MEDIOBANCA

Interim Report

for the six months ended 31 December 2015

MEDIOBANCA

LIMITED COMPANY
SHARE CAPITAL € 435,510,047
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 2015

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

translation from the Italian original which remains the definitive version

BOARD OF DIRECTORS

			Term expires
	Renato Pagliaro	Chairman	2017
*	Maurizia Angelo Comneno	Deputy Chairman	2017
	Marco Tronchetti Provera	»	2017
*	Alberto Nagel	Chief Executive Officer	2017
*	Francesco Saverio Vinci	General Manager	2017
	Tarak Ben Ammar	Director	2017
	Gilberto Benetton	»	2017
	Mauro Bini	»	2017
	Marie Bolloré	»	2017
	Maurizio Carfagna	»	2017
*	Angelo Caso’	»	2017
	Maurizio Costa	»	2017
	Alessandro Decio	»	2017
	Vanessa Labérenne	»	2017
	Elisabetta Magistretti	»	2017
	Alberto Pecci	»	2017
*	Gian Luca Sichel	»	2017
*	Alexandra Young	»	2017

* Member of Executive Committe

STATUTORY AUDIT COMMITTE

Natale Freddi	Chairman	2017
Laura Gualtieri	Standing Auditor	2017
Gabriele Villa	» »	2017
Alessandro Trotter	Alternate Auditor	2017
Barbara Negri	» »	2017
Silvia Olivotto	» »	2017

* * *

Massimo Bertolini	Head of Company Financial Reporting and Secretary to the Board of Directors

CONTENTS

REVIEW OF OPERATIONS

REVIEW OF OPERATIONS

The Mediobanca Group reported a net profit of €321.1m in the six months under review. The increase compared to the €260.6m posted in the same period last year reflects revenues of €1,016.3m, stable despite the turbulent market conditions, and a substantial reduction in loan loss provisions, from €300.7m to €224.4m, affecting all business areas. Gains on disposal of equity investments of €92.5m were absorbed almost entirely by the payments made to the Bank Resolution Fund (€66.4m, virtually all of which were non-recurring) and provisions for other financial assets of €12.8m (chiefly the RCS MediaGroup investment). Looking at the performance by business line, there was strong growth in net profits earned by retail and consumer banking (€71.4m, versus €22.8m) and principal investing (€228.2m, as against €127m), while the reduction in profits from wholesale banking, which were down from €98.6m to €56.7m, reflects the decline in net interest and trading income, which combined amounted to €129.1m (31/12/14: €173.8m). The main income items performed as follows:

- net interest income showed a 10.3% increase, from €547.9m to €604.3m, driven by consumer business which was up 14% (from €334m to €380.6m), reflecting increasing profitability on account of the reduced cost of funding; wholesale banking, by contrast, showed a reduction in net interest income from €104.4m to €99.4m, due to the lower returns on assets;
- net treasury income of €45.8m (€82.8m) reflects the less favourable market performance and lower gains on forex positions of €17.5m (€54.5m last year);
- net fee and commission income totalled €227.4m, down on the €260.3m posted last year, the latter result boosted by the favourable capital markets trend which added €74.8m (as opposed to €41.1m this year); the increase in fees earned by CheBanca! is worth noting, up from €9.4m to €20.5m, attributable to the rise in indirect deposits (from €2,143m to €3,604m);
- the contribution from equity-accounted companies increased from €123.2m to €138.8m due to the higher profits earned by Assicurazioni Generali.

Operating costs rose by 7%, from €392.4m to €419.8m, due to strengthening of the operating structure on both the wholesale and consumer banking sides following expansion of the Bank's activities in terms of volumes and geographies.

Loan loss provisions fell by 25.4%, from €300.7m to €224.4m, in all areas of activity: €18.8m (€49m) corporate and private banking, €198.1m (€243.2m) retail and consumer finance, and €7.8m (€8.9m) leasing. The reduction in the cost of risk, from 167 bps to 136 bps, did not affect the coverage ratio for NPLs which remained at the same levels as at end-June 2015 (53%).

Net gains of €92.5m (€15.9m) on the securities portfolio include the gain realized on tendering the Bank's investment in Pirelli in connection with the public tender offer for the company (€87.7m), whereas writedowns to AFS securities of €11.9m (€11.7m) chiefly reflect the RCS MediaGroup stake to being adjusted to reflect its fair value (€10.2m).

Other provisions and charges of €71.5m consist of the €57.3m one-off contribution to the Bank Resolution Fund for the action taken in respect of Banca delle Marche, Banca Popolare dell'Etruria e del Lazio, Cassa di Risparmio di Chieti and Cassa di Risparmio di Ferrara; €5.9m by way of the ordinary Bank Resolution Fund contribution for 2015 (in addition to the €13.5m already set aside last year); and €3.2m in respect of the Italian interbank deposit guarantee fund for 2H 2015.

Tax for the period declined from €64.1m to €57.2m, despite the higher pre-tax profit of €380.3m (€325.7m), as the component subject to reduced taxation (principal investing) was higher.

Turning now to the individual areas of activity:

Corporate and private banking reported a €74.6m net profit (€117.4m), on a 19% fall in revenues affecting all income streams. The reduction in loan loss provisions from €49m to €18.8m was in part offset by the 10.3% rise in costs due to strengthening of the operations and commercial platforms. Both segments delivered lower earnings than last year: wholesale banking down from €98.6m to €56.7m, and private banking down from €18.8m to €17.9m.

Retail and consumer banking reflects a net profit of €71.4m, up sharply on the €22.8m posted last year, on higher revenues of €536.7m (€488.1m) and lower loan loss provisions of €198.1m (€243.2m). Consumer credit reflects a net profit of €66.1m (€31m), with revenues up from €412.3m to €440.5m, and loan loss provisions declining from €232.8m to €190.1m. CheBanca!, in line with recent quarterly performances, posted a €5.3m profit, compared with an €8.1m loss last year, the result boosted by strong top-line growth (from €75.9m to €96.2m) driven by net fee and commissions totalling €20.5m (€9.4m) on indirect funding up from €2,143m to €3,604m.

Principal investing reported a net profit of €228.2m (€127m), due to an increased contribution from Assicurazioni Generali of €138.4m (€122.9m) and gains on disposal of €91.5m (€15.3m).

The corporate centre (including leasing) reflects a loss of €51.9m (€8m) due to the contributions to the Bank Resolution Funds referred to above. Leasing operations show a net profit of €3m (€1m), with revenues up from €25.8m to €28.6m and loan loss provisions down from €8.9m to €7.8m.

Turning to the balance-sheet aggregates, total assets show a slight increase, from €53.2bn to €54.2bn, due to the higher funding levels (€44.3bn, versus €42.7bn) being used in treasury management (€6.4bn, versus €4.9bn). Loans and advances to customers were basically stable at €33bn, as were AFS securities at €8.1bn. Assets under management in private banking fell from €16.6bn to €16.4bn, due to the market effect, while the CheBanca! component rose from €2.9bn to €3.6bn. The figures as at 31 December 2015 include the AUM and long-term advice attributable to Cairn Capital of approx. €13.6bn, some €2bn of which in credit funds subscribed for by institutional clients.

The Group's capital ratios as at 31 December 2015, based on the phase-in regime and including the profit for the six months net of the estimated pay-out, remain at high levels and comfortably above the regulatory limits [1]: the Common Equity Tier 1 ratio stood at 12.40% (30/6/15: 11.98%) and the total capital ratio at 16.06% (14.91%). The fully-phased ratios (i.e. with full application of CRR – in particular the right to include the whole AFS reserve in the CET1 calculation – and the Assicurazioni Generali investment weighted at 370%) rise to 13.36% for the CET1 ratio and 16.56% for the total capital ratio respectively.

* * *

1 Following the outcome of the SREP 2015 process, the ECB set the minimum phase in CET1 ratio at 8.75% at the consolidated level, 25 bps lower than the level set last year.

Significant events that took place during the six months include:

- further rationalization of the Bank's equity exposure via the entire stake in Pirelli being tendered in connection with the public tender offer made by Marco Polo Industrial Holding (€215.4m) and disposal of the 5.1% stake held in Edipower (€55.1m);
- finalization of the debt restructuring agreement for Burgo Group (pursuant to Article 67 of the Italian bankruptcy law), resulting in the previous exposure (€496.5m) being converted into: i) equity instruments worth €130.4m; ii) a €65.2m convertible bond; and iii) a residual loan of €300.9m expiring in 2022. As previously, the new instruments (which entail merely rights protecting the creditors' position) have been written off entirely against the existing provisions;
- acquisition of a 51% stake in Cairn Capital Group Ltd, the London-based asset management and credit advisory specialist. The purchase was completed on 31 December 2015 through the transfer of the 51% stake in return for payment of a £21.7m consideration; the terms of the agreement provide for put-and-call clauses over the other 49% exercisable between 2018 and 2021, along with payment of a possible earn-out on shares sold by the current management. As at 31 December 2015, Cairn's contribution to the consolidated financial statements is limited to the balance-sheet aggregates held as part of the private banking operations and amounting to €14.4m, plus goodwill totalling €48.8m fronted by a €28.4m liability in respect of the deferred payment. The purchase price allocation process should be complete by 30 June 2016, with an estimate of the potential liability and the amount of the goodwill involved;
- execution of an agreement with Barclays Bank PLC for CheBanca! to acquire a selected perimeter of Barclays' retail operations in Italy. The deal will allow CheBanca! to significantly speed up its growth, with indirect funding set to double from €3.1bn to €6.2bn, and the client base to increase by 40% to 770,000. Strengthening Mediobanca's role in the asset management segment for private customers via CheBanca! is one of the key points of the Group's strategic plan, which is focused on allocating an increasing share of capital to low capital absorption, high fee-generating activities. The acquisition confirms the validity of the CheBanca! business model as a specialist sector operator, with integrated and innovative multi-channel distribution and a simple and transparent product offering;

- merger by amalgamation of Palladio Leasing into SelmaBipiemme Leasing (which already held a controlling interest in the former), to take effect in statutory terms from 1 October 2015 and in accounting terms from 1 July 2015, plus the acquisition of a minority shareholding (20%) in Teleleasing in liquidation from the other shareholder Telecom Italia;
- approval by the Board of Directors of the self-assessment process for governing bodies required under the instructions issued by the Bank of Italy on 11 January 2012, and the requirement of certain directors to qualify as independent as defined by Article 148, para. 3 of Italian legislative decree 58/98 and by the Code of Conduct in respect of listed companies;
- approval by the Board of Directors of the first Group Recovery Plan as required by the Bank Recovery and Resolution Directive ("BRRD"; or Directive 2014/59/EU);
- the appointment of Philippe Dufournier (formerly Head of Global Finance for the EMEA area in Nomura) as Head of Lending and Structured Finance in the CIB area.

* * *

Consolidated financial statements *

The consolidated profit and loss account and balance sheet have been restated – including by business area – in the customary way, in order to provide the most accurate reflection of the Group's operations. The results are also presented in the format recommended by the Bank of Italy as an annex, along with further details on how the various items have been restated.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(€m)

	6 mths ended 31/12/14	12 mths ended 30/6/15	6 mths ended 31/12/15	Chg. (%)
Profit-and-loss data				
Net interest income	547.9	1,142.5	604.3	10.3
Treasury income	82.8	207.1	45.8	-44.7
Net fee and commission income	260.3	471.8	227.4	-12.6
Equity-accounted companies	123.2	224.0	138.8	12.7
TOTAL INCOME	**1,014.2**	**2,045.4**	**1,016.3**	**0.2**
Labour costs	(192.9)	(419.3)	(209.7)	8.7
Administrative expenses	(199.5)	(427.9)	(210.1)	5.3
OPERATING COSTS	**(392.4)**	**(847.2)**	**(419.8)**	**7.0**
Gains (losses) on AFS, HTM and L&R	15.9	125.6	92.5	n.m.
Loan loss provisions	(300.7)	(532.7)	(224.4)	-25.4
Provisions for financial assets	(11.3)	(20.4)	(12.8)	13.3
Other profits (losses)	—	(13.6)	(71.5)	—
PROFIT BEFORE TAX	**325.7**	**757.1**	**380.3**	**16.8**
Income tax for the period	(64.1)	(164.2)	(57.2)	-10.8
Minority interest	(1.0)	(3.1)	(2.0)	n.m.
NET PROFIT	**260.6**	**589.8**	**321.1**	**23.2**

* For a description of the methods by which the data has been restated, see also the section entitled "Significant accounting policies".

RESTATED BALANCE SHEET

(€m)

	31/12/14	30/6/15	31/12/15
Assets			
Treasury funds	6,543.7	4,920.3	6,360.4
AFS securities	6,859.7	8,063.1	8,109.7
of which: fixed-income	*5,767.6*	*6,950.5*	*7,181.6*
equities	*1,080.7*	*1,081.1*	*877.9*
Fixed financial assets (HTM & LR)	2,000.4	1,793.9	1,515.3
Loans and advances to customers	31,847.3	32,889.6	33,002.3
Equity investments	3,071.0	3,411.4	3,113.0
Tangible and intangible assets	716.5	718.9	765.2
Other assets	1,311.9	1,411.9	1,335.4
of which: tax assets	*1,028.8*	*954.2*	*869.9*
Total assets	**52,350.5**	**53,209.1**	**54,201.3**
Liabilities and net equity			
Funding	42,968.7	42,711.3	44,266.7
of which: debt securities in issue	*20,243.4*	*19,671.1*	*20,763.6*
retail deposits	*10,866.9*	*9,634.8*	*10,402.2*
Other liabilities	1,110.8	1,446.1	1,214.9
of which: tax liabilities	*488.2*	*625.0*	*512.6*
Provisions	195.1	184.6	181.2
Net equity	7,815.3	8,277.3	8,217.4
of which: share capital	*431.8*	*433.6*	*435.2*
reserves	*7,278.6*	*7,735.7*	*7,693.6*
minority interest	*104.9*	*108.0*	*88.6*
Profit for the period	260.6	589.8	321.1
Total liabilities and net equity	**52,350.5**	**53,209.1**	**54,201.3**
Tier 1 capital	*6,513.4*	*7,137.5*	*7,288.1*
Regulatory capital	*8,250.3*	*8,882.6*	*9,437.2*
Tier 1 capital/risk-weighted assets	*11.0%*	*11.98%*	*12.40%*
Regulatory capital/risk-weighted assets	*13.94%*	*14.91%*	*16.06%*
No. of shares in issue (millions)	*863.7*	*867.2*	*870.4*

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

(€m)

31 December 2015	Corporate & Private Banking	Principal Investing	Retail & Consumer Banking	Corporate center	Group
Profit-and-loss data					
Net interest income	117.8	—	456.3	27.7	604.3
Treasury income	35.5	14.8	0.1	0.1	45.8
Net fee and commission income	164.0	—	80.3	5.8	227.4
Equity-accounted companies	—	138.4	—	—	138.8
TOTAL INCOME	**317.3**	**153.2**	**536.7**	**33.6**	**1,016.3**
Labour costs	(108.5)	(3.8)	(83.3)	(14.4)	(209.7)
Administrative expenses	(80.4)	(0.7)	(130.5)	(19.5)	(210.1)
OPERATING COSTS	**(188.9)**	**(4.5)**	**(213.8)**	**(33.9)**	**(419.8)**
Gain (losses) on disposal of AFS shares	1.1	91.5	—	—	92.5
Loan loss provisions	(18.8)	—	(198.1)	(7.8)	(224.4)
Provisions for financial assets	(1.0)	(11.9)	—	—	(12.8)
Other profits (losses)	—	—	(5.1)	(66.4)	(71.5)
PROFIT BEFORE TAX	**109.7**	**228.3**	**119.7**	**(74.5)**	**380.3**
Income tax for the period	(35.1)	(0.1)	(48.3)	24.6	(57.2)
Minority interest	—	—	—	(2.0)	(2.0)
NET PROFIT	**74.6**	**228.2**	**71.4**	**(51.9)**	**321.1**
Cost/Income ratio (%)	59.5	2.9	39.8	100.9	41.3
Balance-sheet figures					
Treasury funds	6,703.3	0.6	8,591.8	30.3	6,360.4
AFS securities	6,926.6	869.0	539.0	—	8,109.7
Fixed financial assets (HTM & LR)	4,781.5	—	368.9	—	1,515.3
Equity investments	—	3,017.2	—	—	3,113.0
Loans and advances to customers	24,493.1	—	16,225.0	2,646.2	33,002.3
of which: to Group companies	*9,852.2*	*n.m.*	*n.m.*	*n.m.*	*n.m.*
Funding	(40,072.6)	—	(24,627.3)	(2,609.0)	(44,266.7)
Risk-weighted assets	32,621.5	11,148.4	12,626.0	2,374.5	58,770.4
No. of staff	1,107 *	—	2,543	450	3,965

* Includes 135 staff employed by Banca Esperia pro-forma, not included in the Group total.

Notes:
1) Divisions comprise:
   - *CIB (Corporate and Private Banking)*: comprises wholesale banking (WSB), which includes lending, structured finance and investment banking activity, and private banking (PB), which includes Compagnie Monégasque de Banque, Spafid, Cairn Capital and 50% of Banca Esperia pro forma;
   - *Principal Investing*: brings together all equity investments in associates (IAS 28) and AFS assets;
   - *Retail and Consumer Banking*: consumer credit and retail banking activities; the division includes Compass, Futuro, Compass RE, Creditech and CheBanca!;
   - *Corporate Centre*: brings together the other Group companies (including leasing) and certain centralized Group costs (including in respect of the Board of Directors).
2) Sum of divisional data differs from Group total due to:
   - Banca Esperia being consolidated pro-rata (50%) rather than equity-accounted;
   - adjustments/differences arising on consolidation between business areas (minus €1.2m as at 31 December 2015 and €1.4m as at 31 December 2014).

(€m)

31 December 2014	Corporate & Private Banking	Principal Investing	Retail & Consumer Banking	Corporate center	Group
Profit-and-loss data					
Net interest income	121.6	—	400.4	25.8	547.9
Treasury income	79.3	7.1	—	—	82.8
Net fee and commission income	190.6	—	87.7	3.6	260.3
Equity-accounted companies	—	122.9	—	—	123.2
TOTAL INCOME	**391.5**	**130.0**	**488.1**	**29.4**	**1,014.2**
Labour costs	(101.6)	(4.5)	(76.3)	(15.5)	(192.9)
Administrative expenses	(69.6)	(1.4)	(138.2)	(11.5)	(199.5)
OPERATING COSTS	**(171.2)**	**(5.9)**	**(214.5)**	**(27.0)**	**(392.4)**
Gain (losses) on disposal of AFS shares	1.0	15.3	—	—	15.9
Loan loss provisions	(49.0)	—	(243.2)	(8.9)	(300.7)
Provisions for financial assets	0.2	(11.7)	—	—	(11.3)
Other profits (losses)	—	—	—	—	—
PROFIT BEFORE TAX	**172.5**	**127.7**	**30.4**	**(6.5)**	**325.7**
Income tax for the period	(55.1)	(0.7)	(7.6)	(0.5)	(64.1)
Minority interest	—	—	—	(1.0)	(1.0)
NET PROFIT	**117.4**	**127.0**	**22.8**	**(8.0)**	**260.6**
Cost/Income ratio (%)	43.7	4.5	43.9	n.m.	38.7
Balance-sheet figures					
Treasury funds	6,807.0	—	8,475.8	127.9	6,543.7
AFS securities	5,369.1	1,070.1	693.6	—	6,859.7
Fixed financial assets (HTM & LR)	4,967.5	—	1,247.5	—	2,000.4
Equity investments	—	2,975.2	—	—	3,071.0
Loans and advances to customers	25,158.4	—	14,934.5	2,892.0	31,847.3
of which: to Group companies	*10,679.3*	*n.m.*	*n.m.*	*n.m.*	*n.m.*
Funding	(39,918.3)	—	(24,446.5)	(2,921.0)	(42,968.7)
Risk-weighted assets	33,968.9	11,234.0	11,501.6	2,484.7	59,189.2
No. of employees	982 *	—	2,386	378	3,612

* Includes 134 staff employed by Banca Esperia pro-forma, not included in the Group total.

Balance Sheet

The main balance-sheet items, of which Mediobanca S.p.A. contributes almost 50%, showed the following trends for the six months under review (comparative data as at 30 June 2015):

Funding – this item rose from €42.7bn to €44.3bn, due to new debt security issuance and to the increase in retail funding by CheBanca! (from €9.6bn to €10.4bn). Higher debt securities of €20.8bn (€19.7bn) reflect new bond issuance totalling €2.3bn (€0.5bn of which in the form of subordinate Lower Tier 2 bonds and approx. €0.7bn in covered bonds), redemptions of €1.9bn and new commercial paper totalling €0.7bn.

	30/6/15		31/12/15		Chg. (%)
	(€m)	%	(€m)	%	
Debt securities	19,671.1	46%	20,763.6	47%	5.6%
CheBanca! retail funding	9,634.8	23%	10,402.2	24%	8.0%
Interbank funds	3,836.5	9%	4,064.2	9%	5.9%
T-LTRO/LTRO	5,478.0	13%	5,478.0	12%	0.0%
Other funds	4,090.9	9%	3,558.7	8%	-13.0%
Total funding	**42,711.3**	**100%**	**44,266.7**	**100%**	**3.6%**

Loans and advances to customers – these remained stable at €33bn, with growth in consumer lending (of 4.5%) and retail mortgage loans (of 4.7%) offset by slight reductions in wholesale banking (3.8%) and leasing (4.2%). Consumer finance in particular was boosted by the growth in factoring business (where accounts outstanding were up from €157.8m to €415.1m), while new loans in consumer credit were virtually stable at €2,953.7m (€2,940.7m); while new mortgage loans doubled, from €265.5m to €513.6m. Wholesale banking showed a high turnover, with new loans of €2.9bn and redemptions totalling €3.4bn, €1.7bn of which were early redemptions. Non-performing loans fell by 6.7%, from €1,152.3m to €1,075.4m, following improvements in all areas and consumer finance in particular which saw few new additions and an increase in market disposals. Non-performing loans accounted for 3.3% of the total loan book, an improvement on the 3.5% reported last year, with the coverage ratio unchanged at 53%. Bad debts totalled €258.1m (€258.9m), and account for 0.78% (0.79%) of the total loan book.

	30/6/15		31/12/15		Chg. (%)
	(€m)	%	(€m)	%	
Wholesale Banking	13,704.4	42%	13,181.9	40%	-3.8%
Private Banking	912.4	3%	951.2	3%	4.3%
Consumer	10,906.3	33%	11,399.9	35%	4.5%
- of which: factoring	*524.2*	*2%*	*782.1*	*2%*	*49.2%*
Retail Banking	4,605.8	14%	4,823.6	15%	4.7%
Leasing	2,760.7	8%	2,645.7	7%	-4.2%
Total loans and advances to customers	**32,889.6**	**100%**	**33,002.3**	**100%**	**0.3%**

	30/6/15		31/12/15		Chg. (%)
	(€m)	%	(€m)	%	
Wholesale Banking	426.8	37%	403.0	37%	-5.6%
Private Banking	3.2	—	2.6	—	-18.8%
Consumer	302.4	27%	252.2	24%	-16.6%
Retail Banking	150.1	13%	150.0	14%	-0.1%
Leasing	269.8	23%	267.6	25%	-0.8%
Total net non performing loans	**1,152.3**	**100%**	**1,075.4**	**100%**	**-6.7%**
- of which: bad loans	*258.9*		*258.1*		*-0.3%*

Equity investments – these fell from €3,411.4m to €3,113m, due to the movements in the Assicurazioni Generali investment over the six months: reductions in the valuation reserve (€384.3m) and assets connected with the BSI sale (€54.4m) which were only in part offset by profits for the period (€138.4m). The Banca Esperia investment was also up slightly, helped by profits of €0.4m for the six months and reserves increasing by €2.1m. The Fidia investment was written off entirely, with €0.5m collected following the final liquidation distribution.

	% share capital	30/6/15	31/12/15
Assicurazioni Generali	13.24	3,311.7	3,011.4
Banca Esperia	50.0	93.3	95.7
Burgo Group	22.13	—	—
Athena Private Equity	24.27	5.9	5.9
Fidia	25.0	0.5	—
Total Investments		**3,411.4**	**3,113.0**

Based on prices as at 31 December 2015, the Assicurazioni Generali investment reflects a surplus of market over book value totalling €475.7m (a luss of approx €500m based on current prices). During the six months under review shares in Assicurazioni Generali worth €3.4m were sold under a forward contract for delivery by 30 June 2016.

Fixed financial assets — these fell from €1,793.9m to €1,515.3m, following redemptions of €318.9m and new investments totalling €40m. The portfolio continues to reflect a concentration in bonds of international corporate and financial issuers, and showed an unrealized gain of €82.5m (€108.2m) based on prices at end-December.

	30/6/15		31/12/15		Chg. (%)
	(€m)	%	(€m)	%	
Financial assets held to maturity	1,311.7	73%	1,189.0	78%	-9.4%
Unlisted debt securities (stated at cost)	482.2	27%	326.3	22%	-32.3%
Total fixed financial assets	**1,793.9**	**100%**	**1,515.3**	**100%**	**-15.5%**

	30/6/15		31/12/15		Chg. (%)
	Book Value	%	*Book Value*	%	
Italian government securities	358.1	20%	257.6	17%	-28.1%
Other government securities	697.9	39%	535.7	35%	-23.2%
of which: Italian	*335.1*	*19%*	*303.0*	*20%*	*-9.6%*
Corporate bonds	737.9	41%	722.0	48%	-2.2%
Total debt securities	**1,793.9**	**100%**	**1,515.3**	**100%**	**-15.5%**

AFS securities – this portfolio increased from €8,063.1m to €8,109.7m during the six months under review, on net investments in fixed-income securities of approx. €200m, chiefly Eurozone member states' sovereign debt. Four new funds recently launched by Compagnie Monégasque de Banque for their private clients were also subscribed to in a total amount of approx. €20m.

	30/6/15		31/12/15		Chg. (%)
	(€m)	%	(€m)	%	
Debt securities	6,950.5	86%	7,181.6	88%	3.3%
Equities	1,081.1	14%	877.9	11%	-18.8%
Others	31.5	—	50.2	1%	59.4%
Total AFS securities	**8,063.1**	**100%**	**8,109.7**	**100%**	**0.6%**

On the fixed-income side there were purchases totalling €862.5m, redemptions of €513.8m, and sales amounting to €125.9m, the latter in respect of corporate bonds and yielding €6m in gains.

	30/6/15			31/12/15		
	Book Value	%	Total AFS reserve	Book Value	%	Total AFS reserve
Italian government securities	4,484.8	65%	73.9	4,138.0	58%	101.1
Other government securities	636.7	9%	(1.7)	1,338.7	19%	0.2
Financial bonds	1,250.4	18%	40.0	1,127.2	16%	31.3
of which: Italian	*673.6*	*10%*	*21.5*	*660.9*	*9%*	*18.3*
Corporate bonds	578.6	8%	25.3	577.7	7%	16.7
Total debt securities	**6,950.5**	**100%**	**137.5**	**7,181.6**	**100%**	**149.3**

On the equity side the stakes in Pirelli and Edipower were sold for €215.4m and €55.1m respectively, along with other listed shares worth €5.6m; while net collections from private equity funds totalled €7.7m. Gains amounted to €92.5m (€87.7m upon tendering the stake in Pirelli in connection with the takeover bid), writedowns €11.9m (€10.2m of which in respect of RCS MediaGroup), and upward adjustments to reflect fair value of €97.8m (€52.3m of which for Atlantia and €34.6m for Italmobiliare).

	30/6/15			31/12/15		
	Book Value	% ord.	Total AFS reserve	*Book Value*	% ord.	Total AFS reserve
Atlantia	495.7	2.71	192.8	548.1	2.71	245.1
Pirelli & C.	217.4	3.02	89.7	—	—	—
Italmobiliare	54.1	9.5	19.6	88.7	9.5	54.1
RCS MediaGroup	36.9	6.2	6.5	20.2	6.2	—
Other listed companies	38.3	—	11.1	47.4	—	22.8
Edipower	55.1	5.13	—	—	—	—
Other unlisted companies	183.6	—	39.7	173.5	—	36.3
Total equities	**1,081.1**		**359.4**	**877.9**		**358.3**

The valuation reserve increased from €496.9m to €507.6m, and regards bonds as to €149.3m (€137.5m) and equities as to €358.3m (€359.4m). Since the reporting date the reserve has reduced by €33m, the equity component in particular has reduced by €40.6m (317.7m).

Treasury assets – the increase in this item reflects the enhanced treasury operations deriving from the growth in funding, deployed chiefly in money market assets (which were up €1.6bn). Purchases of equities involve operations with clients and were almost entirely financed by stock lending transactions.

	30/6/15		31/12/15		Chg. (%)
	(€m)	%	(€m)	%	
Debt securities	2,931.7	60%	1,671.0	26%	-43.0%
Equities	879.6	18%	3,234.9	51%	n.m.
Derivative contract valuations	(571.5)	-12%	(385.0)	-6%	-32.6%
Stock lending	81.6	2%	(1,324.5)	-21%	n.m.
Others (cash, repos, time deposits)	1,598.9	32%	3,164.0	50%	n.m.
Total net treasury assets	**4,920.3**	**100%**	**6,360.4**	**100%**	**29.3%**

	30/6/15		31/12/15		Chg. (%)
	Book Value	%	*Book Value*	%	
Italian government securities	207.4	7%	1,294.5	77%	n.m.
German government securities	554.2	19%	(53.5)	-3%	n.m.
Other government securities	*145.6*	*5%*	*(1,288.8)*	*-77%*	*n.m.*
Financial bonds	1,436.3	49%	1,209.3	72%	-15.80 %
of which: Italian	*633.9*	*22%*	*533.0*	*32%*	*-15.92 %*
Corporate bonds	588.2	20%	509.5	30%	-13.38 %
Total debt securities	**2,931.7**	**100%**	**1,671.0**	**100%**	**-43.0 %**

Tangible and intangible assets – the rise in this item, from €718.9m to €765.2m, involves the €48.8m in goodwill booked in connection with the acquisition of a 51% stake in Cairn Capital. The amount reflects 100% of the company's value and is matched by a €28.4m liability in respect of the potential outlay to acquire the remaining stake under the terms of the put and call agreements. The purchase price allocation exercise and final calculation of the amounts due to minorities will be complete by 30 June 2016.

Depreciation and amortization charges for the period totalled €18.9m.

	30/6/15		31/12/15		Chg. (%)
	(€m)	%	(€m)	%	
Land and properties	265.0	37%	266.9	35%	0.7%
- of which: core	*192.1*	*27%*	*194.6*	*25%*	*1.3%*
Other tangible assets	43.5	6%	42.8	6%	-1.6%
Goodwill	374.1	52%	422.9	55%	13.0%
Other intangible assets	36.3	5%	32.6	4%	-10.2%
Total tangible and intangible assets	**718.9**	**100%**	**765.2**	**100%**	**6.4%**

Provisions – these declined from €184.6m to €181.2m, due to movements for the period (€4.1m); the staff severance indemnity provision actuarial reserve fell from €5m to €4.8m.

	30/6/15		31/12/15		Chg. (%)
	(€m)	%	(€m)	%	
Provisions for risks and charges	157.9	86%	154.9	85%	-1.9%
Staff severance indemnity provision	26.7	14%	26.3	15%	-1.5%
of which: staff severance provision discount	*0.4*	—	—	—	*n.m.*
Total provisions	**184.6**	**100%**	**181.2**	**100%**	**-1.8%**

The provisions for liabilities and charges have chiefly been instituted to cover any charges that may result from the litigation pending against Mediobanca S.p.A. and the other Group companies (cf. p. 47 and 48).

Net equity – net equity fell by €309.1m, or 3.5%, despite the €327.9m profit for the six months, due to the €438.7m reduction in the Assicurazioni Generali consolidation reserves (€384.3m of which attributable to the valuation reserves and €54.4m in connection with the BSI sale) calculated based on the values as at 30 September 2015, and the €212.9m dividend paid. The share capital increased from €433.6m to €435.2m, following exercise of 727,500 stock options and distribution of 2,439,833 performance shares worth a total of €6m, including the share premium.

	30/6/15	31/12/15	Chg. (%)
	(€m)	(€m)	
Share capital	433.6	435.2	0.4%
Other reserves	6,300.1	6,632.4	5.3%
Valuation reserves	1,435.5	1,061.2	-26.1%
of which: AFS securities	*432.6*	*436.0*	*0.8%*
cash flow hedges	*(19.8)*	*(15.7)*	*-20.7%*
equity investments	*1,014.3*	*632.5*	*-37.6%*
Profit for the period	589.8	321.1	-45.6%
Total Group net equity	**8,759.0**	**8,449.9**	**-3.5%**

The AFS reserve involves equities as to €358.3m and bonds and other securities as to €154.8m (€101.2m of which Italian government securities), net of the €77.1m tax effect.

	30/6/15	31/12/15	Chg. (%)
	(€m)	(€m)	
Equities	359.4	358.3	-0.3%
Bonds and other debt securities	145.2	154.8	6.6%
of which: Italian	*73.9*	*101.2*	*36.9%*
Tax effect	(72.0)	(77.1)	7.1%
Total AFS reserve	**432.6**	**436.0**	**0.8%**

Profit and loss account

Net interest income – the 10.3% increase in this item, from €547.9m to €604.3m, reflects the lower cost of funding which benefited consumer finance (up 14%), retail lending (up 13.8%), leasing (up 6.9%) and private banking (up 7%) in particular. These segments were able to defend margins on lending, whereas the 4.8% reduction in net interest income earned by wholesale banking operations reflects the rapid repricing of assets accentuated by the higher liquidity levels.

(€m)

	6 mths ended 31/12/14	6 mths ended 31/12/15	Chg. (%)
Wholesale banking	104.4	99.4	-4.8%
Private banking	17.2	18.4	7.0%
Consumer	334.0	380.6	14.0%
Retail banking	66.5	75.7	13.8%
Others (including intercompany accounts)	25.8	30.2	17.1%
Net interest income	**547.9**	**604.3**	**10.3%**

Net treasury income – net treasury income fell from €82.8m to €45.8m, due to the lower gains on forex trading (€17.5m, compared to €54.5m last year) and on the banking book (€9.6m, as against €41.9m). By contrast, the contribution from dividends on AFS securities (of which, €9m from Atlantia) and the equity component result both showed improvements.

(€m)

	6 mths ended 31/12/14	6 mths ended 31/12/15	Chg. (%)
Dividends	7.1	14.8	n.m.
Fixed-income trading profit	67.6	13.4	-80.2%
Equity trading profit	8.1	17.6	n.m.
Net trading income	**82.8**	**45.8**	**-44.7%**

Net fee and commission income – the 12.6% reduction in net fee and commission income (at values which were 35.5% higher than at end-December 2014) was chiefly attributable to wholesale banking, which showed a 19.8% decrease due to the reduced contributions from capital market activities and lending fees (down from €45.6m to €25.6m), in part offset by the recovery in fees generated from corporate finance activity (75% higher). Retail commissions more than doubled on account of growth in the asset management business; and private banking fees showed a recovery as well.

(€m)

	6 mths ended 31/12/14	6 mths ended 31/12/15	Chg. (%)
Wholesale banking	151.3	121.4	-19.8%
Private banking	39.3	42.6	8.4%
Consumer	78.3	59.8	-23.6%
Retail banking	9.4	20.5	n.m.
Others (including intercompany accounts)	(18.0)	(16.9)	-6.1%
Net fee and commission income	**260.3**	**227.4**	**-12.6%**

Equity-accounted companies – the €138.8m profit reported by the equity-accounted companies (€123.2m) reflects higher earnings from both Assicurazioni Generali (up from €122.9m to €138.4m) and Banca Esperia (up from €0.3m to €0.4m).

Operating costs – the 7% increase in operating costs, up from €392.4m to €419.8m, is attributable as to approx. 60% to corporate, consumer and retail banking. Administrative expenses rose from €179.3m to €190.1m, due to the cost of projects for the treasury, risk management and asset management areas, and also to higher volumes in consumer finance business, costs which were in part offset by the lower marketing and advertising expenses.

(€m)

	6 mths ended 31/12/14	6 mths ended 31/12/15	Chg. (%)
Labour costs	192.9	209.7	8.7%
of which: directors	*4.1*	*4.1*	—
stock option and performance share schemes	*5.3*	*3.9*	*-26.4%*
Sundry operating costs and expenses	199.5	210.1	5.3%
of which: depreciation and amortization	*19.5*	*18.9*	*-3.1%*
administrative expenses	*179.3*	*190.1*	*6.0%*
Operating costs	**392.4**	**419.8**	**7.0%**

(€m)

	6 mths ended 31/12/14	6 mths ended 31/12/15	Chg. (%)
Legal, tax and professional services	16.4	20.8	26.8%
Credit recovery activities	21.6	21.4	-0.9%
Marketing and communication	27.6	22.6	-18.1%
Rent and property maintenance	17.3	18.3	5.8%
EDP	27.3	30.3	11.0%
Financial information subscriptions	14.0	15.0	7.1%
Bank services, collection and payment commissions	8.9	9.1	*2.2%*
Operating expenses	26.5	24.7	-6.8%
Other labour costs	10.1	10.6	5.0%
Other costs	4.3	7.4	72.1%
Direct and indirect taxes	5.3	9.9	86.8%
Total administrative expenses	**179.3**	**190.1**	**6.0%**

Loan loss provisions – these reduced by 25.4%, from €300.7m to €224.4m, due to a general improvement in the loan book. In particular the cost of risk in consumer finance fell to 341 bps, from 379 bps last year (already net of the €40m in higher provisioning for performing loans), while the cost of risk for wholesale banking fell to almost one-third of last year's level (28 bps, versus 75 bps), due to the absence of new non-performing items. The reduction in net non-performing items, from €1,152.3m to €1,075.4m, reflects stable coverage ratios of 53% across all segments. Wholesale banking reported NPLs totalling €403m (30/6/15: €426.8m) with a coverage ratio of 47% (54%); consumer finance of €252.2m (€302.4m) and 74% (68%); mortgage lending of €150m (€150.1m) and 49% (48%); and leasing of €267.6m (€269.8m) and 30% (unchanged).

(€m)

	6 mths ended 31/12/14	6 mths ended 31/12/15	Chg. (%)
Wholesale banking	48.4	18.5	-61.8%
Private banking	0.6	0.3	*-50.0%*
Consumer	232.2	190.1	-18.1%
of which: factoring	*5.2*	*6.1*	*17.3%*
Retail banking	10.4	8.0	-23.1%
Other	9.1	7.5	-17.6%
Loan loss provisions	**300.7**	**224.4**	**-25.4%**
Cost of risk (bps)	**193**	**136**	**-29.5%**

Provisions for other financial assets – these refer solely to adjustments to reflect stock market prices at 31 December 2015 for the RCS MediaGroup investment (€10.2m).

(€m)

	6 mths ended 31/12/14	6 mths ended 31/12/15	Chg. (%)
Equity investments	—	—	n.m.
Shares	11.7	11.9	1.7%
Bonds	(0.4)	0.9	n.m.
Total	**11.3**	**12.8**	**13.3%**

Income tax – income tax fell from €64.1m to €57.2m, due to the higher gains on disposals of investments subject to reduced taxation under the PEX regime. The amount includes €18.1m in tax following the settlement of a dispute with the Italian revenue authorities (cf. p. 46 and 47) involving Compass RE.

Mediobanca (as consolidating entity) has adopted tax consolidation, which includes Compass, SelmaBipiemme Leasing, Palladio Leasing, CheBanca!, Creditech and Futuro. Relations between the consolidating and consolidated entities are governed by bilateral agreements regulating cash flows, exchanges of information and the individual companies' responsibilities versus the revenue authorities.

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

A review of the Group's performance in its main areas of operation is provided below, according to the customary segmentation.

CORPORATE E PRIVATE BANKING (WHOLESALE BANKING E PRIVATE BANKING)

(€m)

	6 mths ended 31/12/14	12 mths ended 30/6/15	6 mths ended 31/12/15	Chg. (%)
Profit-and-loss data				
Net interest income	121.6	251.2	117.8	-3.1
Treasury income	79.3	181.9	35.5	-55.2
Net fee and commission income	190.6	342.9	164.0	-14.0
Total income	**391.5**	**776.0**	**317.3**	**-19.0**
Labour costs	(101.6)	(230.3)	(108.5)	6.8
Administrative expenses	(69.6)	(154.8)	(80.4)	15.5
Operating costs	**(171.2)**	**(385.1)**	**(188.9)**	**10.3**
Gain (losses) on disposal of AFS shares	1.0	2.6	1.1	10.0
Loan loss provisions	(49.0)	(74.9)	(18.8)	-61.6
Provisions for financial assets	0.2	0.4	(1.0)	n.m.
Other profits (losses)	—	(2.7)	—	n.m.
Profit before tax	**172.5**	**316.3**	**109.7**	**-36.4**
Income tax for the period	(55.1)	(123.4)	(35.1)	-36.3
Net profit	**117.4**	**192.9**	**74.6**	**-36.5**
Cost/Income ratio (%)	43.7	49.6	59.5	

	31/12/14	30/6/15	31/12/15
Balance-sheet data			
Treasury funds	6,807.0	5,090.4	6,703.3
AFS securities	5,369.1	6,603.7	6,926.6
Fixed financial assets (HTM & LR)	4,967.5	5,133.7	4,781.5
Loans and advances to customers	25,158.4	25,121.0	24,493.1
of which: to Group companies	*10,679.3*	*10,015.2*	*9,852.2*
Funding	(39,918.3)	(39,033.5)	(40,072.6)

This division earned a net profit of €74.6m (€117.4m) in the six months under review, on a 19% reduction in revenues year-on-year, with last year's results having been boosted by significant contributions from treasury operations of €79.3m (compared to €35.5m this year) and capital market fees of €74.8m (€41.1m); net interest income was basically stable, down just 3.1%. Loan loss provisions declined from €49m to €18.8m, as no new non-performing items were recorded. Wholesale banking contributed a €56.7m net profit to the aggregate (€98.6m), and private banking €17.9m (€18.8m).

WHOLESALE BANKING

(€m)

	6 mths ended 31/12/14	12 mths ended 30/6/15	6 mths ended 31/12/15	Chg. (%)
Profit-and-loss data				
Net interest income	104.4	217.5	99.4	-4.8
Treasury income	69.4	166.8	29.7	-57.2
Net fee and commission income	151.3	259.3	121.4	-19.8
TOTAL INCOME	**325.1**	**643.6**	**250.5**	**-22.9**
Labour costs	(74.2)	(173.6)	(80.7)	8.8
Administrative expenses	(51.0)	(119.5)	(59.8)	17.3
OPERATING COSTS	**(125.2)**	**(293.1)**	**(140.5)**	**12.2**
Loan loss provisions	(48.4)	(74.0)	(18.5)	-61.8
Provisions for financial assets	0.3	0.5	(0.9)	n.m.
PROFIT BEFORE TAX	**151.8**	**277.0**	**90.6**	**-40.3**
Income tax for the period	(53.2)	(120.0)	(33.9)	-36.3
NET PROFIT	**98.6**	**157.0**	**56.7**	**-42.5**
Cost/Income ratio (%)	38.5	45.5	56.1	

	31/12/14	30/6/15	31/12/15
Balance-sheet data			
Treasury funds	5,596.4	3,488.0	5,019.0
AFS securities	4,705.0	5,831.2	6,264.3
Fixed financial assets (HTM & LR)	4,958.0	4,946.3	4,638.2
Loans and advances to customers	23,856.7	23,719.6	23,034.0
of which: to Group companies	*10,679.3*	*10,015.2*	*9,852.2*
Funding	(37,209.0)	(35,863.6)	(36,923.1)
No. of staff	621	654	665

Wholesale banking reflected a profit of €56.7m for the six months, down on the €98.6m reported last year, having been hit by a 22.9% reduction in revenues and a 12.2% increase in costs. In particular:

– net interest income fell by 4.8%, from €104.4m to €99.4m, despite rising volumes and a lower cost of funding, which were absorbed by the consistent repricing of assets; the second quarter showed a further reduction of 9.6%, from €52.2m to €47.2m;

– net trading income fell from €69.4m to €29.7m, due to forex positions being lower than last year at €15.6m (versus €52.4m) and banking book securities (€8.8m, versus €41.2m);

– net fee and commission income declined to €121.4m, following last year's particularly impressive result of €151.3m; lower fees from equity capital market activities (down from €74.8m to €41.1m) and lending (down from €45.6m to €25.6m), only in part offset by growth in commissions from M&A (from €19.4m to €34m), market trading and sales (from €7.3m to €9.5m);

– operating costs climbed 12.2%, from €125.2m to €140.5m, split between labour costs (up €6.5m) and other administrative expenses (up €8.8m), reflecting the growth in size and non-recurring costs due to specific projects.

Conversely, the downward trend in loan loss provisions continued, more than halving from €48.4m to €18.5m, due to the absence of new non-performing items; withdrawals from the provisions were made during the six months in an amount of €156m, to cover the write-offs for the period, reducing the coverage ratio from 54% to 47%.

* * *

The European M&A market grew during the six months under review, up 35% year on year to reach €359bn. Growth in the Italian and French markets, of 31% and 9% respectively was in contrast to the contractions recorded in Spain (27%), Germany (43%) and the United Kingdom (31%). Debt capital markets recovered slightly compared to the same period last year, posting 5% growth, with Italy up 11%, Germany up 15% and France up 3%; while the U.K. and Spain saw reductions of 6% and 1% respectively. The European ECM market also grew by 20%, driven by France, where deal values doubled in size, Germany (which reported 64% growth) and the U.K. (up 73%); whereas ECM activity contracted in both Italy (by 45%) and Spain (by 62%).

This market scenario drove an increase in net fee and commission income from M&A activity, which was up 75%, from €19.4m to €34m, with a higher domestic component (up from 45% to 76%). Some of the main transactions covered by Mediobanca include ICBPI, Banca Farmafactoring, Ansaldo STS, Ansaldo Breda, Schweizer (Germany), certain Assicurazioni Generali non-core assets, Banca Piraeus (disposal of Egyptian activities); advisory services provided in connection with the merger of Enel Green Power into Enel, the acquisition by Fortress of Unicredit Credit Management Bank, and the acquisition of wind farms in France and Germany by ERG.

Equity capital market fees fell from €66m to €32m, reflecting the reduced contribution from bank rights issues. Capital increases by Eurobank and Piraeus were covered during the six months, as were the IPOs by Inwit, Poste Italiane and Worldpay. Debt capital market fees for the six months totalled approx. €9m, in line with the previous year, the Bank taking senior roles in more than twenty issues (including Generali, Banco Popolare, Banca Popolare di Milano, Banca Carige, Iren, Snam, Atlantia, Eurobank, Worldpay, Kedrion, Telefonica, Santander, Cellnex, Viesgo, Bollorè, EDF and TIGF).

Overall net fee and commission income fell by 20%, from €151.3m to €121.4m:

(€m)

	6 mths ended 31/12/14	6 mths ended 31/12/15	Chg. (%)
Lending	45.6	25.6	-43.9%
M&A Advisory	19.4	34.0	75.3%
Capital markets	74.8	41.1	-45.1%
Markets, Sales and other income	11.5	20.7	80.0%
Net fee and commission income	**151.3**	**121.4**	**-19.8%**

Turning now to the main balance-sheet aggregates:

Loans and advances to customers – these fell from €13.7bn to €13.2bn, with new loans for the six months totalling €2.9bn, on repayments of €3.4bn, €1.7bn were early repayments. Some 53% of the loan book is generated from the domestic market, and 25% from countries where the Bank has its own branch offices. Non-performing items amount to €403m (€426.8m), net of provisions totalling €354.4m (€492m): they account for 3.1% of the total loan book (unchanged). The coverage ratio declined from 54% to 47% on account of the writeoffs mentioned previously.

	30/6/15		31/12/15		Chg. (%)
	(€m)	%	(€m)	%	
Italy	7,226.7	53%	7,030.5	53%	-2.7%
France	1,837.3	13%	1,242.3	9%	-32.4%
Germany	782.9	6%	794.8	6%	1.5%
U.K.	951.6	7%	630.5	5%	-33.7%
Spain	394.3	3%	619.9	5%	57.2%
Other non-resident customers	2,511.6	18%	2,863.9	22%	14.0%
Total loans and advances to customers	**13,704.4**	**100%**	**13,181.9**	**100%**	**-3.8%**

Funding – funding rose by 3%, from €35.9bn to €36.9bn, due to the increase in funds raised from debt securities (up from €20.6bn to €20.8bn) and those from CheBanca! (up from €6.7bn to €8bn) which offset the reduction in funds from other sources (from €1.8bn to €1.2bn). A €500m subordinated Lower Tier 2 note was issued on the MOT market, and the use of commercial paper was up €700m.

	30/6/15		31/12/15		Chg. (%)
	(€m)	%	(€m)	%	
Debt securities	20,579.9	57%	20,763.4	56%	0.9%
Interbank funding	8,026.9	22%	9,435.1	26%	17.5%
of which: intercompany	*6,742.9*	*19%*	*8,011.8*	*22%*	*18.8%*
T-LTRO/LTRO	5,478.0	15%	5,478.0	15%	0.0%
Securitizations and other funds	1,778.8	6%	1,246.7	3%	-29.9%
Total funding	**35,863.6**	**100%**	**36,923.2**	**100%**	**3.0%**

Banking book debt securities – this item was basically stable at €10.9bn (€10.8bn), the €331.1m increase in exposure to government securities largely cancelling out the reduction in holdings of bonds by financial issuers.

	30/6/15		31/12/15		Chg. (%)
	(€m)	%	(€m)	%	
AFS debt securities	5,831.2	54%	6,264.3	57%	7.4%
Financial assets held to maturity	1,302.8	12%	1,175.9	11%	-9.7%
Unlisted debt securities (stated at cost)	3,643.5	34%	3,462.3	32%	-5.0%
Total fixed and AFS securities	**10,777.5**	**100%**	**10,902.5**	**100%**	**1.2%**

	30/6/15			31/12/15			Chg. (%)
	Book Value	%	Total AFS reserve	Book Value	%	Total AFS reserve	Book Value
Italian government securities	4,161.2	39%	67.7	3,873.3	36%	96.5	-6.9%
Other government securities	564.6	5%	(2.1)	1,283.6	12%	0.2	n.m.
Financial bonds	4,795.1	44%	34.3	4,525.6	42%	27.2	-5.6%
of which: Italian	*4,131.7*	*38%*	*18.4*	*4,058.4*	*37%*	*15.4*	*-1.8%*
Corporate bonds	1,256.6	12%	26.4	1,220.0	10%	17.5	-2.9%
Total debt securities	**10,777.5**	**100%**	**126.3**	**10,902.5**	**100%**	**141.4**	**1.2%**

Treasury assets – the increase in this item, from €3.5bn to €5bn, reflects the increase in funding and reduction in loans and advances to customers. The growth in equities is attributable to trading carried out on behalf of clients and is countered by stock lending transactions.

	30/6/15		31/12/15		Chg. (%)
	(€m)	%	(€m)	%	
Debt securities	2,030.1	58%	808.6	16%	-60.2%
Equities	876.1	25%	3,230.4	64%	n.m.
Derivative contract valuations	(555.3)	-16%	(364.1)	-7%	-34.4%
Stock lending	81.6	2%	(1,324.5)	-26%	n.m.
Others (repos, time deposits, derivatives etc.)	1,055.5	31%	2,668.6	53%	n.m.
Total net treasury assets	**3,488.0**	**100%**	**5,019.0**	**100%**	**43.9%**

* * *

PRIVATE BANKING

(€m)

	6 mths ended 31/12/14	12 mths ended 30/6/15	6 mths ended 31/12/15	Chg. (%)
Profit-and-loss data				
Net interest income	17.2	33.7	18.4	7.0
Treasury income	9.9	15.1	5.8	-41.4
Net fee and commission income	39.3	83.6	42.6	8.4
TOTAL INCOME	**66.4**	**132.4**	**66.8**	**0.6**
Labour costs	(27.4)	(56.7)	(27.8)	1.5
Administrative expenses	(18.6)	(35.3)	(20.6)	10.8
OPERATING COSTS	**(46.0)**	**(92.0)**	**(48.4)**	**5.2**
Gain (losses) on disposal of AFS shares	1.0	2.6	1.1	10.0
Loan loss provisions	(0.6)	(0.9)	(0.3)	-50.0
Provisions for financial assets	(0.1)	(0.1)	(0.1)	—
Other profits (losses)	—	(2.7)	—	n.m.
PROFIT BEFORE TAX	**20.7**	**39.3**	**19.1**	**-7.7**
Income tax for the period	(1.9)	(3.4)	(1.2)	-36.8
NET PROFIT	**18.8**	**35.9**	**17.9**	**-4.8**
Cost/Income ratio (%)	69.3	69.5	72.5	

	31/12/14	30/6/15	31/12/15	
Balance-sheet data				
Treasury funds	1,210.6	1,602.4	1,684.3	
AFS securities	664.1	772.5	662.3	
Fixed financial assets (HTM & LR)	9.5	187.4	143.3	
Loans and advances to customers	1,301.7	1,401.4	1,459.1	
Funding	(2,709.3)	(3,169.9)	(3,149.5)	
Assets under management	15,185.6	16,578.9	16,350.6	
Securities held on a fiduciary basis	2,094.5	2,168.1	2,699.1	
Cairn's AuM, Long Term Advice and Legacy	—	—	13,604.3	
No. of staff	361	380	442	*

* Includes 60 staff employed by Cairn Capital.

Private banking delivered a net profit of €17.9m (€18.8m), with revenues basically unchanged at €66.8m (€66.4m); the 8.4% increase in fee income and the7% rise in net interest income were largely absorbed by the reduction in treasury income (which declined from €9.9m to €5.8m). Operating costs were up 5.2%, administrative expenses in particular (up 10.8%). Assets under management on a discretionary and/or non-discretionary basis at the reporting date totalled €16.4bn (30/6/15: €16.6bn), €7.8bn for CMB (unchanged) and €8.6bn (€8.8bn) for Banca Esperia. The acquisition of Cairn Capital was completed on 31 December 2015. Cairn manages credit funds worth approx. €2bn subscribed for by institutional clients, and has assets under long-term advice and legacy worth €11.6bn.

PRINCIPAL INVESTING (EQUITY INVESTMENT PORTFOLIO)

(€m)

	6 mths ended 31/12/14	12 mths ended 30/6/15	6 mths ended 31/12/15	Chg. (%)
Profit-and-loss data				
Treasury income	7.1	29.6	14.8	n.m.
Equity-accounted companies	122.9	223.9	138.4	12.6
TOTAL INCOME	**130.0**	**253.5**	**153.2**	**17.8**
Labour costs	(4.5)	(9.0)	(3.8)	-15.6
Administrative expenses	(1.4)	(2.0)	(0.7)	-50.0
OPERATING COSTS	**(5.9)**	**(11.0)**	**(4.5)**	**-23.7**
Gain (losses) on disposal of AFS shares	15.3	123.4	91.5	n.m.
Provisions for financial assets	(11.7)	(20.8)	(11.9)	1.7
PROFIT BEFORE TAX	**127.7**	**345.1**	**228.3**	**78.8**
Income tax for the period	(0.7)	(9.7)	(0.1)	-85.7
NET PROFIT	**127.0**	**335.4**	**228.2**	**79.7**

	31/12/14	30/6/15	31/12/15
AFS securities	1,070.1	1,071.5	869.0
Equity investments	2,975.2	3,318.1	3,017.2

This division delivered a net profit of €228.2m, including the gain on the Pirelli stake (€87.7m) and a higher contribution from Assicurazioni Generali (up from €122.9m to €138.4m). Writedowns of €11.9m (€11.7m) involved virtually only the RCS MediaGroup stake (€10.3m). The equity exposure reduction programme continued during six months under review with the sale of the investments in Pirelli (€215.4m), Edipower (€55.1m) and other minor stakes (€5.6m); investments in private equity funds generated net proceeds of €7.7m. There were also forwards sales of shares in Atlantia (for a consideration of €63.4m) and Assicurazioni Generali (€59.8m, for value date May 2016).

RETAIL AND CONSUMER BANKING (FINANCIAL SERVICES TO HOUSEHOLDS)

(€m)

	6 mths ended 31/12/14	12 mths ended 30/6/15	6 mths ended 31/12/15	Chg. (%)
Profit-and-loss data				
Net interest income	400.4	833.2	456.3	14.0
Treasury income	—	0.2	0.1	n.m.
Net fee and commission income	87.7	174.6	80.3	-8.4
TOTAL INCOME	**488.1**	**1.008.0**	**536.7**	**10.0**
Labour costs	(76.3)	(157.6)	(83.3)	9.2
Administrative expenses	(138.2)	(290.6)	(130.5)	-5.6
OPERATING COSTS	**(214.5)**	**(448.2)**	**(213.8)**	**-0.3**
Loan loss provisions	(243.2)	(443.4)	(198.1)	-18.5
Other profits (losses)	—	—	(5.1)	n.m.
PROFIT BEFORE TAX	**30.4**	**116.4**	**119.7**	**n.m.**
Income tax for the period	(7.6)	(36.0)	(48.3)	n.m.
NET PROFIT	**22.8**	**80.4**	**71.4**	**n.m.**
Cost/Income ratio (%)	43.9	44.5	39.8	

	31/12/14	30/6/15	31/12/15
Balance-sheet data			
Treasury funds	8,475.8	7,248.8	8,591.8
AFS securities	693.6	700.1	539.0
Fixed financial assets (HTM & LR)	1,247.5	1,264.5	368.9
Loans and advances to customers	14,934.5	15,512.1	16,225.0
Funding	(24,446.5)	(23,730.9)	(24,627.3)

This division reported a net profit of €71.4m for the six months (€22.8m), on 10% growth in revenues, costs down 0.3%, and declining loan loss provisions (down from €243.2m to €198.1m). The result reflects an impressive performance by consumer credit in particular, with profits more than doubling, from €25.9m to €60.1m, the growing contribution of Creditech (up from €5.1m to €6m), and the continuing improvement in terms of profitability by CheBanca! (€5.3m).

CONSUMER BANKING

(€m)

	6 mths ended 31/12/14	12 mths ended 30/6/15	6 mths ended 31/12/15	Chg. (%)
Profit-and-loss data				
Net interest income	334.0	694.1	380.6	14.0
Treasury income	—	0.2	0.1	n.m.
Net fee and commission income	78.3	147.0	59.8	-23.6
TOTAL INCOME	**412.3**	**841.3**	**440.5**	**6.8**
Labour costs	(47.2)	(96.6)	(50.7)	7.4
Administrative expenses	(92.2)	(191.0)	(82.9)	-10.1
OPERATING COSTS	**(139.4)**	**(287.6)**	**(133.6)**	**-4.2**
Loan loss provisions	(232.8)	(423.0)	(190.1)	-18.3
Other profits (losses)	—	—	(5.1)	n.m.
PROFIT BEFORE TAX	**40.1**	**130.7**	**111.7**	**n.m.**
Income tax for the period	(9.1)	(36.7)	(45.6)	n.m.
NET PROFIT	**31.0**	**94.0**	**66.1**	**n.m.**
Cost/Income ratio (%)	33.8	34.2	30.3	

	31/12/14	30/6/15	31/12/15
Balance-sheet data			
Treasury funds	349.7	612.6	584.7
AFS securities	99.6	87.9	77.4
Fixed financial assets (HTM & LR)	0.9	0.9	0.9
Loans and advances to customers	10,495.6	10,906.3	11,399.9
Funding	(10,312.9)	(10,884.4)	(11,234.0)
New loans	3,058.7	6,235.3	3,071.7
No. of branches	160	164	164
No. of staff	1,492	1,540	1,572

The increase reported in net profit, from €31m to €66.1m, reflects 6.8% growth in revenues, from €412.3m to €440.5m, and an 18.3% reduction in loan loss provisions (from €232.8m to €190.1m), despite non-recurring charges of €23m in connection with the settlement of a tax dispute. Net interest income climbed 14%, from €334m to €380.6m, boosted by the lower cost of funding on stable returns on lending. The 7.4% increase in labour costs reflects the new staff recruited last year, and was more than offset by the 17.9% reduction in overheads, marketing and advertising expenses in particular. The reduction in loan loss provisions reflects the decrease in additions to non-performing status, along with a positive performance in the area of credit recovery; the cost of risk declined from 457 bps to 341 bps, with the NPL coverage ratio increasing from 68% to 74%, and the performing loans coverage ratio stable at 1.3%. Loans and advances to customers outstanding as at 31 December 2015 rose by 4.5%, from €10,906.3m to €11,399.9m (of which factoring contributed €415.1m), with new loans basically flat compared with six months previously, at €3,071.7m. Non-performing loans reduced further, from €302.4m to €252.2m, partly as a result of sales for the period (€131.6m).

RETAIL BANKING

(€m)

	6 mths ended 31/12/14	12 mths ended 30/6/15	6 mths ended 31/12/15	Chg. (%)
Profit-and-loss data				
Net interest income	66.5	139.1	75.7	13.8
Net fee and commission income	9.4	27.6	20.5	n.m.
TOTAL INCOME	**75.9**	**166.7**	**96.2**	**26.7**
Labour costs	(29.1)	(61.0)	(32.6)	12.0
Administrative expenses	(46.0)	(99.6)	(47.6)	3.5
OPERATING COSTS	**(75.1)**	**(160.6)**	**(80.2)**	**6.8**
Loan loss provisions	(10.4)	(20.4)	(8.0)	-23.1
PROFIT BEFORE TAX	**(9.6)**	**(14.3)**	**8.0**	**n.m.**
Income tax for the period	1.5	0.7	(2.7)	n.m.
NET PROFIT	**(8.1)**	**(13.6)**	**5.3**	**n.m.**
Cost/Income ratio (%)	98.9	96.3	83.4	

	31/12/14	30/6/15	31/12/15
Balance-sheet data			
Treasury funds	8,126.1	6,636.2	8,007.1
AFS securities	594.0	612.2	461.6
Fixed financial assets (HTM & LR)	1,246.6	1,263.6	368.0
Loans and advances to customers	4,438.9	4,605.8	4,825.1
Assets under management	2,143.0	2,853.0	3,604.0
Retail funding	(10,866.9)	(9,634.8)	(10,402.2)
New loans	265.5	656.3	513.6
No. of branches	57	57	57
No. of staff	894	941	971

A 26.7% rise in revenues drove a net profit of €5.3m for the six months. Net interest income in particular rose from €66.5m to €75.7m, due to lower funding costs on basically flat volume levels (total assets for the twelve months up from €13.3bn to €13.8bn), whereas net fee and commission income climbed from €9.4m to €20.5m, driven by higher discretionary/non-discretionary asset management fees of €2,682m (30/6/15: €1,946.2m; 31/12/14: €1,152m). Operating costs were up 6.8% (with labour costs in particular up 12%), due to strengthening of the distribution structure. Loan loss provisions declined from €10.4m to €8m, with the cost of risk at 34 bps (versus 47 bps last year) and a coverage ratio of 49% (30/6/15: 48%). Retail funding in the six months rose from €9,634.8m to €10,402.2m, due to the advertising campaign for the six-month tied deposit product which closed on 31 August 2015; current accounts climbed from €2,011.8bn to €2,927m, while deposit accounts fell from €7,623m to €7,475.3m. Indirect deposits rose from €2,853m to €3,604m, and were concentrated in asset management (28%) and insurance products (46%). Higher loans and advances to customers, which rose from €4,605.8m to €4,825.1m, reflect mortgage lending levels virtually doubling, from €265.5m to €513.6m.

LEASING

(€m)

	6 mths ended 31/12/14	12 mths ended 30/6/15	6 mths ended 31/12/15	Chg. (%)
Profit-and-loss data				
Net interest income	25.9	55.0	27.7	6.9
Treasury income	—	(0.1)	0.1	n.m.
Net fee and commission income	(0.1)	0.3	0.8	n.m.
TOTAL INCOME	**25.8**	**55.2**	**28.6**	**10.9**
Labour costs	(6.9)	(14.2)	(6.7)	-2.9
Administrative expenses	(6.2)	(14.8)	(7.1)	14.5
OPERATING COSTS	**(13.1)**	**(29.0)**	**(13.8)**	**5.3**
Loan loss provisions	(8.9)	(15.3)	(7.8)	-12.4
PROFIT BEFORE TAX	**3.8**	**10.9**	**7.0**	**84.2**
Income tax for the period	(1.8)	(4.5)	(2.0)	11.1
Minority interest	(1.0)	(3.1)	(2.0)	n.m.
NET PROFIT	**1.0**	**3.3**	**3.0**	**n.m.**
Cost/Income ratio (%)	50.8	52.5	48.3	

	31/12/14	30/6/15	31/12/15
Balance-sheet data			
Treasury funds	127.6	138.2	29.6
Loans and advances to customers	2,892.0	2,760.8	2,646.2
Funding	(2,903.8)	(2,775.5)	(2,591.1)
New loans	274.6	480.0	201.0
No. of staff	145	144	143

This segment recorded a €3m profit in the six months, representing an improvement on the €1m reported at the same stage last year, on 10.9% growth in revenues against a reduction in loan loss provisions (from €8.9m to €7.8m). Net interest income in particular rose by 6.9%, despite a 4.2% reduction in lending levels, due to the lower cost of funding on stable returns. Loan loss provisions reflect the gradual improvement of the portfolio alongside a higher provisioning level of 30.3% (30/6/15: 29.9%) and a decrease in non-performing items, from €269.8m to €267.6m. The reduction in accounts outstanding, from €2,760.8m to €2,646.2m, is the result of the lower new business for the period compared to the same stage last year (€201m, versus €274.6m).

Review of Group companies' performances

Mediobanca

RESTATED PROFIT AND LOSS ACCOUNT *

(€m)

	6 mths ended 31/12/14	12 mths ended 30/6/15	6 mths ended 31/12/15	Chg. (%)
Net interest income	87.9	186.8	84.7	-3.6
Treasury income	78.2	186.4	35.3	-54.9
Net fee and commission income	149.9	255.7	122.1	-18.5
Equity-accounted companies	—	123.7	—	—
TOTAL INCOME	**316.0**	**752.6**	**242.1**	**-23.4**
Labour costs	(85.1)	(195.0)	(90.6)	6.5
Administrative expenses	(56.3)	(127.7)	(67.9)	20.6
OPERATING COSTS	**(141.4)**	**(322.7)**	**(158.5)**	**12.1**
Gain (losses) on disposal of AFS shares	15.3	123.4	91.5	n.m.
Loan loss provisions	(48.2)	(74.2)	(18.2)	-62.2
Provisions for financial assets	(11.4)	(20.4)	(12.8)	12.3
Impairment charges to equity investments	(2.1)	(3.0)	—	n.m.
Other profits (losses)	—	(12.7)	(63.7)	—
PROFIT BEFORE TAX	**128.2**	**443.0**	**80.4**	**-37.3**
Income tax for the period	(48.0)	(110.0)	(8.0)	-83.3
NET PROFIT	**80.2**	**333.0**	**72.4**	**-9.7**

* The financial statements are also reported in accordance with the recommendations made by the Bank of Italy in the annex hereto, along with further details on how the various items have been restated.

RESTATED BALANCE SHEET *

(€m)

	31/12/14	30/6/15	31/12/15
Assets			
Treasury funds	5,675.7	3,183.3	4,944.3
AFS securities	5,775.1	6,407.1	6,585.2
Fixed financial assets (HTM & LR)	4,958.0	4,946.3	4,638.2
Loans and advances to customers	22,533.0	22,522.9	21,553.8
Equity investments	2,671.7	3,159.7	3,191.9
Tangible and intangible assets	133.4	132.2	130.8
Other assets	352.1	470.3	394.2
Total assets	**42,099.0**	**40,821.8**	**41,438.4**
Liabilities and net equity			
Funding	36,532.7	34,656.2	35,674.7
Other liabilities	545.5	826.6	587.5
Provisions	161.8	149.3	147.3
Net equity	4,778.8	4,856.7	4,956.5
Profit for the period	80.2	333.0	72.4
Total liabilities and net equity	**42,099.0**	**40,821.8**	**41,438.4**

A net profit of €72.4m was earned in the six months, lower than the €80.2m recorded last year, reflecting in particular the €63.7m in contributions to the Bank Resolution Fund, the majority of which were one-off, absorbing most of the gains realized on equity stake disposals (€91.5m). Revenues declined by 23.4%, from €316m to €242.1m, with the various items performing as follows:

– net interest income was down 3.6%, from €87.9m to €84.7m, despite growing volumes and a lower cost of funding which, however, was eroded by the continual repricing of assets;

– net treasury income fell from €78.2m to €35.3m, due to lower gains on exchange rates totalling €15.4m (compared to €53.5m) and the banking book of €8.8m (compared with €41.5m);

– net fee and commission income decreased from €149.9m to €122.1m, due in particular to the reduced contribution from capital market activity.

The 12.1% increase in operating costs, from €141.4m to €158.5m, reflects growth in labour costs (which were up €5.5m) and other administrative expenses (up €11.6m), due to strengthening of the CIB operational structure.

* The financial statements are also reported in accordance with the recommendations made by the Bank of Italy in the annex hereto, along with further details on how the various items have been restated.

Loan loss provisions totalled €18.2m, a substantial reduction from last year (€48.2m); the coverage ratio for non-performing items as unchanged versus end-December 2014 at 47%.

Management of the AFS shares portfolio generated gains of €91.5m (€15.3m), €87.7m of which in respect of Pirelli and €11.9m (€11.4m) by way of adjustments to reflect stock market prices at the reporting date.

With regard to the main balance-sheet items:

– funding rose by approx. €1bn (from €34.7bn to €35.7bn), driven by an increased contribution from CheBanca! (up from €6.7bn to €8bn), offsetting the reduction in debt securities and other funding sources (down €0.8bn). Bond placements totalled €2.2bn (including the €500m subordinated Lower Tier 2 issue referred to earlier), and net redemptions (including in the form of buybacks on the market) totalling €2.8bn.

	30/6/15		31/12/15		Chg. (%)
	(€m)	%	(€m)	%	
Debt securities	19,729.1	57%	19,163.6	54%	-2.9%
Interbank funding	8,066.4	23%	9,840.1	28%	22.0%
of which: CheBanca! intercompany	*6,742.9*	*19%*	*8,011.8*	*22%*	*18.8%*
T-LTRO/LTRO	5,478.0	16%	5,478.0	15%	—
Other funding	1,382.7	4%	1,193.0	3%	-13.7%
Total funding	**34,656.2**	**100%**	**35,674.7**	**100%**	**2.9%**

– loans and advances to customers fell by 4.3%, from €22.5bn to €21.6bn, following early redemptions of approx. €1.2bn; non-performing assets amounted to €398.7m (€419.1m).

	30/6/15		31/12/15		Chg. (%)
	(€m)	%	(€m)	%	
Corporate customers	11,117.8	49%	10,190.1	47%	-8.3%
Group companies	11,405.1	51%	11,363.1	53%	-0.4%
Total loans and advances to customers	**22,522.9**	**100%**	**21,553.8**	**100%**	**-4.3%**
– of which: non performing loans	*419.1*		*398.7*		*-4.9%*

– equity investments and AFS shares fell from €3,735.5m to €3,512.8m, on movements in the AFS segment (disposals totalling €290.2m, €215.4m of which in respect of the Pirelli takeover bid and fair value which was €45.5m); while the increase in associates is attributable to the acquisition of Cairn Capital Group Ltd (€31.8m).

(€m)

	% share capital	30/6/15	31/12/15
Associates			
Assicurazioni Generali	13.24	1,114.6	1,114.6
Banca Esperia	50.0	54.3	54.3
Burgo Group	22.13	—	—
Athena Private Equity	24.27	3.8	3.9
Fidia	25.0	0.6	—
Total associates		1,173.3	1,172.8
Total subsidiaries		1,986.4	2,019.1
Total equity investments		**3,159.7**	**3,191.9**
Total equity Available For Sale		**575.8**	**320.9**
TOTAL		**3,735.5**	**3,512.8**

Based on the stock market price recorded on 30 December 2015, the Assicurazioni Generali investment reflects an unrealized gain of €2.1bn (€1.4bn based on current prices).

– debt securities increased from €10,777.6m to €10,902.4m; the AFS segment increased from €5,831.3m to €6,264.3m, due to net investments of approx. €424m involving Eurozone sovereign debt in particular. Fixed assets fell from €4,946.3m to €4,638.1m, on redemptions totalling €342.8m against new investments of just €35.2m.

	30/6/15		31/12/15		Chg. (%)
	(€m)	%	(€m)	%	
Debt securities AFS	5,831.3	54%	6,264.3	57%	7.4%
Securities held to maturity	1,302.9	12%	1,175.9	11%	-9.7%
Unlisted debt securities (stated at cost)	3,643.4	34%	3,462.2	32%	-5.0%
Total financial liabilities	**10,777.6**	**100%**	**10,902.4**	**100%**	**1.2%**

– treasury assets totalled €4,944.3m (€3,183.3m); the increase reflects the higher liquidity resulting from funding operations. Money market assets in particular were up €1.9bn, as were short-term investments in equities for client trading, most of which was funded by stock lending transactions.

	30/6/15		31/12/15		Chg. (%)
	(€m)	%	(€m)	%	
Debt securities	2,051.4	64%	814.1	16%	-60.3%
Equities	742.1	23%	3,097.3	63%	n.m.
Derivative contract valuations	(422.1)	-13%	(230.4)	-5%	-45.4%
Stock lending	81.1	3%	(1,324.5)	-27%	n.m.
Others (cash, repos, time deposit)	730.8	23%	2,587.8	53%	n.m.
Total net treasury assets	**3,183.3**	**100%**	**4,944.3**	**100%**	**55.3%**

– the Bank's net equity fell from €5,189.7m to €5,028.9m, despite the €72.4m profit for the period, as a result of the reduction in the AFS reserves (from €401.3m to €361.9m) and the dividend distributed (€212.9m). Share capital increased from €433.6m to €435.2m, following the exercise of 727,500 stock options and the issuance of 2,439,833 performance shares worth a total of €6m, including the share premium.

	30/6/15 (€m)	31/12/15 (€m)	Chg. (%)
Share capital	433.6	435.2	0.4%
Other reserves	4,020.9	4,148.1	3.2%
Valuation reserves	402.2	373.2	-7.2%
of which: AFS securities	*401.3*	*361.9*	*-9.8%*
hedge	(5.0)	5.4	n.m.
Profit for the period	333.0	72.4	-78.3%
Total net equity	**5,189.7**	**5,028.9**	**-3.1%**

* * *

The financial highlights for the other Group companies in the six months under review are shown below, divided by business area:

Company	**Percentage shareholding**	**Business Line**	**Total assets**	**Loans and advances to customers**	**Total net equity**	**No. of staff**
Mediobanca International	100%	WSB	4,696.4	3,373.5	288.7	7
Prominvestment (in liquidation)	100%	WSB	5.1	4.5	(2.2)	6
Mediobanca Securities USA (data in USD/1000)	100%	WSB	6.2	—	3.8	4
Consortium	100%	WSB	0.2	—	0.2	—
Mediobanca Immobilieré	100%	WSB	2.0	—	1.7	—
Mediobanca Turchia (data in TRY/1000)	100%	WSB	3.2	—	5.3	7
Mediobanca Messico (data in MXN/1000)	100%	WSB	14.2	—	14.2	4
Cairn Capital Limited Group (data in GBP/1000) *	100%	PB	10.5	—	8.3	60
Compagnie Monégasque de Banque	100%	PB	3,142.1	951.2	691.1	209
Banca Esperia	50%	PB	1,741.9	1,015.8	187.0	136
Spafid	100%	PB	53.3	—	41.7	36
Spafid Connect *	100%	PB	0.8	—	0.5	10
Compass	100%	Consumer	10,716.2	9,253.7	1,237.7	1,302
Futuro	100%	Consumer	1,445.1	1,364.2	70.2	77
Creditech	100%	Consumer	835.4	782.1	82.7	198
Quarzo Srl	90%	Consumer	0.4	—	—	—
Quarzo CQS Srl	90%	Consumer	0.1	—	—	—
Compass RE	100%	Consumer	245.6	—	68.4	1
CheBanca!	100%	Retail	13,834.9	4,825.1	225.4	969
Mediobanca Covered	90%	Retail	0.3	—	0.1	—
Selma Bipiemme Leasing	60%	Leasing	2,884.1	2,607.4	163.5	142
Teleleasing (in liquidation)	60%	Leasing	120.7	38.7	110.8	2
Quarzo Lease	90%	Leasing	0.5	0.4	—	—
Mediobanca Innovation Services	100%	Other	68.0	—	37.7	179
Ricerche e Studi	100%	Other	0.8	—	0.1	14
Telco MB	100%	PI	13.0	—	13.0	—
Sinto MB	100%	PI	558.0	—	544.7	—

* Taking into account the put and call option; on which, see Part. A1, Section 3, Area of consolidation, p. 74.

Company	Percentage shareholding	Business Line	Total income	Operating costs	Loss provisions	Gain/(loss) for the period
Mediobanca International	100%	WSB	16.9	(3.6)	(0.3)	9.0
Prominvestment (in liquidation)	100%	WSB	0.1	(0.4)	—	(0.4)
Mediobanca Securities (data in USD/1000)	100%	WSB	1.5	(1.6)	—	(0.4)
Consortium	100%	WSB	—	—	—	—
Mediobanca Immobilieré	100%	WSB	0.1	(0.1)	—	—
Mediobanca Turchia (data in TRY/1000)	100%	WSB	0.2	(2.8)	—	(2.6)
Mediobanca Messico (data in MXN/1000)	100%	WSB	0.1	(7.1)	—	(7.0)
Cairn Capital Limited Group (data in GBP/1000) *	100%	PB	—	—	—	—
Compagnie Monégasque de Banque	100%	PB	42.0	(25.4)	—	17.4
Banca Esperia	50%	PB	41.9	(38.7)	(0.5)	0.7
Spafid	100%	PB	3.6	(2.5)	—	0.8
Spafid Connect *	100%	PB	0.4	(0.5)	—	(0.2)
Compass	100%	Consumer	394.1	(123.4)	(182.3)	71.5
Futuro	100%	Consumer	23.0	(6.9)	(1.9)	9.8
Creditech	100%	Consumer	26.9	(12.2)	(6.1)	6.0
Quarzo Srl	90%	Consumer	0.1	(0.1)	—	—
Quarzo CQS Srl	90%	Consumer	—	—	—	—
Compass RE	100%	Consumer	16.5	(0.2)	—	(10.6)
CheBanca!	100%	Retail	96.2	(79.7)	(8.0)	3.9
Mediobanca Covered	90%	Retail	—	—	—	—
Selma Bipiemme Leasing	60%	Leasing	26.4	(13.2)	(8.8)	2.6
Teleleasing (in liquidation)	60%	Leasing	2.9	(1.4)	1.0	2.4
Quarzo Leasing	90%	Leasing	—	—	—	—
Mediobanca Innovation Services	100%	Other	26.0	(25.8)	—	0.3
Ricerche e Studi	100%	Other	0.9	(1.0)	—	(0.1)
Telco MB	100%	PI	—	—	—	—
Sinto MB	100%	PI	8.9	—	—	8.8

* Taking into account the put and call option; on which, see Part. A1, Section 3, Area of consolidation, p. 74.

Other information

Related party disclosure

Financial accounts outstanding as at 31 December 2015 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 17221 issued on 12 March 2010.

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 36 of Consob's market regulations

With reference to 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, Compagnie Monégasque de Banque is the only Group company covered by this regulatory provision, and adequate procedures have been adopted to ensure full compliance with it.

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 an indication of the other risks to which the Group is exposed in the course of its business, as they emerged from the ICAAP process now required by the regulations in force.

In particular, this involves concentration risk in the Group's corporate finance activities towards the leading Italian industrial groups, its presence in the retail banking and consumer finance business on the domestic market, and its exposure to market volatility in respect of its securities portfolio in the wholesale banking and principal investing divisions.

Research

R&S has continued its analysis of companies and capital markets as in the past. The company produced the fortieth edition of its Annual Directory, which includes analysis of leading Italian listed companies, and published the profiles of over eighty other industrial and financial groups online. The twentieth edition of R&S's survey of the world's leading industrial and service multinationals has been published, as has the thirteenth edition of its survey of the leading international banks and the fifth edition of its review of industrial companies in southern Italy on behalf of the Fondazione Ugo La Malfa.

Credit rating

The long-term rating assigned by Standard & Poor's to Mediobanca is BBB- with stable outlook, while the short-term rating is A-3 (both aligned with the Italy sovereign risk). On 16 April 2015 Fitch Ratings assigned Mediobanca a long-term rating of BBB+ with stable outlook (short-term rating F2).

Tax litigation

As at 31 December 2015 the Mediobanca Group had cases pending in respect of higher tax worth a notified amount of €37.2m plus interest and fines. All the cases involve disputes with the Italian tax revenue authority and regard:

– fifteen claims in respect of allegedly non-existent leasing transactions, involving higher tax worth a notified amount of €35.6m (€31.8m by way of VAT and €3.8m IRES/IRAP); €24.1m of this amount involves leases on yachts, while the remainder involves real estate and brands;
– other minor items involving higher tax worth a notified amount of €1.7m. In the course of the six months the companies' defence was upheld in the second degree and the definitive rulings are currently pending.

The companies concerned have appealed against all the above rulings in the conviction that their actions were correct. For this reason no amounts have been set aside to the provision for risks and charges, including in view of how the legal process is progressing.

Conversely, a provision of €18.1m was set aside during the six months under review to cover tax payable to the Italian revenue authorities following an inspection of Group company Compass RE (Luxembourg) in connection with revenues generated in the financial years from 2009/11 to 2013/14, plus fines and interest amounting to €5m.

Litigation pending

The most significant litigation pending against Mediobanca is as follows:

- the proceedings initiated against Mediobanca relating to the Bank's alleged failure, jointly with other parties, to launch a full takeover bid for La Fondiaria in 2002. A total of sixteen cases were brought, six of which are still pending, another nine settled out of court during previous financial years, and one having been statute-barred. The total amount of the six claims still pending is some €68m (plus interest and expenses); Mediobanca's share in this would be approx. €23m (plus interest and expenses). The present status of the trials in respect of these claims is as follows:
  - four claims, in which the court of appeals has ruled in favour of Mediobanca, are pending at the court of cassation;
  - one claim has been referred by the court of cassation to the court of appeals in Milan to determine the amount of the damages incurred by the shareholders;
  - one claim has been ruled on by the court of appeals in Milan with the damages payable by Mediobanca having been revised partially in our favour;
- the case pending with the court of Milan for damages totalling €134.4m in connection with the Burani group bankruptcies against Centrobanca, which in turn cited Mediobanca in connection with its alleged role as advisor on the takeover bid concerned. Mediobanca has pleaded not guilty, on the grounds that its activity as advisor consisted exclusively of preparing one analysis (defined as "Discussion material") on behalf of Burani Designer Holding NV, regarding the principal impact of the takeover bid in financial terms;
- one claim filed with the court of Siena for damages in an amount of €286m by the Fondazione Monte dei Paschi di Siena, for an alleged non-contractual liability, jointly with the other thirteen lender banks, in connection with the execution of a loan granted to Fondazione Monte dei Paschi di Siena in June 2011.

No other significant litigation is pending at present.

The provision for risks and charges amply covers any charges that may be payable as a result of the claims made against Mediobanca and the Group companies.

Outlook

Estimates for the next six months suggest that the growth in net interest income is set to continue, albeit by less, in consumer finance especially. The recent strong market volatility will affect the performance of the other main income items, in particular net treasury income and the contribution expected from principal investing in connection with the planned disposal of 3% of Assicurazioni Generali. The cost of risk should continue the good performance recorded in the first half of the financial year.

Reconciliation of shareholders' equity and net profit

(€ '000)

	Shareholders' equity	Net profit (loss)
Balance at 31/12 as per Mediobanca S.p.A. accounts	4,956,534	72,359
Net surplus over book value for consolidated companies	14,836	117,898
Differences on exchange rates originating from conversion of accounts made up in currencies other than the Euro	(103)	—
Other adjustments and restatements on consolidation, including the effects of accounting for companies on an equity basis	3,157,438	130,848
Dividends received during the period	—	—
TOTAL	**8,128,705**	**321,105**

Milan, 10 February 2016

THE BOARD OF DIRECTORS

DECLARATION BY HEAD OF COMPANY FINANCIAL REPORTING

Declaration in respect of interim 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 Massimo Bertolini, in their respective capacities as Chief Executive Officer and Head of 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; and that
   – were effectively applied during the six months ended 31 December 2015.
2. Assessment of the adequacy of said administrative and accounting procedures for the financial statements for the six months ended 31 December 2015 was based on a model defined by Mediobanca in accordance with benchmark standards for internal control systems generally accepted at international level (i.e. the CoSO and CobiT frameworks).
3. It is further hereby declared that:

   3.1 the consolidated interim review:
   – have been drawn up in accordance with the international accounting standards recognized in the European Community adopted pursuant to CE regulation no. 1606/02 issued by the European Council and Parliament on 19 July 2002;
   – correspond to the data recorded in the company's books and account ledgers;
   – are such as to provide 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, 10 February 2016

Chief Executive Officer
Alberto Nagel

Head of Company Financial Reporting
Massimo Bertolini

AUDITORS' REPORT

pwc

REVIEW REPORT ON CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

To the shareholders of
Mediobanca SpA

Foreword

We have reviewed the accompanying consolidated condensed interim financial statements of Mediobanca SpA and its subsidiaries (the Group Mediobanca) as of 31 December 2015, comprising the consolidated balance sheet, the consolidated profit and loss account, the consolidated comprehensive profit and loss account, the statement of changes to consolidated net equity, the consolidated cash flows statement and related notes to the accounts. The directors of Mediobanca SpA are responsible for the preparation of the consolidated condensed interim financial statements in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these consolidated condensed interim financial statements based on our review.

Scope of review

We conducted our work in accordance with the criteria for a review recommended by Consob in Resolution No. 10867 of 31 July 1997. A review of consolidated condensed interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than a full-scope 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 consolidated condensed interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated condensed interim financial statements of the Group Mediobanca as of 31 December 2015 are not prepared, in all material respects, in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, 11 February 2016

PricewaterhouseCoopers SpA

Marco Palumbo
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Via Grazioli 73 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Verona** 37135 Via Francia 21/C Tel.0458263001

www.pwc.com/it

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet

(€'000)

Assets	31/12/15	30/6/15
10. Cash and cash equivalents	48,236	49,027
20. Financial assets held for trading	13,108,229	11,860,786
30. Financial assets at fair value through profit or loss	—	—
40. Financial assets available-for-sale	8,109,697	8,063,138
50. Financial assets held-to-maturity	1,189,000	1,311,696
60. Due from banks	7,596,411	6,078,256
70. Due from customers	35,658,085	37,122,531
80. Hedging derivatives	727,590	754,941
90. Adjustment of hedging financial assets (+/-)	—	—
100. Equity investments	3,112,952	3,411,360
110. Reinsured portion of technical reserves	—	—
120. Property, plant and equipment	309,656	308,618
130. Intangible assets	455,554	410,256
of which:		
goodwill	*422,925*	*374,098*
140. Tax assets	869,913	954,206
a) current	*138,817*	*218,554*
b) deferred	*731,096*	*735,652*
of which under L. 214/2011	*631,526*	*627,793*
150. Loans classified as held-for-sale	—	—
160. Other assets	363,615	385,803
Total assets	**71,548,938**	**70,710,618**

(€'000)

Liabilities and net equity	31/12/15	30/6/15
10. Due to banks	15,240,836	14,303,929
20. Due to customers	16,302,501	16,873,388
30. Debt securities in issue	21,251,324	20,154,478
40. Trading liabilities	8,559,753	8,598,931
50. Financial liabilities designated at fair value	—	—
60. Hedging derivatives	301,820	291,201
70. Changes in fair value of portfolio hedged items (-)	—	—
80. Tax liabilities	512,603	624,961
a) current	*144,958*	*259,893*
b) deferred	*367,645*	*365,068*
90. Liabilities included in disposal groups classified as held for sale	—	—
100. Other liabilities	522,598	684,145
110. Staff severance indemnity provision	26,283	26,655
120. Provisions	154,923	157,938
a) post-employment and similar benefits	—	—
b) other provisions	*154,923*	*157,938*
130. Insurance reserves	137,823	127,894
140. Revaluation reserves	1,061,183	1,435,525
150. Redeemable shares repayable on demand	—	—
160. Equity instruments repayable on demand	—	—
170. Reserves	4,681,718	4,354,406
180. Share premium reserve	2,148,875	2,144,489
190. Share capital	435,183	433,599
200. Treasury shares	(198,254)	(198,688)
210. Minority interest	88,664	108,016
220. Profit for the period	321,105	589,751
Total liabilities and net equity	**71,548,938**	**70,710,618**

Consolidated Profit and Loss Account

(€'000)

Item	31/12/15	30/6/15	31/12/14
10. Interest and similar income	966,014	2,091,568	1,019,064
20. Interest expense and similar charges	(364,376)	(949,055)	(477,983)
30. Net interest income	**601,638**	**1,142,513**	**541,081**
40. Fee and commission income	205,457	425,963	234,403
50. Fee and commission expense	(42,166)	(59,678)	(26,345)
60. Net fee and commission income	**163,291**	**366,285**	**208,058**
70. Dividends and similar income	28,970	47,619	7,900
80. Net trading income	9,879	98,922	43,196
90. Net hedging income (expense)	3,284	(1,075)	401
100. Gain (loss) on disposal/repurchase of:	100,233	122,417	44,964
a) loans and advances	2,369	(49,894)	(6,778)
b) AFS securities	98,904	166,110	40,485
c) financial assets held to maturity	1,843	19,891	14,657
d) financial liabilities	(2,883)	(13,690)	(3,400)
120. Total income	**907,295**	**1,776,681**	**845,600**
130. Adjustments for impairment to:	(238,277)	(488,125)	(302,452)
a) loans and advances	(222,782)	(469,450)	(290,733)
b) AFS securities	(11,921)	(20,976)	(11,662)
c) financial assets held to maturity	(769)	898	410
d) financial liabilities	(2,805)	1,403	(467)
140. Net income from financial operation	**669,018**	**1,288,556**	**543,148**
150. Premiums earned (net)	22,369	42,017	20,655
160. Other income (net) from insurance activities	(7,643)	(17,752)	(8,670)
170. Net profit from financial and insurance activities	**683,744**	**1,312,821**	**555,133**
180. Administrative expenses:	(489,280)	(874,611)	(391,964)
a) personnel costs	(209,712)	(419,282)	(192,957)
b) other administrative expenses	(279,568)	(455,329)	(199,007)
190. Net transfers to provisions	(1,076)	(3,905)	(627)
200. Net adjustments to tangible assets	(9,682)	(19,163)	(9,453)
210. Net adjustments to intangible assets	(9,170)	(23,694)	(9,988)
220. Other operating income (expense)	66,994	141,722	59,384
230. Operating costs	**(442,214)**	**(779,651)**	**(352,648)**
240. Gain (loss) on equity investments	138,750	223,933	123,204
270. Gain (loss) on disposal of investments	(1)	(17)	(10)
280. Profit (loss) on ordinary activity before tax	**380,279**	**757,086**	**325,679**
290. Income tax for the year on ordinary activities	(57,166)	(164,241)	(64,100)
300. Profit (loss) on ordinary activities after tax	**323,113**	**592,845**	**261,579**
310. Gain (loss) on disposal of investments after tax	**—**	**—**	**—**
320. Net profit (loss) for the period	**323,113**	**592,845**	**261,579**
330. Net profit (loss) for the period attributabe to minorities	(2,008)	(3,094)	(960)
340. Net profit (loss) for the period attributable to Mediobanca	**321,105**	**589,751**	**260,619**

Consolidated Comprehensive Profit and Loss Account

(€'000)

Item		31/12/15	31/12/14
10.	**Profit (loss) for the period**	**323,113**	**261,579**
	Other income items net of tax without passing through profit and loss	**129,834**	**65,608**
20.	Property, plant and equipment	—	—
30.	Intangible assets	—	—
40.	Defined benefit schemes	167	(881)
50.	Non-current assets being sold	—	—
60.	Share of valuation reserves attributable to equity-accounted companies	129,667	66,489
	Other income items net of tax passing through profit and loss	**(504,032)**	**45,222**
70.	Foreign investments hedges	—	—
80.	Exchange rate differences	(102)	207
90.	Cash flow hedges	4,121	14,952
100.	AFS financial assets	3,428	(98,357)
110.	Non-current assets being sold	—	—
120.	Share of valuation reserves attributable to equity-accounted companies	(511,479)	128,420
130.	**Total other income items, net of tax**	**(374,198)**	**110,830**
140.	Comprehensive income (headings 10 + 130)	(51,085)	372,409
150.	Minority interests in consolidated comprehensive incomes	1,954	421
160.	Consolidated comprehensive income attributable to Mediobanca	(53,039)	371,988

Statement of Changes to Consolidated Net Equity

(€'000)

	Previously reported balance at 30/6/2015	Allocation of profit for previous period		Changes during the reference period									Total net equity at 31/12/15	Net equity attributable to the Group at 31/12/15	Net equity attributable to the minorities at 31/12/15
		Reserves	Dividends and other fund application	Changes to reserves	Transactions involving net equity						Overall consolidated profit 2015				
					New shares issued	Treasury shares acquired	Extra-ordinary dividends payout	Changes to equity instruments	Treasury shares derivatives	Stock options [1]	Changes in equity instruments [3]				
Share capital:	458,548	—	—	—	1,584	—	—	—	—	—	(1,140)	—	458,992	435,183	23,809
a) ordinary shares	458,548	—	—	—	1,584	—	—	—	—	—	(1,140)	—	458,992	435,183	23,809
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	2,147,275	—	—	—	4,386	—	—	—	—	—	(938)	—	2,150,723	2,148,875	1,848
Reserves:	4,434,516	589,751	(212,893)	(54,936)	(1,220)	(434)	—	—	—	3,977	(12,448)	—	4,746,313	4,681,718	64,595
a) retained earnings	4,336,182	589,751	(212,893)	(54,936)	(1,220)	(434) [2]	—	—	—	—	(12,448)	—	4,644,002	4,579,407	64,595
b) others	98,334	—	—	—	—	—	—	—	—	3,977	—	—	102,311	102,311	—
Valuation reserves	1,432,602	—	—	(199)	—	—	—	—	—	—	(618)	(374,198)	1,057,587	1,061,183	(3,596)
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(198,688)	—	—	—	—	434	—	—	—	—		—	(198,254)	(198,254)	—
Profit (loss) for the period	592,845	(592,845)	—	—	—	—	—	—	—		—	323,113	323,113	321,105	2,008
Total net equity	8,867,098	(3,094)	(212,893)	(55,135)	4,750	—	—	—	—	3,977	(15,144)	(51,085)	8,538,474	X	X
Net equity attributable to the Group	8,759,082	—	(212,893)	(55,135)	4,750	—	—	—	—	3,977	—	(53,039)	X	8,449,810	X
Net equity attributable to minorities	108,016	(3,094)	—	—	—	—	—	—	—	—	(15,144)	1,954	X	X	88,664

[1] Represents the amount on the stock options and performance shares related to the ESOP schemes.

[2] Reduction due to cancellation of Palladio Leasing treasury shares following merger of this company into Selma Bipiemme.

[3] Relating to purchase of minority interests in Teleleasing.

Statement of Changes to Consolidated Net Equity

(€'000)

	Previously reported balance at 30/6/2014	Allocation of profit for previous period		Changes during the reference period									Total net equity at 30/6/2015	Net equity attributable to the Group at 30/6/2015	Net equity attributable to the minorities at 31/12/14
		Reserves	Dividends and other fund application	Changes to reserves	Transactions involving net equity							Overall consolidated profit 2014			
					New shares issued	Treasury shares acquired	Extra-ordinary dividends payout	Changes to equity instruments	Treasury shares derivatives	Stock options [1]	Changes in equity instruments				
Share capital:	455,651	—	—	—	2,897	—	—	—	—	—	—	—	458,548	433,599	24,949
a) ordinary shares	455,651	—	—	—	2,897	—	—	—	—	—	—	—	458,548	433,599	24,949
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	2,129,035	(4,430)	—	—	22,670	—	—	—	—	—	—	—	2,147,275	2,144,489	2,786
Reserves:	4,229,465	465,797	(126,849)	(147,885)	(1,017)	(545)	—	—	—	15,550	—	—	4,434,516	4,354,406	80,110
a) retained earnings	4,146,136	465,797	(126,849)	(147,885)	(1,017) [2]	—	—	—	—	—	—	—	4,336,182	4,256,072	80,110
b) others	83,329	—	—	—	—	(545)	—	—	—	15,550	—	—	98,334	98,334	—
Valuation reserves	866,384	—	—	—	—	—	—	—	—	—	—	566,218	1,432,602	1,435,525	(2,923)
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(199,233)	—	—	—	—	545	—	—	—	—	—	—	(198,688)	(198,688)	—
Profit (loss) for the period	461,367	(461,367)	—	—	—	—	—	—	—	—	—	592,845	592,845	589,751	3,094
Total net equity	7,942,669	—	(126,849)	(147,885)	24,550	—	—	—	—	15,550	—	1,159,063	8,867,098	X	X
Net equity attributable to the Group	7,838,144	—	(126,849)	(147,885)	24,550	—	—	—	—	15,550	—	1,155,572	X	8,759,082	X
Net equity attributable to minorities	104,525	—	—	—	—	—	—	—	—	—	—	3,491	X	X	108,016

[1] Represents the amount on the stock options and performance shares related to the ESOP schemes.

[2] Bonus issue for use in connection with perfomance share - scheme.

Consolidated Cash Flow Statement Direct Method

(€'000)

	Amount	
	31/12/15	**31/12/14**
A. CASH FLOW FROM OPERATING ACTIVITIES		
1. Operating activities	**130,753**	**(2,496)**
- interest received	1,660,563	1,561,838
-interest paid	(1,322,820)	(1,304,584)
-dividends and similar income	8,740	33,347
-net fees and commission income	81,803	96,234
-cash payments to employees	(182,052)	(163,698)
-net premium income	32,892	23,917
-other premium from insurance activities	(96,414)	(75,270)
-other expenses paid	(664,153)	(376,417)
-other income received	559,277	177,310
-income taxes paid	52,917	24,827
-net expense/income from groups of assets being sold	—	—
2. Cash generated/absorbed by financial assets	**(2,110,117)**	**(703,616)**
- financial assets held for trading	(1,300,879)	(859,672)
- financial assets recognized at fair value	—	—
-AFS securities	(222,751)	1,489,210
-due from customers	1,763,765	(164,189)
-due from banks: on demand	(267,882)	(85,122)
-due from banks: other	(1,824,303)	(854,297)
-other assets	(258,067)	(229,546)
3. Cash generated/absorbed by financial liabilities	**1,976,508**	**803,185**
-due to banks: on demand	412,018	541,934
-due to banks: other	1,542,303	2,516,552
-due to customers	(222,674)	612,515
-debt securities	401,518	(2,381,038)
-trading liabilities	(74,631)	(440,335)
-financial liabilities assets recognized at fair value	—	—
-other liabilities	(82,026)	(46,443)
Net cash flow (outflow) from operating activities	**(2,856)**	**97,073**
B. INVESTMENT ACTIVITIES		**40,663**
1. Cash generated from	**319,742**	**149,162**
-disposals of shareholdings	539	—
-dividends received in respect of equity investments	—	—
-disposals/redemptions of financial assets held to maturity	318,914	149,112
-disposals of tangible assets	342	50
-disposals of intangible assets	(53)	—
-disposals of subsidiaries or business units	—	—
2. Cash absorbed by	**(109,533)**	**(108,499)**
-acquisitions of shareholdings	—	51
-acquisitions of held-to-maturity investments	(40,227)	(87,520)
-acquisitions of tangible assets	(14,195)	(8,050)
-acquisitions of intangible assets	(6,284)	(12,980)
-acquisitions of subsidiaries or business units	(48,827)	—
Net cash flow (outflow) from investment/servicing of finance	**210,209**	**40,663**
C. Funding activities	**(208,144)**	**(125,231)**
-issuance/acquisition of treasury shares	4,749	1,618
-issuance/acquisitions of equity instruments	—	—
-dividends payout and other applications of funds	(212,893)	(126,849)
Net cash flow (outflow) from funding activities	**(208,144)**	**(125,231)**
NET CASH FLOW (OUTFLOW) DURING PERIOD	**(791)**	**12,505**

Reconciliation of movements in cash flow during period under review

(€'000)

	Amounts	
	31/12/15	**31/12/14**
Cash and cash equivalents: balance at start of period	49,027	33,947
Total cash flow (ouflow) during period	(791)	12,505
Cash and cash equivalents: exchange rate effect	—	3
Cash and cash equivalents: balance at end of period	48,236	46,455

NOTES TO THE ACCOUNTS

NOTES TO THE ACCOUNTS

Part A - Accounting policies

A.1 - General policies

SECTION 1

Statement of conformity with IAS/IFRS

The Mediobanca Group's interim consolidated financial statements for the period ended 31 December 2015 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. In particular these condensed financial statements take account of IAS 34 on interim financial reporting and 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 – fourth update issued on 15 December 2015.

SECTION 2

General principles

These consolidated financial statements comprise:

- balance sheet;
- profit and loss account;
- comprehensive profit and loss account;
- statement of changes to net equity;
- cash flow statement (direct method);
- notes to the accounts.

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 the corresponding period of the previous financial year for profit-and-loss data.

SECTION 3

Area and methods of consolidation

The consolidated financial statements comprise the balance-sheet data and earnings figures of the Group's subsidiaries and the other companies directly or indirectly controlled by it, including companies operating in sectors different to those in which the parent company operates.

Based on the combined provisions of FRS 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.

Since 30 June 2015, Cairn Capital Group Ltd has been included in the area of consolidation following its acquisition by Mediobanca, with respect to the balance-sheet data only. Cairn Capital Group Ltd itself fully consolidates the following companies: Cairn Capital Limited, Cairn Capital North America Inc., Cairn Capital Guarantee Limited, Cairn Capital Investments Limited and Cairn Investment Managers Limited.

Palladio Leasing was also merged into SelmaBipiemme Leasing with effect from 1 July 2015.

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.	PROMINVESTMENT S.p.A. - in liquidation	Milan	1	A.1.1	100.00	100.00
3.	SPAFID S.P.A	Milan	1	A.1.1	100.00	100.00
4.	SPAFID CONNECT S.P.A.	Milan	1	A.1.3	100.00*	70.00
5.	MEDIOBANCA INNOVATION SERVICES - S.C.P.A.	Milan	1	A.1.1	100.00	100.00
6.	COMPAGNIE MONEGASQUE DE BANQUE - CMB S.A.M.	Monte Carlo	1	A.1.1	100.00	100.00
7.	C.M.G. COMPAGNIE MONEGASQUE DE GESTION S.A.M.	Monte Carlo	1	A.1.6	99.89	99.89
8.	SMEF SOCIETE MONEGASQUE DES ETUDES FINANCIERE S.A.M.	Monte Carlo	1	A.1.6	99.96	99.96
9.	CMB ASSET MANAGEMENT S.A.M.	Monte Carlo	1	A.1.6	99.30	99.30
10.	CMB WEALTH MANAGEMENT LIMITED	London	1	A.1.6	100.00	100.00
11.	MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.	Luxembourg	1	A.1.1	99.00	99.00
			1	A.1.12	1.00	1.00
12.	COMPASS BANCA S.P.A. [1]	Milan	1	A.1.1	100.00	100.00
13.	CHEBANCA! S.P.A.	Milan	1	A.1.1	100.00	100.00
14.	CREDITECH S.P.A.	Milan	1	A.1.12	100.00	100.00
15.	SELMABIPIEMME LEASING S.P.A.	Milan	1	A.1.1	60.00	60.00
16.	TELELEASING S.P.A. – in liquidation	Milan	1	A.1.15	80.00	80.00
17.	RICERCHE E STUDI S.P.A.	Milan	1	A.1.1	100.00	100.00
18.	MEDIOBANCA SECURITIES USA LLC	New York	1	A.1.1	100.00	100.00
19.	CONSORTIUM S.R.L.	Milan	1	A.1.1	100.00	100.00
20.	QUARZO S.R.L.	Milan	1	A.1.12	90.00	90.00
21.	QUARZO LEASE S.R.L.	Milan	1	A.1.15	90.00	90.00
22.	FUTURO S.P.A	Milan	1	A.1.12	100.00	100.00
23.	QUARZO CQS S.R.L.	Milan	1	A.1.22	90.00	90.00
24.	MEDIOBANCA COVERED BOND S.R.L.	Milan	1	A.1.13	90.00	90.00
25.	COMPASS RE (LUXEMBOURG) S.A.	Luxembourg	1	A.1.12	100.00	100.00
26.	MEDIOBANCA INTERNATIONAL IMMOBILIERE S. A R.L.	Luxembourg	1	A.1.11	100.00	100.00
27.	MB ADVISORY KURUMSAL DANISMANLIK HIZMETLERI ANONIM SIRKETI	Istanbul	1	A.1.1	100.00	100.00
28.	MB MEXICO S.A. C.V.	Bosques De Las Lomas	1	A.1.1	100.00	100.00
29.	TELCO MB S.R.L.	Milan	1	A.1.1	100.00	100.00
30.	SINTO MB S.R.L.	Milan	1	A.1.1	100.00	100.00
31.	CAIRN CAPITAL GROUP LIMITED	London	1	A.1.1	100.00 **	51.00
32.	CAIRN CAPITAL LIMITED	London	1	A.1.1.31	100.00	100.00
33.	CAIRN CAPITAL NORTH AMERICA INC.	London	1	A.1.1.31	100.00	100.00
34.	CAIRN CAPITAL GUARANTEE LIMITED (non operating)	London	1	A.1.1.31	100.00	100.00
35.	CAIRN CAPITAL INVESTMENTS LIMITED (non operating)	London	1	A.1.1.31	100.00	100.00
36.	CAIRN INVESTMENT MANAGERS LIMITED (non operating)	London	1	A.1.1.31	100.00	100.00

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

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

[1] Since 1 October 2015, having received authorization from the Bank of Italy, Compass has acquired bank status and changed its name to "Compass Banca S.p.A.".

Legend

[1] Type of relationship:

1 = majority of voting rights in ordinary AGMs.

2 = dominant influence 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;
– 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 which are subject to dominant influence, a concept which is 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.

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 in the carrying amount of the investment and investee company's net equity are reflected in the book value of the investment. This value is also reduced if the investee company distributes dividends. The profit made or loss incurred by the investee company is recorded in the profit and loss account, as are any long-term reductions in value or reversals.

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 Group prepare a pro forma accounting situation as at the consolidated reporting date, or alternatively send a statement relative to a previous date as long as it is not more than three months previously (i.e. for these consolidated financial statements, 30 September 2015); such an arrangement is permitted (IAS 28, par. 24-25), provided that account is taken of any significant transactions or events which take place between this date and the consolidated reporting date.

SECTION 4

Events subsequent to the reporting date

Since the reporting date, no events have taken place that would cause the results presented in the interim financial report for the six months ended 31 december 2015 to require adjustment.

On 12 January 2016, the minutes of the Board meeting held on 15 December 2015 were filed, at which a resolution was adopted pursuant to Article 2505, para. 2 of the Italian Civil Code and Article 6 of the company's Articles of Association to merge 100%-owned Group companies Telco MB S.r.l. and Sinto MB S.r.l. Mediobanca S.p.A. with effect in accounting terms from 1 July 2015.

For a description of the most significant events since the reporting date, please refer to the relevant section in the Review of Operations.

A.2 - Significant accounting policies

Financial assets held for trading

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 (recorded separately).

At the settlement date for securities and subscription date for derivatives, such assets are recognized at fair value[1] not including any transaction expenses or income directly attributable to the asset concerned, which are taken through the profit and loss account.

After initial recognition they continue to be measured at fair value. Equities and linked derivatives for which it is not possible to reliably determine fair value using the methods described above are stated at cost

[1] See Part A4 – Information on fair value, pp. 90-101 for further details.

(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 heading *Net trading income*.

AFS securities

This category includes all financial assets apart from derivatives not booked under the headings *Financial assets held for trading*, *Financial assets held to maturity* or *Loans and receivables*.

AFS assets are initially recognized at fair value, which includes transaction costs and income directly attributable to them. Thereafter they continue to be measured at fair value. Changes in fair value are recognized in a separate net equity reserve, which is then eliminated against the corresponding item in the profit and loss account as and when an asset is disposed of or impairment is recognized. Fair value is measured on the same principles as described for trading instruments. Equities for which it is not possible to reliably determine fair value are stated at cost. For debt securities included in this category the value of amortized cost is also recognized against the corresponding item in the profit and loss account.

Assets are subjected to impairment tests at annual and interim reporting dates. If there is evidence of a long-term reduction in the value of the asset concerned, this is recognized in the profit and loss account on the basis of market prices in the case of listed instruments, and of estimated future cash flows discounted according to the original effective interest rate in the case of unlisted securities. For shares, in particular, the criteria used to determine impairment are a reduction in fair value of over 30% or for longer than twenty-four months, compared to the initial recognition value. If the reasons for which the loss was recorded subsequently cease to apply, the impairment is written back to the profit and loss account for debt securities to and net equity for shares.

Financial assets held to maturity

These comprise debt securities with fixed or otherwise determinable payments and fixed maturities which the Group's management has the positive intention and ability to hold to maturity.

Such assets are initially recognized at fair value, which is calculated as at the settlement date and includes any transaction costs or income directly attributable to them. Following their initial recognition they are measured at amortized cost using the effective interest method. Differences between the initial recognition value and the amount receivable at maturity are booked to the profit and loss account pro-rata.

Assets are tested for impairment at annual and interim reporting dates. If there is evidence of a long-term reduction in the value of the asset concerned, this is recognized in the profit and loss account on the basis of market prices in the case of listed instruments, and of estimated future cash flows discounted according to the original effective interest rate in the case of unlisted securities. If the reasons which brought about the loss of value subsequently cease to apply, the impairment is written back to the profit and loss account up to the value of amortized cost.

Loans and receivables

These comprise loans to customers and banks which provide for fixed or otherwise determinable payments that are not quoted in an active market and which cannot therefore be classified as available for sale. Repos and receivables due in respect of finance leasing transactions are also included, as are illiquid and/or unlisted fixed securities.

Loans and receivables are booked on disbursement at a value equal to the amount drawn plus (less) any income (expenses) directly attributable to individual transactions and determinable from the outset despite being payable at a later date. The item does not, however, include costs subject to separate repayment by the borrower, or which may otherwise be accounted for as ordinary internal administrative costs. Repos and reverse repos are booked as funding or lending transactions for the spot amount received or paid. Non-performing loans acquired are booked at amortized cost on the basis of an internal rate of return calculated using estimates of expected recoverable amounts.

Loans and receivables are stated at amortized cost, i.e. initial values adjusted upwards or downwards to reflect: repayments of principal, amounts written down/back, and the difference between amounts drawn at disbursement and repayable at maturity amortized on the basis of the effective interest rate. The latter 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.

Individual items are tested at annual and interim reporting dates to show whether or not there is evidence of impairment. Items reflecting such evidence are then subjected to analytical testing, and, if appropriate, adjusted to reflect the difference between their carrying amount at the time of the impairment test (amortized cost), and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Future cash flows are estimated to take account of anticipated collection times, the presumed value of receivables upon disposal of any collateral, and costs likely to be incurred in order to recover the exposure. Cash flows from loans expected to be recovered in the short term are not discounted.

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.

If the reasons which brought about the loss of value cease to apply, the original value of the loan is recovered in the profit and loss account in subsequent accounting periods up to the value of amortized cost.

Accounts for which there is no objective evidence of impairment, including those involving counterparties in countries deemed to be at risk, are subject to collective tests. Loans are grouped on the basis of similar credit risk characteristics, and the related loss percentages are estimated at the impairment date on the basis of historical series of internal and external data. Collective value adjustments are credited or charged to the profit and loss account, as appropriate. At each annual and interim reporting date, any writedowns or writebacks are remeasured on a differentiated basis with respect to the entire portfolio of loans deemed to be performing at that date.

Leasing

IAS 17 stipulates that for finance leases, interest income should be recorded based on methods which reflect a constant, regular return on the lessor's net investment.

In accordance with this principle, in the event of changes to contracts one these have become effective, any difference arising from comparison between the outstanding principal amount prior to renegotiation and the value of the new future flows discounted at the original interest rate have been taken through the profit and loss account for the period.[2]

Hedges

There are two types of hedge:

– fair value hedges, which are intended to offset the exposure of recognized assets and liabilities to changes in their fair value;

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

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.

[2] As required by the amortized cost rules under IAS 39.

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.

A hedge is considered to be effective when the changes in fair value or cash flow of the hedging instrument offset those of the hedged item within a range of 80-125%. The effectiveness of a hedge is assessed both *prospectively* and *retrospectively* at annual and interim reporting dates, the former to show expectations regarding effectiveness, the latter to show the degree of effectiveness actually achieved by the hedge during the period concerned. If an instrument proves to be ineffective, hedge accounting is discontinued and the derivative concerned is accounted for under trading securities, with the effects taken through the profit and loss account.

The hedge relationship may also be discontinued either voluntarily or when the hedged instrument is derecognized or the hedging instrument wound up early.

Equity investments

This heading consists of investments in:

- associates, which are equity-accounted. Associates are defined as companies in which at least 20% of the voting rights are held, and those in which the size of the investment is sufficient to ensure an influence in the governance of the investee company;
- jointly-controlled companies, which are also equity-accounted;
- other investments of negligible value, which are recognized at cost.

Where there is objective evidence that the value of an investment may be impaired, estimates are made of its current value using market prices if possible, and of the present value of estimated cash flows generated by the investment, including its terminal value. Where the value thus calculated is lower than the asset's carrying amount, the difference is taken through the profit and loss account. Where the reasons for the loss of value cease to apply, due to an event which takes place subsequent to the date on which the value reduction is recorded, writebacks are credited up to the amount of the impairment charges previously recorded.

Property, plant and equipment

This heading comprises land, core and investment properties, plant, furniture, fittings, equipment 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.

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 and long-term computer software applications.

Goodwill may be recognized where this is representative of the investee company's ability to generate future income. At annual and interim reporting dates assets are tested for impairment, which 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.

At annual and interim reporting dates, where there is evidence of impairment the realizable value of the asset is estimated, and 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.

Derecognition of assets

Financial assets are derecognized as and when the Group is no longer entitled to receive cash flows deriving from them, or when they are sold and the related risks and benefits are transferred accordingly. Tangible and intangible assets are derecognized upon disposal, or when an asset is permanently retired from use and no further earnings are expected to derive from it.

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

The main forms of activity currently carried out by the 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.

Payables, debt securities in issue and subordinated liabilities

These include the items *Due to banks*, *Due to customers* and *Debt securities* in issue less any shares bought back. Amounts payable by the lessee under the terms of finance leasing transactions are also included.

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. 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.

Staff severance indemnity provision

This is stated to reflect the actuarial value of the provision as calculated in line with regulations used for defined benefit schemes. 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. The values thus obtain are booked under labour costs as the net amount of contributions paid, prior years' contributions not yet capitalized and net interest.

Since 1 July 2013, conversely, actuarial gains and/or losses are recorded in a net equity valuation reserve, i.e. in the other comprehensive income statement (OCI) and no longer in the profit and loss account as required by the new IAS 19 revised (Employee Benefits), which was approved by the IASB on 16 June 2011 and incorporated into EU law under regulation EE 475/12.[3]

Units accruing as from 1 January 2007 paid into complementary pension schemes or the Italian national insurance system are recorded on the basis of contributions accrued during the period.

Provisions for liabilities and charges

These regard risks linked with the Group's operations but not necessarily associated with failure to repay loans, and which could lead to expenses in the future. If the time effect is material, provisions are discounted using current market rates. Provisions are 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.

[3] These items may therefore no longer be accounted for under labour costs as was the Group's previous practice.

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.

The exchange rate differences arising from a monetary element which is part of a company's net investment in a non-Italian entity, the assets of which are situated or managed in a currency other than the Euro, are booked to that company's net equity and taken through the profit and loss account at the point where the net investment is sold.

The entity's international assets and liabilities which are consolidated line-for-line are converted at the exchange rate as at the reference date for the financial situation, whereas profit-and-loss items are converted at the average exchange rate for the period. The differences arising from the use of closing interest rates, average exchange rates and revaluation of the net initial balance of the net assets of a non-Italian company based on the closing rate are booked directly to the valuation reserves.

Any goodwill deriving from the acquisition of an international entity booked subsequent to the first-time adoption date for IAS (i.e. after 1 January 2004), the assets of which are managed in a currency other than the Euro, and any related adjustments to the book values of its assets and liabilities to reflect fair value, are accounted for as assets and liabilities of the entity converted and converted at the exchange rate prevailing at the date on which the financial statements are closed.

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).

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.

Stock options and performance shares

The stock option and performance share schemes operated on behalf of Group staff members and collaborators are treated as a component of labour costs. The fair value of the instruments is measured and recognized in net equity at the grant date using a share/option pricing method adjusted to reflect historical series for previous financial years. The value thus determined is taken to the profit and loss account pro-rata to the vesting period for the individual awards.

Treasury shares

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

Dividends and commissions

These are recognized as and when they are realized, provided there is reasonable likelihood that future benefits will accrue.

Fees included in amortized cost for purposes of calculating the effective interest rate are not included, but are recorded under *Net interest income*.

Related parties

In accordance with IAS 24, related parties are defined as:

a) individuals or entities which directly or indirectly, are subject to joint control by Mediobanca, parties to the Mediobanca shareholders' agreement with syndicated interests of over 2% of the company's share capital, and the entities controlled by or controlling them;

b) associate companies, joint ventures and entities controlled by them;

c) 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;

d) entities controlled or jointly controlled by one or more of the individuals listed under the foregoing letter c);

e) close family members of the individuals referred to in letter c) above, that is, individuals who may be expected to influence them or be influenced by them in their relations with Mediobanca (this category includes partners, children, partners' children, dependents and partners' dependents) as well as any entities controlled, jointly controlled or otherwise associated with such individuals;

f) pension funds for employees of the parent company or any other entity related to it;

g) transactions involving vehicle companies, even if these are not directly attributable to related parties but the benefits from them still accrue to related parties.

A.3 - Information on transfers between financial asset portfolios

A.3.1 Reclassified financial assets: book value, fair value and effects on comprehensive income

(€'000)

Type of instrument	Transferred from	Transferred to	Book value at 31/12/15	Fair value at 31/12/15	Additions to P&L if assets not transferred (pre-tax)		Additions to P&L made during the year (pre-tax)	
					Valuation	Other	Valuation	Other
Debt securities [1] (ABS)	Financial assets held for trading	Due from customers	85,051	87,699	(1,564)	706	—	706
Debt securities [1] (ABS)	AFS securities	Due from customers	10,399	10,548	(212)	103	—	103
Debt securities [2]	AFS securities	Financial assets held to maturity	293,096	314,683	(2,773)	7,519	—	7,519
Total			388,546	412,930	(4,549)	8,328	—	8,328

[1] Made during FY 08/09.
[2] Made during FY 10/11.

No transfers were made during the period under review.

A.4 - Information on fair value

QUALITATIVE INFORMATION

This section provides the disclosure on fair value stipulated by IFRS 13 paragraph 91, 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 at the measurement date in the principal market.

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 thus 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, that is, 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:

– valuations of instruments with similar characteristics;
– discounted cash flow calculations;
– option price calculation models, values recorded in recent comparable transactions, prudentially adjusted to reflect the illiquid nature of some market data and other risks associated with specific transactions (reputational risk, replacement risk, etc.).

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

Equities and equity-linked derivatives for which it is not possible to reliably determine fair value using the methods described above are stated at costs. For investment funds, including mutual funds, private equity funds, hedge funds (including funds of funds) and real estate funds, fair value is taken to be the net asset value (NAV) per stock unit published by the funds themselves.

As a further guarantee that the valuations deriving from the measurement models the Group uses remain objective, independent price verification processes (IPVs) are also carried out, 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.

Fair value is reported according to rankings based on the quality of the input parameters used to determine it.[1]

In accordance with the provisions of IFRS 13 as enacted in Bank of Italy circular no. 262, the fair value hierarchy assigns decreasing priority to measurements based on different market parameters. The highest priority (level 1) is assigned to measurements based on prices quoted (un-adjusted) 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.

[1] 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 hierarch 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.

The fair value ranking level assigned to an asset or liability is defined as the lowest-level input that is significant to the entire measurement. Three levels are identified.

– Level 1: quoted prices (single and unadjusted) in active markets for the individual financial instrument being measured.
– Level 2: inputs other than the quoted prices referred to above, 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 and is commonly used by other financial operators.
– Level 3: significant inputs which are either unobservable on the market and/or reflect complex pricing models. In this case the fair value is set based on assumptions of future cash flows, which could lead to different estimates by different observers of the value of the same financial instrument.

As a rule Mediobanca uses market prices (level 1) or models based on observable inputs (level 2). In cases where level 3 instruments are used, additional price verification procedures are set in place, including: 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 assessments 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.

Fair value adjustment

Fair value adjustment is defined as the quantity that has to be added to 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. The following adjustments in particular should be noted:

– credit/debt valuation adjustment;
– other adjustments.

Credit/debit valuation adjustment (CVA/DVA)

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

– CVA is a negative quantity which takes into account the 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 into account the 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 individual 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;
– probability of default (PD), derived from historical PD readings or those implied in market prices obtained via credit default swap;
– 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 default rates conventionally utilized for credit default swap prices.

Other adjustments

Other adjustments of fair value not included in the categories described above, may be taken into consideration in order to align the valuation with the exit price inter alia on the basis of market liquidity levels or valuation parameters.

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

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.

- bonds: instruments not traded on active markets are marked to model using the implied credit spread curves obtained from Level 1 instruments, to which a further spread is added to reflect their illiquidity. The model makes maximum use of observable inputs and minimum use of non-observable inputs. In this way, depending on how representative the credit spread curve applied is, bonds are categorized as either Level 2 or Level 3 (the latter in cases where non-observable credit spreads are used). In fair value measurement, fair value adjustments can be used in cases where there is reduced liquidity and model risk, to compensate for the lack of observable market inputs for Level 2 and Level 3 positions.
- asset-backed securities, CLOs and loans: the measurement process relies on information providers which effectively collect market prices. All the ABS owned by Mediobanca are categorized as Level 3, with the exception of those for which the trader is able to provide, on a continuous basis, a breakdown of bid/ask contributions with the respective quantities, in which case they are categorized as Level 1.
- derivatives: the fair value of derivatives not traded on an active market derives from application of mark-to-model measurement techniques. In cases where there is an active market to provide inputs for the various components of the derivative to the valuation model, the fair value is measured on the basis of the market prices. Measurement techniques based on observable inputs are categorized as Level 2, whereas those based on non-observable inputs are categorized as Level 3.
- 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.
- investment funds: Mediobanca owns holdings in investment funds which publish the net asset value (NAV) per stock unit. Such funds include mutual funds, private equity funds, hedge funds (including funds of funds) and real estate funds. Investments in funds are usually classified as Level 1 in cases where quoted prices are available on an active market; otherwise they are categorized as Level 3.

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

Financial instruments measured at fair value on a non-recurring basis (including amounts payable to and receivable from customers and banks) are not accounted for on the basis of fair value.

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. Such instruments are not normally traded, and their fair value is thus measured on the basis of inputs compiled internally rather than directly observable on the market.

For loans to corporates, fair value is measured via the discounted cash flow method, using rates and/or flows adjusted to reflect credit risk in each case. Loans to counterparties with official ratings are categorized as Level 2, and in all other cases as Level 3. The same applies to retail loans (i.e. mortgage loans and consumer credit).

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).

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), 31/12/15**	**+/- delta vs MtM (€ m), 30/6/15**
Implicit volatility	On average equal to 50 bps for volatility surface points falling outside the contribution of Totem application (maturity > 3Y for single stocks and maturity > 5Y for indexes)	167	181
Equity-equity correlation	Equal to 1% between two indexes and 2% between two single stocks	66	50

Measurement techniques used for equity, credit and interest rate products

Product	**Measurement technique**	**Non-observable inputs**	**Fair value* Assets 31/12/15 (€ m)**	**Fair value* Liabilities 31/12/15 (€ m)**	**Fair value* Assets 30/6/15 (€ m)**	**Fair value* Liabilities 30/6/15 (€ m)**
OTC equity plain vanilla options, OTC equity digital options, variance swap, Bond Options	Black-Scholes/ Black model	Implicit volatility Equity-equity correlation [1]	5.5	(17.0)	11.5	(25.2)
OTC equity basket options, best of/ worst of	Black-Scholes method	Base correlation with bootstrap starting from quoted data on liquid index tranches [2]	11.5	—	16.9	—
Synthetic CDOs	Gaussian copula model using factor with base correlation	Equity-equity correlation [3]	0.2	(0.6)	0.3	(0.8)
Structured CCSs	Discount cash flow	Level 3 categorization attributable to importance of the fair value adjustment versus overall MtM, due mostly to contractual clauses plus the fact that the spread is determined by proxy because the counterparty is unrated [4]	31.9	—	18.2	—

* Values are shown net of reserves booked.

[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 base correlation is the level of relation between the default events for the underlying instruments belonging to the principal credit indexes. The correlation is obtained from the quoted market prices of synthetic CDOs on the indexes, in particular from instruments hedging the various parts of the equity structure of these indexes.

[4] Changes in fair value since 30 June 2015 due chiefly to the counterparty risk reserve being released as a result of changes to certain contractual clauses.

A.4.3 Fair value ranking

Transfers between levels of fair value ranking

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 changes in the 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 recurring basis by fair value ranking

(€'000)

	31/12/15			30/6/15		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
1. Financial assets held for trading	7,643,318	5,185,262	279,649	5,855,061	5,595,458	410,267
2. Financial assets recognized at fair value	—	—	—	—	—	—
3. AFS securities	7,527,940	397,709	184,048	7,434,406	366,921	261,811
4. Hedge derivatives	—	727,590	—	—	754,941	—
5. Tangible assets	—	—	—	—	—	—
6. Intangible assets	—	—	—	—	—	—
Total	15,171,258	6,310,561	463,697	13,289,467	6,717,320	672,078
1. Financial liabilities held for trading	(2,492,468)	(5,847,484)	(219,801)	(3,074,413)	(5,170,198)	(354,320)
2. Financial liabilities recognized at fair value	—	—	—	—	—	—
3. Hedge derivatives	—	(301,820)	—	—	(291,201)	—
Total	(2,492,468)	(6,149,304)	(219,801)	(3,074,413)	(5,461,399)	(354,320)

The level 3 instruments chiefly consist of € 195.3m in options traded, i.e. contracts with the same underlying instrument but executed with different counterparties (30/6/15: € 323.8m) and € 7.5m in options linked to bonds issued (€ 5.3m). Level 3 AFS assets consist of investments in unlisted companies (valued on the basis of internal models) and private equity funds.

During the period under review the level 3 assets declined from € 672.1m to € 463.7m, due chiefly to the lower trading in options which saw reductions in the six months totalling € 139.8m.

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

(€'000)

	FINANCIAL ASSETS			
	Held for trading [1]	**Recognized at fair value**	**AFS** [2]	**Hedges**
1. Balance at start of period	81,176	—	261,811	—
2. Additions	17,559	—	15,200	—
2.1 Purchases	882	—	11,563	—
2.2 Profits recognized in:	16,637	—	3,635	—
2.2.1 profit and loss	16,637	—	81	—
- of which, gains	14,409	—	—	—
2.2.2 net equity	—	—	3,554	—
2.3 Transfers from other levels	—	—	—	—
2.4 Other additions	40	—	2	—
3. Reductions	(21,864)	—	(94,435)	—
3.1 Disposals	(707)	—	(59,125)	—
3.2 Redemptions	(13,886)	—	(18,543)	—
3.3 Losses recognized in:	(6,866)	—	(7,453)	—
3.3.1 profit and loss	(6,866)	—	(1,720)	—
- of which, losses	(6,866)	—	(1,710)	—
3.3.2 net equity	—	—	(5,733)	—
3.4 Transfers to other levels	—	—	(9,314)	—
3.5 Other reductions	(405)	—	—	—
4. Balance at end of period	76,871	—	182,576	—

[1] Includes market value of options covering those attached to bond issues by Mediobanca and Mediobanca International (€ 7.5m as at 31/12/15 and € 5.3m as at 30/6/15) as well as options traded (€ 195.3m and € 323.8m respectively), the values of which are recorded as both assets and liabilities for the same amount.

[2] Includes investments unlisted companies valued on the basis of internal models.

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

(€'000)

	FINANCIAL LIABILITIES		
	Held for trading [1]	**Recognized at fair value**	**Hedges**
1. Balance at start of period	25,230	—	—
2. Additions	3,404	—	—
2.1 Issues	1,009	—	—
2.2 Losses recognized in:	1,610	—	—
2.2.1 profit and loss	1,610	—	—
- of which, losses	1,610	—	—
2.2.2 net equity	—	—	—
2.3 Transfers from other levels	—	—	—
2.4 Other additions	785	—	—
3. Reductions	(11,613)	—	—
3.1 Redemptions	(3,543)	—	—
3.2 Buybacks	—	—	—
3.3 Profits recognized in:	(8,070)	—	—
3.3.1 profit and loss	(8,070)	—	—
- of which, gains	(6,335)	—	—
3.3.2 net equity	—	—	—
3.4 Transfers to other levels	—	—	—
3.5 Other reductions	—	—	—
4. Balance at end of period	17,021	—	—

[1] Includes market value of options covering those attached to bond issues by Mediobanca and Mediobanca International (€ 7.5m as at 31/12/15 and € 5.3m as at 30/6/15) as well as options traded (€ 195.3m and € 323.8m 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)

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/15				30/6/15			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Financial assets held to maturity	1,189,000	1,098,527	81,387	22,874	1,311,696	1,350,529	43,100	21,002
2. Due from banks	7,596,411	—	7,274,363	319,512	6,078,256	—	5,857,245	221,077
3. Due from customers	35,658,085	—	9,808,477	25,878,990	37,122,531	—	10,961,656	26,250,313
4. Tangible assets held for investment purposes	72,235	—	—	139,110	72,915	—	—	139,110
5. Non-current assets and groups of assets being sold	—	—	—	—	—	—	—	—
Total	44,515,731	1,098,527	17,164,227	26,360,480	44,585,398	1,350,529	16,862,001	26,631,502
1. Due to banks	15,240,836	—	15,240,836	—	14,303,929	—	14,303,929	—
2. Due to customers	16,302,501	—	16,332,230	—	16,873,388	—	16,904,574	—
3. Debt securities in issue	21,251,324	2,474,489	19,705,610	—	20,154,478	3,148,487	17,519,990	302,268
4. Liabilities in respect of non-current assets being sold	—	—	—	—	—	—	—	—
Total	52,794,661	2,474,489	51,278,676	—	51,331,795	3,148,487	48,728,493	302,268

A.5 - Information on day one profit/loss

For Level 3 transactions, the fair value derived from the model may differ from the price of the transaction itself. If the difference is positive (day one profit), it is amortized over the outstanding life of the financial instrument; if it 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.

At the reporting date the Group's consolidated financial statements do not contain any amounts reflecting suspended day one profits/losses in the profit and loss account.

Part B - Notes to consolidated balance sheet*

Assets

SECTION 1

Heading 10: Cash and cash equivalents

1.1 Cash and cash equivalents

	31/12/15	30/6/15
a) Cash	48,044	44,023
b) Demand deposits with Central banks	192	5,004
Total	48,236	49,027

SECTION 2

Heading 20: Financial assets held for trading

2.1 Financial assets held for trading: composition

Items/Values	31/12/15				30/6/15			
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Balance-sheet assets								
1. Debt securities	3,849,692	566,816	15,841		3,205,161	735,879	22,259	
1.1 Structured securities	20,239	46,477	—		49,616	113,608	—	
1.2 Others	3,829,453	520,339	15,841		3,155,545	622,271	22,259	
2. Equity instruments [1]	3,028,614	25,296	—		1,726,920	24,634	—	
3. Units in investment funds [1]	138,329	133,055	11,830		279,199	134,019	12,052	
4. Loans	27,629	—	—		22,090	—	—	
4.1 Repos	—	—	—		—	—	—	
4.2 Others	27,629	—	—		22,090	—	—	
Total (A)	7,044,264	725,167	27,671		5,233,370	894,532	34,311	
B. Derivative instruments								
1. Financial derivatives	599,054	4,314,771	251,738		621,691	4,487,089	375,653	
1.1 Trading	599,054	3,903,917	244,097	(2)	621,691	4,080,891	370,158	2
1.2 Related to fair value option	—	—	—		—	—	—	
1.3 Others	—	410,854	7,641	(3)	—	406,198	5,495	3
2. Credit derivatives	—	145,324	240		—	213,837	303	
2.1 Trading	—	145,324	240		—	213,837	303	
2.2 Related to fair value option	—	—	—		—	—	—	
2.3 Others	—	—	—		—	—	—	
Total (B)	599,054	4,460,095	251,978		621,691	4,700,926	375,956	
Total (A+B)	7,643,318	5,185,262	279,649		5,855,061	5,595,458	410,267	

[1] Equities as at 31/12/15 include shares committed in securities lending transactions totalling € 2,472,219,000 (30/6/15: € 1,598,144,000).

[2] Respectively € 195,275,000 and €323,795,000 by way of options traded, with the equivalent amount being recorded as trading liabilities.

[3] Includes the market value of options (31/12/15: € 7.5m; 30/6/15: € 5.3m) covering those linked with bonds issued by Mediobanca S.p.A. and Mediobanca International, with the equivalent amount being recorded as trading liabilities.

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

SECTION 4

Heading 40: Available for sale (AFS) securities

4.1 AFS securities: composition

Items/Values	31/12/15			30/6/15		
	Level 1	Level 2	Level 3 *	Level 1	Level 2	Level 3 (*)
1. Debt securities	6,775,598	397,709	8,306	6,572,244	366,537	11,686
1.1 Structured securities	—	—	—	—	—	—
1.2 Other	6,775,598	397,709	8,306	6,572,244	366,537	11,686
2. Equity instruments	704,395	—	58,703	842,430	—	115,468
2.1 Designated at fair value	704,395	—	58,651	842,430	—	115,416
2.2 Recognised at cost	—	—	52	—	—	52
3. Units in investment funds	47,947	—	117,039	19,732	384	134,657
4. Loans	—	—	—	—	—	—
Total	7,527,940	397,709	184,048	7,434,406	366,921	261,811

* Includes shares in non-listed companies based on internal rating models.

SECTION 5

Heading 50: Financial assets held to maturity

5.1 Financial assets held to maturity: composition

	31/12/15				30/6/15			
	Book Value	Fair value			Book Value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	1,189,000	1,098,527	81,387	22,874	1,311,696	1,350,529	43,100	21,002
- structured	—	—	—	—	—	—	—	—
- other	1,189,000	1,098,527	81,387	22,874	1,311,696	1,350,529	43,100	21,002
2. Loans	—	—	—	—	—	—	—	—

SECTION 6

Heading 60 - Due from banks

6.1 Due from banks: composition

Type of transactions/Values	31/12/15				30/6/15			
	Book Value	Fair value			Book Value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Loans to Central Banks	73,738	—	73,741	—	131,490	—	131,490	—
1. Time deposits	—	X	X	X	—	X	X	X
2. Compulsory reserves	73,738	X	X	X	131,490	X	X	X
3. Repos	—	X	X	X	—	X	X	X
4. Other	—	X	X	X	—	X	X	X
B. Loans to banks	7,522,673	—	7,200,622	319,512	5,946,766	—	5,725,755	221,077
1. Loans	7,522,673	—	7,200,622	319,512	5,946,766	—	5,725,755	221,077
1.1 Current accounts and demand deposits	846,007	X	X	X	770,681	X	X	X
1.2 Time deposits	128,634	X	X	X	70,307	X	X	X
1.3 Other loans	6,548,032	X	X	X	5,105,778	X	X	X
- Repos	5,146,925	X	X	X	3,914,788	X	X	X
- Finance leases	5,594	X	X	X	5,067	X	X	X
- Other	1,395,513	X	X	X	1,185,923	X	X	X
2. Debt securities	—	—	—	—	—	—	—	—
2.1 Structured	—	X	X	X	—	X	X	X
2.2 Other	—	X	X	X	—	X	X	X
Total	7,596,411	—	7,274,363	319,512	6,078,256	—	5,857,245	221,077

Heading 70: Due from customers

7.1 Due from customers: composition

Type of transaction/ Value	31/12/15						30/6/15					
	Book Value			Fair Value			Book Value			Fair Value		
	Performing	Non performing		Level 1	Level 2	Level 3	Performing	Non performing		Level 1	Level 2	Level 3
		Purchased	Other					Purchased	Other			
Loans	34,256,452	68,592	1,006,767	—	9,577,594	25,780,743	35,488,055	73,801	1,078,456	—	10,712,897	26,002,107
1. Current accounts	308,323	—	116	X	X	X	272,716	—	80	X	X	X
2. Repos	2,758,951	—	—	X	X	X	3,689,916	—	—	X	X	X
3. Mortgages	16,569,685	—	552,824	X	X	X	17,099,642	—	576,797	X	X	X
4. Credit cards, personal loans and salary-backed finance	10,470,665	68,592	174,750	X	X	X	10,179,630	73,801	224,008	X	X	X
5. Financial leases	2,371,749	—	265,218	X	X	X	2,485,482	—	267,043	X	X	X
6. Factoring	705,410	—	8,110	X	X	X	446,701	—	3,735	X	X	X
7. Other loans	1,071,669	—	5,749	X	X	X	1,313,968	—	6,793	X	X	X
Debt securities	326,274	—	—	—	230,883	98,247	482,219	—	—	—	248,759	248,206
8. Structured instruments	—	—	—	X	X	X	—	—	—	X	X	X
9. Others	326,274	—	—	X	X	X	482,219	—	—	X	X	X
Total	34,582,726	68,592	1,006,767	—	9,808,477	25,878,990	35,970,274	73,801	1,078,456	—	10,961,656	26,250,313

SECTION 8

Heading 80: Hedging derivatives

8.1 Hedging derivatives: by hedge type and level

	31/12/15				30/6/15			
	Fair value			Notional Value	Fair value			Notional Value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A) Financial derivatives	—	727,590	—	10,023,974	—	754,941	—	12,568,015
1) Fair value	—	724,520	—	9,905,741	—	754,941	—	12,568,015
2) Cash flows	—	3,070	—	118,233	—	—	—	—
3) Net investments in foreign subsidiaries	—	—	—	—	—	—	—	—
B) Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flows	—	—	—	—	—	—	—	—
Total	—	727,590	—	10,023,974	—	754,941	—	12,568,015

8.2 Hedging derivatives: by portfolio hedged and hedge type (book value)

Transaction/Type of hedging	Fair value hedges						Cash-flow hedges		Non Italian investments
	Micro					General	Specific	General	
	Interest rate risk	Currency risk	Credit risk	Price risk	Multiple risk				
1. Available-for-sale financial instruments	2,541	—	—	—	—	X	—	X	X
2. Loans and receivables	11,290	—	—	X	—	X	—	X	X
3. Held-to-maturity investments	X	—	—	X	—	X	—	X	X
4. Portfolio	X	X	X	X	X	—	X	—	X
5. Others	—	—	—	—	—	X	—	X	—
Total assets	13,831	—	—	—	—	—	—	—	—
1. Financial liabilities	710,689	—	—	X	—	X	—	X	X
2. Portfolio	X	X	X	X	X	—	X	—	X
Total liabilities	710,689	—	—	—	—	—	—	—	—
1. Estimated transactions	X	X	X	X	X	X	3,070	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	—	X	—	—

SECTION 10

Heading 100: Equity investments

10.1 Investments in subsidiaries, jointly-controlled companies and companies subject to significant influence: disclosures on shareholdings

Company name	Legal office	Operating office	Control type	Ownership		Voting rights %
				Controlling entity	Ownership %	
A. Jointly-controlled entities						
1. Banca Esperia S.p.A.	Milan	Milan	1	Mediobanca S.p.A.	50.00	50.00
B. Entities under significant influence						
1. Assicurazioni Generali S.p.A.	Trieste	Trieste	2	Mediobanca S.p.A.	13.24	13.24
2. Burgo Group S.p.A.	Altavilla Vicentina (VI)	Milan	2	Mediobanca S.p.A.	22.13	22.13

Legend:

[1] Joint control.
[2] Subject to significant influence.
[3] Exclusively controlled and not consolidated.

10.2 Investments in subsidiaries, jointly-controlled companies and companies subject to significant influence: financial information

Company name	Book value		Fair Value *
A. Jointly-controlled entities			
1. Banca Esperia S.p.A.	95,704	1	n.a.
B. Entities under significant influence			
1. Assicurazioni Generali S.p.A.	3,011,382		3,487,129
2. Burgo Group S.p.A.	—		n.a.
3.Athena Private Equity (in liquidation)	5,818		n.a.
4. Others	48		n.a.
Total	3,112,952		

[1] Includes goodwill of €1,833,000.
* Available only for listed companies.

The debt restructuring agreement in respect of the Burgo Group under Article 67 of the Italian bankruptcy law has been completed, entailing conversion of part of the €496.5m exposure into: equity instruments worth €130.4m – providing rights which basically protect the creditors' position; a €65.2m convertible loan; and a medium-/long-term loan in an amount of €300.9m falling due in 2022.

In accordance with the treatment used for the equity investment, the equity instruments too have been written off in full on a prudential basis, using pre-existing provisions.

SECTION 12

Heading 120: Property, plant and equipment

12.1 Tangible assets stated at cost

Assets/Values	31/12/15	30/6/15
1. Assets owned by the Group	237,421	235,703
a) land	84,882	84,883
b) buildings	109,740	107,320
c) furniture	11,152	11,262
d) electronic equipment	11,884	12,670
e) other assets	19,763	19,568
2. Assets acquired under finance leases	—	—
a) land	—	—
b) buildings	—	—
c) furniture	—	—
d) electronic equipment	—	—
e) other assets	—	—
Total	237,421	235,703

12.2 Tangible assets held for investment purposes: assets stated at cost

Assets/Values	31/12/15				30/6/15			
	Book Value	Fair value			Book Value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Assets owned by the Group	72,235	—	—	139,110	72,915	—	—	139,110
a) land	27,547	—	—	79,523	27,382	—	—	79,523
b) buildings	44,688	—	—	59,587	45,533	—	—	59,587
2. Assets acquired under finance lease	—	—	—	—	—	—	—	—
a) land	—	—	—	—	—	—	—	—
b) buildings	—	—	—	—	—	—	—	—
Total	72,235	—	—	139,110	72,915	—	—	139,110

SECTION 13

Heading 130: Intangible assets

13.1 Intangible assets

Assets/Values	31/12/15		30/6/15	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X	422,925	X	374,098
A.1.1 Attributable to the Group	X	422,925	X	374,098
A.1.2 Attributable to minorities	X	—	X	—
A.2 Other intangible assets	32,629	—	36,158	—
A.2.1 Assets valued at cost	32,629	—	36,158	—
a) Intangible assets generated internally	—	—	—	—
b) Other assets	32,629	—	36,158	—
A.2.2 Assets valued at fair value	—	—	—	—
a) Intangible assets generated internally	—	—	—	—
b) Other assets	—	—	—	—
Total	32,629	422,925	36,158	374,098

The increase in the item Goodwill reflects €48.8m in respect of the acquisition of 51% of Cairn Capital. The amount reflects 100% of the company's value and is matched by a €28.4m liability in respect of the outlay to acquire the remaining shares under the terms of the put and call agreements. The agreements also provide for an earn-out on the shares sold by the existing management which has yet to be valued. In line with the provisions of IFRS 3 section 45, the amount due to minorities and the possible earn-out will be quantified definitively by the end of the current financial year, to reflect the new business plan drawn up following the change of control. The value assigned to these liabilities will determine the definitive amount of goodwill to be subjected to purchase price allocation.

The other items under this heading show no signs of impairment.

SECTION 14

Heading 140 and Liability heading 80: Tax assets and liabilities

14.1 Advance tax assets: composition

	31/12/15	30/6/15
- Balancing to the Profit and Loss	712,776	715,467
- Balancing to the Net Equity	18,320	20,185
Total	731,096	735,652

14.2 Deferred tax liabilities: composition

	31/12/15	30/6/15
- Balancing to the Profit and Loss	278,710	282,899
- Balancing to the Net Equity	88,934	82,169
Total	367,644	365,068

14.3 Changes in advance tax during the period

	31/12/15	30/6/15
1. Opening balance	715,467	682,828
2. Increases	62,140	138,065
2.1 Deferred tax assets of the year	62,110	132,629
a) Relating to previous years	651	138
b) Due to change in accounting policies	—	—
c) Write-backs	—	64
d) Other (creation of temporary differences, use of TLCF)	61,459	132,427
2.2 New taxes or increase in tax rates	—	4,278
2.3 Other increases	30	1,158
3. Decreases	64,831	105,426
3.1 Deferred tax assets derecognised in the year	63,569	99,436
a) Reversals of temporary differences	63,000	96,936
b) Write-downs of non-recoverable items	—	—
c) Change in accounting policies	—	—
d) Other	569	2,500
3.2 Reduction in tax rates	—	—
3.3 Other decreases	1,262	5,990
a) Conversion into tax credit under L. 214/2011	1,252	5,953
b) Other	10	37
4. Final amount	712,776	715,467

14.3.1 Changes in advance tax during the period (pursuant to Italian Law 214/11)

	31/12/15	30/6/15
1. Opening balance	627,793	588,140
2. Increases	56,417	127,785
3. Decreases	52,684	88,132
3.1 Reversals of temporary differences	51,291	80,162
3.2 Conversion on tax credit deriving from	1,252	5,882
a) year losses	—	—
b) tax losses	1,252	5,882
3.3 Other decreases	141	2,088
4. Final amount	631,526	627,793

14.4 Changes in deferred tax during the period

	31/12/15	30/6/15
1. Opening balance	282,899	272,729
2. Increases	2,150	13,942
2.1 Deferred tax liabilities of the year	2,116	5,678
a) Relating to previous years	—	—
b) Due to change in accounting policies	—	—
c) Other	2,116	5,678
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	34	8,264
3. Decreases	6,339	3,772
3.1 Deferred tax liabilities derecognised in the year	862	690
a) Reversals of temporary differences	862	660
b) Due to change in accounting policies	—	—
c) Other	—	30
3.2 Reductions in tax rates	—	—
3.3 Other decreases	5,477	3,082
4. Final amount	278,710	282,899

14.5 Changes in advance tax during the period[1]

	31/12/15	30/6/15
1. Opening balance	20,185	28,444
2. Increases	19,690	11,384
2.1 Deferred tax assets of the year	18,902	11,084
a) Relating to previous years	—	—
b) Due to change in accounting policies	—	—
c) Other (creation of temporary differences)	18,902	11,084
2.2 New taxes or increases in tax rates	—	253
2.3 Other increases	788	47
3. Decreases	21,555	19,643
3.1 Deferred tax assets derecognised during the year	21,549	19,563
a) Reversals of temporary differences	21,230	17,381
b) Writedowns of non-recoverable items	—	—
c) Due to change in accounting policies	—	—
d) Other	319	2,182
3.2 Reduction in tax rates	—	—
3.3 Other decreases	6	80
4. Final amount	18,320	20,185

[1] Taxes on cash flow hedges and AFS securities valuations.

14.6 Changes in deferred tax during the period[1]

	31/12/15	30/6/15
1. Opening balance	82,169	88,390
2. Increases	159,911	80,485
2.1 Deferred tax liabilities of the year	156,314	76,817
a) Relating to previous years	—	—
b) Due to change in accounting policies	—	—
c) Other (creation of temporary differences)	156,314	76,817
2.2 New taxes or increases in tax rates	—	22
2.3 Other increases	3,597	3,646
3. Decreases	153,146	86,706
3.1 Deferred tax liabilities derecognised in the year	153,146	86,706
a) Reversals of temporary differences	152,370	85,087
b) Due to change in accounting policies	—	—
c) Other	776	1,619
3.2 Reduction in tax rates	—	—
3.3 Other decreases	—	—
4. Final amount	88,934	82,169

[1] Taxes on cash flow hedges and AFS securities valuations.

SECTION 16

Heading 160: Other assets

16.1 Other assets: composition

	31/12/15	30/6/15
1. Gold, silver and precious metals	695	695
2. Accrued income other than capitalized income from financial assets	9,708	8,503
3. Trade receivables or invoices to be issued	127,044	115,369
4. Amounts due from tax revenue authorities (not recorded under Heading 140)	163,004	193,076
5. Other items	63,164	68,158
- bills for collection	7,716	11,247
- amounts due in respect of premiums, grants, indemnities and other items in respect of lending transactions	24,243	31,120
- futures and other securities transactions	196	267
- advance payments on deposit commissions	8,829	7,409
- other items in transit	11,607	10,123
- amounts due to staff	359	381
- sundry other items	10,214	7,612
6. Adjustment arising on consolidation	—	2
Total	363,615	385,803

Liabilities

SECTION 1

Heading 10: Due to banks

1.1 Due to banks: composition

Type of transaction/Values	31/12/15	30/6/15
1. Deposits from Central Banks	5,480,986	5,479,290
2. Deposits from banks	9,759,850	8,824,639
2.1 Other current accounts and demand deposits	915,735	1,122,882
2.2 Time deposits	133,597	357,384
2.3 Loans	8,699,765	7,286,914
2.3.1 Repos	5,039,873	3,955,064
2.3.2 Other	3,659,892	3,331,850
2.4 Liabilities in respect of commitments to repurchase treasury shares	—	—
2.5 Other debt	10,753	57,459
Total	15,240,836	14,303,929
Fair Value - Level 1	—	—
Fair Value - Level 2	15,240,836	14,303,929
Fair Value - Level 3	—	—
Total Fair Value	15,240,836	14,303,929

1.2 Breakdown of heading 10 "Due to banks": subordinated liabilities

The subordinated liabilities in connection with amounts payable by Linea to its former shareholders were repaid in full in July 2015.

SECTION 2

Heading 20: Due to customers

2.1 Due to customers: composition

Type of transaction/Values	31/12/15	30/6/15
1. Current accounts and demand deposits	7,591,672	6,949,043
2. Time deposits including saving deposits with maturity	5,780,226	7,116,087
3. Loans	2,928,686	2,807,660
3.1 Repos	1,987,712	1,478,593
3.2 Other	940,974	1,329,067
4. Liabilities in respect of commitments to repurchase treasury shares	—	—
5. Other	1,917	598
Total	16,302,501	16,873,388
Fair Value - Level 1	—	—
Fair Value - Level 2	16,332,230	16,904,574
Fair Value - Level 3	—	—
Total Fair Value	16,332,230	16,904,574

SECTION 3

Heading 30: Debt securities in issue

3.1 Debt securities in issue: composition

Type of securities/ Values	31/12/15				30/6/15			
	Book Value	Fair Value*			Book Value	Fair Value*		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Debt certificates including bonds								
1. Bonds	20,269,105	2,474,489	18,723,391	—	19,852,210	3,148,487	17,519,990	—
1.1 structured	7,813,653	—	8,548,177	—	6,668,862	22,295	7,261,120	—
1.2 other	12,455,452	2,474,489	10,175,214	—	13,183,348	3,126,192	10,258,870	—
2. Other structured securities	982,219	—	982,219	—	302,268	—	—	302,268
2.1 structured	—	—	—	—	—	—	—	—
2.2 other	982,219	—	982,219	—	302,268	—	—	302,268
Total	21,251,324	2,474,489	19,705,610	—	20,154,478	3,148,487	17,519,990	302,268

* The fair values are shown net of Mediobanca issuer risk; if this item is included, the fair value at 31 December 2015 would show a gain of €359m (€305m).

3.2 Breakdown of heading 30 "Debt securities in issue": subordinated liabilities

Issue	31/12/15		
	ISIN code	Nominal value	Book value
MB GBP Lower Tier II Fixed/Floating Rate Note 2018 (Not included in calculation of regulatory capital)	XS0270002669	22,379	30,502
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	746,100	822,804
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	492,796	491,696
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	499,374	507,747
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	498,939	558,899
Total subordinated securities		2,259,588	2,411,648

SECTION 4

Heading 40: Trading liabilities

4.1 Trading liabilities: composition

Type of transaction/Values	31/12/15					30/6/15				
	Nominal values	Fair Value			Fair Value *	Nominal values	Fair Value			Fair Value *
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. Financial liabilities										
1. Deposits from banks	2,085,370	1,576,135	742,903	—	2,319,038	1,238,054	1,743,333	—	—	1,743,333
2. Deposits from customers	489,684	370,106	174,448	—	544,554	415,802	585,502	—	—	585,502
3. Debt securities	—	—	—	—	—	—	—	—	—	—
3.1 Bonds	—	—	—	—	—	—	—	—	—	—
3.1.1 Structured	—	—	—	—	X	—	—	—	—	X
3.1.2 Other bonds	—	—	—	—	X	—	—	—	—	X
3.2 Other securities	—	—	—	—	—	—	—	—	—	—
3.2.1 Structured	—	—	—	—	X	—	—	—	—	X
3.2.2 Other	—	—	—	—	X	—	—	—	—	X
Total (A)	2,575,054	1,946,241	917,351	—	2,863,592	1,653,856	2,328,835	—	—	2,328,835
B. Derivative instruments										
1. Financial derivatives	X	546,227	4,314,171	219,801	X	X	745,578	4,672,613	354,320	X
1.1 Trading	X	546,227	3,884,414	211,503[1]	X	X	745,578	4,244,453	348,776 (1)	X
1.2 Related with fair value option	X	—	—	—	X	X	—	—	—	X
1.3 Other	X	—	429,757	8,298[2]	X	X	—	428,160	5,544 (2)	X
2. Credit derivatives	X	—	615,962	—	X	X	—	497,585	—	X
2.1 Trading	X	—	615,962	—	X	X	—	497,585	—	X
2.2 Related with fair value option	X	—	—	—	X	X	—	—	—	X
2.3 Other	X	—	—	—	X	X	—	—	—	X
Total (B)	X	546,227	4,930,133	219,801	X	X	745,578	5,170,198	354,320	X
Total (A+B)	X	2,492,468	5,847,484	219,801	X	X	3,074,413	5,170,198	354,320	X

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

1 Respectively €195,275,000 and €323,795,000 for options traded, matching the amount recorded among assets held for trading.

2 Includes the market value (31/12/15: €7.5m; 30/6/15: €5.3m) of options covering options matched with bonds issued by Mediobanca and Mediobanca International, against the same amount recorded among assets held for trading.

SECTION 6

Heading 60: Hedging derivatives

6.1 Hedging derivatives: by type of product/underlying asset

	31/12/15				30/6/15			
	Fair value			Notional value	Fair value			Notional value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	—	301,820	—	6,525,983	—	291,201	—	6,682,071
1) Fair Value	—	284,962	—	6,275,983	—	274,314	—	6,427,071
2) Cash flows	—	16,858	—	250,000	—	16,887	—	255,000
3) Net investment in foreign subsidiaries	—	—	—	—	—	—	—	—
B Credit derivatives	—	—	—	—	—	—	—	—
1) Fair Value	—	—	—	—	—	—	—	—
2) Cash flows	—	—	—	—	—	—	—	—
Total	—	301,820	—	6,525,983	—	291,201	—	6,682,071

6.2 Hedging derivatives: by portfolio hedged/hedge type

Operations/Type of hedging	Fair Value						Cash flow		Non-Italian investmentsi
	Micro					General	Specific	General	
	Interest rate risk	Currency risk	Credit risk	Price risk	Multiple risks				
1. AFS securities	54,712	—	—	—	—	X	—	X	X
2. Loans and advances	7,334	—	—	X	—	X	—	X	X
3. Held to maturity investments	X	—	—	X	—	X	—	X	X
4. Portfolio	X	X	X	X	X	—	X	—	X
5. Others	—	—	—	—	—	X	—	X	—
Total assets	62,046	—	—	—	—	—	—	—	—
1. Financial liabilities	222,916	—	—	X	—	X	16,858	X	X
2. Portfolio	X	X	X	X	X	—	X	—	X
Total liabilities	222,916	—	—	—	—	—	16,858	—	—
1. Expected transactions	X	X	X	X	X	X	—	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	—	—	—	—

SECTION 8

Heading 80 - Tax liabilities

Please see asset section 14.

SECTION 10

Heading 100: Other liabilities

10.1 Other liabilities: composition

	31/12/15	31/12/15
1. Payment agreements (IFRS 2)	—	—
2. Impaired endorsements	20,528	17,727
3. Working capital payables and invoices pending receipt	215,198	233,994
4. Amounts due to revenue authorities	47,092	75,459
5. Amounts due to staff	114,855	157,055
6. Other items:	124,925	199,910
- bills for collection	26,277	28,190
- coupons and dividends pending collection	2,260	2,235
- available sums payable to third parties	27,149	114,944
- premiums, grants and other items in respect of lending transactions	26,159	35,168
- credit notes to be issued	—	10,550
- other [1]	35,786	8,823
7. Adjustments upon consolidation	—	—
Total	522,598	684,145

[1] Includes liability in respect of the potential outlay to acquire 49% of Cairn Capital under the terms of the put and all agreements; the definitive amount of the potential liability will be established by 30 June 2016.

SECTION 11

Heading 110: Staff severance indemnity provision

11.1 Staff severance indemnity provision: changes during the period

	31/12/15	30/6/15
A. Initial amount	26,655	28,737
B. Increases	5,927	9,800
B.1 Provision of the year	5,641	9,162
B.2 Other increases	286	638
C. Reductions	6,299	11,882
C.1 Severance payments	687	2,658
C.2 Other decreases [1]	5,612	9,224
D. Closing balance	26,283	26,655
Total	26,283	26,655

[1] Includes €4,262,000 in transfers to external, defined contribution pension schemes (30/6/15: €6,895,000).

SECTION 12

Heading 120: Provisions

12.1 Provisions: composition

Items	31/12/15	30/6/15
1. Provisions for retirement payments and similar	—	—
2. Other provisions	154,923	157,938
2.1 Legal disputes	7,949	7,273
2.2 Staff expenses	144	2,069
2.3 Other	146,830	148,596
Total	154,923	157,938

12.2 Provisions: movements during the period

Items	Charges relating to staff [1]	Other provisions	Total
A. Opening balance	2,069	155,869	157,938
B. Increases	—	2,178	2,178
B.1 Provision for the year	—	2,178	2,178
B.2 Changes due to the passage of time	—	—	—
B.3 Difference due to discount-rate changes	—	—	—
B.4 Other increases	—	—	—
C. Decreases	1,925	3,268	5,193
C.1 Using during the year	1,925	2,148	4,073
C.2 Difference due to discount-rate changes	—	—	—
C.3 Other decreases	—	1,120	1,120
D. Closing balance	144	154,779	154,923

[1] Includes sums set aside in respect of staff exit incentivizations.

SECTION 13

Heading 130: Technical reserves

13.1 Technical reserves: composition

	Direct business	Indirect business	31/12/15	30/6/15
A. Non-life business:	—	137,823	137,823	127,894
A.1 Provision for unearned premiums	—	123,925	123,925	114,016
A.2 Provision for outstanding claims	—	13,898	13,898	13,878
A.3 Other provisions	—	—	—	—
B. Life business	—	—	—	—
B.1 Mathematical provisions	—	—	—	—
B.2 Provisions for amounts payable	—	—	—	—
B.3 Other insurance provisions	—	—	—	—
C. Insurance provisions when investments risk is borne by the insured party	—	—	—	—
C.1 Provision for policies where the performance is connected to investment funds and market indices	—	—	—	—
C.2 Provision for pension funds	—	—	—	—
D. Total insurance provisions	—	137,823	137,823	127,894

13.2 Technical reserves: movements during the year

	31/12/2015	30/6/15
A. Non-life business		
Balance at start of period	127,894	123,664
Combinations involving group companies	—	—
Changes to reserves (+/-)	9,929	4,230
Other additions	—	—
Balance at end of period	137,823	127,894
B. Life business	—	—
Balance at start of period	—	—
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 reductions	—	—
Balance at end of period	—	—
C. Total technical reserves	137,823	127,894

SECTION 15

Headings 140, 160, 170, 180, 190, 200 and 220: Net equity

15.1 Group capital: composition

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

15.2 Share capital: changes in no. of shares in issue during period

Item/Type	**Ordinary**
A. Shares in issue at start of period	867,197,761
- entirely unrestricted	867,197,761
- with restrictions	—
A.1 Treasury shares (-)	(15,801,963)
A.2 Shares in issue: balance at start of period	851,395,798
B. Additions	3,167,333
B.1 New shares issuance as a result of:	—
- rights issued	—
- business combinations	—
- bond conversions	—
- exercise of warrants	—
- others	—
- bonus issues	3,167,333
- to staff members	3,167,333
- to Board members	—
- others	—
B.2 Treasury shares' disposals	—
B.3 Other additions	—
C. Reductions	—
C.1 Cancellations	—
C.2 Treasury shares' buybacks	—
C.3 Disposals of businesses	—
C.4 Other reductions	—
D. Shares in issue: balance at end of period	854,563,131
D.1 Add: treasury shares	(15,801,963) [1]
D.2 Shares in issue at end of period	870,365,094
- entirely unrestricted	870,365,094
- with restrictions	—

[1] 65,177,000 of which restricted in connection with the performance share scheme.

15.4 Profit reserves: other information

Item	31/12/15	30/6/15
Legal reserve	86,720	86,150
Statutory reserve	1,233,655	1,115,292
Treasury shares [1]	198,254	198,688
Others	3,163,089	2,954,276
Total	4,681,718	4,354,406

[1] Reduction due to cancellation of Palladio Leasing treasury shares following merger of this company into Selma Bipiemme.

SECTION 16

Heading 210: Net equity attributable to minorities

16.1 Net equity attributable to minorities: composition

Name of company	31/12/15	30/6/15
1. SelmaBipiemme S.p.A.	66,426	24,831
2. Palladio Leasing S.p.A. (merged into Selma BPM)	—	41,004
3. Teleleasing S.p.A.	22,217	42,181
4. Others of low value	21	—
Total	88,664	108,016

Other information

1. Guarantees and commitments

Operations	31/12/15	30/6/15
1) Financial guarantees given to	223,565	411,768
a) Banks	84,003	84,003
b) Customers	139,562	327,765
2) Commercial guarantees given to	296	296
a) Banks	286	286
b) Customers	10	10
3) Irrevocable commitments to disburse funds	8,753,454	8,305,154
a) Banks	48,212	155,634
i) usage certain	48,212	145,356
ii) usage uncertain	—	10,278
b) Customers	8,705,242	8,149,520
i) usage certain	8,345,172	7,353,166
ii) usage uncertain	360,070	796,354
4) Commitments underlying credit derivatives protection sales [1]	8,783,591	9,537,455
5) Assets formed as collateral for third-party obligations	—	—
6) Other commitments	2,460,975	2,973,739
Total	20,221,881	21,228,412

[1] Includes transactions fully matched by hedge buys (€6,072,024,000 and €6,768,125,000 respectively).

5. Assets managed and traded on behalf of customers: Banking Group

Type of service	31/12/15	30/6/15
1. Orders execution on behalf of customers	21,242,899	71,653,206
a) purchases	10,273,232	35,279,022
1. settled	10,249,317	35,182,128
2. unsettled	23,915	96,894
b) sales	10,969,667	36,374,184
1. settled	10,945,752	36,277,290
2. unsettled	23,915	96,894
2. Portfolio management	2,429,000	2,699,000
a) Individual	855,000	924,000
b) Collective	1,574,000	1,775,000
3. Custody and administration of securities	37,797,511	36,395,330
a) Third-party securities on deposits; relating to depositary banks activities (excluding segregating accounts)	6,076,744	5,134,333
1. securities issued by companies included in area of consolidation	323,936	540,331
2. other securities	5,752,808	4,594,002
b) Third-party securities held in deposits (excluding segregating accounts): other	8,246,439	8,135,913
1. securities issued by companies included in area of consolidation	34	34
2. other securities	8,246,405	8,135,879
c) securities of third deposited to third	9,941,852	7,868,874
d) property securities deposited to third	13,532,476	15,256,210
4. Other operations	—	—

Part C - Notes to consolidated profit and loss account

SECTION 1

Headings 10 and 20: Net interest income

1.1 Interest and similar income: composition

Voices/Technical forms	Debt securities	Loans	Other transactions	6 mths ended 31/12/15	6 mths ended 31/12/14
1. Financial assets held for trading - Cash instruments	31,283	465	7	31,755	24,883
2. Financial assets designated at fair value through profit or loss	—	—	—	—	—
3. Available for sale financial assets	57,403	—	—	57,403	74,928
4. Held to maturity investments	33,808	—	—	33,808	36,847
5. Loans and receivables with banks	—	25,629	—	25,629	21,398
6. Loans and receivables with customers	3,234	735,444	—	738,678	756,386
7. Hedging derivatives	X	X	77,986	77,986	104,037
8. Other assets	X	X	755	755	585
Total	125,728	761,538	78,748	966,014	1,019,064

1.4 Interest expense and similar charges: composition

Voices/Technical forms	Debts	Securities	Other transactions	6 mths ended 31/12/15	6 mths ended 31/12/14
1. Deposits from central banks	(1,695)	X	—	(1,695)	(2,526)
2. Deposits from banks	(21,281)	X	(24)	(21,305)	(20,510)
3. Deposits from customers	(61,991)	X	—	(61,991)	(104,170)
4. Debt securities in issue	X	(279,383)	—	(279,383)	(350,775)
5. Financial liabilities held for trading	—	—	—	—	—
6. Financial liabilities at fair value through profit or loss	—	—	—	—	—
7. Other liabilities and found	X	X	(2)	(2)	(2)
8. Hedging derivatives	X	X	—	—	—
Total	(84,967)	(279,383)	(26)	(364,376)	(477,983)

SECTION 2

Headings 40 and 50: Net fee and commission income

2.1 Fee and commission income: composition

Total	6 mths ended 31/12/15	6 mths ended 31/12/14
a) guarantees given	1,377	1,511
b) credit derivatives	—	800
c) management, brokerage and consultancy incomes:	108,106	130,515
1. securities trading	7,334	3,826
2. currency trading	—	—
3. portfolio management	4,651	5,668
3.1 individual	4,651	5,668
3.2 collective	—	—
4. custody and administration of securities	5,809	5,533
5. custodian bank	—	—
6. placement of securities	44,914	74,009
7. reception and transmission of orders	5,220	9,279
8. advisory services	—	—
8.1 related to investments	—	—
8.2 related to financial structure	—	—
9. distribution of third parties services	40,178	32,200
9.1 portfolio management	11,166	7,872
9.1.1 individual	11,166	7,872
9.1.2 collective	—	—
9.2 insurance products	29,012	24,328
9.3 other products	—	—
d) collection and payment services	8,586	8,079
e) securitization servicing	—	—
f) factoring services	1,126	139
g) tax collection services	—	—
h) manaement of multilateral trading facilities	—	—
i) management of current accounts	1,136	762
j) other services	85,126	92,597
Total	205,457	234,403

2.2 Fee and commission expense: composition

Services/Amounts	6 mths ended 31/12/15	6 mths ended 31/12/14
a) guarantees received	—	—
b) credit derivatives	—	(150)
c) management, brokerage and consultancy services:	(5,238)	(4,901)
1. trading in financial instruments	(3,622)	(3,155)
2. currency trading	—	—
3. portfolio management	—	—
3.1 own portfolio	—	—
3.2 third parties portfolio	—	—
4. custody and administration securities	(1,395)	(1,310)
5. financial instruments placement	(221)	(436)
6. off-site distribution of financial instruments, products and services	—	—
d) collection and payment services	(4,351)	(3,871)
e) other services	(32,577)	(17,423)
Total	(42,166)	(26,345)

SECTION 3

Heading 70: Dividends and similar income

3.1 Dividends and similar income: composition

Items/Income	6 mths ended 31/12/15		6 mths ended 31/12/14	
	Dividends	Incomes from units in investment funds	Dividends	Incomes from units in investment funds
a) Financial assets held for trading	13,802	337	836	—
b) Available for sale financial assets	9,060	5,771	832	6,232
c) Financial assets through profit or loss - other	—	—	—	—
d) Investments	—	X	—	X
Total	22,862	6,108	1,668	6,232

SECTION 4

Heading 80: Net trading income

4.1 Net trading income: composition

Transaction/Income	Unrealized profit (A)	Realized profit (B)	Unrealized losses	Realized losses (D)	Net Profit (A+B)-(C+D)
1. Financial assets held for trading	64,870	239,812	(213,089)	(200,673)	(109,080)
1.1 Debt securities	25,562	30,274	(36,219)	(14,835)	4,782
1.2 Equity	38,065	201,391	(171,117)	(181,248)	(112,909)
1.3 Units in investment funds	1,243	8,147	(5,516)	(4,570)	(696)
1.4 Loans	—	—	(237)	(20)	(257)
1.5 Other	—	—	—	—	—
2. Financial liabilities held for trading	—	—	—	—	—
2.1 Debt securities	—	—	—	—	—
2.2 Deposits	—	—	—	—	—
2.3 Other	—	—	—	—	—
3. Financial assets and liabilities in foreign currency: exchange differences	X	X	X	X	15,866
4. Derivatives	1,855,380	1,052,209	(1,838,529)	(968,289)	103,093
4.1 Financial derivatives	1,770,157	968,156	(1,671,362)	(890,048)	179,225
- on debt securities and interest rates [1]	820,530	89,742	(748,241)	(87,582)	74,449
- on equity securities and shares' indexes	948,006	861,272	(921,992)	(802,464)	84,822
- on currencies and gold	X	X	X	X	2,322
- other	1,621	17,142	(1,129)	(2)	17,632
4.2 Credit derivatives	85,223	84,053	(167,167)	(78,241)	(76,132)
Total	1,920,250	1,292,021	(2,051,618)	(1,168,962)	9,879

[1] Of which €582,000 in negative margins on interest rate derivatives classified internally as net interest income (31/12/14: positive margins of €5,509,000).

SECTION 5

Heading 90: Net hedging income (expense)

5.1 Net hedging income (expense): composition

Income elements/Amounts	6 mths ended 31/12/15	6 mths ended 31/12/14
A. Incomes from:		
A.1 Fair value hedging instruments	109,697	359,371
A.2 Hedged asset items (in fair value hedge relationships)	8,974	565
A.3 Hedged liability items (in fair value hedge relationship)	66,450	67,784
A.4 Cash-flows hedging derivatives (including ineffectiveness of net investment hedge)	4	—
A.5 Assets and liabilities denominated in currency (not derivative hedging instruments)	—	—
Total gains on hedging activities (A)	185,125	427,720
B. Losses on:		
B.1 Fair value hedging instruments	(76,108)	(182,456)
B.2 Hedged asset items (in fair value hedge relationships)	(7,024)	(5,451)
B.3 Hedged liability items (in fair value hedge relationship)	(98,705)	(239,410)
B.4 Cash-flows hedging derivatives (including ineffectiveness of net investment hedge)	(3)	(2)
B.5 Assets and liabilities denominated in currency (not derivative hedging instruments)	—	—
Total losses on hedging activities (B)	(181,840)	(427,319)
C. Net profit from hedging activities (A-B)	3,284	401

SECTION 6

Heading 100: Gains (losses) on disposals/repurchases

6.1 Gains (losses) on disposals/repurchases: composition

Items/Income	6 mths ended 31/12/15			6 mths ended 31/12/14		
	Gains	Losses	Net profit	Gains	Losses	Net profit
Financial assets						
1. Loans and receivables with banks	—	—	—	—	—	—
2. Loans and receivables with customers	5,974	(3,605)	2,369	3,012	(9,790)	(6,778)
3. Financial assets available for sale	99,194	(290)	98,904	40,941	(456)	40,485
3.1 Debt securities	6,700	(290)	6,410	25,007	(456)	24,551
3.2 Equity instruments	91,936	—	91,936	15,886	—	15,886
3.3 Units in investment funds	558	—	558	48	—	48
3.4 Loans	—	—	—	—	—	—
4. Financial assets held to maturity	1,845	(2)	1,843	14,657	—	14,657
Total assets	107,013	(3,897)	103,116	58,610	(10,246)	48,364
Financial liabilities						
1. Deposits with banks	—	—	—	—	—	—
2. Deposits with customers	—	—	—	—	—	—
3. Debt securities in issue	—	(2,883)	(2,883)	7,754	(11,154)	(3,400)
Total liabilities	—	(2,883)	(2,883)	7,754	(11,154)	(3,400)

SECTION 8

Heading 130: Adjustments for impairment

8.1 Adjustments for impairment: composition

Transactions/Income	Write - downs (1)			Write - backs (2)				6 mths ended 31/12/15 (1)-(2)	6 mths ended 31/12/14
	Specific		Portfolio	Specific		Portfolio			
	Write - offs	Other		A	B	A	B		
A. Loans and receivables with banks									
- Loans	—	—	(100)	—	—	—	—	(100)	(423)
- Debt receivables	—	—	—	—	—	—	—	—	—
B. Loans and receivables with customers									
Deteriorated purchased loans									
- Loans	(5,184)	—	X	—	—	X	X	(5,184)	(2,425)
- Debt securities	—	—	X	—	—	X	X	—	—
Other receivables									
- Loans	(17,752)	(207,830)	(91,377)	1,984	54,897	—	42,359	(217,719)	(287,862)
- Debt receivables	—	—	—	—	—	—	221	221	(23)
C. Total	(22,936)	(207,830)	(91,477)	1,984	54,897	—	42,580	(222,782)	(290,733)

Legend

A = interest

B = other amounts recovered.

8.2 Net adjustments for impairment to AFS securities: composition

Transactions/Income	Adjustments (1)		Reversals of impairment losses (2)		6 mths ended 31/12/15 (1)-(2)	6 mths ended 31/12/14
	Specific		Specific			
	Write - offs	Other	A	B		
A. Debt securities	—	—	—	—	—	—
B. Equity instruments	—	(10,265)	—	—	(10,265)	(11,633)
C. Units in investment funds	—	(1,656)	X	X	(1,656)	(29)
D. Loans to banks	—	—	X	—	—	—
E. Loans to customers	—	—	—	—	—	—
Total	—	(11,921)	—	—	(11,921)	(11,662)

Legend

A = interest

B = other amounts recovered.

8.3 Net adjustments for impairment to financial assets held to maturity: composition

Transactions/Income	Adjustments (1)			Reversals of impairment losses (2)				6 mths ended 31/12/15 (1)-(2)	6 mths ended 31/12/14
	Specific		Portfolio	Specific		Portfolio			
	Write - offs	Other		A	B	A	B		
A. Debt securities	—	—	(927)	—	—	—	158	(769)	410
B. Loans to banks	—	—	—	—	—	—	—	—	—
C. Loans to customers	—	—	—	—	—	—	—	—	—
D. Total	—	—	(927)	—	—	—	158	(769)	410

Legend

A = interest

B = other amounts recovered.

8.4 Net adjustments for impairment to other financial transactions: composition

Transactions/Income	Adjustments (1)			Reversals of impairment losses (2)				6 mths ended 31/12/15 (1)-(2)	6 mths ended 31/12/14
	Specific		Portfolio	Specific		Portfolio			
	Write - offs	Other		A	B	A	B		
A. Guarantees given	—	—	(205)	—	—	—	—	(205)	(270)
B. Credit derivatives	—	—	—	—	—	—	—	—	—
C. Commitments to disburse funds	—	(1,552)	(1,147)	—	—	—	99	(2,600)	(197)
D. Other transactions	—	—	—	—	—	—	—	—	—
E. Total	—	(1,552)	(1,352)	—	—	—	99	(2,805)	(467)

Legend

A = interest

B = other amounts recovered.

SECTION 9

Heading 150: Net premium income

9.1 Net premium income: composition

Premium for insurance	Direct business	Indirect business	6 mths ended 31/12/15	6 mths ended 31/12/14
A. Life business				
A.1 Gross premiums written (+)	—	—	—	—
A.2 Reinsurance premiums paid (-)	—	—	—	—
A.3 Total	—	—	—	—
B. Non-life business				
B.1 Gross premiums written (+)	—	32,277	32,277	20,373
B.2 Reinsurance premiums paid (-)	—	—	—	—
B.3 Change in gross value of premium reserve (+/-)	—	(9,908)	(9,908)	282
B.4 Change in provision for unearned premiums ceded to reinsurers (+/-)	—	—	—	—
B.5 Total	—	22,369	22,369	20,655
C. Total net premiums	—	22,369	22,369	20,655

SECTION 10

Heading 160: Other net income (expense) from insurance operations

10.1 Other net income (expense) from insurance operations: composition

	6 mths ended 31/12/15	6 mths ended 31/12/14
1. Net change in insurance provisions	—	—
2. Claims paid pertaining to the year	(4,474)	(5,338)
3. Other income and expense (net) from insurance business	(3,169)	(3,332)
Total	(7,643)	(8,670)

10.3 Breakdown of sub-heading "Claims paid pertaining to the year"

Changes for claims	**6 mths ended 31/12/15**	**6 mths ended 31/12/14**
Life-business: expense related to claims, net of reinsurers' portion		
A. Amounts paid out	—	—
A.1 Gross annual amount	—	—
A.2 Amount attributable to reinsurers	—	—
B. Change in reserve for amount payable	—	—
B.1 Gross annual amount	—	—
B.2 Amount attributable to reinsurers	—	—
Total life-business claims	—	—
Non-life business: expense related to claims, net of amounts recovered from reinsurers		
C. Claims paid	(4,453)	(4,634)
C.1 Gross annual amount	(4,453)	(4,634)
C.2 Amount attributable to reinsurers	—	—
D. Change in recoveries net of reinsurers' portion	—	—
E. Change in claims reserves	(21)	(704)
E.1 Gross annual amount	(21)	(704)
E.2 Amount attributable to reinsurers	—	—
Total non-life business claims	(4,474)	(5,338)

SECTION 11

Heading 180: Administrative expenses

11.1 Personnel costs: composition

Type of expense/Amounts	**6 mths ended 31/12/15**	**6 mths ended 31/12/14**
1) Employees	(201,929)	(186,373)
a) wages and salaries	(143,973)	(130,663)
b) social security contributions	(36,124)	(32,884)
c) Severance pay (only for Italian legal entities)	(2,898)	(2,908)
d) social security costs	—	—
e) allocation to employees severance pay provision	(2,060)	(1,521)
f) provision for retirement and similar provisions	—	—
- defined contribution	—	—
- defined benefits	—	—
g) payments to external pension funds	(6,633)	(6,071)
- defined contribution	(6,633)	(6,071)
- defined benefits	—	—
h) expenses resulting from share-based payments	(3,928)	(5,287)
i) other employees' benefits	(6,313)	(7,039)
2) Other staff	(2,144)	(2,464)
3) Directors and Statutory Auditors	(4,134)	(4,120)
4) Early retirement costs	(1,505)	—
Total	(209,712)	(192,957)

11.2 Average number of staff by category

	6 mths ended 31/12/15	6 mths ended 31/12/14
Employees:		
a) Senior executives	254	248
b) Executives	1,341	1,246
c) Other employees	2,249	2,137
Other staff	173	183
Total	4,017	3,814

11.5 Other administrative expenses: composition

	6 mths ended 31/12/15	6 mths ended 31/12/14
OTHER ADMINISTRATIVE EXPENSES		
- legal, tax and professional services	(21,393)	(17,746)
- loan recovery activity	(26,037)	(26,313)
- marketing and communications	(22,611)	(27,605)
- property	(18,346)	(17,254)
- EDP	(30,289)	(27,336)
- info-provider	(14,971)	(13,952)
- bank charges, collection and payment fees	(9,058)	(8,858)
- operating expenses	(24,726)	(26,517)
- other staff expenses	(11,199)	(10,141)
- other costs[1]	(71,860)	(4,246)
- indirect and other taxes[2]	(29,078)	(19,039)
Total other administrative expenses	(279,568)	(199,007)

[1] Includes €63.2m in transfers to the Bank Resolution Fund, including a one-off contribution of €3.2m relating to the Italian deposit protection fund for 2H 2015.

[2] Includes €5m in fines and interest relating to settlement of tax dispute by Group company Compass RE.

SECTION 12

Heading 190: Net transfers to provisions

12.1 Net transfers to provisions: composition

	6 mths ended 31/12/15	6 mths ended 31/12/14
Net transfers to provisions for risks and charges - legal expenses	(630)	(629)
Net transfers to provisions for risks and charges - promotional commitment	—	—
Net transfers to provisions for risks and charges - certain or probable exposures or commitments[1]	(446)	2
Total transfers to provisions for risks and charges	(1,076)	(627)

[1] Includes effect of discounting such items.

SECTION 13

Heading 200: Net adjustments to tangible assets

13.1 Net adjustments to tangible assets: composition

Assets/Income	Depreciation (a)	Impairment losses (b)	Write - backs (c)	Net result (a+b+c)
A. Property, equipment and investment properties				
A.1 Owned	(9,682)	—	—	(9,682)
-For operational use	(7,565)	—	—	(7,565)
- For investment	(2,117)	—	—	(2,117)
A.2 Acquired through finance lease	—	—	—	—
- For operational use	—	—	—	—
- For investment	—	—	—	—
Total	(9,682)	—	—	(9,682)

SECTION 14

Heading 210: Net adjustments to intangible assets

14.1 Net adjustments to intangible assets: composition

Asset/Income	Depreciation (a)	Impairment losses (b)	Write - backs (c)	Net result (a + b - c)
A. Intangible assets				
A.1 Owned	(9,170)	—	—	(9,170)
- Software	(3,470)	—	—	(3,470)
- Other	(5,700)	—	—	(5,700)
A.2 Acquired through finance lease	—	—	—	—
Total	(9,170)	—	—	(9,170)

SECTION 15

Heading 220: Other operating income (expense)

15.1 Other operating expense: composition

Income-based components/Values	6 mths ended 31/12/15	6 mths ended 31/12/14
a) Leasing activity	(8,358)	(8,626)
b) Sundry costs and expenses	(1,923)	(1,649)
Total	(10,281)	(10,275)

15.2 Other operating income: composition

Income-based components/Values	6 mths ended 31/12/15	6 mths ended 31/12/14
a) Amounts received from customers	19,756	19,434
b) Leasing activity	7,459	8,062
c) Other income	50,060	42,163
Total	77,275	69,659

SECTION 16

Heading 240: Gains (losses) on equity investments

16.1 Gains (losses) on equity investments: composition

Income/Value	6 mths ended 31/12/15	6 mths ended 31/12/14
1) Joint venture		
A. Incomes	—	—
1. Revaluation	—	—
2. Gains on disposal	—	—
3. Write-backs	—	—
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	138,750	123,204
1. Revaluation	138,750	123,204
2. Gains on disposal	—	—
3. Write-backs	—	—
4. Other gains	—	—
B. Expenses	—	—
1. Write-downs	—	—
2. Impairment losses	—	—
3. Losses on disposal	—	—
4. Other expenses	—	—
Net profit	138,750	123,204
Total	138,750	123,204

SECTION 19

Heading 270: Net gain (loss) upon disposal of investments

19.1 Net gain (loss) upon disposal of investments: composition

Income/Value	6 mths ended 31/12/15	6 mths ended 31/12/14
A. Assets	—	—
- Gains on disposal	—	—
- Losses on disposal	—	—
B. Other assets	(1)	(10)
- Gains on disposal	—	2
- Losses on disposal	(1)	(12)
Net result	(1)	(10)

SECTION 20

Heading 290: Income tax on ordinary activities

20.1 Income tax on ordinary activities: composition

Income components/Sectors	6 mths ended 31/12/15	6 mths ended 31/12/14
1. Current tax expense (-) [1]	(46,453)	(59,597)
2. Changes of current tax expense of previous years (+/-)	(9,467)	204
3. Reduction in current tax expense for the period (+)	—	70
3.bis Reductions in current tax expense for the period due to tax credit related to L. 214/2011 (+)	1,252	1,604
4. Changes of deferred tax assets (+-)	(2,713)	(910)
5. Changes of deferred tax liabilities (-)	215	(5,471)
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(57,166)	(64,100)

[1] Includes €18.1m in tax relating to settlement of dispute by Group company Compass RE.

SECTION 22

Heading 330 - Profit (loss) for the period attributable to minorities

22.1 Breakdown of heading 330 "Profit (loss) for the year attributable to minorities

Company name	6 mths ended 31/12/15	6 mths ended 31/12/14
1. SelmaBipiemme S.p.A.	1,043	(884)
2. Palladio Leasing S.p.A. (merged into Selma BPM)	—	1,078
3. Teleleasing S.p.A.	965	766
Total	2,008	960

SECTION 24

Earnings per share

24.1 Average number of ordinary shares on a diluted basis

	6 mths ended 31/12/15	**6 mths ended 31/12/14**
Net profit	321,105	260,619
Avg. no. of shares in issue	847,953,237	846,319,320
Avg. no. if potentially diluited share	34,559,551	35,287,089
Avg. no. of diluted shares	882,512,788	881,606,409
Earinings per share	0.38	0.31
Earnings per share, diluited	0.36	0.30

Part E - Information on risks and related hedging policies

SECTION 1

Banking Group risks

1.1 CREDIT RISK

QUALITATIVE INFORMATION

Description of risk governance organization

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 guaranteeing that all forms of operations are consistent with their own propensity to 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), business and financial plans, budgets, and risk management and internal control policies.

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.

Within the framework of the risk governance system implemented by Mediobanca S.p.A., the following committees have specific responsibilities in the processes of taking, managing, measuring and controlling risks: the Risks committee and Delegated risks committee for credit, issuer and market risks; the ALM committee, for monitoring the Group's ALM risk-taking and management policy (treasury and funding operations) and approving the methodologies for measuring exposure to liquidity and interest rate risk; 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; and the Operational risks committee, for management of operational risks in terms of monitoring risk profiles and defining mitigation actions.

Although risk management is the responsibility of each individual business unit, the Risk Management unit presides over the functioning of the Bank'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 Bank's own operating choices identified in the RAF, monitoring risks and ascertaining that the various limits established for the various business lines are complied with. The risk management process, which is supervised by the Chief Risk Officer, reporting directly to the Chief Executive Officer, is implemented by the following units: *i)* Enterprise Risk Management, which helps to develop risk management policies at Group level, and is responsible for integrated Group risks monitoring, ICAAP reporting and internal risk measurement model validation; *ii)* Credit Risk Management, responsible for credit risk analysis and assigning internal ratings to counterparties; *iii)* Market and Liquidity Risk Management, which monitors market, counterparty, liquidity and interest rate risk on the banking book; *iv)* Quantitative Risk Methodologies, responsible for developing quantitative analysis and credit and market risk management methodologies; and *v)* Operational Risk Management, responsible for developing and maintaining the systems for measuring and managing operational risks.

Establishment of risk propensity and process for managing relevant risks

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.

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 updated ("Circular 285") and circular no. 263 issued on 27 December 2006 "New prudential supervisory instructions for banks", as updated ("Circular 263"), appraising its own capital adequacy from both a present and future perspective which takes into account the strategies and development of the reference scenario.

1.2 CREDIT RISK

While adopting the standardized methodology defined by the supervisory provisions in force for calculating regulatory capital, the Group has also internal rating models for operating purposes for the following customer segments: Banks, Insurances, Large corporates and Holding companies (customers mostly targeted by Mediobanca S.p.A.), Mid-corporate and Small businesses (customers targeted mostly by the leasing companies), and Private individuals (targeted by Compass for consumer credit, CheBanca! for mortgage lending, and Creditech for non-recourse factoring business).

Corporate lending (Mediobanca)

The Group's internal system for managing, evaluating and controlling credit risk reflects its traditional policy based on a prudent and highly selective approach. Lending decisions are based on individual analysis, which builds on adequate and often extensive knowledge of the borrower's business, assets and management, as well as the macro-economic framework in which it operates. 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, inter alia to obtain a positive impact on the Bank's capital ratios.

For the assumption of credit risk, all counterparties must be analysed and where possible assigned an internal rating, which takes into account the specific quantitative and qualitative characteristics of the counterparty concerned.

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. If successful, the applications are submitted for approval to the relevant bodies, depending on the nature of the counterparty, its credit standing based on internal ratings, and on the amount of finance required.

The Credit Risk Management unit 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 at least the same intervals, in accordance with the limits established by the Executive Committee's resolution in respect of operating powers.

Any deterioration in the risk profile of either the loan or the borrower's rating are brought swiftly to the management's attention.

In terms of monitoring the performance of individual credit exposures, Mediobanca adopts 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 (green, amber or red for performing accounts, black for non-performing items) and are reviewed in the course of meetings held regularly to identify the most appropriate mitigation actions to be taken. The watchlist also includes all forborne positions, which are therefore subject to specific monitoring.[1]

[1] Forborne exposures are defined as debt contracts in respect of which concessions have been made to a borrower which is near to a situation where it may encounter difficulties in meeting its financial obligations ("financial difficulties").

Leasing

Individual applications are processed using similar methods to those described above for corporate banking. Applications for leases below a predetermined limit received via banks with which Mediobanca has agreements in place are approved by the banks themselves, against written guarantees from them covering a portion of the risk.

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 applicant company).

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. All non-performing accounts are tested analytically to establish the relative estimated loss against the value of the security provided taken from the results of valuations updated regularly and revised downwards on a prudential basis, and/or any other form of real guarantees issued. Other performing accounts are measured individually on the basis of statistics according to internal ratings and distinguished by their degree of riskiness.

Consumer credit (Compass)

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, in order to ensure that applications and credit scoring results are processed and transmitted swiftly. Applications for finance above a certain limit are approved by the relevant bodies at headquarters, in accordance with the authorization levels established by the companies' Boards 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 150 days of arrears (or 90 days in particular cases, such as credit cards and exposures involving negligible amounts), 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 ascertained, accounts for which legal action has been deemed impossible are sold to factoring companies (including Creditech), for a percentage of the value of the principal outstanding, which reflects their estimated realizable value.

Provisioning is determined collectively on the basis of historical PD and LGD values distinguished by product and state of impairment. Probability of default in particular is calculated over a time horizon of less than a year, corresponding to the emergence period for hidden losses which is currently six months, and calibrated based on the trend of the last three years. The LGD values are based on data for amounts recovered and written off in the last five years. To calculate the provisions for the performing portfolio, losses defined as "incurred but not reported" are quantified by distinguishing PD values by product, degree of arrears and whether or not there are previous difficulty indicators (including forbearance, if any).

Factoring (Creditech)

Factoring includes both traditional factoring (loans with very short-term disbursements, often backed by insurance cover) and non-recourse factoring (acquiring loans from the seller to be repaid via monthly instalments by the original borrower, who 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 non-recourse factoring the acquisition price is calculated following due sample-based or statistical analysis of the accounts being sold, and takes into consideration the projected recoveries, changes and margins.

Provisioning is determined collectively on the basis of historical PD and LGD values distinguished according to the ageing of the receivables. Probability of default in particular is calculated over a time horizon of less than a year, corresponding to the emergence period for hidden losses which is currently six months and calibrated based on the trend of the last fifteen months, beyond which the indicator loses significance. The LGD values are based on data for amounts collected in the last three years.

Mortgage lending (CheBanca!)

Mortgage applications are processed and approved centrally at head office. The applications are approved, using an internal rating model among other things, 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.

Irregular accounts are managed through monthly reports analysing the characteristics of the accounts in order to flag up promptly any potential problem areas using advanced early warning systems linked to public and private databases.

Non-performing accounts are managed, for out-of-court credit recovery procedures, by a dedicated organizational structure with the help of external collectors. If further signs of deterioration are noted, property enforcement procedures are instigated through external lawyers. Procedurally mortgage loans with four or more unpaid instalments (not necessarily consecutive) are designated as sub-standard accounts, and generally after the tenth unpaid instalment become non-performing.

Provisioning is determined analytically for non-performing items and collectively for probable defaults. For the analytical provisions for the non-performing items, account is taken of the official valuations of the assets (deflated on a prudential basis), timescales and recovery costs. For the performing accounts on the Italy mortgage loan book, the Bank uses risk parameters (PD and LGD), which are estimated via the internal rating model, to determine the collective risk provisions.

QUANTITATIVE INFORMATION

Credit quality

A.1 Impaired and performing accounts: amounts, adjustments, trends, segmentation by performance and geography

A.1.1 Financial assets by portfolio and credit quality (book value)

Asset portfolio/quality	Bad debts	Probable default	Overdue exposures (NPLs)	Overdue exposures (performing) [1]	Other exposures (performing)	Total
1. AFS securities	—	—	—	—	7,289,628	7,289,628
2. Financial assets held to maturity	—	—	—	—	1,189,000	1,189,000
3. Due from banks	—	—	—	—	7,544,406	7,544,406
4. Due from customers	258,612	750,920	69,025	442,132	34,639,791	36,160,480
5. Financial assets recognized at fair value	—	—	—	—	—	—
6. Financial assets being sold	—	—	—	—	—	—
Total 31/12/15	258,612	750,920	69,025	442,132	50,662,825	52,183,514
Total 30/6/15	259,375	801,056	95,047	420,551	50,510,907	52,086,935

[1] Refers to the net exposure due to instalments effectively unpaid amounting to €42.3m, of which €97.6m are attributable to leasing (4.1% of the performing loans in this segment), €184.3m to consumer credit (1.7%), and €129.9m to CheBanca! mortgage loans (2.6%). Gross exposures being renegotiated under the terms of collective agreements amounting to €44m are classified as performing items, all of which attributable to mortgage loans granted by CheBanca!.

A.1.2 Financial assets by portfolio/credit quality (gross/net values)

Asset portfolio/quality	Non-performing loans			Performing loans			Total (net exposure)
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
1. AFS securities	—	—	—	7,289,628	—	7,289,628	7,289,628
2. Financial assets held to maturity	—	—	—	1,203,252	(14,252)	1,189,000	1,189,000
3. Due from banks	—	—	—	7,545,766	(1,360)	7,544,406	7,544,406
4. Due from customers	2,227,517	(1,148,960)	1,078,557	35,328,720	(246,797)	35,081,923	36,160,480
5. Financial assets recognized at fair value	—	—	—	X	X	—	—
6. Financial assets being sold	—	—	—	—	—	—	—
Total 31/12/15	2,227,517	(1,148,960)	1,078,557	51,367,366	(262,409)	51,104,957	52,183,514
Total 30/6/15	2,385,276	(1,229,799)	1,155,477	51,185,963	(254,505)	50,931,458	52,086,935

Asset portfolio/quality	Assets with obviously poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading [1]	—	11,148	9,898,787
2. Hedge derivatives	—	—	1,102,848
Total 31/12/15	—	11,148	11,001,635
Total 30/6/15	—	12,305	10,416,813

[1] Refers to the mark-to-market of derivatives outstanding with counterparties including among the cases of probable default with a restructuring plan.

Information on sovereign debt exposures

A.1.2.a Exposures to sovereign debt securities by state, counterparty and portfolio[*]

Portfolio/quality	Non performing loans				Performing			Total (net exposure) [1]
	Gross exposure	Specific adjustments	Portfolio adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
1. Financial assets held for trading	—	—	—	—	X	X	78,221	78,221
Italy	—	—	—	—	X	X	1,420,529	1,420,529
Germany	—	—	—	—	X	X	(53,462)	(53,462)
France [2]	—	—	—	—	X	X	(428,475)	(428,475)
Spain [2]					X	X	(917,351)	(917,351)
Others	—	—	—	—	X	X	56,980	56,980
2. AFS securities	—	—	—	—	5,609,912	—	5,609,912	5,609,912
Italy	—	—	—	—	4,254,987	—	4,254,987	4,254,987
Germany					778,063	—	778,063	778,063
France	—	—	—	—	368,448	—	368,448	368,448
Others	—	—	—	—	208,414	—	208,414	208,414
3. Financial assets held to maturity	—	—	—	—	258,492	—	258,492	258,492
Italy	—	—	—	—	257,629	—	257,629	257,629
Others	—	—	—	—	863	—	863	863
Total at 31/12/15	—	—	—	—	5,868,404	—	5,946,625	5,946,625

[*] Does not include financial and 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 €36.3m.

[2] Matched by forward purchases.

A.1.2.b Exposures to sovereign debt securities by portfolio

Portfolio/quality	Trading Book [1]			Banking Book			
	Nominal value	Book value	Duration	Nominal value	Book value	Fair value	Duration
Italy	1,377,319	1,420,529	1,23	4,327,021	4,512,616	4,535,201	2,08
Germany	(52,784)	(53,462)	3,62	730,500	778,063	778,063	6,60
France [2]	(350,000)	(428,475)	5,32	368,771	368,448	368,448	4,28
Spain [2]	(830,000)	(917,351)	8,88	166,250	172,215	172,215	9,44
Others	52,938	56,980	—	48,227	37,062	50,850	—
Total at 31/12/15	197,473	78,221	—	5,640,769	5,868,404	5,904,777	—

[1] Does not include buys of €316m on Bund/Bobl/Schatz futures (Germany), with a fair value of minus €0.5m; sales of €39m on the Treasury future (United States), with a fair value of €0.15m; or buys of €36.2m on the BPT future (Italy) with a fair value of minus €1.98m. Net hedge buys of €10m (€7m of which on Italy country risk and €3m on Hungary country risk) have also not been included.

[2] Short positions on the trading book are matched by forward buys of the same amount.

A.1.3 Banking Group - cash and off-balance-sheet exposures: gross/net values

Type of exposure/asset	Gross exposure					Specific adjustments	Portfolio adjustments	Net exposure
	Non-performing loans				Performing loans			
	Up to three months	From three to six months	From six months to one year	More than one year				
A. CASH EXPOSURES								
a) Bad debts	—	—	—	—	X	—	X	—
b) Probable default	—	—	—	—	X	—	X	—
c) Overdue exposures (NPLs)	—	—	—	—	X	—	X	—
d) Overdue exposures (performing)	X	X	X	X	—	X	—	—
e) Other exposures (performing)	X	X	X	X	8,633,528	X	(2,314)	8,631,214
Total A	—	—	—	—	8,633,528	—	(2,314)	8,631,214
B. OFF-BALANCE-SHEET EXPOSURES								
a) Non-performing	—	—	—	—	X	—	X	—
b) Performing	X	X	X	X	24,064,975	X	—	24,064,975
Total B	—	—	—	—	24,064,975	—	—	24,064,975
Total (A+B)	—	—	—	—	32,698,503	—	(2,314)	32,696,189

A.1.6 Banking Group – Cash and off-balance-sheet exposures to customers: gross/net values

Type of exposure/asset	Gross exposure					Specific adjustments	Portfolio adjustments	Net exposure
	Non-performing loans				Performing loans			
	Up to three months	From three to six months	From six months to one year	More than one year				
A. CASH EXPOSURES								
a) Bad debts	93,878	708	11,560	523,880	X	(371,414)	X	258,612
b) Probable default	891,701	76,471	230,507	229,865	X	(677,624)	X	750,920
c) Overdue exposures (NPLs)	42,000	118,705	5,851	2,391	X	(99,922)	X	69,025
d) Overdue exposures (performing)	X	X	X	X	516,842	X	(74,710)	442,132
e) Other exposures (performing)	X	X	X	X	42,244,614	X	(185,385)	42,059,229
Total A	1,027,579	195,884	247,918	756,136	42,761,456	(1,148,960)	(260,095)	43,579,918
B. OFF-BALANCE-SHEET EXPOSURES								
a) Non-performing	59,026	—	—	—	X	(1,624)	X	57,402
b) Performing	X	X	X	X	18,900,286	X	(18,940)	18,881,346
Total B	59,026	—	—	—	18,900,286	(1,624)	(18,940)	18,938,748
Total (A+B)	1,086,605	195,884	247,918	756,136	61,661,742	(1,150,584)	(279,035)	62,518,666

The non-performing items include €68.6m attributable to Creditech (i.e. acquisitions of non-performing loans with a nominal value of €2.6bn. Of these items, €45.7m (with a nominal book value of €1.8bn) involve assets acquired from other Group companies, mostly those involved in consumer credit activities.

A.1.7 Banking Group – Cash exposures to customers: trends in gross impaired positions/accounts

Descriptions/categories	Bad loans	Probable default	Overdue exposures (NPLs)
A. Gross exposure at start of period	613,665	1,584,388	187,223
- *of which: exposures sold but not derecognized*	47,528	122,333	44,269
B. Additions	117,407	258,878	235,983
B.1 transferred from performing exposures	2,444	39,818	215,123
B.2 transferred from other categories of non-performing exposure	111,740	205,291	18,359
B.3 other additions	3,223	13,769	2,501
C. Reductions	101,046	414,722	254,259
C.1 transferred to performing exposures	2,943	27,554	26,724
C.2 writeoffs	16,871	163,609	54
C.3 collections	21,630	41,403	16,429
C.4 amounts realized on disposals	3,518	5,939	1,975
C.5 losses incurred on disposals	53,598	44,774	469
C.6 transferred to other categories of non-performing exposure	2,351	129,031	204,009
C.7 other reductions	135	2,412	4,599
D. Gross exposure at end of period	630,026	1,428,544	168,947
- *of which: exposures sold but not derecognized*	34,050	98,450	49,108

A.1.8 Banking Group – cash exposures to customers: trends in overall value adjustments

Descriptions/categories	Bad loans	Probable default	Overdue exposures (NPLs)
A. Overall adjustments at start of period	354,288	783,333	92,178
- *of which: exposures sold but not derecognized*	*33,300*	*69,676*	27,153
B. Additions	167,359	269,524	140,378
B.1 value adjustments	26,502	89,491	88,686
B.2 losses incurred on disposals	53,598	44,774	469
B.3 transferred from other categories of non-performing exposure	81,816	122,521	9,445
B.4 other additions	5,443	12,738	41,778
C. Reductions	150,233	375,233	132,634
C.1 amounts reversed following changes in valuation	4,696	11,544	4,558
C.2 amounts reversed following collections	24,294	26,612	3,681
C.3 gains realized on disposals	—	—	—
C.4 writeoffs	63,456	194,516	346
C.5 transferred to other categories of non-performing exposure	2,096	90,826	120,861
C.6 other reductions	55,691	51,735	3,188
D. Overall adjustments at end of period	371,414	677,624	99,922
- *of which: exposures sold but not derecognized*	*32,195*	*75,102*	36,807

At 31 December 2015 net NPLs classified as forborne amounted to €599m (30/6/15: €631m), with a coverage ratio of 50%, and representing 1.66% (1.68%) of amounts due from customers.

Net performing loans classified as forborne amounted to €360m (€342m), with a coverage ratio of 12%, and representing 0.99% (0.91%) of amounts due from customers.

B.4a Credit risk indicators

	31/12/15	30/6/15
a) Gross bad loans/total loans	1.49%	1.45%
b) Irregular items/cash exposures	4.27%	4.58%
c) Net bad loans/regulatory capital	2.74%	2.92%

B.4b Large risks

	31/12/15	30/6/15
a) Book value	16,573,626	12,698,680
b) Weighted value	8,209,063	8,878,907
c) No. of exposures	8	6

C. Securitizations

C.1 Securitizations

QUALITATIVE INFORMATION

The Group's portfolio of securities deriving from securitizations by other issuers totalled €209.1m (30/6/15: €229m), the reduction attributable to repayments totalling €40.3m being only partly offset by the €12.5m in new acquisitions. Three-quarters of the portfolio is concentrated in the banking book (AFS and HTM), while the remainder involves the trading book, on which trading amounting to €1m was recorded.

The fair value of the portfolio is usually calculated based on prices supplied by financial information providers or, on an exceptional basis for certain banking book holdings, via internal fair value models. The portfolio reflected a minor loss of €1m, and an unrealized gain on the fixed assets of €1.4m.

Over 90% consists of senior-ranking securities, the remainder consisting of five mezzanine issues (book value pari a €11.6m) and one junior-ranking security (Loggi 2001-01 sub, carried at €0.9m). Most of the securities have external ratings, and around two-thirds are eligible for refinancing transactions with the European Central Bank.

The volume of new ABS issuance in Europe remained virtually unchanged year-on-year in 2015, whereas covered bond issuance was up more than 30%. The Group's portfolio remains concentrated on senior tranches of domestic stocks backed by mortgages (€49.6m) and state-owned properties (€75.4m); most of the other exposures involve CLOs with European corporate loans as the underlying instrument (€15.7m). There is also one synthetic issue outstanding, carried at €22.8m.

QUANTITATIVE INFORMATION

C.2 Banking Group – Exposures deriving from main securitizations of third parties by underlying assets type/exposure

Type of securitized asset/ Exposure *	Cash exposures [1]					
	Senior		Mezzanine		Junior	
	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks
A. Mortgage loans on properties	124,963	82	8,594	—	903	—
B. Other receivables	54,706	—	—	—	—	—
C. Collateralized Loan Obligation	9,718	—	3,008	—	—	—

[1] No off-balance-sheet exposure.

* Mediobanca does not hold any direct credit exposures on its books with US sub-prime or Alt-A mortgages as the underlying instrument.

C.5 Banking Group - servicing - collecting securitized receivables and redeeming securities issued by vehicle companies

Servicer	Vehicle company	Securitized assets		Receivables collected during the year		Percentage share of securities repaid					
		Non performing	Performing	Non performing	Performing	Senior		Mezzanine		Junior	
						Non performing assets	Performing assets	Non performing assets	Performing assets	Non performing assets	Performing assets
Selma	Quarzo Leasing	—	—	374	10,858	—	100,0	—	—	—	—
Selma	Quarzo Leasing	—	—	808	6,980	—	100,0	—	—	—	—
Futuro	Quarzo CQS	6,247	719,789	3,115	122,716	—	16,1	—	—	—	—
Compass	Quarzo	174,671	5,805,408	6,463	1,480,146	—	—	—	—	—	—

D. Disclosure on structured entities other than securitization spvs

In accordance with the provisions of IFRS 12, the Group treats the companies it sets up in order to achieve a limited or well-defined objective, which are regulated by contractual agreements often imposing close restrictions on the decision-making powers of its governing bodies, as structured entities (special purpose vehicles or entities). Such entities are therefore normally structured to ensure that the voting rights (o 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).

D.1 Consolidated structured entities

In addition to the three securitization SPVs (Quarzo S.r.l., Quarzo Lease S.r.l. and Quarzo CQS S.r.l.) and MB Covered Bond (pursuant to Italian Law 130/99), SPVs Telco MB and Sinto MB which were merged into Mediobanca S.p.A. on 12 January 2016 are also included in the Group's area of consolidation, as described in Part A – Section 3 of the Notes to the Accounts.

D.2 Structured entities not consolidated in accounting terms

The Group has no other interests in structured entities to report. The lending transactions, recorded under asset heading 70, in which the Group acts as sole lender to asset-backed SPEs involve an amount of €814.6m, plus €58.8m in bonds booked as as available for sale (asset heading 40).

As part of its activity in selling funds (in particular SICAVs) to customers, the sponsor (CheBanca! or CMB) is required, at the launch stage in particular, to invest directly in the different segments. During the six months under review, four new funds were launched by CMB, entailing a direct investment in the region of €20m. Furthermore, on 31 December 2015, Mediobanca completed the acquisition of a majority stake in Cairn Capital Ltd, a company which, as part of its alternative funds business, manages three funds (Cairn Special Opportunities Credit Fund, Cairn Strata Credit Fund and Cairn Loan Investment), with a direct investment of just under €1.5m. Mediobanca has also invested around €5m in connection with seed capital activity.

D.3 Leveraged finance transactions

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

As at 31 December 2015, commitments to deals of this nature amounted to €1,362.8m, slightly higher than the €1,272.7m reported at end-June 2015. Such deals represent some 10% of the corporate portfolio, 24% of which in relation to domestic transactions, three deals with North American clients (for a value of approx. €170m), and the remainder deals within the confines of the European Union.

Repayments in a nominal amount of €273.7m were recorded in the six months under review (including seven deals being wound up), and additions totalling €363.6m (including three new deals being opened).

E. Disposals

E.4 Banking Group - covered bond issues

A new €500m bond with a fixed rate of 1.375% was issued in November 2015, rated A by S&P and A+ by Fitch and increased by €250m in December. Three public issues of covered bonds remain outstanding, reserved to institutional investors, involving a total amount of €2.25bn backed by €3.2bn in CheBanca! mortgage receivables.

BANKING GROUP MARKET RISK

1.2.1 INTEREST RATE RISK AND PRICE RISK – TRADING BOOK

QUALITATIVE INFORMATION

Mediobanca monitors interest rate risk on its trading book on a daily basis, by calculating two main indicators:

- sensitivity to 1 basis-point changes in the interest rate curve;
- the share of the value-at-risk[1] linked to interest rates as part of the global measurement of market risks.

Such analysis regards not just the trading book but the Bank's entire asset structure, i.e. banking book as well, and is not limited to the measurement of risks deriving from changes in market interest rates but factors in exposures to loan spreads as well.

VaR is still calculated based on expected volatility and the correlation between risk factors concerned, assuming a disposal period of a single trading day and based on a 99% confidence level. The indicator used to check the limits is calculated by using Monte Carlo simulations, along with historical simulations for indicative purposes.[2] This measurement is also used to calculate the expected shortfall, which measures average loss in 1% of the most unfavourable scenarios.

Limits are in force on both the Bank's aggregate VaR and the VaR for the individual trading and AFS portfolios. For the trading book there are also limits on the sensitivities (known as the "Greeks") to movements of different factors (1 basis point for interest rates and credit spreads, 1 percentage points for shares, exchange rates and volatility). The application used to calculate VaR and the expected shortfall was replaced in October 2015.

[1] VaR: maximum potential loss over to specified time horizon and to given confidence level.

[2] Determines portfolio values based on random and historical variations in risk factors respectively.

In addition to these indicators, stress tests are also carried out on the main risk factors, in order to measure the impact of significant movements in the main market data (such as share prices and interest or exchange rates).

It should also be pointed out that since 1 July 2015 the Bank has adopted a calculation approach based on historical simulation, which compared to the previous six months with these market conditions led to a higher absorption of VaR than use of the Monte Carlo method.

The six months under review were characterized initially by high volatility in the summer months, due to the deterioration in the Greek crisis between Athens and international creditors. Stock markets then suffered continuing turmoil as a result of falling oil prices on expectations of a slowdown in the global economy (Asian markets in particular) and the increase in interest rates approved by the Fed in mid-December. By contrast the rates for Italian government bonds were largely stable, due to the effects of the quantitative easing measures implemented by the ECB until December, when the rates began to rise (as a result of disappointment over the size of the reduction in the rates implemented by the ECB, a trend which too has gradually eased.

VaR at the aggregate level, i.e. including also the available for sale portfolio, showed an average reading for the six months rising from €23.1m to €29.4m. The six months as a whole reflected an initial phase marked by high volatility deriving from uncertainties over the possible outcome of the Greek crisis and then the turmoil on Asian markets. In this phase the VaR reading was around €40m before gradually reducing in the month of August to reach between €25m and €30m with occasional forays above €30m.

The increase was driven in particular by the contribution of credit spreads which rose from €5m to €13m, even though part of this latter increase was due to the redistribution of the risk on sovereign debt (from market interest rate risk to specific credit risk) compared to the previous VaR calculation method. The average reading for interest rate risk increased slightly, from €10.8m to €12m, as did inflation (from €2.8m to €3.6m) and exchange rates (from €4.3m to €4.4m), while the VaR figure deriving from volatility virtually doubled, from €1.6m to €3.1m. The contribution to VaR from share prices declined.

Table 1: Value at risk and expected shortfall of asset structure

Risk factors (€'000)	**6 mths ended 31/12/15**				**6 mths ended 31/12/14**
	31/12	**Min**	**Max**	**Avg.**	**Avg.**
Market interest rate risk	7,507	4,429	18,757	12,001	10,840
Specific credit risk	20,519	6,218	20,519	13,093	5,364
Share prices	8,416	7,488	17,987	8,931	10,544
Exchange rates	2,461	609	20,519	4,448	4,253
Inflation	5,347	1,864	8,379	3,592	2,809
Volatility	5,158	1,050	5,537	3,123	1,628
*Diversification effect**	*(23.116)*				
Total	26,292	21,040	42,042	29,393	23,106
Expected shortfall	36,616	25,402	42,042	36,248	41,115

* Due to mismatches between risk factors.

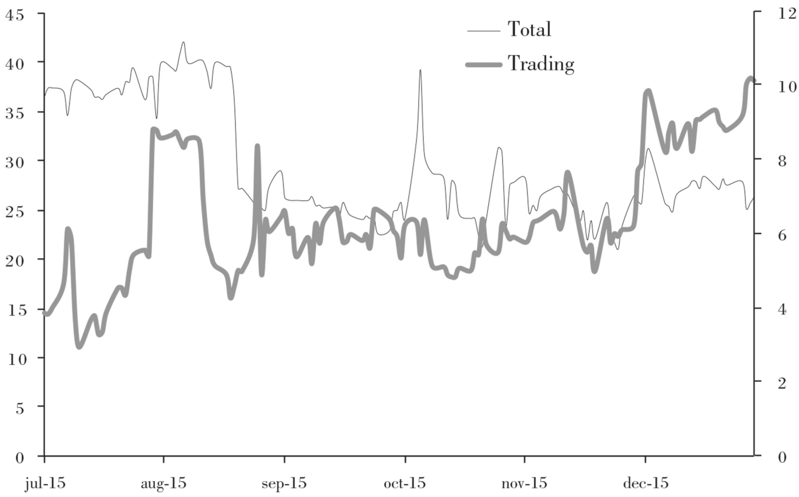
The expected shortfall fell again, with the average reading decreasing from €41.1m to €36.2m.

Table 2: Value at risk and expected shortfall: trading book

Risk factors (€'000)	**6 mths ended 31/12/15**				**6 mths ended 31/12/14**
	31/12	**Min**	**Max**	**Avg**	**Avg.**
Market interest rate risk	1,340	716	9,513	4,082	2,552
Specific credit risk	2,975	1,372	5,157	3,045	802
Share prices	5,336	590	5,452	2,528	1,300
Exchange rates	1,656	479	5,179	1,222	739
Inflation	1,787	1,117	2,323	1,599	860
Volatility	2,755	239	5,153	1,565	2,278
*Diversification effect**	*(5.683)*				*(4.435)*
Total	10,167	2,947	10,234	6,369	3,294
Expected Shortfall	11,067	3,114	12,109	7,406	7,448

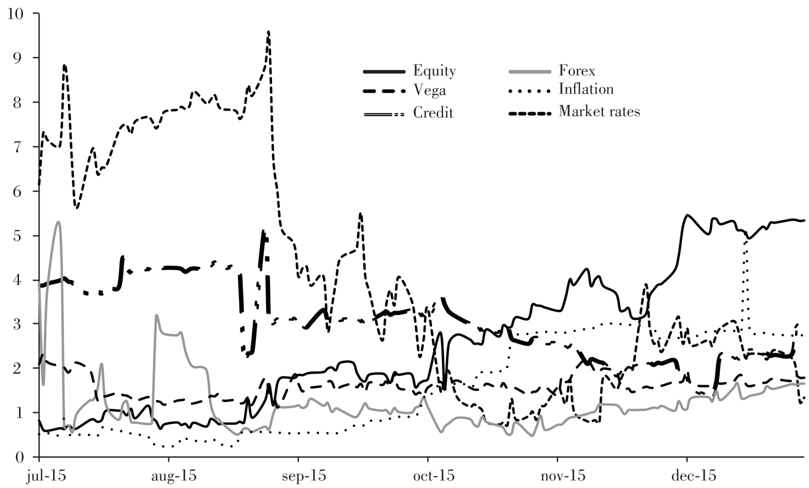
* Due to mismatches between risk factors.

Trends in VaR



The VaR on the trading book showed an increase in the average reading compared to last year, rising from €3.3m to €6.4m. In the first quarter the increase was driven in particular by spreads on government securities and corporate bonds, while in the second quarter the share price component also contributed, with the average reading up from €1.3m to €2.5m due to the increased volatility and the addition of certain new directional positions in that period. The average forex risk rose from €0.7m to €1.2m. In line with the trend seen for the aggregate figures, the expected shortfall remained stable at €7.4m.

Trends in VaR constituents



The results of the daily back-testing on the aggregate including AFS positions, based on calculations of theoretical profits and losses,[3] showed just one breach in the six months (in line with the theoretical level of 1% of the readings), on 3 December 2015 in conjunction with a sharp widening in the Italian government securities curve.

The trading portfolios of the other Group companies continue to be negligible. The most significant contributor after Mediobanca S.p.A. is Compagnie Monégasque de Banque, whose average VaR reading for the period, again based on a 99% confidence level, was €806,000, slightly lower than the average reading of €884,000.

With reference to the sensitivity of net interest income, the trading book (Mediobanca S.p.A. only) as at 31 December 2015 showed a slight loss of €0.4m in the event of a 100 bps rise in interest rates, which becomes a gain of €1.6m in the opposite scenario (100 bps reduction).

Data at 31/12/15 (€ mln)		**Trading Book**
Net interest income sensitivity	+ 100 bps	(0.4)
	- 100 bps	1.6
Discounted value of cash flows sensitivity	+ 200 bps	(78.7)
	- 200 bps	14.9

[3] Based on repricing the previous days' positions using data from the following business day, in order to eliminate intraday trading items..

1.2.2 INTEREST RATE AND PRICE RISK – BANKING BOOK

QUALITATIVE INFORMATION

The Mediobanca Group monitors and manages interest rate risk by analysing the sensitivity of net interest income and economic value to interest rate changes. The first type of sensitivity analysis quantifies the impact of a parallel, instantaneous 100 basis point change in the interest rate curve, until the year-end, i.e. over a time horizon of six months. The second type of sensitivity is calculated by comparing the discounted value of estimated cash flows obtained with the return curve at the current date and the value obtained using a return curve increased or reduced by 100 basis points ("parallel shock").

With reference to the positions held as part of the banking book as at 31 December 2015, in the event of a 100 bps increase in interest rates, the Group's estimated net interest income would decline by approx. €28.4m, of which Mediobanca's contribution would be €9.2m, that of Compass €11.3m and that of CheBanca! €7.5m.

A positive, 200 basis-point shock on the discounted value of future cash flows from the Group's banking book would generate a €290.8m reduction for the Group, reflecting the individual contributions of Mediobanca (€210.3m), Compass (€231.1m) and CheBanca! (€35.7m). Conversely, a reduction in interest rates would drive a €103.8m increase for the Group.

The data described above are summarized in numerical form in the table below:

Data at 31/12/15 (€ mln)		**Banking Book**			
		Group	**MB SpA**	**CheBanca!**	**Compass**
Net interest income sensitivity	+ 100 bps	(28,4)	(9,2)	(7,5)	(11,3)
	- 100 bps	(0,6)	(2,0)	(0,2)	—
Discounted value of cash flows sensitivity	+ 200 bps	(290,8)	(210,3)	(35,7)	(231,1)
	- 200 bps	103,8	154,3	(78,4)	49,1

At Group level, the values obtained in both scenarios continue to remain within the limits set by both the monitoring regulations and operational controls, which are 7.5% (net interest income sensitivity (including trading book[4])/ regulatory capital) and 15% (sensitivity of economic value/regulatory capital).

[4] See comments on p. 157.

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).[5]

B. 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. All fixed-rate, zero coupon and structured bond issues are fair-value hedged for interest rate risk. With regard to the structured bonds in particular, if they 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 in corporate finance for certain bilateral, fixed-rate transactions and to mitigate price risk on equity investments held as available for sale.

C. 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 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.

[5] 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.

Mediobanca S.p.A. also implements cash flow hedges to cover the equity risk linked to shares held as available for sale by executing forward contracts.

Counterparty risk

This is measured in terms of expected potential market value, thus doing away with the need to set arbitrary weightings for each type of fund employed. As far as regards derivatives and loan collateralization products (repos and securities lending), the calculation is based on determining the maximum potential exposure (assuming a 95% confidence level) at various points on a time horizon that reaches up to 30 years. The scope of application regards all groups of counterparties which have relations with Mediobanca, taking into account the existence or otherwise of netting agreements (e.g. ISDA, GMSLA or GMRA) and collateralization (e.g. CSA), plus exposures deriving from interbank market transactions. For each type of operations there are different ceilings split by counterparty and/or group. For medium-/long-term collateralized loans or loans collateralized by stocks reflecting low liquidity or high correlation with the counterparty, the exposure is measured using an ad hoc metric which envisages combined, counterparty-collateral default scenarios and conditions of extreme stress in terms of cashing in on the securities.

Non-collateralized derivatives transactions, as required by IFRS 13, the fair value incorporates the effects of the counterparty's credit risk (CVA) and also of 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 hedging activity

2. Internal models and other methodologies used for sensitivity testing

Directional forex positions remained basically stable in the course of the six months under review, as did volatility for the Euro compared to the trend seen last year. The VaR for the exchange rate component showed an average reading of €4.4m, slightly higher than the €4.2m recorded last year. The point-in-time reading at end-December 2015 was €2.5m.

1.2.4 DERIVATIVE PRODUCTS

A. Financial derivatives

A.1 Regulatory trading book: average and reporting-date notional values

Underlying assets / Type of derivatives	Total 31/12/15		Total 30/6/15	
	Over the counter	Clearing House	Over the counter	Clearing House
1. Debt securities and interest rate indexes	115,805,726	30,533,321	109,478,188	20,231,168
a) Options	100,220	27,788,623	—	19,543,795
b) Swap	104,241,514	—	96,773,438	—
c) Forward	1,241,352	—	—	—
d) Futures	—	2,744,698	—	687,373
e) Others	10,222,640	—	12,704,750	—
2. Equity instruments and stock indexes	11,711,508	14,529,194	11,555,553	12,768,242
a) Options	8,869,533	14,174,473	8,638,072	12,534,420
b) Swap	2,841,975	—	1,717,225	—
c) Forward	—	—	1,200,256	—
d) Futures	—	354,721	—	233,822
e) Others	—	—	—	—
3. Gold and currencies	9,669,255	—	11,047,949	—
a) Options	93,404	—	44,269	—
b) Swap	4,022,943	—	4,524,542	—
c) Forward	5,552,908	—	6,479,138	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other underlyings	—	—	—	—
Total	137,186,489	45,062,515	132,081,690	32,999,410

A.2. Banking book: average and reporting-date notional values

A.2.1 Hedge derivatives

Underlying assets / Type of derivatives	Total 31/12/15		Total 30/6/15	
	Over the counter	Controparti centrali	Over the counter	Controparti centrali
1. Debt securities and interest rate indexes	16,712,220	—	17,829,292	—
a) Options	—	—	—	—
b) Swap	16,353,822	—	17,520,894	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	358,398	—	308,398	—
2. Equity instruments and stock indexes	123,321	—	24	—
a) Options	24	—	24	—
b) Swap	—	—	—	—
c) Forward	123,297	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Gold and currencies	—	—	2,782	—
a) Options	—	—	—	—
b) Swap	—	—	2,782	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other underlyings	—	—	—	—
Total	16,835,541	—	17,832,098	—

A.2.2 Other derivatives

Underlying assets/Type of derivatives	Total 31/12/15		Total 30/6/15	
	Over the counter	**Clearing House**	**Over the counter**	**Clearing House**
1. Debt securities and interest rate indexes	272,251	—	302,251	—
a) Options	—	—	—	—
b) Swap	272,251	—	302,251	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
2. Equity instruments and stock indexes	2,222,705	—	2,331,100	—
a) Options	2,222,705	—	2,331,100	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Gold and currencies	2,766	—	2,692	—
a) Options	—	—	—	—
b) Swap	2,766	—	2,692	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other underlyings	—	—	—	—
Total	2,497,722	—	2,636,043	—

A.3 Financial derivatives: gross positive fair value, by product

Portfolios/Type of derivatives	Positive fair value			
	31/12/15		30/6/15	
	Over the counter	Clearing House	Over the counter	Clearing House
A.Regulatory trading portfolio	4,178,404	515,091	4,732,092	621,272
a) Options	583,493	507,866	967,565	617,262
b) Interest rate swap	2,870,509	—	3,108,280	—
c) Cross currency swap	280,599	—	250,291	—
d) Equity swap	126,093	—	60,960	—
e) Forward	317,710	—	344,996	—
f) Futures	—	7,225	—	4,010
g) Others	—	—	—	—
B. Banking book - Hedging derivatives	991,698	—	1,029,774	—
a) Options	—	—	—	—
b) Interest rate swap	712,862	—	766,279	—
c) Cross currency swap	—	—	19	—
d) Equity swap	—	—	—	—
e) Forward	3,077	—	—	—
f) Futures	—	—	—	—
g) Others	275,759	—	263,476	—
C. Banking book - Other derivatives	207,724	—	66,126	—
a) Options	205,097	—	58,977	—
b) Interest rate swap	2,625	—	7,148	—
c) Cross currency swap	2	—	1	—
d) Equity swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	5,377,826	515,091	5,827,992	621,272

A.4 Financial derivatives: gross negative fair value, by product

Portfolios/Type of derivatives	Negative fair value			
	31/12/15		30/6/15	
	Over the counter	Clearing House	Over the counter	Clearing House
A. Regulatory trading portfolio	(4,034,199)	(541,546)	(4,607,653)	(745,125)
a) Options	(499,812)	(537,741)	(738,000)	(742,326)
b) Interest rate swap	(2,847,689)	—	(3,227,551)	—
c) Cross currency swap	(337,796)	—	(393,640)	—
d) Equity swap	(35,336)	—	(15,095)	—
e) Forward	(313,566)	—	(233,367)	—
f) Futures	—	(3,805)	—	(2,799)
g) Others	—	—	—	—
B. Banking book - Hedging derivatives	(301,051)	—	(557,604)	—
a) Options	(1,953)	—	(264,291)	—
b) Interest rate swap	(299,098)	—	(293,181)	—
c) Cross currency swap	—	—	(132)	—
d) Equity swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
C. Banking book - Other derivatives	(504,583)	—	(223,574)	—
a) Options	(504,479)	—	(223,284)	—
b) Interest rate swap	(104)	—	(290)	—
c) Cross currency swap	—	—	—	—
d) Equity swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	(4,839,833)	(541,546)	(5,388,831)	(745,125)

A.5 OTC financial derivatives: regulatory trading book – notional values, gross positive and negative fair values by counterparty, contracts not forming part of netting arrangements

Contract not included in netting agreements	Governments and central banks	Other public sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rate indexes							
- notional amount	350,000	—	979,999	1,157,183	—	6,386,253	—
- positive fair value	79,203	—	19,818	63,874	—	184,640	—
- negative fair value	(16)	—	(5,157)	(26,512)	—	(302,329)	—
- future exposure	—	—	8,250	6,678	—	56,666	—
2. Equity instruments and stock indexes							
- notional amount	—	33,750	—	260,960	49,969	393,830	—
- positive fair value	—	715	—	2,592	—	52,868	—
- negative fair value	—	(1)	—	(3,024)	—	(4,660)	—
- future exposure	—	2,025	—	15,658	4,997	23,630	—
3. Gold and currencies							
- notional amount	13,844	—	—	230,566	—	1,153,628	643
- positive fair value	—	—	—	2,267	—	9,263	6
- negative fair value	(8)	—	—	(5,628)	—	(172,572)	(2)
- future exposure	138	—	—	2,306	—	60,946	7
4. Other instruments							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—

A.6 OTC financial derivatives: regulatory trading book – notional values, gross positive and negative fair values by counterparty, contracts forming part of netting arrangements

Contracts included in netting agreements	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rate indexes							
- notional amount	—	—	64,675,328	40,625,539	694,424	937,000	—
- positive fair value	—	—	1,987,771	651,346	72,751	99,199	—
- negative fair value	—	—	(2,147,463)	(505,728)	(1,763)	(6,728)	—
2. Equity instruments and stock indexes							
- notional amount	—	—	6,891,042	4,081,958	—	—	—
- positive fair value	—	—	215,127	160,673	—	—	—
- negative fair value	—	—	(238,469)	(140,312)	—	—	—
3. Gold and currencies							
- notional amount	—	—	6,608,555	1,101,976	146,707	413,337	—
- positive fair value	—	—	405,434	169,318	1,540	—	—
- negative fair value	—	—	(392,600)	(7,916)	(1,958)	(71,356)	—
4. Other instruments							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

A.7 OTC financial derivatives: banking book – notional value, gross positive and negative fair values by counterparty, contracts not forming part of netting arrangements

Contracts not included in netting agreements	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rate indexes							
- notional amount	—	—	185,061	—	—	—	—
- positive fair value	—	—	277,063	—	—	—	—
- negative fair value	—	—	(8,436)	—	—	—	—
- future exposure	—	—	613	—	—	—	—
2. Equity instruments and stock indexes							
- notional amount	—	—	—	—	—	—	24
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	2
3. Gold and currencies							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
4. Other instruments							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—

A.8 OTC financial derivatives: banking book – notional value, gross positive and negative fair values by counterparty, contracts forming part of netting arrangements

Contracts included in netting agreements	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rate indexes							
- notional amount	—	—	13,894,717	2,632,441	—	—	—
- positive fair value	—	—	578,707	132,852	—	—	—
- negative fair value	—	—	(266,386)	(26,229)	—	—	—
2. Equity instruments and stock indexes							
- notional amount	—	—	123,297	—	—	—	—
- positive fair value	—	—	3,077	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
3. Gold and currencies							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
4. Other instruments							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

B. Credit derivatives

B.1 Credit derivatives: average and reporting-date notional values

Type of transaction	**Regulatory trading portfolio**		**Banking book**	
	with a single counterparty	**with more than one counterparty (basket)**	**with a single counterparty**	**with more than one counterparty (basket)**
1. Protection buyer's contracts				
a) Credit default products	1,292,719	6,957,510	243,359	9,000
b) Credit spread products	—	—	—	—
c) Total rate of return swaps	—	—	—	—
d) Others	—	—	—	—
Total 31/12/15	1,292,719	6,957,510	243,359	9,000
Total 30/6/15	1,135,001	7,970,108	319,414	11,500
2. Protection seller's contracts				
a) Credit default products	896,188	6,734,480	36,200	1,164,263
b) Credit spread products	—	—	—	—
c) Total rate of return swaps	—	—	—	—
d) Others	—	—	—	—
Total 31/12/15	896,188	6,734,480	36,200	1,164,263
Total 30/6/15	961,977	7,440,465	36,200	1,151,867

B.2 OTC credit derivatives: gross positive fair value, by product

Portfolio/Type of derivatives	**Positive fair value**	
	Total 31/12/15	**Total 30/6/15**
A. Regulatory trading book	138,059	200,389
a) Credit default products	138,059	200,389
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
B: Banking book	10,100	16,721
a) Credit default products	10,100	16,721
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
Total	148,159	217,110

B.3 OTC credit derivatives: gross negative fair value, by product

Portfolio/Type of derivatives	*Negative fair value*	
	Total 31/12/15	**Total 30/6/15**
A. Regulatory trading book	(455,510)	(485,922)
a) Credit default products [1]	(455,510)	(485,922)
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
B. Banking book	(24,452)	(16,729)
a) Credit default products	(24,452)	(16,729)
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
Total	(479,962)	(502,651)

[1] Of which certificates amounting to €283,546,000 and €323,058 respectively.

B.4 OTC credit derivatives: gross positive and negative fair values by counterparty – contracts not forming part of netting arrangements

Contracts not included in netting agreements	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
Regulatory trading portfolio							
1. Protection purchase							
- notional amount	—	—	850,000	—	—	—	—
- positive fair value	—	—	19,322	—	—	—	—
- negative fair value	—	—	(354,977)	—	—	—	—
- future exposure	—	—	42,500	—	—	—	—
2. Protection sale							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
Banking portfolio							
1. Protection purchase							
- notional amount	—	—	—	—	—	—	50,040
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	(4,469)
2. Protection sale							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

B.5 OTC credit derivatives: gross positive and negative fair values by counterparty – contracts forming part of netting arrangements

Contracts included in netting agreements	Governments and central banks	Other public sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
Regulatory trading portfolio							
1. Protection purchase							
- notional amount	—	—	6,950,633	449,597	—	—	—
- positive fair value	—	—	5,958	363	—	—	—
- negative fair value	—	—	(83,467)	(8,543)	—	—	—
2. Protection sale							
- notional amount	—	—	7,191,784	438,883	—	—	—
- positive fair value	—	—	97,399	15,017	—	—	—
- negative fair value	—	—	(7,762)	(761)	—	—	—
Banking portfolio *							
1. Protection purchase							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
2. Protection sale							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

* Derivatives embedded in bonds issued not included..

C. Credit and financial derivatives

C.1 OTC financial and credit derivatives: net fair values and future exposure by counterparty

	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1) Netting agreements related to Financial Derivatives							
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
- net counterparty risk	—	—	—	—	—	—	—
2) Netting agreements related to Credit Derivatives							
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
- net counterparty risk	—	—	—	—	—	—	—
3) Cross products netting agreements *							
- positive fair value	—	—	344,725	426,597	70,571	56,995	—
- negative fair value	—	—	(282,674)	(509,430)	—	(35,880)	—
- future exposure	—	—	548,160	298,080	7,763	22,213	—
- net counterparty risk	—	—	584,602	497,157	41,508	65,339	—

* Representing the sum of the positive fair value and the future exposure net of cash collateral received amounting to €591,314,000, €313,098,000 of which in respect of banks, €227,520,000 of financial companies, €36,826,000 of insurances and €13,870,000 of other non-financial companies; conversely, to cover negative fair value readings, cash collateral of €439,298,000 was paid in, €354,368,000 of which in respect of banks, and €66,000 of financial companies.

1.3 BANKING GROUP: LIQUIDITY RISK

QUALITATIVE INFORMATION

The Mediobanca Group monitors and manages liquidity risk in accordance with the provisions of internal documents approved in accordance with Bank of Italy circular no. 285/15 (as amended): the Liquidity risk management policy (the "Policy") and the Contingency funding plan ("CFP"). The basic principles on which the Policy is based are as follows:

- identifying the parties, responsibilities and duties for controlling liquidity risk for the Group as a whole and for the individual Group companies;
- defining and monitoring the short-term risk limits (operating liquidity), which considers events that would have an impact on the Bank's liquidity position within a timeframe of up to twelve months;
- defining and monitoring medium-/long-term liquidity (structural liquidity), which considers events that would have an impact on the Bank's liquidity position within a timeframe of over twelve months;
- defining a pricing system of internal fund transfers between the Group's various units and companies.

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, while at the same time keeping the costs involved to a minimum.

Specifically, monitoring operating liquidity is intended to ensure that the mismatch between cash inflows and outflows remains sustainable at all times. In this connection the metric adopted is the ratio between counterbalancing capacity (defined principally as the availability post-haircut of bonds and receivables eligible for refinancing with the ECB) and the cumulative net cash outflows. Cash flows are determined in two analysis scenarios, namely the ongoing concern and the specific and systemic stress scenarios.

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. The operating methods adopted involve analysing the maturity profiles for both assets and liabilities over the medium and long term checking that inflows cover 100% of outflows for maturities of more than one year, reduced to 90% of outflows for maturities of more than five years.

In addition to the above, the Liquidity and ALM and Risk Management unit teams also carry out weekly stress tests assuming extraordinary factors such as a) drawdowns on committed lines granted to customers, b) reductions in the debt security funding or unsecured funding channels, c) renewal of only part of the retail funding expiring, and d) anticipation and full realization of lending volumes in the pipeline.

In addition to the previous indicators, a Contingency Liquidity Funding Plan has also been adopted for implementation in the event of a crisis occurring, by following a defined procedure approved by the Board of Directors which identifies parties, responsibilities, communications processes and criteria for reporting, in an attempt to ensure that the state of emergency is dealt with successfully.

To this end a dashboard has been designed for reporting which, together with the stress test analyses, produces a system of early warning indicators (EWIs). The dashboard is a useful instrument for assisting the management in monitoring situations that could lead to deterioration in the Group's liquidity position deriving from external factors (market or sector) or from situations which are peculiar to the Banking Group itself.

From a regulatory viewpoint, the Mediobanca Group has begun reporting the metrics stipulated by EU Regulation 575/2013, namely the liquidity coverage ratio (LCR) and the stable funding ratio (SF).

The Group has also adopted the regulatory metrics stipulated by the Basel Committee, namely the LCR and the net stable funding ratio (NSFR) in order to define liquidity risk as part of the Risk Appetite Framework. Apart from the regulatory indicators LCR and NSFR, the RAF also monitors the funding mix via the retail funding ratio.

The ALM steering committee is responsible for monitoring the overall liquidity situation and sustainability of the business areas' development in view of the Bank's and the Group's asset structure.

In the six months under review, the process of redefining and optimizing the Group's funding sources continued: with reference to debt securities, new issues worth €2.3bn were placed (€0.5bn of which subordinated), against approx. €1.9bn in maturities, while in the retail channel direct funding recorded a €0.8bn increase (from €9.6bn to €10.4bn). Funding raised from the monetary authorities via the Targeted Loan Term Refinancing Operation ("TLTRO") remained unchanged at €5.5bn.

The large debt security portfolio ensured that the balance of expected net outflows was below the counterbalancing capacity in both the normal business and stressed scenarios, and that the supervisory limits/thresholds provided for in the Policy were complied with throughout the period.

At 31 December 2015, the stock of bonds deliverable in exchange for cash to the ECB totalled approx. €10.7bn (30/6/15: €9.3bn),), while the balance of the liquidity reserve established at the European Central bank amounted to approx. €8.1bn (€6bn), approx. €2.6bn of which available in cash not used but undrawn and hence included in the calculation of the counterbalancing capacity.

The LCR and NSFR ratios were at all times above the limits set throughout the reference period.

QUANTITATIVE INFORMATION

1. Financial assets and liabilities by outstanding life

Items/maturities	On demand	From 1 days to 7 days	From 7 days to 15 days	From 15 days to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Not specified
Cash assets	5,359,185	1,464,161	1,146,802	2,713,299	4,313,995	2,651,219	7,214,893	22,839,133	10,566,780	87,662
A.1 Government securities	149	6,295	689	118,748	362,543	366,134	2,178,105	4,384,799	1,316,525	—
A.2 Other debt securities	6,531	—	215,709	186,467	398,994	460,708	404,433	1,806,925	1,073,531	—
A.3 UCITS units	91,667	—	—	—	—	—	—	—	—	—
A.4 Loans and advances	5,260,838	1,457,866	930,404	2,408,084	3,552,458	1,824,377	4,632,355	16,647,409	8,176,724	87,662
– to banks	2,955,920	30,538	277,865	1,207,628	1,752,493	177,069	613,442	433,713	1,104	57,801
– to customers	2,304,918	1,427,328	652,539	1,200,456	1,799,965	1,647,308	4,018,913	16,213,696	8,175,620	29,861
Cash liabilities	13,831,790	2,298,344	1,664,181	1,252,120	6,211,589	2,347,626	4,678,159	20,183,022	4,990,515	496
B.1 Deposits and currentaccounts	9,275,277	685,577	336,824	740,389	1,967,941	1,075,717	1,621,255	1,114,848	244,339	—
– to banks	1,204,378	235,390	8,241	18,606	116,458	57,027	24,886	395,714	194,327	—
– to customers	8,070,899	450,187	328,583	721,783	1,851,483	1,018,690	1,596,369	719,134	50,012	—
B.2 Debt securities	1,456	469	18,707	138,907	1,144,979	926,459	1,998,910	13,072,599	4,684,540	—
B.3 Other liabilities	4,555,057	1,612,298	1,308,650	372,824	3,098,669	345,450	1,057,994	5,995,575	61,636	496
Off-balance-sheet transactions	9,559,281	6,696,476	1,372,320	2,649,902	6,413,047	1,117,377	4,462,427	12,062,443	11,441,694	50,190
C.1 Financial derivatives with exchange of principal	—	479,627	393,032	873,643	3,464,123	519,706	639,331	5,501,984	1,873,239	—
– long positions	—	388,111	318,041	698,046	1,569,247	282,703	280,551	2,326,440	129,198	—
– short positions	—	91,516	74,991	175,597	1,894,876	237,003	358,780	3,175,544	1,744,041	—
C.2 Financial derivatives without principal exchange of	7,827,390	1,664	13,248	38,179	84,766	168,469	185,498	1,700	5,925	—
– long positions	4,065,310	291	9,745	31,166	46,825	115,764	79,438	1,700	5,925	—
– short positions	3,762,080	1,373	3,503	7,013	37,941	52,705	106,060	—	—	—
C.3 Deposits and loans for collection	—	2,678,662	348,215	1,567,366	2,232,794	89,299	1,424,715	2,019,255	4,496,913	—
– long positions	—	2,678,662	348,215	1,567,366	2,220,637	—	613,729	—	—	—
– short positions	—	—	—	—	12,157	89,299	810,986	2,019,255	4,496,913	—
C.4 Irrevocable commitments to disburse funds *	1,497,009	3,518,151	617,805	170,065	445,424	158,563	1,442,701	3,569,334	2,255,681	—
– long positions	3,737	37,799	11	31,268	70,251	138,637	738,335	3,563,075	2,254,254	—
– short positions	1,493,272	3,480,352	617,794	138,797	375,173	19,926	704,366	6,259	1,427	—
C.5 Financed guarantees issued	35,111	—	20	649	798	2,914	3,219	11,024	2,249	50,190
C.6 Financial guarantees received	—	—	—	—	—	—	—	—	—	—
C.7 Credit derivatives with exchange of principal	—	18,372	—	—	185,142	178,426	766,963	959,146	2,807,687	—
– long positions	—	9,186	—	—	47,071	42,963	335,000	520,961	1,502,687	—
– short positions	—	9,186	—	—	138,071	135,463	431,963	438,185	1,305,000	—
C.8 Credit derivatives without exchange of principal	199,771	—	—	—	—	—	—	—	—	—
– long positions	106,225	—	—	—	—	—	—	—	—	—
– short positions	93,546	—	—	—	—	—	—	—	—	—

* Includes hedge sales perfectly matched by purchases for the same amoun

1.4 BANKING GROUP – OPERATIONAL RISKS

QUALITATIVE INFORMATION

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 for 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 average of the last three years' readings of total income. Based on this method of calculation, the capital requirement as at the reporting date was unchanged versus the figure recorded at 30 June 2015, namely €255.5m.

Risk mitigation

Operational risks are managed, in Mediobanca and the main Group companies, by a specific Operational risk management team within the Risk Management unit.

The processes of identifying, assessing (including through self-risk assessment techniques), collecting and analysing loss data and mitigating operational risks 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.

In general, the operating losses recorded have been very low, accounting for less than 1% of the Group's total revenues.

Furthermore, with reference to the possibility of losses caused by interruptions in operations or systems being unavailable, the Group, partly as a result of a centralized IT governance unit being instituted, is in the process of developing operating continuity and disaster recovery plans to ensure that activity can continue and to limit operating losses in the event of serious interruptions.

Legal risk: risks deriving from litigation pending

For a description of the claims currently pending against Mediobanca S.p.A., please see pp. 47-48.

SECTION 5 - OTHER RISKS

QUALITATIVE INFORMATION

As part of the process of assessing the current and future capital required for the company to perform its business (ICAAP) required by the regulations in force, the Group has identified the following types of risk as relevant (in addition to those discussed previously, i.e. credit risk, counterparty risk, market risk, interest rate risk, liquidity risk and operational risk:

- 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);
- expected shortfall on credit portfolio risk – with reference to credit risk, the risk deriving from the failure to cover the positive difference between the total amount of the expected loss calculated with reference to credit exposures with performing counterparties, via the use of risk parameters (PD and LGD) estimated using internal models (not yet ratified for supervisory purposes) and the respective balance-sheet adjustments calculated according to the accounting standards in force;
- strategic risk, both in the sense of risk deriving from 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);
- basis risk: in the context of market risk, basis risk is the risk of losses caused by unaligned price changes in opposite directions from each other, which are similar but not identical;
- compliance risk, i.e. the risk 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, i.e. the current and future risk of reductions in profits or capital deriving from a negative perception of the Bank's image by customers, counterparties, shareholders, investors or regulatory authorities;

- residual risk, i.e. the risk that the recognized techniques used by the Bank to mitigate credit risk should prove to be less effective than anticipated;
- risks deriving from securitizations – the risk that the economic substance of a securitization is not fully reflected in the valuation and risk management decisions taken;
- country risk – the risk of losses being caused by events in a country other than Italy. The concept of country risk is broader than sovereign risk, in the sense that it refers to all exposures regardless of the type of counterparty, i.e. whether or not they are individuals, companies, banks or public administrations;
- transfer risk – the risk that a bank with exposure to a party which finances itself in a currency other than that in which it receives is main income flows, should incur losses due to the borrower's difficulties in converting its currency into the currency in which the exposure is denominated.

Risks are monitored and managed via the respective internal units (Risk Management, Planning and Control, Compliance and Group Audit units) and by specific steering committees.

Part F - Information on consolidated capital

SECTION 1

Consolidated capital

B. Quantitative information

*B.1 Consolidated net equity: breakdown by type of company**

Net equity constituents	Banking Group	Insurance companies	Other companies	Consolidation adjustments and eliminations	Total	Of which: minorities
Share capital	458,992	—	—		458,992	23,809
Share premium reserve	2,150,723	—	—		2,150,723	1,848
Reserves	4,748,090	—	—	(1,777)	4,746,313	64,595
Equity instruments	—	—	—		—	—
(Treasury shares)	(198,254)	—	—		(198,254)	—
Revaluation reserves:	1,057,587	—	—	—	1,057,587	(3,596)
- Financial assets available-for-sale	436,277	2,938	—	(3,212)	436,003	—
- Property, plant and equipment	—	—	—	—	—	—
- Intangible assets	—	—	—	—	—	—
- Foreign investment hedges	—	—	—	—	—	—
- Cash flow hedges	(20,175)	—	—	—	(20,175)	(4,509)
- Exchange differences	(89)	—	—	—	(89)	—
- Non-current assets and disposal group held-for-sale	—	—	—	—	—	—
- Actuarial gains (losses) on defined-benefit pension schemes	(5,107)	—	19	192	(4,896)	(61)
- Portion of measurement reserves relating to investments carried at equity	632,435	(2,938)	(19)	3,020	632,498	—
- Special revaluation laws	14,246	—	—	—	14,246	974
Net profit (loss)	323,114	—	—	—	323,114	2,008
Total	8,540,252	—	—	(1,777)	8,538,475	88,664

* Includes Banca Esperia, consolidated pro rata, plus Compass RE (insurance) and R&S, equity-consolidated (Other companies).

B.2 AFS valuation reserves: composition

Assets/Values	Banking group		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	116,549	(14,661)	2,948	(10)	—	—	(1,531)	333	117,966	(14,338)
2. Equities	318,857	(37)	—	—	—	—	—	—	318,857	(37)
3. UCITS units	17,723	(2,154)	—	—	—	—	(2,102)	88	15,621	(2,066)
4. Loans and advances	—	—	—	—	—	—	—	—	—	—
Total at 31/12/15	453,129	(16,852)	2,948	(10)	—	—	(3,633)	421	452,444	(16,441)
Total at 30/6/15	448,293	(17,803)	3,291	(25)	—	—	(2,187)	1,006	449,397	(16,822)

B.3 AFS valuation reserves: movements during the period

	Debt securities	Equity securities	Units in investment funds	Loans
1. Opening balance	97,103	315,703	19,769	—
2. Additions	32,397	94,673	1,959	—
2.1 Increases in fair value	31,902	94,673	1,959	
2.2 Negative reserves charged back to profit and loss as a result of	495	—	—	—
– impairment	—	—	—	
– disposals	495	—	—	
2.3 Other additions	—	—	—	
3. Reductions	25,872	97,026	2,703	—
3.1 Reductions in fair value	20,005	6,023	2,261	
3.2 Adjustments for impairment	—	6,111	18	
3.3 Positive reserves credited back to profit and loss as a result of: disposals	5,867	84,892	424	
3.4 Other reductions	—	—	—	
4. Balance at end of period	103,628	313,350	19,025	—

SECTION 2

Regulatory 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 and significantly higher than those required by the regulatory guidelines, as shown by the Internal Capital Adequacy Assessment Process (ICAAP) and confirmed by the regulator's most recent decision as part of the SREP 2015 process which set the limit for CET1 at 8.75%, the lowest level among Italian banks. The Group has continued with the process of improving its capital situation still further by disposing of the most closely related assets (investments in banks and insurances) and mitigating concentration risk versus individual borrowers, geographies and sectors, as shown by the most information disclosed to the public as required under Pillar III of Basel II, (published on the Bank's website at www.mediobanca.com).

2.1 Scope of application of regulations

Based on the new body of supervisory and corporate governance rules for banks, which consists of a directive ("Capital Requirements Directive IV – CRD IV") and a regulation ("Capital Requirements Regulation - CRR") issued by the European Parliament in 2013 and incorporated into the Italian regulatory framework under Bank of Italy circular no. 285, the Group has applied the phase in regime, and in particular, once the relevant authorizations had been received, has proceeded to:

– weight the investment Assicurazioni Generali at 370% (up to the book value as at end-December 2012);

– neutralizing the valuation reserves for sovereign debt issued by EU member states and held as AFS financial assets for purposes of calculating the regulatory capital.

2.2 Bank equity

A. Qualitative information

Common Equity Tier 1 (CET1) capital consists of the share attributable to the Group and to minority shareholders of capital paid up, reserves and the profit for the period (€321.1m) adjusted for the estimated dividend calculated on the conventional basis of the announced payout (40%) net of treasury shares (€198.4m), intangible assets (€43.6m), goodwill (€425.7m) and all other prudential adjustments (€34m) in connection with the values of financial instruments (AVAs and DVAs). Deductions of €38.9m involve the investments in banking, financial and insurance companies exceeding the limits set by the phase-in regime; €8.7m of these involve the investment in Assicurazioni Generali.

No Additional Tier 1 (AT1) instruments have been issued.

Tier 2 capital includes the liabilities issued (€2,199.7m), plus 50% of the positive reserves for AFS securities (€329.9m) which does not include the net gain of EU member states' government securities (€68.1m) subject to neutralization. Deductions of €380.5m regard the investments in Tier 2 instruments, in particular subordinated loans to Italian insurance companies. Liabilities issued increased from €1,799.2m to €2,199.7m due to the new *MB Valore* note issued in a nominal amount of €500m falling due in 2025 and to other movements for the period (in particular repayment of the *MB Secondo Atto* subordinated issue in an amount of €73m); no subordinated Tier 2 issue is assisted by grand-fathering.

Issue	**31/12/15**		
	ISIN	**Nominal value**	**Book value***
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	743.1	727.9
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	489.8	485.8
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	498.9	493.7
MB VALORE Tasso Variabile con minimo 3% 2025 Tier 2	IT0005127508	499.4	492.3
Total subordinated debt securities		**2,231.2**	**2,199.7**

* The share of equity calculated differs from the book value because of fair value and amortized cost components and also commitments to buy back securities.

B. Quantitative information

	31/12/15	30/6/15
A. Common equity tier 1 (CET1) prior to application of prudential filters	8,364,990	8,604,990
of which ; CET1 instruments subject to phase-in regime	—	—
B. CET1 prudential filters (+/-)	8,618	41,318
C. CET1 gross of items to be deducted and effects of phase iin regime	8,373,608	8,646,308
D. Items to be deducted from CET1	(515,845)	(863,115)
E. Phase-in regime - impact on CET1 (+/-), including minority interests subject to phase-in regime	(569,695)	(645,698)
F. Total common equity tieer 1 (CET1) (C-D+/-E)	7,288,068	7,137,495
G. Additional tier 1 (AT1) gross of items to be deducted and effects of phase-in regime	—	—
of which AT1 instruments subject to temporary provisions	—	—
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	2,199,686	1,779,200
of which T2 instruments subject to temporary provisions	—	—
N. Items to be deducted from T2	(317,234)	(325,827)
O. Phase-in regime - Impact on T2 (+/-), including instruments issued by branches and included in T2 as a result of phase-in provisions	266,636	291,729
P. Total T2 (M-N+/-O)	2,149,088	1,745,102
Q. Total own funds (F+L+P)	9,437,156	8,882,597

2.3 Capital adequacy

A. Qualitative information

As at 31 December 2015, the Group's Common Equity Ratio, calculated as Tier 1 capital as a percentage of total risk-weighted assets, amounted to 12.40%, higher than the figure reported at 30 June 2015 (11.98%) due to the higher capitalization and the slight reduction in risk-weighted assets (down from €59.6bn to €58.8bn) chiefly in Wholesale Banking. The Total Capital Ratio rose from 14.91% to 16.06%, due to the increase in Tier 2 capital deriving from the new issuance and an increase in the valuation reserves.

B. Quantitative information

Categories/Amounts	Unweighted amounts		Weighted amounts/requirements	
	31/12/15	30/6/15	31/12/15	30/6/15
A. RISK ASSETS				
A.1 Credit and counterpart risk	58,604,741	58,840,983	48,578,702	50,458,895
1. Standard methodology	58,455,912	58,686,010	48,206,070	50,079,717
2. Internal rating methodology	—	—	—	—
2.1 Basic	—	—	—	—
2.2 Advanced	—	—	—	—
3. Securitization	148,829	154,973	372,632	379,178
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			3,886,296	4,036,712
B.2 Credit valuation risk			64,911	66,864
B.3 Settlement risk			—	—
B.4 Market risk			494,962	540,399
1. Standard methodology			482,666	523,460
2. Internal models				—
3. Concentration risk			12,296	16,938
B.5 Operational risk			255,461	255,461
1. Basic Indicator Approach (BIA)			255,461	255,461
2. Standard methodology			—	—
3. Advanced methodology			—	—
B.6 Other prudential requirements			—	—
B.7 Total prudential requirements			4,701,630	4,899,435
C. RISK ASSETS AND REGULATORY RATIOS			58,770,372	59,577,085
C.1 Risk-weighted assets			12.40%	11.98%
C.2 Tier 1 capital/risk-weighted assets (Tier 1 capital ratio)			16.06%	14.91%

Part H - Related party disclosure

1. 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. The new version of the procedure came into force on 31 December 2012 and was updated in May 2015. 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 (Accounting policies) of the notes to the accounts.

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.

1.1 Quantitative information

The exposure (representing the sum of assets plus guarantees and commitments) increased during the period under review, from €1.2bn to €1.6bn, solely as a result of treasury management in connection with short-term money market operations, and now represents approx. 3% of total assets (30/6/15: 2%), while the percentage of net interest income reported in the profit and loss account represented by related parties remained stable at 2%.

Situation as at 31 December 2015

(€m)

	Directors, statutory auditors and strategic management	Associates	Other related parties	Total
Assets	1.7	576.5	1,001.5	1,579.7
of which: other assets	—	*367.6*	*770,0*	*1,137.6*
loans and advances	*1.7*	*208.9*	*231.5*	*442.1*
Liabilities	15.6	0.6	1,466.1	1,482.3
Guarantees and commitments	—	—	186.8	186.8
Interest income	—	14.2	8.7	22.9
Interest expense	(0.1)	—	(0.5)	(0.6)
Net fee income	—	16,0	2.3	18.3
Other income (costs)	(15.7) [1]	0.1	10.4	(5.2)

[1] Of which: short-term benefits amounting to €14.6m and performance shares worth €1.1m. The figure refers to the staff included in the definition of management with strategic responsibilities during the year.

Situation as at 30 June 2015

(€m)

	Directors, statutory auditors and strategic management	Associates	Other related parties	Total
Assets	1.8	645.3	549.3	1,196.4
of which: other assets	—	*440.9*	*278.3*	*719.2*
loans and advances	*1.8*	*204.4*	*271,0*	*477.2*
Liabilities	14.8	0.7	1,031.6	1,047.1
Guarantees and commitments	—	—	152.7	152.7
Interest income	—	31.2	15,0	46.2
Interest expense	(0.3)	—	(5.5)	(5.8)
Net fee income	—	2.4	27.8	30.2
Other income (costs)	(30.8) [1]	6.2	34.4	9.8

[1] Of which: short-term benefits amounting to €28.3m and performance shares worth €2.5m. The figure refers to the staff included in the definition of management 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

The increases in the Bank's share capital for use in connection with the stock option, performance stock option and performance share schemes approved reflect the following situation:

Extraordinary general meeting held on	No. of shares approved	Awards expire on	Deadline for exercising options	No. of options and performance shares awarded
FOR USE IN CONNECTION WITH STOCK OPTION AND PERFORMANCE STOCK OPTION SCHEMES				
28 October 2004	15,000,000	28 October 2009	1 July 2020	12,765,000
of which to directors [1]	*4,000,000*	*28 October 2009*	*1 July 2020*	*3,375,000* [2]
27 October 2007	40,000,000	27 June 2012	1 July 2020	15,536,000
FOR USE IN CONNECTION WITH PERFORMANCE SHARE SCHEMES				
28 October 2015	20,000,000	X	28 October 2020	7,381,157

[1] At a general meeting held on 27 June 2007, shareholders approved a proposal to grant stock options to Board members.

[2] 2,000.000 of which granted to one former director.

At an annual general meeting held on 28 October 2015, shareholders approved a new capital increase for use in connection with the performance share scheme involving the issuance of up to 20 million new shares, replacing the former resolution approved in 2010 with a five-year duration.

2. Description of stock option and performance stock option schemes

The stock option and performance stock option schemes approved pursuant to Article 2441, paragraphs 8 and 5, of the Italian Civil Code, provide for a maximum duration of eight years and a vesting period of thirty-six months.

The schemes were launched with the dual purpose of encouraging loyalty retention among key staff members, i.e. persuading employees with essential and/or critical roles within the Group to stay with Mediobanca, and making the remuneration package offered to them more diversified and flexible.

The choice of beneficiaries and decisions as to the number of options to be allotted are taken in view of the role performed by the person concerned with the company's organization and their importance in terms of creating value.

At present use of the shares outstanding in connection with the scheme is not anticipated.

3. Description of performance share scheme

As part of its use of equity instruments for staff remuneration purposes, Mediobanca has also chosen to adopt a performance share scheme, which was approved by the Bank's shareholders at the annual general meeting held on 28 October 2015.

Under the terms of the scheme, under 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 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.

In connection with this proposal, a resolution to increase the company's share capital was adopted by shareholders at the annual general meeting referred to above, with up to 20 million new Mediobanca shares being issued, and treasury shares owned by the Bank used for this purpose.

During the period under review, as part of staff variable remuneration for the 2015 financial year, a total of 1,840,486 performance shares were awarded; the shares, which are conditional upon certain performance targets being met over a three-year time horizon (or four years in the case of Directors who are also members of the Group's management), will be made available in tranches in November 2017 (up to 740,792), November 2018 (up to 618,871) and November 2019 (up to 351,173) taking into account the additional holding period of one year.

On 27 November 2015 a total of 2,439,833 shares were issued in connection with the 2011, 2012 and 2013 performance share awards from against the 2010 capital issue.

B. QUANTITATIVE INFORMATION

1. Changes to stock option scheme during the period

	31/12/15			30/6/15		
	No. of options	**Avg. price**	**Avg. expiry**	**No. of options**	**Avg. price**	**Avg. expiry**
A. Balance at start of period	22,256,000	8.57	July 2017	26,418,500	8.35	September 2017
B. Additions						
B.1 New issues	—	—	X	—	—	X
B.2 Other additions	—	—	X	—	—	X
C. Reductions						
C.1 Options cancelled	920,000	14.82	X	215,000	16.51	X
C.2 Options exercised	727,500	6.53	X	3,757,500	6.53	X
C.3 Options expired	—	—	X	—	—	X
C.4 Other reductions	—	—	X	190,000	9.52	X
D. Balance at end of period	20,608,500	8.36	August 2017	22,256,000	8.57	July 2017
E. Options exercisable as at reporting date	20,608,500			22,256,000	8.57	X

2. Changes to performance share scheme during the period

	31/12/15		30/6/15	
	No. of performance shares	**Avg. price**	**No. of performance shares**	**Avg. price**
A. Balance at start of period	7,980,504	4,20	8,833,822	4.11
B. Additions				
B.1 New issues	1,840,486	8,21	1,233,303	6.39
B.2 Other additions	—	—	—	—
C. Reductions				
C.1 Options cancelled	—	—	—	—
C.2 Options exercised	2,439,833	4,59	2,077,000	5.22
C.3 Options expired	—	—	—	—
C.4 Other reductions	—	—	9,621	6.11
D. Balance at end of period	7,381,157	5,27	7,980,504	4.20

Part L - Segmental reporting

A. PRIMARY SEGMENTAL REPORTING

A.1 Profit-and-loss figures by business segment

(€m)

Profit-and-loss data	Corporate & Private banking	Principal Investing	Retail & Consumer Banking	Corporate center	Writeoffs [1]	Group
Net interest income	117.8	—	456.3	27.7	2.5	604.3
Treasury income	35.5	14.8	0.1	0.1	(4.7)	45.8
Net fee and commission income	164.0	—	80.3	5.8	(22.7)	227.4
Equity-accounted companies	—	138.4	—	—	0.4	138.8
Total Income	**317.3**	**153.2**	**536.7**	**33.6**	**(24.5)**	**1.016.3**
Labour costs	(108.5)	(3.8)	(83.3)	(14.4)	0.3	(209.7)
Administrative expenses	(80.4)	(0.7)	(130.5)	(19.5)	21.0	(210.1)
Operating Costs	**(188.9)**	**(4.5)**	**(213.8)**	**(33.9)**	**21.3**	**(419.8)**
Gain (losses) on disposal of AFS shares	1.1	91.5	—	—	(0.1)	92.5
Loan loss provisions	(18.8)	—	(198.1)	(7.8)	0.3	(224.4)
Provisions for financial assets	(1.0)	(11.9)	—	—	0.1	(12.8)
Other profits (losses)	—	—	(5.1)	(66.4)	—	(71.5)
Profit Before Tax	**109.7**	**228.3**	**119.7**	**(74.5)**	**(2.9)**	**380.3**
Income tax for the period	(35.1)	(0.1)	(48.3)	24.6	1.7	(57.2)
Minority interest	—	—	—	(2.0)	—	(2.0)
Net Profit	**74.6**	**228.2**	**71.4**	**(51.9)**	**(1.2)**	**321.1**
Cost/Income ratio (%)	*59.5%*	*2.9%*	*39.8%*	*100.9%*	*n.s*	*41.3%*

Business areas include:

– *CIB (Corporate and Investment Banking)*: comprises Wholesale Banking (WSB) which includes lending, structured finance and investment banking activity, and Private Banking (PB) which includes Compagnie Monegasque de Banque, Spafid, Cairn Capital and 50% of Banca Esperia pro rata;

– *Principal Investing:* brings together all the Bank's shareholdings in associates (IAS28) and AFS securities;

– *Retail and Consumer Banking*: comprises consumer credit and retail banking activities, and includes Compass, Futuro, Compass RE, Creditech and CheBanca!;

– *Corporate Centre*: this division houses all other companies (including leasing), plus certain centralized Group cost functions (including the Board of Directors).

[1] The column headed "Writeoffs" includes the contribution of Banca Esperia, which for operating reasons is consolidated pro rata, along with any other items recorded on consolidation (including intercompany eliminations) between the different business areas.

A.2 Balance-sheet data by business segment

(€m)

Balance-sheet figures	CIB & Private banking	Principal Investing	Retail & Consumer banking	Corporate centre	Writeoffs [1]	Group
Treasury funds	6.703.3	0.6	8.591.8	30.3	(8.965.6)	6.360.4
AFS securities	6.926.6	869.0	539.0	—	(224.9)	8.109.7
Fixed financial assets (HTM & LR)	4.781.5	—	368.9	—	(3.635.1)	1.515.3
Equity investments	—	3.017.2	—	—	95.8	3.113.0
Loans and advances to customers	24.493.1	—	16.225.0	2.646.2	(10.362.0)	33.002.3
Funding	(40.072.6)	—	(24.627.3)	(2.609.0)	23.042.2	(44.266.7)

[1] The column headed "Writeoffs" includes the contribution of Banca Esperia, which for operating reasons is consolidated pro rata, along with any other items recorded on consolidation (including intercompany eliminations) between the different business areas.

ANNEXES

Consolidated Balance Sheet (IAS/IFRS-compliant)

(€m)

	Assets	IAS-compliant 31/12/15	IAS-compliant 30/6/15	IAS-compliant 31/12/14
10.	Cash and cash equivalents	48.2	49.0	46.5
20.	Financial assets held for trading	13,108.2	11,860.8	13,626.8
30.	Financial assets recognized at fair value	—	—	—
40.	AFS securities	8,109.7	8,063.1	6,859.7
50.	Financial assets held to maturity	1,189.0	1,311.7	1,612.1
60.	Due from banks	7,596.4	6,078.3	5,864.8
	of which:			
	other trading items	*6,202.1*	*4,955.3*	*5,028.5*
	securities	—	—	—
	other items	*31.3*	*25.8*	*1.7*
70.	Due from customers	35,658.1	37,122.5	36,484.6
	of which:			
	other trading items	*3,608.4*	*4,773.3*	*4,992.7*
	securities	*326.3*	*482.2*	*388.3*
	other items	*67.6*	*54.0*	*42.7*
80.	Hedging derivatives	727.6	754.9	1,009.2
	of which:			
	funding hedge derivatives	*710.3*	*737.2*	*1,007.6*
	lending hedge derivatives	*11.3*	*17.4*	*1.6*
	cash flow hedge derivatives	*6.0*	*0.4*	*1.6*
90.	Value adjustments to financial assets subject to general hedging	—	—	—
100.	Equity investments	3,113.0	3,411.4	3,071.0
110.	Total reinsurers' share of technical reserves	—	—	—
120.	Property, plant and equipment	309.7	308.6	304.6
130.	Intangible assets	*455.6*	*410.3*	*411.9*
	of which:			
	goodwill	*422.9*	*374.1*	*370.2*
140.	Tax assets	869.9	954.2	885.4
	a) current	*138.8*	*218.6*	*185.7*
	b) advance	*731.1*	*735.7*	*699.7*
150.	Other non-current and Group assets being sold	—	—	—
160.	Other assets	363.5	385.8	382.0
	of which:			
	other trading items	*2.9*	*8.3*	*1.6*
	Total assets	**71,548.9**	**70,710.6**	**70,558.6**

The balance sheet provided on p. 15 reflects the following restatements:

– *Treasury funds* comprise asset headings 10 and 20 and liability heading 40, plus the "other trading items" shown under asset headings 60, 70 and 160 and liability headings 10 and 20, with the latter chiefly consisting of repos, interbank accounts and margins on derivatives;

– *Funding* comprises the balances shown under liability headings 10, 20 and 30 (excluding amounts restated as trading items in respect of repos and interbank accounts), plus the relevant amounts in respect of hedging derivatives;

– *Loans and advances to customers* comprise asset headings 60 and 70 (excluding amounts restated as *Treasury funds*), the relevant amounts in respect of hedging derivatives shown under asset heading 80 and liability heading 60, and the impairment charges taken under liability heading 100.

(€m)

	Liabilities and net equity	IAS-compliant 31/12/15	IAS-compliant 30/6/15	IAS-compliant 31/12/14
10.	Due to banks	15,240.8	14,304.0	13,701.2
	of which:			
	other trading items	*5,692.2*	*4,986.7*	*5,437.1*
	other liabilities	*3.4*	*1.4*	*0.4*
20.	Due to customers	16,302.5	16,873.4	16,674.1
	of which:			
	other trading items	*2,341.1*	*3,140.6*	*2,203.4*
	other liabilities	*3.4*	*8.4*	*9.2*
30.	Debt securities	21,251.3	20,154.5	21,010.0
40.	Trading liabilities	8,559.8	8,598.9	9,511.9
50.	Financial liabilities recognized at fair value			
60.	Hedging derivatives	301.8	291.2	297.6
	of which:			
	funding hedge derivatives	*222.7*	*253.9*	*241.1*
	lending hedge derivatives	*7.3*	*20.3*	*28.6*
	cash flow hedge derivatives	*71.8*	*17.0*	*27.9*
70.	Value adjustments to financial liabilities subject to general hedging	—	—	—
80.	Tax liabilities	512.6	625.0	488.2
	a) current	*145.0*	*259.9*	*128.9*
	b) deferred	*367.6*	*365.1*	*359.3*
90.	Liabilities in respect of Group assets being sold	—	—	—
100.	Other liabilities	522.5	684.0	480.6
	of which:			
	other trading items	*16.3*	—	—
	loan loss provisions	*20.5*	*17.7*	*19.6*
110.	Staff severance indemnity provision	26.3	26.7	28.2
120.	Provisions	154.9	157.9	166.8
	a) post-employment and similar benefits	—	—	—
	b) other provisions	*154.9*	*157.9*	*166.8*
130.	Technical reserves	137.8	127.9	124.1
140.	Valuation reserves	1,061.2	1,435.5	981.1
150.	Shares with right of withdrawal	—	—	—
160.	Equity instruments	—	—	—
170.	Reserves	4,681.8	4,354.4	4,373.4
180.	Share premium reserve	2,148.9	2,144.5	2,123.3
190.	Share capital	435.2	433.6	431.8
200.	Treasury shares (-)	(198.3)	(198.7)	(199.2)
210.	Net equity attributable to minorities	88.7	108.0	104.9
220.	Profit (loss) for the period	321.1	589.8	260.6
	Total liabilities and net equity	**71,548.9**	**70,710.6**	**70,558.6**

Consolidated Profit and loss Account (IAS/IFRS-compliant)

(€m)

	Profit and loss account	IAS-compliant 31/12/15	IAS-compliant 30/6/15	IAS-compliant 31/12/14
10.	Interest and similar income	966.0	2.091.6	1.019.1
20.	Interest expense and similar charges	(364.4)	(949.1)	(478.0)
30.	**Net interest income**	**601.6**	**1.142.5**	**541.1**
40.	Fee and commission income	205.5	426.0	234.4
50.	Fee and commission expense	(42.2)	(59.7)	(26.3)
60.	**Net fee and commission income**	**163.3**	**366.3**	**208.1**
70.	Dividends and similar income	29.0	47.6	7.9
80.	Net trading income	9.9	98.9	43.2
90.	Net hedging income (expense)	3.3	(1.1)	0.4
100.	Gain (loss) on disposal of:	100.2	122.5	45.0
	a) loans and advances	*2.4*	*(49.9)*	*(6.8)*
	b) AFS securities	*98.9*	*166.1*	*40.5*
	c) financial assets held to maturity	*1.8*	*19.9*	*14.7*
	d) other financial liabilities	*(2.9)*	*(13.6)*	*(3.4)*
120.	**Total income**	**907.3**	**1.776.7**	**845.7**
130.	Adjustments for impairment to:	(238.3)	(488.1)	(302.5)
	a) loans and advances	*(222.8)*	*(469.5)*	*(290.7)*
	b) AFS securities	*(11.9)*	*(21.0)*	*(11.7)*
	c) financial assets held to maturity	*(0.8)*	*0.9*	*0.4*
	d) other financial liabilities	*(2.8)*	*1.4*	*(0.5)*
140.	**Net income from financial operations**	**669.0**	**1.288.6**	**543.2**
150.	Net premium income	22.4	42.0	20.7
160.	Income less expense from insurance operations	(7.7)	(17.8)	(8.7)
170.	**Net income from financial and insurance operations**	**683.7**	**1.312.8**	**555.2**
180.	Administrative expenses:	(489.3)	(874.6)	(392.0)
	a) personnel costs	*(209.7)*	*(419.3)*	*(193.0)*
	b) other administrative expenses	*(279.6)*	*(455.3)*	*(199.0)*
190.	Net transfers to provisions for liabilities and charges	(1.1)	(3.9)	(0.6)
200.	Net adjustments to property, plant and equipment	(9.7)	(19.2)	(9.5)
210.	Net adjustments to intangible assets	(9.2)	(23.7)	(10.0)
	of which: goodwill	—	—	—
220.	Other operating income (expenses)	67.1	141.7	59.4
230.	**Operating costs**	**(442.2)**	**(779.7)**	**(352.7)**
240.	Profit (loss) for equity-accounted companies	138.8	224.0	123.2
270.	Gain (loss) on disposal of investments	—	—	—
280.	**Profit (loss) before tax on ordinary activities**	**380.3**	**757.1**	**325.7**
290.	Income tax on ordinary activities for the period	(57.2)	(164.2)	(64.1)
300.	**Profit (loss) after tax on ordinary activities**	**323.1**	**592.9**	**261.6**
310.	Net gain (loss) on non-current assets being sold	—	—	—
320.	**Profit (loss) for the period**	**323.1**	**592.9**	**261.6**
330.	Profi (loss) for the period attributable to minorities	(2.0)	(3.1)	(1.0)
340.	**Net profit (loss) for the period attributable to Mediobanca**	**321.1**	**589.8**	**260.6**

The profit and loss account shown on p. 14 reflects the following restatements:

- *Net interest income* includes the result of funding and lending hedging activity (€3.3m, minus €0.2m, and €1.3m respectively), plus the margins on swaps reported under heading 80 (minus €0.6m, €0.2m and €5.5m respectively);
- amounts under Heading 220 have been restated as *Net fee and commission income*, save for amounts refunded/recovered totalling €17.8m, €58.9m and €18.7m respectively which net operating costs; the amounts stated under headings 150 and 160 have also been accounted for as *Net fee and commission income*;
- *Net treasury income* also includes the amounts shown under headings 70 and 80, the gains (losses) on disposal of bonds (respectively €9.6m, €75.6m and €41.9m), as well as financial liabilities reported under heading 100, in addition to the fees payable in respect of securities lending transactions (of €0.3m, €0.3m and €0.5m respectively), taking into account the items already stated;
- *Provisions for other financial assets* include both the AFS securities and HTM financial assets accounted for here under heading 130 and the equity investments shown under heading 240;
- *Loan loss provisions* include the remaining amount under Heading 130, along with the losses incurred as a result of the disposal of receivables to third parties under Heading 100 totalling €1.1m, minus €65m and minus €9.5m respectively;
- *Other gains* (losses) includes the transfers to the SRF and DGS resolution funds booked here under *Other administrative expenses*, as follows: €71.5m as at 31 December 2015 and €13.5m as at 30 June 2015.

Mediobanca S.p.A: Balance Sheet (IAS/IFRS-compliant)

(€m)

	Assets	IAS-compliant 31/12/15	IAS-compliant 30/6/15	IAS-compliant 31/12/14
10.	Cash and cash equivalents	0.5	4.8	0.5
20.	Financial assets held for trading	12,122.5	10,841.1	12,586.5
40.	AFS securities	6,585.2	6,407.1	5,775.1
50.	Financial assets held to maturity	1,175.9	1,302.8	1,601.8
60.	Due from banks	16,509.9	10,784.5	10,937.2
	of which:			
	other trading items	*6,591.1*	*5,132.7*	*5,406.4*
	securities	—	—	—
	other items	*59.2*	*30.6*	*3.4*
70.	Due from customers	18,404.0	24,859.8	25,315.8
	of which:			
	other trading items	*3,123.1*	*4,140.0*	*4,829.6*
	securities	*3,462.3*	*3,643.5*	*3,356.2*
	other items	*39.8*	*84.0*	*25.6*
80.	Hedging derivatives	795.2	817.7	1.069.5
	of which:			
	funding hedge derivatives	*780.0*	*800.3*	*1.067.9*
	lending hedge derivatives	—	*17.4*	—
100.	Equity investments	3,191.9	3,159.7	2,671.7
120.	Property, plant and equipment	120.6	121.4	122.8
130.	Intangible assets	10.2	10.8	10.6
	of which:			
	goodwill	—	—	—
140.	Tax assets	216.1	294.7	257.2
	a) current	*81.7*	*152.4*	*116.6*
	b) advance	*134.4*	*142.3*	*140.6*
160.	Other assets	63.9	61.0	64.3
	Total assets	**59,195.9**	**58,665.4**	**60,413.0**

The balance sheet provided on p. 40 reflects the following restatements:
- *Treasury funds* comprise asset headings 10 and 20 and liability heading 40, plus the "other trading items" shown under asset headings 60, 70 and 160 and liability headings 10 and 20, with the latter chiefly consisting of repos, interbank accounts and margins on derivatives;
- *Funding* comprises the balances shown under liability headings 10, 20 and 30 (excluding amounts restated as trading items in respect of repos and interbank accounts), plus the relevant amounts in respect of hedging derivatives;
- *Loans and advances* to customers comprise asset headings 60 and 70 (excluding amounts restated as Treasury funds), the relevant amounts in respect of hedging derivatives shown under asset heading 80 and liability heading 60, and the impairment charges taken under liability heading 100.

(€m)

	Liabilities and net equity	IAS-compliant 31/12/15	IAS-compliant 30/6/15	IAS-compliant 31/12/14
10.	Due to banks	22,230.6	19,449.0	20,237.5
	of which:			
	other trading items	*6,106.2*	*5,408.4*	*5,837.2*
	other liabilities	*21.3*	*2.8*	*2.0*
20.	Due to customers	2,758.9	4,015.1	2,738.0
	of which:			
	other trading items	*2,343.0*	*3,054.2*	*1,913.3*
	other liabilities	*7.9*	*71.7*	*38.8*
30.	Debt securities	19,427.9	19,990.9	21,859.3
40.	Trading liabilities	8,441.4	8,469.7	9,394.2
60.	Hedging derivatives	585.9	584.7	603.7
	of which:			
	funding hedge derivatives	*515.7*	*538.6*	*557.1*
	lending hedge derivatives	*7.0*	*37.9*	*28.6*
80.	Tax liabilities	377.2	491.6	378.3
	a) current	*84.4*	*201.6*	*86.8*
	b) deferred	*292.9*	*290.0*	*291.5*
100.	Other liabilities	197.8	325.4	181.2
	of which:			
	other trading items	*2.3*	*3.0*	*2.6*
	loan loss provisions	*77.6*	*70.1*	*70.2*
110.	Staff severance indemnity provision	8.8	8.9	9.5
120.	Provisions	138.5	140.4	152.3
	a) post-employment and similar benefits	—	—	—
	b) other provisions	138.5	140.4	152.3
130.	Valuation reserves	373.2	402.2	357.4
140.	Shares with right of withdrawal		—	—
150.	Equity instruments		—	—
160.	Reserves	2,197.5	2,074.7	2,065.1
170.	Share premium reserve	2,148.9	2,144.5	2,123.3
180.	Share capital	435.2	433.6	431.8
190.	Treasury shares (-)	(198.3)	(198.3)	(198.8)
200.	Profit (loss) for the period	72.4	333.0	80.2
	Total liabilities and net equity	**59,195.9**	**58,665.4**	**60,413.0**

Mediobanca S.p.A: Profit and loss Account (IAS/IFRS-compliant)

(€m)

	Profit and loss account	IAS-compliant 31/12/15	IAS-compliant 30/6/15	IAS-compliant 31/12/14
10.	Interest and similar income	470.5	1.206.4	588.4
20.	Interest expense and similar charges	(393.2)	(1.047.4)	(525.0)
30.	**Net interest income**	**77.3**	**159.0**	**63.4**
40.	Fee and commission income	111.5	251.6	147.2
50.	Fee and commission expense	(5.6)	(13.3)	(5.9)
60.	**Net fee and commission income**	**105.9**	**238.3**	**141.3**
70.	Dividends and similar income	20.0	158.3	7.9
80.	Net trading income	13.5	118.2	56.9
90.	Net hedging income (expense)	3.1	(1.0)	0.4
100.	Gain (loss) on disposal of:	97.6	185.9	53.3
	a) loans and advances	*1.3*	*14.5*	*3.0*
	b) AFS securities	*97.2*	*163.0*	*39.1*
	c) financial assets held to maturity	*1.8*	*19.9*	*14.7*
	d) other financial liabilities	*(2.7)*	*(11.5)*	*(3.5)*
120.	**Total income**	**317.4**	**858.7**	**323.2**
130.	Adjustments for impairment to:	(31.0)	(94.6)	(59.6)
	a) loans and advances	*(10.8)*	*(63.5)*	*(37.6)*
	b) AFS securities	*(11.9)*	*(20.9)*	*(11.7)*
	c) financial assets held to maturity	*(0.9)*	*0.6*	*0.3*
	d) other financial liabilities	*(7.4)*	*(10.8)*	*(10.6)*
140.	**Net income from financial operations**	**286.4**	**764.1**	**263.6**
150.	Administrative expenses:	(215.0)	(328.1)	(137.6)
	a) personnel costs	*(90.6)*	*(195.0)*	*(85.1)*
	b) other administrative expenses	*(124.4)*	*(133.1)*	*(52.5)*
160.	Net transfers to provisions for liabilities and charges	—	—	—
170.	Net adjustments to property, plant and equipment	(1.8)	(3.6)	(1.8)
180.	Net adjustments to intangible assets	(2.9)	(5.8)	(2.9)
	of which:			
	goodwill	—	—	—
190.	Other operating income (expenses)	13.7	19.4	9.0
200.	**Operating costs**	**(206.0)**	**(318.1)**	**(133.3)**
210.	Profit (loss) for equity-accounted companies	—	(3.0)	(2.1)
240.	Gain (loss) on disposal of investments	—	—	—
250.	**Profit (loss) before tax on ordinary activities**	**80.4**	**443.0**	**128.2**
260.	Income tax on ordinary activities for the period	(8.0)	(110.0)	(48.0)
270.	**Profit (loss) after tax on ordinary activities**	**72.4**	**333.0**	**80.2**
290.	**Profit (loss) for the period**	**72.4**	**333.0**	**80.2**

The profit-and-loss account provided on p. 39 reflects the following restatements:
- Net interest income includes the result of funding and lending hedging activity (€3.1m, €0, and €1.2m respectively), plus the margins on swaps reported under heading 80 (€4.3m, €27.8m and €23.3m respectively);
- Net treasury income also includes the amounts shown under headings 70 and 80, the gains (losses) on disposal of bonds (respectively €8.8m, €74.1m and €41.5m) and financial liabilities reported under heading 100 as well as securities lending fees (respectively €0; minus €0.3m and minus €0.5m), net of or in addition to the items already stated;
- Provisions for other financial assets include both the AFS securities and HTM financial assets accounted for here under heading 130.
- amounts under Heading 190 have been restated as Net fee and commission income (respectively €16.4m, €19m and €9m);
- Other gains (losses) includes the transfers to the SRF booked here under Other administrative expenses, as follows: €63.7m as at 31 December 2015 and €12.7m as at 30 June 2015.

Mercurio GP - Milan