

⁵ Italian Law 106/2021 came into force on 26 July 2021, which revised the wording of Article 125-sexies of the Italian Banking Act, and clarified that the reversal of upfront fees will apply only to contracts executed after the Lexitor ruling; this stance was subsequently confirmed also by the Bank of Italy in a communication issued by the central bank.

8.3% from €112.6m to €103.3m) is entirely attributable to the absence of the Burgo one-off writeback last year (approx. €8m), and was more than offset by the growth in Wealth Management (up 7%, from €137m to €146.6m), due to higher lending volumes and the gradual reduction in the cost of funding; conversely, net interest expense generated by the Holding Functions increased slightly (by €3m), due primarily to the reduced business levels in leasing operations and the increased holdings in cash and liquid assets, against a stable contribution from securities (€28m) and the T-LTRO (€27m, versus €25m);

- Net fee and commission income climbed by 15.8%, from €382.8m to €443.2m; the impressive performance by Wealth Management (up 33.3%, from €160m to €213.2m) was achieved off the back of higher management fees (up 30% from €120.5m to €156.7m), with both performance fees and upfront fees from placements doubling (the former from €4.5m to €9.7m; the latter from €19.4m to €35.2m, with a strong contribution from the private markets initiative in co-operation with BlackRock in particular); Corporate and Investment Banking beat last year's record (up 8.6%, from €172.2m to €187m), on impressive performances by Messier et Associés (up from €24m to €45.8m) and the Mid Corporate segment (up from €6m to €16m) delivered in part thanks to close co-operation with Mediobanca Private Banking;
- Net treasury income totalled €97m, up 11.9%, consolidating the recovery in client business (up 45.9%, from €32m to €46.7m), in the equity area in particular (€40.8m) due to ordinary operations plus a couple of deals for substantial amounts. The proprietary portfolio contributed €35m (down 8.6%, from €38m), following lower gains on banking book securities (€16.6m, compared with €23.1m), with the trading book improving (from €11.6m to €16.3m). Dividends and other income earned by the Principal Investing division were virtually unchanged at €15.8m (compared with €16.5m), only in part offset by the pro rata fees payable on the Assicurazioni Generali securities lending transaction (€2.1m);
- The equity-accounted companies contributed a net profit of €185.7m (31/12/20: €110.9m), reflecting the performance of Assicurazioni Generali which delivered a profit for nine months that was approx. 70% higher than the same time last year.

Labour costs rose by 7.7% (from €305m to €328.6m), reflecting the new recruits (with 70 new staff added, taking the total to 4,973) concentrated in the Wealth Management commercial network in particular (up to 64). The increase

in labour costs for the Corporate and Investment Banking division (up 5.7% from €80.2m to €84.8m) was attributable primarily to Wholesale Banking (up 5.6%, from €71.3m to €75.3m), reflecting the customary alignment of variable remuneration to performance (which was especially impressive in terms of revenues particularly) and also the retention policies adopted in order to retain talented staff in what is an increasingly competitive labour market, in investment banking especially.

Administrative expenses rose by 6.5%, from €286.1m to €304.8m, on higher contributions from Wealth Management (up 15.7%) and Corporate and Investment Banking (up 12.3%), only in part offset by the reductions in Consumer Finance (down 5.3%) and Holding Functions (down 19.2%). The increase is related to the technology modernization initiatives implemented (spending in this area was up 8% in the year), to higher volumes in Wealth Management especially, and to the resumption of marketing and communications activities (up 12%) and also travel and entertainment. Meanwhile, credit recovery costs in Consumer Finance declined, as a result of the good performance in credit.

Loan loss provisions of €137.3m were set aside for the six months (€75m of which in 2Q), up 16.7% on last year (€117.7m) due exclusively to the one-off charge of approx. €35m taken (two-thirds of which in respect of certain NPL portfolios owned by MBCredit Solutions and the remainder to legacy leasing positions), with the intention of speeding up the Group's derisking process⁶. The cost of risk remains at an all-time low level of 55 bps (despite 15 bps in one-offs), without the existing overlays (over €290m) being affected, and maintaining the same risk parameters as at 30 June 2021, which are more prudent than those for the scenario expected at end-2021 (that does not factor in the most recent developments related to Omicron and the further increase in the price of commodities). The attitude therefore remains prudent in almost all segments: Wholesale Banking shows a drastic reduction in writebacks (from €61.4m to €30m), partly because unlike last year, there have been no reclassifications of unlikely-to-pay items; what writebacks there have been, chiefly involve repayments, improvements in counterparty ratings, and certain sectors exiting the Covid-19 crisis, resulting in the overrides being removed. By contrast, loan loss provisions in Specialty Finance increased materially, from €17.8m to €47.8m, with the customary provision for extra collections during the period compounded by the stricter treatment for certain NPL portfolios, as already mentioned. Consumer Finance, meanwhile, with risk indicators near

⁶ As at 31 December 2021, the Group's gross NPL ratio was 3.6% (2.8% without the NPLs acquired by MBCS).

their all-time lows and promising recovery performances, showed a substantial reduction in loan loss provisions (from €143.5m to €95.9m), with the cost of risk at 146 bps, a sharp improvement on last year (222 bps) despite the amount of the overlays remaining unchanged (at €204.1m).

Other items totalled €34.5m (€33.4m), and consist mainly of the following: the ordinary contribution to the Deposit Guarantee Scheme for 2022 (up from €17.9 to €21.9m), the share of the 2018 contribution to the SRF previously treated as collateral being accounted for as a cost (€3.7m), the increase in provisions (€12.3m) for a set of derivatives subscribed for between 2010 and 2014 with durations of several years, which have now exited trading book's operations to be gradually wound up; and a one-off provision of €1.5m approved by the CSR Committee to be donated to charitable initiatives to be selected in the coming months.

Income tax for the period decreased substantially, from €158.9m to €120.4m, as a result of a positive one-off items totalling €37m, due largely to the alignment of tax and book values for goodwill⁷ booked by Compass Banca (€48.6m), against higher charges of €11.6m attributable to hidden taxation on the potential distribution of extraordinary dividends by the non-Italian Group legal entities outside of the participation exemption regime⁸. Ordinary income tax therefore totalled €157.4m, at a tax rate of 24%; the reduction compared to last year (when the tax rate was 27.8%) is due to the higher component of exempt items (the profits earned by Assicurazioni Generali which are equity-accounted).

* * *

Total assets grew during the six months, from €82.6bn to €89.1bn, with the main asset items performing as follows:

- Loans and advances to customers continued their upward trend (up 4.9%, from €48.4bn to €50.8bn), on higher contributions from Corporate and Investment Banking (of €21bn, versus €19.3bn), Consumer Finance (of €13.3bn, versus €12.9bn), and CheBanca! mortgage loans (up from €11.1bn to €11.3bn), against a slight reduction in leasing (from €1.8bn to €1.7bn);
- Funding increased, from €56.2bn to €59.3bn, on significant growth in Wealth Management (from €25.2bn to €27.2bn) which now accounts for 46% of

⁷ Pursuant to Article 110 of Italian Decree law 104/2020.

⁸ Article 87 of the Italian Income Tax Act (Italian Presidential Decree 917/86).

total funding, with the Premier component remaining stable (at €17bn). The increased recourse to the T-LTRO facilities (from €7.4bn to €8.4bn) was advocated by the favourable terms to continue for the remaining duration of the programme (2.5 years); the use of new behavioural models for Wealth Management funding reduces the cost of funding to 60 bps, approx. 5 bps below the pro forma figure as at end-June 2021 (before the model was revised the figure was 80 bps);

- Banking book securities totalled €7.9bn: €3.2bn of which are Italian government bonds, with a duration approx. 3 years, and €1.2bn involve securitizations, of which €825m regarding a single deal completed at the year-end and set for syndication; the OCI reserve decreased to €48.7m (from €73m), €32.1m of which for Italian government securities, following realized gains of €10.8m, €8.4m in coupons from index-linked securities, and reductions to reflect fair value of €6m; unrealized gains on investment securities amount to €116.9m;
- Net treasury assets totalled €6.2bn, slightly lower than at end-June 2021 (€6.4bn); the increase in the equity component and in ECB deposits, up from €1.8bn to €2.8bn, was offset by the rise in time deposits payable (which were up €900m) and securities lending transactions to stabilize the liquidity metrics.

Total Financial Assets in Wealth Management (TFAs) grew in the six months from €71.5bn to €79.4bn, exceeding budget estimates, with Net New Money (NNM) of €4.4bn, two-thirds of which came from Private Banking and the remainder from the Premier channel, coupled with the consolidation of assets managed by Bybrook (€2.2bn) plus the positive market effect (€1.5bn). A material contribution from indirect funding (€2.3bn) in Private Banking (€1.1bn) and the Premier segment (€1.3bn) drove AUA/AUM up 13% (from €46.3bn to €52.1bn), reaching approx. two-thirds of the TFAs; while deposits totalled €27.2bn (€25.2bn at end-June). For the first time the stock of AUA/AUM in the Premier segment has exceeded the amount of deposits.

The capital ratios remain at high levels despite provision being made for the dividend (which accounted for 78 bps, on a payout ratio of 70%) and the launch of the share buyback⁹ (64 bps): the phase-in CET1 ratio decreased from 16.3%

⁹ The new share buyback involves up to 3% of the share capital (€256m) and was launched following the cancellation of 22,581,461 treasury shares held by the Bank.

to 15.4%, in part due to the strong growth in assets (which accounted for -32 bps, concentrated in CIB – large corporate and factoring – and Consumer Finance, the effects of which in earnings terms will unfold in the next few quarters) and the closing of the Bybrook acquisition (11 bps). Retained earnings for the first six months (which added 33 bps) were mostly absorbed by the higher deductions for the Assicurazioni Generali investment (accounting for 20 bps), the book value of which increased because of the company's results for the period.

Similarly, the fully-loaded ratio without application of the Danish Compromise, i.e. with the Assicurazioni Generali investment deducted in full (minus 120 bps¹⁰, the cost which was comfortably repaid by the excellent return on the investment) and with the IFRS 9 FTA effect applied in full (minus 10 bps), is 14.1%, also approx. 100 bps lower than the figure reported at end-June 2021 (15.1%). The total capital ratio reduced from 18.9% to 17.7% (16.6% fully loaded), in part as an effect of the customary amortization of Tier 2 liabilities.

* * *

The divisional performances for the year were as follows:

- *Wealth Management*: the upward trend in Wealth Management continues, with a net profit of €72.4m for the six months, 54.4% higher than last year, and 35.8% higher than the last half-year, corresponding to a ROAC of 30%. The positive momentum in TFAs (€79.4bn, up 11.1% in the six months) drove the growth in fee income (up 33.3%, from €160m to €213.2m), with an increase in all the components (management fees: up 30%, banking fees: up 8.9%, upfront placement fees: up 81.4%, performance fees: up 64%). The Premier segment posted a net profit of €31.2m (up 37%), on revenues of €195.4 (up 12.8%); Private Banking delivered a bottom line of €37.9m (up 67%), on revenues of €121.2 (up 28.7%); and Asset Management (which includes the Bybrook activities since 1 September 2021) recorded a net profit of €5m (up 69%);
- *Consumer Finance*: Consumer Finance delivered a new record net profit for the six months of €190.1m (up 38.2%), testimony to the speed of the recovery from the Covid-19 pandemic; ROAC returned too returned to near its highest-ever levels (35%). The expansion of the network, which has been launched in recent years and was consolidated in the six months under review with six new agencies opened and launch of the Compass Link initiative¹¹, has helped the

¹⁰ The impact, which is temporarily above the customary figure of 110 bps, does not factor in the Assicurazioni Generali dividend payable for the 2021 financial year, and includes approx. 10 bps of higher deductions for other significant investments and DTA.

¹¹ Compass Link, agent in financial activities, was set up in May 2021 and is 100%-owned by Compass.

recovery in new loans to €3.7bn (up 25.4%), in particular personal loans via the proprietary network. The related growth in the loan stock, which rose from €12.9bn to €13.3bn, contributed to the increase in net interest income (up 3.1%, from €448.4m to €462.2m). The result reflects the marked improvement in loan loss provisions (which decreased from €143.5m to €95.9m) with a very low cost of risk (146 bps), and no change to the overlays (over €200m), the level of provisioning and the amount of non-performing loans, gross and net;

- *Corporate and Investment Banking*: the division delivered an excellent performance for the six months, with revenues up 7.2%, which is not reflected at the net profit level (down from €170.3m to €131.7m) because of the €25m charge taken in respect of the MBCS portfolios of NPLs, and the lower writebacks credited in Wholesale Banking of €30m (compared with €61.4m last year). The acceleration in revenue growth (up 11.6% in 2Q) has been driven by Wholesale Banking (revenues up 4.9%, to €321.1m), due to growth in advisory business (up 45%, with outstanding performances in France with Messier et Associés, and in Italy in the Mid Corporate segment) and the contribution of trading, especially client-based activity (up 46%). Revenues generated by Specialty Finance rose from €58.2m to €69.5m, boosted by the higher turnover in factoring (up 30%), and the good level of extra collections in NPL management;
- *Principal Investing*: this division posted a net profit of €184.6m, representing a clear improvement on last year's performance (up 43.8%), due to the good performance by Assicurazioni Generali, whose contribution to the equity method increased from €112.5m to €186.5m;
- *Holding Functions*: the net loss posted by the Holding Functions decreased from €73.1m to €53m, reflecting one-off positive items of €37m; total income fell by approx. €11m, reflecting the lower gains on disposals of banking book securities, and the reduction in net interest income (€3m). The gradual reduction in operating costs also continues, with the central cost component still around 8% of the Group's total cost; while the increase in the other expense items (from €17.9m to €33.8m) regard costs attributable to the resolution funds (up from €17.9m to €25.6m) and provisions in respect of certain derivatives contracts in the process of being run off (€12.3m). Leasing broke even (compared with a €1.7m profit last year), after €10m in extraordinary provisions, due to the good performance in ordinary activities and the reversal of funds due to the successful conclusion of a tax dispute (€3.1m).

* * *

Significant events that took place during the six months under review were as follows:

- The results of the Supervisory Review and Evaluation Process carried out by the ECB (“SREP Decision 2021” received on 24 January 2022) show an increase in the Pillar 2 Requirement from 1.25% to 1.58%, including the calendar provisioning for vintage NPEs. Mediobanca must therefore maintain a minimum CET1 ratio on a consolidated basis of 7.90%, 9.70% on Tier 1, and 12.09% on the Total SREP Capital Requirement (“TSCR”) ¹². In July the Group’s stress test was completed, as part of the 2021 EU-wide Stress Test conducted by the EBA in which Mediobanca participated for the first time; the exercise showed that the Bank was the most solid of all the Italian banking groups in the adverse scenario (minimum CET1 ratio in the three years of 11.49%, 9.73% fully loaded);
- Notification from the Single Resolution Board (“SRB”) of the MREL Requirement for the Group for 2022, which is 21.85% of RWAs ¹³ and 5.91% of the Leverage Ratio Exposures (“LRE”). The MREL Requirement, i.e. the amount of own funds and eligible liabilities that can be converted into equity through a hypothetical bail-in mechanism, is substantially met without any recourse to senior preferred liabilities;
- During the six months under review, Group legal entity Cairn Capital completed the acquisition of Bybrook, a UK-based credit manager focused on distressed asset management with AUM of approx. €2bn; the overall outlay for the transaction, including the first tranche paid last year (£23.5m), was £66.8m, £25.2m of which was paid in Cairn shares; following the purchase price allocation process show assets ¹⁴ of £75.2m have been recorded in the consolidated accounts (of which £58.9m in intangible assets with indefinite life, £8.5m with duration of 10 years, and £7.8m in goodwill). Given the new liability in respect of the put and call option and the estimated tax effect, the impact of the acquisition on the CET1 ratio is in the region of 10 bps;
- Execution of a securities lending transaction in respect of a total of 70 million Assicurazioni Generali shares, equal to 4.4% of the company’s share capital. The deal, which was concluded with a leading market counterparty, will have a duration that extends until at least the Annual General Meeting of Assicurazioni Generali called to reappoint the company’s Board of Directors (approx. 8 months after execution), enabling Mediobanca

¹² The requirements include the countercyclical capital buffer, which at 31 December 2021 is 0.01%.

¹³ The requirement includes the combined buffer requirement (CBR) applicable at that date, which is set to increase to 22.13% in 2023.

¹⁴ The amount in Euros has been calculated based on the exchange rate prevailing at end-December 2021, namely 0.8403, as follows: intangible assets with indefinite life: €70.1m, intangible assets with definite life: €10.1m, goodwill: €9.1m.

to increase its voting rights without increasing its risk exposure to the company. The overall cost of the transaction in terms of fees is €6.5m, of which €2.1m of which has been taken in the six months under review;

- In the six months Fitch Ratings upgraded Mediobanca's rating from BBB- to BBB with stable outlook, and S&P raised its outlook from stable to positive (rating BBB); both upgrades follow the improvement in the outlook for the republic of Italy and Italian banking sector risk;
- On 6 December 2021 the share buyback programme approved by shareholders at the Annual General Meeting held on 28 October 2021 and authorized by the European Central Bank on 11 November 2021 was launched, involving a maximum of 25,871,097 ordinary shares (equal to approx. 3% of the share capital) and a total outlay of €256m (the maximum amount allowed to be bought back). To date, under the programme, which was launched after the 22,581,461 treasury shares held by the Bank were cancelled, a total of 3,787,339 shares have been bought back, at a cost of €38.1m;
- In submitting its tax return for 2021, Compass Banca made the first payment on the withholding tax payable in order to realign the tax and accounting values of the goodwill in respect of Linea (under Article 110 of Italian Decree Law 104/20, as amended by the 2022 budget law); the company opted for the higher tax rate of 16% (rather than 3%), to allow it to obtain the benefit of the current deduction in eighteen rather than fifty years¹⁵. The net effect to profit and loss is €48.6m, representing the balance between the withholding tax payable (€45m, most of which is still to be paid) and recognition of advance tax assets in a total amount of €93.6m (representing the total benefit expected in the next eighteen years); this tax relief has entailed a restriction being set over €238.2m of the reserves approved by shareholders at an extraordinary general meeting held in December;
- On 26 July 2021, Italian Law No. 106/2021 came into force, converting Italian Decree Law 73/2021 into law which in turn had revised the wording of Article 125-*sexies* of the Italian Banking Act, clarifying the effects of the Lexitor ruling: the refund of upfront fees will only apply to contracts executed subsequent to the issue of the ruling, a stance which was subsequently confirmed by the Bank of Italy. Of the provision originally set aside to cover this risk (€15m), €12m has been used to pay for the refunds settled up to July 2021; in view of the high number of claims received and the legal uncertainties deriving from the ruling issued by the court of Turin in November 2021, which raised an issue of constitutional legitimacy which is currently being reviewed by the Court, the provision has been left unaltered at present.

¹⁵ The Italian budget law for 2022 (Italian Law No. 234 of 30 December 2021) changed the rate of the withholding tax due overall to enable the higher values booked to be deducted for eighteen years, increasing it to between 12% and 16% instead of 3% as was previously the case.

The Board of Directors also:

- Appointed Director Vittorio Pignatti Morano, who was already an independent member of the Related Parties Committee, as Chairman of the same Committee, replacing Director Angela Gamba in that position after the new Bank of Italy regulations on corporate governance came into force which prevent the Chairperson of the Risks Committee from chairing other Board committees as well. The Committee is therefore now made up of: Vittorio Pignatti Morano (Chairman), Maurizio Carfagna, Laura Cioli and Angela Gamba;

and subsequently:

- Added Director Alberto Lupoi to the Committee instituted pursuant to Article 18(4) of the company’s Articles of Association, as independent Director expressing the minority vote, in accordance with the changes to the Articles approved by shareholders at the Annual General Meeting held on 28 October 2021. The Committee therefore now consists of: Alberto Nagel (Chairman), Francesco Saverio Vinci, Maurizio Costa, Valérie Hortefeux and Alberto Lupoi.

* * *

The Mediobanca Group has always placed great importance on environmental issues and is strongly committed to playing an active role in the ecological transition process. In November 2021 Mediobanca organized an event entitled “Beyond ESG & Sustainability – A New Strategic Direction”, focusing on ESG issues as drivers for investors’ investment strategies and for corporate strategies. On that occasion, the Group announced it has become a member of the Net-Zero Banking Alliance (NZBA), the initiative promoted by the United Nations, with the objective of accelerating the sustainable transition of the international banking sector. The NZBA brings together a global alliance of over 90 banks that are committed to aligning their lending and investment portfolios with net-zero emissions by 2050, in line with the targets set by the Paris Climate Agreement. The Group, in line with its roadmap to reduce its own direct emissions, has renewed its commitment to neutralize “irreducible greenhouse gas emissions”, which in any case were cut sharply in the financial year ended 30 June 2021 compared to the previous year¹⁶. The decarbonization objective has been supported by two carbon offset project: one hydroelectric

¹⁶ 3,437 tCO₂eq. versus 5,620 tCO₂eq. tCO₂ stands for tonnes of carbon dioxide equivalent, and expresses the impact of a given quantity of greenhouse gases on global warming in comparison to the same quantity of carbon dioxide: (CO₂).

project in India and one REDD+ (Reducing Emissions from Deforestation and forest Degradation) project in Brazil, to generate clean energy in the case of the former, and to preserve an area of the Amazon Forest in the case of the latter.

The Group’s ongoing commitment to include ESG criteria progressively and rigorously in all areas of its activity has resulted in improvements in its ESG ratings issued by the leading rating companies:

- MSCI increased its rating from “BB” to “A”;
- CDP increased its rating from “D” to “C;”
- S&P Global included Mediobanca in its *Sustainability Yearbook 2022* for the first time.

Mediobanca was also included in the first MIB ESG Index launched by Euronext and Borsa Italiana, for Italian bluechip companies that implement ESG best practices.

The Mediobanca Group has been included in the Bloomberg *Gender-Equality Index* (GEI) for the fourth year running. The GEI, which is a modified market capitalization-weighted index, comprises 418 companies based in 45 countries and regions that are committed to transparency in gender data reporting, measuring equality across five pillars: female leadership and talent pipeline, equal pay and gender parity, inclusive culture, anti-sexual harassment policies, and pro-women brand. Mediobanca’s inclusion in the index is recognition of the commitment of the Group as a whole, and the Human Resources division in particular, to leveraging all of the Group’s people by promoting inclusion and personal and professional development initiatives.

In terms of its social commitment, in December 2021 Mediobanca, *L’Arte di Vivere con Lentezza onlus* and *La Casa dei Libri* staged their “The Prisoners ask Why” initiative for the third year, with the objective of promoting social inclusion in prisons through reading. After the pandemic brought activities to a halt, some of the leading figures in contemporary Italian literature, along with volunteers from Mediobanca’s own staff, had another opportunity to enter the prisons involved in the project, to connect with the inmates and offer them a window on the outside world. The Group has also decided to complement its usual charitable activities by making a one-off contribution to social initiatives, following the excellent results achieved in the course of 2021, the sum of €1.5m to be donated to local projects to be selected by the CSR Committee.

* * *

Developments on capital markets

The positive momentum reported by financial markets in the late spring of 2021 has continued in the first six months of the new financial year. This was helped by the strength of the economic recovery that has proved resilient to the new Covid-19 variants (Delta for the majority of the period and Omicron in the last weeks of the six months), in large part due to the effective roll-out of the vaccination campaign.

The spread of the virus, combined with the different containment strategies adopted in the various countries, led to timing differences in the economic cycles. In Europe and the United States, vaccination campaigns to limit the spread of the virus among the unvaccinated flattened the negative impact on economic activity. Unlike the western countries, the Chinese government based its virus containment strategy on isolation (otherwise known as the Zero Tolerance Policy). This choice, which is effective when virus transmissibility is limited, supported satisfactory economic growth for the majority of the six-month period, but exposed the economy to slowdowns when new, more contagious variant strains emerged. Several Asian economies, which are important parts of international supply chains, have similar fragilities that could materialize with the spread of the Omicron variant and exacerbate the difficulties for Western economies in sourcing semi-finished products.

Overall, the six months saw global economies continue to grow at a fast pace albeit slower than in the first six months of 2021. In Europe, growth in 3Q 2021 was 2.3% QoQ, in the United States 0.6%, and in China 0.7%; whereas the Japanese economy shrank by 0.9% due to a new spike in the infection rates dealt with by targeted isolation measures.

The combination of strong economic activity, pressure on global production chains and the rejection by certain developing countries of low-cost but polluting energy sources has greatly increased the uncertainties over the speed at which it will be possible to return to inflation objectives in many jurisdictions. The United States saw the annualized inflation rate soar to 7% in December, and the first signs of a slowdown seen at the end of the six-month period were less reassuring because of the uncertainties over the wage trend. In the Eurozone annual inflation climbed to 5% in December on the back of the same issues attributable to the international system. This trajectory should correct itself in the course of 2022 returning, according to ECB estimates, to

under the 2% target. Significant risks are also recognized in Europe as a result of wage concessions which could consolidate inflationary pressure.

In the Eurozone, these aspects form part of the new reference framework for monetary policy action. In July 2021 the ECB moved to a numerical inflation target (2% year-on-year), with positive and negative deviations from the target considered to be equally costly. Furthermore, to broaden the effectiveness of the accommodative measures, the ECB is committed to modifying its stance only when two conditions are met: one of which is forward-looking, based on expectations (the estimated trajectory for inflation must reach the target and stabilize there or thereabouts for the majority of the time horizon of the estimate), and the other historical, based on inflation measured in addition to the former item (the recent underlying trend in inflation must be consistent with the forward-looking trajectory of reaching the target inflation rate stably).

In the six months, international markets have continued to benefit from the roll-out of the vaccination campaigns, the continuing presence of central banks in the market, and the increased spending capability of households driven by the savings accumulated during the critical phases of the pandemic. Stock market performances have been broadly positive (the MSCI World has put on 7.1%, S&P 10.3%, Eurostoxx 600 7.7%, and FTSEMIB 9.7%), contributing approx. one-third of the result for the full calendar year (the MSCI World increased by 20.1%, S&P by 26.9%, Eurostoxx 600 by 22.5%, and FTSEMIB by 23.8% in 2021). The new “common prosperity” policy adopted by the Chinese government has generated regulatory uncertainties that have compromised the appeal of financial assets in western investors’ eyes, causing a sharp correction in the equity markets compared to the other global and emerging markets (down 30% relative to the global stock market index, down and down 22% relative to the emerging countries index minus China).

During the same period interest rates at the long end of the curve remained basically flat at very low levels (the 10-year US rate increased from 1.47% to 1.51%, fluctuating in a range of 52 bps; while the 10-year German rate edged up from minus 0.21% to minus 0.18% in a 41 bps range). Inflation over the same time horizon (breakeven at 10 years) rose by 26 bps to 2.60% on the US market and by 47 bps to 1.81% on the German market.

Against a recovery by the US dollar during the period (the trade-weighted effective exchange rate index rose by 3.5%), the low volatility trend for the leading equity index continued.

The appreciation of credit risk assets has slowed, largely because of the regulatory issues that have affected Chinese companies on western capital markets referred to earlier and growing concerns over the emergence of the Omicron variant which was highly infectious but the danger of which was unknown (the CDX US High Yield index fell by 1% in the period back to below pre-Covid-19 levels, whereas the CDS iTraxx Europe Crossover increased from 230 bps to approx. 245 bps, still approx. 30 bps above the pre-Covid-19 level).

In Europe, in addition to the ECB change of action strategy, the six months under review saw payment of the first tranche of the PNRR¹⁷ in all recipient countries with the exception of Poland and Hungary (until their respective governments complete the action plans to implement the agreements entered into with the European Commission). Economic activity has slowed, despite remaining vibrant. Part of the slowdown is the natural consequence of the acceleration recorded in 1H 2021, which was unsustainable, and reflects the difficulties in sourcing commodities and semi-finished products due to the global production chain conditions; it also reflects the measures adopted since the end of the first half-year to tackle the spread of the Omicron variant.

The inflationary pressures have affected the entire production chain. The price of industrial raw materials in EUR terms rose by 11%, the annual change in the Industrial Producer Price (IPP) Index rose from 10.3% in June to 23.7% in November, the annual change in the Consumer Price Index (CPI) climbed from 1.9% in June to 5% in December. The factors underlying these tensions might not be temporary, particularly not at the cost stage, whereas the inflation expectations are influenced mostly by the wage bargaining during the year. Growth prospects remain solid for Europe, albeit mitigated by Omicron for the first quarter.

Against this backdrop, Italy's credit risk benefited throughout the six months from the high liquidity on the domestic government security market, the appealing yields offered, and the effective government action taken along the lines required by the European institutions. The BTP-Bund spread rose by approx. 35 bps during the period, to 135 bps, in response to the arrival of Omicron and the possible consequences of the events involving the election of the new President of the Republic of Italy on government action.

¹⁷ The NRRP, which stand for the National Recovery and Resilience Plan, is the strategy document put together by the Italian government to access the funds from the Next Generation EU programme. The document describes the investment priorities for the 2021-26 time horizon, identifying six main missions. Its objective is to relaunch the economic and social structure of the country, by leveraging in particular on digitalization, ecological transition and social inclusion.

Overall, the resilient level of economic activity in Italy, like in the other main economies, is due above all to the public intervention to address the Covid-19 pandemic. In Italy, the measures for 2021 have resulted in a nominal balance for GDP that shows a 9.4% deficit for 2021 (the structural balance shows an 8% deficit) and a deficit of 5.6% in 2022 (the structural balance shows a 6.1% deficit). According to official estimates, the national borrowing to GDP ratio should stand at 153.5% in 2021, falling to 149.5% in 2022.

The M&A market continues to be favourable. The six months just ended show record M&A volumes at global levels¹⁸, even though, after the record 3Q 2021 result (July-September), the global market began to show signs of slowing, with a 4% reduction, in part reflecting events on the US market (which was down 11%), against growth of 7% in Europe helped in part by the positive performance of Italy, on the back of the announcement of the TIM/KKR deal, which helped the continent as a whole to offset the reductions posted in France (down 10%) and Spain (down 20%).

In the course of 2021, the M&A market delivered record figures in terms of the volume of announced deals (up 64%) and the number of deals (up 28%), with EV/Ebitda multiples at the highest levels seen for ten years. There were, however, significant differences between the different geographical areas: the US market was dominated by high-tech (26% of volumes), where there were also record valuations (EV/Ebitda multiples as high as 25x). In Europe high-tech was again the leading sector but with a much less dominant role (13% of the EU market), and all the sectors traditionally found on the M&A market (FIG, Industrials, Energy, Real Estate) were largely balanced.

The consumer credit market in 2021 shows double-digit growth in the flows financed compared to 2020 (up 17% in value terms, to €72.5bn), reflecting the long rebound from the lows recorded in 2020 because of the pandemic. Volumes are still a long way off the levels seen pre-Covid in 2019 (8.5% lower), but the gap has at least reduced in the course of the year. The recovery has not yet materialized in full because of the cautious stance being adopted by households with regard to the propensity to buy and use credit, and by providers to grant credit.

¹⁸ Source: Refinitiv – Global Mergers & Acquisitions – announced deals.

All types of loans reflect growth versus 2020, but comparison with the pre-Covid period shows differing trends according to the segment concerned:

- Loans to support the purchase of mobility solutions have increased, driven by the second-hand market and the push for green mobility, up 18.5% on 2020 and up 1% versus 2019;
- A similar growth trend was seen for other special purpose loans (up 15.4% on 2020 and up 1.4% on 2019), mostly due to the good performance by instalment credit products;
- Salary-/pension-backed finance products rose by 8.7%, closing the gap versus 2019 (down 1.7%);
- Growth of 27% in personal loans reflects the lower new business for 2020, and this product continues to be the worst hit (down 15.5% versus 2019 and pre-Covid levels);
- Credit cards posted 12.1% growth for the twelve months of 2021, but have still not made up the ground lost since 2019 (7.7% lower).

(€m)

	2018		2019		2020		2021	
	(€m)	%	(€m)	%	(€m)	%	(€m)	%
Vehicle credit	5,861	9.8	6,371	9.7	6,664	12.5	7,896	10.9
Personal loans	24,499	41.1	26,123	39.6	17,563	33.0	22,370	30.8
Specific purpose loans	4,778	8.0	5,363	8.1	4,965	9.3	5,730	7.9
Credit cards	19,064	32.0	22,238	33.8	18,624	34.9	30,261	41.7
Salary-backed finance	5,339	9.0	5,801	8.8	5,491	10.3	6,271	8.7
	59,541	100.0	65,896	100.0	53,307	100.0	72,527	100.0

Source: Dataforce data compiled by Assofin; starting from 2021 credit cards are also included within the perimeter.

The residential property sector showed significant growth for the first nine months of 2021 compared to the equivalent period in the previous year, with the number of house sales up 43% (from 374,000 to 536,000).

At the same time, during the same period the mortgage market for property acquisitions by households in Italy rose by 30.4%, despite a reduction in the number of subrogations, posting total new loans of €45.7bn.

Meanwhile, in the course of 2021 the Italian leasing market financed over 612,000 new investments involving an amount of approx. €28.8bn. In cyclical terms, there was 30% growth quarter-on-quarter in 4Q. On an annualized basis, the sector has grown by one-quarter in size terms since 2020, with volumes now 3.1% higher than their pre-Covid levels. After the highs recorded in 2Q and 3Q 2021 the growth trend has consolidated, with year-on-year increases of 11.3% and 8.4% in 3Q and 4Q.

Consolidated profit-and-loss/balance-sheet data

The consolidated profit and loss account and balance sheet have been restated – including by business area – according to the new divisional segmentation, in order to provide the most accurate reflection of the Group’s operations.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	6 mths ended 31 December 2021	12 mths ended 30 June 2021	6 mths ended 31 December 2020	Chg. (%)
(€m)				
Profit-and-loss data				
Net interest income	733.5	1,415.0	720.4	1.8
Net treasury income	97.0	197.0	86.7	11.9
Net fee and commission income	443.2	744.7	382.8	15.8
Equity-accounted companies	185.7	271.7	110.9	67.4
Total income	1,459.4	2,628.4	1,300.8	12.2
Labour costs	(328.6)	(635.3)	(305.0)	7.7
Administrative expenses	(304.8)	(602.8)	(286.1)	6.5
Operating costs	(633.4)	(1,238.1)	(591.1)	7.2
Loan loss provisions	(137.3)	(248.8)	(117.7)	16.7
Provisions for other financial assets	1.2	48.4	13.1	n.m.
Other income (losses)	(34.5)	(85.6)	(33.4)	3.3
Profit before tax	655.4	1,104.3	571.7	14.6
Income tax for the period	(120.4)	(292.3)	(158.9)	(24.2)
Minority interest	(9.2)	(4.4)	(2.2)	n.m.
Net profit	525.8	807.6	410.6	28.1

CONSOLIDATED BALANCE SHEET

	(€m)		
	31/12/21	30/6/21	31/12/20
Assets			
Financial assets held for trading	12,123.2	11,273.7	11,559.7
Treasury financial assets and cash	10,436.3	8,072.1	8,676.8
Banking book securities	7,889.8	7,150.4	7,282.5
Customer loans	50,804.9	48,413.8	48,127.8
Equity Investments	4,726.7	4,579.0	4,505.1
Tangible and intangible assets	1,337.7	1,254.3	1,307.7
Other assets	1,777.9	1,855.4	1,875.5
Total assets	89,096.5	82,598.7	83,335.1
Liabilities and net equity			
Funding	59,285.8	56,156.2	55,943.6
Treasury financial liabilities	7,061.2	2,890.8	4,910.9
Financial liabilities held for trading	9,337.9	10,063.6	9,649.9
Other liabilities	2,163.0	2,215.9	2,086.9
Provisions	163.5	171.1	174.4
Net equity	10,460.9	10,205.2	10,066.1
Minority interests	98.4	88.3	92.7
Profit for the period	525.8	807.6	410.6
Total liabilities and net equity	89,096.5	82,598.7	83,335.1
<i>Tier 1 capital</i>	<i>7,352.4</i>	<i>7,689.4</i>	<i>7,872.3</i>
<i>Regulatory capital</i>	<i>8,457.9</i>	<i>8,919.2</i>	<i>9,240.8</i>
<i>Risk-weighted assets</i>	<i>47,842.2</i>	<i>47,159.3</i>	<i>48,693.9</i>
<i>Tier 1 capital/risk-weighted assets</i>	<i>15.37%</i>	<i>16.31%</i>	<i>16.17%</i>
<i>Regulatory capital/risk-weighted assets</i>	<i>17.68%</i>	<i>18.91%</i>	<i>18.98%</i>
<i>No. of shares in issue (million)</i>	<i>864.7</i>	<i>887.3</i>	<i>887.2</i>

BALANCE-SHEET/PROFIT-AND-LOSS DATA BY DIVISION

	(€m)					
6 mths ended 31/12/21	Wealth Management	Consumer Banking	Corporate and Investment Banking	Principal Investing	Holding Functions	Group
Profit-and-loss						
Net interest income	146.6	462.2	140.3	(3.5)	(25.5)	733.5
Net treasury income	4.1	—	63.3	12.5	15.7	97.0
Net fee and commission income	213.2	62.6	187.0	(0.7)	3.9	443.2
Equity-accounted companies	—	—	—	185.7	—	185.7
Total income	363.9	524.8	390.6	194.0	(5.9)	1,459.4
Labour costs	(130.7)	(51.3)	(84.8)	(1.6)	(60.3)	(328.6)
Administrative expenses	(125.0)	(97.2)	(75.7)	(0.5)	(14.7)	(304.8)
Operating costs	(255.7)	(148.5)	(160.5)	(2.1)	(75.0)	(633.4)
Loan loss provisions	—	—	—	—	—	—
Provisions for other financial assets	(8.4)	(95.9)	(17.8)	—	(15.2)	(137.3)
Other income (losses)	3.0	—	(1.0)	0.2	(1.1)	1.2
Profit before tax	—	—	(0.4)	—	(33.8)	(34.5)
Income tax for the period	102.8	280.4	210.9	192.1	(131.0)	655.4
Risultato di pertinenza di terzi	(30.2)	(90.3)	(70.2)	(7.5)	78.0	(120.4)
Net profit	(0.2)	—	(9.0)	—	—	(9.2)
Cost/Income (%)	72.4	190.1	131.7	184.6	(53.0)	525.8
<i>Cost/Income (%)</i>	<i>70.3</i>	<i>28.3</i>	<i>41.1</i>	<i>n.m.</i>	<i>n.m.</i>	<i>43.4</i>
Balance-sheet data						
Loans and advances to customers	14,772.5	13,305.0	21,039.8	—	1,687.6	50,804.9
Risk-weighted assets	5,219.9	12,139.9	20,706.5	6,898.3	2,877.6	47,842.2
No. of staff	2,087	1,451	629	10	796	4,973

Notes:

¹ Divisions comprise:

- Wealth Management (WM): this division brings together all portfolio management services offered to the various client segments, plus asset management. It includes CheBanca!, which targets the Premier client bracket; the MBPB and CMB Monaco private banking networks, and the asset management companies (Cairn Capital, Mediobanca SGR, Mediobanca Management Company, and RAM Active Investment), plus Spafid;
- Consumer Finance (CB): this division provides retail clients with the full range of consumer credit products, ranging from personal loans to salary-backed finance (Compass Banca and Compass RE);
- Corporate and Investment Banking (CIB): this division brings together all services provided to corporate clients in the following areas: investment banking (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca and Mediobanca International, Mediobanca Securities and Messier et Associés); and Specialty Finance, which in turn consists of factoring and credit management (including NPL portfolio acquisitions and management) performed by MBFACTA and MBCredit Solutions;
- Principal Investing (PI): division which brings together the Group's portfolio of equity investments and holdings;
- Holding Functions: division which includes SelmaBipiemme Leasing, MIS, Spafid Connect and other minor companies, plus the following Group functions: Treasury and ALM, operations, support and control, as well as the senior management of Mediobanca S.p.A.; for further details please refer to p. 62,

² The sum of divisional data differs from Group total due to adjustments/differences arising on consolidation between business areas,

	(€m)					
6 mths ended 31/12/20	Wealth Management	Consumer Banking	Corporate and Investment Banking	Principal Investing	Holding Functions	Group
Profit-and-loss						
Net interest income	137.0	448.4	148.5	(3.5)	(22.5)	720.4
Net treasury income	5.1	—	43.6	16.5	21.2	86.7
Net fee and commission income	160.0	66.7	172.2	—	6.7	382.8
Equity-accounted companies	—	—	—	110.9	—	110.9
Total income	302.1	515.1	364.3	123.9	5.4	1,300.8
Labour costs	(115.9)	(48.0)	(80.2)	(1.6)	(59.3)	(305.0)
Administrative expenses	(108.0)	(102.6)	(67.4)	(0.5)	(18.2)	(286.1)
Operating costs	(223.9)	(150.6)	(147.6)	(2.1)	(77.5)	(591.1)
Loan loss provisions	(11.8)	(143.5)	43.6	—	(6.0)	(117.7)
Provisions for other financial assets	1.5	(0.4)	1.0	19.2	(8.0)	13.1
Other income (losses)	—	(15.0)	(0.5)	—	(17.9)	(33.4)
Profit before tax	67.9	205.6	260.8	141.0	(104.0)	571.7
Income tax for the period	(21.0)	(68.0)	(89.4)	(12.6)	32.0	(158.9)
Risultato di pertinenza di terzi	—	—	(1.1)	—	(1.1)	(2.2)
Net profit	46.9	137.6	170.3	128.4	(73.1)	410.6
<i>Cost/Income (%)</i>	<i>74.1</i>	<i>29.2</i>	<i>40.5</i>	<i>n.m.</i>	<i>n.m.</i>	<i>45.4</i>
Balance-sheet data						
Loans and advances to customers	14,029.0	12,776.8	19,522.4	—	1,799.6	48,127.8
Risk-weighted assets	5,038.0	11,541.5	20,689.9	8,259.0	3,165.5	48,693.9
No. of staff	2,023	1,454	616	11	799	4,903

Balance sheet

The Group's total assets increased by 7.9% in the six months, from €82.6bn to €89.1bn, with parent company Mediobanca's contribution rising from 53.4% to 54.6%. The main balance-sheet items showed the following trends for the six months under review (comparative data as at 30 June 2021).

Funding – funding totalled €59.3bn, up 5.6% on 30 June 2021 (€56.2bn), with most of the increase due to the success of the income source diversification strategy, in Wealth Management in particular, based on working even more synergistically with CIB mid-corporate, where funding rose from €25.2bn to €27.2bn (and now accounts for approx. 46% of the total funding), following strong growth in the Private Banking channel (up €1.9bn); the contribution from the Premier remained stable in volume terms (€17bn), and is impressive for its positive impact in terms of reducing the cost of funding, given its increasing stability.

Funding via the European Central Bank, in the form of the T-LTRO facility, was increased during the six months, for opportunistic reasons largely dictated by the extension of the particularly favourable terms on offer, up from €7.4bn to €8.4bn, and its duration extended (to approx. 2.5 years), following the renegotiation of a €2.5bn tranche in September 2021. Debt securities rose by approx. €500m (from €18.4bn to €18.9bn), leveraging on favourable market windows which enabled the Bank to come to market in very advantageous conditions, with €1.1bn in new issues – including the second senior non-preferred bond (€500m, seven-year maturity, fixed rate at 0.75%) placed with institutional investors in September 2021, against maturities and market repurchases in the period for a total of €0.7bn. These operations together enabled the Group to deliver excellent results in terms of the overall cost of funding (60 bps), reducing gradually but consistently (by approx. 5 bps) compared to the pro forma data at 30 June 2021, helped in part by the modelling for the Premier component, which allowed the timing profile to be extended and interest rate risk to be stabilized.

	31/12/21		30/6/21		Chg.
	(€m)	%	(€m)	%	
Debt securities (incl. ABS)	18,868.5	32%	18,410.9	33%	2.5%
CheBanca! retail funding	17,028.0	29%	16,919.7	30%	0.6%
Private Banking deposits	10,219.5	17%	8,290.4	15%	23.3%
LTRO	8,449.4	14%	7,445.4	13%	13.5%
Interbank funding (+CD/CP)	4,720.4	8%	5,089.8	9%	(7.3%)
Total funding	59,285.8	100%	56,156.2	100%	5.6%

Loans and advances to customers – customer loans were up 4.9%, from €48.4bn to €50.8bn, on good performances in all segments, in particular Corporate and Investment Banking (up 9.1%) as a result of the entry of certain large deals to Wholesale Banking clients (up from €16.6bn to €17.4bn) plus the outstanding performance from factoring at the year-end (balances as at 31 December €3.2bn). Customer loans in Consumer Finance rose by 2.8% (from €12.9bn to €13.3bn), on a higher contribution from vehicle finance and special purpose loans which were rose by 7% (from €3.9bn to €4.2bn) and personal loans (up 1%, from €6.7bn to €6.8bn), while the share accounted for by salary-backed finance was basically unchanged at €1.8bn. The increase in Wealth Management was smaller (up 2.6%, from €14.4bn to €14.8bn), split equally between mortgages (up 1.7%, from €11.1bn to €11.3bn) and Private Banking loans (up 6%, from €3.3bn to €3.5bn).

In the first six months, new loans in Wholesale Banking totalled €4.9bn (up 59% on the same period last year), in Consumer Finance €3.7bn (up 25%), with €1.7bn in personal loans (up 42%, most of which generated by the proprietary network), while new mortgage loans totalled €859m, a 20% reduction for the six months (down from €1,070.2m), mostly absorbed by the lower early redemptions (including customers changing lenders). In factoring the volumes acquired (or turnover) amounted to €5.7bn (up 29.4%).

	31/12/21		30/6/21		Chg.
	(€m)	%	(€m)	%	
Corporate & Investment Banking	21,039.8	42%	19,292.3	40%	9.1%
Consumer loans	13,305.0	26%	12,942.9	27%	2.8%
Wealth Management	14,772.5	29%	14,404.5	30%	2.6%
Holding Functions (leasing)	1,687.6	3%	1,774.1	3%	(4.9%)
Total loans and advances to customers	50,804.9	100%	48,413.8	100%	4.9%

(€m)

	31/12/21				30/6/21			
	Performing		NPL ¹	Total	Performing		NPL ¹	Total
	Stage 1	Stage 2			Stage 1	Stage 2		
Corporate & Investment Banking	20,030.1	498.0	511.7	21,039.8	18,173.8	631.0	487.5	19,292.3
Consumer Banking	11,533.9	1,593.1	178.0	13,305.0	11,240.2	1,467.3	235.4	12,942.9
Wealth Management	13,766.0	883.8	122.7	14,772.5	13,328.1	960.1	116.3	14,404.5
Holding Functions (leasing)	1,317.6	286.7	83.3	1,687.6	1,331.7	337.7	104.7	1,774.1
Total loans and advances to customers	46,647.6	3,261.6	895.7	50,804.9	44,073.8	3,396.1	943.9	48,413.8
As % of total	91.8%	6.4%	1.8%	100%	91.1%	7.0%	1.9%	100%
Total loans and advances to customers*	46,647.6	3,261.6	487.1	50,396.3	44,073.8	3,396.1	560.2	48,030.1
As % of total	92.5%	6.5%	1.0%	100%	91.7%	7.1%	1.2%	100%

¹ Excluding NPLs purchased by MBCredit Solutions.

	31/12/21			30/6/21		
	Gross	Net	Coverage ratio %	Gross	Net	Coverage ratio %
Corporate Investment Banking	221.1	103.1		225.0	103.8	53.9%
Consumer Banking	847.0	178.0		971.5	235.4	75.8%
Wealth Management	234.1	122.7		226.1	116.3	48.6%
Holding Functions (leasing)	168.3	83.3		174.5	104.7	40.0%
Total net non-performing loans*	1.470.5	487.1		1.597.1	560.2	64.9%
– of which: bad loans	438.3	62.5		510.1	72.0	
As % of total loans and advances	2.8%	1.0%		3.2%	1.2%	

* Excluding NPLs purchased by MBCredit Solutions.

Gross non-performing loans¹⁹ decreased from €1,597.1m to €1,470.5m (down €126.6m), and represent 2.8% (3.2% at 30 June 2021) of the total loan book, once again at all-time low levels. The reduction is chiefly attributable to Consumer Finance, which recorded very low levels of new entries to default in the six months, helped by disciplined credit recovery activity, very good results in terms of collections and accounts returning to performing status. The excellent asset quality has enabled the Group to continue with its prudent provisioning policy in these six months too (with the coverage ratio increasing from 64.9% to 66.9%), thus reducing net NPLs from €560.2m to €487.1m, now just 1% of total loans (1.2%). The level of bad debts is now also entirely residual (€62.5m on a net basis, representing just 0.1% of total loans, with a coverage ratio of 85.7%). This item does not include the NPLs acquired by the Group and managed by MBCredit Solutions, which in the six months increased from €383.7m to €408.6m.

In identifying exposures as being non-performing, considerable emphasis has been given to the effects of the pandemic on clients' reference sectors, with attention also being given to the effective resumption of repayments by borrowers for which the moratoria periods granted have now ended. The monitoring practices adopted follow the ECB guidance of December 2020²⁰. The performing portfolio has therefore been subject to careful analysis, and borrowers who have applied for waivers or obtained moratoria in particular have been analysed to assess whether or not there has been a significant increase in credit risk (SICR), based *inter alia* on qualitative considerations. The qualitative and quantitative criteria for determining whether an exposure should be classified as forborne, which are unchanged from the situation pre-Covid, are assisted by the closer analysis and assessment of the applications received.

¹⁹ The gross NPL ratio Finrep (calculated net of the NPLs acquired) stood at 2.4% (30/6/21: 2.8%); for further details, please see Part E of the Notes to the Accounts.

²⁰ ECB (SSM-2020-0744) "Identification and measurement of credit risk in the context of the coronavirus (Covid-19) pandemic", sent to the CEOs of all significant institutions on 4 December 2020.

As at 31 December 2021, positions classified as Stage 2 amounted to €3,261.6m, down slightly in the course of the six months (from €3,396.1m), due chiefly to the reduction in Wholesale Banking (from €548.4m to €398.3m) reflecting repayments of €144.9m, returns to Stage 1 in an amount of €88.7m, and new entries of €111m. More than 90% of the moratoria still outstanding (€322.3m) are classified as Stage 2.

The coverage ratio for the Group's total performing loans is 1.32% (30/6/21: 1.36%); in Consumer Finance the coverage ratio rises from 3.62% to 3.75%, near to its highest ever levels (vs 2.71% at end-December 2019).

Moratoria (Gross book value)	Granted until 31/12/21 ¹	Expired ²	Residual until 31/12/21	% Loans and advances to customers ³	of which Stage 1
Corporate and Investment Banking	4.9	2.1	2.8	0.0%	2.6
Consumer Banking	971.0	946.7	24.4	0.2%	0.1
Wealth Management	628.4	523.7	104.6	0.7%	—
Leasing (holding function)	618.0	376.5	241.5	13.5%	—
Total Moratoria for Covid-19	2,222.3	1,848.9	373.4	0.7%	2.7
- of which Decreto Cura Italia	46.4%		83.9%		
- of which industry-wide initiatives	28.9%		0.5%		
- of which individual initiative ⁴	24.7%		16.3%		

¹ Gross book value net of collections and repayments as at 31 December 2021.

² Moratoria paid off, i.e. those for which the payment suspension terms have ended and the normal repayment schedule has resumed.

³ Covid-related moratoria outstanding as a percentage of gross customer loans at 31 December 2021.

⁴ Moratoria granted on a voluntary basis at the Bank's own initiative.

As at 31 December 2021, the moratoria outstanding²¹ amounted to approx. €373.4m (0.7% of gross total loans, compared with 1.4% at end-June 2021), representing a sharp reduction from the peak recorded in May 2020 (approx. 5% of loans), and represent approx. 15% of the total amount granted during the pandemic (€2.5bn). The remaining stock is concentrated in leasing (65%) and mortgage lending (28%), whereas the share in Consumer Finance concerns exclusively normal deferment activity which itself is down sharply compared to the pre-pandemic levels (€24.4m, 2.5% of the total). The outstanding moratoria are all subject to a prudent assessment process, which has led to 91% of them being classified as Stage 2 and 9% as Stage 3; as follows:²²

²¹ As well as adhering to the moratoria initiatives provided under the terms of the "Cura Italia", "Liquidità", and "Sostegni-bis" decrees, and those promoted by the category associations (primarily ABI and Assofin), the Mediobanca Group has also launched its own initiatives on a voluntary basis, in Consumer Finance in particular, based on the conviction that it is of fundamental importance to provide its clients with assistance in these challenging times.

²² Gross figures.

- Moratoria granted in leasing amounted to just under €618m, 84% of which under the terms of the “*Cura Italia*” decree; of these, €6.5m (0.4% of total loans) are still outstanding at 31 January 2022. As at the same date, 90% of the moratoria that had expired had resumed making regular payments²³, with only 10% not having resumed paying (approx. 40% of which were already non-performing when the suspension was granted), and less than 1% have applied for a further extension;
- Moratoria granted for mortgages totalled €627.4m, 67% of which under the “*Cura Italia*” decree; of these, €104.6m (or 0.9% of total loans) are still outstanding, with 23.4% resuming payments in January, 44.2% to do so by 31 March 2022 and the remainder subsequently. Of the moratoria that have expired (€104.6m), 2% are past due, while 9% have applied for a further extension;
- Corporate Banking was unaffected by moratoria (the only item of relevance being an amount of just under €3m in factoring); as at 31 December 2021, of the thirty or so applications for waivers received since the start of the pandemic, chiefly for covenants to be revised, requests for repayments (of principal and/or interest) to be deferred are marginal (€8m). Since the start of the pandemic, just three applications have been classified as forbearance measures.

It should also be noted that as at 31 December 2021, Mediobanca S.p.A. had a total of seven positions outstanding with SACE coverage under the terms of the “*Liquidità*” decree law, involving a total exposure of €167.1m (30/6/21: €203m).

Investment holdings²⁴ – these increased, from €4.6bn to €4.7bn, €3.8 of which consisting of the investment in Assicurazioni Generali, €683.1m of investments in funds, and €242.7m in equities (listed and unlisted) recognized at fair value through profit and loss.

The book value of the Assicurazioni Generali investment increased, from €3,663.1m to €3,761.9m, virtually aligned with the market value at end-2021 (€3,776.6m); the pro rata profit for the six months (€186.5m) was only in part offset by collection of the second tranche of the 2019 dividend distributed in October 2021 (€93.1m), against a very small change in the valuation reserve (up €0.9m). The Group’s investment in IEO fell from €39.7m to €39m, reflecting the

²³ Net of the positions that were already non-performing when the moratoria were granted, the percentage of positions past due and non-performing reduces further, from 10% to 6%.

²⁴ This heading brings together investments covered by IAS28, investments measured at fair value through other comprehensive income (formerly AFS), and funds (including seed capital) recognized at fair value through profit and loss.

pro rata loss for the period which continues to be impacted by the slowdown in specialist medical services due to the ongoing Covid-related emergency.

With reference to investments in funds, approx. 70% involve investments in seed capital, the value of which increased from €442.1m to €473.4m following net subscriptions of €26.4m (chiefly the new Mediobanca SGR initiatives for Premier clients) and increases in current NAV worth €4.9m; other holdings in funds (mostly private equity) decreased from €213.4m to €209.7m on net redemptions totalling €5m in part offset by the positive adjustment to NAV (up €1.4m).

Investment equities rose from €220.5m to €242.7m as a result of the values of the two main listed equities held being aligned to stock market prices at 30 December 2021 (RCS: up €6m and Italmobiliare: up €6m), the increase in fair value of the holdings in unlisted shares (up €6.8m), and new investments totalling €3.5m.

(€m)

	31/12/21		30/6/21	
	Book value	HTC&S reserve	Book value	HTC&S reserve
IAS28 investments	3.800.9	n.d.	3.702.8	n.a.
Listed shares	142.3	84.0	130.2	71.9
Other unlisted shares	100.4	70.1	90.3	63.4
Seed capital	473.4	—	442.1	—
Private equity	85.5	—	82.2	—
Other funds	124.2	—	131.2	—
Total equity holdings	4.726.7	154.1	4.578.8	135.3

No indicators of impairment as defined by the Group policy (IAS36) were noted for either of the IAS28 investments; accordingly, it was not considered necessary to run impairment tests on their value. For further details please see the Notes to the Accounts, Assets, section 7 – Equity investments.

(€m)

	% ownership	31/12/21	30/6/21
Assicurazioni Generali	12.87	3.761.9	3.663.1
Istituto Europeo di Oncologia	25.37	39.0	39.7
Total IAS28 investments		3.800.9	3.702.8

Banking book debt securities

(€m)

	31/12/21		30/6/21	
	(€m)	%	(€m)	%
Hold to Collect	3.125.6	40%	2.723.8	38%
Hold to Collect & Sell	4.763.3	60%	4.346.9	61%
Other (Mandatorily measured at FV)	0.9	0%	79.7	1%
Total banking book securities	7.889.8	100%	7.150.4	100%

These totalled €7.9bn, €3.1bn of which classified as Hold to Collect and €4.8bn as Hold to Collect & Sell. The 10.3% increase in this heading since 30 June 2021 (from €7.1bn) chiefly regards subscription for €825m to the senior tranche (rating A2 Moody's and A low DBRS) of a securitization of non-performing loans originated by one of the leading Italian groups. Part of the investment is due to be syndicated as soon as the state guarantee on securitization of non-performing assets ("*Garanzia dello Stato sulla Cartolarizzazione delle Sofferenze*", or "GACS") has been received, hence the securities have been booked to the Hold To Collect & Sell portfolio.

Net of this deal, purchases and subscriptions for the six months (€2.2bn) outweighed sales and redemptions (€1.4bn), with gains of €17m realized, more than half of which (€10.8m) against the OCI reserve, the amount of which, given the lower period-end valuations (down €14.3m) also affected by the coupon on inflation-linked securities, decreased from €73m to €48.7m. Unrealized gains on the Hold to Collect securities (recognized at cost) totalled €116.9m (30/6/21: €94m).

The government securities portfolio totalled €5.3bn (approx. three-quarters of the total), more than 60% of which (€3.2bn) are Italian, with a duration of three years.

	31/12/21			30/6/21		
	Book value		OCI reserve	Book value		OCI reserve
	HTC	HTC&S		HTC	HTC&S	
Italian government bonds	1.342.6	1.843.8	32.1	1.272.4	2.229.3	41.6
Foreign government bonds	760.3	1.325.9	(1.8)	506.9	1.366.5	(1.3)
Bond issued by financial institutions	506.5	519.8	14.4	570.2	468.6	20.5
Corporate bonds	151.2	249.5	5.3	144.4	282.5	12.2
Asset Bucket Securities (ABS)	365.0	824.3	(1.3)	229.9	—	—
Total banking book securities	3.125.6	4.763.3	48.7	2.723.8	4.346.9	73.0

Net treasury assets – these were basically unchanged (down from €6.4bn to €6.2bn) but reflect changes in the mix: much of the net treasury assets have been invested in financial instruments for trading (from €1.2bn to €2.8bn), in particular in equities (up €1.1bn as a result of trading, both proprietary and client, hedged by derivatives with counterparties of high credit standing) and short-term loans (up €300m) repaid in January 2022. Deposits held with the ECB increased from €1.8bn to €2.8bn, ahead of the reductions anticipated in the first half of 2022 and to stabilize the short-term liquidity metrics against the increased use of time deposits with corporate counterparties, a market that was particularly remunerative towards end-2021.

	31/12/21	30/6/21	Chg.
	(€m)	(€m)	
Financial assets held for trading	12,123.2	11,273.7	7.5%
Treasury financial assets and cash	10,436.3	8,072.1	29.3%
Financial liabilities held for trading	(9,337.9)	(10,063.6)	(7.2%)
Treasury financial liabilities	(7,061.2)	(2,890.8)	n.m.
Net treasury assets	6,160.4	6,391.4	(3.6%)

	31/12/21	30/6/21	Chg.
	(€m)	(€m)	
Equities	3,387.0	2,263.8	49.6%
Bond securities	1,014.9	939.4	8.0%
Derivative contract valuations	(160.3)	(107.8)	48.6%
Certificates	(1,825.8)	(1,889.3)	-3.4%
Trading loans	369.4	4.0	n.m.
Financial instruments held for trading	2,785.2	1,210.1	n.m.

	31/12/21	30/6/21	Chg.
	(€m)	(€m)	
Cash and current accounts	1,933.8	1,851.4	4.5%
Cash available at BCE	2,837.0	1,845.2	53.8%
Deposits	(1,395.6)	1,484.7	n.m.
Net treasury	3,375.2	5,181.3	-34.9%

	31/12/21		30/6/21	
	Assets	Liabilities	Assets	Liabilities
	(€m)	(€m)	(€m)	(€m)
Italian government bonds	1,645.2	(1,395.5)	1,758.3	(1,741.4)
Foreign government bonds	691.8	(1,761.5)	1,120.0	(2,059.3)
Bond issued by financial institutions	1,140.8	—	1,196.4	—
Corporate bonds	442.3	(0.9)	537.5	(0.9)
Asset Backet Securities (ABS)	252.7	—	128.8	—
Equities	3,672.6	(285.6)	2,524.5	(260.7)
Total securities	7,845.4	(3,443.5)	7,265.5	(4,062.3)

	31/12/21		30/6/21	
	(€m)		(€m)	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	610,9	(587,8)	541,5	(478,3)
Foreign exchange	353,5	(341,0)	214,6	(296,0)
Interest rate options/futures	17,5	(17,5)	5,5	(20,1)
Equity swaps e options	2,668,3	(2,821,2)	2,922,9	(2,961,8)
Credit derivatives (others)	258,2	(301,1)	319,9	(355,8)
Derivative contract valuations	3,908,4	(4,068,6)	4,004,3	(4,112,0)

	31/12/21		30/6/21	
	(€m)		(€m)	
	Assets	Liabilities	Assets	Liabilities
Securities lending/repos deposits	2,852,9	(3,813,5)	3,009,5	(1,548,9)
Stock lending deposits	1,703,6	(1,355,7)	407,1	(449,5)
Other deposits	1,109,1	(1,892,0)	962,1	(895,6)
Deposits	5,665,6	(7,061,2)	4,378,7	(2,894,0)

Tangible and intangible assets – these totalled €1.3bn, an increase of 6.6% attributable exclusively to intangible assets (which rose from €744.1m to €836.6m), reflecting the closing of the Bybrook acquisition and the related Purchase Price Allocation process²⁵. By contrast, tangible assets decreased slightly, from €510m to €501m.

The Bybrook deal entailed intangible assets of €89.5m being booked, mostly in relation to underlying fund management activity (approx. €80m), €70.1m of which regards funds with indefinite life (AUM of €1.1bn) and €10.1m closed-end funds (AUM of €1.1bn), to which a residual life of ten years has been assigned and which have been amortized as to €331,000. Post-PPA a figure of €9.3m has been determined for goodwill²⁶, to take account of the deferred tax.

There were also purchases of software of approx. €11m and adjustments to goodwill in foreign currencies (against the relevant net equity reserve), most of which was offset by the depreciation and amortization charges (€14.2m).

Tangible assets reflect depreciation of €28.1m (€19.4m of which for leasing assets), offsetting the net effect of operations under IFRS 16 on leases (adding €10.8m), improvements (which added €4.1m) and further minor acquisitions.

²⁵ The PPA process for the Cairn/Bybrook deal is to be closed within twelve months of the acquisition date, and only marginal tax adjustments are anticipated from now on, which will be finalized definitively by the end of 3Q.

²⁶ The amount in Euros has been calculated based on the exchange rate prevailing at end-December 2021 of 0.8403. The corresponding amounts in GBP are as follows: intangible assets with indefinite life: £58.9m; intangible assets with definite life: £8.5m; goodwill: £7.3m.

As provided by IAS36 and the Group's policy, the impairment indicators for goodwill have been reviewed (analysis of closing data and any departures from budget, updated cost of equity of the individual CGUs), without the need for the impairment testing to be carried out emerging.

	31/12/21		30/6/21		Chg.
	(€m)	%	(€m)	%	
Land and properties	449.8	34%	459.8	37%	(2.2%)
- of which: core	175.0	13%	176.7	14%	(1.0%)
<i>buildings RoU ex IFRS16</i>	207.9	16%	212.4	17%	(2.1%)
Other tangible assets	51.3	4%	50.4	4%	1.8%
- of which: RoU ex IFRS16	9.6	1%	10.3	1%	(6.8%)
Goodwill	615.5	46%	602.4	48%	2.2%
Other intangible assets	221.1	16%	141.7	11%	56.0%
Total tangible and intangible assets	1,337.7	100%	1,254.3	100%	6.6%

(€m)

Transaction	31/12/21	30/6/21
Compass-Linea	365,934	365,934
Spafid	3,733	3,733
Cairn Capital	53,600	43,272
- of which: ex- Bybrook	9,408	—
MB Private Banking	52,103	52,103
RAM	46,932	44,168
Messier et Associés	93,153	93,153
Total Goodwill	615,455	602,363

Provisions – these totalled €163.5m, slightly lower than the €171.1m recorded at end-June. The amount is split between provisions to meet commitments and guarantees (down from €27.2m to €24.6m), the staff severance and post-retirement provisions (down from €28.3m to €27.1m), and the provision for risks and charges (down from €115.6m to €111.8m, against transfers of €16.3m and reversals of €20.4m). The balance of the latter item is chiefly attributable to Mediobanca (€68.8m), Compass (€16.8m), CheBanca! (€14.4m) SelmaBipiemme (€5.1m) and CMB (€2.2m). For the six months under review, the Lexitor-related provision remained unchanged at €12m, while there was a substantial reversal of the provision set aside for SelmaBipiemme (€3.1m), in the wake of the favourable ruling by the Milan Province Tax Commission regarding the claim for repayment of interest accrued as part of the VAT disputes for 2005, which the Commission has not challenged.

For further details please see the Notes to the Accounts, Liabilities, section 10 – Provisions.

	31/12/21		30/6/21		Chg.
	(€m)	%	(€m)	%	
Commitments and financial guarantees given	24.6	15%	27.2	16%	(9.6%)
Provisions for risks and charges	111.8	68%	115.6	68%	(3.3%)
Staff severance indemnity provision	27.1	17%	28.3	16%	(4.2%)
<i>of which: staff severance provision discount</i>	4.7	—	4.1	—	14.6%
Total provision	163.5	100%	171.1	100%	(4.4%)

Net equity – net equity totalled €11bn, basically unchanged from the figure reported at 30 June 2021. The profit for the period (€525.8m), plus the slight increase in the valuation reserves (from €931.2m to €960.2m) were absorbed by distribution of the 2021 dividend (€569.2m) and the new treasury shares bought back.

In December 2021, after a total of 22,581,461 shares were cancelled, the buyback scheme was launched, with 2,840,891 shares already repurchased. Accordingly, as at 31 December 2021 the Bank held a total of 2,866,699 treasury shares worth €28.5m.

	31/12/21		30/6/21		Chg.
	(€m)		(€m)		
Share capital	443.6		443.6		<i>n.m.</i>
Other reserves	9,057.1		8,830.4		2.6%
Valuation reserves	960.2		931.2		3.1%
- of which: <i>Other Comprehensive Income</i>	177.3		175.8		0.9%
<i>cash flow hedge</i>	10.9		(16.0)		<i>n.m.</i>
<i>equity investments</i>	781.3		780.4		0.1%
Profit for the period	525.8		807.6		(34.9%)
Total Group net equity	10,986.7		11,012.8		(0.2%)

The cash flow hedge reserve returned to positive territory at €10.9m, reflecting the trend in market rates for the hedges on the Group legal entities' funding.

The OCI reserve was also in positive territory at €177.3m, following the tax effect of €25.6m, split between equities (€154.1m) and bonds and other securities (€48.7m), which includes Italian government securities of €32.1m.

	31/12/21	30/6/21	(€m) Chg.
Equity shares	154.1	135.4	13.8%
Bonds	48.7	73.0	-33.3%
<i>of which: Italian government bonds</i>	<i>32.1</i>	<i>41.6</i>	<i>-22.8%</i>
Tax effect	(25.6)	(32.6)	-21.7%
Total OCI reserve	177.3	175.8	0.9%

Profit and loss account

Net interest income – net interest income totalled €733.5m, up 5.6% HoH and up 1.8% YoY. Consumer Finance returned to growth, with NII up 3.1%, from €448.4m to €462.2m), with new loans now back to near pre-Covid levels, and profitability which, despite the different mix and the competitive pressures, was helped by the overturn of the Lexitor²⁷ ruling which impacted less on refunds payable for cases of early repayments as a result (down from €10m to €2m) The good performance in Wealth Management (NII up 7%, from €137m to €146.6m) helped cushion the reduction in Corporate and Investment Banking (down 5.5%, from €148.5m to €140.3m), due to the widespread reduction in lending rates plus the major one-off item which boosted the previous year's result (approx. €8m related to the Burgo renegotiation). Wholesale Banking, against values in line with the recent past in lending and structured finance, lost profitability, reporting NII of €77.4m (€84.8m), also reflecting the unfavourable comparison with last year's one-off gain; client activity was basically stable, despite the different trading portfolio composition; NII earned from Speciality Finance rose by 3.1% (€37m), while the Premier segment (NII up 6.8%, from €111.9m to €119.5m), was helped by the direct funding model given that the mortgage loan volume effect has largely wiped out by the lower spreads. The Holding Functions' performance was basically flat despite the substantial liquidity position and the gradual reduction in the banking book securities' profitability, which for the six months reflects the one-off gains on inflation-linked securities. The consistent and gradual reduction in the cost of funding continues, helped increasingly by the higher retail deposits (which account for 46% of the total) and less expensive funding sources (T-LTRO), and for the six months under review was approx. 60 bps, 5 bps lower than the pro forma figure at 30 June 2021 (65 bps).

²⁷ Italian Law 106/2021 came into force on 26 July 2021, which revised the wording of Article 125-sexies of the Italian Banking Act, and clarified that the reversal of upfront fees will apply only to contracts executed after the Lexitor ruling; this stance was subsequently confirmed also by the Bank of Italy in a communication issued by the central bank.

	(€m)		
	6 mths ended 31/12/21	6 mths ended 31/12/20	Chg.
Consumer Banking	462.2	448.4	3.1%
Wealth Management	146.6	137.0	7.0%
Corporate and Investment Banking	140.3	148.5	(5.5%)
Holding Functions and other (including IC)	(15.6)	(13.5)	15.6%
Net interest income	733.5	720.4	1.8%

Net treasury income – net treasury income totalled €97m, up 11.9% on last year (€86.7m), on a good return to form by Corporate and Investment Banking, posting income of €63.3m (€43.6m) which reflects the recovery in client business (CMS €46.7m, compared with €32m), in the equity area in particular (€40.8m, compared with €11.1m). The proprietary portfolio matched last year’s performance with revenues of €35m (€38m), following an increasing contribution from trading activity (€19.1m; up €2.1m), against lower gains realized on the banking book of €16.6m (€23.1m). The contribution from Principal Investing decreased from €16.5m to €12.5m, taking into account the pro rata share of the cost of the Assicurazioni Generali securities lending transaction (€2.1m), a result which confirms the good income flow from dividends and fund distributions.

	(€m)		
	6 mths ended 31/12/21	6 mths ended 31/12/20	Chg.
Corporate Investment Banking	63.3	43.6	45.2%
<i>of which: client business</i>	46.3	21.6	n.m.
Principal Investing	12.5	16.5	(24.2%)
Holding Functions	15.7	21.2	(25.9%)
Other (including Intercompany)	5.5	5.4	1.9%
Net treasury income	97.0	86.7	11.9%

Net fee and commission income – net fee and commission income climbed by 15.8%, from €382.8m to €443.2m, on a growing contribution from the two principal business lines: fees earned by Wealth Management rose to €213.2m, taking its past Corporate and Investment Banking, which reported lower growth (up 8.6%, from €172.2m to €187m). The increase in Wealth Management (up 33.3%, from €160m to €213.2m), reflects an impressive performance in the recurring component related to indirect funding, and the substantial contribution made by upfront fees which include placement commissions (up from €19.4m to €35.2m, approx. half of which refers to the private market initiative in co-operation with BlackRock) and performance fees (up from €4.5m to €9.7m). Corporate and Investment Banking replicated its positive performances in recent quarters; in particular, Wholesale Banking delivered fees of €154.7m, on a growing contribution from M&A advisory

(up from €67.7m to €98.2m, underpinned by the results of Messier et Associés (€45.8m of fees generated in 6M) and strong business with Mid Corporate clients (up from €6m to €16m). Consumer Finance was unable to match this trend, with fees declining from €66.7m to €62.6m, reflecting the recovery in new loans which meant that higher *rappel fees* became payable.

	6 mths ended 31/12/21	6 mths ended 31/12/20	(€m) Chg.
Wealth Management	213.2	160.0	33.3%
Corporate & Investment Banking	187.0	172.2	8.6%
Consumer Banking	62.6	66.7	-6.1%
Holding Functions and other (including intercompany)	(19.6)	(16.1)	21.7%
Net fee and commission income	443.2	382.8	15.8%

Equity-accounted companies – the contribution from the equity-accounted companies grew from €110.9m to €185.7m, because of the improved performance by Assicurazioni Generali (up from €112.5m to 186.5m), split equally across the two quarters (€95.1m in 1Q and €91.4m in 2Q), due to growth in the life insurance and asset management segments, with property and casualty resilient, plus the absence of extraordinary items. IEO posted a slight pro rata loss for the six months of €0.7m, reflecting the effects of the medical emergency on specialist healthcare and outpatient activity.

Operating costs – these were up 7.2%, from €591.1m to €633.4m, making up the gap that had accumulated during the first phase of the pandemic in terms of project activities and investments in technology (data processing and info-provider expenses were up 7%), and marketing and communication (up 12%), while travel expenses were three times higher. The figures also reflect the consolidation of Bybrook as to just under €3m, €2m of which in labour costs. Despite the growth, the cost/income ratio decreased from 45.4% at 43.4%, with the main components performing as follows:

- Labour costs rose by 7.7% (from €305m to €328.6m), on the back of the commercial network enhancement and adjustments to the accruals for variable remuneration to reflect the good results for the period; labour costs in Wealth Management rose by 12.8% (from €115.9m to €130.7m), on an increase in the headcount of 64 professionals, in the commercial area primarily, especially in the Premier segment; labour costs in Corporate and Investment Banking were up 5.7% (from €80.2m to €84.8m), reflecting an increase to address a certain recovery in the turnover levels, and adjustments to the accruals for variable component to revenues. Consumer Finance saw labour costs return to 2019 levels, at €51.3m (up 6.9% year-on-year);

- Administrative expenses climbed 6.5%, from €286.1m to €304.8m, in line with the resumption in commercial and project activities. Spending in Wealth Management rose by 15.7% (from €108m to €125m), due in particular to technology modernization and project initiatives (up 12%), as well as the network expansion (up 9%) and higher business volumes (up 24%); by contrast, Consumer Finance saw spending decrease by 5.3%, from €102.6 to €97.2m, helped by the lower credit recovery expenses (down €5m) due to the positive performance of the moratoria, and the low number of entries to non-performing status, despite an increase in marketing expenses (up €3m). Administrative expenses in Corporate and Investment Banking rose by 12.3% (from €67.4m to €75.7m), reflecting the resumption in marketing, travel and entertainment expenses (up approx. 70% on last year, albeit still just half the total recorded in 2019), plus a generalized increase in spending on technology (up 12%) and expenses in relation to managing the MBCredit Solutions NPL portfolio (from €8.6m to €11.2m).

	6 mths ended 31/12/21	6 mths ended 31/12/20	(€m) Chg.
Labour costs	328.6	305.0	7.7%
<i>of which: directors</i>	3.8	5.2	(26.9%)
<i>stock option and performance share schemes</i>	5.7	4.7	21.3%
Sundry operating costs and expenses	304.8	286.1	6.5%
<i>of which: depreciations and amortizations</i>	42.3	42.9	(1.4%)
<i>administrative expenses</i>	262.5	243.2	7.9%
Operating costs	633.4	591.1	7.2%

	6 mths ended 31/12/21	6 mths ended 31/12/20	(€m) Chg.
Legal, tax and professional services	9.2	8.1	13.6%
Other consultancy expenses	16.4	15.6	5.1%
Credit recovery activities	27.1	30.0	(9.7%)
Marketing and communication	18.2	16.3	11.7%
Rent and property maintenance	10.5	10.4	1.0%
EDP	70.2	67.3	4.3%
Financial information subscriptions	24.8	21.6	14.8%
Bank services, collection and payment commissions	15.3	12.4	23.4%
Operating expenses	29.5	31.4	(6.1%)
Other labour costs *	4.3	2.2	95.5%
Other costs	23.1	14.9	55.0%
Direct and indirect taxes	13.9	13.0	6.9%
Total administrative expenses	262.5	243.2	7.9%

* This heading includes travel and conference expenses.

Loan loss provisions – these increased by 16.7%, from €117.7m to €137.3m, due to more prudent management of the loan book which caused the NPL coverage

ratio to be increased without having to use overlays (unchanged at €292m), despite the good performance in terms of collections (including the residual moratoria) and the other risk indicators. The year 2022 looks very uncertain: inflationary pressure and the increases in the costs of energy and raw materials could trickle down to corporate profits and households' disposable incomes. Against this backdrop it has been decided not to incorporate the new macroeconomic scenario which reflected the effects of the Omicron variant only marginally into the IFRS 9 models. The provisioning policy for this half-year also factors in more active management of NPLs (including those acquired on the market by MBCredit Solutions), with the aim of improving the gross NPL ratio.

Consumer Finance recorded loan loss provisions of €95.9m, one-third less than last year (€143.5m), in a positive scenario given that all the indicators are better than at end-December 2019: gross NPLs were at their lowest-ever levels in relative terms, at 5.85% of total loans, approx. 100 bps lower than at end-June 2021, after market disposals of €130m; the coverage ratios for non-performing and performing loans rose further (from 75.8% to 79% and from 3.62% to 3.75% respectively), while the provision of overlays remains substantial and basically unchanged in the six months (€204.1m).

Corporate and Investment Banking took net writedowns of €17.8m for the six months, unlike last year (when net writebacks of €43.6m were credited). Wholesale Banking reflects writebacks of €30m, half last year's total (€61.4m), given the absence of reclassifications from UTP (€110m last year), despite certain positions showing signs of improvement; the writebacks mainly involved repayments, including for positions classified as Stage 2, the usual improvements in counterparty ratings, and the Luxury, Gaming and Automotive sectors – the worst hit by Covid-19 – exiting the crisis; overall, the overlays decreased from €76m to €55.3m. By contrast, there was a substantial increase in provisioning in Specialty Finance (up €30m, from €17.8m to €47.8m), with the usual careful management of the portfolio of NPLs acquired: apart from the extra collections for the period, further provisions of €25m were set aside with a view to accelerating the recovery of some of the oldest portfolios. Provisions in factoring decreased from €9.6m to €4.8m.

In leasing there were net adjustments of €15.2m, €10m of which were extraordinary and related to vintage NPEs to facilitate the derisking process ongoing for several years now (since end-June 2018 the stock of gross NPLs has reduced by approx. 20%).

	(€m)		
	6 mths ended 31/12/21	6 mths ended 31/12/20	Chg.
Corporate & Investment Banking	17.8	(43.6)	n.m.
Consumer Banking	95.9	143.5	(33.2%)
Wealth Management	8.4	11.8	-28.8%
Holding Functions (leasing)	15.2	6.0	n.m.
Loan loss provisions	137.3	117.7	16.7%
Cost of risk (bps)	55	50	

Provisions for other financial assets²⁸ – the net balance for this item continues to show a surplus, of €1.2m, albeit far lower than last year (€13.1m), on a lower contribution from financial assets mandatorily recognized at fair value (investments in Group funds and other private equity and real estate funds), the valuation for which in the six months reduced to €4.1m (from €21.5m last year); adjustments in respect of banking book assets totalled approx. €3m and are chiefly related to the increase in treasury operations (repos and reverse repos) these too subject to provisioning under IFRS 9, whereas the contribution from bonds and government securities remained low.

	(€m)		
	6 mths ended 31/12/21	6 mths ended 31/12/20	Chg.
Hold-to-Collect securities	(2.2)	(2.5)	12.0%
Hold-to-Collect & Sell securities	(0.7)	(5.9)	n.m.
Financial assets mandatorily FVTPL ¹	4.1	21.5	n.m.
Provisions for other financial assets	1.2	13.1	(90.8%)

¹ Funds recognized at fair value.

Other income (losses) – the net loss of €34.5m includes a contingent asset of €3.1m, reflecting the positive outcome of the tax dispute involving SelmaBipiemme, but mostly involves one-off charges in relation to the following:

- The ordinary contribution to the Deposit Guarantee Scheme (DGS), which was higher than last year at €21.9m (€17.9m), because of the overall growth in deposits (bearing in mind that the calculation is based on balances at end-2020), plus a further €3.7m which refers to the share of collateral for the first payment made to the Single Resolution Fund (SRF) in 2016 being recognized as a cost;²⁹

²⁸ Under IFRS 9, the impairment process applies to all financial assets (securities, repos, deposits and current accounts) recognized at cost (the “Hold to Collect” model) and to all bonds recognized at fair value through other comprehensive income (the “Hold to Collect and Sell” model).

²⁹ As provided by Article 70 of Regulation (EU) No. 806/2014; recognition at cost entails no prudential impact, as the €3.7m in collateral was already deducted from CET1.

- Increased provisions of €12.3m for a set of contracts executed during the 2010-14 period with durations of several years,³⁰ which have now definitively exited the trading book's product catalogue and are being run off and are now managed by the Group Treasury desk;
- A donation of €1.5m approved by the CSR Committee to a charitable initiative to be made in the course of the next six months.

Income tax for the period – income tax for the period totalled €120.4m, and includes €37m in positive one-off items. Net of this, ordinary income tax rose to €157.4m, near to last year's levels (€158.9m) with a tax rate of 24% which was better than last year (27.8%) due to the higher component of exempt items (profits earned by Assicurazioni Generali being equity-accounted), in part offset by taxation of the extraordinary dividends paid in October. The extraordinary items were as follows: realignment of tax and book values for goodwill booked by Compass Banca under Article 110 of Italian Decree Law 104/20 (the "August Decree"),³¹ resulting in €48.6m being credited to profit and loss; and, conversely, higher tax to be set aside (€11.6m) to take into account the possible impact deriving from the potential distribution of extraordinary dividends by the international Group legal entities outside of the participation exemption regime.³²

The main Italian companies forming part of the Mediobanca Group all adhere to the consolidated tax regime provided by Articles 117ff of the Italian Income Tax (known also as "national tax consolidation). Of the various effects deriving from this choice, the main benefit is being able to determine an overall amount of comprehensive income, which is equal to the algebraic sum of the tax income or losses reported by the parties that exercise the option to adhere to this system, which amount is subject to IRES at 24%.

³⁰ These are twelve derivative contracts executed with two different insurance counterparties, in which Mediobanca undertakes to guarantee the financial performance of a specific group of insurance policies governed by Austrian law at maturity.

³¹ The Italian budget law for 2022 (Italian Law No. 234 of 30 December 2021) changed the withholding tax rate due overall to deduct the higher values recorded over the course of eighteen financial years, raising it to a maximum of 16%, instead of the 3% previously in force.

³² Article 87 of the Italian Income Tax Act (Italian Presidential Decree No. 917/86).

Balance-sheet/profit-and-loss data by division

WEALTH MANAGEMENT

This division brings together all asset administration and management services offered to the following client segments:

- Premier (CheBanca!);
- Private Banking (Mediobanca Private Banking and CMB Monaco).

Wealth Management also includes the Asset Management division (Mediobanca SGR, Cairn Capital – into which the activities of Bybrook Capital have been merged³³ – RAM Active Investment and Mediobanca Management Company), plus the fiduciary activities performed by Spafid, Spafid Family Office SIM and Spafid Trust.

	6 mths ended 31/12/21	12 mths ended 30/6/21	6 mths ended 31/12/20	Chg. %
(€m)				
Profit-and-loss				
Net interest income	146.6	281.1	137.0	7.0
Net trading income	4.1	10.3	5.1	(19.6)
Net fee and commission income	213.2	335.9	160.0	33.3
Total income	363.9	627.3	302.1	20.5
Labour costs	(130.7)	(241.0)	(115.9)	12.3
Administrative expenses	(125.0)	(230.5)	(108.0)	15.7
Operating costs	(255.7)	(471.5)	(223.9)	14.2
Loan loss provisions	(8.4)	(18.6)	(11.8)	(28.8)
Provisions for other financial assets	3.0	1.9	1.5	n.m.
Other income (losses)	—	3.5	—	n.m.
Profit before tax	102.8	142.6	67.9	51.4
Income tax for the period	(30.2)	(42.4)	(21.0)	43.8
Minority interest	(0.2)	—	—	n.m.
Net profit	72.4	100.2	46.9	54.4
<i>Cost/Income (%)</i>	<i>70.3</i>	<i>75.2</i>	<i>74.1</i>	

³³ Since 1 September 2021, after the Bybrook deal was closed as described earlier on in this Review of Operations, the Bybrook group's assets have been recorded in the books of Cairn Capital and the Bybrook group has been included in the Mediobanca Group's area of consolidation in the Wealth Management segment.

	31/12/21	30/6/21	31/12/20
Balance-sheet data			
Loans and advances to customers	14,772.5	14,404.5	14,029.0
<i>of which:</i>			
<i>Chebanca! mortgage loans</i>	11,253.7	11,062.8	10,697.6
<i>Private Banking</i>	3,518.8	3,341.7	3,331.4
New loans	859.2	2,219.6	1,070.2
Risk-weighted assets	5,219.9	5,217.0	5,038.0
ROAC	30%	22%	21%
No. of staff	2,087	2,037	2,023

	31/12/21	30/6/21	31/12/20	Chg (%)
Commercial data				
Relationship managers	503	486	467	7.7%
Financial advisors	493	465	429	14.9%
No. of branches/agencies CheBanca!	204	205	200	2.0%
Private Banker	132	132	134	(1.5%)

The Wealth Management division reported a net profit of €72.4m in the six months, up sharply on last year (€46.9m; an increase of 54.4%) and on 2H FY 2020-21 (€53.3m; an increase of 35.8%). The strong growth in assets (AUM/AUA €52.1bn, up 24.1%) is reflected in the increase in revenues (up 20.5%), in particular fee income (up 33.3%). The cost/income ratio fell from 74.1% to 70.3%, and ROAC increased to 30% (vs 21% at end-December 2020). Activities have continued in terms of developing the distribution structure and product innovation: in the six months, 17 new Premier Relationship Managers and 28 Financial Advisors have joined CheBanca!, making a total of 1,000 professionals working alongside the 132 private bankers at Mediobanca and CMB Monaco.

The Division has also enhanced its product offering to clients in the Private Banking segment, where Mediobanca has expanded the range of themed portfolio management products with the launch of the Tactical Equity Europe product in order to leverage European equity market opportunities over a medium-/long-term perspective which helped increase the value of the portfolios managed (up 13.5%). The Mediobanca BlackRock Co-Investments programme made its first investment (approx. €60m) out of a €1.4bn commitment; and the second tranche of Hedge Invest Distressed Opportunities funds has been launched. Joint client management (between Mediobanca Private Banking and the Investment Banking division), in addition to supporting the development of Mid Corporate business, contributed approx. €650m of NNM for the six months, plus approx. €700m in money motion events intercepted on the market.

Specifically for clients in Monaco, CMB Monaco has complemented its traditional offering on liquid markets also with private markets initiatives, making solutions available to them which offer higher returns; in this scenario it has launched a co-operation with a European investment company specialized in facilitating access for individual investors to private equity funds through its own digital platform; CMB is also assessing other initiatives in private markets in conjunction with the Private Banking division.

Mediobanca Asset Management has continued with its activity serving the Group's Private and Premier, renewing the range of products offered. Some of the new developments for the six months include: the opening of the new Mediobanca Global Thematic Multimanager 100 ESG fund (an SFDR Article 8 Fund); the launch of Mediobanca MFS-Prudent Capital (in Euro hedge and unhedged versions), which by end-December had raised over funds of over €100m; launch of the Target Maturity Diversified Credit Portfolio 2028 fund (total subscribed for equal to €85m). Finally, with a view to increasing integration between the product factories, Mediobanca Asset Management has received its first fund management mandate from Compagnie Monégasque de Gestion.

Cairn Capital has successfully closed the placement of its XIV CLO for €400m, while the investor base was expanded for equity tranches of €20m on which the issuance of new CLOs was based.

RAM's funds received strong recognition for their performances in 2021. In the ESG area,³⁴ the three Market Neutral equity funds were included in Kepler's top 10 for their category, while the Emerging Markets Equity fund was voted "Machine Learning Fund of the Year" by HFM Europe.

NNM for the WM division in 6M totalled €4.4bn (two-thirds of which in 2Q), split between Private Banking (€3bn) and the Premier segment (€1.5bn), with institutional assets basically stable, after reducing for several quarters. Indirect funding totalled €2.3bn, a record result for the division, split between Premier (€1.3bn) and Private Banking (€1.1bn). Deposits contributed €2bn, of which €1.9bn from Mediobanca Private Banking.

³⁴ Most of funds are classified as "Article 8", while Stable Climate Global Equities fund qualifies for the narrower definition of "Article 9 fund") pursuant to the European SFDR.

Total Financial Assets (TFAs) rose from €71.5bn to €79.4bn, including the new assets from Bybrook (€2.2bn), helped by the positive market effect which added €1.5bn. The Premier segment's contribution totalled €34.2bn (€17.2bn of which in AUM/AUA), Private Banking's €33.8bn (€23.6bn), and Asset Management's €24bn (€12.6bn of which placed within the Group).

Net TFAs	31/12/21	30/6/20	31/12/20	Chg. %	
				Dec. 21 / Dec. 20	Dec. 21 / June 20
Affluent Banking	34,243	32,549	29,903	13.0%	7.6%
Private Banking	33,810	29,906	27,724	6.8%	5.1%
Asset Management	23,959	20,272	19,476	(8.9%)	2.5%
Intercompany	(12,629)	(11,258)	(10,481)	3.9%	9.5%
Wealth Management	79,383	71,468	66,622	4.6%	4.8%

Deposits	31/12/21	30/6/20	31/12/20	Chg. %	
				Dec. 21 / Dec. 20	Dec. 21 / June 20
Affluent Banking	17,028	16,920	15,983	6.5%	0.6%
Private Banking	10,221	8,296	8,642	18.3%	23.2%
Asset Management	—	—	—	n.a.	n.a.
Wealth Management	27,249	25,216	24,625	10.7%	8.1%

AUM/AUA	31/12/21	30/6/20	31/12/20	Chg. %	
				Dec. 21 / Dec. 20	Dec. 21 / June 20
Affluent Banking	17,215	15,629	13,920	23.7%	10.1%
Private Banking	23,589	21,610	19,082	23.6%	9.2%
Asset Management	23,959	20,272	19,476	23.0%	18.2%
Intercompany	(12,629)	(11,258)	(10,481)	20.5%	12.2%
Wealth Management	52,134	46,252	41,997	24.1%	12.7%

Net New Money	2020-2021			2021-2022		
	IQ	IIQ	IIIQ	IVQ	IQ	IIQ
Affluent Banking	818	782	1,215	889	866	589
Private Banking	108	545	175	221	978	2,028
Asset Management	(503)	(131)	(289)	2.2	(410)	311
Wealth Management	424	1,195	1,101	1,112	1,434	2,928

Customer loans in Wealth Management total €14.8bn (30/6/21: €14.4bn): the mortgage loan component stood at €11.3bn (€11.1bn), on new loans in the six months of €859.2m (down 19.7% on the first six months of last year); while in Private Banking customer loans increased from €3.3bn to €3.5bn, in particular due to a growing contribution from CMB Monaco (up 11%, from €2.1 to €2.3bn) with Mediobanca Private Banking basically stable (from €1.3 to €1.2bn).

Gross non-performing loans increased from €226.1m to €234.1m (or 1.6% of the total loan book), and chiefly regard CheBanca! mortgages (€207m, equal to 1.8% of the stock); while net NPLs represent approx. 1% (€107.9m, of which €38.3m of which are bad loans), with a coverage ratio of 47.9% (63% for the bad loans). Mortgages classified as Stage 2 decreased from €835.1m to €810.1m (7.2% of the total). This portfolio segment includes more than 90% of the moratoria still in place (€91.9m, down from €162.6m as at 30 June 2021).

The Division's revenues have grown by 20.5% in 12M, from €302.1m at end-December 2021 to €363.9m, and by 11.9% in 6M (€325.2m in 2H FY 2020-21).

Revenues	6 mths ended 31/12/21	12 mths ended 30/6/21	6 mths ended 31/12/20	Chg. %
Affluent	195.4	358.0	173.3	12.8%
Private Banking	121.2	202.1	94.2	28.7%
Asset Management	42.9	59.0	30.7	39.7%
Other	4.4	8.2	3.9	12.8%
Total revenues	363.9	627.3	302.1	20.5%

The main income items performed as follows:

- Net interest income rose by 7% (from €137m to €146.6m), due to growth in the Premier segment (up 6.8%, from €111.9m to €119.5m) linked to the higher volumes in mortgages and deposits and to the reduction in the cost of funding which substantially offset the pressure on asset margins;
- The growth in fee income continued, which now stands at €213.2m, up 33.3% in 12M and up 21.2% in 6M, and now accounts for 48.1% of the Group total. Recurring fees of €196.9m (€157m of which in management fees) reflect material growth (up 25%), helped by the management component (up 30%), and were higher also than the previous six-month period (19%), driven by the Premier segment (up 39%). The trend in upfront fees (from €19.4m to €35.2m) was boosted by the Mediobanca BlackRock Co-Investments placement component. The good results in client portfolio management is reflected in the higher performance fees (€9.7m, more than double last year). This outstanding performance was achieved on the back of contributions from the Premier segment (up 24%, to €75m), with higher asset volumes (AUM/AUA up 23.7%) and increased profitability; Private Banking (the top contributor with fees of €90.4m); and Asset Management, with fees up from €30.8m to €43.4m, following the consolidation of Bybrook (up €8m) and the contribution of Mediobanca Asset Management SGR (up €4.5m).

Commissions - segment	6 mths ended 31/12/21	12 mths ended 30/06/21	6 mths ended 31/12/20	Chg. %
Affluent	75.0	126.6	60.5	24.0%
Private Banking	90.4	141.6	64.7	39.7%
Asset Management	43.4	59.5	30.8	40.9%
Other	4.4	8.2	4.0	n.m.
Total commissions	213.2	335.9	160.0	33.3%

Commissions - nature	6 mths ended 31/12/21	12 mths ended 30/06/21	6 mths ended 31/12/20	Chg. %
<i>Recurring fees</i>	196.9	329.7	157.5	25.0%
- of which: <i>management fees</i>	156.7	252.1	120.5	30.0%
- of which: <i>banking fees</i>	40.2	77.6	36.9	8.9%
Upfront	35.2	41.8	19.4	81.4%
Performance Fees	9.7	13.2	4.5	115.6%
Negative fees	(28.6)	(48.8)	(21.4)	33.6%
Total commissions	213.2	335.9	160.0	33.3%

Operating costs rose by 14.2%, from €223.9m to €255.7m; while of the administrative expenses (€125m, up 15.7%), the technology and projects component grew (from €46.2m to €51.6m), as did management costs, in relation to volumes (€20m, up 22%) in the Premier segment in particular; marketing expenses fell in the six months following the major campaigns of the previous year. The growth in labour costs was less pronounced (€130.7m, up 12.8%), reflecting the new recruits (concentrated in the Premier segment) plus certain non-recurring items linked to turnover.

Costs	6 mths ended 31/12/21	12 mths ended 30/06/21	6 mths ended 31/12/20	Chg. %
Affluent Banking	(141.0)	(267.8)	(128.4)	9.8%
Private Banking	(73.5)	(137.3)	(63.4)	15.9%
Asset Management	(36.2)	(57.7)	(27.8)	30.2%
Other	(5.0)	(8.7)	(4.3)	16.3%
Total costs	(255.7)	(471.5)	(223.9)	14.2%

Loan loss provisions, attributable almost entirely to CheBanca! mortgage loans, decreased from €11.8m to €8.4m, without affecting the prudent levels of staging and provisioning (performing: 0.28%; non-performing: 47.6%) against a significant reduction in the number of new entries to default status and the good performance by the moratoria falling due. Similarly, the cost of risk fell (from 22 bps to 15 bps), despite the increase in the overlays (up from €4.2 to €9m).

CONSUMER FINANCE

This Division provides retail clients with the full range of consumer credit products: personal and special-purpose loans, salary-backed finance, credit cards, and Compass Pay. The Division also includes Compass RE, which reinsures risks linked to insurance policies sold to clients, the newly-incorporated Compass Rent, which operates in second-hand vehicle and car hire, and the newly-incorporated Compass Link, which distributes Compass products and services via external collaborators.

	6 mths ended 31/12/21	12 mths ended 30/06/21	6 mths ended 31/12/20	Chg. (%)
(€m)				
Profit-and-loss				
Net interest income	462.2	878.8	448.4	3.1
Net fee and commission income	62.6	123.0	66.7	(6.1)
Total income	524.8	1,001.8	515.1	1.9
Labour costs	(51.3)	(104.2)	(48.0)	6.9
Administrative expenses	(97.2)	(210.0)	(102.6)	(5.3)
Operating costs	(148.5)	(314.2)	(150.6)	(1.4)
Loan loss provisions	(95.9)	(257.6)	(143.5)	(33.2)
Provisions for other financial assets	—	—	(0.4)	n.m.
Other income (losses)	—	(15.2)	(15.0)	n.m.
Profit before tax	280.4	414.8	205.6	36.4
Income tax for the period	(90.3)	(135.9)	(68.0)	32.8
Net profit	190.1	278.9	137.6	38.2
<i>Cost/Income (%)</i>	<i>28.3</i>	<i>31.4</i>	<i>29.2</i>	
	31/12/21	30/6/21	31/12/20	
Balance-sheet data				
Loans and advances to customers	13,305.0	12,942.9	12,776.8	
- of which:				
<i>Personal loans</i>	<i>6,776.1</i>	<i>6,713.8</i>	<i>6,713.8</i>	
<i>Salary-backed finance</i>	<i>1,764.9</i>	<i>1,775.8</i>	<i>1,864.3</i>	
New loans	3,702.7	6,460.4	2,952.6	
Risk-weighted assets	12,139.9	11,779.2	11,541.5	
ROAC	35%	27%	28%	
No. of staff	1,451	1,446	1,454	
	31/12/21	30/6/21	31/12/20	
Commercial data				
Branches Consumer	179	179	178	
Agencies Consumer	58	52	47	

Consumer Finance delivered a net profit in the six months of €190.1m³⁵ (€137.6m), consolidating the excellent result delivered in 1Q (€90.3m in 1Q, €99.8m in 2Q). The result was achieved on the back of a combination of factors: improving asset quality (COR 146 bps), new loans at pre-Covid levels (€3.7bn), resilient profitability³⁶ and disciplined cost control (cost/income ratio 28.3%), taking ROAC up to 35%.

At end-December 2021 Compass had a market share of 10%, outperforming the market (growth of 32%, versus 17.3%), but new loans, although better than in 2020, still lag behind pre-Covid levels by approx. 9%.

In the first six months work continued on strengthening the distribution network and in product and technology innovation, in line with the three-year plan objectives. Six new agencies were opened in the period, for a total of 237 POS, 58 of which are agencies, plus 50 Compass Quinto POS specializing in the sale of salary-backed finance product. Growth by the direct channel has also been helped by the positive trend in terms of the volumes generated via the internet (approx. 26% of the direct personal loan volumes), with the target of more than 80% of applications for finance being processed in one day having been met. Work has also continued on IT developments to support the customer experience and service usability.

Compass Link, a 100%-owned subsidiary of Compass operating as agent in financial activities incorporated in May 2021 and which commenced operations in July of the same year, has stepped up its recruitment (23 active collaborators) and commenced commercial activity in the distribution of personal loans and credit cards.

There have been excellent results from the launch of the “Pagolight” product, a proprietary, “Buy Now, Pay Later” solution for use by physical and online stores launched at the end of the last financial year. Meanwhile, investments in the platform technology have continued, both in terms of the means of payment accepted and online developments. Around 2,000 POS joined the circuit during

³⁵ The separate financial statements for the Compass group include an approx. €49m benefit in respect of tax relief on brands and goodwill (under the Italian budget law for 2022); this item, which is one-off and not directly related to business, is represented in the consolidated accounts under “Other items” for the Holding Functions Division.

³⁶ As from 26 July 2021, Compass has also changed strategy in managing the dispute, rejecting every claim for the refund of upfront costs following early repayments of loans under contracts entered into prior to that date, regardless of whether the claim comes from a complaint, appeal, or court action. Until such time as the banking and financial arbitration panel and the legal authorities reach a joint decision on the timing effects of the amended Article 125-sexies of the Italian Banking Act, it has been decided to keep the provision set aside last year to cover the potential liability unchanged; as at 30 September 2021 this provision amounted to approx. €12m.

the six months, generating new loans of €15m, €5.5m of which in the month of December alone.

New loans reflect growth for the six months, up 25.4% on last year, reflecting an improved product mix: personal loans rose to 46% of the total (31/12/20: 41%), with an increasingly prominent role played by the proprietary network (approx. two-thirds), which is also the product with the best risk/return profile. Salary-backed finance also increased in the twelve months, by 57% (up from €140m to €220m), with a growing quarterly trend as well (up 6%).

Gross NPLs decreased from €971.5m to €847m, helped by the low default rates plus the regular disposals of stocks (approx. €100m). Gross NPLs account for 5.85% of total loans (30/6/21: 6.86%), with the coverage ratio increasing to 79% (75.8%), which also reduced the net exposure from €235.4m to €178m. Net NPLs (of €113m) represent 1.34% of total loans (48 bps less than at end-June 2021), and recorded the lowest level since the new definition of default (DoD) was adopted.

Revenues grew by 1.9% in the six months, from €515.1m to €524.8m, driven by the positive momentum in net interest income, which was 3.1% higher than last year at €462.2m (€448.4m) following an outstanding performance in 2Q (up 4.3%) with new loans returning to pre-Covid levels, and profitability underpinned by the Lexitor ruling being overturned. The reduction in fee income (from €66.7m to €62.6m) reflects the higher rappel fees credited back to third-party networks (in relation to the recovery in new loans), as well as the anticipated reduction in the insurance component (following the regulatory rulings).

Operating costs amounted to €148.5m (€150.6m last year), with the cost/income ratio declining to 28.3% (vs 29.2% in 2020); the structural increase in labour costs (up 6.9%, from €48m to €51.3m), IT spending (up 19%), and the resumption of marketing activity (up 30%) were more than offset by the fall in credit recovery costs (from €33m to €27m).

Loan loss provisions totalled €95.9m, which translates to a cost of risk of 146 bps, down sharply from last year (€143.5m, and 222 bps). This result was achieved while improving the coverage levels (performing loans 3.7%; NPLs 79%) and leaving the overlays substantially unchanged (at €204.1m).

CORPORATE AND INVESTMENT BANKING

This division provides services to Corporate customers in the following areas:

- *Wholesale Banking*: lending, capital market activities and advisory services, and trading, client and proprietary (performed by Mediobanca, Mediobanca International, Mediobanca Securities and Messier et Associés);
- *Specialty Finance*: Factoring (performed by MBFACTA) and credit management (including acquisition and management of NPL portfolios), MBCredit Solutions and MBContact Solutions.

	(€m)			
	6 mths ended 31/12/21	12 mths ended 30/06/21	6 mths ended 31/12/20	Chg. (%)
Profit-and-loss				
Net interest income	140.3	286.9	148.5	(5.5)
Net treasury income	63.3	93.2	43.6	45.2
Net fee and commission income	187.0	318.1	172.2	8.6
Total income	390.6	698.2	364.3	7.2
Labour costs	(84.8)	(165.4)	(80.2)	5.7
Administrative expenses	(75.7)	(141.3)	(67.4)	12.3
Operating costs	(160.5)	(306.7)	(147.6)	8.7
Loan loss provisions	(17.8)	40.1	43.6	n.m.
Provisions for other financial assets	(1.0)	2.2	1.0	n.m.
Other income (losses)	(0.4)	0.5	(0.5)	n.m.
Profit before tax	210.9	434.3	260.8	(19.1)
Income tax for the period	(70.2)	(147.0)	(89.4)	(21.5)
Minority interest	(9.0)	(2.8)	(1.1)	718.2
Net profit	131.7	284.5	170.3	(22.7)
<i>Cost/Income (%)</i>	<i>41.1</i>	<i>43.9</i>	<i>40.5</i>	

	31/12/21	30/6/21	31/12/20
Balance-sheet data			
Loans and advances to customers	21,039.8	19,292.3	19,522.4
<i>of which: Corporate</i>	<i>17,387.3</i>	<i>16,579.6</i>	<i>16,782.8</i>
<i>Factoring</i>	<i>3,243.5</i>	<i>2,328.7</i>	<i>2,359.1</i>
<i>Credit Management - NPLs</i>	<i>409.0</i>	<i>384.0</i>	<i>380.5</i>
Corporate new loans	4,886.0	6,797.0	3,075.0
Factoring turnover	5,668.6	9,149.5	4,381.9
NPLs purchased	90.0	78.2	42.7
Risk-weighted assets	20,706.5	19,924.8	20,689.9
ROAC	15%	16%	19%
No. of staff	629	635	616
Front Office Wholesale	305	300	294

The CIB Division posted an excellent commercial performance for the six months, beating even the record 2020 levels, on the back of an important contribution from Messier et Associés which played a significant role in the French M&A market, delivering an impressive €68m in the 2021 calendar year, two-thirds of which in the six months under review. Operations with Mid Corporate clients also reflect healthy rates of activity (contributing €16m of fees for the six months), helped by the market conditions and the increasingly close co-operation with Mediobanca Private Banking. Revenues increased by 7.2%, on a strong performance from fee income (up 8.6%) and a higher contribution from trading (up 45.2%, from €43.6m to €63.3m). The cost/income ratio remains in the 40% area, despite higher overheads (up 8.7%). A net profit of €131.7m³⁷ (down 22.7%) reflects the one-off charges (of €25m) taken in respect of certain NPL portfolios acquired, with a view to speeding up the derisking process (through acquisitions on the secondary market) and so reducing the gross NPLs ratio in relative terms (as a percentage of total loans). ROAC adjusted stood at 15% (19%).

The Division succeeded in leveraging the excellent market performance to beat last year's results and increase the number of deals executed. In the French market in particular, the Bank participated in two of the largest deals recorded in Europe: the merger between Veolia and Suez, and the agreement between CMA CGM and Ingram Micro, with a central role in structuring the deals, capitalizing the important relational work carried on by Messier et Associés in recent years; the company closed some thirty deals in the 2021 calendar year, around half of which in the second half-year, and has confirmed its position as one of the leading French players in the restructuring segment. Other important deals covered directly by Mediobanca included the acquisition of Borsa Italiana by Euronext; advisory services to Nexi for consolidation in the payments sector (merger with Nets and purchase of the former UBI merchant acquiring business); and participation in the four largest takeover bids on the Italian market (Cerved, Cattolica, Isagro and Rete Telematiche Italiane). The main deals in the Mid Corporate segment involve debt renegotiation activity and financial sponsors taking stakes in companies, such as Acqua & Sapone, Inglass, Siderforgerossi, GSA and Bernardinello.

³⁷ Of which: Wholesale Banking, €133.8m net profit; MBFACTA: €10.2m net profit; MBCS, €17.3m net loss).

The pipeline for the coming quarters continues to look healthy, with several deals already announced expected to be completed in the coming months. Some the most important include the sale of a 50% stake in Open Fiber to a consortium composed of CDP Equity and Macquarie, the commercial partnership between Nexi and Alpha Bank (Greece), the sale of Crédit Agricole Serbia to Raiffeisen, the acquisition of French-based La Médicale group by Assicurazioni Generali, and various mid-corporate transactions that include debt renegotiation activity and financial sponsors taking stakes in companies, such as Viabizzuno, In & Out and Lirsa.

In Capital Markets activity, Mediobanca acted as Joint Global Co-Ordinator and Joint Bookrunner in the largest IPO that took place on the Italian market (Ariston Thermo), and the capital increase implemented by Juventus. Last but not least, in all the markets it covers (Italy, France, Spain/Portugal and the United Kingdom), Mediobanca has had a significant role in a number of bond issues (Enel, Nexi, FCA, Generali and EDP). Around a dozen transactions were executed in Italy and Spain/Portugal in the Green Social and Sustainability Bond segments. Mediobanca also executed several deals in the Markets segment. Particularly prominent was the Bank's role in several Strategic Equity deals, and also in the certificates business (helped by the retail and Private Banking networks). Mediobanca has also continued to play a leading role in the ABS/NPL segments, assisting in deals by leading sector players and Italian credit institutions. As for lending, a good performance was recorded in 2Q in terms of both NII and fee income, both of which were boosted by the higher volumes.

Lending activity was also buoyant, with customer loans up from €19.3bn to €21bn in the six months, with the contribution from Specialty Finance increasing from €2.7bn to €3.6bn, due to the higher ordinary factoring activity (up 29.4%, to €5.6bn), usually concentrated towards the year-end, and includes the MBCredit Solutions' stock of non-performing loans of €408.6m. Customer loans in Wholesale Banking (Lending and Structured Finance) rose from €16.6bn to €17.4bn, on new loans of €4.9bn, against repayments of €4.1bn (€1.3bn of which were early repayments); the reduction of 4% in new loans compared to 2H FY 2020-21 derives from the gradual decrease in the use of the revolving lines drawn during the most acute phase of the pandemic; new loans were up 9% QoQ.

	31/12/21		30/6/21		Chg (%)
	(€m)	%	(€m)	%	
Italy	11,391.2	54.1%	10,797.6	56.0%	5.5%
France	2,189.5	10.4%	1,661.1	8.6%	31.8%
Spain	1,321.7	6.3%	1,267.3	6.6%	4.3%
Germany	1,168.4	5.6%	1,093.5	5.7%	6.8%
U.K.	1,279.9	6.1%	1,429.4	7.4%	(10.5%)
Other non resident	3,689.1	17.5%	3,043.4	15.8%	21.2%
Total loans and advances to customers CIB	21,039.8	100.0%	19,292.3	100%	9.1%
- of which: <i>Specialty Finance</i>	3,652.5	17.4%	2,712.7	14.1%	34.6%

Asset quality remains at high levels: gross NPLs (not including those acquired by MBCS) decreased from €225m to €221.1m (down 1.1%); while net NPLs totalled €103.1m (€103.8m), with a coverage ratio of 53.4% (53.9%)³⁸. There was a reduction in the positions classified as Stage 2 (from €631m to €498m; 2.4% of total loans) after several large corporate repayments. The coverage ratio for performing loans (Stage 1 and 2) stood at 0.5% (0.7%), with overlays amounting to €70.5m (€87.7m), mostly concentrated in the Large Corporate component (€55.3m, compared with €76m).

Revenues increased by 7.2%, from €364.3m to €390.6m, driven by the substantial contribution from fees and Capital Market Solutions client business; the main items performed as follows:

- Net interest income totalled €140.3m, down approx. €9m on last year (€148.5m). CMS client activity generated NII of €25.2m, despite the different composition of the trading book; the reduction in NII generated from lending and structured finance activities, from €85.1m to €77.6m, was almost exclusively due to the absence of the Burgo non-recurring item booked last year (€8m); Speciality Finance grew by 3% (from €35.9m to €37m), due to the higher volumes in factoring business;
- Net fee and other income rose from €172.2m to €187m, with a balanced contribution from all products: M&A advisory rose by 45.1% (from €67.7m to €98.2m, €45.8m of which contributed by Messier et Associés); lending activity was stable at €28.3m, while fees from Capital Markets fell (from €54.2m to €28.2m) due to lower ECM operations (down from €28m to €10m); Specialty Finance posted an increase of 44.2% (from €22.4m to €32.3m) due to the good performance in NPL collections;

³⁸ Including the NPL acquired, gross NPLs reduced to €645.2m (3% of total loans) and net NPLs to €511.7m.

- Net treasury income grew from €43.6m to €63.3m, driven by client activity (up 48%, from €32m to €47m) which in the equity segment especially returned to pre-Covid levels helped by the increase in European and American markets; the proprietary trading portfolio saw its profits increase from €17m to €19m.

Revenues	6 mths ended 31/12/21	12 mths ended 30/06/21	6 mths ended 31/12/20	Chg. (%)
Capital Market	21.6	62.5	39.9	(45.8%)
Lending	106.5	213.9	113.7	(6.3%)
Advisory M&A	98.4	127.5	67.7	45.3%
Trading Prop	20.3	60.1	30.3	(33.1%)
Market, sales and other gains	74.3	114.8	54.4	36.5%
Specialty Finance	69.5	119.3	58.2	19.3%
Total Revenues	390.6	698.2	364.3	7.2%

Commissions	6 mths ended 31/12/21	12 mths ended 30/06/21	6 mths ended 31/12/20	Chg. (%)
Capital Market, Sales and other gains	28.2	92.0	54.2	(48.0%)
Lending	28.3	50.5	27.9	1.4%
Advisory M&A	98.2	127.5	67.7	45.1%
Specialty Finance	32.3	48.1	22.4	44.2%
Total Commissions	187.0	318.1	172.2	8.6%

The increase in operating costs (up 8.7%, from €147.6m to €160.5m) was mainly due to the rising labour costs in Wholesale Banking (up 5.6%, from €71.3m to €75.3m), reflecting the consolidation of the structure in a particularly competitive market environment, and the adjustment of the variable component to the performance in terms of revenues. Administrative expenses (up 12.3%, from €67.4m to €75.7m) were affected by the resumption of projects in the field of technological innovation and the resumption of commercial activity with travel and entertainment expenses (which rose from €0.7m to €1.3m, but were still lower than in 2019). The performance in Specialty Finance, meanwhile, was hit by higher credit recovery expenses for NPLs (from €8.6m to €11.2m).

For the first time in several quarters, the loan book reflects net writedowns, of €17.8m, representing the difference between writebacks to the corporate loan book (down from €61.4m to €30m) and the higher contribution from Specialty Finance, which increased from €17.8m to €47.8m, €43m attributable to MBCredit Solutions which, in addition to the customary extra collections (€28m), took one-off provisions of €25m with the objective of accelerating the portfolio recovery process and so reducing the Group's NPL ratio. The figure for

Wholesale Banking confirms the excellent portfolio quality and the prudential stance adopted for the six months: indeed, the same risk data has been retained from last year, without updating the IFRS 9 models with the new macroeconomic scenario which would have entailed substantial reversals. The positions classified as Stage 2 were analysing following the rating review which in 2021 included basically the entire loan book, with only a very few counterparties reclassified (the reduction in Stage 2 exposures is mainly due to repayments). No positions have been removed from Stage 3; instead, the provisioning for unlikely-to-pay exposures has been reviewed in line with the earnings performances. It should be noted that the Automotive, Luxury and Gaming sectors have now exited the “High Risk” category, in view of the improvement in the outlook and results beating expectations.

	6 mths ended 31/12/21	12 mths ended 30/06/21	6 mths ended 31/12/20	Chg. (%)
CIB	30.0	78.2	61.4	(51.1%)
Specialty Finance	(47.8)	(38.1)	(17.8)	n.m.
Other financial assets	(1.0)	2.2	1.0	n.m.
Total provisions	(18.8)	42.3	44.6	n.m.

PRINCIPAL INVESTING

The Principal Investing (PI) division administers the Group's portfolio of equity investments and holdings, including the stake in Assicurazioni Generali in particular.

	6 mths ended 31/12/21	12 mths ended 30/6/21	6 mths ended 31/12/20	(€m) Chg. (%)
Profit-and-loss				
Other incomes	8.3	23.6	13.0	-36.2
Equity-accounted companies	185.7	271.7	110.9	67.4
Total income	194.0	295.3	123.9	56.6
Labour costs	(1.6)	(3.6)	(1.6)	n.m.
Administrative expenses	(0.5)	(1.0)	(0.5)	n.m.
Operating costs	(2.1)	(4.6)	(2.1)	n.m.
Provisions for other financial assets	0.2	51.8	19.2	n.m.
Other income (losses)	—	—	—	n.m.
Profit before tax	192.1	342.5	141.0	36.2
Income tax for the period	(7.5)	(33.9)	(12.6)	(40.5)
Net profit	184.6	308.6	128.4	43.8

	31/12/21	30/6/21	31/12/20
Balance-sheet data			
Banking book equity securities	774.5	744.2	674.5
IAS28 investments	3,800.8	3,702.8	3,698.9
Risk-weighted assets	6,898.3	7,246.0	8,259.0

Principal Investing delivered a net profit of €184.6m for the six months, a marked improvement on last year (up 43.8%) due to the higher contribution from the equity accounting method, of €185.7m (against €110.9m), reflecting the virtual absence of the one-off charges which significantly impacted on Assicurazioni Generali's profits last year. Fund management (including seed capital) contributed €15.8m in income with virtually no change in valuations.

The book value of the Assicurazioni Generali investment (12.9% of the company's share capital)³⁹ increased from €3,663.1m to €3,761.9m, on profits of €186.5m, stable valuation reserves (up €0.9m compared to June 2021), and collection of the second tranche of the 2019 dividend (€93.1m). The book value of the IEO investment (25.4%) reduced slightly, from €39.7m to €39m, following losses for the period due to the difficulties facing the sector (pro rata loss of €0.7m).

As for the banking book securities, the position increased by approx. €30m: funds grew from €525.2m to €534.3m, after net investments of approx. €7m (mainly in the equity tranche of the Cairn CLOs), while the securities in the equity segment (listed and unlisted) rose from €219m to €241.2m, following new investments of €3.5m, plus the increase in the fair value during the six months (adding €18.7m),⁴⁰ split between RCS (€6m), Italmobiliare (€6m) and other unlisted investments (€6.7m).

³⁹ The securities lending transaction involving 70 million Assicurazioni Generali shares expiring after the company's imminent Annual General Meeting (duration of approx. 8 months) does not alter the percentage shareholding.

⁴⁰ Taken directly through net equity.

HOLDING FUNCTIONS (CENTRAL, TREASURY AND LEASING)

The Holding Functions comprises SelmaBipiemme Leasing, MIS, Spafid Connect,⁴¹ and Group Treasury and ALM⁴² ((with the aim of optimizing funding and liquidity management on a consolidated basis, including the securities held as part of the banking book), and the part of costs relating to central Group functions not allocated to the business lines, including operations, support units (Planning and Financial Reporting, Corporate Affairs, Investor Relations, etc.), senior management and the control units (Risk Management, Group Audit and Compliance).

	6 mths ended 31/12/21	12 mths ended 30/06/21	6 mths ended 31/12/20	(€m) Chg. (%)
Profit-and-loss				
Net interest income	(25.5)	(47.4)	(22.5)	(13.3)
Net trading income	15.7	57.5	21.2	n.m.
Net fee and commission income	3.9	11.8	6.7	(41.8)
Total income	(5.9)	21.9	5.4	n.m.
Labour costs	(60.3)	(121.1)	(59.3)	1.7
Administrative expenses	(14.7)	(39.0)	(18.2)	(19.2)
Operating costs	(75.0)	(160.1)	(77.5)	(3.2)
Loan loss provisions	(15.2)	(12.7)	(6.0)	n.m.
Provisions for other financial assets	(1.1)	(7.5)	(8.0)	n.m.
Other income (losses)	(33.8)	(73.5)	(17.9)	33.8
Profit before tax	(131.0)	(231.9)	(104.0)	(26.0)
Income tax for the period	78.0	67.5	32.0	n.m.
Minority interest	—	(1.7)	(1.1)	n.m.
Net profit	(53.0)	(166.1)	(73.1)	(27.5)
	31/12/21	30/6/21	31/12/20	
Balance-sheet data				
Loans and advances to customers	1,687.6	1,774.1	1,799.6	
Banking book securities	5,852.5	6,120.0	6,173.1	
No. of staff	796	792	799	
Risk-weighted assets	2,877.6	2,992.3	3,165.5 ⁴³	

⁴¹ Negotiations are in progress for the disposal of the business unit providing corporate services (shareholder registers and AGM service management); the activities of the business unit concerned have therefore been reclassified as "Non-current assets held for sale and discontinued operations" under IFRS 5.

⁴² Group Treasury finances the individual business areas' operations, applying the funds transfer pricing (FTP) rate based on the relevant curves, with spreads varying depending on the expiries agreed for the respective use of funds.

⁴³ The 796 resources are divided as follows: 103 in SelmaBipiemme (109 last year); 31 in Group Treasury and ALM (32); 141 in MIS (127), 204 in operations (203), 162 in support functions (163), 143 in control functions (145) plus 7 in management (senior management and assistants). Of these, the cost of approximately 233 FTEs is reallocated to the business lines (236).

The net loss decreased from €73.1m to €53m, reflecting a one-off positive tax impact of approx. €37m, due mainly to the tax relief on goodwill booked by Compass which was partly offset by negative one-off items (€12.3m in provisions for certain⁴⁴ derivative contracts gradually being run off).

Revenues reflect lower gains on disposals of banking book securities (down from €21.2m to €15.7m), and net interest expense, despite the lower cost of funding, increased by around €2m, mainly due to the reduced Leasing volumes and the more substantial liquidity position. The benefit deriving from the T-LTRO facility was also rescheduled, with most of the charge from this offset by the coupon collected on inflation-linked securities.

Operating costs fell by 3%, due to rationalization of the central structures and lower expenses in leasing; the contribution from central costs remained stable in relative terms at just under 8% of total Group costs.

The main segments performed as follows:

- Treasury – funding increased by 5.6% (from €56.2bn to €59.3bn) with a mix aimed at optimizing the cost of funding: close co-operation with the Wealth Management Division led to further growth in deposits (from €25.2bn to €27.2bn), which now represent 46% of total funding. The bond component, in this market scenario, is aimed at consolidating the Group's MREL position, including the issue of a senior non-preferred bond in an amount of €500m. Overall the cost of funding reduced to 60 bps, helping limit the effects of the large liquidity position on net interest income (LCR 161.7%; NSFR 109.7%) and the progressive erosion of the banking book portfolio's profitability, which was interrupted in 2Q by the positive contribution from inflation-linked securities;

⁴⁴ Pursuant to Article 10 of Italian Decree Law No. 104 of 14 August 2020, as amended by the 2022 Italian budget law (Italian Law no. 234 of 30 December 2021).

- Leasing operations largely broke even (compared with a €1.7m profit last year), with the positive trend in current operations offset by the extra provisions taken as part of the deleveraging process for the loan book in order to reduce the NPL ratio. Revenues totalled €20m, with the cost/income ratio declining to 41%. Customer loans decreased from €1.8bn to €1.7bn, with €174m in new loans (€167m last year). Net writedowns increased from €6.2m to €15.2m following €10m in one-off charges for vintage NPEs in order to accelerate the reduction process. Gross NPLs decreased from €174.5m to €168.3m, and represent 9.4% of the loan book (stable); while net NPLs stood at €83.3m, represent 4.9% of total loans, and reflect a coverage ratio of 50.5%.

* * *

Mediobanca S.p.A.

RESTATED PROFIT AND LOSS ACCOUNT

	(€m)			
	6 mths ended 31/12/21	12 mths ended 30/6/21	6 mths ended 31/12/20	Chg. (%)
Profit-and-loss data				
Net interest income	54.2	121.0	66.2	(18.1%)
Net treasury income	96.4	179.4	78.6	22.6%
Net fee and commission income	166.9	303.1	166.2	0.4%
Dividends on investments	93.2	416.4	2.2	n.m.
Total income	410.7	1,019.9	313.2	31.1%
Labour costs	(126.9)	(249.8)	(119.3)	6.4%
Administrative expenses	(88.4)	(172.0)	(81.1)	9.0%
Operating costs	(215.3)	(421.8)	(200.4)	7.4%
Loan loss provisions	29.0	75.4	62.8	(53.8%)
Provisions for other financial assets	(2.3)	44.1	10.4	n.m.
Impairment on investments	(0.9)	(1.6)	—	n.m.
Other income (losses)	(15.6)	(29.4)	(0.4)	n.m.
Profit before tax	205.6	686.6	185.6	10.8%
Income tax for the period	(55.0)	(108.2)	(69.0)	(20.3%)
Net profit	150.6	578.4	116.6	29.2%

RESTATED BALANCE SHEET

	(€m)		
	31/12/21	30/6/21	31/12/20
Balance-sheet			
Assets			
Financial assets held for trading	12,137.6	11,336.8	11,766.5
Treasury financial assets	12,982.0	10,122.1	10,470.9
Banking book securities	9,434.8	8,716.0	9,440.2
Customer loans	39,686.0	37,103.6	34,441.5
Equity Investments	4,621.4	4,475.1	4,378.3
Tangible and intangible assets	166.8	167.1	164.2
Other assets	624.3	782.8	845.0
Total assets	79,652.9	72,703.5	71,506.6
Liabilities and net equity			
Funding	55,249.5	52,045.0	50,367.8
Treasury financial liabilities	8,877.8	3,826.5	5,326.8
Financial liabilities held for trading	9,541.3	10,342.4	10,058.9
Other liabilities	882.2	937.6	735.7
Provisions	128.6	136.5	140.0
Net equity	4,822.9	4,837.1	4,760.8
Profit of the period	150.6	578.4	116.6
Total liabilities and net equity	79,652.9	72,703.5	71,506.6

Mediobanca S.p.A. delivered a net profit of €150.6m in the six months, representing a strong improvement on last year (€116.6m), helped by collection of the extraordinary Assicurazioni Generali dividend (€93.2m), plus an outstanding performance in fees and treasury income. The increase in revenues (of 31.1%) was offset by: lower writebacks of €29m (€62.8m), due to prudent management of reclassifications from UTP and use of overlays; negative valuations for the banking book (down €2.3m); and non-recurring costs of €15.6m, €12.3m of which in respect of a set of derivative contracts executed between 2010 and 2014 with long-term durations which have now exited the trading area's operations and are gradually to be wound up.⁴⁵

Revenues from ordinary business (i.e. net of the Assicurazioni Generali dividend) grew by 2.1% (from €311m to €317.5m). The main income items performed as follows:

- Net interest income was down 18.1% (from €66.2m to €54.2m), due to lower asset returns (approx. 20 bps on corporate loans) being only partially offset

⁴⁵ These are twelve derivative contracts executed with two different insurance counterparties, in which Mediobanca undertakes to guarantee the financial performance of a specific group of insurance policies governed by Austrian law at maturity.

by the higher volumes and lower cost of funding; plus also the cost of the centralized treasury liquidity position, which is necessary to stabilize the regulatory metrics, but also rather expensive;

- Net treasury income was up 22.6% (from €78.6m to €96.4m), due to an impressive performance by client activity (up from €30.6m to €45.3m) with the Equity Division returning to pre-Covid levels (€40.7m vs €11.1m); the contribution from the proprietary trading increased from €11.6m to €19.1m, offsetting much of the reduction from the banking book (from €22m to €11.7m) due to the lower disposals (from €23.1m to €16.6m). Dividends increased from €14.3m to €23m (including €7.2m collected from the CheBanca! AT1 bond);
- Net fee and commission income was stable at €166.9m, still near the highest levels seen in recent years: against the expected decline in Capital Markets activity (from €39.9m to €21.6m), there were increases in Private Banking (from €36.7m to €56.9m, €5.8 of which in portfolio management performance fees, and €17.7m in upfront fees from placements), M&A and Advisory business (from €43.7m to €52.5m), reflecting the strong business with Mid Corporate clients generating €16m (€6m);
- The 6.4% increase in labour costs, from €119.3m to €126.9m, reflects the action taken in the area of fixed salaries, which proved necessary in order to prevent staff turnover, as well as the customary alignment of variable remuneration to the results delivered in the period concerned. Administrative expenses increased from €81.1m to €88.4m, due to higher costs related to technology and projects, as well as the resumption of commercial activity, travel and events;
- Net writebacks to the loan book totalled €29m (€62.8m), confirming its high quality, and chiefly regard reversals for repayments, including for positions classified as stage 2, as a result of re-ratings plus the Automotive, Gaming and Luxury sectors exiting the high-risk classification, and the partial writeback of one UTP position;
- Other income (losses) reflect a balance of €15.6m (€0.4m), and costs related to payments to the resolution funds (DGS and SRF) totalling €3.7m, and the €12.3m adjustment for the set of derivative contracts from the 2010-14 period which no longer feature in the trading book's product catalogue (€12.3m loss), plus a one-off, €1.5m contribution approved by the CSR Committee for donations to a charitable initiative;
- Income tax amounted to €55m, and includes a one-off provision of €11.6m attributable to hidden taxation on the potential distribution of extraordinary

dividends by the non-Italian Group legal entities outside of the participation exemption regime;⁴⁶ current taxation came to €43.4m (tax rate 21.1%), down 37.2% on last year due to the higher reduced-tax component (dividends).

On the balance-sheet side, the first six months of the new financial year show:

- An increase in customer loans (up from €37.1bn to €39.7bn), €25.5bn of which to Group legal entities (€23.5bn), €13bn in corporate finance loans (€12.3bn) and €1.2bn to Private Banking clients (€1.3bn). Gross NPLs remained stable at €144m, while net NPLs increased from €74m to €80m, reflecting the ongoing improvement from the revised provisioning from certain UTP positions (the coverage ratio decreased from 48.7% to 44.7%);
- Banking book debt securities increased from €8.7bn to €9.4bn (split equally between Hold to Collect and Hold to Collect and Sell), after subscribing to an €825m senior ABS note as part of a placement with GACS;
- Investment holdings rose from €4.5bn to €4.6bn, after subscribing to the new Mediobanca International AT1 bond (€100m) and the capital increase subscribed to by Group legal entity Cairn (€15.4m) in relation to the Bybrook acquisition;
- Net treasury assets totalled €6.7bn, down approx. €600m: the increase in assets invested in equities (up €1.1bn) and ECB deposits (from €1.5bn to €2.5bn), was covered by the higher time deposits payable (up €900m) and securities lending transactions (up from €2bn to €5.2bn) to stabilize the liquidity indicators;
- Funding grew further, from €52bn to €55.2bn, due to the increase in Private Banking deposits (up €1.8bn), the increased recourse to the T-LTRO facilities (involving €1bn more), and new debt security issuance (the balance increased from €16.4bn to €17bn); notable issues in the six months include the €500m senior non-preferred bond (seven years at a fixed rate of 0.75%);
- Net equity decreased from €5.4 to €5bn, following the distribution of the 2021 dividend (€569m) and including the launch of the share buyback scheme (which accounted for €28m);
- AUM/AUA in Private Banking grew by 7%, from €17.5bn to €20.8bn, on Net New Money of €2.6bn and positive market valuations in an amount of €740m.

* * *

⁴⁶ Article 87 of the Italian Income Tax Act (Italian Presidential Decree No. 917 of 22 December 1986).

The financial highlights for the other Group companies in the six months under review are shown below:

Company	Percentage shareholding	Business Line	Total assets	Loans and advances to customers	Total net equity ¹	No. of staff
Mediobanca Securities (data in USDm)	100%	<i>Corporate and Investment Banking</i>	6.8	—	6.0	4
Mediobanca Funding Luxembourg	100%	<i>Corporate and Investment Banking</i>	11.1	10.0	0.9	—
Messier et Associés S.C.A. *	100%	<i>Corporate and Investment Banking</i>	86.6	—	116.7	36
Messier et Associés L.L.C. (data in USDm) *	100%	<i>Corporate and Investment Banking</i>	0.3	—	0.1	2
Mediobanca International	100%	<i>Corporate and Investment Banking / Holding Functions</i>	8,002.3	5,318.9	441.8	18
MBFACTA	100%	<i>Corporate and Investment Banking</i>	3,364.1	3,247.6	194.7	39
MBCredit Solutions	100%	<i>Corporate and Investment Banking</i>	472.2	409.0	146.3	203
MB Contact Solutions	100%	<i>Corporate and Investment Banking</i>	1.0	—	0.3	3
Compass Banca	100%	<i>Consumer Banking</i>	14,677.4	13,305.8	2,499.8	1,445
Quarzo S.r.l.	90%	<i>Consumer Banking</i>	0.1	—	—	—
Quarzo CQS S.r.l.	90%	<i>Consumer Banking</i>	0.1	—	—	—
Compass RE	100%	<i>Consumer Banking</i>	359.0	52.0	194.8	1
Compass Rent	100%	<i>Consumer Banking</i>	4.1	—	0.4	7
Compass Link	100%	<i>Consumer Banking</i>	0.6	—	0.4	1.0
CheBanca!	100%	<i>Wealth Management</i>	29,325.1	11,253.7	853.7	1,473
Mediobanca Covered Bond	90%	<i>Wealth Management</i>	0.7	—	0.1	—
CMB Monaco	100%	<i>Wealth Management</i>	6,129.7	2,335.8	917.2	246
Spafid	100%	<i>Wealth Management</i>	59.2	—	43.4	58
Spafid Family Office SIM	100%	<i>Wealth Management</i>	1.1	—	0.5	3
Cairn Capital Group Limited (data in GBPm) *	100%	<i>Wealth Management</i>	101.8	—	75.0	59
RAM Active Investments (data in CHFm) *	98.3%	<i>Wealth Management</i>	27.1	—	23.6	32
RAM Active Investments (Luxembourg) (data in CHFm)	100%	<i>Wealth Management</i>	6.7	—	2.7	6
Compagnie Monégasque de Gestion	100%	<i>Wealth Management</i>	10.8	—	3.0	8
Spafid Trust S.r.l.	100%	<i>Wealth Management</i>	1.4	—	1.3	3
Mediobanca SGR S.p.A.	100%	<i>Wealth Management</i>	61.1	—	49.5	51
Mediobanca Management Company S.A.	100%	<i>Wealth Management</i>	12.4	—	9.0	6
Mediobanca International Immobilière	100%	<i>Holding Functions</i>	2.0	—	1.9	—
SelmaBipiemme Leasing	60%	<i>Holding Functions</i>	1,836.8	1,687.7	219.2	103
Mediobanca Innovation Services	100%	<i>Holding Functions</i>	108.4	—	35.2	138
Spafid Connect	100%	<i>Holding Functions</i>	11.7	—	10.2	—

¹ Includes profit for the period.

* Taking into account the put and call option; see Part A1 – section 3 – Area and methods of consolidation, p. 99.

Company	Percentage shareholding	Business Line	Total income	Operating costs	Loss provisions	Gain/(loss) for the period
						(€m)
Mediobanca Securities (data in USDm)	100%	Corporate and Investment Banking	1.3	(1.2)	—	0.1
Mediobanca Funding Luxembourg	100%	Corporate and Investment Banking	0.3	(0.2)	—	—
Messier et Associés S.C.A. *	100%	Corporate and Investment Banking	45.9	(16.0)	—	21.7
Messier et Associés L.L.C. (data in USDm) *	100%	Corporate and Investment Banking	—	—	—	—
Mediobanca International	100%	Corporate and Investment Banking / Holding Functions	12.1	(4.7)	1.9	5.8
MBFACTA	100%	Corporate and Investment Banking	25.3	(5.6)	(3.6)	11.1
MBCredit Solutions	100%	Corporate and Investment Banking	43.8	(24.8)	(43.0)	(17.2)
MB Contact Solutions	100%	Corporate and Investment Banking	0.5	(0.4)	—	—
Compass Banca	100%	Consumer Banking	507.7	(147.0)	(95.9)	226.8
Quarzo S.r.l.	90%	Consumer Banking	—	—	—	—
Quarzo CQS S.r.l.	90%	Consumer Banking	—	—	—	—
Compass RE	100%	Consumer Banking	17.0	(0.4)	—	12.2
Compass Rent	100%	Consumer Banking	—	(0.9)	—	(0.7)
Compass Link	100%	Consumer Banking	0.1	(0.2)	—	(0.1)
CheBanca!	100%	Wealth Management	195.4	(141.0)	(7.2)	17.8
Mediobanca Covered Bond	90%	Wealth Management	—	—	—	—
CMB Monaco	100%	Wealth Management	55.3	(39.0)	(0.1)	16.5
Spafid	100%	Wealth Management	4.2	(5.1)	—	(0.3)
Spafid Family Office SIM	100%	Wealth Management	0.6	(0.9)	—	(0.2)
Cairn Capital Group Limited (data in GBPm) *	100%	Wealth Management	15.4	(13.5)	—	1.7
RAM Active Investments (data in CHFm) *	98.3%	Wealth Management	6.4	(7.9)	—	(1.6)
RAM Active Investments (Luxembourg) (data in CHFm)	100%	Wealth Management	0.2	(1.3)	—	(1.1)
Compagnie Monégasque de Gestion	100%	Wealth Management	3.6	(1.7)	—	1.5
Spafid Trust S.r.l.	100%	Wealth Management	0.4	(0.4)	—	—
Mediobanca SGR S.p.A.	100%	Wealth Management	17.6	(8.2)	—	6.3
Mediobanca Management Company S.A.	100%	Wealth Management	1.2	(0.9)	—	0.2
Mediobanca International Immobilière	100%	Holding Functions	0.1	—	—	—
SelmaBipiemme Leasing	60%	Holding Functions	20.1	(5.2)	(15.2)	—
Mediobanca Innovation Services	100%	Holding Functions	0.4	(0.1)	—	0.2
Spafid Connect	100%	Holding Functions	0.3	(0.5)	—	3.6

* Taking into account the put and call option; see Part A1 – section 3 – Area and methods of consolidation, p. 99.

Finally, it should be noted that:

- CMB Monaco closed its local financial statements for the twelve months ended 31 December 2021 with a net profit of €16.3m, higher than the previous year (€14.4m) following reversals from the provisions for risks totalling €4.5m (in line with the previous year). A good performance was delivered in fee income (up 12%, from €66.1m to €74.1m) and net interest income (up 3%, from €44m to €45.2m) with customer loans increasing (from €2,064m to €2,336m) and despite the reduction in market interest rates. Costs rose by 10%, from €71m to €78m, due to major investments in connection with the strategic repositioning process (new recruits and IT investments, in line with the technology innovation strategy undertaken by the bank). TFAs grew by 14% in the twelve months, from €11.4bn to €13bn, on a substantial contribution from net new money in AUM/AUA, helped by the new advisory service, plus the market effect. Deposits were stable at €4.3bn.

Other information

Related party disclosure

Financial accounts outstanding as at 31 December 2021 between companies forming part of the Mediobanca Group and related parties, and transactions undertaken between such parties during the financial year, are illustrated in Part H of the Notes to the Accounts, along with all the information required in terms of transparency pursuant to Consob resolution no. 17221 issued on 12 March 2010 (amended most recently by resolution no. 21264 of 10 December 2020). All such accounts form part of Group companies' ordinary operations, are maintained on an arm's length basis, and are entered into solely in the interests of the companies concerned. No atypical or irregular transactions have been entered into with such counterparties

Article 15 of Consob's market regulations

With reference to Article 15 (previously Article 36) of Consob resolution 16191/07 (Market Regulations) on the subject of prerequisites for listing in respect of parent companies incorporated or regulated by the laws of EU member states and relevant to the preparation of the consolidated accounts, CMB Monaco is the only Group company affected by this provision, and adequate procedures have been adopted to ensure it is fully compliance with.

Principal risks facing the Group

In addition to the customary information on financial risks (credit, market, liquidity and operational risks), the notes to the accounts contain a description of the other risks to which the Group is exposed in the course of its business, as they emerged from the ICAAP self-assessment process now required by the regulations in force.

In particular, this involves concentration risk versus Italian groups in the Group's corporate activities, financial risk on the banking book (primarily interest rate risk), strategic or business risk, risk deriving from exposure to volatility on financial markets for the equities held in the HTCS portfolio, and exposure to sovereign debt.

Consolidated Non-Financial Statement

The Group publishes a Consolidated Non-Financial Statement which is drawn up in accordance with Article 4 of Italian Legislative Decree 254/16, and contains information on environmental and social issues, human resources, protection of human rights and anti-corruption measures, in order to facilitate understanding of the Group's activities, performance, results and impact generated.

The Group's consolidated non-financial statement is published annually on the Bank's website at www.mediobanca.com (in the section entitled "Responsible Business"), and is drawn up in accordance with the provisions of Italian Legislative Decree 254/16 and with the core option of the Global Reporting Initiative Sustainability Reporting Standards (the "GRI Standards") published in 2016 by the Global Reporting Initiatives (GRI), which are currently the most widely used and internationally recognized standards in non-financial reporting. Furthermore, as from the Consolidated Non-Financial Statement for FY 2020-21, the standards developed by the Sustainability Accounting Standards Board ("SASB") have also been taken into consideration, where applicable, and a first self-assessment has been made in connection with the recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD).

Research

Economic research is carried on by the Mediobanca Research Area. The Research Area's catalogue includes the customary publications which have been produced for many years now ("Leading Italian Companies", "Financial Aggregates of Italian Companies", "Medium-Sized Industrial Companies"), plus a series of industrial economic reports on the sectors in which the Italian market is most involved internationally.

Rating

Nel mese di novembre S&P Global Ratings – facendo seguito ad una In November 2021, S&P Global Ratings, following a selective review of Italian banks, upgraded the Outlook assigned to Mediobanca from Stable to Positive. The BBB rating remains unchanged, as it is aligned to the rating for Italian sovereign debt. For Mediobanca, S&P anticipates a stronger-than peer operating performance, sound revenues generation, outstanding cost efficiency, and contained credit losses. Earnings and capital generation could also be strengthened further if the positive trend in the Italian macroeconomic scenario continues.

In December 2021, Fitch Ratings, following an improvement in the sovereign rating for Italy, upgraded Mediobanca's rating from BBB- a BBB, with a Stable Outlook. According to Fitch, the ratings upgrade primarily reflects the benefits to Mediobanca's risk profile from operating in a stronger and more stable environment, which should result in reduced risks in combination with its conservative underwriting standards. The Bank's ratings continue to reflect a specialized business model and a moderate risk profile, which underpin the Bank's better operating profitability and asset quality relative to domestic peers through the cycle.

Outlook

Estimates for the next six months reflect stabilization of lending volumes, even if the recovery in consumer credit, the most profitable product, looks set to continue. The investment banking pipeline is healthy, and profitability in Wealth Management is expected to benefit from the increase in average assets and from the ongoing focus on development of new products for customers.

Based on the strong commercial activity, solid growth in revenues is expected which may, however, still be affected by the increased market volatility and the reduced impact of non-recurring items.

Investments in innovation and distribution by the Group will continue in the second half-year, with a subsequent increase in operating costs linked in part also to seasonal factors. This should not, however, drive the cost/income ratio any higher than last year.

The cost of risk is expected to remain at low levels, because of the asset quality, the substantial overlays that have been set aside, and risk indicators that are currently under control.

Reconciliation of shareholders' equity and net profit

	(€'000)	
	Shareholders' equity	Net profit (loss)
Balance at 31/12 as per Mediobanca S.p.A. accounts	4,814,289	150,644
Net surplus over book value for consolidated companies	14,822	303,006
Differences on exchange rates originating from conversion of accounts made up in currencies other than the Euro	6,921	—
Other adjustments and restatements on consolidation, including the effects of accounting for companies on an equity basis	5,624,893	72,164
Dividends received during the period	—	—
Total	10,460,925	525,814

Milan, 9 February 2022

THE BOARD OF DIRECTORS

DECLARATION BY HEAD
OF COMPANY FINANCIAL REPORTING



**Declaration in respect of the consolidated financial statements
as required by Article 81-ter of Consob resolution no. 11971
issued on 14 May 1999 as amended**

1. The undersigned Alberto Nagel and Emanuele Flappini, in their respective capacities as Chief Executive Officer and Head of Company Financial Reporting of Mediobanca, hereby declare, and in view inter alia of the provisions contained in Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree 58/98, that the administrative and accounting procedures used in the preparation of the interim financial statements:
 - were adequate in view of the company’s characteristics;
 - were effectively applied in the six months ended 31 December 2021.
2. Assessment of the adequacy of said administrative and accounting procedures for the preparation of the consolidated financial statements as at 31 December 2021 was based on a model defined by Mediobanca in accordance with benchmark standards for internal control systems which are widely accepted at international level (CoSO and CobiT frameworks).
3. It is further hereby declared that
 - 3.1 the consolidated interim review:
 - has been drawn up in accordance with the International Financial Reporting Standards adopted by the European Union pursuant to EC regulation no. 1606/02 issued by the European Parliament and Council on 19 July 2002;
 - corresponds to the data recorded in the company’s books and account ledgers;
 - is adequate for the purpose of providing a truthful and accurate representation of the capital, earnings and financial situation of the issuer and the group of companies included within its area of consolidation.
 - 3.2 the interim review of operations contains reliable analysis of the most important events to take place in the first six months of the financial year and their impact on the interim financial statements, along with a description of the main risks and uncertainties for the remaining six months. The interim review of operations also contains reliable analysis of information on major transactions involving related parties.

Milan, 9 February 2022

Chief Executive Officer

Alberto Nagel

*Head of Company
Financial Reporting*
Emanuele Flappini

EXTERNAL AUDITORS' REPORT



Mediobanca S.p.A.

Review report on the interim condensed consolidated
financial statements

(Translation from the original Italian text)



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working world**

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Review report on the interim condensed consolidated financial statements (Translation from the original Italian text)

To the Shareholders of
Mediobanca S.p.A.

Introduction

We have reviewed the interim condensed consolidated financial statements, comprising the consolidated balance sheet as of December 31, 2021, the consolidated profit and loss, the consolidated comprehensive profit and loss, the statement of changes to consolidated net equity, the consolidated cash flow statement for the period then ended and related notes to the accounts of Mediobanca S.p.A. and its subsidiaries (hereafter “Mediobanca Group”). The Directors are responsible for the preparation of the interim condensed consolidated financial statements in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of 31 July 1997. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the interim condensed consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of Mediobanca Group as of December 31, 2021 are not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, February 10, 2022

EY S.p.A.
Signed by: Davide Lisi, Auditor

This report has been translated into the English language solely for the convenience of international readers

CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS



Consolidated Balance Sheet

	(€000)	
Assets	31/12/21	30/6/21*
10. Cash and cash equivalents	4,332,325	3,273,438
20. Financial assets at fair value with impact taken to profit and loss	13,435,044	12,649,596
<i>a) Financial assets held for trading</i>	12,123,172	11,273,737
<i>b) Financial assets designated at fair value</i>	614,722	680,539
<i>c) Other financial assets mandatorily at fair value</i>	697,150	695,320
30. Financial assets at fair value with impact taken to comprehensive income	5,005,961	4,567,371
40. Financial assets at amortized cost	59,406,617	55,295,675
<i>a) Due from banks</i>	4,716,349	4,020,443
<i>b) Due from customers</i>	54,690,268	51,275,232
50. Hedging derivatives	225,650	308,370
60. Adjustment of hedging financial assets (+/-)	—	—
70. Equity investments	3,800,947	3,702,925
80. Reinsured portion of technical reserve	—	—
90. Property, plant and equipments	501,029	510,209
100. Intangible assets	836,695	744,139
<i>of which:</i>		
<i>goodwill</i>	615,455	602,363
110. Tax assets	724,002	792,265
<i>a) current</i>	135,421	208,062
<i>b) deferred</i>	588,581	584,203
120. Assets classified as held for sale **	4,299	4,178
130. Other assets	823,905	750,534
Total assets	89,096,474	82,598,700

* The balance sheet as at 30 June 2021 includes the reclassification of current accounts in the Cash item as required by the VII update of Circular 262 of the Bank of Italy.

** Related to Spafid Connect business unit disposal deal.

	(€000)	
Liabilities and net equity	31/12/21	30/6/21
10. Financial liabilities at amortized cost	65,850,787	58,475,015
<i>a) Due to banks</i>	15,092,008	12,830,919
<i>b) Due to customers</i>	31,520,425	27,064,789
<i>c) Debt securities in issue</i>	19,238,354	18,579,307
20. Trading financial liabilities	9,337,941	10,063,629
30. Financial liabilities designated at fair value	779,544	833,048
40. Hedging derivatives	435,814	375,413
50. Adjustment of hedging financial liabilities (+/-)	—	—
60. Tax liabilities	497,169	549,604
<i>a) current</i>	153,273	210,817
<i>b) deferred</i>	343,896	338,787
70. Liabilities included in disposal groups classified as held for sale **	36	381
80. Other liabilities	822,482	898,035
90. Staff severance indemnity provision	25,598	26,886
100. Provisions	137,869	144,209
<i>a) commitments and financial guarantees</i>	24,616	27,155
<i>b) post-employment and similar benefits</i>	1,534	1,410
<i>c) other provisions</i>	111,719	115,644
110. Insurance reserves	124,114	131,350
120. Revaluation reserves	960,152	931,230
130. Redeemable shares repayable on demand	—	—
140. Equity instruments repayable on demand	—	—
150. Reserves	6,890,012	6,851,502
160. Share premium reserve	2,195,606	2,195,606
170. Share capital	443,640	443,640
180. Treasury share (-)	(28,520)***	(216,736)
190. Minority interests (+/-)	98,416	88,312
200. Profit/(loss) for the period (+/-)	525,814	807,576
Total liabilities and net equity	89,096,474	82,598,700

** Related to Spafid Connect business unit disposal deal.

*** After cancellation of 22,581,461 treasury shares.

Consolidated Profit and Loss Account

	(€000)		
Items	31/12/21	30/6/21	31/12/20
10. Interest and similar income	914,741	1,819,894	929,627
<i>of which: interest income calculated according to the effective interest method</i>	820,287	1,641,948	840,364
20. Interest expense and similar charges	(177,365)	(402,327)	(210,655)
30. Net interest income	737,376	1,417,567	718,972
40. Fee and commission income	439,592	719,736	373,936
50. Fee and commission expense	(79,724)	(134,458)	(66,185)
60. Net fee and commission income	359,868	585,278	307,751
70. Dividends and similar income	43,936	106,904	39,585
80. Net trading income	(1,821)	83,916	69,522
90. Net hedging income (expense)	(1,456)	(2,078)	1,360
100. Gain (loss) on disposal/repurchase:	51,769	12,415	(12,330)
a) <i>financial assets measured at amortized cost</i>	21,579	(10,018)	(3,610)
b) <i>financial assets valued at fair value with impact taken to comprehensive income</i>	30,826	24,051	(8,580)
c) <i>financial liabilities</i>	(636)	(1,618)	(140)
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	6,376	108,412	75,803
a) <i>financial assets and liabilities designated at fair value</i>	2,227	(7,167)	(5,176)
b) <i>other financial assets mandatorily valued at fair value</i>	4,149	115,579	80,979
120. Total income	1,196,048	2,312,414	1,200,663
130. Net write-offs (write-backs) for credit risk:	(133,832)	(270,469)	(172,929)
a) <i>financial assets measured at amortized cost</i>	(133,068)	(264,322)	(166,985)
b) <i>financial assets valued at fair value with impact taken to comprehensive income</i>	(764)	(6,147)	(5,944)
140. Gains (losses) from contractual modifications without derecognition	79	(193)	92
150. Net income from financial operations	1,062,295	2,041,752	1,027,826
160. Premiums earned (net)	23,257	50,220	26,252
170. Other income (net) from insurance activities	(7,324)	(14,131)	(7,014)
180. Net profit from financial and insurance activities	1,078,228	2,077,841	1,047,064
190. Administrative expenses:	(649,923)	(1,304,499)	(602,616)
a) <i>personnel costs</i>	(328,562)	(636,708)	(304,987)
b) <i>other administrative expenses</i>	(321,361)	(667,791)	(297,629)
200. Net transfers to provisions:	(2,660)	(32,819)	(26,990)
a) <i>commitments and financial guarantees</i>	2,537	(13,125)	(7,305)
b) <i>other sums set aside (net)</i>	(5,197)	(19,694)	(19,685)
210. Net adjustments to tangible assets	(27,760)	(53,425)	(26,877)
220. Net adjustments to intangible assets	(14,573)	(32,368)	(16,067)
230. Other operating income (expense)	77,814	217,020	85,157
240. Operating costs	(617,102)	(1,206,091)	(587,393)
250. Gain (loss) on equity investments	185,728	271,732	110,879
260. Net result from fair value valuation of tangible and intangible assets	—	—	—
270. Goodwill write-offs	—	(62,473)	—
280. Gain (loss) on disposal of investments	(416)	(29)	—
290. Profit (loss) on ordinary activity before tax	646,438	1,080,980	570,550
300. Income tax for the year on ordinary activities	(120,435)	(271,781)	(158,916)
310. Profit (loss) on ordinary activities after tax	526,003	809,199	411,634
320. Gain (loss) of ceded operating assets, net of tax	—	—	—
330. Net profit (loss) for the period	526,003	809,199	411,634
340. Net profit (loss) for the period attributable to minorities	(189)	(1,623)	(1,081)
350. Net profit (loss) for the period attributable to Mediobanca	525,814	807,576	410,553

Consolidated Comprehensive Profit and Loss Account

	(€000)	
	31/12/21	31/12/20
10. Profit (Loss) for the period	526,003	411,634
Other income items net of tax without passing through profit and loss	28,833	(37,433)
20. Equity securities designated at fair value with impact taken to comprehensive income	17,791	(1,213)
30. Financial liabilities at fair value with impact taken to profit and loss (variation of own credit risk)	(165)	(4,926)
40. Hedging of equity securities designated at fair value with impact taken to comprehensive income	—	—
50. Property, plant and equipments	—	—
60. Intangible assets	—	—
70. Defined benefit schemes	(1,360)	(507)
80. Non-current assets held for sale	—	—
90. Share of valuation reserves attributable to equity-accounted companies	12,567	(30,787)
Other income items net of tax passing through profit and loss	(1,196)	445,262
100. Foreign investments hedges	(6,504)	901
110. Exchange rate differences	6,025	(648)
120. Cash flow hedges	27,268	233
130. Hedging instruments (non-designated elements)	—	—
140. Financial assets (other than equity securities) valued at fair value with impact taken to comprehensive income	(16,287)	42,768
150. Non-current assets held for sale	—	—
160. Share of valuation reserves attributable to equity-accounted companies	(11,698)	402,008
170. Total other income items, net of tax	27,637	407,829
180. Comprehensive income (Heading 10 +170)	553,640	819,463
190. Consolidated comprehensive income attributable to minorities	518	1,400
200. Consolidated comprehensive income attributable to Mediobanca	553,122	818,063

Statement of Changes to Consolidated Net Equity

(€000)

	Allocation of profit for net equity at 30/6/21		Changes during the reference period							Net equity attributable to the group at 31/12/21		Net equity attributable to minorities at 31/12/21	
	Reserves	Dividends and other fund applications	Changes to reserves	Emission of new shares	New shares issued	Treasury shares acquired	Extra-ordinary dividend payouts	Changes to equity instruments	Treasury shares derivatives	Stock options	Overall consolidated profit for the 6 months ended 31/12/21	Total net equity at 31/12/21 to the group	Total net equity at 31/12/21 to minorities
Share capital:	460,269	—	—	—	—	—	—	—	—	—	460,269	443,640	16,629
a) ordinary shares	460,269	—	—	—	—	—	—	—	—	—	460,269	443,640	16,629
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	2,197,454	—	—	—	—	—	—	—	—	—	2,197,454	2,195,606	1,848
Reserves:	6,921,421	809,199	(569,164)	21,916	(216,512)	—	—	4,280	—	—	6,971,140	6,890,012	81,128
a) retained earnings	6,785,617	809,199	(569,164)	23,532	—	—	—	—	—	—	7,049,184	6,968,683	80,501
b) others	135,804	—	(1,616)	—	(216,512)	—	—	4,280	—	—	(78,044)	(78,671)	627
Valuation reserves	929,523	—	1,616	—	—	—	—	—	—	27,637	958,776	960,154	(1,378)
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(216,736)	—	—	—	188,216	—	—	—	—	—	(28,520)	(28,520)	—
Profit (loss) for the period	809,199	(809,199)	—	—	—	—	—	—	—	—	526,003	525,814	189
Total net equity	11,101,130	(569,164)	23,532	(28,296)	(28,296)	—	—	4,280	—	—	553,640	11,083,122	X
Net equity attributable to the group	11,012,818	(569,164)	13,946	(28,296)	(28,296)	—	—	4,280	—	—	553,122	X 10,986,706	X
Net equity attributable to minorities	88,312	—	9,586 ²	—	—	—	—	—	—	—	518	X	X 98,416

¹ Represents the effects of the performance shares related to the ESOP schemes.

² The increase in minority interests is due to the dilution of the share capital of Cairn Capital Ltd after the issue of new shares assigned to former Bybrook shareholders and of which only 50% is subject to put & call agreements.

Statement of Changes to Consolidated Net Equity

(€000)

	Total Group net equity at		Changes during the reference period							Total net equity at 31/12/21	Net equity attributable to minorities at 31/12/21		
	30/6/21	30/6/21	Reserves	Dividends and other fund applications	Changes to reserves	Transactions involving net equity			Treasury shares derivatives	Stock options	Changes to profit for the consolidated investments 0/1/1/21 to 31/12/21	at 31/12/21	at 31/12/21
						Treasury shares acquired	Extra-ordinary dividend payouts	Changes to equity instruments					
Share capital:	460,246	—	—	—	—	—	—	—	—	—	460,246	443,617	16,629
a) ordinary shares	460,246	—	—	—	—	—	—	—	—	—	460,246	443,617	16,629
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	2,197,454	—	—	—	—	—	—	—	—	—	2,197,454	2,195,606	1,848
Reserves:	6,340,226	601,429	—	4,365	—	(14,773)	—	—	4,667	—	6,935,914	6,860,681	75,233
a) retained earnings	6,202,878	601,429	—	5,406	—	—	—	—	—	—	6,809,713	6,735,107	74,606
b) others	137,348	—	—	(1,041)	—	(14,773)	—	—	4,667	—	126,201	125,574	627
Valuation reserves	372,256	—	—	1,041	—	—	—	—	—	—	407,829	783,201	(2,075)
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares (231,538)	—	—	—	—	—	14,537	—	—	—	—	(217,001)	(217,001)	—
Profit (loss) for the period	601,429	(601,429)	—	—	—	—	—	—	—	—	411,634	411,634	410,553
Total net equity	9,740,073	—	—	5,406	—	(236)	—	—	4,667	—	819,463	10,569,373	X
Net equity attributable to the group	9,648,581	—	—	5,582	—	(236)	—	—	4,667	—	818,063	X 10,476,657	X
Net equity attributable to minorities	91,492	—	—	(176)	—	—	—	—	—	—	1,400	X	X 92,716

¹ Represents the effects of the stock options and performance shares related to the ESOP schemes.

Consolidated Cash Flow Statement Direct Method

(€000)

	Amount	
	31/12/21	31/12/20
A. Cash flows from operating activity		
1. Operating activity	177,079	138,635
- interest received	805,653	864,079
- interest paid	(161,249)	(232,685)
- dividends and similar income	45,452	35,542
- net fees and commission income	135,393	142,921
- cash payments to employees	(290,318)	(270,365)
- net premium income	18,530	7,051
- other premium from insurance activity	(75,093)	(45,563)
- other expenses paid	(239,595)	(303,844)
- other income received	148,104	17,076
- income taxes paid	(209,798)	(75,577)
- Expenses/income from group of assets being sold	—	—
2. Cash generated/absorbed by financial assets	(3,649,220)	(4,318,010)
- financial assets held for trading	(1,105,899)	(898,885)
- financial assets valued at fair value	70,487	(592,002)
- financial assets mandatorily valued at fair value	(19,117)	84,534
- financial assets valued at fair value with impact taken to profit and loss	(411,792)	(531,900)
- financial assets valued at amortized cost	(2,151,463)	(1,607,946)
- other assets	(31,436)	(771,811)
3. Cash generated/absorbed by financial liabilities	5,031,127	2,893,076
- financial liabilities valued at amortized cost	5,232,768	2,333,990
- financial liabilities held for trading	(222,020)	(19,817)
- financial liabilities designated at fair value	(45,218)	580,571
- other liabilities	65,597	(1,668)
Net cash flow (outflow) from operating activities	1,558,986	(1,286,299)
B. Cash flows from investment activity		
1. Cash generated from:	106,537	2,529
- disposal of shareholdings	—	—
- dividends received in respect of equity investments	93,248	2,213
- disposals of tangible assets	1,756	316
- disposals of intangible assets	11,528	—
- disposals of subsidiaries or business units	5	—
2. Cash absorbed by:	(11,252)	(24,171)
- purchases of shareholdings	—	—
- purchases of tangible assets	(11,251)	(9,256)
- purchases of intangible assets	(1)	(14,915)
- purchases of subsidiaries or business units	—	—
Net cash flow (outflow) from investment activity	95,285	(21,642)
C. Cash flows from funding activity	(595,384)	(1,698)
- issuance/acquisition of treasury shares	(28,296)	—
- issuance/acquisition of capital instruments	—	—
- distribution of dividends and other purposes	(567,088)	(1,698)
- purchases/acquisition of minorities	—	—
Net cash flow (outflow) from funding activities	(595,384)	(1,698)
Net cash flow (outflow) during the period	1,058,887	(1,309,639)

Riconciliazione di movimenti in cash flow during the period

(€000)

Accounting items	Amount	
	31/12/21	31/12/20
Cash and cash equivalents: balance at start of period	1,910,312	3,219,951
Total cash flow (outflow) during the period	1,058,887	(1,309,639)
Cash and cash equivalents: exchange rate effect	—	—
Cash and cash equivalents: balance at end of period	2,969,199	1,910,312

NOTES TO THE ACCOUNTS



NOTES TO THE ACCOUNTS

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Part A - Accounting policies

A.1 - General Policies

SECTION 1

Statement of conformity with IAS/IFRS

The Mediobanca Group's consolidated financial statements for the six months ended 31 December 2021 have, as required by Italian Legislative Decree 38/05, been drawn up in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB), and the respective interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), which were adopted by the European Commission in accordance with the procedure laid down in Article 6 of regulation CE 1606/02 issued by the European Parliament and Council on 19 July 2002. The consolidated financial statements for the period ended 30 December 2021 have also been prepared on the basis of the "Instructions on preparing statutory and consolidated financial statements for banks and financial companies which control banking groups" issued by the Bank of Italy in its Circular no. 262 on 22 December 2005 (seventh update issued on 29 October 2021, as amended), which define the structure to be used in compiling and preparing the financial statements and the contents of the notes to the accounts.

SECTION 2

General principles

These consolidated financial statements comprise:

- Consolidated balance sheet;
- Consolidated profit and loss account;
- Consolidated comprehensive income statement;
- Statement of changes to consolidated net equity;
- Consolidated cash flow statement;
- Notes to the accounts.

The condensed consolidated financial statements for the six months ended 31 December 2021 have been drawn up based on the assumption that use of the going concern principle is appropriate.

All the statements have been drawn up in conformity with the general principles provided for under IAS and the accounting policies illustrated in part A.2, and show data for the period under review 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.

During the six months under review, the European Commission has approved the following regulations, which include certain changes to accounting standards already in force: Commission Regulation (EU) 2021/1421 of 30 August 2021, and Commission Regulation (EU) 2021/2036 of 19 November 2021:

- Commission Regulation (EU) 2021/1421 adopted the amendments to IFRS 16 proposed by the IASB in the document entitled “Amendments to IFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021” of 31 March 2021. With this Regulation, the amendments to IFRS 16 have been extended to include payments due contractually until 30 June 2022 inclusive. These amendments are valid for the Group as from 1 July 2021;
- Commission Regulation (EU) 2021/2036 of 19 November 2021 adopted IFRS 17 “Insurance contract” and also amended the following standards: IFRS 1, IFRS 3, IFRS 5, IFRS 7, IFRS 9, IFRS 15, IAS 1, IAS 7, IAS 16, IAS 19, IAS 28, IAS 32, IAS 36, IAS 37, IAS 38 and IAS 40. These amendments are valid for the Group starting from 1 July 2023.

The measures and statements published by the regulatory and supervisory authorities regarding the most suitable means for applying the reporting standards in relation to the Covid-19 situation in the six months are summarized below.

ESMA:

On 29 October 2021, ESMA published its annual public statement on “European common enforcement priorities for 2021 annual financial reports” setting out priorities on which listed companies must focus in preparing their financial statements for the year ended 31 December 2021. ESMA in particular recommended that disclosure be provided in IFRS-compliant financial statements for 2021 on four issues:

- a) Longer-term impacts of the Covid-19 pandemic and the recovery from Covid-19, with careful assessment and transparency of accounting;
- b) Climate-related matters¹, impacts, estimates and strategies implemented to mitigate them and indicate how the company is positioned relative to its sustainability objectives;
- c) Measurement of Expected Credit Losses (ECL), including sensitivity analysis and details of management overlays (provided and used), material adjustments and significant increases in credit risk (SICR);
- d) Taxonomy-related disclosures and disclosure of the taxonomy alignment of economic activities in accordance with the obligations set out in Article 8 of Regulation (EU) 2020/852.

EBA:

On 24 November 2021, the European Banking Authority (EBA) published a report² summarizing the results of the monitoring activity of implementation of the International Financial Reporting Standards (IFRS 9) by the European Union institutions in the context of the current pandemic. The findings of the analysis carried out by the EBA are meant to assist supervisors' evaluation of the quality and adequacy of application of the IFRS 9 framework, also considering the high expert judgement levels adopted by the banks concerned in terms of the level of provisioning (and overlays) and classifications as stage 2 and stage 3.

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

Group project on the transition to interbank benchmark rates

In the six months under review, the activities required to complete the transition to the new interbank benchmark rates by the start of 2022 have

² ESMA expects the impact of climate-related matters to be taken into consideration by entities in relation to IFRS, with reference in particular to the scope of application of IAS 16, IAS 36 and IAS 38.

³ EBA/Rep/2021/35 IFRS 9 Implementation by EU Institutions – Monitoring Report.

basically all been completed. The discontinued index-linked products have all been altered without any problems being noted through the transition to Ester (for the Euro) Saron (for CHF), Sonia (for GBP) and Tonar (for JPY).

An assessment is currently underway to map the actions required in connection with the discontinuation of Libor USD, for completion by end-June 2023, when the interest rate is expected to be retired definitively, whereas from 1 January 2022, the Libor USD interest rates will still be provided, but only to allow positions opened before 31 December 2021 to be managed.

Targeted Longer-Term Refinancing Operations - T-LTRO

T-LTRO III is a programme of ten long-term refinancing operations, each of which expires after three years, implemented once a quarter starting from September 2019.

In the course of 2020, with the aim of providing further support to the credit of households and businesses, an additional discount was introduced (in the form of a 50 bps premium) for operations outstanding between 24 June 2020 and 23 June 2021, subsequently renewed from 24 June 2021 to 23 June 2022. The premium will be paid when each operation expires, subject to certain eligibility criteria set annually being met in terms of maintaining lending levels versus households and businesses.

The existing positions were renegotiated in September 2021 (positions worth €2.5bn falling due in March and June 2023 were wound up early and replaced with positions worth €3.5bn falling due in 2024), extending the duration to 2.5 years and increasing the use of the programme which now stands at €8.4bn. This refinancing operation has entailed foregoing the premium that had accrued pro rata (approx. €3m).

As required by IFRS 9, the interest rate on the facility has been recalculated to reflect the additional premium calculated until last year, recording the effect of the additional discount. The first premium was recognized last year, while the second, given that the ECB does not expect to renew it for another year, is included in the interest rate up to the expiry date (i.e., of the €37m premium expected, only €6m have been recognized in the accounts as at 31 December 2021).

Group Hedge Accounting Manual

Preparation of the Group Hedge Accounting Manual was completed during the six months. This manual details the methodological and procedural choices made with regard to hedge management and the means by which the economic relation between hedging and hedged instruments is tested. The new behavioural model for CheBanca! deposits has also been validated. This model is used to make hedging of the balance sheet more efficient, reducing the Group's exposure to interest rate risk with an additional benefit to net interest income in view of the extended funding duration.

New ESEF Regulation: Group project

Directive 2013/50/EU, amending 2004/109/CE (the Transparency Directive), provided that all annual financial reports of issuers whose securities are admitted to trading on a regulated market must be prepared in a single electronic format. The European Commission adopted these rules in Commission Delegated Regulation No. 2019/815 of 17 December 2018 (the "European Single Electronic Format Regulation", or "ESEF"). The Regulation requires that issuers which prepare their consolidated financial statements in accordance with IFRS should draw up and publish their annual financial reports in XHTML (eXtensible HyperText Markup Language) format, using the Inline Extensible Business Reporting Language (iXBRL) language to mark up the financial statements (statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows) starting from the financial year beginning on 1 January 2021 (for the Mediobanca Group the balance-sheet date is 30 June 2022). Starting from the financial year beginning on 1 January 2021, then, or subsequently, issuers will also be required to mark up the information contained in their notes to the accounts. In this case a block markup is permitted whereby entire sections of notes can be marked up using individual taxonomy elements (for the Mediobanca Group this will be the financial reports for the year ending 30 June 2023).

The combination of the XHTML format with i-XBRL markups is intended to:

- Make the annual financial reports machine-readable as well as human-readable,
- Improve the access, analysis and comparability of the information included in the annual financial reports.

Issues may in any case continue to publish the financial report in other formats as well, such as PDF.

The Mediobanca Group has been involved in the working group set up by the Italian Banking Association (ABI), which, in conjunction with the Bank of Italy and XBRL Italy, has been endeavouring to identify a like-for-like taxonomy for the Italian banking system as a whole to apply to consolidated bank financial reporting, the form and rules for compiling which are governed by Bank of Italy Circular No. 262 of 22 December 2005; the Group has also taken part in the process of identifying the correct extensions to be applied to the analytical “gagging” of the financial statements.

Accordingly, a project was launched during the half-year under review, in three phases: firstly, analysis of the Regulation and the technology solution being introduced; secondly, mark-up of the numbers contained in the financial report and general data in i-XBRL, and XHTML format for the other parts of the report (scheduled for completion by end-June 2022); and third, block mark-up of the Notes to the Accounts.

SECTION 3

Area and methods of consolidation

The consolidated financial statements comprise the financial/earnings results of the Group companies and the companies directly or indirectly controlled by them, including those operating in sectors dissimilar to the one in which the Parent Company operates.

Based on the combined provisions of IFRS 10 “Consolidated financial statements”, IFRS 11 “Joint arrangements” and IFRS 12 “Disclosure of interests in other entities”, the Group has proceeded to consolidate its subsidiaries on a line-by-line basis, and its associates and joint arrangements using the net equity method.

The following events in the six months should be noted:

- On 31 August 2021 the management and staff contracts (mainly fund managers) of Bybrook Capital LLP were transferred to Cairn Capital Group Limited, which since January 2021 had already been in possession of a Revenue Sharing Agreement (RSA); the deal also entailed the purchase of 8 entities, mostly dormant, acquired for a token price of £1;
- The Bybrook acquisition was part-settled in Cairn shares (approx. 21.9%), only half of which are covered by a put-and-call agreement; thus the stake owned in the company reduces from 85.13% to 64.58% (89.07% including the put-and-call agreement);
- The investment in RAM increased from 94.7% to 94.9%, following the exit of two equity partners;
- Group legal entity Ricerche e Studi was removed from the Companies’ Register; the wind-up and liquidation of the company was approved in May 2021.

1. Subsidiaries and jointly controlled companies (consolidated pro-rata)

Name	Registered office	Type of relationship ¹	Shareholding		% voting rights ²
			Investor company	% interest	
A. COMPANIES INCLUDED IN AREA OF CONSOLIDATION					
A.1 Line-by-line					
1. MEDIOBANCA - Banca di Credito Finanziario S.p.A.	Milan	1	—	—	—
2. SPAFID S.P.A.	Milan	1	A.1.1	100.0	100.0
3. SPAFID CONNECT S.P.A.	Milan	1	A.1.4	100.0	100.0
4. MEDIOBANCA INNOVATION SERVICES - S.C.P.A.	Milan	1	A.1.1	100.0	100.0
5. CMB MONACO S.A.M.	Montecarlo	1	A.1.1	100.0	100.0
6. C.M.G. COMPAGNIE MONEGASQUE DE GESTION S.A.M.	Montecarlo	1	A.1.5	99.9	99.9
7. CMB ASSET MANAGEMENT S.A.M.	Montecarlo	1	A.1.5	99.4	99.4
8. MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.	Luxembourg	1	A.1.1	99.0	99.0
		1	A.1.9	1.0	1.0
9. COMPASS BANCA S.P.A.	Milan	1	A.1.1	100.0	100.0
10. CHEBANCA! S.P.A.	Milan	1	A.1.1	100.0	100.0
11. MBCREDIT SOLUTIONS S.P.A.	Milan	1	A.1.9	100.0	100.0
12. SELMABIPIEMME LEASING S.P.A.	Milan	1	A.1.1	60.0	60.0
13. MB FUNDING LUXEMBOURG S.A.	Luxembourg	1	A.1.1	100.0	100.0
14. MEDIOBANCA SECURITIES USA LLC	New York	1	A.1.1	100.0	100.0
15. MB FACTA S.P.A.	Milan	1	A.1.1	100.0	100.0
16. QUARZO S.R.L.	Milan	1	A.1.9	90.0	90.0
17. QUARZO CQS S.R.L.	Milan	1	A.1.9	90.0	90.0
18. MEDIOBANCA COVERED BOND S.R.L.	Milan	1	A.1.10	90.0	90.0
19. COMPASS RE (LUXEMBOURG) S.A.	Luxembourg	1	A.1.9	100.0	100.0
20. MEDIOBANCA INTERNATIONAL IMMOBILIARE S. A R.L.	Luxembourg	1	A.1.8	100.0	100.0
21. CAIRN CAPITAL GROUP LIMITED	London	1	A.1.1	100.0 (*)	64.6
22. CAIRN CAPITAL LIMITED	London	1	A.1.21	100.0	100.0
23. CAIRN CAPITAL NORTH AMERICA INC.	Wilmington (USA)	1	A.1.21	100.0	100.0
24. CAIRN CAPITAL INVESTMENTS LIMITED (non operativa)	London	1	A.1.21	100.0	100.0
25. CAIRN INVESTMENT MANAGERS LIMITED (non operativa)	London	1	A.1.21	100.0	100.0
26. Bybrook Capital Management Limited	Grand Cayman	1	A.1.21	100.0	100.0
27. Bybrook Capital LLP	Reading	1	A.1.26	100.0	100.0
28. Bybrook Capital Services (UK) Limited	Reading	1	A.1.26	100.0	100.0
29. Bybrook Capital Badminton Fund (GP) Limited	Grand Cayman	1	A.1.26	100.0	100.0
30. Bybrook Capital Burton Partnership (GP) Limited	Grand Cayman	1	A.1.26	100.0	100.0
31. Bybrook Capital Fund (GP) Limited	Grand Cayman	1	A.1.26	100.0	100.0
32. Bybrook Capital (GP) LLC	Wilmington	1	A.1.26	100.0	100.0
33. Bybrook Capital (US) LP	Wilmington	1	A.1.26	100.0	100.0
34. SPAFID FAMILY OFFICE SIM	Milan	1	A.1.3	100.0	100.0
35. SPAFID TRUST S.R.L.	Milan	1	A.1.3	100.0	100.0
36. MEDIOBANCA MANAGEMENT COMPANY S.A.	Luxembourg	1	A.1.1	100.0	100.0
37. MEDIOBANCA SGR S.P.A.	Milan	1	A.1.1	100.0	100.0
38. RAM ACTIVE INVESTMENTS S.A.	Geneva	1	A.1.1	98.3 (**)	94.9
39. RAM ACTIVE INVESTMENTS (LUXEMBOURG) S.A.	Luxembourg	1	A.1.38	100.0	100.0
40. MESSIER ET ASSOCIES S.C.A.	Paris	1	A.1.1	100.0 (***)	80.6
41. MESSIER ET ASSOCIES L.L.C.	New York	1	A.1.40	100.0 (***)	50.0
42. MBCONTACT SOLUTIONS S.R.L.	Milan	1	A.1.11	100.0	100.0
43. COMPASS RENT S.R.L.	Milan	1	A.1.9	100.0	100.0
44. COMPASS LINK S.R.L.	Milan	1	A.1.9	100.0	100.0

* Taking into account the put and call option exercisable as from the third anniversary of the execution date of the transaction.

** Taking into account the put and call options exercisable from the third to the tenth anniversary of the execution date of the transaction.

*** Taking into account the put and call options exercisable from the fifth anniversary of the execution date of the transaction.

Legend

¹ Type of relationship:

1 = Majority of voting rights in ordinary AGMs.

² Effective and potential voting rights in ordinary AGMs.

2. *Considerations and significant assumptions used to determine consolidation area*

The area of consolidation is defined on the basis of IFRS 10, “Consolidated financial statements”, which provides that control occurs when the following three conditions apply:

- When the investor has power over the investee, defined as having substantive rights over the investee’s relevant activities;
- When the investor has exposure, or rights, to variable returns from its involvement with the investee; and
- When the investor has the ability to exert power over the investee to affect the amount of the variable returns.

Subsidiaries are consolidated on the line-by-line basis, which means that the carrying amount of the parent’s investment and its share of the subsidiary’s equity after minorities are eliminated against the addition of that company’s assets and liabilities, income and expenses to the parent company’s totals. Any surplus arising following allocation of asset and liability items to the subsidiary is recorded as goodwill. Intra-group balances, transactions, income and expenses are eliminated upon consolidation.

Investments in associates and joint arrangements are consolidated using the equity method. Associates are companies that are subject to dominant influence, a concept defined as the power to participate in activities which are significant for the company without having control of it. Dominant influence is assumed to exist in cases where one company holds at least 20% of the voting rights of another. In establishing whether or not dominant influence exists, account is also taken of potential rights, rights still to be exercised pursuant to options, warrants or conversion rights embedded in financial instruments; consideration is also given to issues of ownership structure, e.g. voting rights owned by other investors, etc.

The definition of joint arrangements used is that provided in IFRS 11, which involves the twofold requirement of the existence of a contractual arrangement and that such an arrangement must provide joint control to two or more parties.

For equity-accounted companies, any differences between the investee company’s net equity (including profits or losses) at the time when the acquisition is made are included in the book value of the investment (which is initially recognized

at cost); this value is also reduced if the investment distributes dividends. The profit made or loss incurred by the investment is recorded in the consolidated profit and loss account, as are any long-term reductions in value or reversals, while all other differences are taken directly through net equity.

The financial statements of the consolidated companies represented in currencies other than the Euro are converted by applying the exchange rate prevailing at the end of the accounting period to the balance-sheet items, and the average exchange rates for the same period to the profit-and-loss items. All exchange rate differences arising as a result of conversion are recorded in a specific net equity valuation reserve which, as and when the investment is sold, is eliminated and the relevant amount is debited from or credited to the profit and loss account as the case may be.

Investee company Assicurazioni Generali, meanwhile, will continue to use IAS 39 (rather than IFRS 9 as adopted by the Mediobanca Group since 1 July 2018), having opted for the deferred approach provided by IFRS 9 as governed by IFRS 4. Accordingly, in the Mediobanca Group's consolidated financial statements, the figures shown as "Valuation reserves for investments accounted for using the equity method" will be calculated in accordance with IAS 39. Such amounts will therefore be classified in the Other Comprehensive Income statement based on IAS 39 with no adjustments.

As for the percentage used for to consolidate the investment using the equity method, this is calculated as shares owned, excluding those held for trading purposes and/or as a result of securities lending transactions (which transfer ownership but not the risks and benefits of the shares) as a percentage of the voting capital, defined as the share capital net of treasury shares.

3. Investments in subsidiaries with significant minority interests

Nothing to report.

4. Significant restrictions

The Group considers that no restrictions currently in force, under the terms of its Articles of Association, shareholders' agreements or external regulations, would prevent it or otherwise limit its ability to access its assets or settle its liabilities.

The Group also considers that no rights are in force to protect the interest of minority or third parties.

5. *Other information*

The reporting date for the consolidated financial statements is the date on which the Parent Company's financial year ends. In cases where Group companies have reporting periods ending on different dates, these companies are consolidated based on financial and earnings situations prepared as at the reporting date for the consolidated financial statements.

The financial statements of all subsidiaries have been drawn up based on the same accounting principles used at Group level.

Associates which have reporting periods ending on different dates compared to the Parent Company prepare a pro forma accounting situation as at the consolidated reporting date, or alternatively send a statement referring to a previous date as long as it is not more than three months previously. This possibility is expressly provided by IAS 28 (par. 33-34) provided that due account is taken of any material transactions or events that occur between said date and the reporting date for the financial statements. As mentioned previously, Assicurazioni Generali, an associate company, will adopt IFRS 9 in the preparation of its own consolidated financial statements starting from 1 January 2023, in conjunction with the first-time adoption of IFRS 17 – Insurance contracts, which replaces the current IFRS 4 – Insurance Contracts. Until that date the Assicurazioni Generali group will therefore continue to apply IAS 39. It should be noted that under this standard, reductions in the value of the AFS equity portfolio (shares and fund units), if certain quantitative or timing thresholds are exceeded, are considered as evidence of impairment and accordingly must be recycled through profit and loss. Breach of such thresholds is recorded in accounting terms in the annual and interim financial statements drawn up in compliance with IAS 34. The effects on valuation, if material, are included among the subsequent events, if any, that require the reporting package to be amended.

SECTION 4

Events subsequent to the reporting date

No events have taken place that would cause the results presented in the consolidated report for the six months ended 31 December 2021 to be amended.

SECTION 5

Other aspects

The consolidated interim financial statements contain the declaration by the Head of Company Financial Reporting required by Article 154-bis of the Italian Finance Act, and have been subjected to a limited audit by audit firm Ernst & Young S.p.A., in accordance with the criteria recommended by Consob in its resolution no. 10867 of 31 July 1997.

Part E – Credit risk – Section 6, “Impact of Covid-19” – contains the disclosure required on the various support measures for clients introduced in response to the emergency brought on by the pandemic (including moratoria and applications for waivers to covenants).

A.2 – Significant accounting policies

Financial assets recognized at fair value through profit and loss

These include financial assets held for trading and other financial assets that must be recognized at fair value³.

Financial assets held for trading are assets which have been acquired principally for the purpose of being traded. This category comprises debt securities, equities, loans held for trading purposes, and the positive value of derivatives held for trading, including those embedded in complex instruments such as structured bonds (which are recorded separately).

³See Part A – Information on fair value on pp. xxx-xx.

Other financial assets that must be recognized at fair value are assets that are not held for trading but must compulsorily be recognized at fair value through profit and loss if they do not meet the requisites to be recognized at amortized cost or at fair value through other comprehensive income. In particular this category includes holdings in mutual funds (confirmed following clarification from the IFRS Interpretation Committee)⁴.

Initial recognition occurs at the settlement date for securities, and at the subscription date for derivatives. At initial recognition, such financial assets are booked at fair value not including any transaction expenses or income directly attributable to the asset concerned, which are taken through the profit and loss account. Following their initial recognition they continue to be recognized at fair value, and any changes in fair value are recorded in the profit and loss account. Interest on instruments that must be recognized at fair value is recorded on the basis of the interest rate stipulated contractually. Dividends paid on equity instruments are recorded through profit and loss when the right to collect them becomes effective.

Equities and linked derivatives for which it is not possible to reliably determine fair value using the methods described above are stated at cost (these too qualify as Level 3 assets). If the assets suffer impairment, they are written down to their current value.

Gains and losses upon disposal and/or redemption and the positive and negative effects of changes in fair value over time are reflected in the profit and loss account under the respective headings.

Trading assets which must be recognized at fair value also include loans which do not guarantee full repayment of principal in the event of the counterparty finding itself in financial difficulties and which therefore do not pass the SPPI test. The process followed to write down these positions is aligned with that used for other loans, on the grounds that the exposure is basically attributable to credit risk, with both the gross exposure and related provisioning stated.

The heading also includes financial assets are measured at fair value upon initial recognition. In such cases, financial assets are recognized irrevocably at FVPL if, and only if, their being included in this category eliminates or significantly reduces an inconsistency in terms of valuation.

⁴The IFRS Interpretation Committee's clarification rules out any possibility of such instruments being treated as equities.

Financial assets recognized at fair value through other comprehensive income

These are financial instruments, mostly debt securities, for which both the following conditions are met:

- The instruments are held on the basis of a business model in which the objective is the collection of cash flows provided for contractually and also of the proceeds deriving from the sale of instruments themselves;
- The contractual terms pass the SPPI test.

Financial assets recognized at fair value through other comprehensive income (FVOCI) are recognized fair value, including transaction costs and income directly attributable to them. Thereafter they continue to be measured at fair value. Changes in fair value are taken through other comprehensive income, while interest and gains/losses on exchange rates are taken through profit and loss (in the same way as financial instruments recognized at amortized cost).

Financial assets recognized at fair value through other comprehensive income (debt securities and equities) must have their expected losses calculated (as per the impairment process), in the same way as financial assets recognized at amortized cost, with the resulting value adjustment taken through profit and loss.

Retained earnings and accumulated losses recorded in other comprehensive income are taken through profit and loss when the instrument is removed from the balance sheet.

The category also includes equities not held for trading which meet the definition provided by IAS 32, and which the Group decided to classify irrevocably in this category at the initial recognition stage. As the instruments in question are equities they are not subject to impairment, and the gains/losses on equities are never taken through profit and loss, even following the sale of the instrument. Conversely, dividends on the instruments are recorded through profit and loss when the right of collection takes effect.

Financial assets recognized at amortized cost

These include loans and advances to customers and banks, debt securities and repo transactions which meet the following conditions:

- The financial instrument is held and managed based on the Hold-to-collect business model, i.e. with the objective of holding it in order to collect the cash flows provided for in the contract;
- Such contractual cash flows consist entirely of payment of principal amount and interest (and therefore meet the requisites set by the SPPI test).

This heading also includes receivables originated from financial leasing transactions, the valuation and classification rules for which are governed by IAS 16 (cf. below), even though the impairment rules introduced by IFRS 9 apply for valuation purposes.

The Group business model should reflect the ways in which financial assets are managed at a portfolio level (and not at instrument level), on the basis of factors observable at a portfolio level (and not at instrument level):

- Operating procedure adopted by management in the process of performance evaluation;
- Risk type and procedure for managing risks taken, including indicators for portfolio rotation;
- Means for determining remuneration mechanisms for decision-making managers.

The business model is based on expected reasonable scenarios (without considering “worst case” and “best case” scenarios), and in the event of cash flows differing from those estimated at initial recognition, the Group is not bound to change the classification of financial instruments forming part of the portfolio, but uses the information for deciding the classification of new financial instruments⁵.

At initial recognition, the Group analyses contractual cash flows for the instruments to check whether the instrument, product or sub-product passes the

⁵These considerations are stated in the internal management policies, which reiterate the link between business model and accounting treatment, and introduce frequency and materiality thresholds for movements in portfolios of assets recognized at amortized cost.

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, at the level of the individual financial instrument or product based on their different degrees of customization. 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 for the instrument do not represent solely payments of principal and interest on the outstanding amount, the Group mandatorily classifies the instrument at fair value through profit and loss.

At the initial recognition date, financial assets are recognized at fair value, including any costs or income directly attributable to individual transactions that can be established from the outset even if they are actually settled at later stages. The recognition value does not, however, factor in costs with the above characteristics which are repaid separately by the borrower, or may be classified as normal internal administrative expenses.

The instrument is recognized at amortized cost, i.e. the initial value less/plus the repayments of principal made, writedowns/writebacks, and amortization – calculated using the effective interest rate method – of the difference between the amount disbursed and the amount repayable at maturity, adjusted to reflect expected losses.

The amortized cost method is not used for short-term receivables, as the effect of discounting them is negligible; for this reason, such receivables are recognized at historical cost. The original effective interest rate is defined as the rate of interest which renders the discounted value of future cash flows deriving from the loan or receivable by way of principal and interest equal to the initial recognition value of the loan or receivable.

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 profit and loss account.

In accordance with the provisions of IFRS 9, the impairment model involves financial assets being classified at one of three different risk stages (Stage 1, Stage 2 and Stage 3), depending on developments in the borrower's credit standing, to which different criteria for measuring expected losses apply. Accordingly, financial assets are split into the following categories:

- Stage 1: this includes exposures at their initial recognition date for as long as there is no significant impairment to their credit standing; for such instruments, the expected loss is to be calculated on the basis of default events which are possible within twelve months of the reporting date;
- Stage 2: this includes exposures which, while not classified as impaired as such, have nonetheless experienced significant impairment to their credit standing since the initial recognition date; in moving from stage 1 to stage 2, the expected loss must be calculated for the outstanding life of the instrument;
- Stage 3: this category consists of impaired exposures according to the definition provided in the regulations. In moving to stage 3, exposures are valued individually, that is, the value adjustment is calculated as the difference between the carrying value at the reference date (amortized cost) and the discounted value of the expected cash flows, which are calculated by applying the original effective interest rate. The cash flow estimates factor in the expected collection times, the probable net realizable value of any guarantees, and costs which are likely to be incurred in order to recover the credit exposure from a forward-looking perspective which takes account of alternative recovery scenarios and developments in the economic cycle.

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

The Group policy to establish whether or not there has been a significant increase in credit risk is based on qualitative and quantitative criteria, and takes the existence of 30 days past due or classification of the exposure as forborne as the requisites in all cases for reclassification to stage 2 (these are known as backstop indicators). Low credit risk exemption instruments are also identified at the reporting date, which are compatible in any case with classification as stage 1, where there is a BBB- rating on the Standard & Poor's scale or a corresponding internal PD estimate.

Purchased or originated credit impaired items (POCIs) 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 amortized cost are subject to the impairment model based on the expected loss, i.e. performing as well as non-performing exposures.

Impairment regards losses which are expected to materialize in the twelve months following the reference date of the financial statement, or, in cases where a significant increase in credit risk is noted, the losses which are expected to materialize throughout the rest of the instrument's life. Both the twelve-month and outstanding life expected losses can be calculated on an individual or collective basis according to the nature of the underlying portfolio.

The expected credit losses⁶ 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.

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 accordance with the circumstances permitted under IFRS 9. In such cases the Group checks if the contractual rights to receive the cash flows in respect of the asset have been transferred, or if they have been maintained while a contractual obligation to pay the cash flows to one or more beneficiaries continues to exist. It is necessary to check that basically all risks and benefits have been transferred, and any right or obligation originated or maintained as a result of the transfer is recorded separately as an asset or

⁶ Reference is made to the section on Credit Quality in Part E of the Notes to the Accounts for an exhaustive analysis of the staging criteria and application of the forward-looking approach, including the adjustments made as a result of the Covid-19 situation.

liability where appropriate. If the Group retains virtually all risks and benefits, the financial asset must continue to be recorded.

If the Group 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.

The main forms of activity currently carried out by the Group which do not require underlying assets to be derecognized are the securitization of receivables, repo trading and securities lending. Conversely, items received as part of deposit bank activity, the return on which is collected in the form of a commission, are not recorded, as the related risks and benefits continue to accrue entirely to the end-investor.

When a financial asset recognized at amortized cost is renegotiated, the Group derecognizes it only if the renegotiation entails a change of such magnitude that the initial instrument effectively becomes a new one. In such cases the difference between the original instrument's carrying value and the fair value of the new instrument is recorded through profit and loss, taking due account of any previous writedowns that may have been charged. The new instrument is classified as stage 1 for purposes of calculating the expected loss (save in cases where the new instrument is classified as a POCI).

In cases where the renegotiation does not result in substantially different cash flows, the Group does not derecognize the instrument, but the difference between the original carrying value and the estimated cash flows discounted using the original internal rate of return must be recorded through profit and loss (taking due account of any provisions already set aside to cover it).

Leasing (IFRS16)

An agreement is classified as a leasing contract⁷ (or contains a leasing element) based on the substance of the agreement at the execution date. An agreement is, or contains, a lease if its performance depends on the use of a specific good (or goods) and confers the right to use such good (goods) – the “Right of Use” (RoU) – for an

⁷ Leases in which the Group is lessor are divided into financial and operating leases. A lease is defined as a financial lease if all the risks and benefits typically associated with ownership are transferred to the lessee. Such leases are accounted for by the financial method, which involves a receivable being booked as an asset for an amount equal to the amount of the lease, net of the instalments on principal expired and paid by the lessee, and the interest receivable being taken through profit and loss.

agreed period of time and in return for payment of a fee. This definition of leasing therefore also includes long-term rentals or hires.

Right of use is recorded among “Tangible assets”, and is calculated as the sum of the discounted value of future payments (which is equal to the current value of the liability booked in respect of it), of the initial direct costs, any instalments received in advance or at the date from which the lease is effective (jumbo instalment), any incentives received from the lessor, and estimates of any costs of removing or restoring the asset underlying the lease itself.

The liability, which is booked under “Financial liabilities recognized at amortized cost”, is equal to the discounted value of the payments due in respect of the lease discounted, as required by the Standard, to the marginal financing rate, equal for the Group to the Funds Transfer Pricing rate (FTP) as at the date concerned.

The duration of a leasing contract takes into consideration the period during which the lease cannot be cancelled (as provided by the contract) and also any options for extending which it may reasonably be assumed will be used. In particular, where automatic renewal is provided for, account must be taken of previous behaviour, the existence of company schemes for disposing of assets leased, and every other circumstance that would point towards the existence of reasonable certainty of renewal.

After initial recognition, RoU is amortized over the lease’s duration, and written down as appropriate. The liability is increased as the interest payable accrues, and decreases gradually in line with the instalments being paid. If there are changes to the payments due in respect of the lease, the liability is recalculated against the asset recognized by way of RoU.

For sub-leasing, i.e. when an original renting contract has been replicated with a counterparty, and there are grounds for classifying it as a finance lease, the liability in respect of the original lease is matched by an amount receivable from the sub-lessee rather than the value in use.

Hedges

For hedging transactions, the Group has adopted the provisions of IFRS 9 since 1 July 2018 and has chosen not to avail itself of the exemption provided to continue applying the rules of IAS 39 to this type of operation with the exception of those specific case provided for in IFRS9 (para. 6.1.3⁸⁾ which are not covered by the principle.

Two types of hedge are used by the Group:

- Fair value hedges, which are intended to offset the exposure of recognized assets and liabilities, or a like-for-like group of assets and liabilities in terms of their risk profile, 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;
- Hedges of foreign investments in currencies other than the Euro: these refer to the hedging of risks in an investment in a non-Italian company expressed in foreign currency.

For the process to be effective, the item must be hedged with a counterparty from outside the Group.

Hedge derivatives are recognized at fair value as follows:

- Changes in fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged asset, where a difference between the two emerges as a result of the partial ineffectiveness of the hedge;
- Designated and qualify as cash flow hedges are recognized in net equity, while the gain or loss deriving from the ineffective portion is recognized through the profit and loss account 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.

⁸ IFRS 9 para. 6.1.3: “For a fair value hedge of the interest rate exposure of a portfolio of financial assets or financial liabilities (and only for such a hedge), an entity may apply the hedge accounting requirements in IAS 39 instead of those in this IFRS. In that case, the entity must also apply the specific requirements for fair value hedge accounting for a portfolio hedge of interest rate risk and designate as the hedged item a portion that is a currency amount (see paragraphs 81A, 89A and AG114–AG132 of IAS 39).”

At inception, the Group formally designates and documents the hedging relationship, with an indication of the risk management objectives and strategy for the hedge. The documentation includes identification of the hedging instrument, the item hedged, the nature of the risk hedged and how the entity intends to assess if the hedging relationship meets the requisites for the hedge to be considered effective (including analysis of the sources of any ineffectiveness and how this affects the hedging relationship). The hedging relationship meets the eligibility criteria for accounting treatment reserved for hedges if, and only if, the following conditions are met:

- The effect of the credit risk does not prevail over the changes in value resulting from the economic relationship;
- The coverage provided by the hedging relationship is the same as the coverage which results from the quantity of the item hedged which the entity effectively hedges, and the quantity of the hedge instrument which the Group actually uses to hedge the same quantity of the item hedged.

Fair value hedges

FAs long as the fair value hedge meets the criteria for eligibility, the profit or loss on the hedge instrument must be recorded in the profit and loss account or under one of the other comprehensive income headings if the hedge instrument hedges another instrument representative of equity for which the Group has chosen to recognize changes in fair value through OCI. The hedge profit or loss on the hedged item is recorded as an adjustment to the book value of the hedge with a matching entry through the profit and loss account, 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 income statement.

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 the cash flow hedge meets the criteria for eligibility, it 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.

Foreign currency investments hedges

As far as it complies with eligibility criteria, cash flows hedge is accounted for in the following ways:

- The gain or loss share on the hedging instrument that results in an effective hedge is booked into Other Comprehensive Income; and
- The ineffective share is booked into profit and loss scheme.

The cumulative gain or loss on the hedging instrument related to the effective part of the hedging which had been accumulated into the foreign currency exchange rate reserve has to be reclassified from net equity to profit and loss as a reclassification adjustment (see IAS 1), as required by par. 48 and 49 of IAS 21 regarding the partial or total disposal of the foreign investment.

Equity investments

This heading consists of interests held in jointly-controlled companies and associates⁹. Companies subject to joint control, otherwise known as joint ventures, are defined as entities of which control is contractually stipulated as being shared between the Group and one or more other parties, or when for decisions regarding relevant activities, the unanimous consent of all parties which share control of the entity is required.

Companies subject to significant influence, otherwise known as associates, are defined as entities in which the Group holds at least 20% of the voting rights (including “potential” voting rights) or for which – despite holding a lower share of the voting rights – it is entitled to participate in deciding the financial and management policies of the investee company by virtue of its being represented in that company’s management bodies, without actually having control of it.

The Group uses the net equity method to account for these investments; hence they are initially recognized at cost and subsequently adjusted to reflect changes in the net assets attributable to the Group since the acquisition date.

Following application of the net equity method, if there is objective evidence that the value of an investment may have reduced, estimates are made of its recoverable value, taking into account the value of the discounted cash flows which the investment might generate, including the final sale value of the investment itself.

If the recoverable value is lower than the book value, the difference is taken through profit and loss.

⁹ As IAS 28 makes clear, an interest in an associate is the book value of the investment in it calculated using the net equity method, plus any other long-term interest in the company which in practice constitutes a further net investment in the associate entity. Any short-term operations (trading deals and securities lending transactions) are not eligible for inclusion in the calculation of the interest for purposes of consolidation based on the net equity method.

If, in a period following the year in which a long-term reduction in value is recorded, a change occurs in the estimates used to determine the recoverable value, the book value of the investment will be revised to reflect the recoverable value and the adjustment will give rise to a writeback.

In cases where significant influence or joint control are lost, the Group recognizes and values any residual share still held at fair value. Any difference between the book value at the date on which the loss of significant influence or joint control occurs, plus the fair value of the share still held and the consideration received on disposal, are taken through the profit and loss account.

Property, plant and equipment

This heading comprises land, core and investment properties, plant, furniture, fittings and equipment of all kinds. It also includes the RoU acquired under leases and related use of tangible assets (for lessees) and assets used under the terms of finance leases, despite the fact that such assets remain the legal property of the lessor rather than the lessee.

Assets held for investment purposes refer to investments in real estate, if any (whether owned or acquired under leases), which are not core to the Group's main activities and/or are chiefly leased out to third parties.

The heading also includes tangible assets classified pursuant to IAS 2 – Inventories, namely assets deriving from guarantees being enforced or acquired in auction scenarios which the firm has the intention of selling in the near future, without carrying out any major refurbishment work on them, and which do not fall into any of the previous categories.

These are stated at historical cost, which in addition to the purchase price, includes any ancillary charges directly resulting from their acquisition and/or usage. Extraordinary maintenance charges are reflected by increasing the asset's value, while ordinary maintenance charges are recorded in the profit and loss account.

Fixed assets are depreciated over the length of their useful life on a straight-line basis, with the exception of land, which is not depreciated on the grounds that it has unlimited useful life. Properties built on land owned by the Group are recorded separately, on the basis of valuations prepared by independent experts.

At annual and interim reporting dates, where there is objective evidence that the value of an asset may be impaired, its carrying amount is compared to its current value, which is defined as the higher of its fair value net of any sales costs and its related value of use, and adjustments, if any, are recognized through the profit and loss account. If the reasons which gave rise to the loss in value cease to apply, the adjustment is written back to earnings with the proviso that the amount credited may not exceed the value which the asset would have had net of depreciation, which is calculated assuming no impairment took place.

Intangible assets

These chiefly comprise goodwill, long-term computer software applications and other intangible assets deriving from business combinations subject to IFRS 3R.

Goodwill may be recognized where this is representative of the investee company's ability to generate future income. At annual and interim reporting dates, goodwill recorded as an asset is tested for impairment¹⁰. Any reduction value due to impairment is calculated as the difference between the initial recognition value of the goodwill and its realizable value, the latter being equal to the higher of the fair value of the cash-generating unit concerned net of any sales costs and its assumed value of use. Any adjustments are taken through the profit and loss account.

Other intangible assets are recognized at cost, adjusted to reflect ancillary charges only where it is likely that future earnings will derive from the asset and the cost of the asset itself may be reliably determined. Otherwise the cost of the asset is booked to the profit and loss account in the year in which the expense was incurred.

The cost of intangible assets is amortized on the straight-line basis over the useful life of the asset concerned. If useful life is not determinable the cost of the asset is not amortized, but the value at which it is initially recognized is tested for impairment on a regular basis.

¹⁰ Mediobanca has adopted a Group Impairment Policy in line with the guidance issued by the Italian organization for valuation (OIV, or Organismo Italiano di Valutazione) on: "Impairment testing on goodwill in financial and real crisis situations" of 14 June 2012; "Italian valuation standards" published in 2015; the discussion paper issued on 22 January 2019; discussion paper no. 01/2021 issued by the OIV on 16 March 2021 on "The use of forward-looking financial information in company valuations"; discussion paper no. 02/2021 issued by the OIV on 16 March 2021 on "Guidelines for impairment testing following the effects of the Covid-19 pandemic", along with the suggestions published by ESMA; the guidelines contained in the joint document issued by the Bank of Italy, Consob and IVASS (document no. 4 of 3 March 2010, and document no. 8 of 12 December 2018); plus the various communications from Consob.

At annual and interim reporting dates, where there is evidence of impairment the realizable value of the asset is estimated¹¹. The impairment is recognized in the profit and loss account as the difference between the carrying amount and the recoverable value of the asset concerned.

Tax assets and liabilities

Income taxes are recorded in the profit and loss account, with the exception of tax payable on items debited or credited directly to net equity. Provisions for income tax are calculated on the basis of current, advance and deferred obligations. Advance and deferred tax is calculated on the basis of temporary differences – without time limits – between the carrying amount of an asset or liability and its tax base, according to statutory criteria and the corresponding values used for tax purposes.

Advance tax assets are recognized in the balance sheet based on the likelihood of their being recovered.

Deferred tax liabilities are recognized 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 transactions will be carried out on the Group's own initiative that might lead to their being taxed.

Deferred tax arising upon business combinations is recognized when this is likely to result in a charge for one of the companies concerned.

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

Contributions to Deposits Guarantee Schemes and resolution funds are accounted for according to IFRIC 21.

¹¹ Under IAS 36, impairment testing, i.e. tests to ascertain whether or not there has been a loss in the value of individual tangible and intangible assets, must be carried out at least once a year, in conjunction with preparation of the financial statements, or more frequently if events have taken place or materialized that would indicate there has been a reduction in the value of such assets (known as "impairment indicators").

Non-current assets and group of assets being sold (IFRS 5)

Under assets heading “Non-current assets and group of assets being sold” and under liability heading “Liabilities associated to group of assets being sold” the Group classifies non-current assets or groups of assets/liabilities whose booking value will be presumably recovered by mean of a sale process. To be classified under this heading, assets or liabilities (or held for sale groups) have to be readily available for the sale, and disposal plans have to be identified which are active and realistic in a way which means that their completion is considered highly probable. After being classified under this heading, these assets are recognized at the lower of book value and fair value net of the sale costs, apart from certain categories of assets (such as those which fall within the scope of IFRS 9), for which IFRS 5 specifically requires that valuation provisions of the applicable standard must be used. For assets held for sale and still to be depreciated, this process ends when assets are classified under the above heading.

In cases which involve discontinued operations, i.e. the sale of operating assets relating to an important business sector or geographical area, the standard requires that gains and losses related to it must be combined, net of any tax effect, under profit and loss Heading 320 “Gain (loss) of discontinued financial assets net of tax”.

In cases where the fair value of assets and liabilities held for sale net of selling costs are lower than their book value, a writedown is calculated and booked to the profit or loss account.

Non-current assets and groups of assets held for sale are derecognized from the balance sheet when the sale occurs.

Provisions for liabilities and charges

These regard risks linked to commitments to disburse funds and guarantees issued, and to the Group’s operations which could lead to expenses in the future (cf. below).

In the first case (provisions for liabilities and charges to cover commitments and guarantees issued), the amounts set aside are quantified in accordance with the rules on impairment on financial assets recognized at amortized cost.

In the other cases the rules of IAS 37 apply, i.e. the potential charge must be estimated reliably; if the time effect is material, provisions are discounted using current market rates; and the provision is recognized in the profit and loss account.

Provisions are reviewed on a regular basis, and where the charges that gave rise to them are deemed unlikely to crystallize, the amounts involved are written back to the profit and loss account in part or in full.

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

As permitted by IAS 37, paragraph 92, no precise indication has been given of any potential liabilities where this could compromise the company in any way.

Staff severance indemnity provision and post-retirement schemes

The staff severance indemnity provision qualifies as a defined-contribution scheme for units accruing starting from 1 January 2007 (the date on which the reform of complementary pension schemes came into force under Italian Legislative Decree 252/05), for cases where the employee opts into a complementary pension scheme, and also for cases where contributions are paid to the treasury fund held with the Italian national pension scheme (INPS). For such payments, the amount accounted for under labour costs is determined on the basis of the contributions due without application of actuarial calculation methods.

The staff severance indemnity provision accrued until 1 January 2007 qualifies as a defined-benefit pension scheme, and as such is stated to reflect the actuarial value of the provision as calculated in line with the Projected Unit method. Accordingly, future obligations are estimated on the basis of historical statistical analysis (e.g. staff turnover, retirements, etc.) and demographic trends. These are then discounted to obtain their present value on the basis of market interest rates using the market yield on bonds issued by companies of primary standing as the benchmark, and taking due account of the average duration outstanding of the liability, weighted according to the percentage of the amount paid or advanced, at each expiry date, relative to the total amount to be paid and/or advanced until the entire obligation has been paid in full.

The post-retirement scheme provisions have been instituted under company agreements and also qualify as defined benefit schemes. In this case the discounted

value of the liability is adjusted by the fair value of any assets to be used under the terms of the scheme.

Actuarial gains and/or losses are recorded in the Other Comprehensive Income statement, while the interest component is taken through profit and loss.

Financial liabilities recognized at amortized cost

These include the items Due to banks, Due to customers and Debt securities in issue less any amounts bought back. The heading also includes amounts receivable in respect of finance leasing transactions, the valuation and classification rules for which are governed by IFRS 16, but which are also affected by the IFRS 9 impairment rules. For a description of the rules for valuing and classifying leasing receivables, see the relevant section.

Initial recognition takes place when funds raised are collected or debt securities are issued, and occurs at fair value, which is equal to the amount collected net of transaction costs incurred directly or indirectly in connection with the liability concerned. Thereafter liabilities are stated at amortized cost on the basis of the original effective interest rate, with the exception of short-term liabilities which continue to be stated at the original amount collected.

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

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

The sale of treasury shares over the market following a buyback (even in the form of repos and securities lending transactions) is treated as a new issue. The new sale price is recorded as a liability without passing through the profit and loss account.

Trading liabilities

This item includes the negative value of trading derivatives and any derivatives embedded in complex instruments. Liabilities in respect of technical shortfalls deriving from securities trading activity are also included. All trading liabilities are recognized at fair value and the changes are taken through the profit and loss account.

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 permitted under IFRS 9 and in accordance with the cases permitted under the regulation itself.

Such liabilities are recognized at fair value and the earnings results accounted for based on 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 recycled through profit and loss. This method cannot be adopted, however, if the recognition of the effects of the issuer's own credit standing in net equity generates or accentuates 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.

Financial liabilities recognized at present value of redemption amount

These consist of financial liabilities originating from agreements to buy out minorities in connection with acquisitions of controlling interests. Such financial liabilities, which are recorded in the balance sheet under heading 80, "Other liabilities", are recognized at the present value of the redemption amount.

Foreign currency transactions

Transactions in foreign currencies are recorded by applying the exchange rates as at the date of the transaction to the amount in the foreign currency concerned.

Assets and liabilities denominated in currencies other than the Euro are translated into Euros using exchange rates ruling at the dates of the transactions. Differences on cash items due to translation are recorded through the profit and loss account, whereas those on non-cash 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).

The assets and liabilities of the non-Italian entities consolidated line-by-line have been converted at the exchange rate prevailing at the reporting date, whereas the profit-and-loss items have been converted using the average of the average monthly exchange rate readings for the period. Any differences arising upon conversion have been taken through the net equity valuation reserves.

Stock options, performance shares and long-term incentives

The stock option, performance share and long-term incentive (LTI) schemes operated on behalf of Group staff members and collaborators are treated as a component of labour costs.

Schemes which involve payment through the award of shares are recognized through profit and loss, with a corresponding increase in net equity, based on the fair value of the financial instruments allocated at the award date, thus spreading the cost of the scheme throughout the period of time in which the requisites in terms of service and performance where appropriate) are met.

The overall cost of the scheme is recorded in each financial year up to the date on which the plan vests, so as to reflect the best possible estimate of the number of shares that will actually vest. Requisites in terms of service and performance objectives are not considered in determining the fair value of the instruments awarded, but the probability of such objectives being reached is estimated by the Group and this is factored into the decision as to the number of instruments that will vest. Conversely, market conditions will be included in establishing the fair value, whereas conditions unrelated to the requisites in terms of service are considered “non-vesting conditions” and are reflected in the fair value established for the instruments, and result in the full cost of the scheme being recorded in the profit and loss account immediately in the absence of any service requisites and/or performance conditions.

In the event of performance or service conditions not being met and the benefit failing to be allocated as a result, the cost of the scheme is written back. However, if any market conditions fail to be reached, the cost must be recorded in full if the other conditions have been met.

In the event of changes to the scheme, the minimum cost to be recorded is the fair value at the scheme award date pre-change, if the original conditions for vesting have been met. An additional cost, established at the date on which the change is made to the scheme, must be recorded if the change has entailed an increase in the overall fair value of the scheme for the beneficiary.

For schemes which will involve payments in cash, the Group records an amount payable equal to the fair value of the scheme measured at the award date of the scheme and at every reporting date thereafter, up to and including the settlement date, with any changes recorded as labour costs.

Treasury shares

These are deducted from net equity, and any gains/losses realized on disposal are recognized in net equity.

Fees and commissions receivable in respect of services

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

Revenues from contracts with clients are recorded through profit and loss when ownership of the service is transferred to the client, in an amount that reflects the consideration to which the Group considers it is entitled in return for the service rendered.

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

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

Dividends

Dividends are recorded through profit and loss in the year in which their distribution is approved. They refer to distributions deriving from equities not issued by companies qualifying as associates and/or joint ventures which are valued on the basis of the provisions of IAS 28.

Recognition of costs

Costs are recorded through profit and loss in accordance with the revenues to which they refer, save in cases where the requisites for capitalizing them apply and where provided in order to determine amortized cost. Any other costs which cannot be associated with revenues are accounted for immediately in profit and loss.

Related parties

Related parties are defined, inter alia in accordance with IAS 24, as follows:

- a) Individuals or entities which, directly or indirectly, exercise significant influence over the Bank;

- b) Shareholders with stakes of 3% or more in the Bank's share capital;¹²
- c) The legal entities controlled by the Bank;
- d) Associate companies, joint ventures and entities controlled by them;
- e) Management with strategic responsibilities, that is, individuals with powers and responsibilities, directly or indirectly, for the planning, direction and control of the Parent Company's activities, including the members of the Board of Directors and Statutory Audit Committee;
- f) Entities controlled or jointly controlled by one or more of the individuals listed under the foregoing letters a) and e) and the joint ventures of parties referred to under letter a);
- g) Close family members of the individuals referred to in letters a) and e) above, that is, individuals who may be expected to influence them or be influenced by them in their relations with Mediobanca (this category includes children, spouses and their children, partners and their children, dependents, spouses' dependents and their partners' dependents) as well as any entities controlled, jointly controlled or otherwise associated with such individuals.

¹² Excluding market-makers and asset managers, Italian and international, which, in the exercise of their collective fund management activity, undertake not to take an active part in the management of the companies in which they are investing.

A.3 - Information on transfers between portfolios of financial assets

A.3.1 1 Reclassified financial assets: change in business model, book value and interest income

Nothing to report.

A.4 - Information on fair value

QUALITATIVE INFORMATION

Introduction

This section provides the disclosure on fair value stipulated by IFRS 13 paragraph 24, which defines fair value as the price which would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market at the measurement date.

For financial instruments listed on active markets, fair value is determined on the basis of the official prices prevailing on the principal market, or alternatively the most advantageous market to which the Group has access; such instruments are said to be marked to market. A market is defined as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

For instruments not listed on an active market or in cases where the market is not functioning properly (i.e. it does not have a sufficient and continuous number of transactions, or sufficiently low bid-ask spreads and volatility), valuation models using market inputs are used instead, such as:

- Valuation of listed instruments with similar characteristics or values recorded in recent comparable transactions;
- Discounted cash flow calculations;

- Models for determining the fair value of derivatives, prudentially adjusted to take account of the illiquidity of certain market data and other risks related to specific deals. These valuation models, the respective inputs and fair values or Independent Price Verification adjustments, are mapped out in the Products Catalogue and the Group's official Fair Value and Independent Price Verification operating procedures.

If no market inputs are available, valuation models based on data estimated internally are used.

As a further guarantee that the valuations deriving from the measurement models the Group uses remain objective, independent price verification (IPV) processes are also carried out for fair value, in which a unit unrelated to the one assuming the risk checks the prices of the individual financial instruments on a daily basis, using data provided by information providers as its reference.

Macroeconomic scenario

The first six months of the financial year continued to reflect the benefit of the market recovery, helped by the rollout of the Covid-19 vaccines, the major liquidity injections to the market, and above all the strong growth in GDP, which was even more pronounced in Italy. All these factors drove a reduction in the uncertainty for the input parameters, with the market gradually returning to the pre-Covid situation which impacted positively on the fair value determination process.

Remediation activities

The fair value framework was the subject of an On-Site Inspection by the ECB which ended in February 2020, and involved all major European market participants.

During this inspection certain areas for improvement have been identified, regarding the fair value hierarchy and use of the day-one profit rule, plus the ways in which fair value is calculated and verified (Fair Value Adjustment and Independent Price Verification) for capital purposes (Prudent Value Adjustment) and accounting calculations.

Although the Recommendation Letter has not yet been received from the JST, the Group has decided to take prompt action to improve the IFRS 13 fair value framework and addressing the majority of the findings to emerge from the inspection, without material effects to earnings. The Group will in any case schedule further activities following the remediation to be received from the ECB.

This year a final follow-up session to the On-Site Inspection has also been scheduled, currently in progress, with a specific focus on three product types not completed during the first inspection.

IPV and Prudent Valuation (PVA) processes

The Independent Price Verification (IPV) process for financial instruments involves defining the control, escalation and reporting methodologies used to verify the valuations of positions measured and recognized at fair value, both instruments held on own account and as collateral.

As required by Bank of Italy Circular no. 285/2013, the Mediobanca Group has adopted its own Group Independent Price Verification Policy in order to structure the certification process from an operating and accounting standpoint.

The same process also encompasses the Regulatory Technical Standards on Prudent Valuation¹³ governed by the EU regulations in this area, to ensure that positions recognized at fair value (banking book with impact on net equity and trading book) are determined to an adequate degree of certainty¹⁴.

In particular, the inputs required in order to value financial instruments must be validated by independent units, with the objective of ensuring that valuations are as closely aligned as possible with market conditions and the prudential criteria set¹⁵.

¹³ Valuation for prudential purposes implies putting stress on certain market parameters used in the valuation models and the related fair value adjustments with effects exclusively on regulatory capital and the capital ratios.

¹⁴ Under Article 105 of the Capital Requirements Regulation adopted in Regulation (EU) No. 575/2013 and referred to in Commission Delegated Regulation (EU) No. 2016/101.

¹⁵ CRR Article 105(2), (8).

To this end, the Group has produced a manual summarizing all products recognized at fair value, containing a description of the valuation techniques used and the inputs required in order to calculate the Prudent Value Adjustments (PVA).

The entire IPV and prudent valuation processes is subject to audit by the Group Audit Unit.

Work to increase the number and frequency of the fair value adjustments has continued in the six months, with impact through profit and loss, as a result of the IPV following the mismarking of volatility, correlation and dividends, using alternative info-providers.

Fair value ranking

In line with the provisions of IFRS 13 as enacted in Bank of Italy circular no. 262, fair value must be reported according to rankings based on the quality of the input parameters used to determine it¹⁶.

In particular, financial assets and liabilities recognized at fair value must be classified at levels which assign decreasing priority to measurements based on different market parameters. The highest priority (level 1) is assigned to measurements based on unadjusted prices quoted on an active market for identical assets or liabilities; while the lowest of priority (level 3) is assigned to valuations deriving predominantly from unobservable inputs.

Three levels are identified:

- Level 1: valuations based on quoted prices (single and unadjusted) in active markets for the individual financial instrument being measured.
- Level 2: valuations based on measurement techniques using inputs that are observable on the market either directly (prices) or indirectly (price derivatives). In this case fair value is measured via a comparable approach, or by using a pricing model which leaves little scope for subjective interpretation, is commonly used by other financial operators, and uses inputs that are observable on the market or estimated internally but have limited impact on fair value.

¹⁶ Cf. IFRS 13, paragraph 73: “the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement”; and paragraph 74: “The fair value hierarchy ranks fair value measurements based on the type of inputs; it does not depend on the type of valuation techniques used”. For further details see IFRS 13, paragraphs 72-90.

- Level 3: valuations based on measurement techniques with significant inputs which are either unobservable on the market and/or reflect complex pricing models subject to uncertainty. In this case fair value is established on the basis of assumptions regarding future cash flows, which could lead to different estimates by different observers of the value of the same financial instrument.

In cases where the input data used to value an asset or liability have different rankings, the choice of fair value level is driven by the significance of the input data (IFRS 13, par. 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.

The scope of fair value adjustments thus now includes the following in particular:

- Close-Out Costs: these refer to the uncertainty related to the liquidity cost that the Bank might incur in the event of the disposal, partial or total, of a position recognized at fair value;
- Investing and Funding Costs: these reflect the costs of financing or refinancing a position recognized at fair value;
- Market Price Uncertainty: this represents the uncertainty inherent in a valuation based on market prices;
- Concentrated Positions: this reflects uncertainty in the valuation of the exit price for positions defined as concentrated;
- Model Risk: adjustments to mitigate the risk of misalignment with market practice in the valuation of a product regarding the choice and implementation of the relevant pricing model.

Fair value adjustments are fundamental in order to ensure that an individual financial instrument's valuation is correctly aligned to its actual exit price, having regard to the market liquidity level, the uncertainty of the parameters, the cost of funding and the complexity of the valuation models used in the absence of shared market practices.

The process of aligning the accounting correctios to the prudent valuation adjustments was basically completed during the last financial year, net of a few residual phenomena. A correction was introduced to the model risk for autocallable certificates in order to mitigate possible mispricing phenomena, while the revision of the Market Price Uncertainty adjustments was extended to include new classes of market parameters that have become relevant (e.g. interest rate and credit), using info-providers to check the results.

The impact of the determination of the new fair value adjustments was not material in quantitative terms (approx. €3m).

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

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

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

CVA and DVA are calculated taking into consideration any counterparty risk mitigation agreements that have been entered into, in particular collateral and netting agreements for each counterparty.

The CVA/DVA methodology used by Mediobanca is based on the following inputs:

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

- PD (probability of default (PD)), derived from historical PD readings or those implied in market prices for credit default swaps or bond securities;
- Loss given default (LGD) based on the estimated value of recovery in the event of the counterparty going bankrupt, as defined in specific analysis conducted by the Bank itself or the recovery rates conventionally utilized for credit default swap prices.

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

A.4.1 Fair value levels 2 and 3: measurement techniques and inputs used

As a rule the Group uses market prices (level 1) or models based on observable inputs (level 2).

However, all instruments whose fair value is established primarily by components attributable to unobservable inputs (such as implicit volatility above certain observation levels, equity and credit correlation, etc.), or contains adjustments that significantly alter the most liquid input parameters used, are classified as Level 3¹⁷.

All level 3 instruments are subject to additional price verification procedures, which include: revision of relevant historical data, analysis of profits and losses, individual measurement of each single component in a structured component, and benchmarking. This approach involves the use of subjective parameters and judgements based on experience, and adjustments may therefore be required to valuations to take account of the bid-ask spread, liquidity or counterparty risk, and the type of measurement model adopted. All models in any case, including those developed internally, are verified independently and validated by different Bank units, thus ensuring an independent control structure.

¹⁷ Cf. IFRS 13, paragraphs 73 and 75. Reference is made to section A.5 for further discussion of this issue.

Similarly, the Independent Price Verification unit runs independent checks of the parameters used, comparing them with similar inputs from different sources.

Inputs for determining fair value level

The Bank has refined its fair value level classification processes over the years, which are increasingly focused, in the absence of quoted prices on active markets, on analysis of the parameters underlying the instruments.

A description of the main inputs used to determine the fair value level is provided below:

- Prices: instruments traded on a regulated market or for which prices for bilateral exchanges are available, are valued using prices obtained from info-providers;
- Interest rates/inflation swap rates: these are inputs used to value derivative instruments that involve the exchange of flows between two counterparties. The interest rate is the market's expectation regarding future trends in the interest rate, and is quoted for different maturities. The inflation swap rate, meanwhile, is the market's expectation regarding the future trend in inflation. The illiquidity of these inputs has a direct impact on the valuation of a debt instrument or a derivative;
- Repo rates: these are the interest rates applied in repo transactions;
- Volatility: volatility is a measurement of the expectations regarding the degree to which market prices may change relative to certain benchmarks. These may be quoted directly or taken from the prices for listed instruments. Volatilities may refer to different types of underlying instrument (shares/indexes, interest rates: cap/floor or swaptions, exchange rates, inflation);
- Correlation: this is a measurement of the relationship between movements in two variables, and is used as an input in the valuation of a derivative product whose payoff is determined by multiple risk factors/underlying instruments;
- Dividends: the dividend yields on equity instruments are an estimate of the possible returns that such instruments will offer in the future in terms of cash flows. The yield itself and the frequency with which dividends are paid

is the most significant indicator for determining the fair value of instruments that are sensitive to the forward price of a share;

- Credit spreads: these are an estimate of a counterparty’s insolvency risk and are quoted relative to a benchmark. Credit spreads refer to a wide variety of underlying instruments (indexes and single names), regions, sectors, maturities and credit qualities (high-yield and investment-grade). The broad spectrum covered by this category is the reason why the range of unobservable inputs is so extensive.

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 Level 1 or Level 2 instruments, to which a further spread is added to reflect their illiquidity. The model makes maximum use

¹⁸ Provided that the quotation is considered to be effectively liquid following the IPV process.

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 to address the valuation uncertainty inherent in the use of alternative valuation techniques other than the use of market prices (mark to market);

- 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 (e.g. 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. A model risk fair value adjustment may in any case be applied to these instruments, to take into account any potential negative impacts due to the valuation of these characteristics;
 - Issues of certificates with credit derivatives or shares as underlying (equity index or single-name baskets), including the issuer credit risk which is thus factored into the total calculation of the fair value. If the IPV process reveals a high degree of uncertainty in the inputs used, these issues are classified as level (such uncertainty usually involves correlation¹⁹, volatility or future dividends).

¹⁹ For example, in cases which involve issues of certificates with auto-callable derivatives of equity baskets as the underlying instruments. These reflect a degree of uncertainty in terms of the correlation between the equity basket constituents with an impact on the instrument's fair value which is considered to be material.

All instruments classified as level 2 must in any case reflect a majority of observable inputs used in the calculation of fair value.

The observability of an input parameter depends not only on the type of product, but also on the adequacy of the parameters used. Thus the relevant issues become the availability of quotes and the expiry.

Level 3

- Bonds: instruments whose fair value is determined using prices that cannot be corroborated are classified as Level 3, as are instruments not traded on active markets which are marked to model using the credit spread curves implicitly derived from Level 1 or Level 2 instruments, to which a spread is added in order to factor in their unobservable illiquidity. Fair value adjustments can be used to address the valuation uncertainty inherent in the use of alternative valuation techniques other than the use of market prices (mark to market);
- Asset-backed securities, CLOs and loans: the measurement process relies on information 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 (i.e. which did not pass the IFRS 9 SPPI test – 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;
- Investment funds: the Group owns shares in investment funds (mutual funds, private equity, hedge funds and real estate funds), that provide a Net Asset Value (NAV) per stock unit. For valuation purposes the most recent

available NAV is used, which is quarterly for the majority of unquoted funds and for a handful of real estate funds is no earlier than six months previously, adjusted for any payments, investments and distributions subsequent to the reference date for the NAV. Funds are generally ranked as level 1 when a quotation is available on an active market (daily NAV), otherwise as level 3;

- 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);
 - Certificates issues, which reflect a degree of uncertainty in the parameters which can affect the entire fair value of the instrument, as, for example, in the case of the correlation between the constituents of the basket of equities underlying the basket's auto-callable options;²⁰
 - Exotic instruments using complex models (exotic options) or certain payoffs on types of risk such as exchange rate risk, for which the valuation inputs are not directly observable, as the derivatives are embedded in the bonds issued. These instruments include the put options sold to guarantee the financial return on pension funds as part of the Austrian law insurance products;
 - Bespoke CDO tranches, for which no market prices from which to infer the correlation data used in the valuation are available.

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

For financial assets and liabilities recognized at amortized cost, classified as “Financial assets recognized at amortized cost” (amounts due from banks and customers) and “Financial liabilities recognized at amortized cost” (amounts due to banks and customers and debt securities in issue), the fair value is determined purely for information purposes, in line with the provisions of the relevant accounting standard (IFRS 7).

²⁰ In this connection, application of the new rules to establish whether an instrument is level 3, and the related day 1 profit deferral, have been in force since January 2021

In such cases the fair value is calculated solely for the purpose of meeting the Bank's responsibilities in terms of providing market disclosure, and the calculation does not impact in any way on the book value of the investment and has no effect on the profit and loss account or on net equity. Such instruments are not normally traded, and their fair value is thus measured on the basis of inputs compiled internally which are generally not directly observable on the market.

For loans to companies, the fair value is calculated using the Discounted Cash Flow Method, that is, by adding together, at the valuation date, the value of future cash flows discounted using the appropriate discount factors which include the counterparty's implied credit risk. The credit spread is determined using sector curves which are representative of the counterparty itself (in terms of rating, geography and/or industrial sector). For corporate loans, loans to counterparties with official ratings are treated as level 2; while in all other cases they are treated as level 3. The same applies for retail loans (mortgages and consumer finance).

For accounts receivable or payable on sight or in the short term, the book value is considered to be a good proxy of fair value, as permitted by IFRS 7. The fair value of these items, which accordingly is set at the same as their book value, is taken as being equivalent to level 2.

Bonds issued by Mediobanca are categorized as fair value Level 1 if quoted on an active market (using the market price as the input); if not, i.e. in cases where there are no quoted prices, the fair value is categorized as Level 2 and is calculated via the expected discounted cash flow using a market interest rate adjusted for the Bank's issuer risk (with a distinction being made between senior and subordinated risks). The fair value of the naked components of Mediobanca structured issues is also categorized as Level 2 when Mediobanca strips out the derivative embedded in such issues; the derivative's fair value level is according to the method described above.

A.4.2 Measurement processes and sensibilities

As required by IFRS 13, quantitative information on the significant non-observable inputs used in measuring the fair value of level 3 instruments is provided below.

Uncertainties inherent in inputs and impact on mark-to-market for equity products

Non-observable inputs	Quantification of uncertainty inherent input	+/- delta vs MtM (€ m) 31/12/21
Implicit volatility	Defined for each volatility surface point as a standard deviation from the consensus provided by data provider Markit. For underlying instruments for which no data is contributed, a proxy is derived from the underlying instruments for which data is contributed.	(6.3)
Equity-equity correlation	Defined for each expiry on the correlation curve as a standard deviation from the consensus provided by data provider Markit. For underlying instruments for which no data is contributed, a proxy is derived from the underlying instruments for which data is contributed	(30.0)

During the six months under review, the volatility and equity correlation monitoring process was improved, to take into account the changes in market conditions and the increase in operations in equity auto-callable equity instruments.

Measurement techniques used derivative instruments

Product	Measurement technique	Non-observable inputs	Fair value *	Fair value *	Fair value *	Fair value *
			Assets 31/12/21 (€ m)	Liabilities 31/12/21 (€ m)	Assets 30/6/21 (€ m)	Liabilities 30/6/21 (€ m)
OTC equity single name options, variance swap	Black-Scholes/Black model	Implicit volatility ¹	20.14	(19.54)	20.29	(20.46)
OTC equity basket options, best of/worst of, equity auto-volatility model callable multi-asset options	Black-Scholes/Black model, local volatility model	Implicit volatility Equity-equity correlation ²	5.47	14.23	32.28	(18.45)
Put option over the financial return on pension funds	Intrinsic value	NAV funds and capital guaranteed ³		(32.85) *		

* The book value shown, which is equal to the structures' intrinsic value and includes the fair value adjustments, is stated net of the certain value of minus €4.1m for the first group of policies that expired in December 2021 and were settled in January 2022. The instruments were reclassified as level 3 during the six months under review, having been booked in the financial statements for the year ended 30 June 2021 as level 2 for a value of minus €19.3m.

¹ Volatility in a financial context is a measurement of how much the price of an instrument underlying a derivative may vary over time. The higher the volatility of the underlying instrument, the greater the risk associated with it. In general terms long positions in options benefit from increases in volatility, whereas short positions in options lose out from them. For equity derivatives, the implicit volatility surface may be obtained from the price of the call and put options, as there are regulated markets for these. The uncertainty inherent in this input is attributable to one of the following scenarios: illiquidity of quoted prices (wide bid/ask spreads, typically present on long maturities or moneyness far from the at-the-money spot), concentration effects and non-observable market data (here too present when maturities are considered too long or moneyness too far from the at-the-money spot).

² Equity-equity correlation is a measurement of the correlation between two equity financial instruments underlying a derivative. Variations in the correlation levels may impact favourably or unfavourably, depending on the correlation type, on an instrument's fair value. Equity-equity correlations are less observable than volatilities, because correlation products are not quoted on any regulated markets. For this reason correlations are more prone to input uncertainty.

³ The contractual form is structured as a put option with an original duration of between ten and thirty years, the valuation of which is subject to uncertainty because of the future premiums estimated and because of the level of the NAV of the underlying pension funds.

A.4.3 Fair value ranking

Transfers between fair value ranking levels

The main factors contributing to transfers between the different fair value levels include changes in market conditions and refinements in the measurement models and/or the non-observable inputs.

An instrument is transferred from fair value Level 1 to Level 2 or vice versa mainly as a result of the loss (increase) in significance of a price expressed by the reference active market for the instrument concerned.

Conversely, transfers from Level 2 to Level 3 (or vice versa) are decided on the basis of the significance of the input data, in particular the weight which non-observable data have in the inputs compared to observable data.

A.4.4 Other information

The Mediobanca Group has availed itself of the exception provided under IFRS 13, paragraph 48 from measuring fair value on a net basis for financial assets and liabilities with positions compensating for the counterparty's market or credit risks.

QUANTITATIVE INFORMATION

A.4.5 Fair value ranking

A.4.5.1 Assets and liabilities recognized at fair value on a non-recurring basis, by fair value ranking

(€000)

<i>Financial assets/liabilities measured at fair value</i>	31/12/21			30/6/21		
	Level1	Level2	Level3	Level1	Level2	Level3
1. Financial assets measured at fair value with impact taken to profit and loss	7,929,825	3,451,886	2,053,333	7,650,456	3,481,009	1,518,131
a) financial assets held for trading	7,632,302	2,836,697	1,654,173	7,378,291	2,773,061	1,122,385
b) financial assets designated at fair value	—	614,722	—	—	680,539	—
c) other financial assets mandatorily valued at fair value	297,523	467	399,160	272,165	27,409	395,746
2. Financial assets measured at fair value with impact taken to other comprehensive income	4,010,751	72,715	922,495	4,423,463	55,892	88,016
3. Hedging derivatives	—	225,651	—	—	308,370	—
4. Tangible assets	—	—	—	—	—	—
5. Intangible assets	—	—	—	—	—	—
Total	11,940,576	3,750,252	2,975,828	12,073,919	3,845,271	1,606,147
1. Financial liabilities held for trading	3,827,361	4,111,184	1,399,396	4,966,846	3,914,570	1,182,213
2. Financial liabilities valued at fair value	—	779,544	—	—	833,048	—
3. Hedging derivatives	—	435,815	—	—	375,413	—
Total	3,827,361	5,326,543	1,399,396	4,966,846	5,123,031	1,182,213

Despite the increase in volatility and uncertainty shown by markets in the last quarter, and despite the presence of certain deals featuring a higher level of complexity and difficulty in terms of obtaining valuation inputs, the Group's trading portfolio is concentrated primarily on liquid operations characterized by a low level of uncertainty.

Indeed, the majority of the level 3 positions are offset against each other, asset versus liability, for the same risk parameter, thus not entailing any volatility as far as profit and loss is concerned.

The level 3 instruments held for trading purposes include options traded, i.e. trades against the same underlying instrument and uncertain risk parameter, for a total amount of €1,124m (30/6/21: €992.9m). Net of these items the level 3 assets increased from €129.4m to €529.7m, with new additions of €510.4m attributable primarily to a structured broking trade involving unlisted preference shares which at a given date in the future will be converted into listed shares (€283m), plus the purchase of around €171m in CLOs, the risk of which is

hedged by financial guarantee transactions, also acquired synthetically. The €67.6m outflows chiefly involve the conversion of the class C ANHEUSER-BUSCH shares into listed shares originally sold at expiry (€58.4m). During the six months there were also redemptions of approx. €30m on hedges of autocallable certificates. There were downward changes to reflect fair value totalling €13.1m, plus transfers to other levels for a negligible amount (approx. €300,000).

The level 3 liabilities, net of the options traded, grew from €189.2m to €274.9m, with new positions of €57.7m in autocallable certificates on baskets of equities, plus the addition of the negative valuation of put option contracts on the financial return on pension funds (€32.9m). The other changes regard further transfers of approx. €1m, redemptions of €1.1m, and upward adjustments to reflect fair value totalling €4.8m.

Financial assets mandatorily recognized at fair value totalled €399.5m, in line with the figure reported at the balance-sheet date (€395.7m), and mostly regard investments in funds (including seed capital).

Financial assets recognized at fair value through other comprehensive income rose considerably, from €88m to €922.5m, after subscribing for the senior tranche (€824.3m) of a securitization with a portfolio of non-performing loans originated by an Italian bank (rated A2 by Moody's and Alow DBRS) as the underlying instrument for which a state guarantee is expected to be obtained (Garanzia sulla Cartolarizzazione delle Sofferenze, GACS) and then part-syndicated on the market, with the residual position to then be transferred to the fixed portfolio.

A.4.5.2 Annual changes in financial assets measured at fair value on a recurring basis (level 3 assets)

	Financial assets valued at fair value with impact taken to profit and loss					Financial assets valued at fair value with impact taken to other comprehensive income	Hedging derivatives	Tangible assets	Intangible assets
	Total financial assets held for trading ¹	of which: a) financial assets designated at fair value	of which: b) financial assets mandatorily valued at fair value	of which: c) other financial assets					
1. Opening balance	613,137	129,375	—	395,745	88,017	—	—	—	
2. Increases	1,397,835	528,034	—	33,890	835,911	—	—	—	
2.1 Purchases	1,363,689	510,423	—	24,194	829,072	—	—	—	
2.2 Profits recognized in:	18,425	4,868	—	6,848	6,709	—	—	—	
2.2.1 profit and loss	11,716	4,868	—	6,848	—	—	—	—	
- of which, gains	4,395	4,395	—	—	—	—	—	—	
2.2.2 net equity	6,709	—	—	—	6,709	—	—	—	
2.3 Transfers from other levels	375	375	—	—	—	—	—	—	
2.4 Other increases	15,346	12,368	—	2,848	130	—	—	—	
3. Decreases	159,610	127,697	—	30,480	1,433	—	—	—	
3.1 Disposals	90,458	67,670	—	22,788	—	—	—	—	
3.2 Redemptions	29,657	29,657	—	—	—	—	—	—	
3.3 Losses recognized in:	39,495	30,370	—	7,692	1,433	—	—	—	
3.3.1 profit and loss	38,062	30,370	—	7,692	—	—	—	—	
- of which, losses	23,270	23,270	—	—	—	—	—	—	
3.3.2 net equity	1,433	—	—	—	1,433	—	—	—	
3.4 Transfers to other levels	—	—	—	—	—	—	—	—	
3.5 Other decreases	—	—	—	—	—	—	—	—	
4. Closing balance	1,851,362	529,712	—	399,155	922,495	—	—	—	

¹ Net of market value of options covering those attached to bonds issued (31/12/21: €87,230; 30/6/21: €146,000) and options traded (€1.1bn and €992.9m respectively), the values of which are recorded as both assets and liabilities for the same amount.

*A.4.5.3 Annual changes in liabilities recognized at fair value on a recurring basis
(level 3 liabilities)*

	(€000)		
	Held for trading ¹	Designated at fair value	Hedging derivatives
1. Opening balance	189,206	—	—
2. Increases	96,932	—	—
2.1 Issuance	57,678	—	—
2.2 Losses recognized in:	5,319	—	—
2.2.1 profit and loss	5,319	—	—
<i>- of which, losses</i>	5,319	—	—
2.2.2 net equity	—	—	—
2.3 Transfers from other levels	33,935	—	—
2.4 Other increases	—	—	—
3. Decreases	11,205	—	—
3.1 Redemptions	1,096	—	—
3.2 Buybacks	—	—	—
3.3 Profits recognized in:	10,109	—	—
3.3.1 profit and loss	10,109	—	—
<i>- of which, gains</i>	3,679	—	—
3.3.2 net equity	—	—	—
3.4 Transfers to other levels	—	—	—
3.5 Other decreases	—	—	—
4. Closing balance	274,933	—	—

¹ Net of market value of options covering those attached to bonds issued (31/12/21: €87.230; 30/6/21: €146,000) and options traded (€1.1bn and €992.9m respectively), the values of which are recorded as both assets and liabilities for the same amount.

A.4.5.4 Assets and liabilities not recognized at fair value or recognized at fair value on a non-recurring basis, by fair value ranking

	(€000)							
<i>Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis</i>	31/12/21				30/6/21			
	Book value	Level1	Level2	Level3	Book value	Level1	Level2	Level3
1. Financial assets valued at amortised cost	59,406,617	2,892,937	19,288,188	40,894,224	56,599,625	2,575,885	18,220,821	39,000,571
2. Tangible assets held for investment purposes	60,515	—	—	43,430	62,854	—	—	140,195
3. Non-current assets and groups of assets being sold	4,299	—	—	—	4,178	—	—	—
Total	59,471,431	2,892,937	19,288,188	40,937,654	56,666,657	2,575,885	18,220,821	39,140,766
1. Financial liabilities valued at amortised cost	65,850,787	511,621	65,449,583	56,141	58,475,015	759,204	57,857,542	145,560
2. Liabilities held in respect of assets being sold	36	—	—	—	381	—	—	—
Total	65,850,823	511,621	65,449,583	56,141	58,475,396	759,204	57,857,542	145,560

A.5 - Information on “day one profit/loss”

IFRS 9 requires that the initial recognition of financial instruments must be made at fair value. Normally the fair value of a financial instrument at the initial recognition date is equal to the transaction price, or in other words, to the cost or amount paid for financial assets, or the sum received for financial liabilities.

Under IFRS 7, paragraph 28, “day one profit/loss” is defined as the difference between the fair value at the initial recognition date (transaction price) and the amount calculated at the same date using a valuation technique.

The positive difference between the fair value of an instrument and the price at which it is traded at the transaction date (known as the “day one profit”) can only be represented among the income items of the profit and loss account if it is based on market prices and on models that are not based on uncertain market parameters. Rather, the fair value must be adjusted by the day one profit, which is only released to profit and loss as and when the parameter becomes certain.²¹ If the difference is negative (day one loss), it is taken directly to the profit and loss account, on prudential grounds. Any subsequent changes in fair value will therefore be linked to the trends in the various risk factors to which the instrument is exposed (interest rate/exchange rate risk, etc.) and recorded directly in the profit and loss account.

In accordance with established market practice, the day one profit regulations are only applied to financial instruments classified as level 3. In cases which involve new types of structured deal, the Bank conducts its analysis on a case-by-case basis, establishing the fair value ranking and whether or not the deal falls within the scope of application of the day one profit

²¹ IFRS 9, paragraphs B5.1.2A and B5.2.2A.

The best evidence of the fair value of a financial instrument at the initial recognition date is usually the price of the transaction (i.e. the fair value of the consideration paid or received; cf. also IFRS 13). If the entity establishes that the fair value at the initial recognition date differs from the price of the transaction indicated in paragraph 5.1.1 A, it must account for the instrument at that date by the following method:

- a. According to the valuation method described in paragraph 5.1.1, if the fair value is provided by a price quoted on an active market or an identical liability (level 1), or it is based on a measurement technique using only data derived from observable markets. The entity must record the difference between the fair value at the initial recognition date and the price of the trade as either a profit or loss as the case may be;
- b. In all other cases, according to the valuation method described in paragraph 5.1.1, adjusted for the difference between the fair value at the initial recognition date and the price of the transaction. Following the initial measurement, the entity must recognize the deferred change as a profit or loss only to the degree to which it emerges from a change in a factor (including time) that the market operators would take into consideration in establishing the price of the asset or liability.

regulations when it is approved. At this stage, a financial instrument is classified as level 3 if the uncertain parameter's impact on fair value is considered to be material as defined in IFRS 13, paragraph 73.²²

The framework for identifying and managing day one profit for certificates is expected to be complete by end-June 2022. At present the autocallable certificates with equity baskets as the underlying instrument are classified as level 3, and in line with the Group rules, the upfront effects through profit and loss are suspended. These instruments currently have a fair value of approx. €100m, and €2.5m are suspended as day one profit.

The day one profit rule is applied also to profits deriving from transactions in derivatives relating to the hedging of M&A transactions; given that the derivative will become effective only if and when the deal closes, the profit is suspended until the uncertainty over whether or not it materializes is removed. As at-end December 2021, upfront profits of approx. €1.8m were suspended in respect of two such deals.

The Bank also has deals classified as Level 3 for which the initial profit has not had to be suspended, as they were originally negotiated with other market counterparties without generating any material upfront difference, or because, as at the trading date, they had an outstanding duration which expired before the end of the financial year, hence there was no need for their effects to be deferred over time across several reporting periods.

²² In some cases, the data used to establish the fair value of an asset or liability could be classified in different fair value hierarchy levels. In such cases, the valuation is classified entirely in the same level as the input with the lowest hierarchical ranking used in the valuation itself. Assessment of the materiality of a given input to the valuation as a whole requires judgement that takes account of the asset's or liability's individual characteristics. The adjustments made to arrive at valuations based on fair value, such as sale costs in cases where fair value is calculated after sales costs have been deducted, must not be taken into consideration in determining the fair value hierarchy level in which a valuation is classified.

Part B - Notes to consolidated Balance Sheet *

Assets

SECTION 1

Heading 10: Cash and cash equivalents

1.1 Cash and cash equivalents: composition*

	Total 31/12/21	Total 30/6/21
a) Cash	135,947	124,268
b) Current account and demand deposits with Central banks	2,836,952	1,845,220
c) Current accounts and demand deposits with banks	1,359,426	1,303,950
Total	4,332,325	3,273,438

* Values as at 30 June 2021 have been restated in order to be compliant to Bank of Italy circular no. 262/05, seventh update.

* Figures in €'000, save in footnotes, where figures are provided in full.

SECTION 2

Heading 20: Financial assets at fair value* with impact taken to profit and loss

2.1 Financial assets held for trading: composition

Items/Values	Total 31/12/21			Total 30/6/21		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	3,568,430	384,012	220,355	4,210,242	519,960	10,860
1.1 Structured securities	10,304	10,437	51,681	10,370	70,897	—
1.2 Other securities	3,558,126	373,575	168,674	4,199,872	449,063	10,860
2. Equity securities ¹	3,382,797	—	283,191	2,339,261	—	65,433
3. UCITs	6,037	—	549	119,204	—	514
4. Loans	369,417	—	—	3,981	—	—
4.1 Reverse Repos	—	—	—	—	—	—
4.2 Others	369,417	—	—	3,981	—	—
Total (A)	7,326,681	384,012	504,095	6,672,688	519,960	76,807
B. Derivative instruments						
1. Financial derivatives	305,621	2,194,516	1,150,078 (€)	705,603	1,933,186	1,045,578 (€)
1.1 trading	305,621	2,192,527	1,149,992	705,603	1,931,169	1,045,432
1.2 related to the fair value option	—	—	—	—	—	—
1.3 others	—	1,989	86	—	2,017	146
2. Credit derivatives	—	258,169	—	—	319,915	—
2.1 trading	—	258,169	—	—	319,915	—
2.2 related to the fair value option	—	—	—	—	—	—
2.3 others	—	—	—	—	—	—
Total (B)	305,621	2,452,685	1,150,078	705,603	2,253,101	1,045,578
Total (A+B)	7,632,302	2,836,697	1,654,173	7,378,291	2,773,061	1,122,385

¹ Equities include shares committed in securities lending transactions totalling €1,152,517,000 at 31 December 2021 and €648,410,000 at 30 June 2021.

² Include €0.09m at 31 December 2021 and €0.15m at 30 June 2020 in options traded, with the matching amount booked as financial liabilities.

* For the criteria used to determine fair value and classification of financial instruments within the three fair value ranking levels, see Part A - "Accounting Policies".

2.3 Financial assets designated at fair value: composition

Items/Values	Total 31/12/21			Total 30/6/21		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	—	—	—	—	50,720	—
1.1 Structured securities	—	—	—	—	—	—
1.2 Other debt securities	—	—	—	—	50,720	—
2. Loans	—	614,722	—	—	629,819	—
2.1 Structured	—	—	—	—	—	—
2.2 Others ¹	—	614,722	—	—	629,819	—
Total	—	614,722	—	—	680,539	—

¹ This item refers to a loan matched on the liability side by the issue of a certificate.

2.5 Other financial assets mandatorily at fair value: composition

Items/Values	31/12/21			30/6/21		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	62	—	897	288	27,409	1,321
1.1 Structured securities	—	—	—	—	—	—
1.2 Others	62	—	897	288	27,409	1,321
2. Equity instruments	—	—	8,482	—	—	5,850
3. UCITs	297,461	—	377,139	271,877	—	377,827
4. Loans	—	467	12,642	—	—	14,954
4.1 Reverse Repos	—	—	—	—	—	—
4.2 Others ¹	—	467	12,642	—	—	14,954
Total	297,523	467	399,160	272,165	27,409	399,952

¹ This item includes €9.4m in respect of the equity partner who departed from Messier et Associés, and is matched by Mediobanca shares as pledge.

SECTION 3

Heading 30: Financial assets at fair value* with impact taken to comprehensive income

3.1 Financial assets at fair value with impact taken to comprehensive income: composition

Item/Values	31/12/21			30/6/21		
	Level 1	Level 2	Level 3 ¹	Level 1	Level 2	Level 3 ¹
1. Debts securities	3,866,259	72,715	824,332	4,290,967	55,892	—
1.1 Structured securities	—	—	—	—	—	—
1.2 Other	3,866,259	72,715	824,332	4,290,967	55,892	—
2. Equity instruments	144,492	—	98,163	132,496	—	88,016
3. Loans	—	—	—	—	—	—
Total	4,010,751	72,715	922,495	4,423,463	55,892	88,016

¹ Includes investments in unlisted companies valued based on internal models and the participative financial instrument in Burgo company valued at €55,000,000, after the debt renegotiation.

3.3 Financial assets at fair value through other comprehensive income: gross value and total accumulated impairments

	Gross amount					Writedowns				Write off partial total
	First stage	of which: low credit risk*	Second stage	Third stage	Purchased or originated impaired	First stage	Second stage	Third stage	Purchased or originated impaired	
Debt securities	4,762,499	—	10,399	—	—	9,354	238	—	—	—
Loans	—	—	—	—	—	—	—	—	—	—
Total 31/12/21	4,762,499	—	10,399	—	—	9,354	238	—	—	—
Total 30/6/21	4,357,062	—	—	—	—	10,203	—	—	—	—

* As required by Bank of Italy circular no. 262, fifth amendment, the column headed “Of which: instruments with low credit risk” must show the gross value of the low credit risk instruments as defined by IFRS9, paras. B5.5.29. For the Mediobanca Group, the concept of “low credit risk” is equivalent to that of rating, hence low credit risk applies to the case of counterparties rated investment grade.

* For the criteria used to determine fair value and classification of financial instruments within the three fair value ranking levels, see Part A - “Accounting Policies”.

SECTION 4

Heading 40: Financial assets at amortized cost*4.1 Financial assets at amortized cost: composition of due from banks***

Type of transaction/Values	Total 31/12/21					Total 30/6/21						
	Balance value			Fair value*		Balance value			Fair value*			
	First and second stage	Third stage	Purchased or originated impaired	L1	L2	L3	First and second stage	Third stage	Purchased or originated impaired	L1	L2	L3
A. Receivables to Central Banks	301,883	—	—	—	—	—	277,860	—	—	—	277,860	—
1. Deposits to Maturity	—	—	—	X	X	X	—	—	—	X	X	X
2. Compulsory reserves	301,883	—	—	X	X	X	277,860	—	—	X	X	X
3. Repos	—	—	—	X	X	X	—	—	—	X	X	X
4. Others	—	—	—	X	X	X	—	—	—	X	X	X
B. Receivables to banks	4,414,466	—	—	303,179	3,860,880	277,426	3,742,583	—	—	386,860	3,459,792	246,603
1. Loans	4,121,541	—	—	—	3,860,880	277,426	3,370,002	—	—	—	3,459,792	246,603
1.1 Current accounts	—	—	—	X	X	X	—	—	—	X	X	X
1.2 Time deposits	85,652	—	—	X	X	X	111,795	—	—	X	X	X
1.3 Other loans:	4,035,889	—	—	X	X	X	3,258,207	—	—	X	X	X
- Repos	2,720,152	—	—	X	X	X	1,932,575	—	—	X	X	X
- Finance leases	1,439	—	—	X	X	X	1,615	—	—	X	X	X
- Others	1,314,298	—	—	X	X	X	1,324,017	—	—	X	X	X
2. Debts securities	292,925	—	—	303,179	—	—	372,581	—	—	386,860	—	—
2.1 Structured securities	—	—	—	—	—	—	—	—	—	—	—	—
2.2 Other debt securities	292,925	—	—	303,179	—	—	372,581	—	—	—	—	—
Total	4,716,349	—	—	303,179	4,162,763	277,426	4,020,443	—	—	386,860	3,737,652	246,603

* For the criteria used to determine fair value and classification of financial instruments within the three fair value ranking levels, see Part A - "Accounting Policies".

** Values as at 30 June 2021 have been restated in order to be compliant to Bank of Italy circular no. 262/05, seventh update.

The heading includes collateral of €1.3bn for the Assicurazioni Generali securities lending transaction (involving 70 million shares, equal to 4.4% of the company's share capital).

4.2 Financial assets at amortized cost: composition of due from customers**

Type of transaction/Values	Total 31/12/21						Total 30/6/21					
	Balance value			Fair value*			Balance value			Fair value*		
	First and second stage	Third stage	Purchased or originated impaired	L1	L2	L3	First and second stage	Third stage	Purchased or originated impaired	L1	L2	L3
1. Loans	50,961,911	487,082	408,617	—	15,125,425	40,267,036	47,980,123	560,178	383,738	—	13,482,795	38,523,438
1.1. Deposits from customers	1,884,892	31	86,452	X	X	X	1,732,143	2	63,576	X	X	X
1.2. Reverse Repos	1,836,382	—	—	X	X	X	1,484,079	—	—	X	X	X
1.3. Mortgages	27,609,164	211,451	40,281	X	X	X	26,633,912	212,920	17,707	X	X	X
1.4. Credit cards, personal loans and wage assignment losses	8,979,386	157,575	261,160	X	X	X	8,858,741	210,438	279,879	X	X	X
1.5. Lease loans	1,570,900	82,579	20,724	X	X	X	1,636,255	103,746	22,576	X	X	X
1.6. Factoring	2,671,220	2,170	—	X	X	X	2,205,074	6,521	—	X	X	X
1.7. Other loans	6,409,967	33,276	—	X	X	X	5,429,919	26,551	—	X	X	X
2. Debt securities	2,832,658	—	—	2,589,758	—	349,762	2,351,193	—	—	2,189,025	8,368	230,530
2.1. Structured securities	—	—	—	—	—	—	—	—	—	—	—	—
2.2. Other debt securities	2,832,658	—	—	2,589,758	—	349,762	2,351,193	—	—	2,189,025	8,368	230,530
Total	53,794,569	487,082	408,617	2,589,758	15,125,425	40,616,798	50,331,316	560,178	383,738	2,189,025	13,491,163	38,753,968

(*) For the criteria used to determine fair value and classification of financial instruments within the three fair value ranking levels, see Part A - "Accounting Policies".

(**) Values as at 30 June 2021 have been restated in order to be compliant to Bank of Italy circular no. 262/05, seventh update.

The column headed "Purchased or originated impaired" contains the non-performing loans (NPLs) acquired by Group company MBCredit Solutions.

SECTION 5

Heading 50: Hedging derivatives

5.1 Hedging derivatives: by hedge type and level

	Fair Value			Notional value	Fair Value			Notional value
	31/12/21				30/6/21			
	Level 1	Level 2	Level 3	31 December 2021	Level 1	Level 2	Level 3	30 June 2021
A. Financial derivatives								
1. Fair value	—	225,650	—	24,928,610	—	308,370	—	13,789,425
2. Cash flows	—	—	—	—	—	—	—	—
3. Foreign subsidiaries	—	—	—	—	—	—	—	—
B. Credit derivatives								
1. Fair value	—	—	—	—	—	—	—	—
2. Cash flows	—	—	—	—	—	—	—	—
Total	—	225,650	—	24,928,610	—	308,370	—	13,789,425

5.2 Hedging derivatives: by portfolio hedged and hedge type

Transaction / Type of hedging	Fair Value						Cash-flow hedges		Foreign subsidiaries	
	Specific						Specific	Generic		
	debt securities and interest rates	equity securities and stock indexes	currencies and gold	credit	commodities	others				
1. Financial assets valued at fair value with impact taken to other comprehensive income	—	—	—	—	X	X	X	—	X	X
2. Financial assets valued at amortised cost	16,092	X	—	—	X	X	X	—	X	X
3. Portfolio	X	X	X	X	X	X	—	X	—	X
4. Others	—	—	—	—	—	—	X	—	X	—
Total assets	16,092	—	—	—	—	—	—	—	—	—
1. Financial liabilities	180,361	X	—	—	—	—	X	29,198	X	X
2. Portfolio	X	X	X	X	X	X	—	X	—	X
Total liabilities	180,361	—	—	—	—	—	—	29,198	—	—
1. Highly probable transactions (CFH)	X	X	X	X	X	X	X	—	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	—	X	—	—

SECTION 7

Heading 70: Equity investments

7.1 Equity investments: disclosure on relationship

Company name	Legal office	Operating office	Control type	Ownership		Ownership
				Controlling entity	% shareholding	
A. Entities under significant influence						
1. Assicurazioni Generali S.p.A.	Trieste	Trieste	2	Mediobanca S.p.A.	12.82	12.87
2. Istituto Europeo di Oncologia S.r.l.	Milan	Milan	2	Mediobanca S.p.A.	25.37	25.37

Legend:

1 Joint control.

2 Subject to significant influence.

3 Exclusively controlled and not consolidated

Table 7.1 indicates for each entity under significant influence the name, the registered office, the shareholding as well as the shareholding calculated as a percentage of the share capital issued by the associated entity and the availability of votes calculated as a percentage of the shares actually voting (i.e. excluding the associated entity's treasury shares from the denominator). The latter is the percentage used for the purposes of consolidation with the equity method.

It should be noted that any temporary transactions involving shares of the associate are not taken into consideration for the purpose of determining the consolidation percentage. Specifically, as at 31 December 2021, a securities lending transaction was in place concerning no. 70 million Assicurazioni Generali shares (equal to 4.4% of the share capital) expiring next May. This transaction, which transfers ownership of the securities but not the related risks and benefits, does not cause an increase in the risk exposure to the Company and does not change the consolidation percentage.

The criteria and methods for establishing the area of consolidation are illustrated in "Section 3 - Part A - Accounting Policies" to which reference is made.

7.2 Significant investments: book value, fair values and dividends received

Company name	Book value	Fair Value *	Dividend received **
A. Entities under significant influence			
1. Assicurazioni Generali S.p.A.	3,761,871	3,776,553	93,101
2. Istituto Europeo di Oncologia S.r.l.	38,962	n.a.	
Total¹	3,800,834		

¹ The amount stated here differs from that represented in the balance sheet because of other investments which are minor in terms of both percentage share owned and amount (€113,000).

* Available only for listed companies.

** Dividends collected in the course of the financial year have been deducted from the book value of the investment (as described in Part A - Accounting Policies of the Notes to the Accounts).

As at 31 December 2021, the book value carried under the “Equity investments” heading totalled €3,800.8m, split between Assicurazioni Generali (12.9% of the company’s share capital, carried at €3,761.9m) and Istituto Europeo di Oncologia (25.4% of the entity’s share capital, carried at €39.0m).

The book value of the Assicurazioni Generali investment increased, from €3,663.1m to €3,761.9m, virtually aligned with the market value at end-2021 (€3,776.6m); the pro rata profit for the six months (€186.5m) was only in part offset by collection of the second tranche of the 2019 dividend distributed in October 2021 (€93.1m),¹ against a very small change in the valuation reserve (up €0.9m). The Group’s investment in IEO fell from €39.7m to €39m, reflecting the pro rata loss for the period which continues to be impacted by the slowdown in specialist medical services due to the ongoing Covid-related emergency.

According to international accounting standards (IAS 28, IAS 36, IFRS 10 and IFRS11), the value of equity investments must be tested for impairment at least once a year or more frequently, when conditions materialize that indicate that there may be a reduction in value. The Group Policy on Impairment, in line with IAS 36 provisions, requires that the following indicators be checked for signs of impairment: stock price performance, deteriorations in the company’s rating, and current and estimated operating performances.

In preparing the interim financial statement, having ascertained that no potential impairment indicators as forecast by the IAS 36 have materialized, it has been decided it is not necessary to test the investment’s value for impairment.

For further information on equity investment’s impairment test please refer to Consolidated financial statement as at 30 June 2021.

¹ The dividends collected have not been taken through profit and loss but have been subtracted from the book value of the investment instead.

SECTION 9

Heading 90: Property, plant and equipments

9.1 Core tangible assets stated at cost

Activities/Values	Total 31/12/21	Total 30/6/21
1. Property assets	216,660	216,700
a) lands	84,895	84,895
b) buildings	90,119	91,757
c) furniture	16,843	16,024
d) electronic system	7,407	8,005
e) other	17,396	16,019
2. Leased assets	217,452	222,696
a) lands	—	—
b) buildings	207,882	212,381
c) furniture	—	—
d) electronic system	—	—
e) other	9,570	10,315
Total	434,112	439,396
<i>of which: arising from the recovery of guarantees received</i>	72	73

9.2 Properties held for investment purposes stated at cost

Activities/Values	Total 31/12/21				Total 30/6/21			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Property assets	60,515	—	—	43,430	62,854	—	—	140,195
a) lands	28,494	—	—	9,633	29,144	—	—	85,813
b) buildings	32,021	—	—	33,797	33,710	—	—	54,382
2. Rights of use acquired through the lease	—	—	—	—	—	—	—	—
a) lands	—	—	—	—	—	—	—	—
b) buildings	—	—	—	—	—	—	—	—
Total	60,515	—	—	43,430	62,854	—	—	140,195
<i>of which: arising from the recovery of guarantees received</i>	36,530	—	—	43,430	38,659	—	—	45,728

9.3 Core tangible assets: composition of revalued activities

At 31 December 2021 the item was not present within the Group.

9.4 Tangible assets held for investment purposes: composition of activities valued at fair value

At 31 December 2021 the item was not present within the Group.

9.5 Inventories pursuant to IAS2: composition

Items/Values	Total 31/12/21	Total 30/6/21
1. Inventories of tangible assets arising from the recovery of guarantees received	6,403	7,959
a) lands	809	1,027
b) buildings	5,594	6,932
c) furnitures	—	—
d) electronic systems	—	—
e) others	—	—
2. Other tangible assets	—	—
Total	6,403	7,959
<i>of which: valued at fair value less costs to sell</i>	—	—

The above includes assets received under leasing contracts, which were originally recorded as Investment Property (under IAS 40), and have now been restated as Inventories in accordance with IAS 2 in cases where only minor amounts are involved and where leasing the properties out is not economically feasible and sale is expected to take place in the next three years.

SECTION 10

Heading 100: Intangible assets

Intangible assets with indefinite duration consist of goodwill and brands acquired as part of business combinations, whereas those with definite duration are the client lists similarly acquired and software. For details on the methods by which intangible assets are valued, reference is made to Part A – Accounting Policies.

10.1 Intangible assets: composition

Activities/Values	31/12/21		30/6/21	
	Definite life	Indefinite life	Definite life	Indefinite life
A.1 Goodwill	X	615,455	X	602,363
A.1.1 attributable to the group	X	615,455	X	602,363
A.1.2 attributable to minorities	X	—	X	—
A.2 Other intangible assets	67,868	153,375	60,896	80,878
<i>of which Software</i>	44,593	—	44,726	—
A.2.1 Assets valued at cost:	67,865	153,375	60,896	80,878
a) intangible assets generated internally	—	—	—	—
b) other assets	67,865	153,375	60,896	80,878
A.2.2 Assets valued at fair value:	—	—	—	—
a) intangible assets generated internally	—	—	—	—
b) other assets	—	—	—	—
Total	67,865	768,830	60,896	683,241

This item increased in the six months, from €744.1m to €836.7m, following acquisition of the Bybrook business, the Purchase Price Allocation process for which is now almost complete.²

The increases in the items shown in Table 10.1 are mainly due to the effects of the Bybrook deal, which has resulted in intangible assets of €89.5m being booked, mostly in relation to the underlying fund management activity, €70.1m of which for funds with indefinite life, and €10.1m of which for closed-end funds allocated a residual life of ten years, with goodwill already amortized as to €0.3m and €9.3m respectively.³

² Only marginal adjustments of a tax-related nature are envisaged, to be finalized in the next quarter.

³ The value in Euros has been calculated at the exchange rate prevailing at end-December, of 0.8403. The corresponding values in pounds sterling are: intangible assets with indefinite life: £58.9m, intangible assets with defined life: £8.5m, goodwill: £7.8m.

Information on intangible assets and goodwill

During the first half-year the Group acquired Bybrook and its business through Cairn Capital, as described below.

Table 1 summarizes the PPA effects of all the acquisitions completed by the Group over the years.

Table 1: Summary of PPA effects, Italian acquisitions

	Linea	IFID	Spafid Connect	Barelays	Esperia
<i>Acquisition date</i>	27/6/2008	1/8/2014	18/6/2015	26/8/2016	6/4/2017
Price paid	406,938	3,600	5,124	(240,000)	233,920
<i>of which: ancillary charges</i>	2,000	200	—	—	—
Liabilities	—	—	—	80,000	—
Intangible assets, defined life	(44,200)	(700)	(3,250)	(26,000)	(4,508)
<i>no. of years amortization</i>	8	7	10	5	5
Brands	(6,300)	—	—	—	(15,489)
Fair value adjustments	—	—	—	84,200	11,232
Balance of other assets (liabilities)	(2,659)	420	(466)	98,300	(176,585)
Tax effects	12,155	220	934	3,500	6,613
Goodwill	365,934	3,540	2,342	— *	55,183

* The deal generated badwill.

Table 1: Summary of PPA effects, non-Italian acquisitions

	Cairn	RAM ¹	MMA	Bybrook (Cairn) ²
<i>Acquisition date</i>	31/12/2015	28/2/2018	11/4/2019	31/8/2021
<i>Currency</i>	GBP	CHF	EURO	GBP
Price paid	24,662	164,732	107,856	66,800
<i>of which: ancillary charges</i>	—	—	—	—
Liabilities	20,813	46,850	54,540	—
Intangible assets, undefined life	—	—	—	(58,903)
Intangible assets, defined life	—	(2,398)	(11,330)	(8,455)
<i>no. of years amortization</i>	—	5	8	10
Brands	—	(37,395)	(10,230)	—
Fair value adjustments	—	—	—	—
Balance of other assets (liabilities)	(8,345)	(6,853)	(13,353)	(4,422)
Tax effects	—	7,163	6,684	12,744
Goodwill	37,130	172,099	134,167	7,765

¹ All amounts are calculated pro rata (89.25%).

² Bybrook's business and shares were acquired by Cairn Capital (89.07% controlled by Mediobanca S.p.A).

For a review of the main characteristics of the acquisitions made in recent years and summarized in Table 1, please refer to the financial statements for the year ended 30 June 2021.

A description of the acquisition closed in the first half of the year is provided below.

Cairn Capital has acquired the business of Bybrook Capital LLP, a specialist credit manager focused on distressed debt. The deal closed on 31 August 2021, after authorization was obtained from the ECB and FCA. The deal took place in two successive phases:

- Cairn replaced Bybrook in the Revenue Sharing Agreement (“RSA”) that the company had entered into with an institutional investor to credit back 25% of the annual fees generated to them;
- Bybrook itself was then acquired from the two founding partners for a consideration of £43.3m, £18.1m of which in cash (the “Cash Consideration”) and £25.2m in new Cairn shares (the “D Shares”) equal to 21.86% of the company’s share capital, over half of which a put-and-call agreement with Mediobanca has been arranged. The buy/sell price for shares in Bybrook and its other subsidiaries has been set at £1 per share.

Bybrook has included in the Cairn cash-generating unit (CGU), the goodwill for which rises from £37.1m to £44.9m, plus other intangible assets of £67.4m, bearing in mind that the latter entail deferred tax liabilities of £12.8m being booked.

The put-and-call agreements, including the Bybrook share, were valued at £28.2m as at 31 December 2021.

For full disclosure purposes, it should be noted that the purchase agreement also includes provision for an earn-out component for the former shareholders who are now Cairn managers, based on the growth objectives set for the former Bybrook businesses being achieved, up to a cap of £10.5m.

The characteristics of the earn-out and the specific role of the beneficiaries involved mean that it qualifies as a form of staff remuneration under IFRS 2 (Share-Based Payment) and so list outside the scope of IFRS 3 (Business Combinations).

* * *

The tables below show a list of the intangible assets acquired as part of M&A transactions and summarizing the goodwill recognized in the accounts as broken down both by deal and cash-generating unit (CGU).

Table 2: Other intangible assets acquired as a result of M&A transactions

Typology	Deal	31/12/21	30/6/21
Customer relationship		92,677	15,476
	Spafid	113	177
	Barclays/CheBanca!	—	866
	MB Private Banking	457	907
	CMB	4,239	4,564
	Bybrook/Cairn	79,825	—
	RAM Active Investments	607	818
	Messier & Associés	7,436	8,144
Brand		66,276	63,878
	MB Private Banking	15,489	15,489
	RAM Active Investments	40,557	38,159
	Messier & Associés ¹	10,230	10,230
Total		158,953	79,354

¹ Added to the brand transferred in connection with the acquisition and equal to €17m (figure taken from financial statements for year ended 30 June 2019).

Table 3: Goodwill

Deal	31/12/21	30/6/21
Consumer	365,934	365,934
Spafid-Fiduciary services	3,733	3,733
Spafid Connect	—	—
Cairn Capital	53,600	43,272
Banca Esperia	52,103	52,103
RAM Active Investments	46,932	44,168
Messier & Associés	93,153	93,153
Total goodwill	615,455	602,363

Information on impairment indicators

As stated in the Accounting Policies section, IAS 36 requires any loss of value, or impairment, of individual tangible and intangible assets to be tested at least once a year, in preparing the annual financial statements, or more frequently if events or circumstances occur which suggest that there may have been a reduction in value.

On 29 October 2021, ESMA published its customary annual public statement on “European common enforcement priorities for 2021 annual financial reports”, asking issuers to focus in particular in their reporting on the effects of the Covid-19 pandemic in analysing possible indicators of impairment as provided by IAS 36 paragraph 9. In particular ESMA underlined the need to take the high levels of uncertainty related to the current economic scenario into account in drawing up estimates and establishing the discount rates to be used, and asked issuers to provide adequate disclosure of the reasons for the decisions taken and the key assumptions adopted.

For further information on the impairment test on goodwill and intangible assets please refer to Consolidated financial statement as at 30 June 2021.

Table 4: Deviation rate

CGU/Impairment indicators	Tasso risk free R ¹		Beta - β	
	Jun-21	Dec-21	Jun-21	Dec-21
Consumer	0.75	0.75	1.10	1.16
Banking Italy	0.75	0.75	0.99	0.98
Cairn Capital (UK)	0.46	0.76	1.11	1.11
RAM Active Investments (CH)	-0.40	-0.28	1.11	1.11
Messier et Associés (FR)	-0.20	-0.06	1.15	1.15

¹ The risk-free rate used is calculated as the annual average of the 10-year government bond yield.

All Cost of Equity figures are in line with 30 June 2021, net of slight increases in the beta for Consumer Finance and the UK risk-free rate. However, such changes are not material for valuation purposes. Moreover, the Cost of Equity includes an alpha coefficient, added last year in order to factor in the Covid-related uncertainties; the gradual release of this, in view of the current results which are substantially aligned with the respective budgets, will allow any adjustments to the parameters to be absorbed, such as the change in risk-free rate (currently the point-in-time data is higher than the 12 average used as benchmark) and/or the risk premium, which is normally updated in the first half of the calendar year.

All the other triggers provided for in the Group Policy have also been reviewed, with no evidence of impairment for all intangible assets. The situation will continue to be monitored closely during the second half of the year, ahead of the annual impairment test.

SECTION 11

Assets heading 110 and liabilities section 60: Tax assets and liabilities

11.1 Advance tax assets: composition

	Total 31/12/21	Total 30/6/21
- Against Profit and Loss	566,277	556,808
- Against Net Equity	22,304	27,395
Total	588,581	584,203

11.2 Deferred tax liabilities: composition

	Total 31/12/21	Total 30/6/21
- Against Profit and Loss	302,860	301,940
- Against Net Equity	41,036	36,847
Total	343,896	337,787

11.3 Changes in advance tax during the period (against profit and loss)

	Total 31/12/21	Total 30/6/21
1. Opening balance	556,808	616,727
2. Increases	101,897	24,472
2.1 Deferred tax assets for the year	101,525	23,896
a) relating to previous years	—	34
b) due to changes in accounting policies	—	—
c) writebacks	—	—
d) others ¹	101,525	23,862
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	372	576
3. Decreases	92,428	84,391
3.1 Deferred tax assets derecognised in the year	87,704	80,261
a) reversals of temporary differences	86,863	78,422
b) writedowns of non-temporary items	—	—
c) changes in accounting policies	—	—
d) others	841	1,839
3.2 Reduction in tax rates	—	—
3.3 Other decreases:	4,724	4,130
a) conversion into tax receivables pursuant to Italian Law 214/2011	129	—
b) others	4,595	4,130
4. Closing balance	566,277	556,808

¹ The heading includes €93.6m in advance tax assets deriving from the realignment of tax and accounting values for the goodwill arising on Linea implemented by Compass Banca.

11.4 Changes in advance tax (pursuant to Italian Law 214/11) *

	Total 31/12/21	Total 30/6/21
1.. Opening balance	475,523	548,385
2. Increases	—	—
3. Decreases	92,982	72,862
3.1 Reversals of temporary differences	66,496	69,366
3.2 Conversion into tax receivables deriving from:	—	—
a) year losses	—	—
b) tax losses	—	—
3.3 Other decreases	26,486	3,496
4. Closing balance	382,541	475,523

* Italian decree law 59/16 on 29 April 2016 on deferred tax receivable pursuant to Italian decree law 214/11, as amended by Italian decree law 237/16, provides that in order to be able to retain the right to take advantage of the possibility of converting DTAs into tax credits, an irrevocable option must be specifically exercised, which involves payment of an annual instalment equal to 1.5% of the difference between the increase in advance tax assets at the reporting date since 30 June 2008 and the tax paid during the same period each year until 2029. Mediobanca has exercised this option in order to retain the possibility of converting DTAs for all companies adhering to the tax consolidation. No payment shall be due in this respect, however, given that the payments made to the tax consolidation exceed the increase in DTAs recorded since 30 June 2008.

11.5 Changes in deferred tax during the period (against profit and loss)

	Total 31/12/21	Total 30/6/21
1. Opening balance	301,940	302,963
2. Increases	1,243	7,265
2.1 Deferred tax liabilities of the year	193	231
a) relating to previous years	—	—
b) due to changes in accounting policies	—	—
c) others	193	231
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	1,050	7,034
3. Decreases	323	8,288
3.1 Deferred tax liabilities derecognised in the year	215	6,335
a) reversals of temporary differences	212	4,314
b) due to changes in accounting policies	—	—
c) others	3	2,021
3.2 Reductions in tax rates	—	—
3.3 Other decreases	108	1,953
4. Closing balance	302,860	301,940

11.6 Changes in advance tax during the period (against net equity) *

	Total 31/12/21	Total 31/6/21
1. Opening balance	27,395	40,773
2. Increases	9,306	18,989
2.1 Deferred tax liabilities of the year	9,290	18,973
a) relating to previous years	8	—
b) due to changes in accounting policies	—	—
c) others	9,282	18,973
2.2 New taxes or increases in tax rates	16	—
2.3 Other increases	—	16
3. Decreases	14,397	32,367
3.1 Deferred tax liabilities derecognised in the year	14,241	28,605
a) reversals of temporary differences	13,322	27,228
b) writedowns of non-recoverable amounts	—	—
b) due to changes in accounting policies	—	—
c) others	919	1,377
3.2 Reductions in tax rates	—	—
3.3 Other decreases	154	3,762
4. Closing balance	22,304	27,395

* Tax deriving from cash flow hedges and valuations of financial instruments recognized at fair value through Other Comprehensive Income.

11.7 Changes in deferred tax during the period (against net equity)

	Total 31/12/21	Total 31/6/21
1. Opening balance	36,847	22,485
2. Increases:	73,635	118,050
2.1 Deferred tax liabilities of the year:	73,606	118,029
a) related to previous year	—	—
b) due to changes in accountable parameters	—	—
c) others	73,606	118,029
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	29	21
3. Decreases:	69,446	103,688
3.1 Deferred tax liabilities derecognized in the year	69,444	103,688
a) reversals of temporary differences	69,444	103,688
b) due to changes in accountable parameters	—	—
c) others	—	—
3.2 Decrease in fiscal rates	—	—
3.3 Other decreases	2	—
4. Closing balance	41,036	36,847

SECTION 12

Assets heading 120 and Liability heading 70: Non-current assets and disposal groups classified as held for sale

12.1 Non-current assets and disposal groups classified as held for sale: breakdown by asset type

	31/12/21	30/6/21
A. Assets held for sale		
A.1 Financial assets	—	—
A.2 Equity investments	—	—
A.3 Tangible assets	—	—
<i>of which: obtained by the enforcement of collateral</i>	—	—
A.4 Intangible assets	4,299	4,178
A.5 Other non current assets	—	—
Total (A)	4,299	4,178
<i>of which carried at cost</i>	4,299	4,178
<i>of which designated at fair value - level 1</i>	—	—
<i>of which designated at fair value - level 2</i>	—	—
<i>of which designated at fair value - level 3</i>	—	—
C. Liabilities associated with assets held for sale		
C.1 Debts	—	—
C.2 Securities	—	—
C.3 Other liabilities	36	381
Total (C)	36	381
<i>of which carried at cost</i>	36	381
<i>of which designated at fair value - level 1</i>	—	—
<i>of which designated at fair value - level 2</i>	—	—
<i>of which designated at fair value - level 3</i>	—	—

As at 31 December 2021 the accounts reflect non-current assets held for sale and related liabilities (pursuant to IFRS5), which refer to the disposal of the Spafid Connect business unit, whose closure is expected in the coming months and in any case before the end of the financial year. The assets being disposed of refer to goodwill (Issuer Services CGU) and software; while the liabilities refer to amounts payable to staff.

SECTION 13

Heading 130: Other assets

13.1 Other assets: composition

	31/12/21	30/6/21
1. Gold, silver and precious metals	695	695
2. Accrued income other than capitalized income from financial assets	61,671	53,946
3. Trade receivables or invoices to be issued	292,287	311,685
4. Amounts due from tax revenue authorities (not recorded under Heading 110)	232,728	151,171
5. Other items	236,524	233,037
- bills for collection	57,056	52,565
- amounts due in respect of premiums, grants, indemnities and other items in respect of lending transactions	20,702	22,586
- advance payments on deposit commissions	4,177	2,750
- other items in transit	71,124	81,920
- sundry other items ¹	83,465	73,216
Total other assets	823,905	750,534

¹ Includes accrued income.

Liabilities

SECTION 1

Heading 10: Financial liabilities at amortized cost

1.1 Financial liabilities at amortized cost: composition of due to banks

Type of transaction/Values	Total 31/12/21				Total 30/6/21			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Due to central banks	8,497,969	X	X	X	7,486,142	X	X	X
2. Due to banks	6,594,039	X	X	X	5,344,777	X	X	X
2.1 Current accounts and demand deposits	295,608	X	X	X	405,561	X	X	X
2.2 Time deposits	35,514	X	X	X	—	X	X	X
2.3 Loans	5,952,487	X	X	X	4,907,028	X	X	X
2.3.1 Repos	3,083,778	X	X	X	1,827,468	X	X	X
2.3.2 Other	2,868,709	X	X	X	3,079,560	X	X	X
2.4 Liabilities in respect of commitments to repurchase own equity instruments	—	X	X	X	—	X	X	X
2.5 Lease liabilities ¹	3,089	X	X	X	3,443	X	X	X
2.6 Other liabilities	307,341	X	X	X	28,745	X	X	X
Total	15,092,008	—	15,092,008	—	12,830,919	—	12,830,919	—

¹ This item includes obligations in respect of payment of future leasing instalments as required by IFRS 16 and Bank of Italy circular no. 262 – VI Update.

1.2 Financial liabilities at amortized cost: composition of due to customers

Type of transaction/Values	Total 31/12/21				Total 30/6/21			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Current accounts and on demand deposits	24,280,450	X	X	X	21,420,365	X	X	X
2. Time deposits	4,675,155	X	X	X	4,955,465	X	X	X
3. Loans	2,198,939	X	X	X	336,432	X	X	X
3.1 Repos	2,085,410	X	X	X	170,907	X	X	X
3.2 Other	113,529	X	X	X	165,525	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	—	X	X	X	—	X	X	X
5. Lease liabilities ¹	215,527	X	X	X	223,640	X	X	X
6. Other liabilities	150,354	X	X	X	128,887	X	X	X
Total	31,520,425	—	31,520,425	—	27,064,789	—	27,064,789	—

¹ This item includes obligations in respect of payment of future leasing instalments as required by IFRS 16 and Bank of Italy circular no. 262 – VI Update.

1.3 Financial liabilities at amortized cost: composition of debt securities in issue

Type of securities/Values	31/12/21				30/6/21			
	Book value	Fair Value *			Book value	Fair Value *		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Debts securities								
1. Bonds	18,155,716	511,621	17,810,650	—	17,778,581	759,204	17,206,553	100,115
1.1 structured	2,929,115	—	3,020,154	—	2,723,465	—	2,839,281	—
1.2 other	15,226,601	511,621	14,790,496	—	15,055,116	759,204	14,367,272	100,115
2. Other securities	1,082,638	—	1,026,497	56,141	800,726	—	755,281	45,445
2.1 structured	—	—	—	—	—	—	—	—
2.2 other	1,082,638	—	1,026,497	56,141	800,726	—	755,281	45,445
Total	19,238,354	511,621	18,837,147	56,141	18,579,307	759,204	17,961,834	145,560

* The fair values are shown net of Mediobanca issuer risk; if this item is included, the fair value at 31 December 2021 would show a gain of €100m (30/6/21: €115.4m).

Debt securities in issue increased from €17,778,581,000 to €18,155,716,000, on new issues of €1bn, against redemptions and repurchases of €0.7bn (realizing losses of €0.7m), with other upward adjustments (exchange rate adjustment, amortized cost and hedging effect) of €118.7m. The issues include the €500m senior non-preferred bond with seven-year maturity, which, together with the similar €500m issue completed in January 2020 and the €250m Tier 2 bond issued in November of the same year, contributes to the implementation of the capital optimization strategy envisaged in the 2019-23 Strategic Plan.

Bonds in issue include €1.8bn related to arbitrage leverage strategies on indices or basis derivatives (skew), mainly credit and commodities derivatives, and to a lesser extent, interest rate, inflation or equity risk arbitrage (underlying transactions). All these issues guarantee full repayment of principal at maturity and payment of interest (including a premium, or extra yield). If the investor requests early redemption, the issuer, at its discretion, may repurchase at a price reflecting the current fair value, which includes that of underlying transactions. As required by IFRS9 paragraph 4.3.3, the embedded derivative, identified by the right to include the value of the arbitrage in the repurchase price, has been separated from the bond recognized at amortized cost, and accounted for at the fair value of the underlying transactions.

1.4 Breakdown of subordinated debt securities

The heading “Debt securities in issue” includes the following five subordinated Lower Tier 2 issues, for a total amount of €1,645,321,000:

Issue	31/12/21		
	ISIN CODE	Nominal value	Book value
MB Subordinato Mar 29	XS1579416741	50,000	50,253
Mediobanca Mc Nv30 Sub Tier2 Call Eur	XS2262077675	249,150	244,757
MB OPERA 3.75 2026	IT0005188351	299,667	310,081
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	500,001	505,355
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	499,960	534,874
Total subordinated securities		1,598,778	1,645,321

1.6 Lease liabilities

Amounts due under leases are calculated by applying the criteria set forth in IFRS16.

SECTION 2

Heading 20: Trading financial liabilities

2.1 Trading financial liabilities: composition

Operation Type/Values	31/12/21					30/6/21				
	Notional value	Fair Value			Fair Value *	Notional value	Fair Value			Fair Value *
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. Cash liabilities										
1. Due to banks	1,131,861	1,180,530	—	—	1,180,530	1,476,207	1,540,833	—	—	1,540,833
2. Due to customers	2,109,316	2,262,950	—	—	2,262,950	2,362,361	2,521,458	—	—	2,521,458
3. Debt securities	—	—	—	—	—	—	—	—	—	X
3.1 Bonds	—	—	—	—	—	—	—	—	—	X
3.1.1 Structured	—	—	—	—	X	—	—	—	—	X
3.1.2 Other bonds	—	—	—	—	X	—	—	—	—	X
3.2 Other securities	—	—	—	—	—	—	—	—	—	X
3.2.1 Structured	—	—	—	—	X	—	—	—	—	X
3.2.2 Other	—	—	—	—	X	—	—	—	—	X
Total (A)	3,241,177	3,443,480	—	—	3,443,480	3,838,568	4,062,291	—	—	4,062,291
B. Derivative instruments										
1. Financial derivatives ¹		383,881	3,540,861	1,398,607			904,555	3,321,765	1,182,213	
1.1 Trading	X	383,881	3,538,814	1,398,059	X	X	904,555	3,317,662	1,181,119	X
1.2 Related to the fair value option	X	—	—	—	X	X	—	—	—	X
1.3 Other	X	—	2,047	548	X	X	—	4,103	1,094	X
2. Credits derivatives		—	570,323	789			—	592,805	—	
2.1 Trading	X	—	570,323	789	X	X	—	592,805	—	X
2.2 Related to the fair value option	X	—	—	—	X	X	—	—	—	X
2.3 Other	X	—	—	—	X	X	—	—	—	X
Total (B)	X	383,881	4,111,184	1,399,396	X	X	904,555	3,914,570	1,182,213	X
Total (A+B)	X	3,827,361	4,111,184	1,399,396	X	X	4,966,846	3,914,570	1,182,213	X

* Fair value calculated excluding variations in value due to changes in the issuer's credit standing.

¹ Including €1,124,377,000 (30/6/21: €992,861,000) for options traded, matching the amount booked as financial assets held for trading.

SECTION 3

Heading 30: Financial liabilities designated at fair value

3.1 Financial liabilities designated at fair value: composition

Operation Type/Values	31/12/21					30/6/21				
	Nominal value	Fair value			Fair Value *	Nominal value	Fair value			Fair Value *
		Level1	Level2	Level3			Level1	Level2	Level3	
1. Due to banks	—	—	—	—	—	—	—	—	—	—
1.1 Structured	—	—	—	—	X	—	—	—	—	X
1.2 Others	—	—	—	—	X	—	—	—	—	X
<i>of which:</i>										
- commitments to disburse funds	—	X	X	X	X	X	X	X	X	X
- financial guarantees given	—	X	X	X	X	X	X	X	X	X
2. Due to customers	—	—	—	—	—	—	—	—	—	—
2.1 Structured	—	—	—	—	X	—	—	—	—	X
2.2 Others	—	—	—	—	X	—	—	—	—	X
<i>of which:</i>					—					—
- commitments to disburse funds	—	X	X	X	X	X	X	X	X	X
- financial guarantees given	—	X	X	X	X	X	X	X	X	X
3. Debt securities	757,983	—	779,544	—	779,544	800,087	—	835,500	—	833,048
3.1 Structured	757,983	—	779,544	—	X	800,087	—	835,500	—	X
3.2 Others	—	—	—	—	X	—	—	—	—	X
Total	757,983	—	779,544	—	779,544	800,087	—	835,500	—	833,048

* Fair value calculated excluding variations in value due to changes in the issuer's credit standing.

The Heading mainly includes certificates (€747.8m), one of which material (€613.6m), matched by specific financial assets (Heading 20 – Financial assets recognized at fair value).

SECTION 4

Heading 40: Hedging derivatives

4.1 Hedging derivatives: by hedge type and level

	31/12/21				30/6/21			
	Fair value			Nominal value	Fair value			Nominal value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	—	435,814	—	47,616,643	—	375,413	—	38,032,581
1) Fair value	—	433,260	—	47,596,643	—	361,882	—	29,174,781
2) Cash flows	—	2,554	—	20,000	—	13,531	—	8,857,800
3) Foreign investments	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flows	—	—	—	—	—	—	—	—
Total	—	435,814	—	47,616,643	—	375,413	—	38,032,581

4.2 Hedging derivatives: by portfolio hedged and hedge type

Transactions/Type of hedge	Fair Value						Generic	Cash flow		Foreign invest
	Specific							Specific	Generic	
	debt securities and interest rates	equities and equity index	currencies and gold	credit	commodities	others				
1. Financial assets valued at fair value with impact taken to comprehensive income	4,428	—	—	—	X	X	X	—	X	X
2. Financial assets valued at amortized cost	289,359	X	—	—	X	X	X	—	X	X
3. Portfolio	X	X	X	X	X	X	—	X	—	X
4. Other operations	—	—	—	—	—	—	X	—	X	—
Total assets	293,787	—	—	—	—	—	—	—	—	—
1. Financial liabilities	139,473	X	—	—	—	—	X	2,554	X	X
2. Portfolio	X	X	X	X	X	X	—	X	—	X
Total liabilities	139,473	—	—	—	—	—	—	2,554	—	—
1. Expected transactions	X	X	X	X	X	X	X	—	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	—	X	—	—

SECTION 6

Heading 60: Tax liabilities

Please see asset section 11.

SECTION 7

Heading 70: Liabilities associated to disposal group of assets

Please see asset section 12.

SECTION 8

Heading 80: Other liabilities

8.1 Other liabilities: composition

	31/12/21	30/6/21
1. Working capital payables and invoices pending receipt	289,868	315,001
2. Amounts due to revenue authorities	77,953	70,604
3. Amounts due to staff	213,060	247,104
4. Other items:	241,601	265,326
- bills for collection	24,648	25,684
- coupons and dividends pending collection	4,547	2,454
- available sums payable to third parties	85,712	92,213
- premiums, grants and other items in respect of lending transactions	18,220	21,192
- other ¹	108,474	123,783
Total	822,482	898,035

¹ Includes the liability in respect of the put-and-call agreements entered for Cairn Capital, RAM AI and MA.

SECTION 9

Heading 90: Staff severance indemnity provision

9.1 Staff severance indemnity provision: changes during the period

	Total 31/12/21	Total 30/6/21
A. Opening balance	26,886	27,862
B. Increases	5,460	8,624
B.1 Provision of the year	3,831	7,013
B.2 Other increases	1,629	1,611
- of which business aggregation operations	—	—
C. Reductions	6,748	9,600
C.1 Severance payments	2,330	2,008
C.2 Other decreases ¹	4,418	7,592
- of which business aggregation operations	—	—
D. Closing balance	25,598	26,886
Total	25,598	26,886

¹ Includes €2,493,000 in transfers to external, defined contribution pension schemes (30/6/21: €4,382,000).

The staff severance indemnity provision is for those of the Group companies headquartered in Italy. For a detailed description of the accounting standards used, please see Part A – Accounting Policies.

9.2 Other information

The staff severance indemnity provision is a defined benefit scheme, and the actuarial model used to account for it relies on a series of assumptions, both demographic and economic in nature.

For some of the assumptions used, reference has been made directly to the Group's own experience (e.g. estimates of disability incidence, frequency of early retirement, annual increase in rate of remuneration, frequency with which advance withdrawals from the provision are requested, etc.), while for the others, account has been taken of the relevant best practice (e.g. the mortality rate has been determined using the IPS55 life tables, whereas the retirement age has been determined taking into account the most recent legislation in this area); for the discount rate, the iBoxx Eurozone Corporate AA index at the end of December 2021 has been used for similar companies to those being valued (equal to 0.40%, compared with 0.26% in June 2021), while the inflation rate equal 1.80%.

SECTION 10

Heading 100: Provisions

10.1 Provisions: composition

Items/Components	31/12/21	30/6/21
1. Funds for credit risk related to commitments to disburse funds and financial guarantees given	24,259	26,858
2. Funds on other commitments to disburse funds and guarantees given	357	297
3. Provisions to retirement payments and similar ¹	1,534	1,410
4. Other provisions	111,719	115,644
4.1 legal and fiscal controversies	—	—
4.2 staff expenses	4,175	2,658
4.3 others	107,544	112,986
Total	137,869	144,209

¹These regard the Swiss company RAM AI, in line with Swiss regulations.

IAS37 requires provisions to be set aside in cases where there is an obligation, whether actual, legal or implicit, the amount of which may be reliably determined and the resolution of which is likely to entail a cash outflow for the company. The amount of the provision is determined from the management's best estimate, based on experience of similar operations or the opinion of independent experts. The provisions are revised on a regular basis in order to reflect the best current estimate.

At 31 December 2021, the heading “Other provisions” totalled €137.9m, down slightly from the €144.2m reported at 30 June 2021. The balance includes €24.3m (30/6/21: €26.8m) in commitments to disburse funds and financial guarantees issued, €1.5m (€1.4m) in post-retirement provisions (referring exclusively to Swiss Group legal entity RAM AI), and “Other provisions” of €111.7m (€115.6m) for litigation and other contingent liabilities, including staff-related expenses. This latter total of “Other provisions” is made up primarily as follows: Mediobanca (€68.8m), Compass (€16.8m), CheBanca! (€14.4m) SelmaBipiemme (€5.1m), and CMB (€2.2m).

With respect to the litigation pending against the Mediobanca Group, the main developments since the update provided in the financial statements for the year ended 31 December 2021 are as follows:

- With regard to the proceedings brought by Fondazione Monte dei Paschi di Siena (“FMPS”) against the former directors of FMPS and Mediobanca,

jointly with thirteen other banks, involving a total of €286m by way of non-contractual liability for the alleged damages caused by execution of the Term Facility Agreement on 4 June 2011 with the consequent breach of FMPS's Articles of Association (20% limit on debt/equity ratio), on 20 December 2021, FMPS and the pool of banks executed an agreement which was finally settled in January 2022, for an amount significantly lower than the original claim;

- With regard to the effects of the “Lexitor” ruling, Italian Law No. 106/2021 revised the wording of Article 125-sexies of the Italian Banking Act, clarifying the effects of the Lexitor ruling: the refund of upfront fees will only apply to contracts executed subsequent to the issue of the ruling, a stance which was subsequently confirmed by the Bank of Italy in a communication issued in December 2021. However, on 2 November 2021, the Court of Turin raised a point of constitutional legitimacy regarding the amendment to Article 125-sexies of the Italian Banking Act, placing the regulatory situation in considerable uncertainty. For this reason, until the Constitutional Court of Italy has ruled on this matter, it has been decided to leave the provision currently set aside for Compass unchanged at €12m.

Regarding the disputes outstanding with the Italian revenue authorities, with reference to the alleged non-application of transparency tax required by the regulations on Controlled Foreign Companies (CFC) to the income produced by CMB Monaco and Compagnie Monégasque de Gestion in the 2013, 2014 and 2015 financial years (involving a total amount in tax of €53.8m plus interest and fines), Mediobanca has been successful at the first hearing of the three disputes, and the ruling from the second hearing (held on 1 December 2021) for the first tax year (2013) is currently pending.

Regarding Mediobanca's alleged failure to apply withholding tax on interest payable as part of a secured financing transaction, two disputes for the years 2014 and 2015 are outstanding (involving tax of €4.2m, plus interest and fines). The first hearing for the case involving the year 2014 was held on 1 February 2022.

In addition to the above, there were two other disputes outstanding at 31 December 2021, regarding the alleged failure to pay interest accrued on VAT credit claimed by SelmaBipiemme for several tax years (for a total amount of €9.4m in interest). For the 2005 tax year, following the favourable ruling of 14 June 2021 when the Lombardy Region Tax and Customs Tribunal upheld

SelmaBipiemme's appeal and ordered the revenue authority repay the interest for 2005 (equal to €6.8m), the authority has given notice that it has chosen not to appeal to the Court of Cassation and will refund the amount accordingly.

Other than the above, there have been no significant changes in the Group's other tax disputes with the Italian revenue authority from the situation as described in the financial statements for the year ended 30 June 2021.

The provision for risks and charges is considered to be adequate to cover any expenses to which Mediobanca may become liable as a result of any charges brought against them (no other significant litigation is currently pending).

10.2 Provisions: changes during the period

	Funds on other commitments to disburse funds and guarantees given	Provision to retirement payments and similar	Other provisions: staff expenses	Other provisions: others	Total
A. Opening balances	297	1,410	2,658	112,986	117,351
B. Increases	60	124	2,001	14,607	16,792
B.1 Provision for the year	60	—	1,701	14,607	16,368
B.2 Changes due to the passage of time	—	—	—	—	—
B.3 Differences due to discount rate changes	—	—	—	—	—
B.4 Other increases	—	124	300	—	424
- of which business aggregation operations	—	—	—	—	—
C. Decreases	—	—	484	20,049	20,533
C.1 Use during the year	—	—	334	20,049	20,383
C.2 Differences due to discount rate changes	—	—	—	—	—
C.3 Other decreases	—	—	150	—	150
- of which business aggregation operations	—	—	—	—	—
D. Closing balance	357	1,534	4,175	107,544	113,610

10.3 Provisions for credit risk related to commitments and financial guarantees given

	Provisions for credit risk related to commitments and financial guarantees given				Total
	Stage 1	Stage 2	Stage 2	Purchased or originated impaired	
1. Obligation to distribute funds	19,845	2,619	135	—	22,599
2. Financial warranties release	954	706	—	—	1,660
Total	20,799	3,325	135	—	24,259

10.5 Defined benefit company retirement pension schemes

This refers to the defined benefit company retirement pension scheme operated by Caisse Bâloise on behalf of RAM AI staff as required by Swiss law. The provision is subject to actuarial quantification by an independent actuary using the Projected Unit Credit Method¹. The current value of the liability as at the reporting date has also been adjusted to reflect the fair value of any assets used in connection with the scheme, resulting in a liability of €1.5m (CHF 1.6m), virtually unchanged in respect of to the figure recorded as at 30 June 2021 (€1.4m, equal to CHF 1.5m).

IAS19 Net obligation	31/12/21	30/6/21
	<i>CHF/1000</i>	<i>CHF/1000</i>
Present value of defined benefit obligation	(10,190)	(10,800)
Present value of assets servicing the fund	8,607	9,252
Surplus/(deficit)	(1,584)	(1,548)
IFRIC14 adjustment	–	–
Net accounting (liability)/asset	(1,584)	(1,548)

¹ This method involves future outflows being projected on the basis of historical statistical analysis and the demographic curve, and then being discounted based on market interest rates.

SECTION 11

Heading 110: Technical reserves

11.1 Technical reserves: composition

	Direct labour	Indirect labour	31/12/21	30/6/21
A. Non-life insurance	—	124,114	124,114	131,350
A.1 Premium reserves	—	112,833	112,833	120,397
A.2 Accident reserves	—	11,281	11,281	10,953
A.3 Other reserves	—	—	—	—
B. Life insurance	—	—	—	—
B.1 Mathematical reserves	—	—	—	—
B.2 Reserves for sums to pay	—	—	—	—
B.3 Other reserves	—	—	—	—
C. Technical reserves when investment risk is supported by insureds	—	—	—	—
C.1 Reserves related to contract which performance are connected to investment funds and market index	—	—	—	—
C.2 Reserves originated by retirement funds management	—	—	—	—
D. Total technical reserves	—	124,114	124,114	131,350

11.2 Technical reserves: changes during the period

	31/12/21	30/6/21
A. Non-life business		
Opening balance	131,350	157,244
Combinations involving group companies	—	—
Changes to reserves (+/-)	(7,236)	(25,894)
Other additions	—	—
Closing balance	124,114	131,350
B. Life business and other reserves		
Opening balance	—	—
Combinations involving group companies	—	—
Changes due to premiums	—	—
Changes due to sums to be paid out	—	—
Changes due to payments	—	—
Changes due to incomes and other bonuses recognized to insured parties (+/-)	—	—
Changes to other technical reserves (+/-)	—	—
Other additions	—	—
Closing balance	—	—
C. Total technical reserves	124,114	131,350

SECTION 13

Heading 120, 130, 140, 150, 160, 170 and 180: Net equity

13.1 “Capital” and “treasury shares”: composition

For the composition of the Group’s capital, please see part F of the notes to the accounts.

13.2 Share capital: changes in no. of parent company shares in issue during the period

Items/Type	Ordinary
A. Shares in issue at the start of the period	887,280,013
- entirely unrestricted	887,280,013
- with restrictions	—
A.1 Treasury shares (-)	(24,910,107)
A.2 Shares outstanding: opening balance	862,369,906
B. Additions	2,302,838
B.1 New shares issuance as a result of:	—
- against payment:	—
- bonds conversions	—
- exercise of warrants	—
- others	—
- free	—
- to employees	—
- to directors	—
- others	—
B.2 Treasury shares' disposal	2,302,838
B.3 Other additions	—
C. Reductions	(2,840,891)
C.1 Cancellations	—
C.2 Treasury shares' buybacks	(2,840,891)
C.3 Disposal of business	—
C.4 Other reductions	—
D. Shares outstanding: closing balance	861,831,853
D.1 Treasury shares (+)	(2,866,699)
D.2 Shares in issue at the end of the period	864,698,552
- entirely unrestricted	864,698,552
- with restrictions	—

In December 2021, a total of 22,581,461 shares were cancelled and the new share buyback scheme launched, with 2,840,891 shares already repurchased. As at 31 December 2021, the number of treasury shares owned by the Bank thus totalled 2,866,699, worth a total of €28.5m.

13.4 Profit reserves: other information

Item	31/12/21	30/6/21
Legal reserve	88,728	88,724
Statutory reserve	1,049,815	1,068,913
Treasury shares	28,520	216,736
Others	5,722,949	5,477,129
Total	6,890,012	6,851,502

The treasury shares' changes during the six months under review is reported hereafter

Treasury shares at the start of the period	216,736
Increases:	28,296
- Issuances	—
- Treasury shares' buyback	28,296
- Other increases	—
Decreases:	216,512
- Cancellation	196,476
- Treasury shares' disposal	20,036
- Other decreases	—
Treasury shares at the end of the period	28,520

SECTION 14

Heading 190: Minority interests

14.1 Heading 190 "Minority interests": composition

Company name	31/12/21	30/6/21
1. SelmaBipiemme S.p.A.	87,676	87,339
2. RAM Active Investments S.A.	967	957
3. Cairn Capital	9,754	—
4. Other minors	17	16
Total	98,414	88,312

Other information

1. Commitments and financial guarantees given

	Nominal value on financial release obligations and guarantees				Total 31/12/21	Total 30/6/21
	Stage 1	Stage 2	Stage 3	Purchased or originated impaired		
1. Commitment to supply funds	11,678,508	196,145	1,420	—	11,876,073	14,238,796
a) Central Banks	—	—	—	—	—	—
b) General governments	774,077	—	—	—	774,077	3,191,105
c) Banks	3,758	—	—	—	3,758	9,783
d) Other financial companies	1,247,495	81,185	—	—	1,328,680	1,700,090
e) Non-financial companies	7,218,448	84,604	798	—	7,303,850	6,999,647
f) Households	2,434,730	30,356	622	—	2,465,708	2,338,171
2. Financial guarantees issued	782,469	12,995	—	—	795,464	576,794
a) Central Banks	—	—	—	—	—	—
b) General governments	—	—	—	—	—	—
c) Banks	53,802	—	—	—	53,802	35,323
d) Other financial companies	21,397	—	—	—	21,397	59,843
e) Non-financial companies	678,466	12,995	—	—	691,461	457,660
f) Households	28,804	—	—	—	28,804	23,968

2. Other commitments and guarantees given

	Nominal value 31/12/21	Nominal value 30/6/21
1. Other guarantees given	166,403	151,463
<i>of which: impaired credit exposures</i>	—	—
a) Central Banks	—	—
b) General governments	—	—
c) Banks	335	5
d) Other financial corporations	65,198	72,736
e) Non financial corporations	15,236	10,071
f) Households	85,634	68,651
2. Other commitments	102,318	121,742
<i>of which: impaired credit exposures</i>	—	—
a) Central Banks	—	—
b) General governments	—	—
c) Banks	81,700	101,203
d) Other financial corporations	—	—
e) Non financial corporations	20,618	20,539
f) Households	—	—

5. Assets managed and traded on behalf of customers

Type of service	Amount 31/12/21	Amount 30/6/21
1. Order execution on behalf of client		
a) purchases	17,597,719	31,696,192
1. settled	17,560,778	31,429,708
2. unsettled	36,941	266,484
b) sales	12,314,855	27,727,426
1. settled	12,277,914	27,460,942
2. unsettled	36,941	266,484
2. Portfolios management		
a) individuals	7,289,054	14,013,055
b) collectives	17,169,288	14,623,673
3. Custody and administration of securities		
a) Third-party securities on deposits: related to depositary banks activities (excluding portfolio management)	10,424,780	10,920,424
1. Securities issued by companies included in the area of consolidation	53,770	146,146
2. Other securities	10,371,010	10,774,278
b) Third-party securities held in deposits (excluding portfolio management): other	19,896,220	17,393,103
1. Securities issued by companies included in the area of consolidation	30,000	30,000
2. Other securities	19,866,220	17,363,103
c) Third-party securities deposited to third	17,579,322	25,225,505
d) Own securities deposited to third	10,427,828	9,633,112
4. Other operations	13,912,645	15,119,770

Part C - Notes to the consolidated profit and loss account

SECTION 1

Heading 10 and 20: Net interest income

1.1 Interest and similar income: breakdown

Items/Technical forms	Debt securities	Loans	Other operations	Total 6 mths ended 31/12/21	Total 6 mths ended 31/12/20
1. Financial assets valued to fv with impact taken to Profit and Loss:	14,313	10,858	—	25,171	27,509
1.1 Financial assets held for trading	13,593	466	—	14,059	16,132
1.2 Financial assets designated at fair value	617	10,341	—	10,958	10,367
1.3 Other financial assets mandatorily measured at fair value	103	51	—	154	1,010
2. Financial assets recognized at fair value with impact taken to other comprehensive income	17,963	—	X	17,963	18,185
3. Financial assets at amortized cost:	23,283	784,020	X	807,303	836,486
3.1 Due from banks	5,385	628	X	6,013	17,026
3.2 Due from customers	17,898	783,392	X	801,290	819,460
4. Hedging derivatives ¹	X	X	36,912	36,912	22,153
5. Other assets	X	X	285	285	10
6. Financial liabilities ²	X	X	X	27,107	25,284
Total	55,559	794,878	37,197	914,741	929,627
<i>of which: interest income on impaired assets</i>	—	38,506	—	38,506	49,718
<i>of which: interest income on finance lease</i>	X	20,624	X	20,624	21,811

¹ Mostly hedges of funding.

² Item no. "6. Financial liabilities" includes interest expense accrued as the result of the negative interest rates, €26.6m of which in connection with the T-ITRO, including the approx. €6.2m additional premium booked pro rata for the six months ended 31 December 2021.

1.3 Interest expenses and similar charges: breakdown

Items/Technical forms	Debts	Securities	Other operations	Total 6 mths ended 31/12/21	Total 6 mths ended 31/12/20
1. Financial liabilities recognized at amortized cost	(25,962)	(133,995)	X	(159,957)	(195,226)
1.1 Due to central banks	(29)	X	X	(29)	(19)
1.2 Due to banks	(2,983)	X	X	(2,983)	(7,370)
1.3 Due to customers	(22,950)	X	X	(22,950)	(30,724)
1.4 Securities in issue	X	(133,995)	X	(133,995)	(157,113)
2. Financial trading liabilities	—	—	—	—	—
3. Financial liabilities designated at fair value	—	(10,954)	—	(10,954)	(11,644)
4. Other liabilities and funds	X	X	(255)	(255)	(1,132)
5. Hedging derivatives	X	X	—	—	—
6. Financial assets ¹	X	X	X	(6,199)	(2,653)
Total	(25,962)	(144,949)	(255)	(177,365)	(210,655)
<i>of which: interest expenses related to lease liabilities</i>	<i>(1,083)</i>	<i>X</i>	<i>X</i>	<i>(1,083)</i>	<i>(1,260)</i>

¹ Item no. "6. Financial liabilities" includes interest expense accrued as the result of the negative interest rates

SECTION 2

Heading 40 and 50: Net fee and commission income

2.1 Fee and commission income: breakdown *

Type of service/Values	Total 6 mths ended 31/12/21	Total 6 mths ended 31/12/20
a) Financial Instruments	139,199	121,649
1. Securities	45,597	8,158
1.1 Under firm assumption and/or on the basis of an irrevocable commitment	—	—
1.2 Without firm commitment	45,597	8,158
2. Receipt and transfer orders and execution for customers	10,016	11,485
2.1 Receipt and transfer orders for one or more financial instruments	10,016	11,485
2.2 Execution of orders on behalf of customers	—	—
3. Other fee and commission income in relation to securities	83,586	102,006
<i>of which: trading on own account</i>	51,618	80,022
<i>of which: management of individual portfolios</i>	31,968	21,984
b) Corporate Finance	101,460	73,229
1. M&A advisory	101,460	73,229
2. Treasury services	—	—
3. Other fee and commission income in relation to corporate finance activities	—	—
c) Investment advisory activities	2,842	147
d) Clearing and settlement	—	—
e) Collective investment management	47,951	36,251
f) Custody and administration	11,367	9,361
1. Custodian bank	—	—
2. Other fee and commission income in relation to custody services	11,367	9,361
g) Central administrative services for collective portfolio management	—	—
h) Fiduciary transactions	2,809	3,892
i) Payment services	18,471	15,621
1. Current account	6,087	5,566
2. Credit cards	7,409	5,939
3. Debit cards and other card payments	3,462	2,745
4. Transfers and other payment orders	227	181
5. Other fee and commission income in relation to payment services	1,286	1,190
j) Customer resources distributed but not managed	49,783	45,939
1. Collective portfolio management	2,001	826
2. Insurance products	40,248	38,105
3. Other products	7,534	7,008
<i>of which: individual portfolio management</i>	7,534	7,008
k) Structured Finance	—	—
l) Loan servicing activities	228	179
m) Commitments to disburse funds	40,151	42,931
n) Financial guarantees issued	3,207	2,749
<i>of which: credit derivatives</i>	—	—
o) Loans granted	7,116	6,005
<i>of which: factoring transactions</i>	5,881	4,738
p) Foreign exchange	44	29
q) Commodities	—	—
r) Other commission income	14,694	15,954
<i>of which: for management activities of multilateral trading systems</i>	—	—
<i>of which: for management activities of organized trading systems</i>	—	—
Total	439,592	373,936

* Values as at 31 December 2020 have been restated in order to be compliant to Bank of Italy circular no. 262/05, seventh update

The figures as at 31 December 2021 include €8m former Bybrook commissions contribute to Cairn's revenues.

2.2 Fee and commission expenses: breakdown *

Services/Amounts	Total	
	6 mths ended 31/12/21	6 mths ended 31/12/20
a) Securities	(5,625)	(4,935)
<i>of which: trading of financial instruments</i>	(4,051)	(4,891)
<i>of which: placement of financial instruments</i>	(1,574)	(44)
<i>of which: management of individual portfolios</i>	—	—
- Own	—	—
- Delegated to third parties	—	—
b) Clearing and settlement	—	—
c) Management of collective portfolios	(4,464)	(4,262)
1. Own	—	—
2. Delegated to third parties	(4,464)	(4,262)
d) Custody and administration	(1,955)	(1,702)
e) Payment and collection services	(7,330)	(6,644)
<i>of which: credit cards, debit cards and other payment cards</i>	(3,501)	(3,855)
f) Loan servicing activities	—	—
g) Commitments to receive funds	—	(11)
h) Financial guarantees received	(70)	(47)
<i>of which: credit derivatives</i>	—	—
i) Off-site offering of financial instruments, products and services	(8,974)	(7,626)
j) Foreign exchange	—	—
k) Other commission expenses	(51,306)	(40,958)
Total	(79,724)	(66,185)

* Values as at 31 December 2020 have been restated in order to be compliant to Bank of Italy circular no. 262/05, seventh update

SECTION 3

Heading 70: Dividends and similar income

3.1 Dividends and similar income: breakdown

Items/Income	6 mths ended 2021/2022		6 mths ended 2020/2021	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	28,004	3	22,745	198
B. Other financial assets mandatorily measured at fair value	—	15,706	—	13,517
C. Financial assets measured at fair value through other comprehensive income	223	—	912	—
D. Equity investments	—	—	2,213 ¹	—
Total	28,227	15,709	25,870	13,715

¹ This figure refers entirely to the one-off gain in connection with repayment of the convertible loan (granted to Burgo Group), as provided for contractually in the 2015 restructuring agreement.

SECTION 4

Heading 80: Net trading income

4.1 Net trading income: breakdown

Transactions/ Income	Capital gain (A)	Trading income (B)	Capital loss (C)	Trading loss (D) [(A+B) - (C+D)]	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	180,527	241,828	(145,708)	(206,260)	70,387
1.1 Debt securities	38,419	66,613	(28,703)	(21,718)	54,611
1.2 Equity	142,024	174,104	(116,961)	(184,021)	15,146
1.3 UCIFs	84	1,111	(11)	(521)	663
1.4 Loans	—	—	(33)	—	(33)
1.5 Others	—	—	—	—	—
2. Financial liabilities held for trading	—	—	—	—	—
2.1 Debt securities	—	—	—	—	—
2.2 Deposits	—	—	—	—	—
2.3 Other	—	—	—	—	—
3. Financial assets and liabilities: exchange rates differences ¹	X	X	X	X	(685)
4. Derivatives instruments	2,019,392	1,054,640	(2,065,262)	(1,070,813)	(71,523)
4.1 Financial derivatives	1,721,211	848,413	(1,771,778)	(869,704)	(81,338)
- on debt securities and interest rates ²	524,598	223,702	(507,190)	(264,315)	(23,205)
- on equity securities and shares indexes	1,176,779	624,711	(1,247,019)	(605,389)	(50,918)
- on currencies and gold	X	X	X	X	(9,480)
- other	19,834	—	(17,569)	—	2,265
4.2 Credit derivatives	298,181	206,227	(293,484)	(201,109)	9,815
of which: natural hedges related to the fair value option	X	X	X	X	—
Total	2,199,919	1,296,468	(2,210,970)	(1,277,073)	(1,821)

¹ This item contains valuations for banking book positions based at current exchange rates totalling €24,318,000.

² Of which €663,000 in negative margins on interest rate derivatives (31/12/20: plus €2,601,000).

SECTION 5

Heading 90: Net heading income (expense)

5.1 Net hedging income (expense): breakdown

Income elements/Amounts	6 mths ended 31/12/21	6 mths ended 31/12/20
A. Income from:		
A.1 Fair value hedging instruments	135,045	42,423
A.2 Hedged asset items (fair value)	82,227	50,190
A.3 Hedged liability items (fair value)	250,910	51,573
A.4 Cash-flows hedging derivatives	6	8
A.5 Assets and liabilities denominated in currency	—	—
Total gains on hedging activities (A)	468,188	144,194
B. Losses on:		
B.1 Fair value hedging instruments	(284,010)	(69,257)
B.2 Hedged asset items (fair value)	(165,241)	(43,130)
B.3 Hedged liability items (fair value)	(20,388)	(30,447)
B.4 Cash-flows hedging derivatives	(5)	—
B.5 Assets and liabilities denominated in currency	—	—
Total losses on hedging activities (B)	(469,644)	(142,834)
C. Net profit from hedging activities (A-B)	(1,456)	1,360
<i>of which: result of hedges on net exposures</i>	—	—

SECTION 6

Heading 100: Gain (loss) on disposals/repurchases

6.1 Gain (loss) on disposal/repurchase: breakdown

Items / Income	6 mths ended 31/12/21			6 mths ended 31/12/20		
	Gains	Losses	Net profit	Gains	Losses	Net profit
A. Financial assets						
1. Financial assets at amortized cost	22,344	(765)	21,579	6,404	(10,014)	(3,610)
1.1 Due from banks	6,155	(198)	5,957	—	(7,808)	(7,808)
1.2 Due from customers	16,189	(567)	15,622	6,404	(2,206)	4,198
2. Financial assets at fair value with impact taken to comprehensive income	30,826	—	30,826	23,000	(31,580)	(8,580)
2.1 Debt securities	30,826	—	30,826	23,000	(31,580)	(8,580)
2.2 Finanziamenti	—	—	—	—	—	—
Total Assets (A)	53,170	(765)	52,405	29,404	(41,594)	(12,190)
B. Financial liabilities valud at amortized cost						
1. Due to banks	—	—	—	139	—	139
2. Due to customers	—	—	—	—	—	—
3. Debt securities in issue	337	(973)	(636)	2,958	(3,237)	(279)
Total liabilities (B)	337	(973)	(636)	3,097	(3,237)	(140)

Gains on financial assets recognized at amortized cost and those recognized at fair value through other comprehensive income are €7.2m and €17.2m respectively.

SECTION 7

Heading 110: Net result of other financial assets and liabilities valued at fair value with impact taken to profit and loss

7.1 Net variation in the value of other financial assets and liabilities valued at fair value with impact taken to profit and loss: composition of financial assets and liabilities designated at fair value

Operation/Income item	Gains (A)	Proceeds from disposal (B)	Losses (C)	Minus from disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	—	—	(4,951)	(688)	(5,639)
1.1 Debt securities	—	—	—	(688)	(688)
1.2 Loans	—	—	(4,951)	—	(4,951)
2. Financial liabilities	5,823	3,246	(1,203)	—	7,866
2.1 Debt securities in issue	5,823	3,246	(1,203)	—	7,866
2.2 Due to banks	—	—	—	—	—
2.3 Due to customers	—	—	—	—	—
3. Foreign-currency denominated financial assets and liabilities: exchange rate differences	X	X	X	X	—
Total	5,823	3,246	(6,154)	(688)	2,227

7.2 Net variation in the value of other financial assets and liabilities valued at fair value with impact taken to profit and loss: composition of other financial assets mandatorily valued at fair value

Operation/Income item	Gains (A)	Proceeds from disposal (B)	Losses (C)	Minus from sale (D)	Net result [(A+B) - (C+D)]
1. Financial assets	14,413	50	(10,919)	(26)	3,518
1.1 Debt securities	—	—	(651)	—	(651)
1.2 Equity securities	70	—	—	—	70
1.3 UCITS	14,299	50	(10,242)	(26)	4,081
1.4 Loans	44	—	(26)	—	18
2. Financial assets: exchange rate differences	X	X	X	X	631
Total	14,413	50	(10,919)	(26)	4,149

SECTION 8

Heading 130: Net value adjustments for credit risk

8.1 Net value adjustments for credit risk related to financial assets valued at amortized cost: breakdown

Transactions/ Income	Writedowns (1)						Writebacks (2)				Total 6 mths ended 31/12/21	Total 6 mths ended 31/12/20
	Stage 1	Stage 2	Stage 3		Purchased or originated impaired		Stage 1	Stage 2	Stage 3	Purchased or originated impaired		
			Write-off	Others	Write-off	Others						
A. Due from banks	(495)	—	—	—	—	—	1,207	—	—	—	712	(1,939)
- Loans	(431)	—	—	—	—	—	1,099	—	—	—	668	(1,553)
- Debt receivables	(64)	—	—	—	—	—	108	—	—	—	44	(386)
B. Due from customers	(110,193)	(156,968)	(1,565)	(159,030)	(51,201)	(15,136)	152,493	89,908	74,140	43,772	(133,780)	(165,046)
- Loans	(108,352)	(156,422)	(1,565)	(159,030)	(51,201)	(15,136)	151,094	89,908	74,140	43,772	(132,792)	(163,946)
- Debt receivables	(1,841)	(546)	—	—	—	—	1,399	—	—	—	(988)	(1,100)
Total	(110,688)	(156,968)	(1,565)	(159,030)	(51,201)	(15,136)	153,700	89,908	74,140	43,772	(133,068)	(166,985)

8.1a Net value adjustments for credit risk on financial assets recognized at amortized cost subject to Covid-related support measures: composition

Operation / P&L item	Net Adjustments						Total 6 mths ended 31/12/21	Total 31/12/20
	Stage 1	Stage 2	Stage 3		Purchased or originated impaired			
			Write-off	Others	Write-off	Others		
1. Loans and advances subject to EBA-compliant moratoria	—	(156)	—	(58)	—	—	(214)	(5,548)
2. Loans subject to moratoria measures in place no longer compliant with GL and not assessed as forbearance measures**	—	—	—	(1)	—	—	(1)	(102)
3. Other loans and advances subject to COVID-19-related forbearance measures	—	(712)	—	(332)	—	—	(1,044)	(1,289)
4. Newly originated loans	(429)	—	—	(29)	—	—	(458)	(1,029)
Total 31/12/21	(429)	(868)	—	(420)	—	—	(1,717)	(7,968)
Total 30/6/21	(941)	(8,355)	—	(7,185)	—	—	(16,481)	—

* The row headed Loans and advances subject to EBA-compliant moratoria shows the information relating to financial assets subject to moratoria that fall within the scope of application of the "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID 19 crisis", published by the EBA (EBA/GL/2020/02), as amended.

** The row headed "Loans subject to moratoria measures in place no longer compliant with GL and not assessed as forbearance measures" shows information on financial assets for which moratoria have been granted, and which are outstanding at the reporting date, which were assessed as conforming to EBA/GL/2020/02 on the date when the measure was granted but which, at the reporting date, were found to no longer be compliant. These loans not been classified by the Bank as "exposures subject to forbearance measures" as a result of the assessment carried out when the event that generated the non-compliance with EBA/GL/2020/02 occurred.

8.2 Net writeoffs for credit risk related to financial assets valued at fair value with impact taken to comprehensive income: breakdown

Transactions/ Income	Writedowns (1)						Writebacks (2)				Total 6 mths ended 31/12/21	Total 6 mths ended 31/12/20
	Stage 1	Stage 2	Third stage		Purchased or originated impaired		Stage 1	Stage 2	Stage 3	Purchased or originated impaired		
			Write-off	Others	Write-off	Others						
A. Debt Securities	(526)	(238)	—	—	—	—	—	—	—	—	(764)	(5,944)
B. Loans	—	—	—	—	—	—	—	—	—	—	—	—
- To customers	—	—	—	—	—	—	—	—	—	—	—	—
- To banks	—	—	—	—	—	—	—	—	—	—	—	—
Total	(526)	(238)	—	—	—	—	—	—	—	—	(764)	(5,944)

SECTION 9

Heading 140: Gains (losses) from contractual modifications without derecognition

9.1 Gains (losses) from contractual modifications: breakdown

This heading, which reflects a gain of €79,000, includes the impact of modifications to contracts for financial assets which, as they do not constitute substantial modifications, under IFRS9 and the Group's own accounting policies, do not entail derecognition of the assets but require the modifications to the cash flows provided for contractually to be taken through the profit and loss account.

SECTION 10

Heading 160: Net premium income

10.1 Net premiums: breakdown

Net premiums: breakdown	Direct labour	Indirect labour	6 mths ended 31/12/21	6 mths ended 31/12/20
A. Life business				
A.1 Gross premiums accounted (+)	—	—	—	—
A.2 Outward reinsurance premiums (-)	—	X	—	—
A.3 Total	—	—	—	—
B. Non-life business				
B.1 Gross premiums accounted (+)	—	15,694	15,694	11,001
B.2 Outward reinsurance premiums (-)	—	X	—	—
B.3 Change in gross value of premium reserve (+/-)	—	7,563	7,563	15,251
B.4 Change in premium reserve for premiums ceded to reinsures (+/-)	—	—	—	—
B.5 Total	—	23,257	23,257	26,252
C. Total net premiums	—	23,257	23,257	26,252

SECTION 11

Heading 170: Other incomes (net) from insurance activities

11.1 Other incomes (net) from insurance activities: breakdown

Items	6 mths ended 31/12/21	6 mths ended 31/12/20
1. Net change in technical reserves	—	—
2. Claims paid out during the year	(5,209)	(4,616)
3. Other income and expense from insurance	(2,115)	(2,398)
Total	(7,324)	(7,014)

11.3 Breakdown of sub-heading “Claims paid out during the year”

Changes for claims	6 mths ended 31/12/21	6 mths ended 31/12/20
Life-business: expense related to claims, net of reinsurance ceded		
A. Amounts paid out	—	—
A.1 Gross annual amount	—	—
A.2 (-) Amounts reinsured with third parties	—	—
B. Change in reserve for amount payable	—	—
B.1 Gross annual amount	—	—
B.2 (-) Amounts reinsured with third parties	—	—
Total life-business claims	—	—
Non-life business: expense related to claims, net of recoveries and reinsurance ceded		
C. Amounts paid out	(4,882)	(4,534)
C.1 Gross annual amount	(4,882)	(4,534)
C.2 (-) Amounts reinsured with third parties	—	—
D. Change in recoveries net of amount ceded to reinsures	—	—
E. Change in claims reserves	(327)	(82)
E.1 Gross annual amount	(327)	(82)
E.2 (-) Amounts reinsured with third parties	—	—
Total non-life business claims	(5,209)	(4,616)

SECTION 12

Heading 190: Administrative expenses

12.1 Personnel cost: breakdown

Type of expense/Amounts	6 mths ended 31/12/21	6 mths ended 31/12/20
1) Employees	(321,057)	(296,689)
a) wages and salaries	(235,568)	(214,222)
b) social security contributions	(51,293)	(48,499)
c) severance pay (only for Italian legal entities)	(1,827)	(1,528)
d) social security costs	—	—
e) allocation to employees severance pay provision	(7,627)	(7,743)
f) provision for retirement and similar provisions:	(22)	219
- defined contribution	(22)	219 ⁽¹⁾
- defined benefits	—	—
g) verspayments to external pension funds:	(7,619)	(7,765)
- defined contribution	(7,619)	(7,765)
- defined benefits	—	—
h) expenses resulting from share based payments	(5,690)	(4,695)
i) other employees' benefits	(11,411)	(12,456)
2) Other staff	(3,196)	(2,690)
3) Directors and Statutory Auditors	(3,842)	(5,238)
4) Early retirement costs	(467)	(370)
Total	(328,562)	(304,987)

¹This figure as at 31/12/20 refers to the benefit deriving from the "curtailment cost" and the recent "Plan amendments" decided by Caisse Baloise.

12.2 Average number of staff by category

	6 mths ended 31/12/21	6 mths ended 31/12/20
Employees:		
a) Senior executives	443	438
b) Executives	2,074	2,012
c) Other employees	2,333	2,376
Other staff	288	238
Total	5,138	5,064

12.5 Other administrative expenses: breakdown

Type of expense/Values	6 mths ended 31/12/21	6 mths ended 31/12/20
OTHER ADMINISTRATIVE EXPENSES		
– legal, tax and professional services	(26,296)	(24,656)
– loan recovery activity	(35,767)	(37,647)
– marketing and communications	(18,167)	(16,261)
– property	(10,477)	(10,421)
– EDP	(70,229)	(67,262)
– info-provider	(24,780)	(21,594)
– bank charges, collection and payment fees	(15,285)	(12,387)
– operating expenses	(29,527)	(31,398)
– other staff expenses	(4,933)	(2,901)
– other costs ¹	(38,063)	(26,568)
– indirect and other taxes	(47,837)	(46,534)
Total other administrative expenses	(321,361)	(297,629)

¹ The item includes contributions to the various resolution funds: €21.9m for the year ended 31/12/21, and €17.9m for the year ended 31/12/20.

SECTION 13

Heading 200: Net transfers to provisions

13.1 Net transfers for credit risk related to commitments to disburse funds and financial guarantees given: breakdown

	6 mths ended 31/12/21			6 mths ended 31/12/20	
	Provisions	Reallocation surplus	Total	Total	
Loan commitments	(6,741)	9,141	2,400	(8,110)	
Financial guarantees given	(448)	645	197	821	
Total	(7,189)	9,786	2,597	(7,289)	

13.2 Net transfers related to other commitments and guarantees given

	6 mths ended 31/12/21			6 mths ended 31/12/20		
	Provisions	Reallocation surplus	Total	Provisions	Reallocation surplus	Total
Other commitments	—	—	—	—	—	—
Other financial guarantees given	(60)	—	(60)	(16)	—	(16)
Total	(60)	—	(60)	(16)	—	(16)

13.3 Net transfers to other provisions: breakdown

	6 mths ended 31/12/21			6 mths ended 31/12/20
	Provisions	Reallocation of surplus	Total	
1. Other provisions				
1.1 Legal disputes	—	—	—	—
1.2 Staff costs	(432)	—	(432)	(571)
1.3 Other	(14,234)	9,469	(4,765)	(19,114)
Total	(14,666)	9,469	(5,197)	(19,685)

SECTION 14

Heading 210: Net adjustments to tangible assets

14.1 Net adjustments to tangible assets: breakdown

Asset/Income	Depreciation (a)	Impairment losses (b)	Write-backs (c)	Net result (a + b - c)
A. Property, equipment and investment property				
1 For operational use	(26,829)	—	—	(26,829)
- Owned	(7,373)	—	—	(7,373)
- Licenses acquired through leases	(19,456)	—	—	(19,456)
2 Held for investment purpose	(931)	—	—	(931)
- Owned	(931)	—	—	(931)
- Licenses acquired through leases	—	—	—	—
3 Inventories	X	—	—	—
Total	(27,760)	—	—	(27,760)

SECTION 15

Heading 220: Net adjustments to intangible assets

15.1 Net adjustments to intangible assets: breakdown

Asset/Income	Depreciation (a)	Impairment losses (b)	Write-backs (c)	Net result (a + b - c)
A. Intangible assets				
<i>of which: software</i>	(5,911)	—	—	(5,911)
A.1 Owned	(14,573)	—	—	(14,573)
- Generated internally by the company	—	—	—	—
- Others	(14,573)	—	—	(14,573)
A.2 Right of use related to leases	—	—	—	—
B. Assets held for sale	X	—	—	—
Total	(14,573)	—	—	(14,573)

SECTION 16

Heading 230: Other operating income (expense)

16.1 Other operating expenses: breakdown

Transactions/Values	6 mths ended 31/12/21	6 mths ended 31/12/20
a) Leasing activity	(4.485)	(4.339)
b) Sundry costs and expenses ¹	(14.130)	(6.001)
Total	(18.615)	(10.340)

¹ The item includes the provision for the share of ordinary and extraordinary dividends pertaining to third parties of Messier et Associés.

16.2 Other operating income: breakdown

Transactions/Values	6 mths ended 31/12/21	6 mths ended 31/12/20
a) Amounts received from customers	44,001	45,174
b) Leasing activity	3,964	3,744
c) Other income	48,464	46,579
Total	96,429	95,497

SECTION 17

Heading 250: Gain (loss) on equity investments

17.1 Gain (loss) on equity investments: breakdown

Income/ Value	6 mths ended 31/12/21	6 mths ended 31/12/20
1) Joint venture		
A. Incomes	—	—
1. Revaluation	—	—
2. Gain on disposal	—	—
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	—	—
1. Write-downs	—	—
2. Impairment losses	—	—
3. Losses on disposal	—	—
4. Other expenses	—	—
Net profit	—	—
2) Companies subject to significant influence		
A. Incomes	186,509	112,485
1. Revaluation	186,509	112,485
2. Gain on disposal	—	—
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	(781)	(1,606)
1. Write-downs	(781)	(1,606)
2. Impairment losses	—	—
3. Losses on disposal	—	—
4. Other expenses	—	—
Net profit	185,728	110,879
Total	185,728	110,879

SECTION 20

Heading 280: Gain (loss) on disposal of investments

20.1 Gain (loss) on disposal of investments: breakdown

Income/Value	6 mths ended 31/12/21	6 mths ended 31/12/20
A. Assets	(416)	—
- Gains on disposal	46	—
- Losses on disposal	(462)	—
B. Other assets	—	—
- Gains on disposal	—	—
- Losses on disposal	—	—
Net result	(416)	—

SECTION 21

Heading 300: Income tax for the year on ordinary activities

21.1 Income tax for the year on ordinary activity: breakdown

Income components/ Sectors	6 mths ended 31/12/21	6 mths ended 31/12/20
1. Current tax expense (-)	(130,546)	(99,255)
2. Changes in current taxes of previous years (+/-)	(73)	(67)
3. Reduction in current taxes of the year (+)	153	154
3.bis Reduction in current taxes of the year for tax credits pursuant to Law no. 214/2011 (+)	129	—
4. Changes in advance tax assets (+/-)	9,157	(60,537)
5. Changes in deferred tax liabilities (+/-)	745	789
6. Taxes on income for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(120,435)	(158,916)

In general terms, for IRES purposes, the tax loss generated by a company not participating in a tax consolidation arrangement may be accounted for as a reduction in the income generated in subsequent years, in an amount to exceed 80% of the taxable income for each period. In other words, the loss reported in one financial year will generate tax savings in the future, which for accounting purposes, under certain conditions, may be recognized as advance tax credits. By contrast, in a tax consolidation arrangement, the share of the tax losses generated by a participating company that can be met by the income produced by the other participating companies generates an immediate tax saving, which is recognized as income for the loss-making company.

SECTION 23

Heading 340: Net profit (loss) attributable to minorities

23.1 Breakdown of Heading 340, “Net profit (loss) for the year attributable to minorities”

Company name	6 mths ended 31/12/21	6 mths ended 31/12/20
1. SelmaBipiemme S.p.A.	16	1,129
2. RAM Active Investments S.A.	(47)	(48)
3. Other minor interests	220	—
Total	189	1,081

SECTION 25

Heading 350: Earnings per share

25.1 Average number of ordinary shares on a diluted basis

	6 mths ended 31/12/21	6 mths ended 31/12/20
Net profit	525,814	410,553
Avg. no. of shares in issue ¹	862,328,603	862,281,937
Avg. no. if potentially diluted shares	4,158,123	4,919,928
Avg. no. of diluted shares	866,486,726	867,201,865
Earnings per share	0.61	0.48
Earnings per share, diluted	0.61	0.47

¹The number of shares outstanding as at 31 December 2021 includes the shares repurchased under the terms of the buyback scheme.

Part E - Information on risks and related hedging policies

INTRODUCTION

With regards to the Group's risks governance process, a key role is played by the Risk Management division, which identifies, measures and monitors all the risks to which the Banking Group¹ (or, the "Group") is subject, and manages and mitigates them in co-ordination with the various business areas. The division's main duties and responsibilities are described below, along with its characteristics in terms of independence, plus an indication of the role of the other company units in risk management.

SECTION 1

Banking Group Risks

1.1 CREDIT RISKS

QUALITATIVE INFORMATION

1. General aspects

Although risk management is the responsibility of each individual business unit, the Risk Management unit presides over the functioning of the Group's risk system, defining the appropriate global methodologies for measuring risks, current and future, in conformity with the regulatory requirements in force as well as the Group's own operating choices identified in the RAF,² monitoring risks, and ascertaining that the various limits established for the various business lines are complied with.

Risk Management is organized around local teams based at the various Group companies, in accordance with the principle of proportionality, under the co-ordination of the Risk Management unit at parent company Mediobanca

¹ The following subsidiaries of the Group's legal entities are excluded from the prudential scope of application: Compass RE (reinsurance), Compass Rent and MBContact Solutions (Other companies).

² On 30 July 2020, the Board of Directors of Mediobanca approved a new version of the Group Policy on Risk Appetite Framework (RAF) Definition, which sets out the general principles, organizational model and implementation process for defining the Framework. In the RAF, based on the Strategic Plan and the maximum risk assumable that is set in it, the Group states the level and type of risks which it is intended to take, plus any tolerance thresholds and operating limits to be complied with in normal operating and/or stress conditions.

S.p.A. (the “Group Risk Management Unit”), which also performs specific activities for the parent company scope of risk, in the same way that the local teams do for their own companies.

The Group Risk Management Unit, which reports directly to the Chief Executive Officer under the Group Chief Risk Officer’s leadership, consists of the following sub-units: i) Group Enterprise Risk Management & Supervisory Relations, which manages the integrated Group processes (ICAAP, RAF, Recovery Plan, support in planning, etc.) and relations with the supervisory authorities, develops the quantitative methodologies for measuring and managing credit, market and counterparty risks, formulates the credit risk management policies, and carries out second-level controls on the risk parameters used to quantify impairment charges and calculate RWAs; ii) Credit Risk Management, responsible for credit risk analysis, assigning internal ratings to counterparties and the loss-given default indicator in the event of insolvency; iii) Market Risk Management and Risk Automation, which monitors market and counterparty risk and is responsible for developing, co-ordinating, rationalizing and ensuring the consistency of IT development activities within Risk Management; iv) Liquidity and IR Risk Management, which monitors liquidity and interest rate risks on the banking book; v) Operational Risk Management, responsible for developing and maintaining the systems for measuring and managing operational risks; vi) Group Internal Validation, which defines the methodologies, processes, instruments and reporting for use in internal validation activities, and is responsible for validating the Group’s risk measurement systems; vii) Wealth Risk Management, which manages risks related to the investment products and services offered to clients by the Wealth Management division; viii) Risk Management London Branch, which is responsible for controlling risks and co-ordinating operations between the London front office teams and the various risk management sub-units based at Mediobanca S.p.A.

With reference to the authorization process to use AIRB models in order to calculate the regulatory capital requirements for credit risk, the Group has been authorized by the supervisory authorities to calculate its capital requirements using its own internal rating system (based on the Probability of Default and Loss Given Default indicators) for the Mediobanca and Mediobanca International corporate loan books and for the CheBanca! Italian mortgage loan book. As an integral part of this process, in accordance with the regulatory provisions in force on prudential requirements for credit institutions (Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 – the

“CRR”), the Group has compiled a roll-out plan for the gradual adoption of the internal models for the various credit exposures (the “Roll-Out Plan”). With regard to exposures for which the standardized methodology for calculating regulatory capital is still used, the Group has nonetheless instituted internal rating models for credit risk used for management purposes.

The Group has also adopted a portfolio model in order to calculate the economic capital for credit risk, which enables geographical and sector concentration and diversification effects to be factored in.

Impact of Covid-19 pandemic

The Mediobanca Group rapidly developed and planned procedures appropriate to the relevant sector of activities and product portfolio, to provide an adequate response to the provisions introduced by the decrees to provide support for households and businesses. It took steps to implement the provisions of the “Heal Italy” and “Liquidity” decrees, and participated in the initiatives promoted by category associations ABI and Assofin (the Italian association for the consumer credit and mortgage lending sector). Please refer to section 6.1 for further details.

As part of the annual budgeting process for the 2021-22 financial year, the Group has also revised the risk objectives contained in its RAF, including the economic impact of the crisis triggered by the Covid-19 pandemic, in continuity with last year.

Operating procedures have been defined proactively in order to identify borrowers in potential difficulties but still fundamentally sound and solvent at the moratoria expiry dates, with a view to offering them solutions to limit the negative impact on credit quality.

As at 31 December 2021, the moratoria outstanding as a percentage of total loans were at immaterial levels as far as the Group is concerned, having fallen to €373.4m (0.7% of total loans to customers) from the €1,856m reported at end-June 2020 (3.9% of total loans), and far below the high recorded in May 2020 (when they accounted for around 5% of total loans). The moratoria outstanding are all subject to a prudent assessment process, according to which 90% of them have been classified as stage 2 and 9% as stage 3. Following careful analysis of the performing portfolio and all borrowers who have applied for waivers or been granted moratoria, some positions have been reclassified as stage 2 on

prudential grounds, thus limiting the classification as forborne and subsequent transfer to non-performing status.

At Compass there are no longer any strictly Covid-related moratoria, and even considering the broader definition which includes the additional moratoria granted during the pandemic phase, the percentage is negligible, at just 0.2% (down from 4.2% at end-June 2020), while at CheBanca! the figure stands at 0.9% (5.8%).

At SelmaBipiemme, which is the Group's main contributor (with moratoria outstanding in an amount of €241.5m), it should be considered that the majority of the extensions are regulated by Article 56 of the "Heal Italy" decree, the deadline for which is set by law as 31 December 2021. The share of total loans on which payments are suspended was 13.5% at end-December 2021 (down from 34.8% at end-June 2020), and is expected to reduce basically to zero in the first two months of 2022, as the repayment schedules are resumed.

The credit strategies and policies have taken account of the changes in the macroeconomic scenario and the results of the analysis carried out to identify the most vulnerable sectors. In the individual analysis performed at the approval stage (typically for large and medium-size enterprises, including in leasing), the impact of the current pandemic scenario on the borrower's sector is assessed, along with the borrower's specific credit rating, and whether or not there are additional guarantees, such as those issued by the central guarantee fund ("*Fondo Centrale di Garanzie*", or "FCG").

In CheBanca!, despite the fact that the majority of the finance granted is to employees rather than businesses (the number of loans granted to self-employed and freelance workers is marginal), the economic sector in which the borrower's employer operates is analysed at the processing stage. In cases where the employer's size and sector of operations makes more vulnerable to the crisis, the analysis is complemented by commercial checks carried out via specialist companies.

At Compass, the cut-off levels for personal loans originated through all channels were promptly adapted, in order to ensure that new business is aligned with the changing market scenario.

In the private banking and NPL acquisitions segments, which are less impacted by the moratoria phenomenon, coverage of any potential structural or short-term changes that the current scenario might produce in the reference markets has been maintained at high levels.

For details on how the risk measurement and control systems have been adapted, please see sections 2.3, 5 and 6.2.

Specific public disclosures are also required by the EBA “Guidelines on reporting and disclosure of exposures subject to measures applied in response to the Covid 19 crisis”, which the Group has included in its “Pillar III disclosure to the public”.³ This information is also summarized in section 6.2 of this document.

2. Credit risk management policies

2.1 Organizational aspects

The Mediobanca Group has equipped itself with a risk governance and control system which is structured across a variety of organizational units involved in the process, with a view to ensuring that all relevant risks to which the Group is or might be exposed are managed effectively, and at the same time guarantee that all forms of operations are consistent with their own appetite for risk.

The Board of Directors, in view in particular of its role of strategic supervision, is responsible for approving strategic guidelines and directions of the risk appetite framework (RAF), the Internal Rating Systems (IRB) at the parent company level and the Roll-Out Plan for gradually extending the IRB approach across the whole Group, business and financial plans, budgets, risk management and internal control policies, and the Recovery Plan drawn up in accordance with the provisions of the Bank Recovery and Resolution Directive (Directive 2014/59/EU).

The Executive Committee is responsible for the ordinary management of the Bank and for co-ordination and management of the Group companies, without prejudice to the matters for which the Board of Directors has sole jurisdiction. The Risks Committee assists the Board of Directors in performing duties of monitoring and instruction in respect of the internal controls, risk management, and accounting and IT systems. The Statutory Audit Committee supervises the risk management and control system as defined by the RAF and the internal controls system generally, assessing the effectiveness of the structures and units involved in the process and co-ordinating them.

³ The Pillar III – Disclosure to the public document is available at www.mediobanca.com in the section entitled “Capital adequacy”.

Within the framework of the risk governance system implemented by Mediobanca S.p.A., the following managerial committees have specific responsibilities in the processes of taking, managing, measuring and controlling risks: the Group Risk Management committee, which is responsible for addressing all risks at Group level and for processing all proposals submitted to the Risk Committee and the Board of Directors, and has powers of approval for market risks; Lending and Underwriting committee, with powers of approval for credit, issuer and conduct risk; Group ALM committee for approval of the funding plan, monitoring the Group's ALM risk-taking and management policy (treasury and funding) and approving the methodologies for measuring exposure to liquidity and interest rate risk and the internal fund transfer rate the Investments committee for equity investments owned and banking book equities; the New Operations committee, for prior analysis of new operations and the possibility of entering new sectors, new products and the related pricing models; the Group Non-Financial Risks Committee, which is responsible for addressing, monitoring and mitigating non-financial risks, including IT, fraud, outsourcing, legal and reputational risks; the Private & Affluent Investments committee, for defining strategic and tactical asset allocation, and for selecting investment houses, funds and other financial instruments; and the Conduct Committee, which is responsible for addressing, governing and approving matters pertaining to conduct risk for the Group.

2.2 Management, measurement and control systems

In the process of defining its Risk Appetite Framework (“RAF”), Mediobanca has established the level of risk (overall and by individual type) which it intends to assume in order to pursue its own strategic objectives, and identified the metrics to be monitored and the relevant tolerance thresholds and risk limits. The RAF is the framework which sets the risks due to the company strategy (translating mission and strategy into qualitative and quantitative risk variables) in relation with the risk objectives of its operations (translating risk objectives into limits and incentives for each area).

As required by the prudential regulations, the formalization of risk objectives, through definition of the RAF, which are consistent with the maximum risk that can be taken, the business model and strategic guidance is a key factor in establishing a risk governance policy and internal controls system with the objective of enhancing the Bank's capability in terms of governing its own

company risks, and also ensuring sustainable growth over the medium and long term. In this connection, the Group has developed a Risk Appetite Framework governance model which identifies the roles and responsibilities of the corporate bodies and units involved, with co-ordination mechanisms instituted to ensure the risk appetite is suitably bedded into the management processes.

In the process of defining its risk appetite, the parent company:

- Identifies the risks which it is willing to assume;
- Defines, for each risk, the objectives and limits in normal and stressed conditions;
- Identifies the action necessary in operating terms to bring the risk back within the set objective.

To define the RAF, based on the strategic positioning and risk profile which the Group has set itself the objective of achieving, the risk appetite statement is structured into metrics and risk thresholds, which are identified with reference to the six framework risk pillars, in line with best international practice: capital adequacy; liquidity; profitability; external risk metrics; bank-specific factors; and non-financial risks. The Board of Directors has a proactive role in defining the RAF, guaranteeing that the expected risk profile is consistent with the strategic plan, budget, ICAAP and recovery plan, and structured into adequate and effective metrics and limits. For each pillar analysed, the risk assumed is set against a system of objectives and limits representative of the regulatory restrictions and the Group's general attitude towards risk, as defined in accordance with the strategic planning, ICAAP and risk management processes.

In addition to identifying and setting risk appetite parameters, Mediobanca also governs the mechanisms regulating the governance and processes for establishing and implementing the RAF, in terms of updating/revising it, monitoring, and escalating reporting to the Committees and corporate bodies. Based on its operations and the markets in which it operates, the Mediobanca Group has identified the relevant risks to be submitted to specific assessment in the course of the reporting for the ICAAP (Internal Capital Adequacy Assessment Process), in accordance with the Bank of Italy instructions contained in circular no. 285 issued on 17 December 2013, "Supervisory instructions for banks" as amended, appraising its own capital adequacy from both a present and future perspective which takes into account the strategies and development of the reference scenario. As required by the provisions of the Capital Requirements Directive IV ("CRD IV"), the Group prepares an Internal Liquidity Adequacy Assessment Process

document (ILAAP), describing the set of policies, processes and instruments put in place to govern liquidity and funding risks. The Group's objective is to maintain a level of liquidity that enables it to meet the payment obligations, ordinary and extraordinary, which it has taken on while minimizing costs at the same time. The Group's liquidity management strategy is based on the desire to maintain an appropriate balance between potential inflows and potential outflows, in the short and the medium/long term, by monitoring both regulatory and management metrics, in accordance with the risk profile defined as part of the RAF.

2.3 Methods for measuring expected losses

Under IFRS 9 "Financial Instruments", assets which are not recognized in the financial statements at fair value on a regular basis (i.e. financial liabilities recognized at amortized cost and off-balance-sheet exposures) must be tested for impairment based on expected losses.

The internal rating models are the baseline instrument for establishing the risk parameters to be used in calculating expected losses, subject to the regulatory indicators in particular being adjusted for aspects which are not suitable to be used directly in an accounting environment (e.g. in some cases reconverting the data to reflect a point-in-time approach). Under IFRS 9, expected losses are calculated from the product of the PD, LGD and EAD metrics. The calculation is based on the outstanding duration of the instruments for which there has been a significant increase in credit risk ("Stage 2") or which show objective signs of impairment ("Stage 3"), and on a time horizon of twelve months for the instruments not included in the previous two categories ("Stage 1"). For off-balance-sheet exposures, credit conversion factors are used to calculate the expected losses, derived from application of the internal models; if there are no specific models, the factors associated with the standard EAD calculation are used.

The Group adopts qualitative and quantitative criteria to establish whether there has been a significant increase in credit risk, using backstop indicators, such as accounts which are thirty or more days overdue or have been classified as forborne, to assess whether or not they should be treated as Stage 2. Cases of low-risk instruments at the recording date are identified, compatible with classification as Stage 1 (low credit risk exemption), where there is a BBB- rating on the Standard & Poor's scale, or a corresponding internal PD estimate.

As required by IFRS 9, a change in forward-looking twelve-month PD is used as the benchmark quantitative metric for measuring the Significant Increase in Credit Risk (SICR) for the purpose of identifying positions to be classified as Stage 2. The Group has verified that twelve-month PD is a reasonable proxy of increases in risk on a lifetime basis, and monitors the validity of this assumption over time. The change in PD selected to determine reclassification to Stage 2, and the qualitative elements observed, are specific to each Group company.

The provisioning reflects the sum of the expected credit losses (over a time horizon of twelve months, or based on a lifetime approach,⁴ depending on which Stage it is classified in), discounted at the effective interest rate. The expected loss is the result of the combined valuation of three scenarios (baseline, mild-positive and mild-negative), weighted according to their likelihood of occurring (50%, 25% and 25% respectively). The scenarios, determined at Group level, are revised at least once every six months. In particular, the Group sets the estimates for the baseline scenario, compiling the economic variables using an external macroeconomic model which factors in the internal expectations for interest rates. Levels of deviation from the baseline scenario are established in order to determine the mild-negative and mild-positive scenarios; these deviations are obtained from historical analysis of trends in the macroeconomic parameters used in the risk parameter conditioning models, and the levels of variation compared to the base scenario are established using a 25% confidence level.

The current macroeconomic scenario reflects two main features that impact on the provisioning estimates at Group level:

- A strongly recovering macroeconomic scenario, which sees significant growth both in 2022 itself and the following years, and also incorporates the growth already witnessed in 2Q and 3Q 2021 which was higher than expected at end-June 2021;
- High volatility in the default rate for the Consumer Finance loan book in 2Q and 3Q 2021, which has recorded some very low levels even compared to the pre-Covid situation.

Both these two features, however, are destined to recede gradually, as the macroeconomic scenario increasingly normalizes.

⁴ The lifetime approach considers the contractual expiry of the exposure where possible. For products which do not have a contractual expiry date, such as credit cards, bill repayment plans, cancellable credit lines, current accounts or overdrafts on current account, the calculation is made over a 12-month time horizon.

Nonetheless, in the short term the situation outlined above brings about a marked reduction in the parameter levels as part of the risk parameter conditioning process, mainly due to the out-of-scale figures for economic growth (e.g. for Italy growth of 6% in 2021 and of 5% in 2022 on an annualized basis) that are disproportionate to those recorded over the time horizon for the satellite model estimates (sample average GDP growth of 1.4% on an annualized basis). This effect, according to current estimates, should be neutralized over a horizon of 18/24 months.

The scenario outlined above, which is marked by considerable but short-term volatility, is further compounded by the uncertainty due to increase in inflation witnessed towards the end of 2021, mostly caused by the rising prices of raw materials in the energy sector. If this phenomenon, the intensity of which had not been expected, proves to be structural, it could compromise the recovery in demand which was the main driver of the upturn seen in 2021, which could lead to stagnation scenarios as a result of reductions in private consumers' disposable incomes and companies' profit margins. Lastly, there is also the issue of the most recent developments in the pandemic, with the spread of the highly infectious Omicron variant which has caused the medical emergency to worsen again; this too could cause the growth anticipated to slow, even in the short term. If this is the case, the effect on the risk parameters in the medium term could reflect increases that are far beyond currently quantifiable estimates.

In view of the above, and despite the evidence to support an improved macroeconomic scenario going forward, confirmed even by the updated ECB and Bank of Italy estimates, Mediobanca has decided that in order to maintain a conservative stance, it is necessary to maintain the macroeconomic scenario used for the valuations made for purposes of the separate and consolidated financial statements for the year ended 30 June 2021 without making any changes, i.e. not reflecting the benefits that would derive from the above improvements in the credit valuations. Therefore, in view among other things of the ongoing uncertainties in the medical situation at both national and global level which could impact on expectations, consumption and investments, the Mediobanca Group has decided to make no changes to the extra provisions (or "overlays") set aside in addition to the estimated impairment charges deriving from application of the models established on the basis of whether or not there are specific aspects that cannot be factored in or valued through modelling.⁵

⁵ The approach adopted is consistent with the ECB recommendations made to banks in recent months, such as in the letters of 1 April 2020 ("IFRS 9 in the context of the coronavirus (COVID-19) pandemic") and 4 December 2020 ("Identification and measurement of credit risk in the context of the coronavirus (COVID-19) pandemic").

As in previous quarters, then, overlays have been set aside for positions that are particularly exposed to the risks posed by the pandemic situation (in corporate lending, leasing and factoring especially) and for cases where contractual exemptions or moratoria have been applied to mortgage loans and corporate and leasing exposures. In continuity with the approach adopted at end-June 2021, adjustments have also been applied in order to neutralize the possible reversals to profit and loss deriving from the improved macroeconomic scenario observed at the balance-sheet date being factored into the models. This second type of overlay, applied to the corporate, leasing and factoring portfolios, was estimated at levels that would keep the coverage ratio for these positions unchanged from that observed before the macroeconomic scenario was revised at end-June, and before the scenario was updated primarily to reflect repayments and changes in rating/staging. In Consumer Finance, overlays have been set aside for both performing and non-performing loans, to increase the level of provisioning against the uncertainties of the macroeconomic scenario generally.

For further details on the macroeconomic scenario and the Covid-related impact, please refer to section 6.3.

As far as regards calculation of the ECL, in previous years sensitivity analysis has been carried out on performing exposures (Stage 1 and Stage 2) based on possible alternative macroeconomic scenarios, in order to assess how forward-looking factors might influence expected losses in different scenarios based on estimates consistent with the expected trends in macroeconomic factors. At end-December 2021, not having used the updated scenario to determine the risk parameters for the reasons specified above, sensitivity analysis was not applicable.⁶ However, the estimated impact due to the possible update of the risk parameters would lead to an approx. €80m reduction in the ECL. The largest contributor is the Consumer Finance loan book (approx. €50m), where the reduction is mainly due to a sharp decline in the default rates recorded in recent quarters. The default rates being significantly below normal is ascribable to the contingency situation and the implications of the pandemic-induced crisis (e.g. an increase in disposable savings due to the sharp reduction in consumption, clients being naturally careful in managing their debt during a phase of uncertainty, the existence of government support measures such as the ban on layoffs, etc.). All these factors are due to be gradually reabsorbed as the macroeconomic scenario returns to normal, meaning that the default rate is

⁶Reference is made to the comments included in the financial statements for the year ended 30 June 2021 for an idea of the range of variability in the ECL based on changes in the main macroeconomic indicators. In particular, the sensitivity due to an approx. 1% increase in Italian GDP and a 0.5% increase in the Italian unemployment rate was estimated at approx. €22m.

expected to grow again. The remainder of the impact on the ECL is attributable primarily to the Wholesale Banking loan book (approx. €26m), which reflects macroeconomic data for 2H 2021 which are better than the end-June 2021 estimates and which also factors in the growth estimated for 2022. This growth, however, is destined to slow in the medium term, and the expectation is for a return to pre-Covid levels starting from 2023, which in turn will impact on the risk parameters.

2.4 Credit risk mitigation techniques

The Group has put in place a system for managing credit risk mitigation techniques, which covers the entire process of obtaining, assessing, supervising and implementing the mitigation instruments in use. The requisites for eligibility of collateral are set out in Regulation (EU) 575/2013 of the European Parliament and of the Council as amended (the “CRR”). The Group has also compiled specific criteria by which collateral not recognized for regulatory purposes may in any case be recognized at the operating level as effective to mitigate credit risk.

The use of financial instruments or of moveable and immovable assets as collateral and of personal guarantees is widespread in lending activity, in particular as follows:

- Mortgage guarantees: when mortgages are taken out, valuations are required from independent experts; specific procedures are also in place to calculate the fair value of the asset and monitor it at regular intervals, based on market indicators furnished by external information providers; further valuations are also required in cases where significant departures are noted from the most recent valuation available;
- Pledges: pledges are valued according to the market value for listed financial instruments, or on the basis of their expected realizable value; prudential haircuts are then applied to the values thus calculated which differ according to the financial instruments over which the pledge has been made.

The Group also adopts risk mitigation policies through entering into netting and collateral agreements, checking to ascertain that the agreements are legally valid and meet the regulatory criteria in force to be recognized for prudential purposes.

Credit risk mitigation activities are governed by specific directives adopted by the Group companies concerned. The specific nature of the products originated by the individual businesses and the forms of collateral securing them, as well as the different organizational models necessarily adopted by the various Group companies, means that different CRM processes must coexist within the Group as a whole. In particular, the phases of obtaining the collateral, checking, reporting on and assessing its eligibility may be performed by different units. However, the role of Risk Management in setting eligibility criteria for regulatory and management purposes remains central, and the Group Risk Management Unit is responsible for supervising overall consistency in this area. Controls of the mitigation instruments are included in the general risk control and management framework.

In Private Banking in particular, the situations most at risk are identified promptly in order to launch the activities required to restore the collateral margins typical of “Lombard” credit. The overall exposure reflects both portfolio diversification for the collateral and the haircuts required when the lending value is determined.

3 Non-performing credit exposures

The Mediobanca Group is distinguished by its prudent approach to risk, which is reflected in the fact that its NPL levels are among the lowest seen in the Italian national panorama. Our management of non-performing loans also helps to keep the level of them on the books low, including the use of different options typically available, such as disposals (of both individual assets and portfolios), collateral enforcement activity, and negotiating restructuring agreements.

The Group uses a single, like-for-like definition for all the following instances: “default” as defined by the regulations on regulatory capital requisites; “non-performing”, used for the supervisory reporting statistics; and Stage 3, or “credit-impaired”, assets as defined by the accounting standards in force. In so doing, account has been taken of the provisions contained in the following documents: EBA Guidelines on the application of the definition of default (EBA/GL/2016/07), Commission Delegated Regulation (EU) 2018/171 of 19 October 2017, and Regulation (EU) 2018/1845 of the ECB of 21 November 2018. In line with these principles, instances of assets which qualify as “non-performing” include:

- Exposures identified using the 90 days past due principle, based on which the regulations referred to above have standardized the calculation criteria in use at EU level (in particular with reference to the applicable materiality thresholds, and the irrelevance of which instalment in particular is established as being past due for purposes of the calculation);
- Cases in which the credit obligation has been sold, leading to material losses in relation to the credit risk;
- Debt restructuring which entails a cost, i.e. restructuring the debt of a borrower who is in or is about to encounter difficulties in meeting their own financial obligations, that imply a significantly reduced financial obligation;
- Cases of insolvency or other systems of protection covering all creditors or all unsecured creditors, the terms and conditions of which have been approved by a judge in a court of law or another competent institution;
- Instances identified through other indicators of a borrower being unlikely to pay, such as the enforcement of guarantees, breach of given financial leverage ratios, negative evidence in information systems such as central credit databases, or the borrower's sources of income suddenly becoming unavailable.

This approach is then adopted differently within the individual Group companies, which, depending on the specific monitoring processes they have implemented, may choose to detect non-performance before the 90 days past due status by running individual analysis or applying automatic algorithms. Equally, the quantification of the accounting adjustment of non-performing exposures may reflect either analysis of individual positions, or be based on identifying clusters of similar positions, depending on the specific nature of the Group company's business.

At the monitoring stage the possible need to write off positions is also assessed, i.e. cases in which the credit may not be recoverable, in part or in whole. Accounts may be written off even before legal action to recover the asset is completed, and this does not necessarily entail waiving the Group's legal right to recover the amount due to it.

With the aim of ensuring that portfolios of NPLs are managed adequately, various measures have been issued by the regulators in recent years to guide the financial sector in the direction of reducing stocks of non-performing

portfolios and accelerating the process of recovering the credit. On 26 April 2019 the European Parliament published the updated version of Regulation (EU) No. 575/2013 (the “CRR”) in the Official Journal, which includes the new rules (known as “Calendar Provisioning”) to be applied for coverage of loans granted as from the date on which the new version of the Regulation was issued. The Calendar Provisioning mechanism requires non-performing loans to be written off entirely at set deadlines and is intended to ensure that NPLs do not accumulate on banks’ balance sheets without the appropriate value adjustments being taken.

4 Financial assets subject to commercial renegotiations and concessions

Financial assets may be subject to contractual amendments based primarily on two different needs: to maintain a mutually satisfactory commercial relationship with clients, or to re-establish/improve the credit standing of a customer in financial difficulty, or about to become so, to help them meet the commitments they have entered into.

The former case, defined here as a commercial renegotiation, recurs at the point where the client might look to end the relationship, as a result of its own high credit standing and of favourable market conditions. In a situation such as this, changes can be made at the client’s initiative or on a preventative basis with a view to maintaining the relationship with the client by improving the commercial terms offered, without having to forfeit a satisfactory return on the risk taken and in compliance with the general strategic objectives set (e.g. in terms of target customers).

The second case, which corresponds to the notion of forbearance measure, is detected in accordance with the specific regulations when contractual amendments are made, refinancing arrangements entered into, or when clauses provided for in the contract are exercised by the client.

For an exposure to be classified as forborne, the Group assesses whether or not such concessions (typically rescheduling expiry dates, suspending payments, refinancings or waivers to covenants) occur as a result of a situation of difficulty which can be traced to the accumulation, actual or potential (the latter

if concessions are not granted), of more than thirty days past due. Assessment of the borrower's financial difficulties is based primarily on individual analysis carried out as part of corporate banking and leasing business, whereas certain predefined conditions apply in the case of consumer credit activities (e.g. whether the borrower has been made unemployed, cases of serious illness and/or divorce and separation). In line with the recommendations made by the ECB in its letter to significant credit institutions of 4 December 2020, assessment of the borrower's financial difficulties take into account market conditions, where these have changed in a way that could impact upon the borrower's ability to repay.

Both non-performing exposures and exposures for which the difficulties recorded are still compatible with their being treated as performing may be classified as forborne. However, as described in the previous sections, a position being assigned the status of "forborne" is considered to be incompatible with its being treated as Stage 1. For this reason, the minimum periods of time that an exposure can be assigned "forborne" status stipulated in the regulations in force on supervisory statistical reporting are reflected in the prudential transitions between Stages 1, 2 and 3. For instance, when concessions have been made in respect of exposures at Stage 2, the exposures in question cannot return to Stage 1 in less than two years, in line with the minimum duration of two years provided for the "forborne performing exposure" status (during this period, the status can only be downgraded to reflect the exposure's transition to non-performing). Similarly, exposures in Stage 3 cannot be returned to Stage 1 in less than three years, in line with the requirement for "non-performing forborne exposure" to retain this status for at least one year, followed (unless the non-performing status requires to be prolonged) by the minimum duration of two years for the "forborne performing exposure" status.

To return to Stage 1, exposures must give proof of having fully recovered their credit quality and the conditions requiring them to be classified as "forborne" must have ceased to apply. Accordingly, the monitoring to detect any new needs for exposures to transition back to Stages 2 or 3 is no different from the monitoring reserved to exposures which have not moved from Stage 1. Nonetheless, "forborne" exposures that have returned from Stage 3 to Stage 2 are subject to enhanced monitoring, for which, if there is a delay of more than thirty days in payment or if a new forbearance measure is applied, the exposure concerned returns immediately on prudential grounds to Stage 3.

5. Details by individual business segment

Corporate activity

The Group's internal system for managing, evaluating and controlling credit risk reflects its traditional policy based on prudence and a highly selective approach. Lending decisions are based on individual analysis, which builds on adequate and often extensive knowledge of the borrower's business, assets and management, as well as the macro-economic framework in which it operates. At the analysis stage, all relevant documentation is obtained to be order to appraise the borrower's credit standing and define the appropriate remuneration for the risk being assumed. The analysis also includes an assessment of the duration and amount of the loans being applied for, the provision of appropriate guarantees, and the use of covenants in order to prevent deteriorations in the counterparty's credit rating.

With reference to the correct application of credit risk mitigation techniques, specific activities are implemented to define and meet all the requirements to ensure that the real and personal guarantees have the maximum mitigating effects on the exposures.

For the assumption of credit risk, all counterparties are analysed and assigned an internal rating, assigned by the Risk Management unit on the basis of internal models which takes into account the specific quantitative and qualitative characteristics of the counterparty concerned. Proposed transactions are also subject to the application of LGD models where appropriate.

Loans originated by the business divisions are assessed by the Risk Management unit and regulated in accordance with the powers deliberated and the policy for managing most significant transactions, through the different operating levels.

The Credit Risk Management unit also carries out a review of the ratings assigned to the counterparties at least once a year. Approved loans must also be confirmed by the approving body with the same frequency.

Mediobanca classifies the sectors in which its counterparties operate according to the risks faced by them as a result of the pandemic (“Immediate impact”, “High impact“, “Moderate impact”, “Low Impact”). Additional provisioning, or overlays, have been applied for counterparties with operations classified as Immediate/High impact since December 2020. The list of sectors is monitored on a regular basis to be able to act promptly in terms of making revisions to counterparties for which overlays have been applied. As a result of such monitoring, for example, at end-December 2021 the Automotive, Gaming and Luxury sectors were downgraded from High impact to Moderate impact.

In terms of monitoring the performance of individual credit exposures, Mediobanca has adopted an early warning methodology to identify a list of counterparties (known as the “watchlist”) requiring indepth analysis on account of their potential or manifest weaknesses. The exposures identified are then classified by level of alert (amber or red for performing accounts, black for non-performing items) and are reviewed regularly to identify the most appropriate mitigation actions to be taken. The watchlist is also used to provide qualitative information regarding allocation to Stage 2, which includes counterparties classified as “amber” or “red” for watchlist purposes. All forbore positions are also subject to specific monitoring.

Provisions are calculated individually for non-performing items and based on PD and LGD indicators for the performing portfolio. For individual provisioning, valuations based on discounted cash flows and balance-sheet multiples are applied to businesses which constitute going concerns, while asset valuations are used for companies in liquidation. For provisioning in respect of performing loans, the PD parameters are obtained starting from through-the-cycle matrices used to develop the internal rating model, which are then converted to point-in-time versions. The LGD readings are calculated based on the modelling used for the regulatory calculation, with the downturn effect removed. The forward-looking component of the models is factored in by applying the macroeconomic scenarios defined internally to the risk indicators. The criteria for classification to Stage 2 include the quantitative criterion of deterioration in the PD beyond a certain level, plus the requirement of a minimum number of notches downgrade⁷ between the date on which the asset was originated and the reporting date. Revisions to the classification of single names are also possible, based on internal decisions supported by individual analysis.

⁷ One notch if the rating at the reference date is lower than or equal to BB-, two notches if higher (investment grade ratings are always classified as Stage 1 for Low Credit Risk Exemption).

Leasing

Individual applications are processed using similar methods to those described above for corporate banking. Applications for smaller amounts are approved using a credit scoring system developed on the basis of historical series of data, tailored to both asset type and the counterparty's legal status (type of company).

The activities of analysis, disbursement, monitoring, and credit risk control are significantly supported by the company's information system; the asset being leased is also subject to a technical assessment.

With a view to aligning risk management with the current complex financial and market scenario, the approval rights have also been revised and the measurement and control processes enhanced through the institution of regular valuations of performing loans, including from an early warning (i.e. watch list) perspective. Sub-standard accounts are managed in a variety of ways which prioritize either recovery of the amount owed or the asset under lease, according to the specific risk profile of the account concerned.

The quantification of provisions for non-performing accounts requires individual analysis to establish the estimated loss, taking into account *inter alia* the value of the assets resulting from regularly updated expert valuations, prudentially revised downwards, and/or any other form of collateral. Scenarios for sales strategies are also factored in. The portfolio of performing accounts is measured on the basis of internal PD and LGD parameters. To define the PD parameters, through-the-cycle transition matrices for the management models based on internal data are used, which are then converted to point-in-time versions. The forward-looking component is factored in by applying the internal scenarios defined to the PD estimates. The LGD estimates for the exposures differ according to type of product (vehicle leasing, core goods, yachts and property), and are subjected to the same macroeconomic scenarios defined internally to obtain forward-looking data.

In terms of criteria for reclassification of leases to Stage 2, in addition to the positions identified using the quantitative criterion of an increase in the PD, the evidence obtained from the Parent Company's watchlist for corporate clients is used as qualitative information. Contracts which were already showing signs of weakness when the moratoria were granted are also classified as Stage 2; such

signs include amounts overdue by more than the regulatory threshold, having been past due for 30 consecutive days in the previous twelve months, having already been classified as Stage 2 or Stage 3, and/or having been included in the watchlist (classified as Red or Amber), at the end of each quarter of the financial year, and all moratoria granted by law for which an extension until 31 December 2021 has been granted under the terms of the “*Sostegni-bis*” decree that would otherwise have been classified as Stage 1.

Consumer Finance

Consumer finance operations are performed primarily by Compass, where applications for finance are approved on the basis of a credit scoring system tailored to individual products. The scoring grids have been developed from internal historical series, enhanced by data provided by central credit *bureaux*. Points of sale are linked electronically to the company’s headquarters, to ensure that applications and credit scoring results are processed and transmitted swiftly. Under the system of powers for approval assigned by the company’s Board of Directors, for increasing combinations of amount and expected loss, approval is required by the relevant bodies at headquarters, in accordance with the authorization levels established by the Board of Directors.

From the first instance of non-payment, accounts are managed using the entire range of recovery procedures, including postal and telephone reminders, external recovery agents, or legal recovery action. After six unpaid instalments (or four unpaid instalments in particular cases, such as credit cards), accounts are held to be officially in default, and the client is deemed to have lapsed from the time benefit allowed under Article 1186 of the Italian Civil Code. As from the six months after such lapse has been established, accounts for which legal action has been ruled out on the grounds of being uneconomic are sold via competitive procedures to factoring companies, for a percentage of the value of the principal outstanding, which reflects their estimated realizable value.

Provisioning is determined collectively on the basis of PD, LGD and CCF metrics which are estimated using internal models. To estimate the PD parameters, the through-the-cycle transition matrices based on management models are used. The matrices have been calculated separately by product type, according to the specific internal management process involved (e.g. credit cards, special purpose loans, low-risk personal loans, high-risk personal loans,

small tickets and salary-backed finance to public entities, private individuals or pensioners). The forward-looking component is factored in using a specific macroeconomic model based on scenarios internal to the Group and on recent trends in the internal default rates. The LGD parameters are defined on the basis of the internal models estimated based on the internal LGD experiences realized.

In consumer finance, in addition to the quantitative criterion based on changes in the PD, specific quality indicators are used to classify exposures as Stage 2, such as the existence of suspension measures, the existence of other non-performing accounts for the same borrower, and evidence of irregularities in payment in the recent past.

Positions for which moratoria have been granted in connection with Covid-19 form an exception to the general rule whereby the existence of suspension measures would automatically lead to a position being classified as Stage 2. For such positions, a quantitative criterion has been introduced instead, namely a change in the PD (SICR), applied to all exposures that have undergone a change in their rating compared to origination; as at 31 December 2021 there were no positions with suspensions ongoing due to Covid-related moratoria, hence every new suspension from now on will be classified directly as stage 2.

The Compass rating model is responsive to the absence of payments (due to non-payments or suspensions in the last twelve months) leading to an increase in the PD and hence a significant migration to stage 2 also for past suspensions due to Covid-related moratoria and to the bank's own initiative, with no distinction between the two types of suspension in terms of SICR criteria.

Factoring

Factoring, a business in which MBFACTA specializes, includes both traditional factoring (i.e. acquisition of short-term trade receivables, often backed by insurance cover) and instalment factoring (acquiring loans from the selling counterparty, to be repaid via monthly instalments by the borrowers whose accounts have been sold, which in virtually all cases is a retail customer).

For traditional factoring, the internal units appraise the solvency of the sellers and the original borrowers via individual analysis using methodologies

similar to those adopted for corporate lending, whereas for instalment factoring the acquisition price is calculated following due statistical analysis of the accounts being sold, and takes into consideration the projected recoveries, costs and margins.

Non-performing exposures to corporate counterparties are quantified analytically, while non-performing exposures to retail counterparties are based on the identification of clusters of exposures with similar characteristics. The portfolio of performing assets is valued on the basis of PD and LGD parameters. PD parameters are defined by using the revised parameters supplied by external providers or internal estimates based on the retail portfolio. For transactions valued by Mediobanca S.p.A. as part of its corporate business, the parameters set in the Parent Company's process apply. The evidence obtained from the Parent Company's watchlist for corporate clients is also used as qualitative information for allocation to Stage 2, which includes counterparties classified as "amber" or "red".

NPL business⁸

This business is performed by MBCredit Solutions, which operates on the NPLs market, acquiring non-performing loans on a no recourse basis at a price well below the nominal value. Credit risk is managed by a series of consolidated regulations, structures and instruments in line with the Group policies. The company pursues the objective of splitting up the client portfolio according to selective criteria which are consistent with the objectives in terms of capital and risk/return indicated to it by Mediobanca S.p.A.

The purchase price for the non-performing loans is determined by following well-established procedures which include appropriate sample-based or statistical analysis of the positions being sold, and take due account of projections of expected amounts recovered, expenses and margins. At each annual or interim reporting date the amounts expected to be collected for each individual position are compared systematically with the amounts actually collected. If losses are anticipated at the operating stages, the collection is adjusted downwards on an individual basis. If there is objective evidence of possible losses of value due to the future cash flows being overestimated, the flows are recalculated and adjustments charged as difference between the scheduled value at the valuation

⁸ See Part A of the Notes to the Accounts for definition and treatment of POCLs.

date (amortized cost) and the discounted value of the cash flows expected, which are calculated by applying the original effective interest rate. The estimated cash flows take account of the expected collection times, the assumed realizable value of any guarantees, and the costs which it is considered will have to be incurred in order to recover the credit exposure.

Private banking

Private banking operations include granting loans as a complementary activity in serving affluent, high net worth and institutional clients, with the aim of providing them with wealth management and asset management services. Exposure to credit risk versus clients takes various forms, such as cash loans (by granting credit on current account or through short-, medium- or long-term loans), authorizing overdrafts on current account, endorsements, mortgages and credit limits on credit cards.

Loans themselves are normally backed by collateral or guarantees (pledges over the client's financial instruments, assets under management or administration, mortgages over properties or guarantees issued by other credit institutions).

Lending activity is governed through operating powers which require the proposed loan to be assessed at various levels of the organization, with approval by the appointed bodies according to the level of risk being assumed based on the size of the loan, guarantees/collateral and the type of finance involved. Such loans are reviewed on a regular basis.

Provisioning for all non-performing contracts is made on an individual basis, and takes into account the value of the collateral. Provisions set aside in respect of the performing loan book are based on the estimated PD and LGD values, supplied by an external provider, distinguished by counterparty and whether or not there are guarantees. The LGD values used differ according on the type of collateral and guarantees involved. The evidence obtained from the parent company's watchlist for corporate clients is also used as qualitative information for reclassification to Stage 2, which includes counterparties classified as "amber" or "red".

Mortgage lending

Mortgage lending is provided primarily by CheBanca!, and processing and approval exposures in this area are performed centrally at head office. The applications are approved, using an internal rating model, based on individual appraisal of the applicant's income and maximum borrowing levels, as well as the value of the property itself. Risks are monitored on a monthly basis, ensuring the company's loan book is regularly assessed.

Properties established as collateral are subject to a statistical revaluation process which is carried out once a quarter. If the review shows a significant reduction in the value of the property, a new valuation is carried out by an independent expert. A new valuation is generally requested for properties established as collateral for positions which have become non-performing.

Accounts, both regular and irregular, are monitored through a reporting system which allows operators to monitor the trend in the asset quality and, with the help of the appropriate indicators, to enter positions at risk, to ensure that the necessary corrective action can be taken versus the credit policies.

Non-performing accounts are managed, for out-of-court credit recovery procedures, by a dedicated organizational structure with the help of external collectors. In cases where a borrower becomes insolvent (or in fundamentally similar situations), the property enforcement procedures are initiated through external lawyers. Internal procedures require the following to be recorded as unlikely to pay: all cases with four or more unpaid instalments (not necessarily consecutive), cases with persistent irregularities, concessions generating a reduction of more than 1% in the financial obligation, and cases which, based on internal or external information (e.g. central databases, public and/or private), the unit responsible assesses should be classified as unlikely to pay. Exposures are classified as bad loans once the ineffectiveness of the recovery actions has been certified.

Exposures for which concessions have been granted are defined as forbore exposures, i.e. exposures subject to tolerance measures, performing or non-performing for which CheBanca! grants amendments to the original terms and conditions of the contract in the event of the borrower finding itself in a state (proven or assumed) of financial difficulty, by virtue of which it is considered to be unlikely to be able to meet its borrowing obligations fully or regularly.

The existence of moratoria granted by public institutions or at the individual bank's own initiative due to external causes of illiquidity, potential or actual, such as the Covid-19 emergency, is considered to be an indicator of temporary economic difficulty. This kind of support does not qualify as a forbearance measure; however, if there is information on the borrower or the borrower's employer that provides a more accurate picture of the borrower's financial difficulties, the moratorium may be treated as a forbearance measure. Specific monitoring has been instituted for such positions, which is performed by the Monitoring and Credit Recovery division, to assess whether the position concerned should be reclassified as forborne and/or unlikely to pay, plus the use of specific criteria (such as nine months' suspension).

Provisioning is determined analytically for bad loans and based on clusters of similar positions for unlikely to pay, other overdue and performing accounts. The analytical provision for bad loans takes account of expert valuations of the assets (prudentially deflated) as well as the timing and costs of the recovery process. The PD parameters are obtained starting from through-the-cycle matrices used to develop the internal model, which are then converted to point-in-time versions. The forward-looking component is factored in by applying the macroeconomic scenarios defined internally to the PD estimates. The LGD parameters are calculated based on the modelling used for the regulatory calculation, with the downturn effect removed. The inclusion of forward-looking elements in this case is based on satellite models applied to the macroeconomic scenarios defined internally.

For performing loans classified as forborne *or with* moratoria still active, a multiplication factor is also added to the PD, in view of the increased risk expected for this portfolio segment. It should also be noted that a qualitative identification factor is used for mortgage loans to be classified as Stage 2, namely if the loan in question has been assigned worst internal rating class prior to default.

6 Impact of Covid-19

6.1 Government and regulatory action following the Covid-19 pandemic

In order to address the effects of the Covid-19 pandemic on the economy, the Italian government launched a substantial first package of measures contained in the “Heal Italy” Decree Law issued on 17 March 2020, with the aim of safeguarding citizens’ health and supporting the country’s productive system by keeping firms active and so preserving workers’ jobs. This first package, which gave rise to the moratoria granted under law, the duration of which was subsequently extended,⁹ was soon followed by another, the “Liquidity” Decree Law issued on 8 April 2020, which added further measures to support businesses relating primarily to public guarantees.

The European regulatory and supervisory authorities, notably the EBA, ESMA, ECB and IASB have also taken action in response to the medical emergency, as have the national Italian authorities, adopting extraordinary measures.¹⁰

In this scenario, the Mediobanca Group rapidly developed and implemented procedures tailored to the specific areas of activity and their respective portfolios, in order to respond to the possibilities offered by the Decree Laws referred to above providing support to households and businesses. Steps were taken to implement the provisions of the “Heal Italy” and “Liquidity” Decree Laws; and the initiatives adopted by category associations ABI and Assofin (consumer credit and mortgage lending) were adhered to, in particular as follows:

- CheBanca!: moratoria under the Gasparri Fund were available immediately, while the bank also implemented its own product catalogue in order to offer the possibility, from as early as 18 May 2020, for customers to apply for loans under Article 13 of the “Liquidity” Decree Law (a service which was not available before the Decree Laws were issued).
- Compass, which operates in the consumer finance segment, has not participated in the SME Guarantee Fund as its business model is not focused on granting loans to businesses and commercial enterprises, meaning it does not qualify

⁹ The additional extensions are currently included in Italian Decree Law no. 73 of 25 May 2021, and allow SMEs to benefit from suspension until 31 December 2021.

¹⁰ Some of the most important measures are the following: – ESMA: Public Statement of 28 October 2020, “European common enforcement priorities for 2020 annual financial reports”; – EBA: Guideline of 2 December 2020 (EBA/GL/2020/15) “Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID 19 crisis” – ECB: Letter from the Chair of the Supervisory Board to all Significant Institutions of 4 December 2020, “Identification and measurement of credit risk in the context of the coronavirus (Covid-19) pandemic”, and “Recommendation ECB/2021/31” of 23 July 2021 – Consob: Reminder no. 1/21 of 16 February 2021 on the disclosures to be provided by supervised issuers.

for granting the loans provided under the Decree Laws; as for moratoria, though, in addition to implementing the operating procedures required to comply promptly with the Decree Laws' provisions, Compass adhered to the "Covid-19 moratoria for consumer credit" promoted by Assofin;

- SelmaBipiemme, which operates in leasing, had already adhered to the SME Guarantee Fund on account of the nature of its business, and so participated in the activities permitted by the Decree Laws straight away;
- Mediobanca S.p.A. adhered to the fund made available by SACE, approving deals involving substantial amounts under the "Liquidity" Decree Law starting from July 2020.

It should be noted that the Group has also granted moratoria on a voluntary basis, i.e. private initiatives to provide support to its clients, with the aim of alleviating the difficulties facing households and helping companies to tackle the situation created by the spread of the epidemic.

6.2 Moratoria granted to clients in connection with Covid-19

At 31 December 2021 loans for which suspensions were still applicable, including also those for which the moratoria reached their term on 31 December 2021 but for which payment will recommence in the subsequent months based on their repayment schedules, amount to €373.4m, or 0.7% of total loans. This amount includes moratoria granted under the Group's own private initiatives, in addition to those granted under initiatives introduced by law or category associations (i.e. regardless of whether or not they qualify officially as "EBA compliant"). Some 65% of the moratoria outstanding are concentrated in leasing, and involve a total gross amount of €241.5m, while approx. 28% refer to mortgage lending (€140.6m) and the other 7% to Consumer Banking (€24.4m).

The representation provided in the EBA Guidelines, which is limited to moratoria granted under legal and category association initiatives in response to Covid-19, points to a loan book of €1.8bn being involved in the phenomenon since the start of the pandemic. Compared to the original version of the EBA Guidelines of 2 April 2020, the changes made in the version issued on 2 December 2020 extended the period beyond which moratoria qualifying as "EBA compliant" could be originated until 31 March 2021, but also introduced exclusions in cases where clients ended up benefiting from a total of nine months or more of

suspended payments. Of the combined €373.4m in moratoria still outstanding at 31 December 2021 only €27.8m qualify officially as EBA-compliant, while the others are excluded from the prudential definition; of these (€345.6m):

- 70% involve suspensions granted under legal initiatives introduced by Article 56 of the “*Cura Italia*” Decree for which the moratoria period has ended but has not yet expired the first date of the repayment schedule (the definition used by the Mediobanca Group is more conservative than the EBA convention, as the moratoria are considered to have expired only once the repayment schedule has been resumed);
- 17% refer to support programmes launched by private initiative to help clients not covered by the “Heal Italy” Decree or the ABI/Assofin category association initiatives;
- 13% refer to suspensions granted under Article 54 of the “*Cura Italia*” Decree excluded on the grounds that they involve suspensions of more than nine months, granted after 31 March 2021, or because they use a different definition of expired.

A summary of the table provided as part of the regulatory disclosure included in the Pillar III – Disclosure to the Public document is provided below:¹¹

*Table 1 – Moratoria granted by type of counterparty and timing bracket
(excerpt from Template no. 2 of the EBA Guidelines)*

31/12/21	Gross carrying amount ¹	of which: Legislative moratoria ²	of which: Expired ³	Residual maturity of moratoria ⁴			Total of residual moratoria
				Up to 3 months	From 3 to 6 months	From 6 to 18 months	
Loans and advances for which moratorium was offered	1,704.9	954.3	1,677.1	27.3	0.5	—	27.8
Households	1,185.6	449.5	1,157.8	27.3	0.5	—	27.8
<i>of which: Collateralised by residential immovable property</i>	<i>566.6</i>	<i>409.4</i>	<i>538.8</i>	<i>27.2</i>	<i>0.5</i>	<i>—</i>	<i>27.7</i>
Non-financial corporations	516.9	502.5	516.9	—	—	—	—
<i>of which: Small and Medium-sized Enterprises</i>	<i>368.0</i>	<i>361.9</i>	<i>368.0</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>—</i>
<i>of which: Collateralised by commercial immovable property</i>	<i>330.2</i>	<i>317.1</i>	<i>330.2</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>—</i>
Financial corporations	2.4	2.3	2.4	—	—	—	—

¹ Gross book value of moratoria received and/or granted by the Group as at 31/12/21.

² Moratoria granted pursuant to the “Heal Italy” Decree Law (Articles 54 and 56).

³ I.e. for which the payment relief period has ended.

⁴ Expiry date for benefit of term for suspension under moratoria granted and outstanding at 31/12/21.

¹¹ The “Pillar III – Disclosure to the Public” document is available on the Bank’s website at www.mediobanca.com in the section entitled “Capital Solidity”.

The regulatory table shows that, out of the positions repaid, almost all the loans originally covered by the EBA regulations (which guaranteed continuity in terms of classification) are no longer subject to the terms of the moratoria, as the suspensions have either ended or have been granted further extensions not permitted under the regulations. All of the positions represented as having a residual maturity are for moratoria granted by law (Article 54 of the “Heal Italy” Decree) granted by CheBanca!.

As at end-December 2021, new loans granted via the public guarantee mechanisms introduced amounted to €159m, and mainly refer to the Parent Company’s operations (six loans disbursed with SACE backing under the terms of the “Liquidity” decree, worth €122m).

* * *

As at 31 January 2022, the moratoria outstanding reduced to approx. €95m (0.2% of total customer loans, and approx. 4% of the total amount granted), 91% of which are classified as stage 2 and 9% of which as stage 3.

6.3 Macroeconomic scenario and Covid-related impact

The macroeconomic scenario at year-end 2021 reflects higher GDP growth levels than the estimates previously available, for the European geographies and for Italy in particular. This has been caused by the acceleration being much faster than expected, in 3Q in particular. For Italy GDP grew at 6.4% in 2021, as compared to the 4.5% estimate available at end-June, while the growth rate for the EU was 5.1% (as against 3.8%). The US economy, too, posted material growth, at a rate of 5.5%, but slower than the previous estimates of 6.6% had suggested. On the back of such results, the scenario for the 2022-24 period also reflects positive growth rates that are considerably higher than the previous estimates.

However, the growth in GDP has mostly been driven by the recovery of demand as the restrictions on mobility and economic/commercial activities have gradually been withdrawn following the success of the vaccination rollout campaigns in western geographies. There is not yet any evidence that the growth, however strong, is producing a structural break sufficient to strengthen the economies materially from their pre-Covid conditions.

This may be inferred, among other things, from the unemployment figures which, against an unbroken increase in GDP for the last eighteen months, show no appreciable signs of the improvement to be expected in an economy where structural growth is not due solely to recovery from a period of recession.

The above considerations therefore show a positive economic scenario in the short term, for the EU geographies in particular, but not yet sufficient to produce effects over the medium/long term, partly because it is still affected by structural uncertainties that are impossible to quantify as they are linked to the pandemic situation which is still ongoing. The increase in cases of Covid-19 due to the emergence of a new variant towards the year-end, allied to the possibility of restrictions being reintroduced by the institutions, pose risks on the downside for employment and the economy.

Table 2 – Baseline macroeconomic scenario parameters as at 31/12/21¹²

GDP Forecast	2021	2022	2023	2024
Italy	6.4%	4.7%	2.0%	0.6%
UE	5.1%	4.4%	2.4%	1.5%
US	5.5%	4.5%	2.5%	1.9%
Unemployment rate	2021	2022	2023	2024
Italy	9.6%	9.1%	8.9%	8.8%
UE	7.1%	6.8%	6.6%	6.5%
US	5.4%	3.8%	3.6%	3.6%
Interest rate on Government bond (10 years)	2021	2022	2023	2024
Italy	0.7%	1.4%	2.4%	2.7%
Germany	-0.3%	0.3%	0.8%	1.0%
US	1.5%	2.2%	2.8%	2.9%

A further important aspect of the current macroeconomic scenario to be considered is the high volatility of the default rate for the Consumer Finance loan book, with especially low rates of default being recorded in 3Q 2021 in particular, even relative to pre-Covid levels. The causes of the plunging default rate certainly include at least the following:

- The increase in disposable savings due to the previous material reduction in spending;
- Clients’ understandable care and attention to debt management during a phase of such uncertainty;
- Government support measures such as the ban on layoffs still being in place;

⁽¹²⁾ Come riportato nella sezione 2.3, si ricorda che il Gruppo definisce le previsioni dello scenario *baseline* elaborando le variabili economiche attraverso un modello macro-economico esterno, nel quale vengono fattorizzate le aspettative interne sui tassi di interesse.

- The adoption, at least until end-December 2020, of decidedly stricter lending criteria than during the pre-Covid period;
- The ongoing advantage, albeit for a negligible share of the clientele, deriving from moratoria being granted for mortgages (which free up disposable income).

All these causes are destined to retreat as the macroeconomic scenario gradually normalizes.

Both these aspects (on the one hand, the strong economic recovery scenario, and on the other, the plummeting default rate reflected by the Consumer Finance loan book), if factored into the conditioning models used for the risk parameters, would entail a reduction in the coverage levels for positions still strongly exposed to a current situation reflecting particular conditions that will gradually disappear over the medium term.

In addition to the factors listed above, there are also further uncertainties due in particular to the inflationary pressures that began to kick in again towards year-end 2021, much more strongly than the expectations had suggested. This phenomenon has been mostly driven by the prices rises for fossil fuels in the energy sector, which, if they were to remain structural over the medium term, could compromise the effects of the economic recovery by driving a reduction in demand. In addition, there is also the issue of the most recent developments in the pandemic, with the spread of the highly infections Omicron variant which has caused the medical emergency to worsen again; this too could cause the growth anticipated to slow, even in the short term.

Therefore, in order to avoid excessive pro-cyclicality in calculating the provisions, factoring in improvements that would then be reabsorbed as the macroeconomic scenario returns to normal, the Group has decided to keep the risk parameters unchanged from those used at end-June 2021. Table 3 shows the values for the macroeconomic variables that have determined the risk parameters at end-December 2021.

Furthermore, in continuity with the policy adopted at end-June 2021, the Group has also set aside additional provisions, or overlays, in order ensure that the uncertainties linked to the particular historical situation are reflected in the coverage levels.

Overall, the overlays amount to €292m (€227.6m of which for performing loans), basically in line with the figure at end-June 2021 (€296.2m) split between Consumer Finance(€204.1m, approx. 70%), Corporate and Investment Banking (€70.5m, 24%; €55.3m of which for Wholesale Banking), and the other divisions (6%).

The overlays applied increase the level of provisioning for performing loans which now stands at €668.4m (€510.9m of which for Consumer Finance).

Table 3 – Overlay Stock

	Overlay stock	
	30/6/21	31/12/21
<i>Corporate and Investment Banking</i>	87.7	70.5
<i>Consumer Banking</i>	196.9	204.1
<i>Wealth Management</i>	3.3	9.0
<i>Leasing (Holding Functions)</i>	8.3	8.4
Total	296.2	292.0

For Consumer Banking, the recovery witnessed in previous quarters has continued, representative of the ongoing improvement in the Consumer Finance loan book, plus the fact that the increase in the coverage ratios for the anticipated increase in the default rates (already reflected in the changes to staging) had already been adequately provided for in the previous financial year. To address the uncertainties produced by the macroeconomic scenario, The possibility of funds being released back to profit and loss as a result of the low default rates and the return of many positions to performing status has been neutralized by a prudential increase in the provisioning level, setting aside overlays in an amount of €204.1m, applied to both non-performing (€64.4m) and performing loans (€139.7m).

For Corporate and Investment Banking, in line with the situation at end-June 2021, overlays of €70.5m have been provided (€55.3m of which in the Large corporate segment) in order to maintain a prudential coverage level to mitigate the reduction in impairment due to the revision to the macroeconomic scenario at end-June 2021, in addition to those applied as from end-December 2020 (€20.8m) for positions on which waivers had been applied for, counterparties classified as high risk, and for all stage 1 positions generally. The reduction compared to end-June 2021 is justified by the loss of the overlays in the following cases: positions which have been paid off in part or in full; counterparties whose rating has been upgraded; the expiry of certain waivers; and the Automotive, Gaming and Luxury sectors exiting from those classified as high-risk.

For mortgage lending the amount of the overlays is €9m (€3.3m at end-June 2021). The overlays have been applied to performing exposures classified as forborne, in addition to those made as from end-June 2021 to mortgage book positions for which suspensions had been granted.

The amount of overlays in leasing also remained basically unchanged, at €8.4m (€8.3m). The overlays have been applied to those moratoria (for performing loans) that had not resumed making repayments by end-December 2021, and also to the whole loan book generally, in order to maintain a prudential level of coverage in order to mitigate the reduction in impairment due to the improvement in the macroeconomic scenario at end-June 2021.

QUANTITATIVE INFORMATION

SECTION 1 – ACCOUNTING CONSOLIDATED RISKS

The accounting consolidation area includes the line-by-line consolidation of controlled entities Compass RE (a reinsurance company) Compass Rent and MB Contact Solutions (other companies), which under the banking group method of consolidation are accounted under the equity method.

A. Credit quality

A.1 Non-performing and performing accounts: amounts, adjustments, trends and segmentation by earnings

A.1.1 Financial assets by portfolio and credit quality (book value)

Portfolios/quality	Bad loans *	Unlikely to pay *	Non performing overdue exposures (NPLs)	Performing overdue exposures ¹	Other performing exposures	Total
1. Financial assets at amortized cost	468,874	340,246	86,579	255,600	58,255,318	59,406,617
2. Financial assets at fair value with impact taken to comprehensive income	—	—	—	—	4,763,306	4,763,306
3. Financial assets designated at fair value	—	—	—	—	614,722	614,722
4. Other financial assets mandatorily at fair value	—	—	—	—	14,068	14,068
5. Financial assets being sold	—	—	—	—	—	—
Total 31/12/21	468,874	340,246	86,579	255,600	63,647,414	64,798,713
Total 30/6/21	453,337	399,915	90,668	216,275	59,202,644	60,362,839

¹ Performing overdue exposures mainly refer to factoring (€113.1m, or 3.5% of the total performing loans in this segment) and mortgage loans (€45m, or 0.4%). The item also includes net exposures being renegotiated under collective agreements in an amount of €353.9m, virtually all of which comes from mortgage lending (€351.9m). Actual unpaid instalments account for 41% of the total performing overdue exposures (with a gross value of €120.3m).

* Includes the NPLs held by MBCredit Solutions in an amount of €408.6m, €406.4m of which bad loans (net values).

A.1.2 Financial assets by portfolio/credit quality (gross/net values)

Asset portfolio/quality	Non-performing assets				Performing assets			Total (net exposure)
	Gross exposure	Accumulated impairment	Net exposure	Overall partial write-off	Gross exposure	Accumulated impairment	Net exposure	
1. Financial assets at amortized cost	1,887,983	(992,284)	895,699	5,009	59,189,133	(678,215)	58,510,918	59,406,617
2. Financial assets at fair value with impact taken to comprehensive income	—	—	—	—	4,772,898	(9,592)	4,763,306	4,763,306
3. Financial assets designated at fair value	—	—	—	—	X	X	614,722	614,722
4. Other financial assets mandatorily at fair value	6,636	(6,636)	—	—	X	X	14,068	14,068
5. Financial assets being sold	—	—	—	—	—	—	—	—
Total 31/12/21	1,894,619	(998,920)	895,699	5,009	63,962,031	(687,807)	63,903,014	64,798,713
Total 31/06/21	1,981,251	(1,037,331)	943,920	5,681	59,371,084	(672,472)	59,418,917	60,362,837

Asset portfolio/quality	Assets with obviously poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	—	—	8,450,598
2. Hedging Derivatives	—	—	196,798
Total 31/12/21	—	—	8,647,396
Total 31/06/21	—	—	9,057,678

The non-performing items include €408.6m attributable to MBCredit Solutions, i.e. acquisitions of non-performing loans, with a nominal amount of €8.6bn as at 31 December 2021. Of these items, €4.6m (with a nominal value of €472.3m) involve assets acquired from other Group companies, mostly those operating in Consumer Banking.

Information on sovereign debt exposures

A.1.2a Exposures to sovereign debt securities by state, counterparty and portfolio *

Portfolio/quality	Non performing loans				Performing			Total net exposure ¹
	Gross exposure	Individual adjustments	Collective adjustments	Net exposure	Gross exposure	Collective adjustments	Net exposure	
1. Financial assets held for trading	—	—	—	—	X	X (1,299,402)	(1,299,402)	
France	—	—	—	—	X	X (1,003,981)	(1,003,981)	
Germany	—	—	—	—	X	X (580,743)	(580,743)	
Spain	—	—	—	—	X	X (7,750)	(7,750)	
Finland	—	—	—	—	X	X 249,709	249,709	
Others	—	—	—	—	X	X 43,363	43,363	
2. Financial assets designated at fair value through other comprehensive income	—	—	—	—	3,169,789	— 3,169,789	3,169,789	
Italy	—	—	—	—	1,843,847	— 1,843,847	1,843,847	
Germany	—	—	—	—	922,096	— 922,096	922,096	
United States	—	—	—	—	353,016	— 353,016	353,016	
Spain	—	—	—	—	—	—	—	
Others	—	—	—	—	50,830	— 50,830	50,830	
3. Financial assets at amortized cost	—	—	—	—	2,102,878	— 2,102,878	2,102,878	
Italy	—	—	—	—	1,342,608	— 1,342,608	1,342,608	
France	—	—	—	—	350,932	— 350,932	350,932	
Spain	—	—	—	—	100,219	— 100,219	100,219	
United States	—	—	—	—	276,922	— 276,922	276,922	
Others	—	—	—	—	32,197	— 32,197	32,197	
Total 31/12/21	—	—	—	—	5,272,667	— 3,973,265	3,973,265	

* Does not include financial or credit derivatives.

¹ The net exposure includes positions in securities (long and short) recognized at fair value (including the outstanding accrual) except for assets held to maturity which are stated at amortized cost, the implied fair value of which is €86.3m.

A.1.2b Exposures to sovereign debt securities by portfolio

Portfolio/quality	Trading Book ¹			Banking Book ²			
	Nominal value	Book value	Duration	Nominal value	Book value	Fair value	Duration
Italy	266,284	249,709	2.25	3,037,428	3,186,455	3,268,297	3.04
Germany	—	—	—	626,876	629,938	629,755	1.41
Spain (*)	(537,250)	(580,743)	4.30	915,000	922,096	922,096	1.00
United States	(911,725)	(1,003,981)	0.97	350,400	350,932	351,105	0.33
France	(7,500)	(7,750)	0.08	100,000	100,219	100,676	0.33
Others	46,000	43,363	—	84,507	83,027	87,048	—
Total 31/12/21	(1,144,191)	(1,299,402)	7.60	5,114,211	5,272,667	5,358,977	6.11

* The figure does not include forward sales with a notional amount of €395m.

¹ Does not include sales of €126m on Bund/Bobl/Schatz futures (Germany), with a positive fair value of €6.9m; or sales of €159m on the BPT future (Italy) with a positive fair value of €3.2m. Net hedge buys of €1,320m have also not been included (virtually all of which allocated to France country risk).

² Item does not include Greek GDP-linkers securities in a notional amount of €127m.

B. Information on structured entities (apart from securitization SPVs)

In accordance with the provisions of IFRS 12, the Group treats the entities it sets up in order to achieve a limited or well-defined objective, which are regulated by contractual agreements often imposing narrow restrictions on the decision-making powers of its governing bodies, as structured entities (special purpose vehicles or entities). Such entities are structured to ensure that the voting rights (or similar) are not the main factor in establishing who controls them (the activities are often governed by contractual agreements provisions agreed when the entity itself is structured and are therefore difficult to change).

B.1 Consolidated structured entities

As stated in Part A – Section 3 of the Notes to the Accounts, the securitization SPVs instituted pursuant to Italian law 130/99, namely Quarzo S.r.l., Quarzo CQS S.r.l., and MB Funding Lux S.A., a company incorporated under Luxembourg law and 100%-owned by Mediobanca S.p.A.

B.2 Structured entities not consolidated in accounting terms

The Group has no other interests in structured entities to report, apart from the stock units held in UCITs exclusively in connection with its activities as sponsor and/or as seed capital, including the following investments in particular:

- Funds distributed by CheBanca! in an amount of €42.2m, €4.9m of which invested in the two segments of the Yellow Funds Sicav, and €17m in the Mediobanca Global Multi-Manager 15 and 35 funds, plus new investments in the six months of €20.4m in the Mediobanca MFS Prudent Capital and Mediobanca MFS Prudent Capital Euro Hedged funds;
- Funds managed by Cairn Capital totalling €170.2m: the six months under review saw the placement of the CLO XIV fund, and expansion of the investor base for the CLI I and II funds for equity tranches totalling €20m (€10m of which subscribed for by Mediobanca S.p.A., for a total investment in the two SPEs of €55.6m) ahead of the issuance of new CLOs. There was also the €114.6m invested in the Cairn European Loan Fund, plus direct investments of €1.9m;
- Funds managed by RAM Active Investments totalling €187.7m, specifically in RAM Global Sustainable Income Equities, RAM Diversified Alpha, RAM Stable Climate Global Equities, RAM Global Multi-Asset, RAM Asia Bond Total Return, and the RAM Systematic IO fund, plus a further €54.9m in the RAM Mediobanca Strata UCITS fund and direct investments of €0.3m;
- Funds managed by Mediobanca SGR totalling €16,4m (Mediobanca *Fondo per le Imprese II*, Mediobanca Euro High Yield, and Mediobanca Social Impact).

Mediobanca also has a €73.5m investment in the Luxembourg reserved alternative investment fund Negentropy RAIF managed by Negentropy Capital Partners Limited.

B.2.1 Structured entities consolidated prudentially

As at 31 December 2021 there was no disclosure to be made as no instances of this type of interest apply in the case of Mediobanca.

B.2.2 Other structured entities

The process of delegating and sub-delegating investment activity, along with the broad powers of discretion afforded to delegates and the temporary nature of the investments, means that the ability to impact on returns stipulated by IFRS 10 as a precondition for establishing control of SICAVs does not apply in these cases; hence Mediobanca does not have direct control.

Asset-backed SPEs

The entities in this case have been set up to acquire, build or manage actual or financial assets, for which the prospect of recovering the credit concerned depends largely on the cash flows to be generated by the assets.

As part of its ordinary lending operations, the Group finances asset-backed SPEs but without holding any form of direct equity stake or interest in them, hence this does not qualify as acting as sponsor.

Hold to Collect lending transactions, recorded under asset heading 40, “Financial assets recognized at amortized cost – due from customers: composition”, in which the Group is the sole lender, involve an amount of €566.3m, plus €4.3m in notes booked as Hold to Collect and Sell.¹³

Leveraged finance transactions

The definition of leveraged finance transactions is aligned with that provided in the Guidance on leveraged transactions issued by the ECB in May 2017, and has been shared with and reviewed by the regulator. The definition comprises deals with at least one of the following characteristics:

- Credit exposures to parties for which the total gross debt (on balance sheet and committed off balance sheet) to Ebitda ratio is more than 4x;
- Credit exposures to Group companies (with more than 50% of the share capital owned or possessed) by a financial sponsor (i.e. an investment company which carries out acquisitions of companies, *inter alia* financed by debt, with a medium-term time horizon).

¹³ The position mandatorily recognized at fair value was closed in the six months (€51m as at 30 June 2021).

As at 31 December 2021, the Group's aggregate exposure to leveraged finance transactions was €4,020.2m, ¹⁴ down 16% on the total reported at 30 June 2021 (€4,798.3m), and represents 22% of the corporate loan book (down from 29% at the balance-sheet date), Pure LBOs ¹⁵ totalled €600m (15% of the total), while the three deals classified as non-performing were basically flat versus end-June 2021. More than half of the portfolio (55%) is concentrated on domestic transactions.

In the first six months there were repayments totalling €1,352m (29% of the total repayments on corporate loans), 61% of which involving the closure of sixteen deals. New loans of €474m account for around 10% of the entire new business in the large corporate segment, and involve eighteen new deals in addition to the calls on existing commitments.

SECTION 2 – PRUDENTIAL CONSOLIDATED RISKS

1.1 CREDIT RISK

A. Credit quality

A.1.3 Prudential consolidation - financial assets, commitments to end-funds and financial guarantees given: transfers between different stages of credit risk (gross and nominal values)

Portfolios/Risk stages	Gross amounts / Nominal values					
	Transfers between stage 1 to stage 2		Transfers between stage 2 to stage 3		Transfers between stage 1 to stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets valued at amortized cost	1,201,733	765,412	135,960	72,868	62,547	4,651
2. Financial assets valued at fair value with impact taken to other comprehensive income	10,162	—	—	—	—	—
3. Assets classified as held for sale	—	—	—	—	—	—
4. Commitments to disburse funds and financial guarantees given	20,597	47,399	8	758	62	1,475
31/12/21	1,232,492	812,811	135,968	73,626	62,609	6,126
30/6/21	2,388,248	912,759	208,057	93,308	203,338	11,230

¹⁴ Plus off-balance-sheet exposures (commitments and derivatives) totalling €1,512m (up 7% on 30 June 2021).

¹⁵ A "pure LBO" is when a majority share in a company is held by a private equity fund.

A.1.3a Exposures subject to Covid-19-related concessions: transfers between different credit risk stages (gross amounts)

Portafogli/qualità	Gross values / Nominal value					
	Transfers between stage 1 to stage 2		Transfers between stage 2 to stage 3		Transfers between stage 1 to stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
A. Loans and advances measured at amortized cost	1,749	—	144	608	—	—
A.1 Loans and advances subject to EBA-compliant moratoria*	1,663	—	144	608	—	—
A.2. Loans subject to moratoria measures in place no longer compliant with GL and not assessed as forbearance measures**	—	—	—	—	—	—
A.3 subject to COVID-19-related forbearance measures	86	—	—	—	—	—
A.4 newly originated loans	—	—	—	—	—	—
B. Loans and advances valued at fair value with an impact on overall profitability	—	—	—	—	—	—
B.1 Loans and advances subject to EBA-compliant moratoria*	—	—	—	—	—	—
B.2. loans subject to moratoria measures in place no longer compliant with GL and not assessed as forbearance measures**	—	—	—	—	—	—
B.3 subject to COVID-19-related forbearance measures	—	—	—	—	—	—
B.4 newly originated loans	—	—	—	—	—	—
Total 31/12/21	1,749	—	144	608	—	—
Total 30/6/21	247,255	118	6,442	307	2,751	—

* The row headed “Loans that have received concessions in conformity with EBA Guidelines” shows information on financial assets for which moratoria have been granted under the scope of application of the “Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID 19 crisis” published by the EBA (EBA/GL/2020/02) as amended.

** The row headed “loans subject to moratoria measures in place no longer compliant with GL and not assessed as forbearance measures ” shows information on financial assets for which moratoria have been granted, and which are outstanding at the reporting date, which were assessed as conforming to EBA/GL/2020/02 on the date when the measure was granted but which, at the reporting date, were found to no longer be compliant. These loans not been classified by the Bank as “exposures subject to forbearance measures” as a result of the assessment carried out when the event that generated the non-compliance with EBA/GL/2020/02 occurred.

A.1.4 Prudential consolidation - Cash and off-balance-sheet exposures to banks: gross and net values

Type of exposure/ amounts	Gross exposures				Total value adjustments and total credit risk provisions				Net Exposure	Total partial Write-off		
	Stage 1	Stage 2	Stage 3	Purchased or originated impaired	Stage 1	Stage 2	Stage 3	Purchased or originated impaired				
A. ON-BALANCE SHEET CREDITS EXPOSURES												
A.1 ON DEMAND	4,133,707	4,133,707	—	—	—	(243)	(243)	—	—	—	4,133,464	—
a) Non performing	—	X	—	—	—	—	X	—	—	—	—	—
b) Performing	4,133,707	4,133,707	—	X	—	(243)	(243)	—	X	—	4,133,464	—
A.2 OTHERS	5,960,942	4,968,484	33	—	—	(5,629)	(5,629)	—	—	—	5,955,313	—
a) Bad exposures	—	X	—	—	—	—	X	—	—	—	—	—
- of which: forborne exposures	—	X	—	—	—	—	X	—	—	—	—	—
b) Unlikely to pay	—	X	—	—	—	—	X	—	—	—	—	—
- of which: forborne exposures	—	X	—	—	—	—	X	—	—	—	—	—
c) Non performing past due	—	X	—	—	—	—	X	—	—	—	—	—
- of which: forborne exposures	—	X	—	—	—	—	X	—	—	—	—	—
d) Performing past due exposures	11	—	11	X	—	—	—	—	X	—	11	—
- of which: forborne exposures	—	—	—	X	—	—	—	—	X	—	—	—
e) Other performing exposures	5,960,931	4,968,484	22	X	—	(5,629)	(5,629)	—	X	—	5,955,302	—
- of which: forborne exposures	—	—	—	X	—	—	—	—	X	—	—	—
TOTAL (A)	10,094,649	9,102,191	33	—	—	(5,872)	(5,872)	—	—	—	10,088,777	—
B. OFF-BALANCE SHEET CREDITS EXPOSURES												
a) Non performing	—	X	—	—	—	—	X	—	—	—	—	—
b) Performing	14,321,621	5,662	—	X	—	—	—	—	X	—	14,321,621	—
TOTAL (B)	14,321,621	5,662	—	—	—	—	—	—	—	—	14,321,621	—
TOTAL (A+B)	24,416,270	9,107,853	33	—	—	(5,872)	(5,872)	—	—	—	24,410,398	—

*A.1.5 Prudential consolidation - Cash and off-balance-sheet exposures to customers:
gross and net values*

Type of exposure/ Amounts	Gross exposures				Total value adjustments and total credit risk provisions				Net Exposure	Total partial Write-off		
	Stage 1	Stage 2	Stage 3	Purchased or originated impaired	Stage 1	Stage 2	Stage 3	Purchased or originated impaired				
A. ON-BALANCE SHEET CREDITS EXPOSURES												
a) Bad exposures *	860,191	X	—	431,690	421,867	(391,317)	X	—	(369,185)	(15,497)	468,874	4,523
- of which: forbome exposures	105,750	X	—	99,114	—	(95,119)	X	—	(88,483)	—	10,631	—
b) Unlikely to pay *	787,114	X	—	784,867	2,247	(446,868)	X	—	(446,868)	—	340,246	486
- of which: forbome exposures	474,386	X	—	474,386	—	(247,894)	X	—	(247,894)	—	226,492	35
c) Non performing past due	247,314	X	—	247,314	—	(160,735)	X	—	(160,735)	—	86,579	—
- of which: forbome exposures	53,590	X	—	53,590	—	(40,452)	X	—	(40,452)	—	13,138	—
d) Performing past due exposures	296,894	118,833	178,061	X	—	(41,305)	(613)	(40,692)	X	—	255,589	—
- of which: forbome exposures	14,466	—	14,466	X	—	(3,151)	—	(3,151)	X	—	11,315	—
e) Other performing exposures	62,648,930	54,990,716	3,479,172	X	—	(640,794)	(308,714)	(332,079)	X	—	62,008,136	5
- of which: forbome exposures	716,181	—	712,924	X	—	(59,902)	—	(59,902)	X	—	656,279	—
TOTAL (A)	64,840,443	55,109,549	3,657,233	1,463,871	424,114	(1,681,019)	(309,327)	(372,771)	(976,788)	(15,497)	63,159,424	5,014
B. OFF-BALANCE SHEET CREDITS EXPOSURES												
a) Non performing	1,420	X	—	1,420	—	(135)	X	—	(135)	—	1,285	—
b) Performing	23,919,764	12,368,123	205,856	X	—	(24,481)	(20,953)	(3,069)	X	—	23,895,283	—
TOTAL (B)	23,921,184	12,368,123	205,856	1,420	—	(24,616)	(20,953)	(3,069)	(135)	—	23,896,568	—
TOTAL (A+B)	88,761,627	67,477,672	3,863,089	1,465,291	424,114	(1,705,635)	(330,280)	(375,840)	(976,923)	(15,497)	87,055,992	5,014

* Includes the NPLs held by MBCredit Solutions.

As at 31 December 2021 gross non-performing assets had declined from €1,981.3m to €1,894.6m, and represent 2.9% of total cash credit exposures to customers (3.2%), the lowest level for ten years. The increase in the coverage ratio, to 52.7% (52.4%) drove an even more pronounced reduction in net NPLs (from €943.9m to €895.7m). The gross NPL ratio, not including the NPLs purchased by MBCredit Solutions, now stands at 2.3% (2.6%).

Gross NPL Ratio Finrep ¹⁶

	(€m)	
	31/12/21	30/6/21
Loans	50,580.2	48,124.4
NPLs	1,470.5	1,597.1
Loans and advances to customers	52,050.7	49,721.5
NPLs purchased by MBCredit Solutions	424.1	384.1
Treasury financial assets *	10,236.3	7,912.5
Total Loans and Receivables (FINREP)	62,711.1	58,018.1
Gross NPL ratio Finrep %	3.0%	3.4%

* Aligned with the EBA Risk Dashboard indications, the item excludes Cash and includes free deposits with Central Banks.

At 31 December 2021 the Mediobanca Group reported a Finrep gross NPL ratio of 3.0%, well below the materiality threshold of 5%, and far better than at end-June 2021 (3.4%), and below the national average. ¹⁷ The Finrep gross NPL ratio calculated without the NPLs acquired by MBCredit Solutions was 2.8% (30/6/21: 3.2%).

¹⁶ The EBA Risk Dashboard defines the way according to which the Gross NPL ratio should be calculated: it is the ratio between the gross NPLs book value (loans and advances) and total loans and advances. Source: EBA *Risk Dashboard, Risk Indicators in the Statistical Annex* (AQT_3.2).

¹⁷ Source: EBA *Risk Dashboard*, 3Q 2021 (3.6%).

A.1.5a Cash and off-balance-sheet exposures to customers subject to Covid-19-related concessions: gross and net amounts

Exposure types / amounts	Gross exposure				Total value adjustments and total provisions				Net exposure	Total partial write-off
	Stage 1	Stage 2	Stage 3	Purchased or originated impaired	Stage 1	Stage 2	Stage 3	Purchased or originated impaired		
A. NON-PERFORMING LOANS	22	—	—	22	—	—	—	(10)	12	—
a) Subject to EBA-compliant moratoria *	—	—	—	—	—	—	—	—	—	—
b) Loans subject to moratoria measures in place no longer compliant with GL and not assessed as forbearance measures**	—	—	—	—	—	—	—	—	—	—
c) Subject to COVID-19-related forbearance measures	—	—	—	—	—	—	—	—	—	—
d) Newly originated loans	22	—	—	22	(10)	—	—	(10)	12	—
B. UNLIKELY TO PAY CREDIT LOANS	8,361	—	—	8,361	(2,653)	—	—	(2,653)	5,708	—
a) Subject to EBA-compliant moratoria *	1,200	—	—	1,200	(393)	—	—	(393)	807	—
b) Loans subject to moratoria measures in place no longer compliant with GL and not assessed as forbearance measures**	—	—	—	—	—	—	—	—	—	—
c) Subject to COVID-19-related forbearance measures	129	—	—	129	(42)	—	—	(42)	87	—
d) Newly originated loans	6,953	—	—	6,953	(2,187)	—	—	(2,187)	4,766	—
C. NON-PERFORMING PAST DUE CREDIT LOANS	—	—	—	—	—	—	—	—	—	—
a) Subject to EBA-compliant moratoria *	—	—	—	—	—	—	—	—	—	—
b) Loans subject to moratoria measures in place no longer compliant with GL and not assessed as forbearance measures**	—	—	—	—	—	—	—	—	—	—
c) Subject to COVID-19-related forbearance measures	—	—	—	—	—	—	—	—	—	—
d) Newly originated loans	—	—	—	—	—	—	—	—	—	—
D. PERFORMING PAST DUE LOANS	665	69	596	—	(48)	—	—	(48)	617	—
a) Subject to EBA-compliant moratoria *	142	—	142	—	(6)	—	—	(6)	136	—
b) Loans subject to moratoria measures in place no longer compliant with GL and not assessed as forbearance measures**	—	—	—	—	—	—	—	—	—	—
c) Subject to COVID-19-related forbearance measures	454	—	454	—	(42)	—	—	(42)	412	—
d) Newly originated loans	69	69	—	—	—	—	—	—	69	—
E. OTHER PERFORMING LOANS	292,535	159,030	96,705	—	(3,956)	(341)	(3,615)	—	288,579	—
a) Subject to EBA-compliant moratoria *	26,460	—	26,460	—	(994)	—	(994)	—	25,466	—
b) Loans subject to moratoria measures in place no longer compliant with GL and not assessed as forbearance measures**	—	—	—	—	—	—	—	—	—	—
c) Subject to COVID-19-related forbearance measures	107,045	—	70,245	—	(2,621)	—	(2,621)	—	104,424	—
d) Newly originated loans	159,030	159,030	—	—	(341)	(341)	—	—	158,689	—
TOTAL (A+B+C+D+E)	301,583	159,099	97,301	8,383	(6,667)	(341)	(3,663)	(2,663)	294,916	—

* The row headed "Loans that have received concessions in conformity with EBA Guidelines" shows information on financial assets for which moratoria have been granted under the scope of application of the "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID 19 crisis" published by the EBA (EBA/GL/2020/02) as amended.

** The row headed "loans subject to moratoria measures in place no longer compliant with GL and not assessed as forbearance measures" shows information on financial assets for which moratoria have been granted, and which are outstanding at the reporting date, which were assessed as conforming to EBA/GL/2020/02 on the date when the measure was granted but which, at the reporting date, were found to no longer be compliant. These loans not been classified by the Bank as "exposures subject to forbearance measures" as a result of the assessment carried out when the event that generated the non-compliance with EBA/GL/2020/02 occurred.

B. Exposures distribution and concentration

B.1 Prudential consolidation - Cash and off-balance sheet exposures to banks by sector

Exposures/Counterparts	Public administration		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Families	
	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment
A. Balance sheet credit exposures										
A.1 Bad loans	—	(145)	619	(8,672)	—	—	103,529	(38,245)	364,726	(344,255)
- of which: <i>forborne exposures</i>	—	—	—	(6,636)	—	—	9,471	(21,210)	1,160	(67,273)
A.2 Unlikely to pay	634	(574)	4,213	(3,103)	—	—	160,381	(116,636)	175,018	(326,555)
- of which: <i>forborne exposures</i>	—	—	2,070	(2,109)	—	—	125,031	(86,342)	99,391	(159,443)
A.3 Overdue exposures (NPLs)	489	(212)	163	(184)	—	—	7,117	(6,422)	78,810	(153,917)
- of which: <i>forborne exposures</i>	—	—	—	—	—	—	193	(775)	12,945	(39,677)
A.4 Performing exposures	8,289,919	(11,114)	8,060,451	(17,747)	1,201,197	(3,009)	19,775,132	(93,270)	26,138,223	(559,968)
- of which: <i>forborne exposures</i>	—	(2)	17,885	(570)	—	—	146,162	(5,911)	503,548	(56,570)
Total (A)	8,291,042	(12,045)	8,065,446	(29,706)	1,201,197	(3,009)	20,046,159	(254,573)	26,756,777	(1,384,695)
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	—	—	—	—	—	—	—	—	758	(40)
B.2 Performing exposures	794,677	(61)	7,862,989	(2,626)	886,566	(448)	12,666,046	(14,020)	2,571,571	(7,774)
Total (B)	794,677	(61)	7,862,989	(2,626)	886,566	(448)	12,666,046	(14,060)	2,572,098	(7,869)
Total (A+B) 31/12/2021	9,085,719	(12,106)	15,928,435	(32,332)	2,087,763	(3,457)	32,712,963	(268,633)	29,328,875	(1,392,564)
Total (A+B) 30/06/2021	11,900,633	(12,366)	15,770,769	(36,500)	2,691,903	(4,988)	27,897,194	(275,871)	28,602,637	(1,406,263)

B.2 Prudential consolidation - Cash and off-balance sheet exposures to customers by geography

Exposures/geographical area	Italy		Other european countries		America		Asia		Rest of the world	
	Net exposures	Accumulated impairment	Net exposures	Accumulated impairment	Net exposures	Accumulated impairment	Net exposures	Accumulated impairment	Net exposures	Accumulated impairment
A. Balance sheet credit exposures										
A.1 Bad loans	465,595	(387,367)	2,368	(3,679)	406	(95)	81	(15)	424	(161)
A.2 Unlikely to pay	285,980	(399,602)	29,035	(29,381)	18,658	(2,853)	5,225	(14,375)	1,343	(637)
A.3 Overdue exposures (NPLs)	74,416	(160,544)	12,160	(191)	—	—	—	—	3	—
A.4 Performing exposures	46,390,353	(627,856)	12,323,613	(34,906)	2,914,570	(18,591)	228,522	(579)	406,667	(167)
Total (A)	47,216,344	(1,575,369)	12,367,176	(68,157)	2,933,634	(21,539)	233,828	(14,969)	408,442	(985)
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	1,285	(135)	—	—	—	—	—	—	—	—
B.2 Performing exposures	7,960,779	(14,200)	13,829,194	(9,552)	580,317	(729)	1,172,847	—	352,146	—
Total (B)	7,962,064	(14,335)	13,829,194	(9,552)	580,317	(729)	1,172,847	—	352,146	—
Total (A+B) 31/12/21	55,178,408	(1,589,704)	26,196,370	(77,709)	3,513,951	(22,268)	1,406,675	(14,969)	760,588	(985)
Total (A+B) 30/06/21	55,192,346	(1,615,635)	24,663,398	(79,441)	2,353,660	(19,868)	1,233,110	(15,169)	728,719	(857)

B.3 Prudential consolidation - Cash and off-balance sheet exposures to banks by geography

Exposures / Geographical Area	Italy		Other european countries		America		Asia		Rest of the world	
	Net exposures	Accumulated impairments	Net exposures	Accumulated impairments	Net exposures	Accumulated impairments	Net exposures	Accumulated impairments	Net exposures	Accumulated impairments
A. Balance sheet credit exposures										
A.1 Bad loans	—	—	—	—	—	—	—	—	—	—
A.2 Unlikely to pay	—	—	—	—	—	—	—	—	—	—
A.3 Overdue exposures (NPLs)	—	—	—	—	—	—	—	—	—	—
A.4 Performing exposures	5,204,429	(5,618)	4,838,420	(245)	41,711	(7)	2,497	(2)	1,720	—
Total (A)	5,204,429	(5,618)	4,838,420	(245)	41,711	(7)	2,497	(2)	1,720	—
B. Off-balance sheet credit exposures										
B.1 Non performing exposures	—	—	—	—	—	—	—	—	—	—
B.2 Performing exposures	1,329,290	—	12,992,331	—	—	—	—	—	—	—
Total (B)	1,329,290	—	12,992,331	—	—	—	—	—	—	—
Total (A+B) 31/12/21	6,533,719	(5,618)	17,830,751	(245)	41,711	(7)	2,497	(2)	1,720	—
Total (A+B) 30/6/21	3,727,827	(5,788)	14,324,176	(444)	351,791	(72)	1,041	(4)	14,639	—

B.4a Credit risk indicators

	31/12/21	30/6/21
a) Gross bad loans/total loans	1.47%	1.63%
b) NPLs/cash exposures	3.00%	3.33%
c) Net bad loans/regulatory capital ¹	5.54%	5.08%

¹ This item includes the NPL portfolios acquired and held by MBCredit Solutions, which increased from €381.3m to 406.4m.

B.4b Large risks

	31/12/21	30/6/21
a) Book value	9,871,148	9,925,906
b) Weighted value	6,663,662	8,519,056
c) No. of exposures	7	9

As at 31 December 2021, aggregate exposures (including market risks and equity investments) to a total of seven groups of clients (two fewer than last year) were in excess of 10% of CET1 regulatory capital, for a gross exposure of €9.9bn, virtually unchanged since the balance-sheet date (€9.9bn) and, net of removals for guarantees and weightings, of €6.7bn, much lower than six months previously (€8.5bn). The seven positions involve one insurance company, one finance company, and five banking groups. The reduction in the weighted exposure is chiefly due to the revision of the risk definition for some of the groups concerned based on the economic relations between the respective group members.

C. Securitizations

QUALITATIVE INFORMATION

The Group has portfolio of securities deriving from securitizations by other issuers totalling €1,444.4m, €1,190 of which as part of the banking book and €254.3 as part of the trading book. The sharp increase for the six months chiefly regards subscription to the senior tranche (in an amount of €824.3m) of a securitization of non-performing loans originated by an Italian bank (rated A2 by Moody's and Alow DBRS) for which a state guarantee is expected to be obtained (*Garanzia sulla Cartolarizzazione delle Sofferenze*, GACS) and then part-syndicated on the market.

The ABS market remained stable throughout the second half of the 2021 calendar year, with spreads at historically low levels, helped by the low levels of delinquency supported by the abundant liquidity and by the economic recovery, and also by investors repositioning towards this particular asset class in view of the expected increases in inflation. These conditions helped the primary market to recover, and it should grow further in the next quarters, in particular in conjunction with the rollover of the T-LTRO funding.

The banking book increased from €231.2m to €1,190m, due to the securitization referred to above (€824.3m, booked as HTC&S), but also to the increase in positions taken in CLOs (which rose from €155.2m to €253.7m after participating in five new deals, and the increase in the performing portfolio (from €28.3m to €72.1m, due to the subscription to one UK performing loan). The share of junior securities remains decidedly small at just €0.2m, whereas holdings in mezzanine tranches halved, from €15.6m to €7.8m. The difference between book value (amortized cost) and fair value (obtained from the market platforms) remains low, at €670,000.

Holdings included in the trading book rose from €128.8m to €254.3m, and here too the increase involves almost exclusively one single transaction, in Transferable Custody Receipts¹⁸ (€100m); the share of mezzanine securities rose from €99.6m to €116.9m, and remains concentrated in the negative basis strategy (i.e. with no credit risk; €71.6m).

Mediobanca also has an exposure to:

- Cairn Loan Investments LLP (CLI and CLI II), a Cairn-branded CLO management company which, in order to comply with the prudential regulations (Article 405 of Regulation (EU) 585/2013), invest in the junior tranches of the CLOs they manage, with gross investments subscribed to of €30m and €30.4m respectively;¹⁹ the commitment to CLI II was increased by €10m during January 2022;
- Italian Recovery Fund, a closed-end alternative investment fund (AIF) incorporated under Italian law and managed by DeA Capital SGR S.p.A. which is currently invested in four securitizations (Valentine, Berenice, Cube, Este and Sunrise) with Italian banks' NPLs as the underlying instrument; the €30m commitment has to date been drawn as to €29m;

¹⁸ Mediobanca has subscribed to a note issued by the depositary bank where three positions acquired by the Bank in CLOs with European corporate loans as the underlying instrument and the financial guarantees over the CLOs through which Mediobanca bought protections were held under trust. The TCRs pay principal and interest on the underlying CLOs net of the premium for the financial guarantees.

¹⁹ As at 31 December 2021, as stated in the information on structured entities not consolidated in accounting terms, the holdings in the CLI I and CLI II funds were booked to the accounts at €21.5m and €34.1m respectively.

- Negentropy RAIF – Debt Select Fund, an alternative investment fund instituted under Luxembourg law and managed by Negentropy Capital Partners Limited, for which Mediobanca has acted as advisor; the fund has senior tranches of Italian NPLs as the underlying instrument, with an aggregate NAV of €117.2m, €73.4m of which refers to Mediobanca’s investment.

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C.2 Prudential consolidation - exposures from main customer securitizations by asset type/exposure

Type of securitized assets/Exposure	Cash exposure					
	Senior		Mezzanine		Junior	
	Book value	Writedowns/writebacks	Book value	Writedowns/writebacks	Book value	Writedowns/writebacks
A. Italy NPLs (residential mortgages and real estates)	864,816	(1,429,0)	404	(91)	25	(324)
B. Italy Consumer ABS	12,743	(6)	2,762	(8)	—	—
C. Netherlands Performing Loans	10,627	(9)	3,295	(3)	168	(6)
D. Germany Consumer ABS	—	—	3,615	—	—	—
E. Ireland Performing Loans	14,212	24	1,509	7	—	—
F. UK Performing Loans	54,392	—	—	—	—	—
G. Other receivables	362,619	(81)	113,179	(589)	—	—
Total 31/12/21	1,319,410	(1,500)	124,764	(684)	193	(331)
Total 30/6/21	244,243	86	115,228	1,245	524	54

C.3 Prudential consolidation - Interests in vehicle companies

Name	Head office	Type of consolidation	Assets			Liabilities		
			Receivables	Debt securities	Other items	Senior	Mezzanine	Junior
Quarzo 7 - Quarzo S.r.l.	Milan	Accounting	1,390,892	—	116,116	1,215,000	—	290,900
Quarzo 8 - Quarzo S.r.l.	Milan	Accounting	235,746	—	53,700	130,479	—	156,735
Quarzo 9 - Quarzo S.r.l.	Milan	Accounting	445,100	—	79,814	402,122	—	120,915
Quarzo 10 - Quarzo S.r.l.	Milan	Accounting	1,707,196	—	142,757	1,600,047	—	248,800
Quarzo CQS S.r.l. (2018)	Milan	Accounting	140,414	—	16,075	96,027	—	52,000
MB Funding Lux S.A.	Luxembourg	Accounting	1,176,734	—	—	950,219	—	—

C.5 Prudential consolidation – servicing – collecting securitized receivables and redeeming securities issued by vehicle companies

Servicer	Vehicle company	Securitized assets (31/12/21)		Receivables collected during the year		Percentage share of securities repaid (31/12/21)					
		Non performing	Performing	Non performing	Performing	Senior		Mezzanine		Junior	
						Non Performing performing	Non Performing performing	Non Performing performing	Non Performing performing		
Compass	Quarzo CQS (2018)	8,263	136,210	—	71,735	—	84,00	—	—	—	—
Compass	Quarzo Srl (Q7)	74,441	1,424,360	—	465,140	—	—	—	—	—	—
Compass	Quarzo Srl (Q8)	24,728	239,366	—	93,283	—	83,00	—	—	—	—
Compass	Quarzo Srl (Q9)	26,804	456,434	—	134,898	—	49,00	—	—	—	—
Compass	Quarzo Srl (Q10)	53,926	1,756,434	—	520,172	—	9,00	—	—	—	—

C.6 Prudential consolidation – Consolidated securitization-related SPVs

Quarzo S.r.l. (Compass Banca)

This SPV currently has four securitizations outstanding with performing loans granted by Compass Banca as the underlying instrument (Compass has subscribed for the entire number of junior securities), which are ceded on a revolving basis for a period of between 6 and 66 months, at the end of which the amortization phase of the securitization may begin. In some of the deals Mediobanca S.p.A. or another of the Group legal entities have subscribed to the senior notes.

The four deals outstanding are summarized in the table below:

Issue date	Senior		Junior	Credits transferred in the year	From the repayment date
	A1	A2			
15/02/17	—	1,215	285	413	
06/12/18	600	147	153	—	1/7/19
25/11/19	600	183	117	—	1/7/20
17/04/20	—	1,760	240	291	

Legend:

A1: issued on the market

A2: subscribed to by Mediobanca S.p.A. and/or other Group companies.

Quarzo CQS S.r.l. (Compass Banca, formerly Futuro)

This SPV has just one securitization outstanding, executed in 2018, with Compass loans (salary-backed finance granted by the former Futuro) as the

underlying instrument ceded in a single, non-revolving tranche. The senior securities (originally issued in a total amount of €598m, with €96m currently in issue) are listed on the Dublin stock exchange and sold on the market, while the junior securities (€52m) have been subscribed for entirely by Futuro, which has since been merged into Compass Banca.²⁰

MB Funding Lux S.A. (Mediobanca)

This SPV was set up by Mediobanca S.p.A. in order to execute secured transactions with a corporate loans originated by Mediobanca International (Luxembourg) SA or Mediobanca S.p.A. as the underlying instrument, of which it retains the credit risk. The notes, which form part of the parent company’s “Medium-Term Note” programme of issuance, have been subscribed for entirely by other Group legal entities and used as collateral for transactions on the interbank market.

The five transactions have an aggregate nominal value of €1 bn and are made up as follows:

Issue date	Nominal Value	Refund date
25/06/17	200	25/06/22
20/12/17	100	20/12/24
30/10/18	400	30/10/23
11/12/20	100	11/06/26
13/10/21	200	15/10/26

There is also an unsecured issue of €10m expiring in June 2023.

* * *

Accounts between the originator and the SPVs during the period under review were as follows:

SPV	Receivables ceded	Amounts collected	Servicing fees	Interest on junior amounts	Additional return accrued
Quarzo CQS S.r.l.	—	74.4	0.2	0.5	6.4
Quarzo S.r.l.	703.3	1,222.9	3.8	12.7	151.3
MB Funding Lux	428.7	225.7	—	—	1.3

²⁰ Please see Part A – Section 3 – Area and methods of consolidation of this financial statement.

B. Financial assets sold and fully derecognized with continuing involvement recorded

QUALITATIVE INFORMATION

D.4 Prudential consolidation - covered bond issues

Mediobanca Covered Bond Srl, an SPV incorporated under Article 7-*bis* of Italian Law 130/99, is owned as to 90% by CheBanca! and as to 10% by SPV Holding.

At a Board meeting held in December 2020, the Bank's Directors approved a resolution to renew the programme of covered bond issuance for a further ten years compared to the original expiry date (December 2021) for a total amount of €10bn.

The deal entails the involvement of:

- Mediobanca, as the issuer of the covered bonds;
- CheBanca! as the seller (including on a revolving basis), of assets eligible for sale under the regulations in force, up to the limits on Mediobanca's regulatory capital ratios, and servicer for the transaction;
- Mediobanca Covered Bond S.r.l. (SPV) as non-recourse recipient of the assets and guarantor of the covered bonds.

The programme issues are rated AA by Fitch; after the rating for Italian sovereign debt was raised, Mediobanca's covered bond issues were also upgraded (previous rating AA-).

Six deals are outstanding under the programme with a nominal value of €4,500m placed with institutional investors and covered by assets totalling €6,142.6m, as follows:

Issue date	Nominal Value	Rate	Maturity date
Oct-13	750	<i>fix: 3.625%</i>	Oct-23
Nov-15	750	<i>fix: 1.375%</i>	Nov-25
Nov-17	750	<i>fix: 1.25%</i>	Nov-29
Jul-18	750	<i>fix: 1.125%</i>	Aug-24
Jul-19	750	<i>fix: 0.5%</i>	Oct-26
Jan-21	750	<i>fix: 0.01%</i>	Feb-31
	4,500		

During the six months under review, assets were sold by CheBanca! to Mediobanca Covered Bond in an amount of €471.7m, with assets bought back totalling €9.5m.

* * *

E. Prudential consolidation – models for managing credit risk

The Mediobanca Group uses the IRB Advanced method, featuring the PD and LGD parameters, in order to quantify the capital requirement for credit risk on the corporate loan book of Mediobanca and Mediobanca International and the CheBanca! Italian mortgage portfolio. A plan has also been adopted to progressively role the internal models out to cover other categories of credit asset as well (the “Roll-Out Plan”). For these exposures, for which the standardized methodology is currently used to calculate the regulatory capital requirements, the Group has nonetheless developed internal credit risk models that are used for management purposes. The Group has also developed a portfolio model to calculate the economic capital for credit risk, which allows concentration and diversification effects (geographical and sector) to be taken into consideration. For further details please see “Section 1.1 Credit risk” in Part E of the Notes to the Accounts.

1.2 MARKET RISK

1.2.1 INTEREST RATE RISK AND PRICE RISK – SUPERVISORY TRADING BOOK

QUALITATIVE INFORMATION

The operating exposure to market risks generated by the positions held as part of the trading book are measured and monitored, and the earnings results from trading are calculated, on a daily basis principally through use of the following indicators:

- Sensitivity – mainly Delta and Vega – to small changes in the principal risk factors (such as interest rates, share prices, exchange rates, credit spreads, inflation and volatility, dividends, correlations, etc.); sensitivity analysis shows the increase or decrease in the value of financial assets and derivatives to local changes in these risk factors, providing a static representation of the market risk of the trading portfolios;
- Value-at-risk calculated using a weighted historical simulation method with scenarios updated daily, assuming a liquidation horizon of one business day and a confidence level of 99%.

Trading exposures are monitored daily through VaR and sensitivity, to ensure that the operating limits approved to reflect the risk appetite established by the Bank for its trading book are complied with. In the case of VaR they also serve to assess the model's resilience through back-testing. Stress tests are also carried out daily (on specific positions) and monthly (on the rest of the trading book) on the main risk factors, to show the impact which more substantial movements in the main market variables might have, such as share prices and interest or exchange rates, calibrated on the basis of extreme changes in market variables.

Other complementary and more specific risk metrics are also calculated, in addition to VaR and sensitivity, in order to capture risks not fully measured by these indicators more effectively. The weight of products which require such metrics to be used is in any case extremely limited compared to the overall size of Mediobanca's trading book.

The half-year was characterized by a relatively low level of volatility for all asset classes until November, when there was an increase in risk for most market indicators. This is due to a set of causes such as: (a) the spread of

the Delta and Omicron variants of the Covid-19 virus, with the partial return of restrictions in many European countries; (b) the increase in demand for natural gas in view of the scarce supply and consequent increase in energy prices in the EU; (c) bond markets pending monetary policy decisions by central banks, in particular the Federal Reserve; and (d) geopolitical tensions between NATO countries and Russia. Nonetheless, no breaches of the stop-loss limits were recorded, and there was only one technical breach of the VaR limits (US stock index volatility).

The aggregate value-at-risk on the trading book in the six months ranged from a low of €3.9m in mid-September 2021 to a high of €10.2m at end-November. The average reading of €5.9m was 30% higher than the figure for the previous half-year (€4.5m); following the peak recorded in November, the VaR reading has settled again around the average values (the point-in-time reading at end-December 2021 was €5m). The trend in Value-at-Risk is also explained by the increase in short positions in futures on core-Euro government bonds, and by the continued growth in mark-to-market equity-linked certificates business, to which investment transactions in financial and corporate securities are linked in order to hedge against credit risk (DVA).

Like VaR, the Expected Shortfall also shows a higher average figure than the previous period, of €7.9m (€5.8m).

The results of the daily back-testing on the trading book (based on comparison with the theoretical profits and losses) in the six months showed only one departure from the VaR, which occurred at end-November, when the stock markets fell due to the rapid spread of the Omicron variant; this impacted the performances of the equities trading desks.

Table 1: Value-at-risk and expected shortfall: trading book

Risk factors	6 mths ended 31/12/21				6 mths ended 30/6/21	
	31/12	Min	Max	Avg.	Avg.	
	Interest rates	1,373	948	3,766	1,821	1,326
Credit	1,002	850	1,513	1,145	1,186	
Share prices	3,227	2,355	5,174	3,516	3,472	
Exchange rates	293	225	2,655	551	551	
Inflation	251	100	258	149	321	
Volatility	3,200	2,754	4,494	3,553	3,316	
<i>Diversification effect</i> *	4,379	1,608	7,631	4,905	5,777	
Total	4,976	3,885	10,204	5,866	4,437	
Expected Shortfall	6,761	5,435	7,598	7,923	5,761	

* Due to mismatch between risk factors.

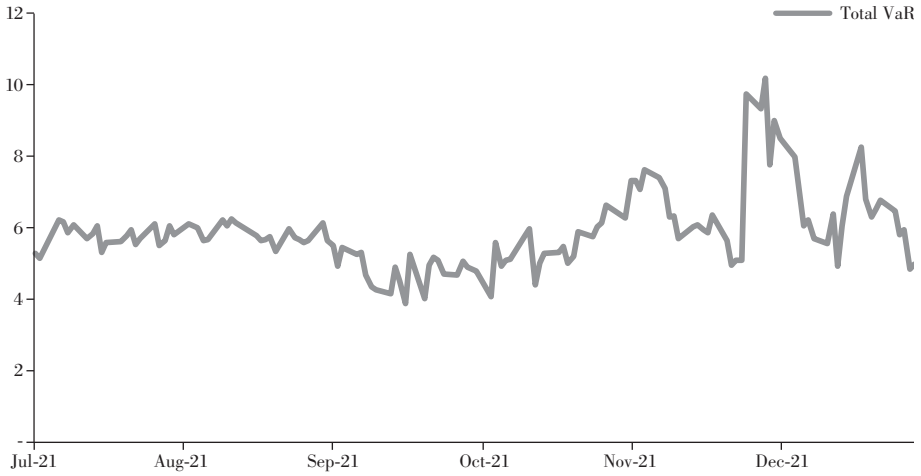
Apart from the general VaR limit on aggregate trading positions, a system of sub-limits is also in place, reflecting a greater degree of granularity for the individual trading desks. Each desk also has limits in terms of sensitivities to movements in the various risk factors (1 basis point for interest rates and credit spreads, 1 percentage point for equities, exchange rates and share volatility) which are monitored daily. Compared to the previous half-year, sensitivity to interest rates (in the Eurozone) was approx. €72,000 higher (1 bps), sensitivities to the stock market's implied volatilities were also €400,000 higher (1%), as were sensitivities to credit spreads (€120,000/1 bps). The other sensitivities maintained a similar average level to the previous half-year.

Tab. 2: Overview of trends in main sensitivities for trading book

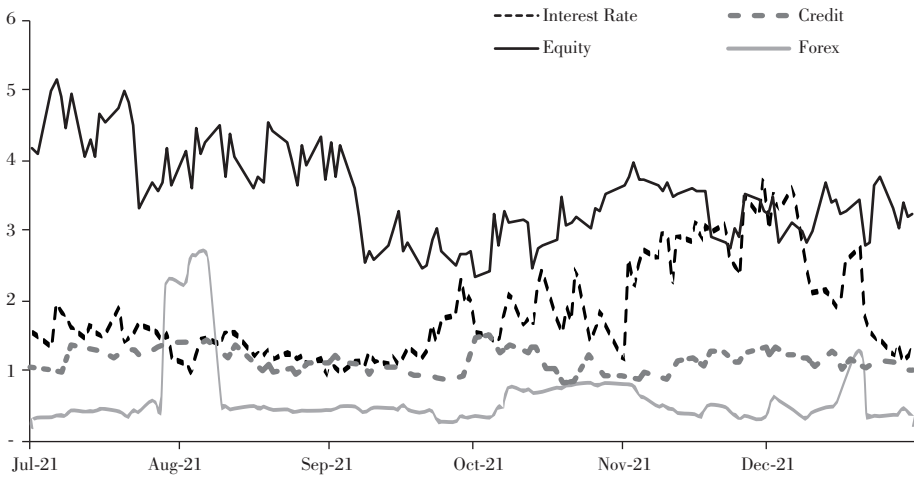
Risk factors	6 mths ended 31/12/21				6 mths ended 30/6/21	
	31/12	Min	Max	Avg.	Avg.	
	Equity delta (+1%)	287,707	(750,743)	571,031	10,873	(359,793)
Equity vega (+1%)	1,366,445	850,149	1,793,798	1,241,852	972,701	
Interest rate delta(+1bp)	172,993	(108,455)	460,633	178,565	100,481	
Inflation delta (+1 bp)	(2,579)	(9,961)	3,306	1,076	30,631	
Exchange rate delta (+1%)*	212,678	(116,169)	760,528	244,837	235,174	
Credit delta (1 bp)	644,492	287,866	1,029,787	639,913	521,109	

* Refers to the Euro gaining versus other currencies.

Trading book VaR trends



VaR Components Trend by Asset Class (Trading)



1.2.2 INTEREST RATE AND PRICE RISK – BANKING BOOK

QUALITATIVE INFORMATION

The Mediobanca Group monitors and manages interest rate risk through sensitivity testing of net interest income and economic value. The former quantifies the impact of parallel and simultaneous 200 bps shocks in the interest rate curve on current earnings. In this testing, the asset stocks are maintained constant, renewing the items falling due with the same financial characteristics and assuming a time horizon of twelve months.

Conversely, the sensitivity of economic value measures the impact of future flows on the current value in the worst case scenario of those contemplated in the Basel Committee guidelines (BCBS).

All the scenarios present a floor set by the EBA guidelines (EBA/GL/2018/02) at minus 1% on the demand maturity with linear progression up to 0% at the twenty-year maturity.

For both sensitivities, the balance-sheet items have been treated based on their contractual profile, apart from current account deposits for retail clients, which have been treated on the basis of proprietary behavioural models, and consumer credit items and mortgages which reflect the possibility of early repayment).

To determine the value of the discounted cash flows, various benchmark curves have been used in order to discount and then determine the future interest rates, based on the value date on which the balance-sheet item itself is traded (multi-curve). The credit component has been stripped out of the cash flows for the economic value sensitivity only.

With reference to the Group's banking book positions at 31 December 2021, in the event of a parallel and simultaneous reduction in interest rates ("parallel down"), estimated net interest income would decrease by €13m (whereas in the previous six-month period there were no negative scenarios).

As for the analysis of the discounted value of future cash flows on the Group's banking book, the shock that determines the greatest change occurs if the short-term part of the curve rises ("Short Up"). In this scenario, estimated net interest income would reduce by €111m, due chiefly to the impact on Compass (€5m) CheBanca! (€15m), and Mediobanca (€114m), against increases for the other Group legal entities. the positive change in the other subsidiaries. In the previous six-month period the greatest change was a €84m reduction in the "Flattening" scenario.

Data at 31/12/21	(€m)					
	Banking Book					
	Maximum level scenario	Group	Mediobanca S.p.A.	CheBanca!	Compass	Others
Net interest income sensitivity	Parallel Down	(13)	25	(6)	(13)	(19)
Discounted value of expected cash flows sensitivity	Short Up	(111)	(114)	(15)	(5)	(23)

At Group level, the values obtained in both scenarios continue to remain within the limits set by the Group policy on managing interest rate risk on the banking book, which are respectively 11.5% (net interest income sensitivity/estimated Group net interest income) and 3.5% (economic value sensitivity/CET1).

The sensitivity of net interest income also appears to be especially low if we consider scenarios closer to those that usually occur on the market, and remove the floor on interest rates set by the regulations. Four such scenarios have been considered:

- "Soft Steep" is a scenario in which the curve rotates around the four-year rate, falling at the shortest-term points and rising at the medium-long term points (for average changes of approx. 10 basis points);
- "Soft Flat" is a scenario in which the curve rotates around the four-year rate, rising at the shortest-term points and falling at the medium-long term points (for average changes of approx. 10 basis points);
- "+ 10 bps" is a scenario where the curve moves parallel up by 10 basis points;
- "- 10 bps" is a scenario where the curve moves parallel down by 10 basis points.

At the consolidated level, the worst-case scenario is always in situations where interest rates are declining (i.e. the "-10 bps" scenario), which produces a reduction in net interest income of around €4m.

The table below shows the changes in net interest income that would occur in the four scenarios:

Data at 31/12/21	Banking Book	
	Group	Mediobanca S.p.A.
Soft Steep	–	7
Soft flat	–	(7)
+10 bps	5	(2)
-10 bps	(4)	2

(€m)

Hedging

Hedges are intended to neutralize possible losses that may be incurred on a given asset or liability, due to the volatility of a certain financial risk factor (interest rate, exchange rate, credit or some other risk parameter), through the gains that may be realized on a hedge instrument which allow the changes in fair value or cash flows to be offset. For fair value hedges in particular, the Group seeks to minimize the financial risk on interest rates by bringing the entire interest-bearing exposure in line with Euribor (generally Euribor 3 months)²¹.

A. Fair value hedges

Fair value hedges are used to neutralize exposure to interest rate, price or credit risk for particular asset or liability positions, via derivative contracts entered into with leading counterparties with high credit standings. For interest rate risk in particular, the Group applies specific hedges to individual items or clusters of like-for-like assets and liabilities in terms of interest rate risk. The objective of these hedges is to reduce the interest rate risk through swaps that convert fixed-rate assets and/or liabilities into floating rate ones. The main items hedged are fixed-rate or structured liabilities issued by Mediobanca, investments in fixed-rate assets forming part of the HTC and HTCS portfolios, the portfolio of fixed-rate mortgages, the floors implicit in the floating-rate loans in lending and the CheBanca! floating-rate mortgages, and the CheBanca deposits! for which the new behavioural model with a benefit on the actual expiry is taken into account.

²¹ This target is maintained even in the presence of hedging contracts with market counterparties with netting agreements and CSAs (collateralized standard agreements) have been entered into, the valuation of which is made on the basis of Eonia interest rates.

If structured bonds in particular do not show risks related to the main risk, the interest-rate component (hedge) is stripped out from the other risks represented in the trading book, and usually hedged by trades of the opposite sign. Fair value hedges are also used by Mediobanca S.p.A. to mitigate price risk on equity investments recognized at FVOCI.

The CheBanca! mortgage loan book is hedged via amortizing swaps, the notional and maturity profile of which follows that of the mortgage repayments and the estimated prepayment rate for the loan book based on the model developed by Risk Management and subject to internal approval, with a prudential margin allowed on prepayments.

During the first half of the year, the new behavioural model for CheBanca! deposits came into operation. The aim is to make the hedging of these balance sheet items more efficient, further reducing the Group's exposure to interest rate risk, and benefiting from the transformation of maturities at the margin level.

Similarly, the interest rate risk for CMB Monaco customer deposits has been hedged, both in Euro and USD, which have been modelled and transferred to Mediobanca S.p.A. for management.

It should also be noted that the transition to Ester (for EUR) and Saron (for CHF) has been completed for all hedge accounting items and the related hedging instruments, without any material changes being recorded to the hedges' effectiveness, as expected²².

With regard to the Libor USD rate, the Group applies Regulation (EU) No. 2020/34 of 15 January 2020 ("Regulation 34") which incorporates the IASB exceptions of September 2019 to prevent the uncertainty caused by the absence of a single alternative benchmark for the entire market leading to a hedging relationship being discontinued.

B. Cash flow hedges

These are used chiefly as part of certain Group companies' operations, in particular those operating in consumer credit and leasing. In these cases the numerous, generally fixed-rate and relatively small-sized transactions are hedged by floating-rate deposits for large amounts. The hedge is made in order to

²² Ester and Saron are the new overnight benchmark rates for the Euro and Swiss franc.

transform floating-rate deposits into fixed rate positions, correlating the relevant cash flows. Normally the Group uses the derivative to fix the expected cost of deposits over the reference period, to cover floating-rate loans outstanding and future transactions linked to systematic renewals of such loans upon their expiring.

C. Foreign investment hedging activities

This involves hedging an exposure to a controlling interest in a company and the goodwill associated with it (including any intangibles identified as a result of the Purchase Price Allocation process) in currencies other than the Euro. The exposure may be hedged via derivatives or other financial instruments in different currencies, such as bond issues. The exchange rate effect of the hedge is taken through the net equity reserve, to cover the effects of the hedged instrument. Reference is made to section 1.2.3 Exchange rate risk below for a description of the only hedge of this kind entered into by the Group.

D. Hedging instruments

E. Items hedged

Items hedged and hedging instruments have been described in detail above and are referred to at various points in the rest of this report.

Counterparty risk

Counterparty risk generated by market transactions with clients or institutional counterparties is measured in terms of potential future exposure. As far as regards derivatives and short-term loan collateralization products (repos and securities lending), the calculation is based on determining the maximum potential exposure (assuming a 95% confidence level) for all the time steps up to 30 years. The scope of application regards all groups of counterparties which have relations with the Mediobanca Group, taking into account the presence of netting agreements (e.g. ISDA, GMSLA or GMRA) and collateralization agreements (e.g. CSA), plus exposures deriving from interbank market transactions. For these three types of operations there are different

exposure limits split by counterparty and/or group subject to internal analysis and approval by the Lending and Underwriting Committee.

For derivatives transactions, as required by IFRS13, the fair value incorporates the effects of the counterparty's credit risk (CVA) and Mediobanca's credit risk (DVA) based on the future exposure profile of the aggregate of such contracts outstanding.

1.2.3 EXCHANGE RATE RISK

QUALITATIVE INFORMATION

A. General aspects, operating processes and measurement Techniques

B. Exchange rate risk hedging

The trend in the exchange rate component of VaR shown in section 1.2.1 – Interest rate risk and price risk is an effective representation of changes in the risks taken on the forex market, in view of the fact that exposures to foreign exchange rates are managed globally within the Finance area of Mediobanca S.p.A..

The investment in RAM, in Swiss francs, is hedged by a bond issued in the same currency, and the exchange rate effect on both items is managed as a “net investment in a foreign operation”, i.e. the exchange rate differences arising in connection with the asset item (goodwill) and the liability issued are recorded directly through a net equity reserve.

2. Internal models and other methodologies used for sensitivity analysis

During the first six months, the dollar and the pound sterling appreciated against the Euro by 5% and 2% respectively. The forex VaR remained relatively constant during the period under review, near to the average figure of €550,000, in line with the previous period. The VaR forex peaked between July and August 2021, due to a temporary increase in the short position on the pound.

1.3 DERIVATIVE FINANCIAL PRODUCTS AND HEDGING POLICIES

1.3.1 TRADING DERIVATIVES

A. Financial derivatives

A.1 Trading financial derivatives: average and reporting-date notional values

Underlying assets / Type of derivatives	31/12/21				30/6/21			
	Over the counter			Established markets	Over the counter			Organized markets
	Central Counterparts	without central counterparties			Central Counterparts	without central counterparties		
		with clearing arrangements	without clearing arrangements	with clearing arrangements		without clearing arrangements		
1. Debt securities and interest rate	40,284,106	22,469,301	2,170,878	83,407,446	30,757,493	25,817,877	2,919,303	110,511,723
a) Options	—	5,756,820	606,729	82,325,653	—	5,534,985	626,316	110,236,307
b) Swap	40,284,106	14,020,380	1,564,149	—	30,757,493	14,951,514	2,292,987	—
c) Forward	—	394,199	—	—	—	475,648	—	—
d) Futures	—	—	—	1,081,793	—	—	—	275,416
e) Others	—	2,297,902	—	—	—	4,855,730	—	—
2. Equities and stock indexes	—	21,091,678	2,248,924	17,378,776	—	25,184,970	2,569,998	20,770,453
a) Options	—	18,697,390	612,698	16,709,396	—	23,349,514	906,280	20,299,618
b) Swap	—	2,394,288	—	—	—	1,718,307	—	—
c) Forward	—	—	—	—	—	117,149	—	—
d) Futures	—	—	—	669,380	—	—	—	470,835
e) Others ¹	—	—	1,636,226	—	—	—	1,663,718	—
3. Currencies and gold	—	17,429,219	2,012,649	—	—	12,072,530	1,170,726	—
a) Options	—	807,988	—	—	—	754,299	—	—
b) Swap	—	6,035,027	495,521	—	—	4,646,922	350,240	—
c) Forward	—	10,586,204	1,517,128	—	—	6,671,309	820,486	—
d) Futures	—	—	—	—	—	—	—	—
e) Others	—	—	—	—	—	—	—	—
4. Commodities	—	500,000	—	—	—	—	—	—
5. Other	—	—	—	—	—	—	—	—
Total	40,284,106	61,490,198	6,432,451	100,786,222	30,757,493	63,075,377	6,660,027	131,282,176

¹ Regards exclusively certificates issued.

A.2 Trading financial derivatives: positive and negative fair values by product

Types of derivatives	Total 31/12/21				Total 30/6/21			
	Over the counter			Established markets	Over the counter			Established markets
	Central Counterparts	Without central counterparties			Central Counterparts	Without central counterparties		
		With clearing arrangements	Without clearing arrangements	With clearing arrangements		Without clearing arrangements		
1. Positive fair value								
a) Options	—	1,779,672	2,575	766,028	—	1,922,782	4,488	867,097
b) Interest rate swap	74,850	471,716	64,368	—	204	469,715	71,534	—
c) Cross currency swap	—	193,521	—	—	—	120,878	—	—
d) Equity swap	—	120,035	—	—	—	128,714	—	—
e) Forward	—	146,683	13,271	—	—	72,417	21,079	—
f) Futures	—	—	—	17,498	—	—	—	5,462
g) Others	—	—	—	—	—	—	—	—
Total	74,850	2,711,627	80,214	783,526	204	2,714,506	97,101	872,559
2. Negative fair value								
a) Options	—	1,755,592	5,216	1,003,205	—	1,880,057	7,586	1,072,720
b) Interest rate swap	148,788	411,487	27,565	—	64,850	393,202	20,280	—
c) Cross currency swap	—	127,301	27,821	—	—	101,024	9,785	—
d) Equity swap	—	57,212	—	—	—	1,918	—	—
e) Forward	—	165,999	19,880	—	—	167,397	17,304	—
f) Futures	—	—	—	17,467	—	—	—	20,127
g) Others ¹	—	—	1,555,815	—	—	—	1,652,285	—
Total	148,788	2,517,591	1,636,297	1,020,672	64,850	2,543,598	1,707,240	1,092,847

¹ Regards exclusively certificates issued.

A.3 OTC trading financial derivatives: notional values, positive and negative fair values by counterparty

Underlyings	Central Counterparts	Banks	Other financial companies	Other entities
Contracts not included in clearing agreement				
1) Debt securities and interest rate				
- notional value	X	40,000	1,046,962	1,083,916
- positive fair value	X	66,352	2,179	2,721
- negative fair value	X	—	27,263	2,594
2) Equities and stock indexes				
- notional value ¹	X	1,743,850	505,052	22
- positive fair value	X	5,705	327	59
- negative fair value ¹	X	1,558,742	3	84
3) Currencies and gold				
- notional value	X	517,428	228,936	1,266,285
- positive fair value	X	2,006	21	844
- negative fair value	X	1,134	735	45,743
4) Commodities				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
5) Others				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
Contracts included in clearing arrangements				
1) Debt securities and interest rate				
- notional value	40,284,106	9,794,231	6,978,946	5,696,124
- positive fair value	74,850	307,731	249,396	172,491
- negative fair value	148,788	303,334	383,672	29,629
2) Equities and stock indexes				
- notional value	—	10,616,152	8,695,471	1,780,054
- positive fair value	—	694,166	787,022	176,948
- negative fair value	—	739,501	802,473	14,815
3) Currencies and gold				
- notional value	—	10,519,240	3,417,228	3,492,750
- positive fair value	—	159,028	73,251	78,393
- negative fair value	—	154,147	21,902	50,551
4) Commodities				
- notional value	—	500,000	—	—
- positive fair value	—	13,202	—	—
- negative fair value	—	17,569	—	—
5) Others				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—

¹ Of which certificates with a nominal value of €1,636,226,000 and fair value of minus €1,555,815,000.

B. Credit derivatives

B.1 Trading credit derivatives: reporting-date notional values

Type of transaction	Trading derivatives	
	with a single counterparty	with more than one counterparty (basket)
1. Protection purchases		
a) Credit default products	3,825,080	17,513,316
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other ¹	264,312	—
Total 31/12/21	4,089,392	17,513,316
Total 30/6/21	4,282,550	14,988,621
2. Security sales		
a) Credit default products	2,214,448	17,188,661
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other ¹	—	—
Total 31/12/21	2,214,448	17,188,661
Total 30/6/21	2,153,060	14,920,620

¹ Regards exclusively certificates issued.

The column headed “basket” includes positions in credit indexes matched by positions taken in the single names that make up the index itself for skew issues (giving the arbitrage structures a notional value of €12.2bn²³). The derivative embedded in the issues (€1.5bn) is represented in the protection buys on the single names with a notional value equal to the nominal value of the issues.

²³ See above the comments in Part B – Liabilities – Financial liabilities recognized at amortized cost earlier of the Notes to the Accounts.

B.2 Trading credit derivatives: positive and negative fair values by product

Types of derivatives	30/6/21	30/6/20
1. Positive fair value		
a) Credit default products	258,169	319,914
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other	—	—
Total	258,169	319,914
2. Negative fair value		
a) Credit default products	301,105	355,787
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other ¹	270,006	237,018
Total	571,111	592,805

¹ Regards exclusively certificates issued.

B.3 OTC trading credit derivatives: notional values, gross positive and negative fair values by counterparty

	Central counterparts	Bank	Other financial companies	Other subjects
Contracts not covered by clearing agreements				
1) Purchase protection				
– notional value ¹	X	2,258,463	70,910	—
– positive fair value	X	12,743	—	—
– negative fair value ¹	X	275,285	788	—
2) protection sale				
– notional value	X	14,526	—	—
– positive fair value	X	1,615	—	—
– negative fair value	X	433	—	—
Contracts covered by clearing agreements				
1) Purchase protection				
– notional value	4,638,197	3,234,294	11,400,845	—
– positive fair value	—	184	12,545	—
– negative fair value	—	114,680	149,465	—
2) protection sale				
– notional value	4,402,701	4,247,489	10,738,393	—
– positive fair value	—	83,840	147,242	—
– negative fair value	24,978	4,049	1,432	—

¹ Of which certificates with a notional value of €264,312,000 and a fair value of minus €270,006,000.

1.3.2 ACCOUNTING HEDGES

A. Hedge financial derivatives

A.1 Hedge financial derivatives: average and reporting-date notional values

Underlying assets / Type of derivatives	31/12/21				30 giugno 2021			
	Over the counter			Established markets	Over the counter			Organized markets
	Central Counterparts	without central counterparties			Central Counterparts	without central counterparties		
		with clearing arrangements	without clearing arrangements	with clearing arrangements		without clearing arrangements		
1. Debt securities and interest rate	67,083,305	4,738,580	20,000	—	46,428,209	4,673,697	25,000	—
a) Options	—	2,441,615	—	—	—	2,312,311	—	—
b) Swap	67,083,305	2,296,965	20,000	—	46,428,209	2,361,386	25,000	—
c) Forward	—	—	—	—	—	—	—	—
d) Futures	—	—	—	—	—	—	—	—
e) Others	—	—	—	—	—	—	—	—
2. Equities and stock indexes	—	—	—	—	—	—	—	—
a) Options	—	—	—	—	—	—	—	—
b) Swap	—	—	—	—	—	—	—	—
c) Forward	—	—	—	—	—	—	—	—
d) Futures	—	—	—	—	—	—	—	—
e) Others	—	—	—	—	—	—	—	—
3. Currencies and gold	—	703,368	—	—	—	695,101	—	—
a) Options	—	—	—	—	—	—	—	—
b) Swap	—	703,368	—	—	—	695,101	—	—
c) Forward	—	—	—	—	—	—	—	—
d) Futures	—	—	—	—	—	—	—	—
e) Others	—	—	—	—	—	—	—	—
4. Commodities	—	—	—	—	—	—	—	—
5. Other	—	—	—	—	—	—	—	—
Total	67,083,305	5,441,948	20,000	—	46,428,209	5,368,798	25,000	—

A.2 Hedge financial derivatives: gross positive and negative fair values by product

Types of derivatives	Positive and negative fair value								Change in the value used to calculate the ineffectiveness of the hedge	
	31/12/21				30/6/21				31/12/21	30/6/21
	Over the counter		Established markets	Over the counter		Established markets				
	Central Counterparts	Without central counterparties		Central Counterparts	Without central counterparties					
	With clearing arrangements	Without clearing arrangements		With clearing arrangements	Without clearing arrangements					
1. Positive fair value										
a) Options	—	15,526	—	—	—	15,847	—	—	—	—
b) Interest rate swap	195,213	13,463	345	—	268,119	22,821	493	—	58,120	114,713
c) Cross currency swap	—	1,104	—	—	—	1,090	—	—	—	—
d) Equity swap	—	—	—	—	—	—	—	—	—	—
e) Forward	—	—	—	—	—	—	—	—	—	—
f) Futures	—	—	—	—	—	—	—	—	—	—
g) Others	—	—	—	—	—	—	—	—	—	—
Total	195,213	30,093	345	—	268,119	39,758	493	—	58,120	114,713
Negative fair value										
a) Options	—	5,884	—	—	—	6,989	—	—	—	—
b) Interest rate swap	310,203	117,151	2,555	—	294,960	70,175	3,289	—	283,048	270,467
c) Cross currency swap	—	23	—	—	—	—	—	—	—	—
d) Equity swap	—	—	—	—	—	—	—	—	—	—
e) Forward	—	—	—	—	—	—	—	—	—	—
f) Futures	—	—	—	—	—	—	—	—	—	—
g) Others	—	—	—	—	—	—	—	—	—	—
Total	310,203	123,058	2,555	—	294,960	77,164	3,289	—	283,048	270,467

A.3 OTC hedge financial derivatives: notional values, gross positive and negative fair values by counterparty

Underlyings	Central Counterparts	Banks	Other financial companies	Other entities
Contracts not included in clearing agreement				
1) Debt securities and interest rate				
- notional value	X	20,000	—	—
- positive fair value	X	345	—	—
- negative fair value	X	2,555	—	—
2) Equities and stock indexes				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
3) Currencies and gold				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
4) Commodities				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
5) Others				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
Contracts included in clearing arrangements				
1) Debt securities and interest rate				
- notional value	67,083,305	4,351,238	387,342	—
- positive fair value	195,213	25,639	3,350	—
- negative fair value	310,203	77,972	45,062	—
2) Equities and stock indexes				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
3) Currencies and gold				
- notional value	—	688,359	15,010	—
- positive fair value	—	1,082	22	—
- negative fair value	—	23	—	—
4) Commodities				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
5) Others				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—

1.4 LIQUIDITY RISK

QUALITATIVE INFORMATION

Banks are naturally exposed to liquidity risk as a result of the role they perform in the maturity transformation process which is a typical part of banking activity.

Liquidity risk has different timing profiles:

- The current or potential risk of the entity not being able to manage its own liquidity needs effectively in the short term (“liquidity risk”);
- The risk of the Bank not having stable sources of financing in the medium or long term, meaning it is unable to meet its financial requirements without incurring an excessive increase in the cost of financing (“funding risk”).

An adequate liquidity and funding risk management system is fundamental to ensure the stability of the Group and the financial system in general, given that a single bank’s difficulties would affect the system as a whole. This governance and risk management system is developed as part of the Risk Appetite Framework and the risk tolerance levels contained in it. In particular, one of the management objectives contained in the Risk Appetite Framework is to maintain a liquidity position in the short and long term which is sufficient to cope with a prolonged period of stress (combining Bank-specific and systemic stress factors).

The Group Liquidity Risk Management Policy (the “Policy”) approved by the Board of Directors of Mediobanca S.p.A. sets the objective of having an adequate level of highly liquid assets to cover the cash flows to be maintained over the short and medium/long term.

The Policy also sets out the roles and responsibilities of the company units and governing bodies, the risk measurement metrics in use, the guidelines for carrying out the stress testing process, the funds transfer pricing system, and the contingency funding plan.

To ensure that liquidity risk is managed based on integrated and consistent approach within the Group as a whole, strategic decisions are taken by the Board of Directors of Mediobanca S.p.A., to which the Policy assigns various

important duties: definition and approval of the guidelines and strategic direction, responsibility for ensuring that the risk governance system is fully reliable, and monitoring the trends in liquidity and funding risk and the Group's Risk Appetite Framework over time.

The Group ALM Committee also discusses the issues most relevant to liquidity risk, defining the asset and liability structure and related risk of mismatch between them taken on, directing operations in line with the commercial and financial objectives set in the budget and the Group's Risk Appetite Framework.

In application of Article 86 of Directive 2013/36/EU, the Mediobanca Group identifies, measures, manages and monitors liquidity risk as part of the internal liquidity adequacy assessment process (ILAAP). In this process, which constitutes an integral part of the supervisory authority's activities (Supervisory Review and Evaluation Process, or SREP), the Mediobanca Group carries out a self-assessment of its liquidity risk management and measurement from both a qualitative and quantitative perspective. The results of the risk profile adequacy assessment and the overall self-assessment are presented annually to the governing bodies.

The liquidity governance process for the Mediobanca Group as a whole is centralized at the parent company level, where the strategy and guidelines are devised which the Group companies must comply with, thereby ensuring that the liquidity position is managed and controlled at the consolidated level.

The parent company units responsible for ensuring that the Policy is applied accurately are:

- Group Treasury, which is responsible at Group level for managing liquidity, funding, collateral and the funds transfer pricing system;
- Business & Capital Planning, which supports Risk Management and Group Treasury in drawing up the Group Funding Plan which is consistent with the budget objectives;
- Risk Management which, in accordance with the principles of separation and independence, is responsible for the integrated second-level control of Group risks, current and future, in accordance with the Group's regulations and governance strategies.

The Group Audit Unit is responsible for appraising the functioning and reliability of the controls system for liquidity risk management and for reviewing adequacy and compliance with the requisites established by the regulations. The results of the checks carried out are submitted to the governing bodies once a year.

The Group's objective is to maintain a level of liquidity that will allow it to meet the payment obligations it has undertaken, ordinary and extraordinary, at the established maturities, while at the same time keeping the costs involved to a minimum and without incurring non-recurring losses. The Mediobanca Group short-term liquidity policy is intended ensure that the mismatch between cash inflows and outflows, expected and not expected, remains sustainable in the short term, even over an intra-day time horizon.

The Group manages its liquidity position actively, through Group Treasury, with the objective of meeting its payment obligations by the time requested.

Intraday liquidity risk is the risk of a mismatch in terms of timing within a single day between payments made by Mediobanca and those received from other market counterparties. Management of this risk requires careful and ongoing monitoring of cash flows exchanged, and, more importantly, adequate liquidity reserves. To mitigate this risk, the Group has implemented a system of indicators and monitoring to check the availability of reserves at the start of the day and their capacity to meet possible situations of stress that could involve other market counterparties or the value of the assets used in the risk mitigation.

The metric adopted for monitoring over time horizons longer than intraday is the net liquidity position, obtained from the sum of the counterbalancing capacity (defined as the cash, bonds tradable on the market, receivables eligible for refinancing with the ECB available post-haircut) and cumulative net cash flows.

The system of limits is structured on the basis of the normal course of business up to a time horizon of three months and in a combined stress scenario of 45 days, thus effectively functioning as an early warning system if the limit is approached in normal conditions.

The short-term and intraday liquidity monitoring is supplemented by stress testing which assumes three scenarios:

- Italy downgrade: impacting negatively on the Group’s ability to raise funds on the bond and interbank markets. A reduction in cash inflows is also assumed, due to a default flows scenario, along with a drawdown on credit lines:
 - The counterbalancing capacity suffers a significant reduction in value;
- Name crisis: impacting negatively on the Group’s ability to raise funds on the bond, retail and interbank markets. Higher outflows from on-demand deposits are also assumed, as is a delay in collections or failure to collect within the intraday time horizon:
 - The counterbalancing capacity suffers a reduction in value, and there are also effects on securities issued by Mediobanca (ABS and covered bonds);
- Combined: combined name crisis-Italy downgrade scenario.

In addition to the above, the Group also prepares the weekly liquidity position update required by the Bank of Italy. The maturity ladder report, prepared in accordance with the authority’s guidelines, lists the principal maturities falling due in the months following the reference date, and contains a summary of the Group’s assets eligible for refinancing with the European Central Bank.

Monitoring structural liquidity, on the other hand, is intended to ensure that the structure has an adequate financial balance for maturities of more than twelve months. Maintaining an appropriate ratio between assets and liabilities in the medium/long term also serves the purpose of avoiding future pressures in the short term as well. The operating methods adopted involve analysing the maturity profiles for both assets and liabilities over the medium and long term checking that on average the cumulative inflows cover the cumulative outflows for maturities of more than one and up to three years.

Throughout the six months under review, both indicators, short- and long-term, have shown that the Group has maintained an adequate level of liquidity at all times.

As is well known, since last year it has become mandatory to report the minimum Net Stable Funding Ratio (NSFR)²⁴, which complements the minimum

²⁴ Directive (EU) No. 2019/878 (CRD V) and Regulation (EU) no. 2019/876 (CRR II).

requirement in terms of Liquidity Coverage Ratio (LCR)²⁵. Both these indicators are included in the Group Risk Appetite Framework, and have remained above internal and regulatory limits at all times.

The LCR reading at 31 December 2021 was 162%, including the prudential estimate of “additional liquidity outflows for other products and services” in accordance with Article 23 of Commission Delegated Regulation (EU) No. 2015/61. The ratio reflected limited variations around its half-year average reading of 151%, which was below the average figure recorded for the twelve months ended 30 June 2021 (159%). The decrease in the ratio is due to the new, more stringent target value set by management for the new year, a sign of confidence in the proven capability to govern the ratio and volatility in it demonstrated by the Group Treasury. In a scenario of high liquidity levels, Group Treasury governed highly liquid assets by seeking to combine commercial strategies with the need to have a risk mitigation instrument available which is adequate in both quantitative and qualitative terms, in view of the macroeconomic scenario which is still threatened by the possibility of deteriorations in the Covid-19 situation.

The NSFR indicator, calculated in accordance with Regulation (EU) No. 2019/876, was 109.7%, much lower than at 30 June 2021 (116.25%), due to an increase in assets (concentrated at the year-end) deriving from applications in securities (part of which are not highly liquid) and loans, mainly in Wholesale Banking and factoring business. Conversely, the increase in stable funding (supported by the increased recourse to T-LTRO funding and the significant increase in Wealth Management deposits and debt securities) was partly offset by a loss of stability in the debt securities component falling due in the next twelve months, due to the deferral of the institutional issue completed in the first days of January 2022.

As the above indicators are included in Group Risk Appetite Framework, their sustainability is also analysed in preparing the Group Funding Plan, through future analysis over a time horizon of at least three years, with monitoring and half-yearly updates. A multi-risk stress test is also run as part of the same framework based on scenario analysis. A stress scenario is defined which may involve the Group, and its simultaneous impacts are assessed, taking into account the inter-relations between risks and the capability to adapt the business strategies defined in the budget to the changed scenario.

²⁵ Commission Delegated Regulation (EU) No. 2015/61 as amended.

Alongside the previous indicators, an event governance model has also been provided known as the Contingency Funding Plan (described in the Regulations) to be implemented in the event of a crisis by following a procedure approved by the Board of Directors.

The objective of the Contingency Funding Plan is to ensure prompt implementation of effective action to tackle a liquidity crisis, through precise identification of stakeholders, powers, responsibilities, communication procedures and reporting criteria, in order to increase the likelihood of coming through the state of emergency successfully. This objective is achieved primarily by activating an extraordinary operational and liquidity governance model, supported by consistent internal and external reporting and a series of specific indicators.

In order to identify a “contingency” state in timely manner, a system of early warning indicators (EWIs) has been prepared, to monitor situations that could lead to deterioration in the Group’s liquidity position deriving from external factors and/or from situations which are specific to the Banking Group itself.

The foregoing sections show how stress testing is a fundamental instrument in managing liquidity risk. Liquidity risk is manifested less frequently but with significant impacts, and instruments are required to diagnose the Group’s vulnerabilities over various time horizons. The results of the stress tests are therefore used principally in order to:

- Define the funding strategies for the Funding Plan and the planning activities more generally (liquidity profile of assets and liabilities);
- Assess the adequacy of the system of limits, and constitute significant events for the purpose of the regular process of revising the limits themselves;
- Provide support in assigning the actions to be taken in managing states of operating crisis or stress.

The liquidity risk mitigation factors adopted by the Mediobanca Group are as follows:

- An adequate level of high-quality, highly liquid assets to offset any mismatches, extended or otherwise;
- Precise short-term and long-term liquidity planning, alongside careful estimating and monitoring activity;

- A robust stress testing framework which is updated regularly;
- An efficient contingency funding plan to identify crisis states and the actions to be taken in such circumstances, through a reliable pre-alarm indicator system.

During the first six months, the debt securities component increased from €18.4bn to €18.9bn, following €1.1bn in new issues, including the second senior non-preferred bond (€500m, seven-year maturity, at a fixed rate of 0.75%). Central bank funding (in the form of the T-LTRO facility) increased from €7.4bn to €8.4bn and was extended in duration (to around 2.5 years). Wealth Management deposits rose from €25.2bn to €27.2bn (approx. 46% of total funding), with strong growth in Private Banking (up €1.9bn); the Premier segment contribution (€17bn) remains stable in terms of volumes, which stands out for the positive effect it has in terms of reducing the cost of funding, taking into account the growing stability. The combination of all these components generated an increase of approx. €3bn in total funding which stands at €59.3bn (30/6/21: €56.2bn).

At 31 December 2021, the counterbalancing capacity totalled €9.2bn, lower than at end-June 2021 (€11.3bn), as the abundant liquidity which the Group had enjoyed for the six months was committed at the year-end to meet the surge in credit commitments and the subscription to a non-ECB eligible bond referred to earlier. The amount of securities eligible for refinancing with the ECB in order to obtain immediate liquidity amounts to €5.9bn. The balance of collateral held with the ECB is €12.7bn, of which approx. €4.2bn available immediately but not used, and hence included in the counterbalancing capacity (€11.6bn and €4.1bn respectively at end-June 2021). The increase in use of the T-LTRO mentioned above was hedged in full by depositing more guarantees in the form of eligible credit claims.

1.5 OPERATING RISK

Definition

Operating risk is the risk of incurring losses as a result of the inadequacy or malfunctioning of procedures, staff and IT systems, human error or external events.

Capital requirements

To manage operational risk, Mediobanca has adopted the Basic Indicator Approach (BIA) in order to calculate the capital requirement for covering operating risk, applying a margin of 15% to the three-year average for the relevant indicator. Based on this method of calculation, the capital requirement at 31 December 2021 was €329.8m (unchanged since 30 June 2021).

Risks mitigation

Operational risks are supervised, in Mediobanca and the main Group companies, by a specific Operational risk management team within the Risk Management unit.

The processes of identifying and assessing operational risks, collecting and analysing loss data and providing support in connection with operational risk mitigation activities are defined and implemented on the basis of the Operational risk management policy adopted at Group level and applied in accordance with the principle of proportionality in Mediobanca S.p.A. and the individual Group companies.

Based on the evidence obtained, action to mitigate the most relevant operational risks has been proposed, implemented and monitored on a constant basis.

The operating losses recorded in the six months were very low and impacted only marginally on total revenues (approx. 0,61%).

As for the different classes of operational risk, the percentage composition of the various Basel II event types for the Group is shown below.

Event Type	% on Total Loss
Clients, products and business practices	49%
Execution, delivery and process management	32%
External fraud	6%
Employment practices and workplace safety	5%
Other	8%

The majority of operational losses derive from the “Execution, delivery and process management” event type, which includes process errors and disputes with third parties, and from the “Clients, products and business practices” event type, which includes losses deriving from disputes and/or litigation with retail clients over financial terms and conditions or interest rates charged on financing products. Next in importance are the provisions for management of disputes with staff and external fraud on retail financing products (fake documentation and/or cards), in connection with which mitigation action has been implemented to ensure the phenomenon remains at residual levels.

Although it has not generated significant losses, an increase has been recorded in instances, or classes, of operational risk such as IT & cyber risk and outsourcing risk, as well as conduct risk.

This increase is observed both at industry and Group level. The monitoring frameworks have been stepped up accordingly, in co-ordination with the other control units involved.

By business lines, operating losses were highest in Consumer Banking, and much lower in Wealth Management, albeit potentially growing due to the increase in regulations and guidelines from authorities, which expose operators to conduct risk, plus the growth in the number of different commercial channels and networks.

The Group continues to be exposed to the potential risk of low frequency/ high severity inherent in businesses that feature non-standard and large-sized transactions, such as CIB and Wealth Management.

Other risks

As part of the process of assessing the current and future capital required for the company to perform regular banking activity (ICAAP), the Group has identified the following main types of risk as relevant:

- Concentration risk, i.e. risk deriving from a concentration of exposures to individual counterparties or groups of counterparties (“single name concentration risk”) or to counterparties operating in the same economic sector or which operate in the same business or belong to the same geographical area (geographical/sector concentration risk);
- Strategic risk, i.e. exposure to current and future changes in profits/margins compared to estimated data, due to volatility in volumes or changes in customer behaviour (business risk), and of current and future risk of reductions in profits or capital deriving from disruption to business as a result of adopting new strategic choices, wrong management decisions or inadequate execution of decisions taken (pure strategic risk);
- Risk from equity investments held as part of the “Hold to collect and sell” banking book (“HTC&S”), deriving from the potential reduction in value of the equity investments, listed and unlisted, which are held as part of the HTCS portfolio, due to unfavourable movements in financial markets or to the downgrade of counterparties (where these are not already included in other risk categories);
- Sovereign risk, in regard to the potential downgrade of countries or national central banks to which the Group is exposed;
- Compliance risk, attributable to the possibility of incurring legal or administrative penalties, significant financial losses or damages to the Bank’s reputation as a result of breaches of external laws and regulations or self-imposed regulations;
- Reputational risk, due to reductions in profits or capital deriving from a negative perception of the Bank’s image by customers, counterparties, shareholders, investors or regulatory authorities.

Risks are monitored and managed via the respective internal units (risk management, planning and control, compliance and Group audit units) and by specific management committees.

ESG and climate change

Awareness of the increasing importance of environmental, social and governance (ESG) issues for its stakeholders, as from FY 2018-19, Mediobanca launched a roadmap for defining a risk assessment and reporting framework for ESG and climate change risks, followed by analysis of the reference scenario, in order to identify the risks that were potentially material for the Group, based on the approach proposed by the TCFD.²⁶

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

- Proprietary, which is focused on the process of adaptation to the following regulations: ECB Guide on climate related and environmental risk, and EBA Guidelines on Loan Origination and Monitoring; and on integrating ESG criteria into the credit governance and investment processes and into business strategy generally;
- Clients and Markets, which refers chiefly to incorporating Regulation (EU) 2019/2088 (the “Sustainable Finance Disclosure Regulation”, or “SFDR”);
- Non-Financial Disclosure, focused on application of the European taxonomy (Regulation (EU) No. 2020/852), as part of the reporting obligations introduced in connection with the Consolidated Non-Financial Statement (for which the regulatory framework is still in the process of being completed).

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

Furthermore, in accordance with the objectives in the area of climate change included in the 2019-23 Strategic Plan, the Group has renewed its commitment to tackling climate change with two important milestones: it has become a signatory to the Net-Zero Banking Alliance (NZBA), and has neutralized its own direct Scope 1 and Scope 2 emissions for FY 2020-21.

²⁶ For further details, see section 3.3 Compliance, internal control and risk management, and section 8.1 Relevant policies and risks, of the Consolidated Non-Financial Statement.

Both commitments are consistent with the Group Sustainability Policy and the Group ESG policy, the latter of which has been recently revised to include detailed sector guidelines introducing limitations on operations with counterparties with an adverse impact on the climate.²⁷ Becoming a signatory to the NZBA, the initiative promoted by the United Nations, with the objective of accelerating the sustainable transition of the international banking sector, confirms the Bank's intention to play an active role in the green transition, and is the natural next step after already signing up to the Principles for Responsible Banking (PRB) promoted by the United Nations Environment Programme Finance Initiative (UNEP FI), the section of the UN programme dedicated to financial institutions.

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

Finally, the Group has also been asked by the ECB to perform stress testing for climate risks in 2022 to identify areas where banks are vulnerable to climate-related risk factors. The results of this stress testing will be included in the SREP decision for 2022.

* * *

Brexit

The agreement on financial services between the European Union and the United Kingdom²⁸ does not provide for any broader reciprocal access to markets than the agreements which the EU has entered into with other commercial partners. As at end-March 2021, the EU and the United Kingdom also entered into a memorandum of understanding establishing a framework for financial services regulatory co-operation, which does not, however, replace the banking and financial services passporting arrangements.

The Mediobanca Group currently operates in the United Kingdom both at its London branch office and cross-border, under the Temporary Permissions Regime (TPR) permitted by the Financial Conduct Authority, which allows the Bank to continue to perform its current activities as though it were formally

²⁷ For further details, please see the Group ESG Policy published on the Bank's website at https://www.mediobanca.com/static/upload_new/pol/politica-esg.pdf.

²⁸ The agreement on future relations between the United Kingdom and the European Union was signed on 30 December 2020. The European Parliament ratified the agreement in April 2021, although it had already been in force provisionally since 1 January 2021 as authorized by the European Council.

authorized. In this connection, by end-June 2022 Mediobanca will submit its application to the Financial Conduct Authority for authorization to operate in the United Kingdom as a third country branch. The Group has also undertaken a series of initiatives, in accordance with the ECB guidance, to address the issue of no longer being allowed to serve EU clients from the United Kingdom. These have included transferring some staff from London to Milan or the other EU branch offices.²⁹ There are still some areas of uncertainty, however, regarding the application of some of the market regulations (e.g. on shares/derivatives trading obligations), for which specific solutions have been adopted in order to ensure that the new rules are complied with. It should be emphasized that the Group's activities in the United Kingdom continue to be relatively minor (accounting for approx. 3.5% of total revenues).

As far as regards UK-based Group company Cairn Capital ("Cairn"), the company has delegated management of its funds to an Ireland-based fund manager (Carne Global Fund Managers Ireland Limited), which in turn has sub-delegated management back to Cairn itself.

²⁹ The total number of staff employed by the London branch, having been 89 on 30 June 2020, had declined to 76 by 31 December 2020, to 73 by 30 June 2021, and to 65 by 31 December 2021.

Part F - Information on consolidated capital

SECTION 1

Consolidated capital

QUANTITATIVE INFORMATION

*B.1 Consolidated net equity: breakdown by type of company **

	Prudential consolidation	Insurance companies	Other companies	Consolidation adjustments and eliminations	Total	Of which: minorities
1. Share capital	460,269	—	—	—	460,269	16,629
2. Share premium reserve	2,197,454	—	—	—	2,197,454	1,848
3. Reserves	6,971,142	—	—	—	6,971,142	81,128
4. Equity instruments	—	—	—	—	—	—
5. Treasury shares	(28,520)	—	—	—	(28,520)	—
6. Valuation reserves:	958,771	—	—	—	958,771	(1,380)
- Equity instruments valued at fair value with impact taken to comprehensive income	144,690	—	—	—	144,690	—
- Hedging of equity instruments valued at fair value with impact taken to comprehensive income	—	—	—	—	—	—
- Financial assets (other than equity instruments) valued at fair value with impact taken to comprehensive income	32,567	—	—	—	32,567	—
- Tangible assets	—	—	—	—	—	—
- Intangible assets	—	—	—	—	—	—
- Hedging of foreign investments	(12,164)	—	—	—	(12,164)	—
- Hedging of cash flows	9,715	—	—	—	9,715	(1,183)
- Hedging instruments [not designated instruments]	—	—	—	—	—	—
- Exchange differences	6,884	—	—	—	6,884	1
- Non-current assets and group of assets being sold	—	—	—	—	—	—
- Financial liabilities designated at fair value with impact taken to profit and loss (variation of own credit risk)	(4,962)	—	—	—	(4,962)	—
- Actuarial gains (losses) on defined benefits pension schemes	(8,886)	—	—	—	(8,886)	(198)
- Valuation reserves share of equity-accounted interests	781,295	—	—	—	781,295	—
- Extraordinary revaluation laws	9,632	—	—	—	9,632	—
7. Net profit (loss) for the period (+/-) of Group and minorities	526,006	—	—	—	526,006	189
Total	11,085,122	—	—	—	11,085,122	98,414

* Includes Compass RE (insurance), Compass Rent and MB Contact Solutions (other companies), equity-consolidated.

B.2 Valuation reserves for financial assets recognized at FVOCI: composition

Assets/Values	Prudential consolidation		Insurance companies		Other companies		Consolidation adjustments and eliminations		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	37,044	(4,477)	—	—	—	—	—	—	37,044	(4,477)
2. Equity securities	146,717	(2,027)	—	—	—	—	—	—	146,717	(2,027)
3. Loans	—	—	—	—	—	—	—	—	—	—
Total at 31/12/21	183,761	(6,504)	—	—	—	—	—	—	183,761	(6,504)
Total at 30/6/21	181,452	(5,699)	—	—	—	—	—	—	181,452	(5,699)

B.3 Valuation reserves for financial assets recognized at FVOCI: movements during the period

	Debt securities	Equity securities	Loans	Total
1. Opening balance	48,854	126,899	—	175,753
2. Additions	4,633	18,509	—	23,142
2.1 Increases in fair value	3,779	18,509	—	22,288
2.2 Writedowns for credit risk	854	—	—	854
2.3 Profit and loss reversal of negative reserves from realize	—	—	—	—
2.4 Transfers to other equity components (equity instruments)	—	—	—	—
2.5 Other variations	—	—	—	—
3. Reductions	20,920	718	—	21,638
3.1 Reductions in fair value	13,377	718	—	14,095
3.2 Writebacks for credit risk	343	—	—	343
3.3 Profit and loss reversal from positive reserves:	7,200	—	—	7,200
- from disposal	—	—	—	—
3.4 Transfers to other equity components (equity instruments)	—	—	—	—
3.5 Other reductions	—	—	—	—
4. Closing balance	32,567	144,690	—	177,257

SECTION 2

Own funds and supervisory capital requirements for banks

Since its inception, one of the distinguishing features of the Mediobanca Group has been the solidity of its financial structure, with capital ratios that have been consistently higher than those required by the regulatory guidelines, as shown by the excellent results for the Group deriving from the 2021 EU-wide stress test performed by the European Banking Authority (EBA), the comfortable margin emerging from the Internal Capital Adequacy Assessment Process (ICAAP) and the review performed by the regulator as part of the SREP process.

Mediobanca is required to maintain a CET1 ratio on a consolidated basis of 7.94%¹, which includes the capital conservation buffer of 2.50% and an additional Pillar 2 (“P2R”) Requirement of 0.9375%, i.e. 75% of the 1.25% required at the Overall Capital Requirement (OCR) level which is equal to 11.75%.

SREP Decision 2021” will come into force on 1 March 2022. This provides for an additional Pillar 2 Requirement of 33 bps, including application of the calendar provisioning (concentrated on the stock outstanding at 31 March 2018). Mediobanca must therefore maintain a minimum CET1 ratio on a consolidated basis of 7.90%, 9.70% of Tier 1, and 12.09% of the Total SREP Capital Requirement (“TSCR”)².

2.1 Scope of application for regulations

There were no regulatory developments in the six months that entail impacts on the Group’s capital situation.

2.2 Bank equity

QUALITATIVE INFORMATION

Common Equity Tier 1 (CET1) capital consists of the share attributable to the Group and to minority shareholders of capital paid up, and reserves (including

¹ This does not include the counter-cyclical capital buffer or the Pillar 2 Guidance.

² The requirements include the counter-cyclical capital reserve as at 31 December 2021 (equal to 0.01%).

the profit for the period (€525.8m) net of the 70% payout (€368.1m). The share of the reserves attributable to FVOCI financial assets totalled €1,171.2m, €993.9m of which deriving from Assicurazioni Generali being equity-accounted and €20.3m in government securities.

The deductions regard:

- Treasury shares as to €255.8m (accounting for 64 bps of CET1, including the indirect effects), corresponding to the market value at 3 September 2021, and equal to 3% of the company's share capital;
- Intangible assets as to €184.8m, higher than the reductions recorded at end-June 2021 (€141.0m) due to the acquisition of the Bybrook activities post-application of the Purchase Price Allocation process;
- Goodwill of €615.5m, slightly higher than six months ago (€602.4m), due to the customary adjustments to reflect exchange rate changes plus the addition of Bybrook (€13.1m);
- Prudential changes to the valuation of financial instruments (AVA and DVA) amounting to €80.4m (€80.3m);
- Significant interests in financial companies (banking and insurance firms) as to €2,259.9m, €1,974.6m of which for the investment in Assicurazioni Generali and €138.1m for Group legal entity Compass RE;
- The share of deferred tax assets (€5.3m) exceeding the threshold amount set by Article 48 of the CRR, in view of the increase following the tax relief taken by Compass.

No Additional Tier 1 (AT1) instruments have been issued.

Tier 2 capital includes subordinated liabilities, down in the six months from €1,167.3m to €1,038.4m due to amortization for the period (€128.8m). No subordinated tier 2 issue benefits from the grand-fathering permitted under Articles 483ff of the CRR.

³ As from 31 December 2021, the irrevocable payment commitment of €7m by way of contribution to the Single Resolution Fund (SRF), paid in 2016 but thus far booked as collateral, is no longer deducted from CET1 after the cost was charged to profit and loss account

Issue	31/12/21		
	ISIN	Nominal value	Calculated amount *
MB Subordinato Mar 29	XS1579416741	50,000	48,505
Mediobanca Mc Nv30 Sub Tier2 Call Eur	XS2262077675	249,150	241,432
MB OPERA 3.75 2026	IT0005188351	299,667	259,969
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	500,001	361,713
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	499,960	126,828
Total subordinated debt securities		1,598,778	1,038,447

* The value calculated differs from the book value due to the items recognized at fair value and amortized cost and to buyback commitments entered into.

Tier 2 also includes the buffer which derives from the writedowns to book value being higher than the prudential expected losses calculated using the advanced models. The surplus is €93.2m, whereas the value calculated is €67.1m, virtually in line with the balance-sheet date (€66.7m), the amount corresponding to the regulatory limit of 0.6% of the amounts of the risk-weighted exposures calculated using advanced models (cf. Article 159 of the CRR) being eligible for inclusion in full in the calculation.

QUANTITATIVE INFORMATION

	31/12/21	30/6/21
A. Common equity tier 1 (CET1) prior to application of prudential filters	10,435,321	10,480,710
<i>of which: CET1 instruments subject to phase-in regime</i>	—	—
B. CET1 prudential filters (+/-)	(56,731)	(47,932)
C. CET1 gross of items to be deducted and effects of phase-in regime (A +/- B)	10,378,590	10,432,778
D. Items to be deducted from CET1	(4,212,425)	(3,935,089)
E. Phase-in regime - impact on CET1 (+/-), including minority interests subject to phase-in regime *	1,186,207	1,191,710
F. Total common equity tier 1 (CET1) (C-D+/-E)	7,352,372	7,689,399
G. Additional tier 1 (AT1) gross of items to be deducted and effects of phase-in regime	—	—
<i>of which: AT1 instruments subject to temporary provisions</i>	—	—
H. Items to be deducted from AT1	—	—
I. Phase-in regime - impact on AT1 (+/-), including instruments issued by branches and included in AT1 as a result of phase-in provisions	—	—
L. Total additional tier 1 (AT1) (G-H+/-I)	—	—
M. Tier 2 (T2) gross of items to be deducted and effects of phase-in regime	1,105,539	1,233,946
<i>of which: T2 instruments subject to phase-in regime</i>	—	—
N. Items to be deducted from T2	—	(4,167)
O. Phase-in regime - Impact on T2 (+/-), including instruments issued by branches and included in T2 as a result of phase-in provisions	—	—
P. Total T2 (M-N+/-O)	1,105,539	1,229,779
Q. Total own funds (F+L+P)	8,457,911	8,919,178

* Adjustments include application of the phase-in provisions for the introduction of IFRS 9 and the higher deductions due to application of calendar provisioning.

2.3 Capital adequacy

QUALITATIVE INFORMATION

As at 31 December 2021, the Common Equity Ratio, calculated as Common equity Tier 1 capital as a percentage of total risk-weighted assets, amounted to 15.37%, in down approx. 100 bps on the figure reported at end-June 2021 (16.31%), due to provision for the dividend accrual (which accounted for 78 bps, on a payout ratio of 70%), and launch of the new share buyback scheme⁴ (64 bps), plus the strong organic asset growth (32 bps) and closing of the Bybrook deal (11 bps). Retained earnings for the six months (which added 33 bps) was mostly offset by the higher deductions for the Assicurazioni Generali investment (accounting for 20 bps).

The material growth in RWAs (from €47.2bn to €47.8bn) is due to higher volumes in factoring business (up €700m) and Consumer Finance (up €300m); while the reduction in RWAs in PI (down €300m) was due to the higher deductions for the Assicurazioni Generali investment.

⁴ The new share buyback scheme involves up to 3% of the share capital (€256m) and was launched after the 22,581,461 treasury shares already held by the Bank were cancelled.

MOVEMENTS IN RWAS

	Value
RWA as at 30 June 20	47,159,256
New regulation impact	—
Optimization (CVA and market risk)	—
Volume effect	682,933
Corporate Investment Banking - CIB	781,704
Wholesale Banking- WS	78,044
Specialty Finance - SF	703,660
Consumer	360,740
Wealth Management - WM	2,874
Holding Functions - HF - (Leasing)	(114,726)
Others PI	(347,659)
RWA as at 31 December 2021	47,842,189

The total capital ratio decreased from 18.9% to 17.7%: the reduction, which was higher than that for the CET1 ratio, is attributable to the prudential amortization of the Tier 2 instruments.

Fully-loaded and without application of the Danish Compromise, i.e. with the Assicurazioni Generali stake fully deducted (which accounted for 120 bps⁵, or €1,132.1m,) and with full application of the IFRS 9 effect (which accounted for 10 bps, or €54.1m), the CET1 ratio came in at 14.1% and the total capital ratio at 16.6%, in both cases lower than at 30 June 2021 (15.1% and 17.9% respectively).

The other indicators performed as follows during the period:

- The leverage ratio, calculated without excluding the reserves held with central banks from the exposures, decreased from 9.1% at the balance-sheet date to 8.2%; the reduction for the six months was due to the reduction in capital as mentioned above, and also the increase in exposures (up €4.7bn, €3bn of which in relation to the higher treasury activity levels and €1bn to Factoring), but still remained comfortably above the regulatory limit of 3% at all times;
- The MREL ratio, calculated according to the hybrid approach, was again above 30% of RWAs⁶, considerably higher than the minimum level set by the Single Resolution Board for 2021, which was 21.85%, including the Combined Buffer Requirement of 2.51%.

⁵ The impact, which is temporarily above the customary figure of 110 bps, does not factor in the Assicurazioni Generali dividend payable for the 2021 financial year, and includes approx. 10 bps of higher deductions for other significant investments and DTAs.

⁶ Ratio calculated using the hybrid approach recently introduced by the regulator, which takes into consideration consolidate down funds and eligible liabilities (apart from own funds) issued by the resolution entity to institutions external to the resolution group.

QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts		Weighted amounts/requirements	
	31/12/21	30/6/21	31/12/21	30/6/21
A. RISK ASSETS				
A.1 Credit and counterpart risk	75,651,351	71,850,055	41,110,425	40,728,331
1. Standard methodology	44,561,972	43,040,773	29,645,386	29,500,445
2. Internal rating methodology	29,927,091	28,612,334	11,181,960	11,114,732
2.1 Basic	—	—	—	—
2.2 Advanced	29,927,091	28,612,334	11,181,960	11,114,732
3. Securitization	1,162,288	196,948	283,079	113,153
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			3,288,834	3,258,266
B.2 Credit valuation risk			20,674	18,939
B.3 Settlement risk			—	—
B.4 Market risk			188,031	165,699
1. Standard methodology			188,031	165,699
2. Internal models			—	—
3. Concentration risk			—	—
B.5 Other prudential requirements			329,836	329,836
1. Basic Indicator Approach (BIA)			329,836	329,836
2. Standard methodology			—	—
3. Advanced methodology			—	—
B.6 Other calculation elements			—	—
B.7 Total prudential requirements			3,827,375	3,772,740
C. RISK ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets			47,842,189	47,159,256
C.2 CET1 capital/risk-weighted assets (CET1 capital ratio)			15.37%	16.31%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 capital ratio)			15.37%	16.31%
C.4 Regulatory capital/risk-weighted assets (total capital ratio)			17.68%	18.91%

¹ For the standardized methodology, the “un-weighted amounts”, as provided by the regulations in force, correspond to the value of the exposure taking into account the prudential filters, risk mitigation techniques and credit conversion factors. For the AIRB ratings methodology, the “un-weighted amounts” correspond to the “exposure at default” (EAD). For guarantees issued and commitments to disburse funds, credit conversion factors are also included in the EAD calculation.

Part G – Combinations involving Group companies or business units

SECTION 1

Transactions completed during the period

The activities of Bybrook Capital LLP (“Bybrook”) were transferred to Cairn Capital Ltd on 31 August 2021.

The deal, which was approved by the competent regulatory authorities, took place in two successive phases: firstly, Cairn replaced Bybrook in the Revenue Sharing Agreement (“RSA”) that the latter had entered into with an institutional investor; and secondly, the Bybrook business was then bought out from the two founding partners. The overall outlay for the transaction was £66.8m, £23.5m of which was paid to the institutional investor and £43.3m to the two Bybrook partners, £25.2m of which in the form of new Cairn shares (D Shares) corresponding to 21.86% of the company’s share capital, over half of which a put-and-call agreement with Mediobanca has been arranged. Following the acquisition, Cairn Capital has booked £67.4m in intangible assets (£8.5m of which with definite life and £58.9m with indefinite life).

Please see Part B of the Notes to the Accounts (Asset heading 10, “Intangible assets”) for further details.

SECTION 2

Transactions completed since the reporting date

No transactions have taken place since the reporting date.

SECTION 3

Retrospective adjustments

No adjustments have been made to the accounts in connection with previous business combinations for the period under review.

Part H - Related party disclosure

1. Information on remuneration for managers with strategic responsibilities

As for the disclosure of remuneration for managers with strategical responsibilities, reference is made to the annex of this financial statement “Report on remuneration and compensation paid” or to the dedicated section of the Mediobanca website www.mediobanca.com, where the following are disclosed (with reference to the Mediobanca Group):

- the analytical detail of compensations paid to members of governing and supervisory bodies, to general managers and to other managers with strategical responsibilities;
- the detail and the evolution of performance shares schemes awarded to members of the BoD, to general managers and to other managers with strategical responsibilities, as well as of long term incentive schemes.

Group compensations include those awarded to managers of controlled entities not included into the table published within the individual financial statement (for a total of €1.3m).

2. Related party disclosure

In January 2011 the Group adopted its own related parties procedure, in pursuance of Consob resolution no. 17221 issued on 12 March 2010. The purpose of the procedure is to ensure that transactions with related parties executed directly by Mediobanca or via subsidiaries are managed transparently and fairly. The Board of Directors of Mediobanca, having received favourable opinions from the Bank’s Related Parties and Statutory Audit Committees, has incorporated the Bank of Italy’s most recent instructions on this subject to this procedure, which introduce prudential limits for risk activities versus related parties; this procedure came into force during December 2012, and was updated most recently in June 2021. The full document is published on the Bank’s website at www.mediobanca.com.

For the definition of related parties adopted, please see part A of the notes to the accounts (Accounting Policies).

Accounts with related parties fall within the ordinary operations of the Group companies, are maintained on an arm's length basis, and are entered into in the interests of the individual companies concerned. Details of Directors' and strategic management's compensation are provided in a footnote to the table.

2.1 Regular financial disclosure: most significant transactions

There are no transactions to report for the twelve months under review.

2.2 Quantitative information

The Caltagirone group has entered the scope of related parties of Mediobanca in the last six months, as since July 2021 its stake in the Bank has exceeded the limit of 3%.

The Mediobanca Group's exposure to regulatory risk versus the Caltagirone group as at 31 December 2021 is equal to €57m, €31m of which refers to a loan granted, €10m to a loan executed but not yet drawn, and the remainder to counterparty risk for trading in derivative instruments.

Overall the aggregate exposure to related parties is very low, and net of the new addition described above, reflects a basically stable or even slightly decreasing trend.

Situation as at 31 December 2021

	(€m)			
	Directors, statutory auditors and strategic management	Associates	Other related parties	Total
Assets	2.1	—	166.3	168.4
<i>of which: other assets</i>	—	—	126.4	126.4
<i>loans and advances</i>	2.1	—	39.9	42.0
Liabilities	26.5	—	67.6	94.1
Guarantees and commitments	—	—	140.0	140.0
Interest income	—	0.1	0.4	0.5
Interest expense	—	—	(0.9)	(0.9)
Net fee income	—	2.8	23.2	26.0
Other income (costs)	(21.7) ¹	—	(3.2)	(24.9)

¹ Of which: short-term benefits amounting to €19.3m and performance shares worth €2.2m. The number includes the resources included among the Executives with strategic responsibilities during the year.

Situation as at 30 June 2021

	(€m)			
	Directors, statutory auditors and strategic management	Associates	Other related parties	Total
Assets	2.1	4.1	110.1	116.3
<i>of which: other assets</i>	—	4.1	101.1	105.2
<i>loans and advances</i>	2.1	—	9.0	11.1
Liabilities	23.9	—	108.2	132.1
Guarantees and commitments	—	—	380.0	380.0
Interest income	—	0.7	0.5	1.2
Interest expense	—	—	(1.8)	(1.8)
Net fee income	—	—	49.8	49.8
Other income (costs)	(42.9) ¹	0.4	10.9	(31.6)

¹ Of which: short-term benefits amounting to €37.7m and performance shares worth €4.9m. The number includes the resources included among the Executives with strategic responsibilities during the year.

Part I - Share-based payment schemes

A. QUALITATIVE INFORMATION

1. Information on capital increases for use in share-based payment schemes using the Bank's own equity instruments approved by the Annual Meeting

The table below shows the resolutions adopted by shareholders of parent company Mediobanca S.p.A. at extraordinary Annual General Meetings regarding stock option, performance stock option and performance share schemes:

Extraordinary general meeting	No. of shares approved	Awards expire on	Deadline for exercising options
For use in connection with performance share schemes			
28 October 2015	20,000,000	X	2,481,700 *
28 October 2020	20,000,000	X	1,676,423 *
28 October 2021	4,000,000	X	

* Refers to options awarded in 2017, 2018, 2019, 2020 and 2021.

2. Description of performance shares schemes and parent company LTI

In the area of equity instruments used for staff remuneration, Mediobanca has decided to adopt a performance shares scheme, the most recent version of which was approved by shareholders at the Annual General Meeting held on 28 October 2021. This scheme partly replaced, as from FY 2021-22, the 2021-22 Incentivization Scheme that had been approved by shareholders on 28 October 2020 in order to move to a system based on resolutions to be adopted annually.

Under the terms of the scheme, in certain conditions Mediobanca shares may be awarded to staff free of charge at the end of a vesting period. The rationale for the scheme is to:

- Bring the Bank's remuneration structure into line with the regulations requiring that a share of the variable remuneration component to be paid in the form of equity instruments, over a time horizon of several years, subject to performance conditions and hence consistent with results sustainable over time;
- Align the interests of Mediobanca's management with those of shareholders to create value over the medium/long term.

The maximum number of shares that can be allocated under the scheme approved by shareholders at the Annual General Meeting held on 28 October 2021 is four million to Group staff by way of assignment of variable remuneration payable for the year ended 30 June 2022. Treasury shares will be used to service the scheme.

On 27 September 2021, in connection with the variable remuneration for the 2021 financial year, within the Plan approved on 28 October 2020, a total of 1,608,187 performance shares have been awarded. The shares, the award of which is conditional upon performance objectives being met over a five-year period, will be made available in tranches in November 2022 (up to 705,975), November 2023 (up to 272,267), November 2024 (up to 391,327), November 2025 (up to 119,558) and November 2026 (up to 119,060).

On 26 November 2021, a total of 2,302,838 shares were awarded in the form of treasury shares delivered; on 15 December 2021 a total of 63,229 shares were recovered.

In addition, other Group companies have equipped themselves with incentive plans based on equity instruments. The following developments in the six months under review should also be noted:

- Messier et Associés has approved a free-shares scheme of up to 10% of the company capital reserved to employees, which are often distributed in moments of career improvements and/or for retention purposes. After the vesting period (not longer than 2 years), a further holding period of one year has been set, after which holders have the possibility to sell these shares to the parent company, receiving shares in the company itself in return. During the six months under review, a total of 3,650 shares were recovered. The total number of shares assigned is therefore currently 12,100 (15,750), 6,000 of which (7,500) vesting in one year and the remainder in two years. More shares are due to be awarded during the current financial year.

QUANTITATIVE INFORMATION

1. Changes in performance share scheme during the year

	31/12/21		30/6/21	
	No. of performance shares	Avg. price	No. of performance shares	Avg. price
A. Opening balance	4,916,003	6.48	5,255,453	6.98
B. Increases				
B.1 New issues	1,608,187	7.97	1,475,290	5.95
B.2 Other additions	—	—	—	—
C. Decreases				
C.1 Performance shares cancelled	—	—	—	—
C.2 Performance shares made available	2,302,838	7.09	1,747,747	6.77
C.3 Performance shares expired	—	—	—	—
C.4 Other reductions	63,229	4.33	66,993	6.41
D. Closing balance	4,158,123	7.03	4,916,003	6.48

Part L - Segmental reporting

INTRODUCTION

Under IFRS 8, an entity must disclose information to enable users of its financial statements to evaluate the nature and financial effects of the different business activities in which it engages and the different economic environments in which it operates.

Disclosure is therefore required regarding the contribution of the different “operating segments” to the formation of the Mediobanca Group’s earnings results.

The aggregation of the “operating segments” illustrated in this section is consistent with the means adopted by the Group’s management to take business decisions, and is based on the internal reporting used in order to allocate resources to the various segments, and to analyse their respective performances as described in the Review of Operations, to which reference is made for detailed and exhaustive analysis of the individual business lines’ earnings and financial performances.

A. PRIMARY SEGMENTAL REPORTING

At Group level the following business lines have been identified:

- *Wealth Management* (WM): this division brings together all asset management services offered to the various client segments and Asset Management companies. It includes CheBanca!, which targets the Affluent & Premier client bracket, offering traditional banking services as well; the MBPB and CMB Monaco private banking networks, and the Asset Management companies (Cairn Capital into which the activities of Bybrook Capital have been merged¹, Mediobanca SGR, Mediobanca Management Company, and RAM Active Investment), plus Spafid (Spafid Trust and Spafid SIM included);
- *Consumer Banking* (CB): This division provides retail clients with the full range of consumer credit products: personal and special-purpose loans, and salary-backed finance, credit cards and Compass Pay. The division also includes Compass RE, which reinsures risks linked to insurance policies sold to clients, Compass Rent, which allows customers to hire cars and second-

¹ Since 1 September 2021, after the Bybrook deal was closed as described earlier on in this Review of Operations, the Bybrook group’s assets have been recorded in the books of Cairn Capital and the Bybrook group has been included in the Mediobanca Group’s area of consolidation in the Wealth Management segment.

hand vehicles and the newly-incorporated Compass Link, which uses external collaborators to distribute Consumer-business products and services;

- *Corporate and Investment Banking* (CIB): this division brings together all services provided to corporate clients in the following areas: investment banking (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca and Mediobanca International, Mediobanca Securities and Messier et Associés); and Specialty Finance, which in turn consists of Factoring (MBFACTA) and Credit Management (including NPL portfolio acquisitions and management) performed MBCredit Solutions;
- *Principal Investing* (PI): this division administers the Group’s portfolio of equity investments and holdings, including the stake in Assicurazioni Generali in particular;
- *Holding Functions*: this division comprises SelmaBipiemme Leasing, MIS, Spafid Connect ², Group treasury and ALM ³ (with the aim of minimizing the cost of funding and optimizing liquidity management on a consolidated basis, including the securities held as part of the banking book), all costs relating to central Group functions including operations, support units (such as Planning and Control, Corporate Affairs, Investor Relations, etc.), senior management and the control units (Risk Management, Group Audit and Compliance) for the part not allocated to the business lines.

A.1 Profit-and-loss figures by business segment

A list of the main points requiring attention with regard to the allocation of earnings results is provided below:

- Net interest income ⁴ is obtained by applying the internal funds transfer pricing (FTP) rates consistent with the financial characteristics of the products concerned. Notional interest is allocated using a centralized FTP model which assigns volumes and costs of liquidity based on durations, without distinction between lending and funding (“bid-ask”), assuming the same expiry;

² Negotiations are in progress for the disposal of the issuer services business unit (shareholder registers and AGM management services), the assets of which have been restated as “Non-current assets held for sale and discontinued operations” in accordance with IFRS 5.

³ Group Treasury finances the individual business areas by applying funds transfer prices (based on the FTP curve) with different spreads depending on the expiry dates of the funds’ usage.

⁴ The Mediobanca Group only reports net interest income based on the requirements of IFRS 8, which specifies that an institution must record interest income and interest expense separately for each reporting segment, unless the majority of the revenue generated by that segment derives from interest and unless management bases itself primarily on net interest income in order to assess the segment’s results and take decisions regarding the resources to be allocated to the segment. In this case an institution may refer to the segment’s interest revenue net of interest expense, provided it specifies this [IFRS 8.23].

- The costs incurred by the service units, plus a part of the central function costs, are charged back by the relevant ⁵ corporate centre (the Holding Functions division) to the operating segments that use the services. The 796 staff employed by the Holding Functions are divided up as follows: 103 in SelmaBipiemme; 31 in Group Treasury and ALM; 141 in MIS, 204 in operations, 162 in support functions, 148 in control functions, plus seven in management (senior management and assistants), of which the cost of the approx. 233 FTEs (besides MIS's staff) is reallocated to the business lines, with stable impact (in December 2020 the cost of approx. 226 FTE out of a total of 799 was reallocated);
- Intercompany items are net out only if they involve companies belonging to the same segment; items involving different segments are cross-checked and recorded as adjustments, along with the consolidation entries regarding companies belonging to different segments..

A.1 Profit-and-loss figures by business segment

(€ m)

Profit-and-loss figures	Wealth Management	Consumer Banking	Corporate & Investment Banking	Principal Investing	Holding Functions	Writeoffs ¹	Group
Net interest income	146.6	462.2	140.3	(3.5)	(25.5)	13.4	733.5
Net trading income	4.1	—	63.3	12.5	15.7	1.4	97.0
Net fee and commission income	213.2	62.6	187.0	(0.7)	3.9	(22.8)	443.2
Share in profits earned by equity-accounted companies	—	—	—	185.7	—	—	185.7
Total income	363.9	524.8	390.6	194.0	(5.9)	(8.0)	1.459.4
Personnel costs	(130.7)	(51.3)	(84.8)	(1.6)	(60.3)	0.1	(328.6)
Administrative expenses	(125.0)	(97.2)	(75.7)	(0.5)	(14.7)	8.3	(304.8)
Operating costs	(255.7)	(148.5)	(160.5)	(2.1)	(75.0)	8.4	(633.4)
Gains (losses) from equity investments sale	—	—	—	—	—	—	—
Loan loss provisions	(8.4)	(95.9)	(17.8)	—	(15.2)	—	(137.3)
Provisions for other financial assets	3.0	—	(1.0)	0.2	(1.1)	0.1	1.2
Other income (losses)	—	—	(0.4)	—	(33.8)	(0.3)	(34.5)
Profit before tax	102.8	280.4	210.9	192.1	(131.0)	0.2	655.4
Income tax for the period	(30.2)	(90.3)	(70.2)	(7.5)	78.0	(0.2)	(120.4)
Minority interest	(0.2)	—	(9.0)	—	—	—	(9.2)
Net profit	72.4	190.1	131.7	184.6	(53.0)	—	525.8
Cost/income ratio (%)	70.3	28.3	41.1	n.m.	n.m.	n.m.	43.4

¹ Sum of divisional data differs from Group total due to adjustments/differences arising on consolidation between business areas.

⁵ At 31/12/20 the 799 staff were divided as follows: 109 in Selmabipiemme Leasing and 8 in the other non-core companies; 32 in group Treasury and ALM; 127 at MIS, 208 in operations, 163 in support functions, 145 in control functions and 7 in management (senior management and their assistants), with the cost of approximately 236 FTE charged back to the business lines.

A.2 Balance-sheet data by business segment

The balance-sheet items shown below represent each business area's contribution to the consolidated balance sheet, hence no adjustments have been made between the sum of the components and the Group total.

(€ m)

Balance-sheet data	Wealth Management	Consumer Banking	Corporate & Investment Banking	Principal Investing	Holding Functions	Group
Financial assets held for trading	—	—	12,123.2	—	—	12,123.2
Treasury funds	—	—	1,281.0	—	9,155.3	10,436.3
Banking book debt securities	544.8	—	1,495.3	—	5,849.7	7,889.8
Loans and advances to customers	14,772.5	13,305.0	21,039.8	—	1,687.6	50,804.9
Equity investments	49.9	—	74.5	4,576.9	25.4	4,726.7
Tangible and intangible assets	532.3	433.5	157.6	—	214.3	1,337.7
Other assets	395.7	518.9	117.2	—	746.1	1,777.9
Total assets	16,295.2	14,257.4	36,288.6	4,576.9	17,678.4	89,096.5
Funding	(27,248.5)	(2,007.6)	—	—	(30,029.7)	(59,285.8)
Treasury funding	—	—	(768.6)	—	(6,292.6)	(7,061.2)
Financial liabilities held for trading	—	—	(9,337.9)	—	—	(9,337.9)

The following in particular should be noted:

- Debt securities, loans and treasury deposits are allocated almost entirely to treasury operations (Holding Functions);
- Tangible and intangible assets are allocated to the respective business lines.

ANNEXES



Consolidated financial statements

Comparison between restated balance sheet and format recommended by Bank of Italy circular no. 262/05, seventh update

As for Assets, the balance sheet shown in the Review of operations reflects the following restatements:

- The heading “Treasury financial assets” includes “Cash and cash equivalents” (heading 10); receivables in respect of current accounts and untied deposits, repos and other deposits in connection with securities lending operations and derivatives booked as “Financial assets at amortized cost: due from banks and due from customers” (headings 40a and 40b respectively), plus certain items booked as “Other assets” (heading 130);
- The heading “Banking book securities” includes the debt securities booked as “Financial assets recognized at fair value with impact taken to comprehensive income” (heading 30), as “Financial assets at amortized cost” (heading 40c) and as “Financial assets recognized at fair value with impact taken to profit and loss” both designated at fair value and classified compulsorily as such (headings 20b and 20c);
- The balance of “Equity investments” includes the equities accounted for as “Financial assets recognized at fair value with impact taken to comprehensive income” (heading 30), the “Equity investments” (heading 70) themselves, and the funds mandatorily recognized at fair value of heading 20c “Financial assets recognized at fair value with impact taken to profit and loss”;
- The heading “Customer loans” includes loans and receivables booked as “Financial assets at amortized cost: due from banks and due from customers” (headings 40a and 40b respectively) including those recognized mandatorily at fair value with impact taken to profit and loss booked under heading 20c) net of the “Adjustment of hedging financial assets” (heading 60) for loans and receivables;
- The heading “Other assets” includes the amounts booked under headings 130 “Other assets”, 110 “Tax assets” and 50 “Hedging derivatives”, and the sundry debtor items booked as “Financial assets at amortized cost: due from banks and due from customers” (headings 40a and 40b);

As for Liabilities:

- The heading “Funding” includes the “Financial liabilities at amortized cost – a) Due to banks, b) Due to customers and c) Debt securities in issue” different from those amounts booked as “Treasury financial liabilities”, “Other liabilities” and “Financial liabilities designated at fair value” (heading 30);
- The heading “Treasury financial liabilities” includes amounts payable in respect of current accounts and untied deposits, repos and other deposits in connection with securities lending operations and derivatives booked as “Financial liabilities at amortized cost – a) Due to banks” and “b) Due to customers” (heading 10);
- The heading “Other liabilities” includes the headings 40 “Hedging derivatives”, 60 “Tax liabilities” and 110 “Insurance reserves”, plus the sundry creditor items booked as “Financial liabilities at amortized cost”.

Balance sheet as at 31 December 2021 - Assets

(€m)

Restated balance sheet

Assets	Financial assets held for trading	Treasury financial assets	Banking book securities	Customer loans	Equity Investments	Tangible and intangible assets	Other assets	Total assets
10. Cash and cash equivalents	—	4,332.3	—	—	—	—	—	4,332.3
20. Financial assets at fair value with impact taken to profit and loss	12,123.2	—	0.9	627.8	683.1	—	—	13,435.0
<i>a) Financial assets held for trading</i>	12,123.2	—	—	—	—	—	—	12,123.2
<i>b) Financial assets designated at fair value</i>	—	—	—	614.7	—	—	—	614.7
<i>c) Other financial assets mandatorily at fair value</i>	—	—	0.9	13.1	683.1	—	—	697.1
30. Financial assets at fair value with impact taken to comprehensive income	—	—	4,763.3	—	242.7	—	—	5,006.0
40. Financial assets at amortized cost	—	6,104.0	3,125.6	50,177.1	—	—	—	59,406.7
50. Hedging derivatives	—	—	—	—	—	—	225.7	225.7
60. Adjustment of hedging financial assets (+/-)	—	—	—	—	—	—	—	—
70. Equity investments	—	—	—	—	3,800.9	—	—	3,800.9
80. Reinsured portion of technical reserve	—	—	—	—	—	—	—	—
90. Property, plant and equipments	—	—	—	—	—	501.0	—	501.0
100. Intangible assets	—	—	—	—	—	836.7	—	836.7
110. Tax assets	—	—	—	—	—	—	724.0	724.0
120. Assets classified as held for sale	—	—	—	—	—	—	4.3	4.3
130. Other assets	—	—	—	—	—	—	823.9	823.9
Total assets	12,123.2	10,436.3	7,889.8	50,804.9	4,726.7	1,337.7	1,777.9	89,096.5

Format recommended by bank of Italy circular no. 2/62/05 7th update

Balance sheet as at 31 December 2021 - Liabilities

(€m)

Restated balance sheet

Liabilities and net equity	Funding	Treasury financial liabilities	Financial liabilities held for trading	Other liabilities	Provisions	Net equity and minority interests	Total liabilities and net equity
10. Financial liabilities at amortized cost	58,506.3	7,061.2	—	283.4	—	—	65,850.9
<i>a) Due to banks</i>	11,325.9	3,743.9	—	22.3	—	—	15,092.1
<i>b) Due to customers</i>	27,942.2	3,317.3	—	260.9	—	—	31,520.4
<i>c) Debt securities in issue</i>	19,238.2	—	—	0.2	—	—	19,238.4
20. Trading financial liabilities	—	—	9,337.9	—	—	—	9,337.9
30. <i>Financial liabilities designated at fair value</i>	779.5	—	—	—	—	—	779.5
40. Hedging derivatives	—	—	—	435.8	—	—	435.8
50. Adjustment of hedging financial liabilities (+/-)	—	—	—	—	—	—	—
60. Tax liabilities	—	—	—	497.2	—	—	497.2
70. Liabilities included in disposal groups classified as held for sale	—	—	—	—	—	—	—
80. Other liabilities	—	—	—	822.5	—	—	822.5
90. Staff severance indemnity provision	—	—	—	—	25.6	—	25.6
100. Provisions	—	—	—	—	137.9	—	137.9
110. Insurance reserves	—	—	—	124.1	—	—	124.1
120. Revaluation reserves	—	—	—	—	—	960.2	960.2
130. Redeemable shares repayable on demand	—	—	—	—	—	—	—
140. Equity instruments repayable on demand	—	—	—	—	—	—	—
150. Reserves	—	—	—	—	—	6,890.0	6,890.0
160. Share premium reserve	—	—	—	—	—	2,195.6	2,195.6
170. Share capital	—	—	—	—	—	443.6	443.6
180. Treasury share (-)	—	—	—	—	—	(28.5)	(28.5)
190. Minority interests (+/-)	—	—	—	—	—	98.4	98.4
200. Profit/(loss) for the period (+/-)	—	—	—	—	—	525.8	525.8
Total liabilities and net equity	59,285.8	7,061.2	9,337.9	2,163.0	163.5	11,085.1	89,096.5

Format recommended by bank of Italy circular no. 262/05 7th update

Comparison between restated profit and loss account and format recommended by Bank of Italy circular no. 262/05, seventh update

The profit and loss account shown in the Review of operations reflects the following restatements:

- “Net interest income” includes the items stated under headings 10 “Interest and similar income”, 20 “Interest and similar expense”, fee income related to Financial Guarantee, the margins on derivatives trading stated under heading 80 “Net trading income”, and the net profit or loss on hedges of customer loans and funding stated under heading 90 “Net hedging income”;
- “Net treasury income” contains the amounts stated under heading 70 “Dividends and similar income”, heading 80 “Net trading income” (except for amounts booked as Net interest income and considering that the heading includes €24.3m of Banking Book changes in Forex), the net profit or loss on banking book securities stated under heading 100 “Net gains (losses) on disposals/repurchases”, the share of securities lending transactions stated under headings 40 “Fee and commission income” and 50 “Fee and commission expense”, and the interests accrued on the related collateral (headings 10 “Interest and similar income” and 20 “Interest expense and similar charges”) and the share of heading 110 “Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss” related to securities at fair value option;
- The heading “Net fee and commission income” contains the amounts stated under heading 60 “Net write-offs (write-backs) for credit risk”, the operating income stated under heading 230 “Other operating income (expense)”, and the writebacks due to collections on NPLs acquired stated under heading 130 “Net write-offs (write-backs) for credit risk” and the “Net profit from insurance activities” of headings 160 and 170;
- The heading “Loan loss provisions” contains the amounts relating to loans stated under headings 130 “Net write-offs (write-backs) for credit risk” (net of the writebacks to NPLs), 100 “Net gains (losses) on disposals/repurchases”, 110 “Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss” and 140 “Gain (losses) from contractual modifications without derecognition”;

- The heading “Gains (losses) on disposal of equity holdings” contains the earnings effects of the Group’s holdings in equity investments stated under headings 250 “Gains (losses) on equity investments” while the effects of securities and funds stated under heading 110 “Net gains (losses) on other financial assets and liabilities recognized mandatorily at fair value” are reclassified under heading “Provisions for other financial assets”;
- The heading “Operating costs” includes amounts booked under heading 190 “Administrative expenses”, net transfers to provisions (heading 200), net adjustments to tangible and intangible assets (headings 210 and 220) and other operating income or expenses of heading 230, excluding those amounts reclassified as net fee and commission income;
- The heading “Other income (losses)” contains the non-recurring costs stated under heading 190 “Administrative expenses”, in particular contributions to the Single Resolution Fund and Deposit Guarantee scheme and one-off items. The items also includes the share of the 2016 contribution to the SRF previously treated as collateral being accounted for as a cost (€3.7m), the increase in provisions (€12.3m) for a set of derivatives subscribed for between 2010 and 2014 with durations of several years and a one-off provision of €1.5m approved by the CSR Committee to be donated to charitable initiatives to be selected in the coming months.

Profit and loss account as at 31 December 2021

(€m)

Profit-and-loss account	Restated profit-and-loss										
	Net interest income	Net treasury income	Net fee and commission income	Equity-accounted companies	Operating costs	Loan loss provisions	Provisions for other financial assets	Other income (losses)	Income tax for the period	Minority interest	Net profit
10. Interest and similar income	915.1	(0.3)	—	—	—	—	—	—	—	—	914.8
20. Interest expense and similar charges	(175.5)	(1.8)	—	—	—	—	—	—	—	—	(177.3)
30. Net interest income	739.6	(2.1)	—	—	—	—	—	—	—	—	737.5
40. Fee and commission income	1.0	4.0	434.6	—	—	—	—	—	—	—	439.6
50. Fee and commission expense	(4.9)	(2.8)	(72.0)	—	—	—	—	—	—	—	(79.7)
60. Net fee and commission income	(3.9)	1.2	362.6	—	—	—	—	—	—	—	359.9
70. Dividends and similar income	—	43.9	—	—	—	—	—	—	—	—	43.9
80. Net trading income	(0.7)	11.1	—	—	—	—	—	(2.3)	—	—	(1.9)
90. Net hedging income (expense)	(1.5)	—	—	—	—	—	—	—	—	—	(1.5)
100. Gain (loss) on disposal/repurchase	—	40.7	—	—	—	11.1	—	—	—	—	51.8
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss	—	2.2	—	—	—	—	4.1	—	—	—	6.3
120. Total income	733.5	97.0	362.6	—	—	11.1	4.1	(12.3)	—	—	1,196.0
130. Net write-offs (write-backs) for credit risk	—	—	20.1	—	—	(151.0)	(2.9)	—	—	—	(133.8)
140. Gains (losses) from contractual modifications without derecognition	—	—	—	—	—	0.1	—	—	—	—	0.1
150. Net income from financial operations	733.5	97.0	382.7	—	—	(139.8)	1.2	(12.3)	—	—	1,062.3
160. Premiums earned (net)	—	—	23.3	—	—	—	—	—	—	—	23.3
170. Other income (net) from insurance activities	—	—	(7.3)	—	—	—	—	—	—	—	(7.3)
180. Net profit from financial and insurance activities	733.5	97.0	398.7	—	—	(139.8)	1.2	(12.3)	—	—	1,078.3
190. Administrative expenses	—	—	—	—	(622.8)	—	—	(27.1)	—	—	(649.9)
200. Net transfers to provisions	—	—	—	—	(8.3)	2.5	—	3.1	—	—	(2.7)
210. Net adjustments to tangible assets	—	—	—	—	(27.8)	—	—	—	—	—	(27.8)
220. Net adjustments to intangible assets	—	—	—	—	(14.6)	—	—	—	—	—	(14.6)
230. Other operating income (expense)	—	—	44.5	—	40.1	—	—	2.2	—	9.0	77.8
240. Operating costs	—	—	44.5	—	(633.4)	2.5	—	(21.8)	—	(9.0)	(617.2)
250. Gain (loss) on equity investments	—	—	—	185.7	—	—	—	—	—	—	185.7
260. Net result from fair value valuation of tangible and intangible assets	—	—	—	—	—	—	—	—	—	—	—
270. Goodwill write-offs	—	—	—	—	—	—	—	—	—	—	—
280. Gain (loss) on disposal of investments	—	—	—	—	—	—	—	(0.4)	—	—	(0.4)
290. Profit (loss) on ordinary activity before tax	733.5	97.0	443.2	185.7	(633.4)	(137.3)	1.2	(34.5)	—	(9.0)	616.1
300. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—	(120.4)	—	(120.4)
310. Profit (loss) on ordinary activities after tax	733.5	97.0	443.2	185.7	(633.4)	(137.3)	1.2	(34.5)	(120.4)	(9.0)	526.6
320. Gain (loss) of ceded operating assets, net of tax	—	—	—	—	—	—	—	—	—	—	—
330. Net profit (loss) for the period	733.5	97.0	443.2	185.7	(633.4)	(137.3)	1.2	(34.5)	(120.4)	(9.0)	526.6
340. Net profit (loss) for the period attributable to minorities	—	—	—	—	—	—	—	—	—	(0.2)	(0.2)
350. Net profit (loss) for the period attributable to Mediolanobanca	733.5	97.0	443.2	185.7	(633.4)	(137.3)	1.2	(34.5)	(120.4)	(9.2)	525.8

Format recommended by bank of Italy circular no. 262/05 7th update

Mediobanca S.p.A.: comparison between restated balance sheet and format recommended by Bank of Italy circular no. 262/05, seventh update

Balance sheet as at 31 December 2021

(€m)

		Restated balance sheet							
Assets	Financial assets held for trading	Treasury financial assets	Banking book securities	Customer loans	Equity Investments	Tangible and intangible assets	Other assets	Total assets	
10. Cash and cash equivalents	—	3,497.3	—	586.3	—	—	—	4,083.6	
20. Financial assets at fair value with impact taken to profit and loss	12,137.6	—	1.0	631.7	633.1	—	—	13,403.4	
<i>a) Financial assets held for trading</i>	12,137.6	—	—	—	—	—	—	12,137.6	
<i>b) Financial assets designated at fair value</i>	—	—	—	614.7	—	—	—	614.7	
<i>c) Other financial assets mandatorily at fair value</i>	—	—	1.0	16.9	633.1	—	—	651.0	
30. Financial assets at fair value with impact taken to comprehensive income	—	—	4,763.3	—	510.5	—	—	5,273.8	
40. Financial assets at amortized cost	—	9,484.7	4,670.5	38,468.0	—	—	—	52,623.2	
50. Hedging derivatives	—	—	—	—	—	—	198.7	198.7	
60. Adjustment of hedging financial assets (+/-)	—	—	—	—	—	—	—	—	
70. Equity investments	—	—	—	—	3,477.8	—	—	3,477.8	
80. Property, plant and equipments	—	—	—	—	—	137.9	—	137.9	
90. Intangible assets	—	—	—	—	—	28.9	—	28.9	
100. Tax assets	—	—	—	—	—	—	182.9	182.9	
110. Assets classified as held for sale	—	—	—	—	—	—	—	—	
120. Other assets	—	—	—	—	—	—	242.7	242.7	
Total assets	12,137.6	12,982.0	9,434.8	39,686.0	4,621.4	166.8	624.3	79,652.9	

Format recommended by bank of Italy circular no. 262/05 7th update

Profit and loss account as at 31 December 2021

(€m)

Restated balance sheet

Liabilities and net equity	Funding	Treasury financial liabilities	Financial liabilities held for trading	Other liabilities	Provisions	Net equity and minority interests	Total liabilities and net equity
10. Financial liabilities at amortized cost	54,470.0	8,877.8	—	26.3	—	—	63,374.1
<i>a) Due to banks</i>	<i>30,694.4</i>	<i>5,560.4</i>	—	<i>2.6</i>	—	—	36,257.4
<i>b) Due to customers</i>	<i>7,414.2</i>	<i>3,317.4</i>	—	<i>23.5</i>	—	—	10,755.1
<i>c) Debt securities in issue</i>	<i>16,361.4</i>	—	—	<i>0.2</i>	—	—	16,361.6
20. Trading financial liabilities	—	—	9,541.3	—	—	—	9,541.3
30. Financial liabilities designated at fair value	779.5	—	—	—	—	—	779.5
40. Hedging derivatives	—	—	—	294.8	—	—	294.8
50. Adjustment of hedging financial liabilities (+/-)	—	—	—	—	—	—	—
60. Tax liabilities	—	—	—	291.0	—	—	291.0
70. Liabilities included in disposal groups classified as held for sale	—	—	—	—	—	—	—
80. Other liabilities	—	—	—	270.1	—	—	270.1
90. Staff severance indemnity provision	—	—	—	—	5.9	—	5.9
100. Provisions	—	—	—	—	122.7	—	122.7
110. Revaluation reserves	—	—	—	—	—	186.3	186.3
120. Redeemable shares repayable on demand	—	—	—	—	—	—	—
130. Equity instruments repayable on demand	—	—	—	—	—	—	—
140. Reserves	—	—	—	—	—	2,025.9	2,025.9
150. Share premium reserve	—	—	—	—	—	2,195.6	2,195.6
160. Share capital	—	—	—	—	—	443.6	443.6
170. Treasury share (-)	—	—	—	—	—	(28.5)	(28.5)
180. Profit/(loss) for the period (+/-)	—	—	—	—	—	150.6	150.6
Total liabilities and net equity	55,249.5	8,877.8	9,541.3	882.2	128.6	4,973.5	79,652.9

Format recommended by bank of Italy circular no. 262/05 7th update

Profit and loss account as at 31 December 2021

(€m)

Restated profit-and-loss

Profit-and-loss account	Net interest income	Net treasury income	Net fee and commission income	Dividends on investments	Operating gains (losses) on disposal of equity holdings	Loan loss provisions	Provisions for other financial assets	Impairment on investments	Other income (losses)	Income tax for the period	Net profit
10. Interest and similar income	319,6	(0,3)	—	—	—	—	—	—	—	—	319,3
20. Interest expense and similar charges	(271,0)	(1,8)	—	—	—	—	—	—	—	—	(272,8)
30. Net interest income	48,6	(2,1)	—	—	—	—	—	—	—	—	46,5
40. Fee and commission income	4,0	3,9	181,9	—	—	—	—	—	—	—	189,8
50. Fee and commission expense	(5,0)	(4,1)	(25,4)	—	—	—	—	—	—	—	(34,5)
60. Net fee and commission income	(1,0)	(0,2)	156,5	—	—	—	—	—	—	—	155,3
70. Dividends and similar income	—	51,1	—	93,2	—	—	—	—	—	—	144,3
80. Net trading income	7,3	5,0	—	—	—	—	—	—	(12,2)	—	0,1
90. Net hedging income (expense)	(0,7)	—	—	—	—	—	—	—	—	—	(0,7)
100. Gain (loss) on disposal/repurchase	—	—	—	—	—	—	—	—	—	—	—
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	—	2,2	—	—	—	0,2	0,6	—	—	—	3,0
120. Total income	54,2	96,4	156,5	93,2	—	0,2	0,6	—	(12,2)	—	388,9
130. Net write-offs (write-backs) for credit risk	—	—	—	—	—	—	22,5	(2,9)	—	—	19,6
140. derecognition	—	—	—	—	—	—	—	—	—	—	—
150. Net income from financial operations	54,2	96,4	156,5	93,2	—	22,7	(2,3)	—	(12,2)	—	408,5
160. Administrative expenses	—	—	—	—	(217,5)	—	—	—	(5,2)	—	(222,7)
170. Net transfers to provisions	—	—	—	—	(0,4)	6,3	—	—	—	—	5,9
180. Net adjustments to tangible assets	—	—	—	—	(4,1)	—	—	—	—	—	(4,1)
190. Net adjustments to intangible assets	—	—	—	—	(0,2)	—	—	—	—	—	(0,2)
200. Other operating income (expense)	—	—	10,4	—	6,9	—	—	—	1,8	—	19,1
210. Operating costs	—	—	10,4	—	(215,3)	6,3	—	—	(3,4)	—	(202,0)
220. Gain (loss) on equity investments	—	—	—	—	—	—	—	(0,9)	—	—	(0,9)
230. Net result from fair value valuation of tangible and intangible assets	—	—	—	—	—	—	—	—	—	—	—
240. Goodwill write-offs	—	—	—	—	—	—	—	—	—	—	—
250. Gain (loss) on disposal of investments	—	—	—	—	—	—	—	—	—	—	—
260. Profit (loss) on ordinary activity before tax	54,2	96,4	166,9	93,2	(215,3)	29,0	(2,3)	(0,9)	(15,6)	—	205,6
270. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—	—	(55,0)	(55,0)
280. Profit (loss) on ordinary activities after tax	54,2	96,4	166,9	93,2	(215,3)	29,0	(2,3)	(0,9)	(15,6)	(55,0)	150,6
290. Gain (loss) of ceded operating assets, net of tax	—	—	—	—	—	—	—	—	—	—	—
300. Net profit (loss) for the period	54,2	96,4	166,9	93,2	(215,3)	29,0	(2,3)	(0,9)	(15,6)	(55,0)	150,6

Format recommended by bank of Italy circular no. 262/05 7th update

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