MEDIOBANCA

Interim Report

for the six months ended 31 December 2016

MEDIOBANCA

LIMITED COMPANY
SHARE CAPITAL € 436,516,671
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 2016

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

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
	Vanessa Labérenne	»	2017
	Elisabetta Magistretti	»	2017
	Marina Natale	»	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

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

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REVIEW OF OPERATIONS

REVIEW OF OPERATIONS

The Mediobanca Group reported a net profit of €418.2m in the six months under review, up 30.2% on the €321.1m posted last year. This improved result reflects strong performances by all the Group's divisions, as reshaped following the three-year strategic plan unveiled in November 2016. The Corporate and Investment Banking division saw net profit rise from €106.3m to €126.2m, on lower loan loss provisions, and boosted by Specialty Finance operations. Consumer Banking delivered a net profit up from €70.2m to €122.7m, on a 12.6% increase in net interest income, and a sharp, 13.6% reduction in loan loss provisions due to the improved risk profile. The net profit posted by Wealth Management doubled from €23.7m to €48.8m, as a result of the consolidation of Cairn Capital and Barclays Italy, plus €22.4m in net income deriving from the badwill collected following the Barclays acquisition (€240m). The Principal Investing division's contribution to the bottom line rose from €229.7m to €242m, following the sale of part of the Atlantia stake. Only the Holding Functions division reported a loss of €122.6m (31/12/2015: €93m), due to higher cash and liquid assets in a negative interest rate scenario.

Total revenues were up 5.5%, from €1,016.3m to €1,072.4m, with the main income items performing as follows:

- Net interest income rose by 5.2%, from €604.3m to €635.6m, reflecting growth of 12.6% in Consumer Banking (from €362.8m to €408.4m) and of 24.9% in Wealth Management (from €94.1m to €117.5m), which more than offset the reduction in Holding Functions (net expense totalling €47.1m, compared with €11.5m last year);
- Net treasury income climbed from €45.8m to €63.8m, despite €13.3m in losses on bond buybacks; the result was buoyed by gains on disposals of AFS securities (€17.1m) and by trading book activity, which added €54.1m (€24m);
- Net fee and commission income totalled €236.8m, up slightly on the €227.4m reported last year, driven by the performances of Cairn Capital (€11.7m) and CheBanca! (up from €20.5m to €31.5m, including €8.3m contributed by the

former Barclays business unit), offsetting the reduction in fees earned from Wholesale Banking (from €116m to €86.8m) due to lower capital market activity volumes;

– The contribution from equity-accounted companies remained virtually unchanged at €136.2m (€138.8m).

Operating costs rose by 10.4%, from €419.8m to €463.5m, reflecting approx. €38.5m in respect of the new entities. On a like-for-like basis overheads would have been virtually unchanged (up 1.2%).

Loan loss provisions fell by 18.1%, from €224.4m to €183.7m, reflecting a widespread improvement in the loan book risk profile, in Consumer Banking in particular (where provisioning declined from €184.1m to €159m) and Wholesale Banking (where €1.6m was written back, compared with €18.5m in adjustments taken last year). The cost of risk therefore fell to 102 bps (31/12/15: 136 bps; 30/6/16: 124 bps), on higher coverage ratios: up from 54% to 55% for the non-performing assets, and up from 1% to 1.1% for performing items.

Net gains on the securities portfolio include the gains realized on tendering the Bank's investment in Atlantia (€110.4m) and other minor investments. Conversely, the provisions for other financial assets, which totalled €7.9m (compared with €12.8m) chiefly consist of collective adjustments in respect of banking book securities (€5.8m).

Other provisions and charges of €26.2m include the €50m one-off contribution to the Bank Resolution Fund (required as part of the measures to support Banca delle Marche, Banca Popolare dell'Etruria, Cassa di Risparmio di Chieti, and Cassa di Risparmio di Ferrara), plus €4.5m as the compulsory contribution to the Deposit Guarantee Scheme (DGS), and €29.4m in non-recurring income in connection with the Barclays Italy acquisition (cf. below).

Total assets [1] grew from €69.8bn to €73.5bn, as a result in particular of the Barclays acquisition. The individual asset headings reflect the following performances:

– Loans and advances to customers rose from €34.7bn to €37.6bn, due to the mortgage loans acquired from Barclays (€2.4bn), and to growth in Consumer Banking (where lending was up €250m) and Speciality Finance (up €280m);

[1] See Annex 1, which summarizes the reconciliation between the old and new restatements.

– Funding increased from €46.7bn to €49.7bn, due to Barclays which added €2.9bn, driving retail deposits to €13.8bn, now 28% of the consolidated funding; the other forms of funding (i.e. bonds and ECB deposits) were basically stable;

– Debt securities held as part of the banking book declined from €9.9bn to €8.3bn, compensated for by the increase in net treasury assets which climbed from €5.5bn to €7.8bn, in particular for short-term liquidity;

– Assets under management in connection with Wealth Management activities, including direct funding, rose from €42.2bn to €50.6bn; AUM/AUA climbed to €21.3bn (€17.4bn), split between Private Banking (€14.4bn, versus €13.5bn last year) and the Affluent & Premier segment (CheBanca!) which rose from €3.9bn to €6.9bn following the acquisitions of Barclays (€2.9bn) and the Cairn Capital funds (flat at €2bn).

The Group's capital ratios as at 31 December 2016, 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 (see below): the Common Equity Tier 1 ratio stood at 12.27% (30/6/16: 12.08%), and the Total Capital ratio at 15.74% (15.27%). 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 12.82% for the CET1 ratio, and to 16.41% for the Total capital ratio respectively.

* * *

With the new strategic plan coming into force, the Group's operations are now structured into five separate divisions:

– *Corporate & Investment Banking (CIB):* this division brings together all services provided to corporate clients in the following areas: Wholesale Banking (lending, advisory, capital markets activity and proprietary trading); and Specialty Finance (factoring and credit management, including NPL portfolios);

– *Consumer Banking (CB):* this division provides retail clients with the full range of consumer credit products, ranging from personal loans to salary-backed finance (Compass and Futuro);

– *Wealth Management (WM):* this division brings together all activities addressed to private clients and high net worth individuals (Compagnie

Monégasque de Banque, Banca Esperia and Spafid) and asset management services provided to affluent & premier customers (CheBanca!); the division also includes Cairn Capital (Alternative AM);

– *Principal Investing (PI):* this division brings together the Group's portfolio of equity investments and holdings, including the stake in Assicurazioni Generali;

– *Holding Functions (formerly the Corporate Centre):* this division houses the Group's Treasury and ALM activities (which previously were included in the CIB division); it also includes all costs relating to Group staffing and management functions, most of which were also previously allocated to CIB, and continues to include the leasing operations.

The five divisions' respective performances for the six months under review were as follows.

Corporate and Investment Banking reported a net profit of €126.2m (31/12/15: €106.3m), on a 2.8% increase in revenues, a slight reduction in costs, and lower loan loss provisions and writedowns to securities (totalling €12.2m. compared with €24.5m last year). Both segments showed an improvement in profits: Wholesale Banking from €100.5m to €113.9m, and Specialty Finance from €5.9m to €12.3m.

Consumer Banking saw net profit increase, from €70.2m to €122.7m. as a combined effect of higher revenues (up from €422.6m to €475.6m, driven by 12.6% growth in net interest income), and lower loan loss provisions, of €159m (€184.1m), the declining cost of risk reflecting the improved credit quality (down from 351 bps last year to 286 bps).

Wealth Management reported a net profit of €48.8m, higher than last year (€23.7m) due to the expanded area of consolidation: the higher total revenues of €214.3m (€163m) reflect the contributions of both the Barclays business unit (€36.8m) and Cairn Capital (€12.1m); as does the increase in costs, which amounted to €170.7m (€128.1m), €28.7m of which derived from Barclays and €11.6m from Cairn. The result also includes €22.4m which emerged from the allocation of the badwill collected in connection with the Barclays business unit acquisition. CheBanca! reported a sharp increase in net profit from €5.8m to €29.1m for the six months (€6.7m net of the income referred to above), whereas private banking delivered an increase in net profit from €17.9m to €19.7m.

Principal Investing reported a net profit of €242m, in line with the result posted last year (€229.7m): the increase in gains, from €91.5m to €118.9m, generated largely from the sale of Atlantia shares, was offset by the reduction in total revenues posted by Assicurazioni Generali of €137.9m (€153.2m).

Holding Functions reported a loss of €122.6m (€93m), driven by higher treasury management costs reflected in higher net interest expense (which increased from €11.5m to €47.1m), only in part offset by the lower contributions to the Bank Resolution Fund and Deposit Guarantee Scheme, which this year totalled €56.3m (€66.4m). The contribution from leasing operations to this division's results was virtually unchanged from last year, with a net profit for the six months of €2.6m (€3m).

* * *

Significant events that took place during the six months include:

- On 26 August 2016 CheBanca! completed its acquisition of Barclays' Italian retail operations on 26 August 2016. The acquisition involved 85 branches, 564 commercial retail staff, 68 financial advisors, 220,000 customers, €0.4bn in liquid assets, €2.5bn in residential mortgages (with no bad loans), €2.9bn in direct funding and €2.8bn in indirect funding, €2bn of which in assets under management. Under the terms of the deal, Barclays paid CheBanca! €240m in respect of the business unit with balanced assets and liabilities. This amount has been subject to purchase price allocation as required by IFRS 3. Following this process, an initial fair value has been assigned to the assets and liabilities of minus €61.7m (including €26m of intangible assets in the form of indirect funding), potential liabilities of €59m (in connection with the restructuring process), and provisions in respect of mortgage loans totalling €21m, roughly half of which in respect of non-performing loans. The remaining balance of €98.3m, which could be subject to further adjustments in the course of the twelve months following acquisition, covers the €68.9m one-off costs incurred in connection with the process of integrating the former Barclays network into the CheBanca! platform (given that there were some areas of overlap in in the commercial network). The overall benefit of the transaction booked as at 31 December 2016 thus came to €29.4m (€22.4m net of taxation);
- Approval of the 2016/19 strategic plan guidelines, which confirmed the Group's reshaping towards an even more sustainable, diversified and

valuable business model, able to generate high income and capital, while matching outstanding balance-sheet content with efficiency. Growth in banking businesses is expected to derive from leveraging on strengths and opportunities in Corporate and Investment Banking and Consumer Banking, and from prioritizing development of the new Wealth Management platform. Capital generation is expected to derive from growth in earnings, but also from optimizing the management processes, reducing the equity investments (AFS and the Assicurazioni Generali stake), and validation of the advanced models (AIRB) applied to the Large Corporate (CIB), Consumer Banking (Compass and Futuro) and Mortgage lending (CheBanca!) portfolios. For the period-end (30 June 2019) the Group has set the following objectives:

  - GOP (net of cost of risk): €1bn, 3Y CAGR +10%;
  - ROTE[2] : 10%,
  - ROAC[3] of banking businesses: 12%, with cost of risk at 105 bps;

- Acquisition of the 50% of Banca Esperia not already owned by the Mediolanum Group for a consideration of €141m, to be transferred once the transaction has been approved by the relevant authorities. The acquisition forms part of the Group's strategy to grow its presence in the private (WM) and MidCaps (CIB) segments, which represent the two main guidelines of the new plan. Integration of Banca Esperia will enable the Mediobanca Group to achieve significant cost synergies and reshape its private banking service offering in Italy through the new Mediobanca Private Banking brand. Its platform for services to Mid-Corporate clients and the Group's asset management product factory will also be empowered as a result of the acquisition;
- The ECB's decision, following the outcome of the SREP 2016 process, to set the minimum phase-in CET1 ratio to be complied with at the consolidated level at 7%, and the total capital ratio at 10.5%. Compared to last year these ratios are assisted by the phase-in regime for the capital conservation buffer, and even though they increase to 8.25% and 11.75% respectively fully-phased, they are still much lower than last year (CET1 ratio limit: 150 bps lower phase-in, 50 bps lower fully-phased). The ECB's decision also reflects the results of the stress tests, which confirmed the Group's solidity even in stressed conditions. In the adverse scenario, in 2018 the impact on CET1 is just 94 basis points, one of the lowest levels recorded by any EU bank;

[2] ROTE: net profit/average tangible common equity (KT). KT= shareholders' equity less goodwill less identifiable tangible assets.

[3] ROAC: net profit/capital allocated (K). K= 9% * RWAs.

– The partial buyback of two subordinated bond issues, completed in an amount of €218.4m, with a view to optimizing the Group's liabilities management and liquidity position.

Consolidated financial statements *

The consolidated profit and loss account and balance sheet have been restated – including by business area – according to the new divisional segmentation, in order to provide the most accurate reflection of the Group's operations. The results are also presented in the format recommended by the Bank of Italy as an annex.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(€m)

	6 mths ended 31/12/15	12 mths ended 30/6/16	6 mths ended 31/12/16	Chg. (%)
Profit-and-loss data				
Net interest income	604.3	1.206.7	635.6	5.2
Treasury income	45.8	133.1	63.8	39.3
Net fee and commission income	227.4	450.1	236.8	4.1
Equity-accounted compsanies	138.8	256.7	136.2	-1.9
Total income	**1,016.3**	**2,046.6**	**1,072.4**	**5.5**
Labour costs	(209.7)	(440.8)	(231.1)	10.2
Administrative expenses	(210.1)	(451.1)	(232.4)	10.6
Operating costs	**(419.8)**	**(891.9)**	**(463.5)**	**10.4**
Gain (losses) on AFS, HTM and L&R	92.5	124.2	121.7	31.6
Loan loss provisions	(224.4)	(418.9)	(183.7)	-18.1
Provisions for financial assets	(12.8)	(19.4)	(7.9)	-38.3
Other profits (losses)	(71.5)	(104.3)	(26.2)	-63.4
Profit before tax	**380.3**	**736.3**	**512.8**	**34.8**
Income tax for the period	(57.2)	(128.7)	(92.9)	62.4
Minority interests	(2.0)	(3.1)	(1.7)	-15.0
Net profit	**321.1**	**604.5**	**418.2**	**30.2**
Gross operating profit from banking activities	**224.6**	**460.5**	**291.7**	**29.9**

(*) For a description of the method by which the data have been restated, see also the section entitled "Significant accounting policies.

RESTATED BALANCE SHEET

(€m)

	31/12/15	30/6/16	31/12/16
Assets			
Financial assets held for trading	13,108.2	9,505.3	10,335.7
Treasury financial assets	9,861.6	8,407.9	10,236.1
AFS equity	928.1	914.3	697.6
Banking book securities	8,696.9	9,890.3	8,272.7
Loans and advances to customers	33,018.9	34,738.7	37,598.3
Equity investments	3,113.0	3,193.3	3,441.1
Tangiible and intangible assets	765.2	757.8	787.8
Other assets	2,057.1	2,411.0	2,105.6
Total assets	**71,548.9**	**69,818.6**	**73,474.9**
Liabilities and net equity			
Funding	44,754.4	46,658.4	49,665.3
Treasury funding	8,049.7	5,254.7	5,337.4
Financial liabilities held for trading	8,559.8	7,141.5	7,413.3
Other liabilities	1,465.4	1,661.9	1,654.1
Provisions	181.2	180.3	261.8
Net equity	8,128.7	8,228.1	8,633.0
Minority interests	88.7	89.2	91.8
Profit for the period	321.1	604.5	418.2
Total liabilities and net equity	**71,548.9**	**69,818.6**	**73,474.9**
Tier 1 capital	*7,288.1*	*6,504.8*	*6,602.8*
Regulatory capital	*9,437.2*	*8,227.2*	*8,468.9*
Risk-weighted assets	*58,771.1*	*53,861.6*	*53,791.5*
Tier 1 capital/risk-weighted assetts	*12.40%*	*12.08%*	*12.27%*
Regulatory capital/risk-weighted assets	*16.06%*	*15.27%*	*15.74%*
No. of shares in issue (million)	*870.4*	*871.0*	*872.8*

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

(€m)

31 December 2016	Corporate and Investment Banking	Consumer Banking	Wealth Management	Principal Investing	Holding Functions	Group
Profit-and-loss data						
Net interest income	153.4	408.4	117.5	(3.6)	(47.1)	635.6
Treasury income	54.0	—	6.6	6.8	(0.3)	63.8
Net fee and commission income	107.0	67.2	90.2	—	9.1	236.8
Equity-accounted companies	—	—	—	134.7	—	136.2
Total income	**314.4**	**475.6**	**214.3**	**137.9**	**(38.3)**	**1.072.4**
Labour costs	(61.7)	(45.5)	(83.0)	(1.6)	(50.2)	(231.1)
Administrative expenses	(50.5)	(91.3)	(87.7)	(0.3)	(20.3)	(232.4)
Operating costs	**(112.2)**	**(136.8)**	**(170.7)**	**(1.9)**	**(70.5)**	**(463.5)**
Gains (losses) on AFS, HTM and L&R	—	—	3.1	118.9	—	121.7
Net loss provisions	(12.2)	(159.0)	(10.9)	(0.9)	(9.3)	(191.6)
Other profits (losses)	—	—	27.3	—	(56.3)	(26.2)
Profit before tax	**190.0**	**179.8**	**63.1**	**254.0**	**(174.4)**	**512.8**
Income tax for the period	(63.8)	(57.1)	(14.3)	(12.0)	53.5	(92.9)
Minority interest	—	—	—	—	(1.7)	(1.7)
Net profit	**126.2**	**122.7**	**48.8**	**242.0**	**(122.6)**	**418.2**
Cost/Income (%)	35.7	28.8	79.7	1.4	n.m.	43.2
Balance-sheet data						
Loans and advances to customers	15,357.8	11,244.9	9,104.9	n.m.	2,362.2	37,598.3
Risk-weighted assets	24,825.8	11,387.0	5,432.8	7,243.0	4,902.9	53,791.5
No. of staff	579	1,402	1,951 *	11	769	4,565

* Includes 147 staff employed by Banca Esperia on a pro-forma basis, not included in the Group total.

Notes:
1) Divisions comprise:
   - Corporate & Investment Banking (CIB): brings together all services provided to corporate clients in the following areas:
   - Wholesale Banking, Client Business (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca S.p.A., Mediobanca International, MB USA and MB Turkey);
   - Specialty Finance: comprises factoring and credit management (including NPL portfolios) activities headed up by Creditech;
   - Consumer Banking (CheBanca!): provides retail clients with the full range of consumer credit products, ranging from personal loans to salary-backed finance (Compass, Futuro and Conpass RE);
   - Wealth Management (WM): new division which brings together all asset management services offered to the following client segments:
   - Affluent & Premier, addressed by CheBanca!;
   - Private & High Net Worth Individuals, addressed in Italy by Banca Esperia (at present still consolidated pro rata at 50%) and Spafid, and in the Principality of Monaco by Compagnie Monégasque de Banque; this division also comprises the alternative AM product factory and in particular Cairn Capital);
   - Principal Investing (PI): division which brings together the Group's portfolio of equity investments and holdings;
   - Holding Functions: division which houses the Group's Treasury and ALM activities (as part of Mediobanca S.p.A.), with the objective of optimizing management of the funding and liquidity processes; it also includes all costs relating to Group staffing and management functions; and continues to include the leasing operations (headed up by SelmaBipiemme) and the services and minor companies (MIS and Prominvestment).
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 (equal to minus €1.1m).

(€m)

30 june 2016	Corporate and Investment Banking	Consumer Banking	Wealth Management	Principal Investing	Holding Functions	Group
Profit-and-loss data						
Net interest income	300.9	746.9	186.4	—	(33.3)	1,206.7
Treasury income	96.2	—	13.1	29.2	3.5	133.1
Net fee and commission income	227.9	126.1	134.6	—	23.3	450.1
Equity-accounted companies	—	—	—	255.0	—	256.7
Total income	**625.0**	**873.0**	**334.1**	**284.2**	**(6.5)**	**2,046.6**
Labour costs	(134.4)	(88.5)	(128.1)	(4.5)	(84.2)	(440.8)
Administrative expenses	(105.4)	(185.5)	(140.3)	(1.4)	(78.0)	(451.1)
Operating costs	**(239.8)**	**(274.0)**	**(268.4)**	**(5.9)**	**(162.2)**	**(891.9)**
Gains (losses) on AFS, HTM and L&R	—	—	4.5	119.8	—	124.2
Net loss provisions	(34.5)	(354.4)	(16.9)	(17.9)	(14.8)	(438.3)
Other profits (losses)	(2.5)	(5.6)	(5.4)	—	(92.3)	(104.3)
Profit before tax	**348.2**	**239.0**	**47.9**	**380.2**	**(275.8)**	**736.3**
Income tax for the period	(125.4)	(85.2)	(9.9)	(7.0)	89.6	(128.7)
Minority interest	—	—	—	—	(3.1)	(3.1)
Net profit	**222.8**	**153.8**	**38.0**	**373.2**	**(189.3)**	**604.5**
Cost/Income (%)	38.4	31.4	80.3	2.1	n.m.	43.6
Balance-sheet data						
Loans and advances to customers	15,125.1	10,995.2	6,607.5	—	2,494.5	34,738.7
Risk-weighted assets	27,229.7	11,248.4	4,356.1	6,756.3	4,271.1	53,861.6
No. of staff	579	1,401	1,432 *	11	752	4,036

* Includes 139 staff employed by Banca Esperia on a pro-forma basis, not included in the Group total.

(€m)

31 December 2015	Corporate and Investment Banking	Consumer Banking	Wealth Management		Principal Investing	Holding Functions	Group
Profit-and-loss data							
Net interest income	156.4	362.8	94.1		—	(11.5)	604.3
Treasury income	24.3	—	5.8		14.8	5.5	45.8
Net fee and commission income	125.1	59.8	63.1		—	11.2	227.4
Equity-accounted companies	—	—	—		138.4	—	138.8
Total income	**305.8**	**422.6**	**163.0**		**153.2**	**5.2**	**1,016.3**
Labour costs	(66.5)	(43.2)	(59.9)		(2.3)	(37.0)	(209.7)
Administrative expenses	(46.7)	(87.3)	(68.2)		(0.7)	(38.6)	(210.1)
Operating costs	**(113.2)**	**(130.5)**	**(128.1)**		**(3.0)**	**(75.6)**	**(419.8)**
Gains (losses) on AFS, HTM and L&R	—	—	1.1		91.5	—	92.5
Net loss provisions	(24.5)	(184.1)	(8.4)		(11.9)	(8.7)	(237.2)
Other profits (losses)	—	(5.1)	—		—	(66.4)	(71.5)
Profit before tax	**168.1**	**102.9**	**27.6**		**229.8**	**(145.5)**	**380.3**
Income tax for the period	(61.8)	(32.7)	(3.9)		(0.1)	54.5	(57.2)
Minority interest	—	—	—		—	(2.0)	(2.0)
Net profit	**106.3**	**70.2**	**23.7**		**229.7**	**(93.0)**	**321.1**
Cost/Income (%)	37.0	30.9	78.6		2.0	n.m.	41.3
Balance-sheet data							
Loans and advances to customers	13,991.2	10,617.8	6,271.5		—	2.494.5	33,018.9
Risk-weighted assets	29,060.2	10,273.3	4,081.6		11,290.4	4.065.6	58,771.1
No. of staff	572	1,374	1,416	*	12	726	3,965

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

Balance Sheet

The Group's total assets rose by 5.3%, from €69.8m to €73.5bn. The main balance-sheet items, of which Mediobanca S.p.A. contributes approx. 57%, showed the following trends for the six months under review (comparative data as at 30 June 2016).

Funding - this item rose from €46.7bn to €49.7bn, chiefly due to the consolidation of the former Barclays Italy deposits (€2.9bn) and increased recourse to ECB financing (up €1.5bn). During the six months under review there were new bond issuances of €0.8bn, €300m of which in relation to the subordinated Tier 2 MB Opera issue, against redemptions and buybacks totalling €1.6bn, including €218.4m as a result of the partial buyback of two subordinated Tier 2 issues referred to earlier, which had entered the redemption phase. Recourse to the interbank channel showed a reduction, partly as a result of the increase in private banking (CMB) customer deposits.

	30/6/16		31/12/16		Chg.
	(€m)	%	(€m)	%	
Debt securities (incl. ABS)	20,310.7	44%	19,666.8	40%	-3.2%
CheBanca retail funding	10,724.1	23%	13,841.8	28%	29.1%
Private Banking deposits	3,002.8	6%	3,557.1	7%	18.5%
Interbank funding (+CD/CP)	5,542.3	12%	4,055.9	8%	-26.8%
LTRO	5,011.0	11%	6,511.0	13%	29.9%
Other funding	2,067.4	4%	2,032.7	4%	-1.7%
Total funding	**46,658.3**	**100%**	**49,665.3**	**100%**	**6.4%**

Loans and advances to customers – the 8.2% increase in this item involved chiefly the addition of the former Barclays mortgage receivables (€2.4bn), and the growth in lending in the Consumer Banking and Specialty Finance segments (€250m and €280m respectively, for the latter in factoring business in particular), with Wholesale Banking lending volumes largely stable. New loans in Consumer Banking were up 5.8% in the six months, from €2,953.7m to €3,125.8m, while the turnover in factoring business more than doubled, from €760.1m to €1,827.3m, with new mortgage loans flat at €522.9m (€513.6m). The wholesale portfolio reflects new loans of €3,033.1m, on redemptions totalling €3,112.8m, €947.1m of which were early. Net non-performing assets remained at very low levels, and declined still further as a percentage of the total loan book, from 2.7% to 2.5%, with the coverage ratio edging up from 54% to 55%. The increase in non-performing mortgages (from €148.5m to €176.5m) reflects the addition of Barclays, with its €26.9m in overdue and unlikely-to-pay exposures. This heading does not include the portfolios of NPLs acquired, which rose from €70.5m to €76.7m. Net bad loans declined to €167.8m (€184.6m), and account for just 0.45% (0.53%) of the total loan book.

	30/6/16		31/12/16		Chg.
	(€m)	%	(€m)	%	
Wholesale Banking	14,254.1	41%	14,207.8	38%	-0.3%
Specialty finance	871.0	3%	1,150.0	3%	32.0%
Private Banking	10,995.2	32%	11,244.9	30%	2.3%
Consumer	5,051.3	15%	7,441.5	20%	47.3%
Retail Banking	1,072.6	3%	1,191.9	3%	11.1%
Leasing	2,494.5	6%	2,362.2	6%	-5.3%
Total loans and advances to customers	**34,738.7**	**100%**	**37,598.3**	**100%**	**8.2%**

	30/6/16		31/12/16		Chg.
	(€m)	Coverage ratio %	(€m)	Coverage ratio %	
Corporate	379.0	49.9%	372.0	50.2%	-1.8%
Specialty	10.1	64.5%	11.3	67.5%	11.9%
Consumer	175.7	72.8%	176.3	72.7%	0.3%
Mortgage lending	148.5	49.2%	176.5	47.3%	18.9%
Private Banking	2.8	50.9%	3.7	43.8%	32.1%
Leasing	230.1	32.1%	197.3	33.8%	-14.3%
Total net non performing loans	**946.2**	**54.3%**	**937.1**	**54.7%**	**-1.0%**
– of which: bad loans	184.6		167.8		-9.1%

Equity investments – these rose from €3,193.3m to €3,441.1m, due to profits for the period (€136.2m) and other asset changes (€113.9m). As at 31 December 2016, the Assicurazioni Generali investment (13%) was booked at a value of €3,346.1m, as compared with a point-in-time market value of €2,562.3m (€2,862.3m based on current prices). An amount of €2.3m was collected in connection with the Athena Private Equity liquidation during the six months under review, and the remaining investment (worth €2.6m) has been reclassified as available-for-sale.

	% share capital	30/6/16	31/12/16
		(€m)	(€m)
Assicurazioni Generali	13.0	3,091.8	3,346.1
Banca Esperia	50.0	96.7	95.0
Burgo Group	22.13	—	—
Athena Private Equity (in liquidation)	24.27	4.8	—
Total investments		**3,193.3**	**3,441.1**

Banking book securities – these consist of the debt securities held as part of the portfolios (AFS, HTM and unlisted securities in connection with loans and advances to customers), and reflect a combined value of €8.3bn, 16.4% lower than the €9.9bn reported at 30 June 2016. During the six months under review there were redemptions amounting to €1.9bn, only in part renewed with new purchases totalling €0.7bn, and sales totalling €0.4bn, generating gains taken through the profit and loss account of €17.1m. The exposure to Italian government securities fell from €5.1bn to €3.9bn as a result of non-renewals, but remained stable as a percentage of the total at 48%.

	30/6/16		31/12/16		Chg.
	(€m)	%	(€m)	%	
AFS securities	7,725.1	78%	5,957.5	72%	-22.9%
Financial assets held to maturity	1,975.4	20%	2,058.1	25%	4.2%
Unlisted debt securities (stated at cost)	189.8	2%	257.1	3%	35.5%
Total banking book securities	**9,890.3**	**100%**	**8,272.7**	**100%**	**-16.4%**

	30/6/16			31/12/16			Chg.
	Book Value	%	AFS reserve	*Book Value*	%	AFS reserve	
Italian government bonds	5,091.1	51%	89.8	3,935.5	48%	75.4	-22.7%
Foreign government bonds	1,982.7	20%	16.1	1,868.7	23%	12.5	-5.8%
Bonds issued by financial institutions	1,656.6	17%	35.2	1,500.7	18%	33.6	-9.4%
- of which: Italian	*1,021.1*	*10%*	*23.2*	*787.5*	*10%*	*22.4*	*-22.9%*
Corporate bonds	1,159.9	12%	25.1	967.8	11%	25.4	-16.6%
Total debt securities	**9,890.3**	**100%**	**166.2**	**8,272.7**	**100%**	**146.9**	**-16.4%**

The valuation reserve for the portfolio declined from €166.2m to €146.9m, as a result of the gains (€15m) and lower valuations (€34,5m). There were also unrealized gains on the portfolio of €95.7m at the reporting date (30/6/16: €100m).

Available-for-sale shares (AFS) – this portfolio brings together the Group's holdings in equities and investments in funds.

	30/6/16		31/12/16		Chg.
	(€m)	%	(€m)	%	
Equities	859.2	94%	649.7	93%	-24.4%
Others	55.1	6%	47.9	7%	-13.1%
Total AFS securities	**914.3**	**100%**	**697.6**	**100%**	**-23.7%**

During the six months under review there were sales totalling €273.8m, redemptions funds of €22m, and new investments worth €36.2m. Trading generated profits of €121.6m, in addition to which there were increases in fair value of €33.1m, in part offset by value adjustments totalling €1.7m. In particular half the stake in Atlantia was sold, for €250m, yielding a gain of €110.4m. A voluntary contribution was also made to the Deposit Guarantee Scheme in connection with subscription to the Cassa di Risparmio di Cesena capital increase (entailing an outlay of €4.3m, adjusted as to €0.9m at the reporting date), and investments were made in new Cairn Capital funds in a total amount of €25.4m.

	30/6/16			31/12/16		
	Book Value	*% ord.*	*AFS reserve*	*Book Value*	*% ord.*	*AFS reserve*
Atlantia	500.4	2.7	198.4	249.0	1.4	98.0
Italmobiliare	66.5	9.5	31.9	94.1	8.8	59.5
RCS MediaGroup	26.2	6.2	6.0	27.2	6.2	7.0
Other listed shares	48.2	—	27.7	34.7	—	18.1
Other unlisted shares	217.9	—	29.1	244.7	—	31.4
Total AFS shares	**859.2**		**293.1**	**649.7**		**214.0**

Treasury assets – the difference between trading and treasury assets and liabilities reflects a net balance of €7,846.5m, considerably higher than the figure reported at end-June (€5,517m). The heading consists of: equities worth €2,676.6m, over 80% of which are hedged by derivatives with clients; liquid assets totalling €2,545.4m, €1,832.6m of which held with the European Central Bank; and other net deposits (including repos) amounting to €2,380.4m, and debts securities worth €812.4m.

	30/6/16	31/12/16	Chg.
	(€m)	(€m)	
Financial assets held for trading	9,505.3	10,335.7	9%
Treasury funds	8,407.9	10,236.1	22%
Financial liabilities held for trading	(7,141.5)	(7,413.3)	4%
Treasury funding	(5,254.7)	(5,337.4)	2%
Total	**5,517.0**	**7,821.1**	**42%**

	30/6/16	31/12/16	Chg.
	(€m)	(€m)	
Loan trading	15.2	10.9	-29%
Derivative contract valuations	(371.7)	(577.5)	55%
Equities	1,528.1	2,676.6	75%
Bonds securities	1,192.2	812.4	-32%
Financial instruments held for trading	**2,363.8**	**2,922.4**	**24%**

	30/6/16	31/12/16	Chg.
	(€m)	(€m)	
Cash and banks	796,5	2,545,4	n.m.
Assets PCT&PT	1,147.1	1,009.1	-12%
Financial assets deposits	648.6	963.7	49%
Stock Lending	561.0	380.5	-32%
Net treasury assets	**3,153.2**	**4,898.7**	**55%**

Tangible and intangible assets – the rise in this item, from €757.8m to €787.8m, chiefly reflects the value assigned to the indirect funding acquired from Barclays (€26m); and the prices paid respectively by Compagnie Monégasque de

Banque to acquire AUM (€5m), and by Spafid to acquire the Istituto Fiduciario and di Revisione business unit (€0.5m). Both these deals will be subject to the PPA process by the financial year-end.

Goodwill thus increases to €420.5m, and consists of €365.9m attributable to Consumer Banking (the Linea acquisition in July 2008), €43.4m to Cairn Capital (value confirmed after the PPA process and the impairment test), €5.9m to the fiduciary administration and corporate services provided by Spafid, and €5.3m to Compagnie Monegasque de Banque.

None of the other items showed any evidence of impairment; depreciation and amortization charges for the period totalled €21.2m.

	30/6/16		31/12/16		Chg.
	(€m)	%	(€m)	%	
Land and properties	262.9	35%	265.9	34%	1.1%
- of which: core	*193.4*	*26%*	*190.8*	*24%*	*-1.3%*
Other tangible assets	41.9	6%	39.6	5%	-5.5%
Goodwill	416.7	55%	420.5	53%	0.9%
Other intangible assets	36.3	4%	61.8	8%	70.2%
Total tangible and intangible assets	**757.8**	**100%**	**787.8**	**100%**	**4.0%**

Provisions – these increased from €180.3m to €261.8m, with new provisions being set aside in an amount of €83m to cover restructuring charges in connection with the Barclays acquisition. Withdrawals of €5.3m and further transfers to provisions totalling €3.8m were also made during the period, while the staff severance indemnity fund remained virtually unchanged at €29.4m (€29m).

	30/6/16		31/12/16		Chg.
	(€m)	%	(€m)	%	
Provisions for risks and charges	151.3	84%	232.4	89%	53.6%
Staff severance indemnity provision	29.0	16%	29.4	11%	1.4%
of which: staff severance provision discount	*2.4*	—	*2.4*	—	—
Total provisions	**180.3**	**100%**	**261.8**	**100%**	**45.2%**

Net equity – net equity rose by €218.6m, or 2.5%, as a result of the €418.2m profit for the period, and the increase in the Assicurazioni Generali consolidation reserves (which were up €119.6m), net of the dividend distributed (down €230m) and the decreases in the other valuation reserves (down €126.7m). The Group's share capital increased from €435.5m to €436.4m, as a result of the exercise of 90,000 stock options and distribution of 1,691,054 performance shares worth a total of €1.4m, including the share premium.

(€m)

	30/6/16	31/12/15	Chg.
Share capital	435.5	436.4	0.2%
Other reserves	6,647.6	7,034.2	5.8%
Valuation reserves	1,145.0	1,162.4	1.5%
- of which: AFS securities	*382.9*	*295.3*	*-22.9%*
cash flow hedge	*(16.4)*	*(17.8)*	*8.5%*
equity investments	*779.2*	*886.8*	*13.8%*
Profit for the period	604.5	418.2	-30.8%
Total Group net equity	**8,832.6**	**9,051.2**	**2.5%**

The AFS reserve involves equities as to €213.9m, and bonds and other securities as to €150.5m (€75.4m of which Italian government securities), net of the €69.1m tax effect.

(€m)

	30/6/16	31/12/16	Chg.
Equities	293.2	213.9	-27.0%
Bonds	167.4	150.5	-10.1%
of which: Italian government bonds	*89.8*	*75.4*	*-16.0%*
Tax effect	(77.7)	(69.1)	-11.1%
Total AFS reserve	**382.9**	**295.3**	**-22.9%**

Profit and Loss Account

Net interest income – the 5.2% increase in this item, from €604.3m to €635.6m, reflects the contributions of Consumer Banking (up 12.6%, on higher volumes with returns on loans resilient) and Wealth Management (up 24.9%, with €28.5m added by the Barclays portfolio). The resilience of CIB was ensured by the growth posted by Specialty Finance, which saw net interest income rise from €17.8m to €21.4m. The Holding Functions, meanwhile, delivered a negative performance, due exclusively to treasury management as a result of the higher liquid assets and to unfavourable repricing of securities expiring.

(€m)

	6 mths ended 31/12/15	6 mths ended 31/12/16	Chg.
Corporate & Investment Banking	156.4	153.4	-1.9%
Consumer Banking	362.8	408.4	12.6%
Wealth management	94.1	117.5	24.9%
Holding Functions and others	(9.0)	(43.7)	n.m.
Net interest income	**604.3**	**635.6**	**5.2%**

Net treasury income – net treasury income increased from €45.8m to €63.8m, due to the higher contribution from fixed-income trading (€32.4m), with equity trading resilient at €21.7m (€17.6m). Gains on banking book disposals of €17.1m (net of the exchange rate effect) offset the €13.3m losses incurred in connection with bond buybacks (of subordinated bond issues in particular).

(€m)

	6 mths ended 31/12/15	6 mths ended 31/12/16	Chg.
AFS dividends	14.8	6.9	-53.4%
Fixed income trading profit	13.4	35.2	n.m.
Equity trading profit	17.6	21.7	23.3%
Net trading income	**45.8**	**63.8**	**39.3%**

Net fee and commission income – net fee and commission income grew from €227.4m to €236.8m, due to the addition of the Barclays business unit (€8.3m) and Cairn (€11.7m). The 14.5% reduction in fees earned from Corporate & Investment Banking reflects lower capital market fees of €15.4m (€41.1m), but was offset by 12.4% growth in Consumer Banking (from €59.8m to €67.2m), and by Wealth Management fees climbing 42.9%, from €63.1m to €90.2m, with asset management virtually doubling its contribution (from €12.7m to €21.4m).

(€m)

	6 mths ended 31/12/15	6 mths ended 31/12/16	Chg.
Corporate & Investment Banking	125.1	107.0	-14.5%
Consumer Banking	59.8	67.2	12.4%
Wealth Management	63.1	90.2	42.9%
Holding Functions	11.2	9.1	-18.8%
Others (including intercompany)	(31.8)	(36.7)	15.4%
Net fee and commission income	**227.4**	**236.8**	**4.1%**

Equity-accounted companies – the €136.2m profit reported by the equity-accounted companies (€138.8m) reflects the contributions of Assicurazioni Generali (down from €138.4m to €134.7m) and Banca Esperia (up from €0.4m to €1.5m).

Operating costs – operating costs rose from €419.8m to €463.5m, €38.5m of which attributable to the expanded area of consolidation (Cairn Capital €11.6m, Barclays €28.7m); on a like-for-like basis the increase would have been 1.2%. The costs related to the new entities involve both labour costs (with a combined 602 staff) and administrative expenses (property rental and maintenance, data processing, info providers and overheads in general). All one-off charges taken in relation to the Barclays integration (totalling €44.9m) have been booked under non-recurring items and are included in income from the acquisition.

(€m)

	6 mths ended 31/12/15	6 mths ended 31/12/16	Chg.
Labour costs	209.7	231.1	10.2%
of which: directors	*4.1*	*4.3*	*4.9%*
stock options and performance share schemes	*3.9*	*4.3*	*10.3%*
Sundry operating costs and expenses	210.1	232.4	10.6%
of which: depreciations and amortizations	*18.9*	*21.2*	*12.2%*
administrative expenses	*190.1*	*209.4*	*10.2%*
Operating costs	**419.8**	**463.5**	**10.4%**

(€m)

	6 mths ended 31/12/15	6 mths ended 31/12/16	Chg.
Legal, tax and professional services	5.7	6.1	7.0%
Other consultancy expenses	15.1	15.4	2.0%
Credit recovery activities	21.4	21.1	-1.4%
Marketing and communication	22.6	25.0	10.6%
Rent and property maintenance	18.3	22.0	20.2%
EDP	30.3	33.1	9.2%
Financial information subscriptions	15.0	16.0	6.7%
Bank services, collection and payment commissions	9.1	8.7	-4.4%
Operating expenses	24.7	34.9	41.3%
Other labour costs	10.6	10.0	-5.7%
Other costs	7.4	10.0	35.1%
Direct and indirect taxes	9.9	7.1	-28.3%
Total administrative expenses	**190.1**	**209.4**	**10.2%**

Loan loss provisions – these reduced by 18.1%, from €224.4m to €183.7m, due to a general reduction in the cost of risk which now stands at 102 bps (30/6/16: 124 bps; 31/12/15: 136 bps). Loan loss provisions for Consumer Banking fell from €184.1m to €159m, with a cost of risk of 286 bps (31/12/15: 351 bps; 30/6/16: 332 bps), while Wholesale Banking shows net writebacks of €1.6m relating to contingent assets in respect of non-performing loans. The overall coverage ratio increased from 54% to 55%: 73% for Consumer Banking, 47% for mortgage lending, 50% for Wholesale Banking, and 34% for leasing. Conversely, the coverage ratio for performing loans rose from 1% to 1.1% (2.5% for Consumer Banking).

(€m)

	6 mths ended 31/12/15	6 mths ended 31/12/16	Chg.
Corporate & Investment Banking	24.5	9.0	n.m.
Consumer Banking	184.1	159.0	-13.6%
Wealth management	8.3	9.8	18.1%
Holding Functions	7.5	5.9	-21.3%
Loan loss provisions	**224.4**	**183.7**	**-18.1%**
Cost of risk (bps)	**136**	**102**	**-25.0%**

Provisions for other financial assets – these refer almost entirely to collective adjustments taken in respect of bonds held as fixed assets (€5.8m).

(€m)

	6 mths ended 31/12/15	6 mths ended 31/12/16	Chg.
Equity investments	—	0.4	n.m.
Shares	11.9	1.7	-85.7%
Bonds	0.9	5.8	n.m.
Total	**12.8**	**7.9**	**-38.3%**

Income tax – income tax totalled €92.9m, at an effective tax rate of 18.4% reflecting the detaxation of dividends and capital gains under the PEX regime for Mediobanca S.p.A., and for CheBanca!, the fact that the income deriving from the Barclays acquisition is not taxable for IRAP purposes.

Mediobanca (as consolidating entity) has adopted tax consolidation, which includes Compass, SelmaBipiemme Leasing, MIS, 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, based on the new segmentation.

CORPORATE AND INVESTMENT BANKING

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

– *Wholesale Banking:* client business (lending, advisory, capital markets activities) and proprietary trading;

– *Specialty Finance:* factoring and credit management (including acquisition and management of NPL portfolios).

	6 mths ended 31/12/15	12 mths ended 30/6/16	6 mths ended 31/12/16	Chg. (%)
Profit-and-loss data				
Net interest income	156.4	300.9	153.4	-1.9
Treasury income	24.3	96.2	54.0	n.m.
Net fee and commission income	125.1	227.9	107.0	-14.5
Total income	**305.8**	**625.0**	**314.4**	**2.8**
Labour costs	(66.5)	(134.4)	(61.7)	-7.2
Administrative expenses	(46.7)	(105.4)	(50.5)	8.1
Operating costs	**(113.2)**	**(239.8)**	**(112.2)**	**-0.9**
Net loss provisions	(24.5)	(34.5)	(12.2)	-50.2
Other profits (losses)	—	(2.5)	—	n.m.
Profit before tax	**168.1**	**348.2**	**190.0**	**13.0**
Income tax for the period	(61.8)	(125.4)	(63.8)	3.2
Net profit	**106.3**	**222.8**	**126.2**	**18.7**
Cost/Income (%)	37.0	38.4	35.7	

	6 mths ended 31/12/15	12 mths ended 30/6/16	6 mths ended 31/12/16
Balance-sheet data			
Loans and advances to customers	13,991.2	15,125.1	15,357.8
Loans	3,621.1	8,487.5	4,860.4
No. of staff	572	579	579
Risk-weighted assets	29,060.2	27,229.7	24,825.8

WHOLESALE BANKING

(€m)

	6 mths ended 31/12/15	12 mths ended 30/6/16	6 mths ended 31/12/16	Chg. (%)
Profit-and-loss data				
Net interest income	138.6	264.1	132.0	-4.8
Treasury income	24.3	96.2	53.9	n.m.
Net fee and commission income	116.0	207.9	86.8	-25.2
Total income	**279.0**	**568.2**	**272.7**	**-2.2**
Labour costs	(60.3)	(121.4)	(54.2)	-10.1
Administrative expenses	(40.7)	(90.1)	(42.8)	5.2
Operating costs	**(101.0)**	**(211.5)**	**(97.0)**	**-4.0**
Net provisions	(18.5)	(28.5)	(1.5)	n.m.
Profit before tax	**159.5**	**328.2**	**174.2**	**9.2**
Income tax for the period	(59.0)	(121.4)	(60.3)	2.2
Net profit	**100.5**	**206.8**	**113.9**	**13.4**
Cost/Income (%)	36.2	37.2	35.6	

	6 mths ended 31/12/15	12 mths ended 30/6/16	6 mths ended 31/12/16
Balance-sheet data			
Loans and advances to customers	13,209.1	14,254.1	14,207.8
New loans	2,861.0	6,576.4	3,033.1
No. of staff	374	368	363
Risk-weighted assets	28,296.6	26,305.3	23,707.4

The Wholesale Banking division reported a net profit of €113.9m for the six months, higher than the €100.5m posted last year, largely on account of the fact that there were basically no value adjustments. The 2.2% reduction in revenues, from €279m to €272.7m, was mostly absorbed by a 4% reduction in operating costs, from €101m to €97m, with the main income items performing as follows:

– Net interest income fell from €138.6m last year to €132m, as a result of the lower contribution from loans in connection with capital market solutions activities;

– Net fee and commission income was down 25.2%, from €116m to €86.8m, due to the decline in equity activities which are more exposed to market volatility; however, fees were up 30% quarter-on-quarter, and in all segments with the sole exception of equity capital markets;

– Net trading income doubled, from €24.3m to €53.9m, split evenly between both business segments (fixed-income and equity) and geographies (Milan and London);

– Operating costs fell from €101m to €97m, due to lower amounts being set aside in respect of variable remuneration, which, however, was in part offset by a €1.8m increase in administrative expenses.

Financial assets (loans and receivables and held-to-maturity) reflect writedowns of €1.5m (representing the difference between €1.6m in loan reversals and €3.1m in securities loss provisions). As from this financial year, loan loss provisions are calculated based on PD (probability of default) and LGD (loss given default) parameters, used for the large performing corporate portfolio as part of the AIRB models (Advanced Internal Ratings Based).

Loans and advances to customers were stable, with new loans up 5% to €3bn.

	30/6/16		31/12/16		Chg.
	(€ m)	%	(€ m)	%	
Italy	7,137.8	50%	7,334.3	52%	2.8%
France	1,145.7	8%	1,075.7	8%	-6.1%
Spain	934.3	7%	867.8	6%	-7.1%
Germany	835.6	6%	802.1	6%	-4.0%
U.K.	690.8	5%	906.9	6%	31.3%
Other non resident	3,509.9	24%	3,221.0	22%	-8.2%
Total loans and advances to customers	**14,254.1**	**100%**	**14,207.8**	**100%**	**-0.3%**

The European investment banking market reflected stable M&A activity in the six months under review. Growth in the Italian market (63%), and also the German (16%), Spanish (11%) and UK markets (with deal value trebling in the latter), was in contrast to the contractions recorded in France (down 13%) and the other countries. ECM (Equity Capital Market) business reported a downturn in all European markets, Italy included (by 69%), whereas DCM (Debt Capital Market) saw increases in France (up 20%), Spain (up 16%) and the United Kingdom (up 33%), while remaining stable in Germany and declining in Italy (down 9%). The EMEA debt market posted a 13% reduction in the six months under review, which rises to 20% on the domestic Italian market. For leveraged finance transactions alone, the European market reported a 60% increase, attributable to the more favourable market conditions. This scenario allowed M&A fees to remain basically stable at €32.4m (€34m). Some of the main transactions covered by Mediobanca include: the Banco Popolare-BPM merger, ICBPI (acquisition of Setefi and disposal of minority interest), Eurobank (sale of Eurolife), Italmobiliare (sale of Italcementi), Enel (reorganization of Spanish and South

American activities), Banca Finnat (Investire SGR), Abertis (acquisition of A4 Holding), and Gilde Buy Out Partners (acquisition of a German jewellery chain). Lending fees rose from €25.6m to €28.7m as a result of the higher new loans. Conversely, equity capital market fees slowed owing to the high market volatility levels: four deals were closed during the period, with approx. €8m in fees collected, compared to €32m last year. DCM fees of €8m (€9m) were earned during the period, in respect of some 25 deals. Overall net fee and commission income fell by 25.2%, from €116m to €86.8m, and breaks down as follows:

(€m)

	6 mths ended 31/12/15	6 mths ended 31/12/16	Chg.
Lending	25.6	28.7	12.1%
Advisory M&A	34.0	32.4	-4.7%
Capital Market	41.1	15.4	-62.5%
Markets, Salesan and other gains	15.3	10.3	-32.7%
Net fee and commission income	**116.0**	**86.8**	**-25.2%**

SPECIALTY FINANCE

(€m)

	6 mths ended 31/12/15	12 mths ended 30/6/16	6 mths ended 31/12/16	Chg. (%)
Profit-and-loss data				
Net interest income	17.8	36.8	21.4	20.2
Treasury income	—	—	0.1	n.m.
Net fee and commission income	9.1	20.0	20.2	n.m.
Total income	**26.9**	**56.8**	**41.7**	**55.0**
Labour costs	(6.2)	(13.0)	(7.5)	21.0
Administrative expenses	(6.0)	(15.3)	(7.7)	28.3
Operating costs	**(12.2)**	**(28.3)**	**(15.2)**	**24.6**
Net provisions	(6.0)	(6.0)	(10.7)	78.3
Other profits (losses)	—	(2.5)	—	n.m.
Profit before tax	**8.7**	**20.0**	**15.8**	**81.6**
Income tax for the period	(2.8)	(4.0)	(3.5)	25.0
Net profit	**5.9**	**16.0**	**12.3**	**n.m.**
Cost/Income (%)	45.4	49.8	36.5	

	6 mths ended 31/12/15	12 mths ended 30/6/16	6 mths ended 31/12/16
Balance-sheet data			
Loans and advances to customers	782.1	871.0	1,150.0
New loans	760.1	1,911.1	1,827.3
No. of staff	198	211	216
Risk-weighted assets	763.6	924.4	1,118.4

Specialty finance delivered a strong increase in profits for the six months, from €5.9m to €12.3m. Higher volumes in factoring and NPL management drove a 55% increase in revenues, from €26.9m to €41.7m, in both the main income items: net interest income climbed 20.2%, while net fees and commissions increased from €9.1m to €20.2m.

Operating costs were up 24.6%, from €12.2m to €15.2m, due to consolidation of the division and an increase in collection costs pro rata with the growth in volumes. Loan loss provisions rose from €6m to €10.7m, and include €1.4m in additional adjustments to performing items in line with the new model parameters.

Growth of 32% in loans and advances to customers, from €871m to €1,150m, is attributable to ordinary factoring business (up from €493.8m to €764.7m). Non-performing loans were acquired on a non-recourse basis during the six months for a total of €9.3m (against a nominal value of €158.6m). At the reporting-date net impaired assets totalled €88m, up 9% on the figure posted at 30 June 2016, €76.7m of which in NPL portfolios.

CONSUMER BANKING *

This division provides retail clients with the full range of consumer credit products, ranging from personal loans to salary-backed finance (Compass and Futuro), plus also Compass Re:

(€m)

	6 mths ended 31/12/15	12 mths ended 30/6/16	6 mths ended 31/12/16	Chg. (%)
Profit-and-loss data				
Net interest income	362.8	746.9	408.4	12.6
Net fee and commission income	59.8	126.1	67.2	12.4
Total income	**422.6**	**873.0**	**475.6**	**12.5**
Labour costs	(43.2)	(88.5)	(45.5)	5.3
Administrative expenses	(87.3)	(185.5)	(91.3)	4.6
Operating costs	**(130.5)**	**(274.0)**	**(136.8)**	**4.8**
Loan loss provisions	(184.1)	(354.4)	(159.0)	-13.6
Other profits (losses)	(5.1)	(5.6)	—	n.m.
Profit before tax	**102.9**	**239.0**	**179.8**	**74.7**
Income tax for the period	(32.7)	(85.2)	(57.1)	74.6
Net profit	**70.2**	**153.8**	**122.7**	**74.8**
Cost/Income (%)	30.9	31.4	28.8	

	6 mths ended 31/12/15	12 mths ended 30/6/16	6 mths ended 31/12/16
Balance-sheet data			
Loans and advances to customers	10,617.8	10,995.2	11,244.9
New loans	2,953.7	6,197.8	3,125.8
No. of branches	164	164	164
No. of staff	1,374	1,401	1,402
Risk-weighted assets	10,273.3	11,248.4	11.387.0

* As from the present financial year, Creditech no longer forms part of Consumer Banking as it has been included in the CIB division as part of Speciality Finance (factoring and credit management).

This division reported a net profit of €122.7m for the six months, up sharply on the €70.2m reported last year, on 12.5% growth in revenues and a 13.6% reduction in loan loss provisions. Revenues were up from €422.6m to €475.6m, driven by net interest income of €408.4m (€362.8m), boosted by the higher volumes with resilient margins, and by the recovery in fee income (up 12.4%). The 4.8% increase in costs reflects the new recruitment (labour costs were up 5.3%) and higher volumes (administrative expenses rose by 4.6%). Loan loss provisions declined from €184.1m to €159m, with the cost of risk falling from 351 bps to 286 bps, and the coverage ratio for non-performing loans stable at 73% (while the ratio for performing items rose from 2% to 2.5%). Growth in loans and advances to customers continued during the period to reach €11,244.9m (€10,995.2m), with new loans for the six months of €3,125.8m (up 5.8%, from €2,953.7m) concentrated in personal loans and credit cards. Non-performing loans remain stable at historically lows levels, coming in at €176.3m (1.6% of loans).

WEALTH MANAGEMENT (RETAIL & PRIVATE BANKING)

The new Wealth Management (WM) division brings together the asset management services provided to the various categories of client:

(€m)

	6 mths ended 31/12/15	12 mths ended 30/6/16	6 mths ended 31/12/16	Chg. (%)
Profit-and-loss data				
Net interest income	94.1	186.4	117.5	24.9
Treasury income	5.8	13.1	6.6	13.8
Net fee and commission income	63.1	134.6	90.2	42.9
Total income	**163.0**	**334.1**	**214.3**	**31.5**
Labour costs	(59.9)	(128.1)	(83.0)	38.6
Administrative expenses	(68.2)	(140.3)	(87.7)	28.6
Operating costs	**(128.1)**	**(268.4)**	**(170.7)**	**33.3**
Gains (losses) on AFS, HTM and L&R	1.1	4.5	3.1	n.m.
Net loss provisions	(8.4)	(16.9)	(10.9)	29.8
Other profits (losses)	—	(5.4)	27.3	n.m.
Profit before tax	**27.6**	**47.9**	**63.1**	**n.m.**
Income tax for the period	(3.9)	(9.9)	(14.3)	n.m.
Net profit	**23.7**	**38.0**	**48.8**	**n.m.**
Cost/Income (%)	78.6	80.3	79.7	

	6 mths ended 31/12/15	12 mths ended 30/6/16	6 mths ended 31/12/16
Balance-sheet data			
Loans and advances to customers	6,271.5	6,607.5	9,104.9
Loans	513.6	1,074.1	532.6
No. of staff	1,416	1,432	1,951
Risk-weighted assets	4,081.6	4,356.1	5,432.8

	6 mths ended 31/12/15	12 mths ended 30/6/16	6 mths ended 31/12/16
AUM/AUA	17,081.1	17,403.2	21,326.9
AUC	16,263.3	10,688.9	11,371.1
Direct fundng	13,315.5	14,117.1	17,888.2
Total Asseis under management, advice and custody	**46,659.9**	**42,209.2**	**50,586.2**

CHEBANCA!

(€m)

	6 mths ended 31/12/15	12 mths ended 30/6/16	6 mths ended 31/12/16	Chg. (%)
Profit-and-loss data				
Net interest income	75.7	149.0	100.0	32.1
Treasury income	—	—	0.2	n.m.
Net fee and commission income	20.5	43.4	31.5	53.7
Total income	**96.2**	**192.4**	**131.7**	**36.9**
Labour costs	(32.1)	(64.9)	(47.6)	48.3
Administrative expenses	(47.6)	(97.4)	(63.3)	33.0
Operating costs	**(79.7)**	**(162.3)**	**(110.9)**	**39.1**
Net provisions	(8.0)	(16.6)	(10.4)	30.0
Other profits (losses)	—	—	29.5	n.m.
Profit before tax	**8.5**	**13.5**	**39.9**	**n.m.**
Income tax for the period	(2.7)	(5.0)	(10.8)	n.m.
Net profit	**5.8**	**8.5**	**29.1**	**n.m.**
Cost/Income (%)	82.8	84.4	84.2	

	6 mths ended 31/12/15	12 mths ended 30/6/16	6 mths ended 31/12/16
Balance-sheet data			
Loans and advances to customers	4,812.5	5,051.3	7,441.5
New loans	513.6	1.074.1	532.6
Direct funding	10,402.2	10,724.1	13,841.8
AUM/AUA	3,604.0	3,937.8	6,934.2
No. of branches	57	58	143
No. of staff	971	981	1.484
Risk-weighted assets	2,427.4	2,512.3	3,503.0

CheBanca! delivered a net profit of €29.1m (€5.8m), the sharp increase compared to last year being due to the acquisition of Barclays' Italian operations. Revenues climbed 36.9%, from €96.2m to €131.7m, with the new business unit contributing €36.8m. Operating costs rose by 39.1%, €28.7m of which was attributable to Barclays, with labour costs in particular up 48.3% (from €32.1m to €47.6m), reflecting the addition of 564 staff. Loan loss provisions were virtually stable at €9.5m (€8m). During the six months the contribution to the Deposit Guarantee Scheme in favour of Cassa di Risparmio di Cesena was written down by €0.9m. The net profit also includes the €22.4m in non-recurring income in connection with the Barclays acquisition. Retail funding increased in the six months, from €10,724.1m to €13,841.8m, and indirect funding from €3,937.8m to €6,934.2m; both items benefitted from the Barclays transaction, which added €2,925.7m and €2,848.8m respectively. Equally, loans and advances to customers also increased, from €5,051.3m to €7,441.5m (the 22,885 mortgages acquired from Barclays contributing €2,459.6m). Non-performing loans rose from €148.5m to €176.5m, almost entirely as a result of the Barclays acquisitions (which added €27.1m in overdue or likely-to-default positions). New loans for the six months totalled €532.6m (€513.6m).

PRIVATE BANKING

This division comprises Compagnie Monégasque de Banque, Banca Esperia (still consolidated pro rata at 50%), Spafid and Cairn Capital (Alternative AM).

(€m)

	6 mths ended 31/12/15	12 mths ended 30/6/16	6 mths ended 31/12/16	Chg. (%)
Profit-and-loss data				
Net interest income	18.4	37.4	17.5	-4.9
Treasury income	5.8	13.1	6.4	10.3
Net fee and commission income	42.6	91.2	58.7	37.8
Total income	**66.8**	**141.7**	**82.6**	**23.7**
Labour costs	(27.8)	(63.2)	(35.4)	27.3
Administrative expenses	(20.6)	(42.9)	(24.4)	18.4
Operating costs	**(48.4)**	**(106.1)**	**(59.8)**	**23.6**
Gains (losses) on AFS, HTM and L&R	1.1	4.5	3.1	n.m.
Net provisions	(0.4)	(0.3)	(0.5)	25.0
Other profits (losses)	—	(5.4)	(2.2)	n.m.
Profit before tax	**19.1**	**34.4**	**23.2**	**21.5**
Income tax for the period	(1.2)	(4.9)	(3.5)	n.m.
Net profit	**17.9**	**29.5**	**19.7**	**10.1**
Cost/Income (%)	72.5	74.9	72.4	

	6 mths ended 31/12/15	12 mths ended 30/6/16	6 mths ended 31/12/16
Balance-sheet data			
Loans and advances to customers	1,459.0	1,556.2	1,663.4
Direct funding	2,913.5	3,393.1	4,046.2
AUM/AUA	13,477.1	13,465.2	14,392.7
AUC	16,263.3	10,688.9	11,371.1
No. of staff	445	451	467
Risk-weighted assets	1,654.2	1,843.8	1,929.8

Private banking delivered a net profit of €19.7m for the six months, higher than the €17.9m posted last year, due to the consolidation of Cairn Capital, which delivered a small profit of €0.5m for the period, on revenues of €12.1m and costs totalling €11.6m. Revenues increased, from €66.8m to €82.6m, reflecting higher fee income (up from €42.6m to €58.7m, or €47m net of Cairn) which offset the reduction in net interest income from €18.4m to €17.5m (linked to decreasing returns on assets). Operating costs were up 23.6% as a result of consolidating Cairn, from €48.4m to €59.8m (€48m on a like-for-like basis).

CMB made a net profit of €17.3m, after gains on the AFS portfolio totalling €2.7m and tax of €2m. Banca Esperia delivered a pro rata net profit of €1.4m, which reflects non-recurring end-of-year provisions totalling €1.2m; while Cairn Capital and Spafid together posted a combined net profit of €1m.

Assets under management/administration at end-December 2016 were up from €13.4bn to €14.4bn, split between CMB with €6bn (€5.3bn), Banca Esperia with €6.4bn (€6bn) and Cairn with €2bn. AUA rose from €10.7bn to €11.4bn, due to growth by Spafid (AUA up from €3bn to €4bn) and Banca Esperia (from €1.6bn to €1.8bn), which offset the reduction in assets administered by Cairn under long-term advice (from €5.9bn to €5.3m).

PRINCIPAL INVESTING

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

(€m)

	6 mths ended 31/12/15	12 mths ended 30/6/16	6 mths ended 31/12/16	Chg. (%)
Profit-and-loss data				
Other incomes	14.8	29.2	3.2	-78.4
Equity-accounted companies	138.4	255.0	134.7	-2.7
Total income	**153.2**	**284.2**	**137.9**	**-10.0**
Labour costs	(2.3)	(4.5)	(1.6)	-30.4
Administrative expenses	(0.7)	(1.4)	(0.3)	-57.1
Operating costs	**(3.0)**	**(5.9)**	**(1.9)**	**-36.7**
Gain (losses) on disposal of AFS shares	91.5	119.8	118.9	29.9
Net loss provisions	(11.9)	(17.9)	(0.9)	n.m.
Profit before tax	**229.8**	**380.2**	**254.0**	**10.5**
Income tax for the period	(0.1)	(7.0)	(12.0)	n.m.
Net profit	**229.7**	**373.2**	**242.0**	**5.4**

	6 mths ended 31/12/15	12 mths ended 30/6/16	6 mths ended 31/12/16
Balance-sheet data			
Banking book and AFS securities	869.0	851.9	640.4
Equity investments	3,017.2	3,096.6	3,346.1
Risk-weighted assets	11,290.4	6,756.3	7,243.0

This division delivered a net profit of €242m (€229.7m), including the gains on the Atlantia disposal (€110.4m in 1Q) and on sales of other AFS shares (€8.5m), with the contribution from Assicurazioni Generali largely unchanged at €134.7m (€138.4).

The book value of the Assicurazioni Generali investment was increased from €3,091.8m to €3,346.1m, as a result of the profit for the period (€134.7m) and adjustments to capital (€119.6m) mostly attributable to the valuation reserves (calculated based on the values recorded at 30 September 2016).

The AFS shares declined from €851.9m to €640.4m, following sales of €273.8m, fund redemptions of €9.8m, and other net investments totalling €31.9m (for the most part in connection with seed capital activity for the Cairn funds). The forward sales of Atlantia shares (for delivery in 3Q 2017) continued during the six months, with €6.1m worth of securities (roughly half the stock owned) sold.

HOLDING FUNCTIONS (LEASING & TREASURY AND OTHER FUNCTIONS)

The centralized Holding Functions division houses the Group's the leasing operations, and also its Treasury and ALM activities previously included in the CIB division, with the objective of optimizing management of the funding and liquidity process at consolidated level; it also includes all costs relating to Group staffing and management functions, most of which were also previously allocated to CIB.

(€m)

	6 mths ended 31/12/15	12 mths ended 30/6/16	6 mths ended 31/12/16	Chg. (%)
Profit-and-loss data				
Net interest income	(11.5)	(33.3)	(47.1)	n.m.
Treasury income	5.5	3.5	(0.3)	n.m.
Net fee and commission income	11.2	23.3	9.1	-18.8
Total income	**5.2**	**(6.5)**	**(38.3)**	**n.m.**
Operating costs	**(75.6)**	**(162.2)**	**(70.5)**	**-6.7**
Net loss provisions	(8.7)	(14.8)	(9.3)	6.9
Other profits (losses)	(66.4)	(92.3)	(56.3)	-15.2
Profit before tax	**(145.5)**	**(275.8)**	**(174.4)**	**19.9**
Income tax for the period	54.5	89.6	53.5	-1.8
Minority interest	(2.0)	(3.1)	(1.7)	-15.0
Net profit	**(93.0)**	**(189.3)**	**(122.6)**	**31.8**

	6 mths ended 31/12/15	12 mths ended 30/6/16	6 mths ended 31/12/16
Balance-sheet data			
Loans and advances to customers	2,646.2	2,494.5	2,362.7
Banking book securities	6,987	8,313	6,932
No. of staff	726	752	769
Risk-weighted assets	4,065.6	4,271.3	4,902.9

The Holding Functions division reported a loss of €122.6m, compared with €93m last year, due to higher treasury management expenses (repricing of securities held and more short-term liquidity) only in part offset by the reduction in operating costs (which fell from €75.6m to €70.5m) and extraordinary charges (from €66.4m to €56.3m). The latter refer, once again, to the contributions made the Bank Resolution Fund and Deposit Guarantee Scheme referred to above.

The division comprises:

- Group Treasury (centralized management) and ALM, which delivered a loss of €59.5m, as a result of higher liquidity (invested at negative interest rates) deriving from the business divisions' financing requirements proving to be lower than was estimated, generating negative total revenue of minus €71m (€33.8m). Overall the treasury managed funding of €41.7bn (€39bn), €30.8bn (€25.7bn) of which was distributed to the various divisions, €6.9bn (€8.3bn) of which invested in banking book securities, and €3.9bn (€2.2bn) of which in net treasury assets;
- Leasing, which delivered a €2.6m net profit for the six months, virtually unchanged from last year (€3m) despite a 14.3% reduction in revenues (from €28.6m to €24.5m) on falling volumes, offset in large part by a 19.6% reduction in operating costs (from €13.8m to €11.1m). Accounts outstanding at the reporting-date reduced from €2,494.5m to €2,362.7m, on new loans for the quarter of €213m (€201m); non-performing assets fell from €230.1m to €197.4m, with the coverage ratio increasing from 32% to 34%.

Review of group company performances

Mediobanca

RESTATED PROFIT AND LOSS ACCOUNT *

(€m)

Profit-and-loss data	6 mths ended 31/12/15	12 mths ended 30/6/16	6 mths ended 31/12/16	Chg. (%)
Net interest income	84.7	147.2	40.1	-52.7
Treasury income	35.3	127.9	61.3	73.7
Net fee and commission income	122.1	221.4	89.2	-26.9
Dividends on investments	—	146.0	—	—
Total income	**242.1**	**642.5**	**190.6**	**-21.3**
Labour costs	(90.6)	(192.5)	(87.6)	-3.3
Administrative expenses	(67.9)	(144.8)	(66.3)	-2.4
Operating costs	**(158.5)**	**(337.3)**	**(153.9)**	**-2.9**
Gains (losses) on AFS, HTM and L&R	91.5	141.4	118.9	29.9
Loan loss provisions	(18.2)	(29.5)	2.0	n.m.
Provisions for financial assets	(12.8)	(19.3)	(6.6)	-48.4
Impairment on investments	—	(2.5)	(0.6)	—
Other profits (losses)	(63.7)	(81.8)	(42.6)	-33.1
Profit before tax	**80.4**	**313.5**	**107.8**	**34.1**
Income tax for the period	(8.0)	(25.5)	(11.5)	43.8
Net profit	**72.4**	**288.0**	**96.3**	**33.0**

* 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)

Balance-sheet data	6 mths ended 31/12/15	12 mths ended 30/6/16	6 mths ended 31/12/16
Assets			
Financial assets held for trading	12,122.5	8,535.2	9,489.3
Treasury funds	9,714.7	8,444.4	10,934.3
AFS securities	321.0	851.9	640.4
Banking book securities	10,902.4	11,735.1	10,434.6
Loans and advances to customers	21,638.5	23,238.8	25,716.5
Equity investments	3,191.9	2,687.7	2,786.5
Tangible and intangible assets	130.8	132.0	132.0
Other assets	1,174.1	1,382.3	986.3
Total assets	**59,195.9**	**57,007.4**	**61,119.9**
Liabilities and net equity			
Funding	35,938.9	37,468.2	41,668.9
Treasury funding	8,451.5	5,666.8	5.753.6
Financial liabilities held for trading	8,441.4	7,043.0	7,299.4
Other liabilities	1,187.9	1,414.3	1,205.4
Provisions	147.3	139.9	136.8
Net equity	4,956.5	4,987.2	4,959.5
Profit (loss) for the period	72.4	288.0	96.3
Total liabilities and net equity	**59,195.9**	**57,007.4**	**61,119.9**

A net profit of €96.3m was earned in the six months, higher than the €72.4m recorded last year, due to higher gains generated on disposals of investments of €118.9m (€91.5m), and lower one-off contributions to the Bank Resolution Fund of €42.6m (€63.7m).

Revenues declined by 21.3%, from €242.1m to €190.6m, with the various items performing as follows:

– Net interest income halved from €84.7m to €40.1m, as a result of repricing of securities and loans in a negative interest rate market scenario;

– Net treasury income increased from €35.3m to €61.3m, due to the contribution from fixed-income trading of €29.1m, and an improved performance from equity trading of €21.7m (€17.6m). The gains realized on sales from the banking book, which totalled €17.1m (net of the exchange rate effect) more than covered the €13.3m losses incurred in connection with the buyback of two subordinated Mediobanca issues in particular;

* 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.

– Net fee and commission income decreased from €122.1m to €89.2m, due to lower capital market volumes.

Operating costs were down 2.9%, from €158.5m to €153.9m, reflecting a €3m reduction in labour costs and a €1.6m reduction in administrative expenses.

The loan book reflects €2m in writebacks, compared with the €18.2m charges taken last year, due to a widespread improvement in the risk profile and to amounts collected in respect of certain non-performing accounts. The coverage ratio for non-performing items was stable at 46%.

Management of the AFS shares portfolio generated net gains of €118.9m (€91.5m), €110.4m of which in respect of Atlantia and €0,9m (€11.9m) by way of adjustments.

With regard to the main balance-sheet items:

– Funding rose from €37.5bn to €41.7bn, due to the more substantial contribution from CheBanca! (up from €8.6bn to €11.4bn) and to increased use of the ECB funding programme (€1.5bn more than last year). New debt issuance of €0.8bn was made in the six months, €300m of which in respect of the MB Opera subordinated Tier 2 issue, against redemptions and buybacks totalling €1bn, including the partial buyback of the two subordinated Tier 2 issues referred to earlier (€218.4m);

– Loans and advances to customers rose by 18.8%, from €23.2bn to €25.7bn, in particular accounts with Group companies, with customer loans remaining stable; non-performing assets declined from €377.8m to €371.6m;

– Equity investments and AFS shares fell from €3,539.6m to €3,426.9m, on disposals in the AFS segment totalling €288.5m, the CheBanca! rights issue, subscribed to in an amount of €100m, plus a €30.6m increase in fair value. Based on the stock market price recorded on 30 December 2016, the Assicurazioni Generali investment reflects an unrealized gain of €1.8bn (€1.9bn based on current prices);

– Banking book securities fell from €11,735.1m to €10,434.6m, and regard the AFS segment as to €5,284.7m;

– The difference between trading and treasury assets and liabilities reflects a net balance of €7,370.6m, considerably higher than the figure reported at end-June (€4,269.8m). The heading consists of: equities worth €2,503.6m, over 80% of which are hedged by derivatives with clients; liquid assets totalling €1,889.9m, €1,832.6m of which held with the European Central Bank; and other net deposits (including repos) amounting to €2,861.9m, and debts securities worth €115.2m;

– The Bank's net equity fell from €5,275.2m to €5,055.8m, despite the €96.3m profit for the period, as a result of the reduction in the AFS reserves (from €368.3m to €286.7m) and the dividend distributed (€230.9m). Share capital increased from €435.5m to €436.4m, following the exercise of 90,000 stock options and the issuance of 1,691,054 performance shares worth a total of €1.4m, including the share premium.

* * *

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 [1]	No. of staff
Mediobanca International	100%	Wholesale Banking / Holding Functions	6,019.1	3,888.9	307.8	11
MB Facta	100%	Specialty Finance	3.0	—	3.0	—
Creditech	100%	Specialty Finance	1,222.3	1,150.0	98.4	218
CheBanca!	100%	Affluent & Premier	19,896.6	7,441.5	327.6	1.489
Mediobanca Covered Bond	90%	Affluent & Premier	0.4	—	0.1	—
Compagnie Monégasque de Banque	100%	Private Banking	4,342.0	1,191.9	713.0	211
Banca Esperia	50%	Private Banking	1,915.6	943.0	183.3	148
Spafid	100%	Private Banking	54.9	—	42.8	49
Spafid Connect (*)	100%	Private Banking	7.3	—	3.8	9
Spafid Family Office SIM	100%	Private Banking	0.9	—	1.0	—
Cairn Capital Group Limited (data in GBP/1000) (*)	100%	Private Banking	12.5	—	7.7	56
Compass Banca	100%	Consumer Banking	11,151.6	9,718.1	1,371.4	1,335
Futuro	100%	Consumer Banking	1,599.3	1,526.8	85.2	75
Quarzo	90%	Consumer Banking	0.2	—	—	—
Quarzo CQS	90%	Consumer Banking	0.2	—	—	—
Compass RE	100%	Consumer Banking	274.2	—	72.8	1
Mediobanca Securities (data in USD/1000)	100%	Wholesale Banking	7.1	—	4.0	4
Mediobanca International Immobilierè	100%	Holding Functions	2.0	—	1.7	—
Mediobanca Turchia (data in TRY/1000)	100%	Wholesale Banking	2.7	—	5.3	7
Mediobanca Messico (in liquidation) (data in MXN/1000)	100%	Holding Functions	3.5	—	3.5	—
Quarzo MB	90%	Wholesale Banking	—	—	—	—
Mediobanca Funding Luxembourg	100%	Wholesale Banking	—	—	—	—
SelmaBipiemme Leasing	60%	Holding Functions	2,585.8	2,362.7	225.1	143
Quarzo Lease	90%	Holding Functions	—	—	—	—
Prominvestment (in liquidation)	100%	Holding Functions	5.4	—	(1.8)	6
Mediobanca Innovation Services	100%	Holding Functions	73.0	—	37.6	192
Ricerche e Studi	100%	Holding Functions	0.8	—	0.1	14

* Taking into account the put and call option, see Part A1 – Section 3 – Area and methods of consolidation, p. 76.

[1] Does not include profit for the period.

Company	Percentage shareholding	Business Line	Total income	Loans and advances to customers	Total net equity	No. of staff
Mediobanca International	100%	Wholesale Banking / Holding Functions	20.1	(3.6)	(0.4)	11.4
MB Facta	100%	Specialty Finance	—	—	—	—
Creditech	100%	Specialty Finance	34.0	(15.2)	(3.1)	12.3
CheBanca!	100%	Affluent & Premier	131.7	(155.7)	(9.5)	25.7
Mediobanca Covered Bond	90%	Affluent & Premier	—	—	—	—
Compagnie Monégasque de Banque	100%	Private Banking	41.4	(24.0)	—	18.0
Banca Esperia	50%	Private Banking	47.2	(37.0)	(0.7)	3.0
Spafid	100%	Private Banking	4.5	(3.9)	—	0.5
Spafid Connect *	100%	Private Banking	1.0	(0.9)	—	0.1
Spafid Family Office SIM	100%	Private Banking	—	(0.1)	—	(0.1)
Cairn Capital Group Limited (data in GBP/1000) *	100%	Private Banking	12.1	(10.5)	—	1.2
Compass Banca	100%	Consumer Banking	429.2	(128.0)	(156.9)	93.5
Futuro	100%	Consumer Banking	26.9	(8.6)	(2.2)	10.9
Quarzo	90%	Consumer Banking	0.1	(0.1)	—	—
Quarzo CQS	90%	Consumer Banking	—	—	—	—
Compass RE	100%	Consumer Banking	19.6	(0.4)	—	13.5
Mediobanca Securities (data in USD/1000)	100%	Wholesale Banking	1.5	(1.2)	—	—
Mediobanca International Immobilierè	100%	Holding Functions	0.1	(0.1)	—	—
Mediobanca Turchia (data in TRY/1000)	100%	Wholesale Banking	—	(1.0)	—	(1.0)
Mediobanca Messico (in liquidation) (data in MXN/1000)	100%	Holding Functions	—	—	—	—
Quarzo MB	90%	Wholesale Banking	—	—	—	—
Mediobanca Funding Luxembourg	100%	Wholesale Banking	—	—	—	—
SelmaBipiemme Leasing	60%	Holding Functions	24.5	(11.8)	(6.3)	4.3
Quarzo Lease	90%	Holding Functions	—	—	—	—
Prominvestment (in liquidation)	100%	Holding Functions	0.2	(0.6)	—	(0.3)
Mediobanca Innovation Services	100%	Holding Functions	32.0	(30.7)	—	1.1
Ricerche e Studi	100%	Holding Functions	1.0	(1.0)	—	—

* Taking into account the put and call option, see Part A1 – Section 3 – Area and methods of consolidation, p. 76.

Other information

Related party disclosure

Financial accounts outstanding as at 31 December 2016 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 consumer banking and Affluent & Premier businesses on the domestic market, and its exposure to market volatility in respect of its securities portfolio in the Wholesale Banking, Principal Investing and Holding Functions divisions.

Section 12 of the Liabilities in the Notes to the Accounts also contains information on the most relevant litigation involving the Mediobanca Group still pending and the principal disputes outstanding with the Italian revenue authorities.

Research

R&S has continued its analysis of companies and capital markets as in the past. The company produced the forty-first edition of its Annual Directory, which includes analysis of leading Italian listed companies, and published the profiles of around eighty other industrial and financial groups online. The twenty-first edition of R&S's survey of the world's leading industrial and service multinationals has been published, as has the fourteenth edition of its survey of the leading international banks, and the sixth 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). The rating assigned by Fitch to Mediobanca is BBB+ with negative outlook (short-term rating F2).

Outlook

The outlook for the next six months to be dependent on: an economic scenario featuring interest rates at all-time lows, which will affect the performance in net interest income (increasing in Consumer Banking and for CheBanca!, but continuing to be weak in investment banking and treasury operations); the customary volatility in trading results; and fee income which is expected to be flat. Operating costs may rise, in particular with respect to the variable remuneration component of labour costs on the basis of performances delivered, while the cost of risk should remain in line with the positive results seen in the first six months. No further significant profits are expected to derive from the sale of AFS equities.

Reconciliation of shareholders' equity and net profit

(€ '000)

	Shareholders' equity	Net profit (loss)
Balance at 31/12 as per Mediobanca S.p.A. accounts	4,959,499	96,310
Net surplus over book value for consolidated companies	14,822	189,324
Differences on exchange rates originating from conversion of accounts made up in currencies other than the Euro	(4,843)	—
Other adjustments and restatements on consolidation, including the effects of accounting for companies on an equity basis	3,663,489	132,605
Dividends received during the period	—	—
TOTAL	**8,632,967**	**418,239**

Milan, 8 February 2017

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 2016.

2. Assessment of the adequacy of said administrative and accounting procedures for the financial statements for the six months ended 31 December 2016 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:

   – has 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;

   – corresponds to the data recorded in the company's books and account ledgers;

   – is 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, 8 February 2017

Chief Executive Officer	*Head of Company Financial Reporting*
Alberto Nagel	Massimo Bertolini

AUDITORS' REPORT

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 2016, 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 cashflow 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 2016 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, 9 February 2017

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

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CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet

(€'000)

Assets	31/12/16	30/6/16
10. Cash and cash equivalents	1,698,176	156,342
20. Financial assets held for trading	10,335,711	9,505,295
30. Financial assets at fair value through profit or loss	—	—
40. Financial assets available-for-sale	6,655,138	8,639,392
50. Financial assets held-to-maturity	2,058,102	1,975,411
60. Due from banks	6,454,269	5,386,601
70. Due from customers	40,047,566	37,881,476
80. Hedging derivatives	668,382	933,434
90. Adjustment of hedging financial assets (+/-)	—	—
100. Equity investments	3,441,148	3,193,345
110. Reinsured portion of technical reserves	—	—
120. Property, plant and equipment	305,465	304,844
130. Intangible assets	482,338	452,932
of which:		
goodwill	*420,487*	*416,740*
140. Tax assets	840,031	988,742
a) current	*125,974*	*237,415*
b) deferred	*714,057*	*751,327*
of which under L. 214/2011	*607,862*	*647,526*
150. Loans classified as held-for-sale	—	—
160. Other assets	488,526	400,791
Total assets	**73,474,852**	**69,818,605**

(€'000)

Liabilities and net equity	31/12/16	30/6/16
10. Due to banks	13,414,855	11,940,298
20. Due to customers	21,248,995	18,164,542
30. Debt securities in issue	20,350,427	21,813,134
40. Trading liabilities	7,413,337	7,141,458
50. Financial liabilities designated at fair value	—	—
60. Hedging derivatives	282,733	339,900
70. Changes in fair value of portfolio hedged items (-)	—	—
80. Tax liabilities	480,750	572,960
a) current	*118,518*	*207,886*
b) deferred	*362,232*	*365,074*
90. Liabilities included in disposal groups classified as held for sale	—	—
100. Other liabilities	723,495	596,290
110. Staff severance indemnity provision	29,374	28,975
120. Provisions	232,439	151,341
a) post-employment and similar benefits	—	—
b) other provisions	*232,439*	*151,341*
130. Insurance reserves	155,464	147,861
140. Revaluation reserves	1,162,382	1,144,992
150. Redeemable shares repayable on demand	—	—
160. Equity instruments repayable on demand	—	—
170. Reserves	5,078,794	4,692,729
180. Share premium reserve	2,153,372	2,152,829
190. Share capital	436,401	435,510
200. Treasury shares	(197,982)	(197,982)
210. Minority interest	91,777	89,218
220. Profit for the period	418,239	604,550
Total liabilities and net equity	**73,474,852**	**69,818,605**

Consolidated Profit and Loss Account

(€'000)

Item	31/12/16	30/6/16	31/12/15
10. Interest and similar income	962,605	1,906,556	966,014
20. Interest expense and similar charges	(326,906)	(706,051)	(364,376)
30. Net interest income	**635,699**	**1,200,505**	**601,638**
40. Fee and commission income	203,547	406,758	205,457
50. Fee and commission expense	(38,127)	(84,041)	(42,166)
60. Net fee and commission income	**165,420**	**322,717**	**163,291**
70. Dividends and similar income	35,873	80,520	28,970
80. Net trading income	2,125	38,587	9,879
90. Net hedging income (expense)	7,694	8,321	3,284
100. Gain (loss) on disposal/repurchase of:	143,281	96,301	100,233
a) loans and advances	*2,679*	*(15,959)*	*2,369*
b) AFS securities	*149,984*	*115,788*	*98,904*
c) financial assets held to maturity	*3,946*	*618*	*1,843*
d) financial liabilities	*(13,328)*	*(4,146)*	*(2,883)*
120. Total income	**990,092**	**1,746,951**	**907,295**
130. Adjustments for impairment to:	(186,477)	(417,374)	(238,277)
a) loans and advances	*(185,638)*	*(398,714)*	*(222,782)*
b) AFS securities	*(1,729)*	*(17,990)*	*(11,921)*
c) financial assets held to maturity	*(5,606)*	*(1,045)*	*(769)*
d) other financial assets	*6,496*	*375*	*(2,805)*
140. Net income from financial operation	**803,615**	**1,329,577**	**669,018**
150. Premiums earned (net)	25,395	46,781	22,369
160. Other income (net) from insurance activities	(7,119)	(15,567)	(7,643)
170. Net profit from financial and insurance activities	**821,891**	**1,360,791**	**683,744**
180. Administrative expenses:	(556,428)	(1,000,644)	(489,280)
a) personnel costs	*(235,578)*	*(443,286)*	*(209,712)*
b) other administrative expenses	*(320,850)*	*(557,358)*	*(279,568)*
190. Net transfers to provisions	(26,744)	(5,011)	(1,076)
200. Net adjustments to tangible assets	(8,737)	(20,566)	(9,682)
210. Net adjustments to intangible assets	(12,503)	(19,836)	(9,170)
220. Other operating income (expense)	159,474	144,844	66,994
230. Operating costs	**(444,938)**	**(901,213)**	**(442,214)**
240. Gain (loss) on equity investments	135,863	276,708	138,750
270. Gain (loss) on disposal of investments	7	(18)	(1)
280. Profit (loss) on ordinary activity before tax	**512,823**	**736,268**	**380,279**
290. Income tax for the year on ordinary activities	(92,855)	(128,652)	(57,166)
300. Profit (loss) on ordinary activities after tax	**419,968**	**607,616**	**323,113**
310. Gain (loss) on disposal of investments after tax	**—**	**—**	**—**
320. Net profit (loss) for the period	**419,968**	**607,616**	**323,113**
330. Net profit (loss) for the period attributabe to minorities	(1,729)	(3,066)	(2,008)
340. Net profit (loss) for the period attributable to Mediobanca	**418,239**	**604,550**	**321,105**

Consolidated Comprehensive Profit and Loss Account

(€'000)

		31/12/16	31/12/15
10.	**Profit (loss) for the period**	**419,968**	**323,113**
	Other income items net of tax without passing through profit and loss	**(42,696)**	**129,834**
20.	Property, plant and equipment	—	—
30.	Intangible assets	—	—
40.	Defined benefit schemes	228	167
50.	Non-current assets being sold	—	—
60.	Share of valuation reserves attributable to equity-accounted companies	(42,924)	129,667
	Other income items net of tax passing through profit and loss	**60,916**	**(504,032)**
70.	Foreign investments hedges		—
80.	Exchange rate differences	(1,393)	(102)
90.	Cash flow hedges	(611)	4,121
100.	AFS financial assets	(87,601)	3,428
110.	Non-current assets being sold	—	—
120.	Share of valuation reserves attributable to equity-accounted companies	150,521	(511,479)
130.	**Total other income items, net of tax**	**18,220**	**(374,198)**
140.	**Comprehensive income (headings 10 + 130)**	**438,188**	**(51,085)**
150.	**Minority interests in consolidated comprehensive incomes**	**2,559**	**1,954**
160.	**Consolidated comprehensive income attributable to Mediobanca**	**435,629**	**(53,039)**

Statement of Changes to Consolidated Net Equity

(€'000)

	Previously reported balance at 30/6/16	Allocation of profit for previous period: Reserves	Allocation of profit for previous period: Dividends and other fund applications	Changes during the reference period: Changes to reserves	Transactions involving net equity: New shares issued	Transactions involving net equity: Treasury shares acquired	Transactions involving net equity: Extra-ordinary dividend payouts	Transactions involving net equity: Changes to equity instruments	Transactions involving net equity: Treasury shares derivates	Transactions involving net equity: Stock options [1]	Transactions involving net equity: Changes to investments	Overall consolidated profit for the 12 mths ended 31/12/16	Total net equity at 31/12/16	Net equity attributable to the group at 31/12/16	Net equity attributable to the minorities at 31/12/16
Share capital:	452,050	—	—	—	891	—	—	—	—	—	—	—	452,941	436,401	16,540
a) ordinary shares	452,050	—	—	—	891	—	—	—	—	—	—	—	452,941	436,401	16,540
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	2,154,677	—	—	—	543	—	—	—	—	—	—	—	2,155,220	2,153,372	1,848
Reserves:	4,765,568	607,615	(230,915)	8,935	(846)	—	—	—	—	4,341	—	—	5,154,698	5,078,794	75,904
a) retained earnings	4,643,215	607,615	(230,915)	8,935	(846)	—	—	—	—	—	—	—	5,028,004	4,952,100	75,904
b) others	122,353	—	—	—	—	—	—	—	—	4,341	—	—	126,694	126,694	—
Valuation reserves	1,139,917	—	—	—	—	—	—	—	—	—	—	18,220	1,158,137	1,162,382	(4,245)
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(197,982)	—	—	—	—	—	—	—	—	—	—	—	(197,982)	(197,982)	—
Profit (loss) for the period	607,616	(607,615)	—	—	—	—	—	—	—	—	—	419,968	419,969	418,239	1,730
Total net equity	8,921,846	—	(230,915)	8,935	588	—	—	—	—	4,341	—	438,188	9,142,983	X	X
Net equity attributable to the group	8,832,628	—	(230,915)	8,935	588	—	—	—	—	4,341	—	435,629	X	9,051,206	X
Net equity attributable to minorities	89,218	—	—	—	—	—	—	—	—	—	—	2,559	X	X	91,777

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

Statement of Changes to Consolidated Net Equity

(€'000)

	Previously reported balance at 30/6/15	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						Changes in equity instruments [3]	Overall consolidated profit for the 6 mths ended 31/12/15			
					New shares issued	Treasury shares acquired	Extra-ordinary dividends payout	Changes to equity instruments	Treasury shares derivatives	Stock options [1]					
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 effects of the stock options and performance shares related to the ESOP schemes.

[2] As a result of the cancellation of the Palladio treasury shares following the merger of Palladio into Selma Bipiemme.

[3] Reduction due to purchase of Teleleasing minorities.

Consolidated Cash Flow Statement Direct Method

(€'000)

	Amount	
	31/12/16	**31/12/15**
A. Cash flow from operating activities		
1. Operating activities	**431,114**	**130,753**
- interest received	1,586,094	1,660,563
- interest paid	(922,853)	(1,322,820)
- dividends and similar income	31,450	8,740
- net fees and commission income	68,357	81,803
- cash payments to employees	(198,060)	(182,052)
- net premium income	31,631	32,892
- other premium from insurance activities	(81,888)	(96,414)
- other expenses paid	(521,497)	(664,153)
- other income received	486,795	559,277
- income taxes paid	(48,915)	52,917
- net expense/income from groups of assets being sold	—	—
2. Cash generated/absorbed by financial assets	**(6,831,012)**	**(2,110,117)**
- financial assets held for trading	(232,117)	(1,300,879)
- financial assets recognized at fair value	—	—
- AFS securities	1,679,749	(222,751)
- due from customers	(2,606,056)	1,763,765
- due from banks: on demand	(4,727,317)	(267,882)
- due from banks: other	(785,877)	(1,824,303)
- other assets	(160,394)	(258,067)
3. Cash generated/absorbed by financial liabilities	**7,844,739**	**1,976,508**
- due to banks: on demand	293,284	412,018
- due to banks: other	6,148,398	1,542,303
- due to customers	2,702,557	(222,674)
- debt securities	(1,301,423)	401,518
- trading liabilities	(121,560)	(74,631)
- financial liabilities assets recognized at fair value	—	—
- other liabilities	123,483	(82,026)
Net cash flow (outflow) from operating activities	**1,444,841**	**(2,856)**
B. Investment activities		
1. Cash generated from	**118,540**	**319,742**
- disposals of shareholdings	—	539
- dividends received in respect of equity investments	—	—
- disposals/redemptions of financial assets held to maturity	117,826	318,914
- disposals of tangible assets	714	342
- disposals of intangible assets	—	(53)
- disposals of subsidiaries or business units	—	—
2. Cash absorbed by	**209,780**	**(109,533)**
- acquisitions of shareholdings	—	—
- acquisitions of held-to-maturity investments	(210,995)	(40,227)
- acquisitions of tangible assets	(9,969)	(14,195)
- acquisitions of intangible assets	(18,043)	(6,284)
- acquisitions of subsidiaries or business units	448,787	(48,827)
- Net cash flow (outflow) from investment/servicing of finance	**328,320**	**210,209**
C. Funding activities	**(230,327)**	**208,144**
- issuance/acquisition of treasury shares	588	4,749
- issuance/acquisitions of equity instruments	—	—
- dividends payout and other applications of funds	(230,915)	(212,893)
Net cash flow (outflow) from funding activities	**(231,327)**	**(208,144)**
Net cash flow (outflow) during period	**1,541,834**	**(791)**

Reconciliation of movements in cash flow during period under review

(€'000)

	Amounts	
	31/12/16	31/12/15
Cash and cash equivalents: balance at start of period	156,342	49,027
Total cash flow (ouflow) during period	1,541,834	(791)
Cash and cash equivalents: exchange rate effect	—	—
Cash and cash equivalents: balance at end of period	1,698,176	48,236

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 consolidated financial statements for the period ended 31 December 2016 have as required by Italian Legislative Decree 38/05, been drawn up in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB), and the respective interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), which were adopted by the European Commission in accordance with the procedure laid down in Article 6 of regulation CE 1606/02 issued by the European Parliament and Council on 19 July 2002. The consolidated financial statements for the period ended 31 December 2016 have also been prepared on the basis 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 amendment 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.

IFRS 9: The Mediobanca Group project

Regulatory framework

In July 2014, the International Accounting Standards Board (IASB) issued the new IFRS 9, "Financial Instruments", introducing new standards on the classification and measurement of financial instruments, on the criteria and means for calculating value adjustments, and on the hedge accounting model. The ratification process was completed with the issue of Regulation (EU) 2016/2067 by the European Commission on 22 November 2016, published in the Official Journal of the European Union (L 323) on 29 November 2016.

IFRS 9 will replace IAS 39 and will be applicable as from the first financial year starting on 1 January 2018 or thereafter.

The main changes regard classification and impairment, and are as follows:

– How financial assets (apart from shares) are classified and measured will depend on two tests, one of the business model and the other on the contractual cash flow characteristics, known as the "Solely Payments of Principal and Interest Test" (or SPPI). Only those instruments which pass both tests can be recognized at cost, otherwise they will have to be measured at fair value, with the effects taken through the profit and loss account (hence this will become the residual portfolio). There is also an intermediate portfolio ("Held to collect and sell"), for which, like with the existing Available for sale portfolio, the instruments are recognized at fair value through net equity (i.e. through Other comprehensive income);

– Shares still have to be recognized at fair value, apart from those held for trading, the fair value effects of which can be recognized in a net equity reserve rather than taken through the profit and loss account; however, the possibility of recycling has been removed, i.e. the effects of sales will no longer be taken through the profit and loss account;

– The new standard moves from an incurred to an expected impairment model; as the focus is on expected losses of value, provisioning will have to be carried out for the whole portfolio (i.e. for assets with no impairment as well) and based on estimates which reflect macroeconomic factors. In particular, at stage 1 of the recognition process, the instrument will have to reflect the expected loss over a 12-month time horizon; if there is a significant increase in the credit risk, the asset is classified as under-performing (stage 2), meaning its valuation will have to factor in the expected loss over its whole life-time; and if further impairment is recorded, the asset will be classified as non-performing (stage 3), where the final recoverable value will be estimated. The expected loss will be based on point-in-time data reflecting the internal credit monitoring models.

Current projects

The Mediobanca Group will adopt the new standard starting from 1 July 2018. An internal project was launched in spring 2015 for the assessment and implementation of IFRS 9. The project has been led jointly by the Risk Management and Group Financial Reporting areas, with the involvement of all other areas affected (in particular the front office teams, Group Technology and Operations, Group ALM, Group Treasury). The initiative has been developed in line with the three areas defined by the new standard (Classification and Measurement, Impairment and Hedge Accounting), and has been split into two phases: Assessment (now complete) and "Design and Implementation".

Regarding the new criteria for classifying and measuring financial instruments, analysis has been carried out of the entire product portfolio, without any particular effects being noted. A methodological framework is being finalized for the implementation of organizational and applications processes, for the IT systems in particular.

Since the AIRB models have been implemented and the stress test exercise was completed, work has also begun on developing new impairment models, with the objective of consolidating the methodological choices for calculating the expected shortfall (principally the criteria of staging, and the introduction of macroeconomic criteria and forward-looking elements) and assessing its impact on business, the monitoring processes and accounting policies for financial instruments (loans in particular).

For the Hedge Accounting area, no significant impact is anticipated from application of the new criteria, hence the opt-in option is likely to be adopted.

The current, Design and Implementation project phase should be complete by 30 June 2017, so as to be able to launch a testing for the new IFRS 9 systems and processes in preparation for running IAS 39 and IFRS 9 in parallel.

SECTION 3

Area and methods of consolidation

Subsidiaries are consolidated on the line-by-line basis, whereas investments in associates and jointly-controlled operations are consolidated and accounted for using the equity method.

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

Since 30 June 2016 MB Funding Lux S.A. (a securitization vehicle company) and Spafid Family Office SIM (a brokerage company set up by Spafid) have both been included in the area of consolidation, whereas CB! NewCo has been merged into CheBanca!.

The acquisition of the other 50% of Banca Esperia not already owned from the Mediolanum group, announced in November 2016, will be completed once approval has been received from the relevant authorities.

Finally, on 6 October 2016 the court of Milan upheld the composition with creditors pursuant to Article 161, para. 6 of the Italian bankruptcy act in respect of Prominvestment, necessary only in order to complete the liquidation process for the company which had begun in September 2008 and without prejudice to the creditors.

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

	Name	Registered office	Type of relation-ship [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. - under 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.	Montecarlo	1	A.1.1	100.00	100.00
7.	C.M.G. COMPAGNIE MONEGASQUE DE GESTION S.A.M.	Montecarlo	1	A.1.6	99,95	99,95
8.	SMEF SOCIETE MONEGASQUE DES ETUDES FINANCIERES S.A.M.	Montecarlo	1	A.1.6	99,96	99,96
9.	CMB ASSET MANAGEMENT S.A.M.	Montecarlo	1	A.1.6	99,3	99,4
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 1 S.P.A.	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.	MB FUNDING LUX S.A.	Luxembourg	1	A.1.1	100.00	100.00
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.	MB FACTA S.P.A. [2]	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.	QUARZO MB S.R.L.	Milan	1	A.1.1	90.00	90.00
25.	MEDIOBANCA COVERED BOND S.R.L.	Milan	1	A.1.13	90.00	90.00
26.	COMPASS RE (LUXEMBOURG) S.A.	Luxembourg	1	A.1.12	100.00	100.00
27.	MEDIOBANCA INTERNATIONAL IMMOBILIERE S.A.R.L.	Luxembourg	1	A.1.11	100.00	100.00
28.	MB ADVISORY KURUMSAL DANISMANLIK HIZMETLERI ANONIM SIRKETI	Istanbul	1	A.1.1	100.00	100.00
29.	MB MESSICO S.A. C.V. – under liquidation	Bosques De Las Lomas	1	A.1.1	100.00	100.00
30.	CAIRN CAPITAL GROUP LIMITED	London	1	A.1.1	100.00 **	51.00
31.	CAIRN CAPITAL LIMITED	London	1	A.1.30	100.00	100.00
32.	CAIRN CAPITAL NORTH AMERICA INC.	London	1	A.1.30	100.00	100.00
33.	CAIRN CAPITAL GUARANTEE LIMITTED (non operating)	London	1	A.1.30	100.00	100.00
34.	CAIRN CAPITAL INVESTMENTS LIMITED (non operating)	London	1	A.1.30	100.00	100.00
35.	CAIRN INVESTMENT MANAGERS LIMITED (non operating)	London	1	A.1.30	100.00	100.00
36.	SPAFID FAMILY OFFICE SIM	Milan	1	A.1.3	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.

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:

(a) when the investor has power over the investee, defined as having substantive rights over the investee's relevant activities;

(b) when the investor has exposure, or rights, to variable returns from its involvement with the investee;

(c) 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, etc.

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

For equity-accounted companies, any differences in the carrying amount of the investment and the 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; 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 consolidated report for the six months ended 31 December 2016.

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 (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*.

[1] See Part A3 - Information on fair value, p. 92-103, for further details.

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 [2]. 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 [3], which is calculated as at the settlement date and includes any transaction costs or income directly

[2] See Part A3 - Information on fair value, p. 92-103, for further details.

[3] See Part A3 - Information on fair value, p. 92-103, for further details.

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[4].

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.

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

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

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, long-term computer software applications and other intangible assets (list of clients and development software) deriving from the Purchase Price Allocation process.

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.

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 EU 475/12[5]. Units accruing from 1 January 2007 paid into complementary pension schemes or the Italian national insurance system are recorded on the basis of contributions accurred 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.

As permitted by IAS 37, para. 92, no precise indication has been given of any potential liabilities.

Foreign currency transactions

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

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

[5] Until 30 June 2016 the Group accounted for these items directly as labour costs.

loss account, whereas those on non-cash items are recorded according to the valuation criteria used in respect of the category they belong to (i.e. at cost, through the profit and loss account or on an equity basis).

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

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.

Contributes to Deposits Guarantee Scheme and resolution funds are accounted for according to IFRIC 21.

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

(€'000)

Type of instrument	Transferred from	Transferred to	Book value at 31/12/16	Fair value at 31/12/16	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 (ABS)	Financial assets held for trading	Due from customers	74,012	76,325	322	488	—	488
Debt securities (ABS)	AFS securities	Due from customers	9,136	9,284	88	73	—	73
Debt securities	AFS securities	Financial assets held to maturity	196,906	211,786	(3,245)	5,439	—	5,439
Total			280,054	297,395	(2,835)	6,000	—	6,000

A.4 - Information on fair value

QUALITATIVE INFORMATION

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

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. Some residual equities for which it is not possible to reliably determine fair value using the methods described above are stated at cost.

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.

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.

[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.

- 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 parameters and judgements based on experience, and adjustments may therefore be required to valuations to take account of the bid-ask spread, liquidity or counterparty risk, and the type of measurement model adopted. All models in any case, including those developed internally, are verified independently and validated by different Bank units, thus ensuring an independent control structure.

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/debt valuation adjustments (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;
- PD (probability of default (PD), derived from historical PD readings or those implied in market prices for credit default swaps or bond securities;
- loss given default (LGD) based on the estimated value of recovery in the event of the counterparty going bankrupt, as defined in specific analysis conducted by the Bank itself or the 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. Basically ABS are categorized as Level 3, with the exception of those for which a bid/ask contribution can be provided with the respective quantities on an ongoing basis, in which case they are categorized as Level 1.

– 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 and for which an internal model is used in order to determine the fair value.

- 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 the NAV is available on a daily basis and considered to be active; 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 (€'000), 31/12/16**	**+/- delta vs MtM (€'000), 30/6/16**
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)	475	266
Equity-equity correlation	Equal to 1% between two indexes and 2% between two single stocks	80	90

Measurement techniques used for equity, credit and interest rate products

Product	**Measurement technique**	**Non-observable inputs**	**Fair value* Assets 31/12/16 (€m)**	**Fair value* Liabilities 31/12/16 (€m)**	**Fair value* Assets 30/6/16 (€m)**	**Fair value* Liabilities 30/6/16 (€m)**
OTC equity plain vanilla options, OTC equity digital options, variance swap	Black-Scholes/ Black model	Implicit volatility [1]	2.93	(14.97)	5.49	(12.84)
OTC equity basket options, best of/ worst of	Black-Scholes method	Implicit volatility Equity-equity correlation [2]	2.88	(0.20)	7.20	—
Synthetic CDOs	Gaussian copula model using factor with base correlation	Base correlation with bootstrap starting from quoted data on liquid index tranches [3]	0.82	(0.64)	0.16	(0.29)

* 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.

A.4.3 Fair value ranking

Transfer 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)

	31/12/16			30/6/16		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
1. Financial assets held for trading	5,753,655	4,420,653	161,403	4,101,756	5,319,409	84,130
2. Financial assets recognized at fair value	—	—	—	—	—	—
3. AFS securities	6,034,236	373,767	247,135	7,851,033	567,930	220,429
4. Hedge derivatives	—	668,382	—	—	933,434	—
5. Tangible assets	—	—	—	—	—	—
6. Intangible assets	—	—	—	—	—	—
Total	11,787,891	5,462,802	408,538	11,952,789	6,820,773	304,559
1. Financial liabilities held for trading	(3,001,747)	(4,350,402)	(61,188)	(2,286,362)	(4,794,269)	(60,827)
2. Financial liabilities recognized at fair value	—	—	—	—	—	—
3. Hedge derivatives	—	(282,733)	—	—	(339,900)	—
Total	(3,001,747)	(4,633,135)	(61,188)	(2,286,362)	(5,134,169)	(60,827)

The level 3 instruments held for trading include options traded, i.e. contracts with the same underlying instrument but executed with different counterparties, in an amount of €38.3m (30/6/16: €43.2m), plus €7.5m (€4.8m) in options linked to bonds issued and hedged on the market.

Net of these items, the level 3 assets increased from €36.1m to €115.6m, including new deals worth €98.2m, [1] disposals and redemptions totalling €13.7m, and other changes, including movements in fair value, amounting to minus €4.9m.

AFS assets consist of investments in unlisted companies (valued on the basis of internal models) and private equity funds. During the period under review AFS assets increased from €220.4m to €247.1m, following purchases of €31.4m only in part offset by sales totalling €7.6m, and other additions amounting to €2.9m (gains and valuations).

[1] See section A.5 on Day one profit/loss for further details.

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	36.139	—	220.424	—
2. Additions	106.383	—	37.594	—
2.1 Purchases	98.182	—	31.384	—
2.2 Profits recognized in:	8.201	—	6.203	—
2.2.1 profit and loss	8.201	—	1.082	—
- of which, gains	1.516	—	—	—
2.2.2 net equity	—	—	5.121	—
2.3 Transfers from other levels	—	—	—	—
2.4 Other additions	—	—	7	—
3. Reductions	26.896	—	10.890	—
3.1 Disposals	1.863	—	7.605	—
3.2 Redemptions	11.861	—	—	—
3.3 Losses recognized in:	12.715	—	3.285	—
3.3.1 profit and loss	12.715	—	1.730	—
- of which, losses	12.715	—	1.730	—
3.3.2 net equity	X	X	1.555	—
3.4 Transfers to other levels	—	—	—	—
3.5 Other reductions	457	—	—	—
4. Balance at end of period	115.626	—	247.128	—

[1] Includes market value of options covering those attached to bond issues by Mediobanca and Mediobanca International (€7.5m as at 31/12/16 and €4.8m as at 30/6/16) as well as options traded (€38.3m and €43.2m respectively), the values of which are recorded as both assets and liabilities for the same amount.

[2] Includes investments in 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	12,838	—	—
2. Additions	7,472	—	—
2.1 Issues	619	—	—
2.2 Losses recognized in:	6,559	—	—
2.2.1 profit and loss	6,559	—	—
- of which, losses	6,559	—	—
2.2.2 net equity	X	X	—
2.3 Transfers from other levels	—	—	—
2.4 Other additions	294	—	—
3. Reductions	4,893	—	—
3.1 Redemptions	3,743	—	—
3.2 Buybacks	—	—	—
3.3 Profits recognized in:	1,150	—	—
3.3.1 profit and loss	1,150	—	—
- of which, gains	1,150	—	—
3.3.2 net equity	X	X	—
3.4 Transfers to other levels	—	—	—
3.5 Other reductions	—	—	—
4. Balance at end of period	15,417	—	—

1 Includes market value of options covering those attached to bond issues by Mediobanca and Mediobanca International (€7.5m as at 31/12/16 and €4.8m as at 30/6/16) as well as options traded (€38.3m and €43.2m 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

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/16				30/6/16			
	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	2,058,102	2,035,199	93,909	22,476	1,975,411	1,994,385	59,439	19,459
2. Due from banks	6,454,269	—	5,169,778	1,297,460	5,386,601	—	5,114,831	269,186
3. Due from customers	40,047,566	—	11,816,349	30,181,504	37,881,476	—	12,439,572	26,399,738
4. Tangible assets held for investment purposes	75,533	—	—	148,205	70,676	—	—	136,789
5. Non-current assets and groups of assets being sold	—	—	—	—	—	—	—	—
Total	48,635,470	2,035,199	17,080,036	31,649,645	45,314,164	1,994,385	17,613,842	26,825,172
1. Due to banks	13,414,855	—	13,414,855	—	11,940,298	—	11,940,298	—
2. Due to customers	21,248,995	—	21,272,495	—	18,164,542	—	18,185,154	—
3. Debt securities in issue	20,350,427	1,582,360	19,124,964	—	21,813,134	1,649,708	20,604,767	—
4. Liabilities in respect of non-current assets being sold	—	—	—	—	—	—	—	—
Total	55,014,277	1,582,360	53,812,314	—	51,917,974	1,649,708	50,730,219	—

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.

During the six months under review this principle was applied by suspending the approx. €12m surplus generated on an arbitrage transaction between the acquisition of a financial instrument convertible into listed equities (starting from year 5) and the sale of the corresponding listed equities. This difference was generated from the use of an internal model to value the unlisted instrument which, pursuant to paras. AG76 and AG76A of IAS39, was suspended and will be released to the profit and loss account pro rata throughout the duration of the transaction (five years).

Part B - Notes to consolidated Balance Sheet

Assets

SECTION 1

Heading 10: Cash and cash equivalents

1.1 Cash and cash equivalents: composition

	31/12/16	30/6/16
a) Cash	66,413	54,651
b) Demand deposits with Central banks	1,631,763	101,691
Total	**1,698,176**	**156,342**

SECTION 2

Heading 20: Financial assets held for trading

*2.1 Financial assets held for trading: composition **

Items/Values	31/12/16			30/6/16		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Balance-sheet assets						
1. Debt securities	2,809,123	466,403	8,554	2,025,974	736,434	11,194
1.1 Structured securities	10,711	24,268	—	10,955	30,496	—
1.2 Others	2,798,412	442,135	8,554	2,015,019	705,938	11,194
2. Equity instruments [1]	2,326,507	—	88,665	1,286,344	—	—
3. Units in investment funds [1]	147,030	137,795	11,973	141,488	132,444	12,055
4. Loans	10,874	—	—	15,234	—	—
4.1 Repos	—	—	—	—	—	—
4.2 Others	10,874	—	—	15,234	—	—
Total A	**5,293,534**	**604,198**	**109,192**	**3,469,040**	**868,878**	**23,249**
B. Derivative instruments						
1. Financial derivatives	460,121	3,603,102	51,580	632,716	4,258,512	60,670
1.1 Trading	460,121	3,178,988	44,053 [2]	632,716	3,790,656	55,764 [2]
1.2 Related to fair value option	—	—	—	—	—	—
1.3 Others	—	424,114	7,527 [3]	—	467,856	4,906 [3]
2. Credit derivatives	—	213,353	631	—	192,019	211
2.1 Trading	—	213,353	631	—	192,019	211
2.2 Related to fair value option	—	—	—	—	—	—
2.3 Others	—	—	—	—	—	—
Total B	**460,121**	**3,816,455**	**52,211**	**632,716**	**4,450,531**	**60,881**
Total (A+B)	**5,753,655**	**4,420,653**	**161,403**	**4,101,756**	**5,319,409**	**84,130**

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

[1] Equities as at 31/12/16 include shares committed in securities lending transactions totalling €1,660,783,000 (30/6/16: €483,011,000).

[2] Respectively €38,305,000 and €43,185,000 by way of options traded, with the equivalent amount being recorded as trading liabilities.

[3] Includes the market value of options (€7.5m at 31/12/16 and €4.8m at 30/6/16) covering those linked with bonds issued by Mediobanca S.p.A. and Mediobanca International, with the equivalent amount being recorded as trading liabilities.

SECTION 4

Heading 40: Available for sale (AFS) securities

*4.1 AFS securities: composition **

Items/Values	31/12/16			30/6/16		
	Level 1	Level 2	Level 3 [1]	Level 1	Level 2	Level 3 [1]
1. Debt securities	5,583,723	373,767	—	7,157,167	567,930	—
1.1 Structured securities	—	—	—	—	—	—
1.2 Other	5,583,723	373,767	—	7,157,167	567,930	—
2. Equity instruments	406,136	—	42,742	642,407	—	39,606
2.1 Designated at fair value	406,136	—	42,742	642,407	—	39,554
2.2 Recognised at cost	—	—	—	—	—	52
3. Units in investment funds	44,377	—	204,393	51,459	—	180,823
4. Loans	—	—	—	—	—	—
Total	**6,034,236**	**373,767**	**247,135**	**7,851,033**	**567,930**	**220,429**

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

[1] Includes shares in non-listed companies.

SECTION 5

Heading 50: Financial assets held to maturity

*5.1 Financial assets held to maturity: composition **

	31/12/16				30/6/16			
	Book Value	Fair value			Book Value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	2,058,102	2,035,199	93,909	22,476	1,975,411	1,994,385	59,439	19,459
- structured	—	—	—	—	—	—	—	—
- other	2,058,102	2,035,199	93,909	22,476	1,975,411	1,994,385	59,439	19,459
2. Loans	—	—	—	—	—	—	—	—

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

SECTION 6

Heading 60: Due from banks

*6.1 Due from banks: composition **

Type of transactions/Values	31/12/16				30/6/16			
	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	200,788	—	200,791	—	162,893	—	162,896	—
1. Time deposits	—	X	X	X	—	X	X	X
2. Compulsory reserves	200,788	X	X	X	162,893	X	X	X
3. Repos	—	X	X	X	—	X	X	X
4. Other	—	X	X	X	—	X	X	X
B. Loans to banks	6,253,481	—	4,968,987	1,297,460	5,223,708	—	4,951,935	269,186
1. Loans	6,138,795	—	4,854,301	1,297,460	5,223,708	—	4,951,935	269,186
1.1 Current accounts and demand deposits	1,234,202	X	X	X	1,087,313	X	X	X
1.2 Time deposits	54,199	X	X	X	48,528	X	X	X
1.3 Other loans	4,850,394	X	X	X	4,087,867	X	X	X
- Repos	3,792,833	X	X	X	2,628,164	X	X	X
- Finance leases	5,170	X	X	X	4,795	X	X	X
- Other	1,052,391	X	X	X	1,454,908	X	X	X
2. Debt securities	114,686	—	114,686	—	—	—	—	—
2.1 Structured	—	X	X	X	—	X	X	X
2.2 Other	114,686	X	X	X	—	X	X	X
Total	**6,454,269**	**—**	**5,169,778**	**1,297,460**	**5,386,601**	**—**	**5,114,831**	**269,186**

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

SECTION 7

Heading 70: Due from customers

*7.1 Due from customers: composition **

Type of transaction/ Value	31/12/16						30/6/16					
	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	38,776,591	103,745	910,089	—	11,816,349	29,999,825	36,674,996	70,451	946,257	—	12,363,379	26,284,052
1. Current accounts	274,907	133 [1]	98	X	X	X	188,140	—	151	X	X	X
2. Repos	2,340,773	—	—	X	X	X	3,567,070	—	—	X	X	X
3. Mortgages	20,542,878 [2]	26,941 [2]	521,302	X	X	X	17,916,862	—	527,343	X	X	X
4. Credit cards, personal loans and salary-backed finance	8,828,161	76,671	147,622	X	X	X	8,727,568	70,451	145,291	X	X	X
5. Financial leases	2,159,004	—	195,440	X	X	X	2,258,599	—	227,840	X	X	X
6. Factoring	1,062,437	—	11,327	X	X	X	791,335	—	10,154	X	X	X
7. Other loans	3,568,431	—	34,300	X	X	X	3,225,422	—	35,478	X	X	X
Debt securities	257,141	—	—	—	—	181,679	189,772	—	—	—	79,193	115,686
8. Structured instruments	—	—	—	X	X	X	—	—	—	X	X	X
9. Others	257,141	—	—	X	X	X	189,772	—	—	X	X	X
Total	**39,033,732**	**103,745**	**910,089**	**—**	**11,816,349**	**30,181,504**	**36,864,768**	**70,451**	**946,257**	**—**	**12,439,572**	**26,399,738**

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

[1] This item includes mortgages acquired from Barclays Italy.

[2] Of which €2,235,271,000 acquired from Barclays Italy.

SECTION 8

Heading 80: Hedging derivatives

8.1 Hedge derivatives: by hedge type and level

	31/12/16			Nominal value	30/6/16			Nominal value
	Fair value				Fair value			
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	—	668,382	—	9,065,710	—	933,434	—	9,622,800
1) Fair value	—	668,292	—	9,051,351	—	926,811	—	9,537,121
2) Cash flow	—	90	—	14,359	—	6,623	—	85,679
3) Net investments in foreign subsidiaries	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	**—**	**668,382**	**—**	**9,065,710**	**—**	**933,434**	**—**	**9,622,800**

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

Transaction/Type of hedging	*Fair value*						Cash-flow hedges		Non Italian investments
	Specifica					General	Specific	General	
	Interest rate risk	Currency risk	Credit risk	Price risk	Multiple risk				
1. Available-for-sale financial instruments	—	—	—	—	—	X	—	X	X
2. Loans and receivables	—	—	—	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	—	—	—	—	—	—	—	—	—
1. Financial liabilities	668,292	—	—	X	—	X	—	X	X
2. Portfolio	X	X	X	X	X	—	X	—	X
Total liabilities	668,292	—	—	X	—	—	—	—	X
1. Estimated transactions	X	X	X	X	X	X	90	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	—	X	—	—

SECTION 10

Heading 100: Equity investments

As at 31 December 2016, the stakes held as part of the Equity investment portfolio reflected a book value of €3,441.1m.

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

Company name	Legal office	Operating office	Control type	Ownership		Voting rights %
				Controlling entity	% shareholding	
A. Jointly-controlled entities						
1. Banca Esperia S.p.A.	Milan	Milan	1	Mediobanca S.p.A.	50.0	50.0
B. Entities under signficant influence						
1. Assicurazioni Generali S.p.A.	Trieste	Trieste	2	Mediobanca S.p.A.	13.0	13.0
2. Burgo Group S.p.A.	Altavilla Vicentina (VI)	Milano	2	Mediobanca S.p.A.	22.13	22.13

Legend:

[1] Joint control.

[2] Subject to significant influence.

[3] Exclusively controlled and not consolidated

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

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.	94,975 [1]	n.a.
B. Entities under signficant influence		
1. Assicurazioni Generali S.p.A.	3,346,125	2,862,315
2. Burgo Group S.p.A	—	—
3. Others	48	n.a.
Total	3,441,148	

[1] Includes goodwill of €1,833,000.

* Available only for listed companies.

Collections deriving from the Athena liquidation continued during the six months under review, and the investment's residual value (€2.6m) was reclassified to the AFS equity portfolio as the condition of significant influence had ceased to exist as the liquidation process progressed.

SECTION 12

Heading 120: Property, plant and equipment

12.1 Tangible core assets stated at cost: composition

Assets/Values	31/12/16	30/6/16
1. Assets owned by the Group	229,932	234,168
a) land	84,883	84,883
b) buildings	105,455	107,349
c) furniture	9,600	10,558
d) electronic equipment	10,894	11,466
e) other assets	19,100	19,912
2. Assets acquired under finance leases	—	—
a) land	—	—
b) buildings	—	—
c) furniture	—	—
d) electronic equipment	—	—
e) other assets	—	—
Total	**229,932**	**234,168**

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

Assets/Values	31/12/16				30/6/16			
	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	75,533	—	—	148,205	70,676	—	—	136,789
a) land	29,090	—	—	81,928	27,401	—	—	79,542
b) buildings	46,443	—	—	66,277	43,275	—	—	57,247
2. Assets acquired under finance lease	—	—	—	—	—	—	—	—
a) land	—	—	—	—	—	—	—	—
b) buildings	—	—	—	—	—	—	—	—
Total	**75,533**	**—**	**—**	**148,205**	**70,676**	**—**	**—**	**136,789**

SECTION 13

Heading 130: Intangible assets

13.1 Intangible assets: composition by category

Assets/Values	31/12/16		30/6/16	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X	420,487	X	416,740
A.1.1 Attributable to the Group	X	420,487	X	416,740
A.1.2 Attributable to minorities	X	—	X	—
A.2 Other intangible assets	61,851	—	36,192	—
A.2.1 Assets valued at cost	37,604	—	36,192	—
a) Intangible assets generated internally	—	—	—	—
b) Other assets	37,604	—	36,192	—
A.2.2 Assets valued at fair value	24,247	—	—	—
a) Intangible assets generated internally	—	—	—	—
b) Other assets	24,247	—	—	—
Total	**61,851**	**420,487**	**36,192**	**416,740**

Goodwill increased by €3.7m, as a result of the goodwill deriving from acquisition of an asset portfolio by Compagnie Monégasque de Banque (€5.3m, the purchase price allocation for which will be completed by the financial year-end), and a €1.6m reduction in the Cairn Capital goodwill as a result of the weaker exchange rate. The same item was left unchanged following completion of the purchase price allocation process, and passed the impairment test successfully.

Assets recognized at fair value include the value assigned to the list of clients underlying the AUM and AUA acquired from Barclays which emerged in the course of the purchase price allocation process, to be amortized over a period of five years.

None of the other items presents any evidence of impairment.

SECTION 14

Assets heading 140 and Liability heading 80: Tax assets and liabilities

14.1 Advance tax assets: composition

	31/12/16	30/6/16
Balancing to the Profit and Loss	695,395	728,782
Balancing to the Net Equity	18,662	22,545
Total	**714,057**	**751,327**

14.2 Deferred tax liabilities: composition

	31/12/16	30/6/16
Balancing to the Profit and Loss	286,625	279,641
Balancing to the Net Equity	75,607	85,433
Total	**362,232**	**365,074**

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

	31/12/16	30/6/16
1. Opening balance	728,782	715,467
2. Increases	15,193	113,379
2.1 Deferred tax assets of the year	14,994	113,297
a) Relating to previous years	1,298	2,638
b) Due to change in accounting policies	—	—
c) Write-backs	—	—
d) Other (creation of temporary differences, use of TLCF)	13,696	110,659
2.2 New taxes or increase in tax rates	199	—
2.3 Other increases	—	82
3. Decreases	48,579	100,064
3.1 Deferred tax assets derecognised in the year	46,761	97,951
a) Reversals of temporary differences	46,590	97,581
b) Write-downs of non-recoverable items	—	—
c) Change in accounting policies	—	—
d) Other	171	370
3.2 Reduction in tax rates	—	—
3.3 Other decreases	1,818	2,113
a) Conversion into tax credit under L. 214/2011	—	2,035
b) Other	1,818	78
4. Final amount	695,396	728,782

*14.3.1 Changes in advance tax during the period (pursuant to Italian Law 214/2011) (balancing against profit and loss) **

	31/12/16	30/6/16
1. Opening balance	647,526	627,793
2. Increases	1,366	103,073
3. Decreases	41,030	83,340
3.1 Reversals of temporary differences	39,383	80,945
3.2 Conversion on tax credit deriving from	—	2,035
a) year losses	—	—
b) tax losses	—	2,035
3.3 Other decreases	1,647	360
4. Final amount	607,862	647,526

* On 30 June 2016, Italian decree law 59/16 on deferred tax assets pursuant to Italian law 214/11 was enacted. The regulations require that in order to maintain the right to take advantage of the possibility of converting DTAs into tax credits, an irrevocable option must be explicitly exercised, which provides for an annual payment until 2029 of an amount equal to 1.5% of the difference between the increase in the advanced tax assets compared with 30 June 2008, and the tax actually paid in the period. Mediobanca has exercised the option to maintain the right to take advantage of this regulation regarding the conversion of DTAs, effective for all companies included in the tax consolidation. No charge will be payable given that the tax paid by the consolidating entity exceeds the increase in the DTAs since 30 June 2008.

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

	31/12/16	30/6/16
1. Opening balance	279,641	282,899
2. Increases	9,254	640
2.1 Deferred tax liabilities of the year	5,514	404
a) Relating to previous years	881	—
b) Due to change in accounting policies	—	—
c) Other	4,633	404
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	3,740	236
3. Decreases	2,270	3,896
3.1 Deferred tax liabilities derecognised in the year	1,524	930
a) Reversals of temporary differences	1,524	930
b) Due to change in accounting policies	—	—
c) Other	—	—
3.2 Reductions in tax rates	—	80
3.3 Other decreases	746	2,886
4. Final amount	286,625	279,641

14.5 Changes in advance tax during the period (balancing against net equity) [1]

	31/12/16	30/6/16
1. Opening balance	22,545	20,185
2. Increases	13,028	38,347
2.1 Deferred tax assets of the year	12,323	37,637
a) Relating to previous years	—	—
b) Due to change in accounting policies	—	—
c) Other (creation of temporary differences)	12,323	37,637
2.2 New taxes or increases in tax rates	(47)	—
2.3 Other increases	752	710
3. Decreases	16,911	35,987
3.1 Deferred tax assets derecognised during the year	16,906	35,984
a) Reversals of temporary differences	14,245	35,968
b) Writedowns of non-recoverable items	—	—
c) Due to change in accounting policies	—	—
d) Other	2,661	16
3.2 Reduction in tax rates	5	—
3.3 Other decreases	—	3
4. Final amount	18,662	22,545

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

14.6 Changes in deferred tax during the period (balancing against net equity) [1]

	31/12/16	30/6/16
1. Opening balance	85,433	82,169
2. Increases	154,090	324,426
2.1 Deferred tax liabilities of the year	153,938	323,499
a) Relating to previous years	—	—
b) Due to change in accounting policies	—	—
c) Other (creation of temporary differences)	153,938	323,499
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	152	927
3. Decreases	163,916	321,162
3.1 Deferred tax liabilities derecognised in the year	163,033	321,092
a) Reversals of temporary differences	162,805	319,684
b) Due to change in accounting policies	—	—
c) Other	228	1,408
3.2 Reduction in tax rates	883	70
3.3 Other decreases	—	—
4. Final amount	75,607	85,433

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

SECTION 16

Heading 160: Other assets

16.1 Other assets: composition

	31/12/16	30/6/16
1. Gold, silver and precious metals	695	695
2. Accrued income other than capitalized income from financial assets	9,318	7,510
3. Trade receivables or invoices to be issued	223,330	142,235
4. Amounts due from tax revenue authorities (not recorded under Heading 140)	155,965	175,446
5. Other items	99,218	74,905
- bills for collection	15,437	7,748
- amounts due in respect of premiums, grants, indemnities and other items in respect of lending transactions	22,242	24,810
- advance payments on deposit commissions	8,575	6,916
- other items in transit	28,255	20,761
- amounts due from staff	379	317
- sundry other items	21,606	11,488
- improvements on third parties' assets	2,724	2,865
Total	**488,526**	**400,791**

Liabilities

SECTION 1

Heading 10: Due to banks

1.1 Due to banks: composition

Type of transaction/Values	**31/12/16**	**30/6/16**
1. Deposits from Central Banks	6,511,920	5,513,463
2. Deposits from banks	6,902,935	6,426,835
2.1 Other current accounts and demand deposits	676,976	620,291
2.2 Time deposits	—	18,024
2.3 Loans	6,139,425	5,783,605
2.3.1 Repos	3,082,185	1,597,598
2.3.2 Other	3,057,240	4,186,007
2.4 Liabilities in respect of commitments to repurchase treasury shares	—	—
2.5 Other debt	86,534	4,915
Total	**13,414,855**	**11,940,298**
Fair Value - Level 1	—	—
Fair Value - Level 2	13,414,855	11,940,298
Fair Value - Level 3	—	—
Total Fair Value	**13,414,855**	**11,940,298**

SECTION 2

Heading 20: Due to customers

2.1 Due to customers: composition

Type of transaction/Values	31/12/16	30/6/16
1. Current accounts and demand deposits [1]	12,815,024	9,240,571
2. Time deposits including saving deposits with maturity	5,321,335	5,477,191
3. Loans	2,973,028	3,341,831
3.1 Repos	1,661,666	2,373,602
3.2 Other	1,311,362	968,229
4. Liabilities in respect of commitments to repurchase treasury shares	—	—
5. Other	139,608	104,949
Total	**21,248,995**	**18,164,542**
Fair Value - Level 1	—	—
Fair Value - Level 2	21,272,495	18,185,154
Fair Value - Level 3	—	—
Total Fair Value	**21,272,495**	**18,185,154**

[1] Includes €2,921.5m in deposits and current accounts acquired from Barclays Italy.

SECTION 3

Heading 30: Debt securities in issue

3.1 Debt securities in issue: composition

Type of transaction/ Values	31/12/16				30/6/16			
	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	19,792,254	1,582,360	18,566,791	—	20,645,320	1,649,708	19,436,953	—
1.1 structured	8,215,991	—	8,485,656	—	8,260,581	—	8,589,242	—
1.2 other	11,576,263	1,582,360	10,081,135	—	12,384,739	1,649,708	10,847,711	—
2. Other structured securities	558,173	—	558,173	—	1,167,814	—	1,167,814	—
2.1 structured	—	—	—	—	—	—	—	—
2.2 other	558,173	—	558,173	—	1,167,814	—	1,167,814	—
Total	**20,350,427**	**1,582,360**	**19,124,964**	**—**	**21,813,134**	**1,649,708**	**20,604,767**	**—**

* The fair values are shown net of Mediobanca issuer risk; if this item is included, the fair value at 31 December 2016 would show a gain of €402m (€491m).

Debt securities in issue fell from €20,645,320,000 to €19,792,254,000 on new issuance of €0.8bn, expiries and buybacks totalling €1.6bn (and generating losses of €13.3m), and other upward adjustments (exchange rates, amortized cost and hedging effects) amounting to €107.6m.

The other securities include funding raised through commercial paper issued by Mediobanca International.

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

The heading "Debt securities in issue" includes the following six subordinate tier 2 issues, for a total amount of €2,458,313,000:

Issue	**31/12/16**		
	ISIN	**Nominal value**	**Book value**
MB GBP Lower Tier II Fixed/Floating Rate Note 2018 (Not included in calculation of regulatory capital)	XS0270002669	22,329	26,108
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	615,572	667,380
MB OPERA 3.75 2026	IT0005188351	299,715	295,612
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	396,033	396,771
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	500,000	507,538
MB CARATTERE 5.75% 2023 Lower Tier 2	IT0004917842	495,730	564,904
Total subordinated securities		**2,329,379**	**2,458,313**

During the six months under review the MB Opera bond was issued, while partial buybacks of the MB Secondo Atto and MB Quarto Atto issues were completed (in an amount of €124.8m and €93.6m respectively) and subsequently cancelled.

SECTION 4

Heading 40: Trading liabilities

4.1 Trading liabilities: composition

Type of transaction/Values	31/12/16					30/6/16				
	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	2,007,408	2,239,064	1,505	—	2,240,569	771,649	825,840	53	—	825,893
2. Deposits from customers	239,195	262,327	4,179	—	266,506	747,165	799,638	51	—	799,689
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	**2,246,603**	**2,501,391**	**5,684**	**—**	**2,507,075**	**1,518,814**	**1,625,478**	**104**	**—**	**1,625,582**
B. Derivative instruments										
1. Financial derivatives	—	500,356	3,829,220	60,938	X	—	660,884	4,260,188	60,827	X
1.1 Trading	X	500,356	3,394,655	52,387 [1]	X	X	660,884	3,782,340	55,642 [1]	X
1.2 Related with fair value option	X	—	—	—	X	X	—	—	—	X
1.3 Other	X	—	434,565	8,551 [2]	X	X	—	477,848	5,185 [2]	X
2. Credit derivatives	—	—	515,498	250	X	—	—	533,977	—	X
2.1 Trading	X	—	515,498	250	X	X	—	533,977	—	X
2.2 Related with fair value option	X	—	—	—	X	X	—	—	—	X
2.3 Other	X	—	—	—	X	X	—	—	—	X
Total B	**X**	**500,356**	**4,344,718**	**61,188**	**X**	**X**	**660,884**	**4,794,165**	**60,827**	**X**
Total (A + B)	**X**	**3,001,747**	**4,350,402**	**61,188**	**X**	**X**	**2,286,362**	**4,794,269**	**60,827**	**X**

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

[1] Respectively €38,305,000 and €43,185,000 for options traded, matching the amount recorded among assets held for trading.

[2] Includes the market value (€7.5m at 31/12/16 and €4.8m at 30/6/16) of options covering options matched with bonds issued, against the same amount recorded among assets held for trading.

SECTION 6

Heading 60: Hedging derivatives

6.1 Hedging derivatives: composition by type of hedging and by levels

Items/Values	31/12/16				30/6/16			
	Fair Value			Nominal value	Fair Value			Nominal value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	—	282,733	—	8,220,547	—	339,900	—	6,913,380
1) Fair value	—	272,288	—	8,064,070	—	330,691	—	6,863,380
2) Cash flow	—	10,445	—	156,477	—	9,209	—	50,000
3) Net investment in foreign subsidiaries	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	**—**	**282,733**	**—**	**8,220,547**	**—**	**339,900**	**—**	**6,913,380**

6.2 Hedging derivatives: composition by portfolio hedged and by hedging type

Operations/ Type of hedging	*Fair Value*						Cash flow		Non-Italian investments
	Micro					General	Specific	General	
	Interest rate risk	Currency risk	Credit risk	Price risk	Multiple risks				
1. AFS securities	66,523	—	—	—	—	X	—	X	X
2. Loans and advances	7,824	—	—	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	74,347	—	—	—	—	—	—	—	—
1. Financial liabilities	197,941	—	—	X	—	X	7,913	X	X
2. Portfolio	X	X	X	X	X	—	X	—	X
Total liabilities	197,941	—	—		—	—	7,913	—	—
1. Expected transactions	X	X	X	X	X	X	2,532	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	—	X	—	—

SECTION 8

Heading 80: Deferred liabilities

Please see asset section 14.

SECTION 10

Heading 100: Other liabilities

10.1 Other liabilities: composition

	31/12/16	30/6/16
1. Payment agreements (IFRS 2)	—	—
2. Impaired endorsements	10,851	17,347
3. Working capital payables and invoices pending receipt	365,795	234,113
4. Amounts due to revenue authorities	36,043	49,467
5. Amounts due to staff	136,932	160,135
6. Other items:	173,874	135,228
- bills for collection	25,522	26,440
- coupons and dividends pending collection	2,288	2,260
- available sums payable to third parties	25,875	30,724
- premiums, grants and other items in respect of lending transactions	24,722	33,352
- credit notes to be issued	—	—
- other [1]	95,467	42,452
7. Adjustments upon consolidation	—	—
Total	**723,495**	**596,290**

[1] Includes the liability in respect of the potential outlay to acquire the other 49% of Cairn Capital under the terms of the put-and-call agreements, adjusted to reflect current value, and a €49,600,000 one-off contribution to the Single Resolution Fund in connection with the rescue of the four "good" banks.

SECTION 11

Heading 110: Staff severance indemnity provision

11.1 Staff severance indemnity provision: changes during the year

	31/12/16	30/6/16
A. Initial amount	28,975	26,655
B. Increases	7,565	11,644
B.1 Provision of the year	6,123	10,001
B.2 Other increases	1,442	1,643
C. Reductions	7,166	9,324
C.1 Severance payments	1,082	1,131
C.2 Other decreases [1]	6,084	8,193
D. Closing balance	29,374	28,975
Total	**29,374**	**28,975**

1 Includes €4,612,000 in transfers to external, defined contribution pension schemes (30/6/16: €7,305,000).

SECTION 12

Heading 120: Provisions

12.1 Provisions: composition

Items	31/12/16	30/6/16
1. Provision to retirement payments and similar	—	—
2. Other provisions	232,439	151,341
2.1 Staff expenses	2,774	3,399
2.2 Other	229,665	147,942
Total	**232,439**	**151,341**

IAS 37 requires provisions to be set aside in cases where there is an obligation, whether actual, legal or implicit, the amount of which may be reliably determined and the resolution of which is likely to entail a cash outflow for the company. The amount of the provision is determined from the management's best estimate, based on experience of similar operations or the opinion of independent experts. The provisions are revised on a regular basis in order to reflect the best current estimate.

During the six months under review, the heading "Other provisions" rose from €151.3m to €232.4m chiefly due to amounts set aside in respect of the

Barclays acquisition. Of the €232.4m balance, €2.8m refer to staff-related costs (including incentives to leave the company already agreed), plus €229.7m for litigation and other contingent liabilities (€83m of which relating to Barclays). No provisions have been set aside in respect of disputes with the Italian revenue authorities.

With reference to the litigation pending against Mediobanca S.p.A. as at 31 December 2016, it should be noted that one of the cases previously pending has now been settled out of court, hence the situation is presently as follows:

- Four cases still pending in connection with the Bank's alleged failure to launch a full takeover bid for La Fondiaria in 2002, initiated against Mediobanca and UnipolSai only in all cases, with the total damages being claimed jointly from the defendants (known as the *petitum* in Italian law) amounting to €40m (plus interest and expenses), of which Mediobanca's, as agreed with UnipolSai, would be approx. €13m (again plus interest and expenses); of which:
  - Three claims, in which the court of appeals has ruled in favour of Mediobanca, have been referred by the court of cassation to the court of appeals in Milan to establish the damages incurred by the shareholders;
  - One claim is pending at the court of cassation after the court of appeals in Milan partly amended the first-degree ruling by reducing the amount of the damages due to the plaintiff.
- Claim for damages by Monte dei Paschi di Siena ("FMPS") against – *inter alia* – Mediobanca, for participation with criminal intent by virtue of an alleged non-contractual liability, jointly with the other twelve lender banks, for alleged damages to FMPS in connection with the execution of the Term Facility Agreement on 4 June 2011 and the consequent breach of FMPS's Articles of Association (20% limit on debt/equity ratio) in a total amount of €286m. The court of Siena, following a petition submitted the Italian ministry for the economy and finance at the request of FMPS, has ruled that the court of Florence may have jurisdiction in this case which accordingly has returned to it.

For the main disputes still outstanding with the revenue authorities, please refer to Liabilities section 12 of the notes to the FY 2016 accounts, seeing as there have been no major changes to this item since the balance-sheet date.

12.2 Provisions: movements during the year

Items	Charges relating to staff *	Other provisions	Total
A. Opening balance	3,399	147,942	151,341
B. Increases	1,000	85,412	86,412
B.1 Provision for the year [1]	1,000	26,361	27,361
B.2 Changes due to the passage of time	—	—	—
B.3 Difference due to discount rate changes	—	—	—
B.4 Other increases [2]	—	59,051	59,051
C. Decreases	1,625	3,689	5,314
C.1 Use during the year	1,625	3,648	5,273
C.2 Difference due to discount rate changes	—	—	—
C.3 Other decreases	—	41	41
D. Closing balance	2,774	229,665	232,439

* Includes sums set aside in respect of staff exit incentivizations.

[1] Of which approx. €24,000,000 in connection with the CheBanca! restructuring.

[2] Includes contingent liabilities in respect of the Barclays acquisition.

SECTION 13

Heading 130: Technical reserves

13.1 Technical reserves: composition

	Direct business	Indirect business	31/12/16	30/6/16
A. Non-life business:	—	155,464	155,464	147,861
A.1 Provision for unearned premiums	—	140,799	140,799	133,420
A.2 Provision for outstanding claims	—	14,665	14,665	14,441
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	—	155,464	155,464	147,861

13.2 Technical reserves: movements during the year

	31/12/16	30/6/16
A. Non-life business		
Balance at start of period	147,861	127,894
Combinations involving group companies	—	—
Changes to reserves (+/-)	7,603	19,967
Other additions	—	—
Balance at end of period	155,464	147,861
B. Life business and other reserves		
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	155,464	147,861

SECTION 15

Heading 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 the period

Item/type	Ordinary
A. Shares in issue at start of period	871,020,094
- entirely unrestricted	871,020,094
- with restrictions	—
A.1 Treasury shares (-)	(15,780,237)
A.2 Shares in issue: balance at start of period	855,239,857
B. Additions	1,781,054
B.1 New share issuance as a result of:	1,781,054
- rights issues	—
- business combinations	—
- bond conversions	—
- exercise of warrants	—
- others	—
- bonus issues	1,781,054
- to staff members	1,781,054
- to Board members	—
- others	—
B.2 Treasury share disposals	—
B.3 Other additions	—
C. Reductions	—
C.1 Cancellations	—
C.2 Treasury share buybacks	—
C.3 Disposals of businesses	—
C.4 Other reductions	—
D. Shares in issue: balance at end of period	857,020,911
D.1 Add: treasury shares	(15,780,237)
D.2 Shares in issue at end of period	872,801,148
- entirely unrestricted	872,801,148
- with restrictions	—

15.3 Share capital: other information

As at 31 December 2016, a total of 43,451,000 were reserved for awards.

15.4 Profit reserves: other information

Item	31/12/16	30/6/16
Legal reserve	87,102	86,720
Statutory reserve	1,289,550	1,233,655
Treasury shares	197,982	197,982
Others	3,504,160	3,174,372
Total	**5,078,794**	**4,692,729**

SECTION 16

Heading 210: Net equity attributable to minorities

16.1 Net equity attributable to minorities: composition

Name of company	31/12/16	30/6/16
1. SelmaBipiemme S.p.A.	91,769	89,202
2. Other minors	8	16
Total	**91,777**	**89,218**

Other information

1. Guarantees and commitments

Operations	31/12/16	30/6/16
1) Financial guarantees given to	409,314	634,139
a) Banks	154,339	159,246
b) Customers	254,975	474,893
2) Commercial guarantees given to	860	295
a) Banks	851	286
b) Customers	9	9
3) Irrevocable commitments to disburse funds	6,057,728	9,408,106
a) Banks	77,488	76,687
i) usage certain	77,488	46,687
ii) usage uncertain	—	30,000
b) Customers	5,980,240	9,331,419
i) usage certain	5,723,804	9,048,587
ii) usage uncertain	256,436	282,832
4) Commitments underlying credit derivatives protection sales [1]	11,496,190	10,360,369
5) Assets formed as collateral for third-party obligations	—	—
6) Other commitments	1,857,966	2,362,873
Total	**19,822,058**	**22,765,782**

[1] Includes transactions fully matched by hedge buys (€6,373,967,000 and €5,694,003,000 respectively).

5. Assets managed and traded on behalf of third parties

Type of service	31/12/16	30/6/16
1. Orders execution on behalf of customers	12,871,407	36,804,577
a) purchases	6,369,173	18,671,049
1. settled	6,327,321	18,550,202
2. unsettled	41,852	120,847
b) sales	6,502,234	18,133,528
1. settled	6,460,382	18,012,681
2. unsettled	41,852	120,847
2. Portfolio management	3,089,386	2,780,146
a) Individual	1,259,000	1,171,000
b) Collective	1,830,386	1,609,146
3. Custody and administration of securities	37,605,420	40,124,680
a) Third-party securities on deposits; relating to depositary banks activities (excluding segregating accounts)	8,017,469	7,800,519
1. securities issued by companies included in area of consolidation	301,843	399,104
2. other securities	7,715,626	7,401,415
b) Third-party securities held in deposits (excluding segregating accounts): other	10,192,202	8,347,820
1. securities issued by companies included in area of consolidation	—	34
2. other securities	10,192,202	8,347,786
c) securities of third deposited to third	9,198,360	10,713,138
d) property securities deposited to third	10,197,389	13,263,203
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 2016	6 mths ended 2015
1. Financial assets hedl for trading - Cash instruments	16,814	299	—	17,113	31,755
2. Financial assets designated at fair value through profit or loss	—	—	—	—	—
3. Available for sale financial assets	45,250	—	—	45,250	57,403
4. Held to maturity investments	22,826	—	—	22,826	33,808
5. Loans and receivables with banks	262	12,790	—	13,052	25,629
6. Loans and receivables with customers	2,305	783,456	—	785,761	738,678
7. Hedging derivatives	X	X	75,273	75,273	77,986
8. Other assets	X	X	3,330	3,330	755
Total	87,457	796,545	78,603	962,605	966,014

1.2 Interest expense and similar charges: composition

Voices/Technical forms	Debt securities	Loans	Other transactions	6 mths ended 2016	6 mths ended 2015
1. Financial assets hedl for trading - Cash instruments	(997)	X	—	(997)	(1,695)
2. Financial assets designated at fair value through profit or loss	(10,755)	X	—	(10,755)	(21,305)
3. Available for sale financial assets	(51,882)	X	—	(51,882)	(61,991)
4. Held to maturity investments	X	(261,185)	—	(261,185)	(279,383)
5. Loans and receivables with banks	—	—	—	—	—
6. Loans and receivables with customers	—	—	—	—	—
7. Hedging derivatives	X	X	(2,087)	(2,087)	(2)
8. Other assets	X	X	—	—	—
Total	(63,634)	(261,185)	(2,087)	(326,906)	(364,376)

SECTION 2

Headings 40 and 50: Net fee and commission income

2.1 Fee and commission income: composition

Services/Amounts	6 mths ended 31/12/16	6 mths ended 31/12/15
a) guarantees given	278	1,377
b) credit derivatives	—	—
c) management, brokerage and consultancy incomes:	103,088	108,106
1. securities trading	6,386	7,334
2. currency trading	42	—
3. portfolio management	11,819	4,651
3.1 individual	3,821	4,651
3.2 collective	7,998	—
4. custody and administration of securities	6,214	5,809
5. custodian bank	—	—
6. placement of securities	28,888	44,914
7. reception and transmission of orders	5,781	5,220
8. advisory services	3,689	—
8.1 related to investments	3,689	—
8.2 related to financial structure	—	—
9. distribution of third parties services	40,269	40,178
9.1 portfolio management	11,436	11,166
9.1.1 individual	11,436	11,166
9.1.2 collective	—	—
9.2 insurance products	26,782	29,012
9.3 other products	2,051	—
d) collection and payment services	8,953	8,586
e) securitization servicing	—	—
f) factoring services	1,993	1,126
g) tax collection services	—	—
h) manaement of multilateral trading facilities	—	—
i) management of current accounts	2,062	1,136
j) other services	87,173	85,126
Total	203,547	205,457

2.2 Fee and commission expense: composition

Services/Amounts	6 mths ended 31/12/16	6 mths ended 31/12/15
a) guarantees received	(8)	—
b) credit derivatives	—	—
c) management, brokerage and consultancy services:	(5,283)	(5,238)
1. trading in financial instruments	(3,313)	(3,622)
2. currency trading	—	—
3. portfolio management	—	—
3.1 own portfolio	—	—
3.2 third parties portfolio	—	—
4. custody and administration securities	(1,238)	(1,395)
5. financial instruments placement	(732)	(221)
6. off-site distribution of financial instruments, products and services	—	—
d) collection and payment services	(4,665)	(4,351)
e) other services	(28,171)	(32,577)
Total	(38,127)	(42,166)

SECTION 3

Heading 70: Dividends and similar income

3.1 Dividends and similar income: composition

Items/Income	6 mths ended 31/12/16		6 mths ended 31/12/15	
	Dividends	Incomes from units in investment funds	Dividends	Incomes from units in investment funds
a) Financial assets held for trading	28,792	188	13,802	337
b) Available for sale financial assets	5,193	1,700	9,060	5,771
c) Financial assets through profit or loss - other	—	—	—	—
d) Investments	—	X	—	X
Total	33,985	1,888	22,862	6,108

SECTION 4

Heading 80: Net trading income

4.1 Net trading income: composition

Transaction/Income	Unrealized profit (A)	Realized profit (B)	Unrealized losses (C)	Realized losses (D)	Net Profit (A+B)-(C+D)
1. Financial assets held for trading	179,921	109,483	(56,828)	(45,888)	186,688
1.1 Debt securities	27,541	24,684	(25,490)	(11,789)	14,946
1.2 Equity	148,269	83,693	(28,761)	(33,741)	169,460
1.3 Units in investment funds	3,896	1,106	(2,577)	(331)	2,094
1.4 Loans	215	—	—	(27)	188
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	(33,567)
4. Derivatives	1,867,376	1,283,959	(1,992,959)	(1,328,560)	(150,996)
4.1 Financial derivatives	1,735,169	1,154,200	(1,857,919)	(1,202,430)	(151,792)
- on debt securities and interest rates [1]	932,787	522,891	(953,386)	(535,143)	(32,851)
- on equity securities and shares' indexes	802,382	601,796	(904,533)	(667,287)	(167,642)
- on currencies and gold	X	X	X	X	19,188
- other [2]	—	29,513	—	—	29,513
4.2 Credit derivatives	132,207	129,759	(135,040)	(126,130)	796
Total	2,047,297	1,393,442	(2,049,787)	(1,374,448)	2,125

[1] Of which €7,770,000 in negative margins on interest rate derivatives (31/12/15: minus €582,000).

[2] Equity swap contracts have been classified as equity derivatives.

SECTION 5

Heading 90: Net hedging income (expense)

5.1 Net hedging income (expense): composition

Income elements/Amounts	6 mths ended 31/12/16	6 mths ended 31/12/15
A. Incomes from:		
A.1 Fair value hedging instruments	95,351	109,697
A.2 Hedged asset items (in fair value hedge relationships)	16,851	8,974
A.3 Hedged liability items (in fair value hedge relationship)	278,887	66,450
A.4 Cash-flows hedging derivatives (including ineffectiveness of net investment hedge)	5	3
A.5 Assets and liabilities denominated in currency (not derivative hedging instruments)	—	—
Total gains on hedging activities (A)	391,094	185,124
B. Losses on:		
B.1 Fair value hedging instruments	(282,413)	(76,108)
B.2 Hedged asset items (in fair value hedge relationships)	(77,720)	(7,024)
B.3 Hedged liability items (in fair value hedge relationship)	(23,266)	(98,705)
B.4 Cash-flows hedging derivatives (including ineffectiveness of net investment hedge)	(1)	(3)
B.5 Assets and liabilities denominated in currency (not derivative hedging instruments)	—	—
Total losses on hedging activities (B)	(383,400)	(181,840)
C. Net profit from hedging activities (A-B)	7,694	3,284

SECTION 6

Heading 100: Gains (losses) on disposals/repurchases

6.1 Gains (losses) on disposals/repurchases: composition

Items/Income	6 mths ended 31/12/16			6 mths ended 31/12/15		
	Gains	Losses	Net profit	Gains	Losses	Net profit
Financial assets						
1. Loans and receivables with banks	—	—	—	—	—	—
2. Loans and receivables with customers	3,751	(1,072)	2,679	5,974	(3,605)	2,369
3. Financial assets available for sale	150,178	(194)	149,984	99,194	(290)	98,904
3.1 Debt securities	28,523	(194)	28,329	6,700	(290)	6,410
3.2 Equity instruments	121,655	—	121,655	91,936	—	91,936
3.3 Units in investment funds	—	—	—	558	—	558
3.4 Loans	—	—	—	—	—	—
4. Financial assets held to maturity	3,946	—	3,946	1,845	(2)	1,843
Total assets	157,875	(1,266)	156,609	107,013	(3,897)	103,116
Financial liabilities						
1. Deposits with banks	—	—	—	—	—	—
2. Deposits with customers	—	—	—	—	—	—
3. Debt securities in issue	134	(13,462)	(13,328)	—	(2,883)	(2,883)
Total liabilities	134	(13,462)	(13,328)	—	(2,883)	(2,883)

SECTION 8

Heading 130: Adjustments for impairment

8.1 Adjustments for impairment on credits: composition

Transactions/Income	**Write - downs**			**Write - backs**				**6 mths ended 31/12/16**	**6 mths ended 31/12/15**
	Specific		**Portfolio**	**Specific**		**Portfolio**			
	Write - offs	**Other**		**A**	**B**	**A**	**B**		
A. Loans and receivables with banks									
- Loans	—	—	(560)	—	—	—	—	(560)	(100)
- Debt receivables	—	—	(2,176)	—	—	—	—	(2,176)	—
B. Loans and receivables with customers									
Deteriorated purchased loans									
- Loans	(3,110)	(6,819)	X	—	9,327 [1]	X	X	(602)	(5,184)
- Debt securities	—	—	X	—	—	X	X	—	—
Other receivables									
- Loans	(27,020)	(141,750)	(159,440)	2,222	62,447	11	81,715	(181,815)	(217,719)
- Debt receivables	—	—	(485)	—	—	—	—	(485)	221
C. Total	(30,130)	(148,569)	(162,661)	2,222	71,774	11	81,715	(185,638)	(222,782)

[1] Writebacks to non-performing items acquired include amounts collected in excess of the individual positions' book items.

Legend

A = interest

B = other amounts recovered.

8.2 Adjustments for impairment on AFS securities: composition

Transactions/Income	**Adjustments**		**Reversals of impairment losses**		**6 mths ended 31/12/16**	**6 mths ended 31/12/15**
	Specific		**Specific**			
	Write - offs	**Other**	**A**	**B**		
A. Debt securities	—	—	—	—	—	—
B. Equity instruments	—	(1,678)	X	X	(1,678)	(10,265)
C. Units in investment funds	—	(51)	X	—	(51)	(1,656)
D. Loans to banks	—	—	—	—	—	—
E. Loans to customers	—	—	—	—	—	—
Total	—	(1,729)	—	—	(1,729)	(11,921)

Legend

A = interest

B = other amounts recovered

8.3 Adjustments for impairment on financial assets held to maturity: composition

Transactions/Income	Write - downs			Write - backs				6 mths ended 31/12/16	6 mths ended 31/12/15
	Specific		Portfolio	Specific		Portfolio			
	Write - offs	Other		A	B	A	B		
A. Debt securities	—	—	(5,763)	—	—	—	157	(5,606)	(769)
B. Loans to banks	—	—	—	—	—	—	—	—	—
C. Loans to customers	—	—	—	—	—	—	—	—	—
D. Total	—	—	(5,763)	—	—	—	157	(5,606)	(769)

Legend

A = interest

B = other amounts recovered

8.4 Adjustments for impairment on other financial transactions: composition

Transactions/Income	Write - downs			Write - backs				6 mths ended 31/12/16	6 mths ended 31/12/15
	Specific		Portfolio	Specific		Portfolio			
	Write - offs	Other		A	B	A	B		
A. Guarantees given	—	(120)	(1)	—	—	—	758	637	(205)
B. Credit derivatives	—	—	—	—	—	—	—	—	—
C. Commitments to disburse funds	—	(449)	—	—	120	—	6,188	5,859	(2,600)
D. Other transactions	—	—	—	—	—	—	—	—	—
E. Total	—	(569)	(1)	—	120	—	6,946	6,496	(2,805)

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 31/12/16	6 mths ended 31/12/15
A. Life business				
A.1 Gross premiums written (+)	—	—	—	—
A.2 Reinsurance premiums paid (-)	—	X	—	—
A.3 Total	—	—	—	—
B. Non-life business				
B.1 Gross premiums written (+)	—	32,774	32,774	32,277
B.2 Reinsurance premiums paid (-)	—	X	—	—
B.3 Change in gross value of premium reserve (+/-)	—	(7,379)	(7,379)	(9,908)
B.4 Change in provision for unearned premiums ceded to reinsurers (+/-)	—	—	—	—
B.5 Total	—	25,395	25,395	22,369
C. Total net premiums	—	25,395	25,395	22,369

SECTION 10

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

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

	6 mths ended 31/12/16	6 mths ended 31/12/15
1. Net change in insurance provisions	—	—
2. Claims paid pertaining to the year	(3,564)	(4,474)
3. Other income and expense (net) from insurance business	(3,555)	(3,169)
Total	(7,119)	(7,643)

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

Changes for claims	**6 mths ended 31/12/16**	**6 mths ended 31/12/15**
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	(3,339)	(4,453)
C.1 Gross annual amount	(3,339)	(4,453)
C.2 Amount attributable to reinsurers	—	—
D. Change in recoveries net of reinsurers portion	—	—
E. Change in claims reserves	(225)	(21)
E.1 Gross annual amount	(225)	(21)
E.2 Amount attributable to reinsurers	—	—
Total non-life business claims	(3,564)	(4,474)

SECTION 11

Heading 180: Administrative expenses

11.1 Personnel cost: composition

Type of expense/Amounts	6 mths ended 31/12/16	6 mths ended 31/12/15
1) Employees [1]	(227,043)	(201,929)
a) wages and salaries	(161,693)	(143,973)
b) social security contributions	(38,998)	(36,124)
c) Severance pay (only for Italian legal entities)	(2,817)	(2,898)
d) social security costs	—	—
e) allocation to employees severance pay provision	(2,966)	(2,060)
f) provision for retirement and similar provisions	—	—
- defined contribution	—	—
- defined benefits	—	—
g) payments to external pension funds	(6,696)	(6,633)
- defined contribution	(6,696)	(6,633)
- defined benefits	—	—
h) expenses resulting from share-based payments	(4,269)	(3,928)
i) other employees' benefits	(9,604)	(6,313)
2) Other staff	(2,278)	(2,144)
3) Directors and Statutory Auditors	(4,250)	(4,134)
4) Early retirement costs	(2,007)	(1,505)
Total	(235,578)	(209,712)

[1] Includes €4.5m in respect of former Barclays' staff.

11.2 Average number of staff by category

	6 mths ended 31/12/16	6 mths ended 31/12/15
Employees:		
a) Senior executives	285	254
b) Executives	1,556	1,341
c) Other employees	2,416	2,249
Other staff	182	173
Total	4,439	4,017

11.5 Other administrative expenses: composition

	6 mths ended 31/12/16	6 mths ended 31/12/15
OTHER ADMINISTRATIVE EXPENSES		
– legal, tax and professional services	(49,316)	(21,393)
– loan recovery activity	(25,707)	(26,037)
– marketing and communications	(26,852)	(22,611)
– property	(24,193)	(18,346)
– EDP	(35,179)	(30,289)
– info-provider	(16,033)	(14,971)
– bank charges, collection and payment fees	(8,925)	(9,058)
– operating expenses	(37,981)	(24,726)
– other staff expenses	(10,875)	(11,199)
– other costs [1]	(64,243)	(71,860)
– indirect and other taxes	(21,546)	(29,078)
Total other administrative expenses	(320,850)	(279,568)

[1] Includes a €49,600,000 one-off contribution to the Single Resolution Fund in connection with the rescue of the four "good" banks.

SECTION 12

Heading 190: Net transfers to provisions

12.1 Net transfers to provisions: composition

	6 mths ended 31/12/16	6 mths ended 31/12/15
Net transfers to provisions for risks and charges - legal expenses	(134)	(630)
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]	(26,610)	(446)
Total transfers to provisions for risks and charges	(26,744)	(1,076)

[1] Includes the 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	(8,737)	—	—	(8,737)
- For operational use	(7,828)	—	—	(7,828)
- For investment	(909)	—	—	(909)
A.2 Acquired through finance lease	—	—	—	—
- For operational use	—	—	—	—
- For investment	—	—	—	—
Total	(8,737)	—	—	(8,737)

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	(12,503)	—	—	(12,503)
- Software	(3,433)	—	—	(3,433)
- Other	(9,070)	—	—	(9,070)
A.2 Acquired through finance lease	—	—	—	—
Total	(12,503)	—	—	(12,503)

SECTION 15

Heading 220: Other operating income (expense)

15.1 Other operating expenses: composition

Income-based components/Values	6 mths ended 31/12/16	6 mths ended 31/12/15
a) Leasing activity	(7,332)	(8,358)
b) Sundry costs and expenses [1]	(145,117)	(1,923)
Total	(152,449)	(10,281)

[1] Of which €141,690,000 in charges relating to the purchase price allocation process for the Barclays Italy business unit.

15.2 Other operating income: composition

Income-based components/Values	6 mths ended 31/12/16	6 mths ended 31/12/15
a) Amounts received from customers	19,987	19,756
b) Leasing activity	6,211	7,459
c) Other income [1]	285,725	50,060
Total	311,923	77,275

[1] Of which €240,000,000 in badwill collected under the terms of the Barclays Italy acquisition.

SECTION 16

Heading 240: Gains (losses) on equity investments

16.1 Gains (losses) on equity investments: composition

Income/Value	6 mths ended 31/12/16	6 mths ended 31/12/15
1) Joint venture		
A. Incomes	1,496	—
1. Revaluation	1,496	—
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	1,496	—
2) Companies subject to significant influence		
A. Incomes	134,731	138,750
1. Revaluation	134,731	138,750
2. Gains on disposal	—	—
3. Write-backs	—	—
4. Other gains	—	—
B. Expenses	(364)	—
1. Write-downs	—	—
2. Impairment losses	(364)	—
3. Losses on disposal	—	—
4. Other expenses	—	—
Net profit	134,367	138,750
Total	135,863	138,750

SECTION 19

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

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

Income/Value	6 mths ended 31/12/16	6 mths ended 31/12/15
A. Assets	8	—
- Gains on disposal	—	—
- Losses on disposal	8	—
B. Other assets	—	(1)
- Gains on disposal	—	—
- Losses on disposal	—	(1)
C. Equity investments	(1)	—
- Gains on disposal	1	—
- Losses on disposal	(2)	—
Net result	7	(1)

SECTION 20

Heading 290: Income tax on ordinary activities

20.1 Income tax on ordinary activities: composition

Income components/Sectors	6 mths ended 31/12/16	6 mths ended 31/12/15
1. Current tax expense (-)	(57,477)	(46,453)
2. Changes of current tax expense of previous years (+/-)	55	(9,467)
3. Reduction in current tax expense for the period (+)	—	—
3.bis Reductions in current tax expense for the period due to tax credit related to L. 214/2011 (+)	—	1,252
4. Changes of deferred tax assets (+-)	(33,264)	(2,713)
5. Changes of deferred tax liabilities (-)	(2,169)	215
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(92,855)	(57,166)

SECTION 22

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

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

Company name	**6 mths ended 31/12/16**	**6 mths ended 31/12/15**
1. SelmaBipiemme S.p.A.	1,738	1,043
2. Teleleasing S.p.A. (merged into Selma BPM)	—	965
3. Others	(9)	—
Total	1,729	2,008

SECTION 24

Earnings per share

24.1 Average number of ordinary shares on a diluted basis

	6 mths ended 31/12/16	**6 mths ended 31/12/15**
Net profit	418,239	321,105
Avg. no. of shares in issue	850,101,368	847,953,237
Avg. no. if potentially diluted shares	19,664,170	34,559,551
Avg. no. of diluted shares	869,765,538	882,512,788
Earnings per share	0.49	0.38
Earnings per share, diluted	0.48	0.36

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, and the recovery plan drawn up in accordance with the provisions contained in the Bank Recovery and Resolution Directive (Directive 2014/59/EU).

The Executive Committee is responsible for the ordinary management of the Bank and for co-ordination and management of the Group companies, without prejudice to the matters for which the Board of Directors has sole jurisdiction.

The Risks committee assists the Board of Directors in performing duties of monitoring and instruction in respect of the internal controls, risk management, and accounting and IT systems.

The Statutory Audit Committee supervises the risk management and control system as defined by the RAF and the internal controls system generally, assessing the effectiveness of the structures and units involved in the process and co-ordinating them.

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 Group Risk Management committee, with powers of consultation on matters of credit, issuer, operational and conduct risk, and executive powers on market risks; Lending and Underwriting committee, with executive powers for matters of credit, issuer and conduct risk; Group ALM committee and Operational ALM committee, for monitoring the Group's ALM risk-taking and management policy (treasury and funding) and approving the methodologies for measuring exposure to liquidity and interest rate risk and the internal fund transfer rate; the Investments committee for equity investments owned and banking book equities; the New Operations committee, for prior analysis of new operations and the possibility of entering new sectors, new products and the related pricing models; 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 and RAF and Recovery Plan indicators monitoring, ICAAP reporting and internal risk measurement model validation; ii) Credit Risk Management, responsible for credit risk analysis, assigning internal ratings to counterparties and the loss-given default indicator (LGD); 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; v) and 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 amended ("Circular 285"), appraising its own capital adequacy from both a present and future perspective which takes into account the strategies and development of the reference scenario.

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, Corporates (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 instalment factoring business).

In accordance with Bank of Italy circular no. 272, Mediobanca has adopted the new definitions of non-performing credit exposures, now subdivided into three separate categories: non-performing, probable default and past due, plus the category of exposures subject to various kinds of tolerance measures, known as "forborne" exposures, applied to any asset (i.e. performing or non-performing).

In particular, forborne exposures are defined as debt contracts in which concessions have been granted to a borrower which is in, or is shortly to find itself in, a situation where it is unable to meet its financial commitments (referred to as "financial difficulties").

For an asset to be classified as forborne, the Group assesses whether, following possible amendments to the contract favourable to the client (typically rescheduling expiry dates, suspending payments, refinancings or waivers to covenants), a situation of difficulty arises as a result of the accumulation, actual or potential (in the latter case if the concessions are not granted) of more than thirty days past due. Assessment of the borrower's financial difficulties is based primarily on individual analysis carried out as part of corporate banking and leasing business, or alternatively, on certain predefined conditions being recorded in consumer credit activities (e.g. the number of times overdue instalments have had to be queued) and mortgage lending (e.g. whether the borrower has been made unemployed, cases of serious illness and/or divorce and separation).

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 assigned an internal rating by the Risk Management on the basis of internal models, taking into account the specific quantitative and qualitative characteristics of the counterparty concerned. Proposed transactions are also subject to the application of loss-given default (LGD) models where appropriate.

Loans originated by the business divisions are assessed by the Risk Management unit and regulated in accordance with the powers deliberated and the policy for managing most significant transactions, through the different operating levels. If successful, the applications are submitted for approval to the Lending & Underwriting Committee or the Executive Committee, depending on the nature of the counterparty, the Probability of Default(PD) and Loss Given Default (LGD) indicators, and 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 is brought swiftly to the attention of the management and the committees' referred to above.

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 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.

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 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. Accounts which are classified as forborne (performing and non-performing) and entered in the watchlist are subject to regular monitoring by the relevant company units.

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 six unpaid instalments (or four unpaid instalments in particular cases, such as credit cards), accounts are held to be officially in default, and the client is deemed to have lapsed from the time benefit allowed under Article 1186 of the Italian Civil Code. As from the six months after such lapse has been ascertained, accounts for which legal action has been ruled out on the grounds of being uneconomic are sold via competitive procedures 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 (probability of default) and LGD (loss-given default) values distinguished by product and state of impairment. Probability of default in particular is calculated over a time horizon of 12 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 using the internal models which assign a PD value for each specific rating class on the basis of data obtained and repayment behaviour (including any forbearance) measures.

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 for instalment leasing is determined collectively on the basis of historical PD (probability of default) and LGD (loss-given default) 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 nine 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, 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.

Accounts, both regular and irregular, are monitored through a reporting system which allows system operators to monitor the trend in the asset quality and, with the help of the appropriate indicators, to enter risk positions, to ensure that the necessary corrective action can be taken versus the credit policies.

Non-performing accounts are managed, for out-of-court credit recovery procedures, by a dedicated organizational structure with the help of external collectors. In cases where a borrower becomes in solvent (or in fundamentally similar situations), the unavoidable property enforcement procedures are initiated through external lawyer. Procedurally mortgage loans with four or more unpaid instalments (not necessarily consecutive) are designated as probable default accounts, and generally after the tenth unpaid instalment become non-performing.

Exposures for which concessions have been granted are defined as forborne exposures, i.e. exposures subject to tolerance measures, performing or non-performing for which the Bank grants amendments to the original terms and conditions of the contract in the event of the borrower finding itself in a state (proven or assumed) of financial difficulty, by virtue of which it is considered to be unlikely to be able to meet its borrowing obligations fully or regularly.

Provisioning is determined analytically for non-performing items and collectively for probable default, other overdue and performing accounts. 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 in the Italian loan book, the Bank uses risk parameters (PD and LGD), which are estimated via the internal rating model, to determine the collective risk provisions, distinguished in order to take into account any indicators of previous difficulties (including forbearance measures).

QUANTITATIVE INFORMATION

A. Credit quality

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

A.1.1 Credit exposures by portfolio and credit quality (book value)

Asset portfolio/quality	Bad loans	Unlikely to pay	Overdue exposures (NPLs)	Other exposures (non performing) [1]	Other exposures (performing)	Total
1. AFS securities			—	—	6,025,680	6,025,680
2. Financial assets held to maturity	—	—	—	—	2,058,102	2,058,102
3. Due from banks	—	—	—	—	6,390,559	6,390,559
4. Due from customers	245,183	715,983	56,280	383,201	39,115,263	40,515,910
5. Financial assets recognized at fair value	—	—	—	—	—	—
6. Financial assets being sold	—	—	—	—	—	—
Total 31/12/16	245,183	715,983	56,280	383,201	53,589,604	54,990,251
Total 30/6/16	255,919	710,651	53,632	343,592	52,110,695	53,474,489

[1] Regards the net exposure to unpaid instalments (totalling €30.3m), of which €92.5m is attributable to leasing (4.2% of the performing loans in this segment), €91.9m to consumer credit (0.8%), and €147.6m to CheBanca! mortgage loans (2%). Gross exposures being renegotiated under the terms of collective agreements amount to €43.6m, virtually all of which attributable to mortgage loans granted by CheBanca!

A.1.2 Credit exposures by portfolio/credit quality (gross/net values)

Asset portfolio/quality	Non-performing loans			Performing loans			Total (net exposure)
	Gross exposure	Individual adjustments	Net exposure	Gross exposure	Collective adjustments	Net exposure	
1. AFS securities	—	—	—	6,025,680	—	6,025,680	6,025,680
2. Financial assets held to maturity	—	—	—	2,078,321	(20,219)	2,058,102	2,058,102
3. Due from banks	—	—	—	6,395,127	(4,568)	6,390,559	6,390,559
4. Due from customers	2,149,557	(1,132,111)	1,017,446	39,898,080	(399,616)	39,498,464	40,515,910
5. Financial assets recognized at fair value	—	—	—	X	X	—	—
6. Financial assets being sold	—	—	—	—	—	—	—
Total 31/12/16	2,149,557	(1,132,111)	1,017,446	54,397,208	(424,403)	53,972,805	54,990,251
Total 30/6/16	2,143,566	(1,123,364)	1,020,202	52,791,315	(337,028)	52,454,287	53,474,489

Portfolio/quality	Assets with obviously poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	—	9,499	7,827,470
2. Hedge derivatives	—	—	668,382
Total 31/12/16	—	9,499	8,495,852
Total 30/6/16	—	9,562	9,094,109

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	(200,784)	(200,784)
Italy	—	—	—	—	X	X	109,764	109,764
Germany	—	—	—	—	X	X	(83,342)	(83,342)
France	—	—	—	—	X	X	(240,947)	(240,947)
Others	—	—	—	—	X	X	13,741	13,741
2. AFS securities	—	—	—	—	4,602,727	—	4,602,727	4,602,727
Italy	—	—	—	—	3,129,484	—	3,129,484	3,129,484
Germany	—	—	—	—	791,416	—	791,416	791,416
France	—	—	—	—	375,455	—	375,455	375,455
United States	—	—	—	—	292,975	—	292,975	292,975
Others	—	—	—	—	13,397	—	13,397	13,397
3. Financial assets held to maturity	—	—	—	—	1,309,709	—	1,309,709	1,309,709
Italy	—	—	—	—	901,139	—	901,139	901,139
France	—	—	—	—	254,005	—	254,005	254,005
Spain	—	—	—	—	103,152	—	103,152	103,152
Germany	—	—	—	—	50,611	—	50,611	50,611
Others	—	—	—	—	802	—	802	802
Total 31/12/16	—	—	—	—	5,912,436	—	5,711,652	5,711,652

* Does not include financial or credit derivatives.

[1] The net exposure includes positions in securities (long and short) recognized at fair value (including the outstanding accrual) except for assets held to maturity which are stated at amortized cost, the implied fair value of which is €34.1m.

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

Portfolio/quality	Trading Book [1]			Banking Book [2]			
	Nominal value	Book value	Duration	Nominal value	Book value	Fair value	Duration
Italy	119,996	109,764	2,18	3,887,746	4,030,623	4,047,134	2,27
Germany	(81,099)	(83,342)	2,56	775,000	842,027	842,733	5,56
France	(200,000)	(240,947)	4,32	619,374	629,460	632,079	3,53
United States	—	—	—	303,577	292,975	292,975	5,87
Spain	—	—	—	105,000	108,343	109,511	4,06
Others	(242,763)	13,741	—	18,481	9,008	22,088	—
Total 31/12/16	(403,866)	(200,784)		5,709,178	5,912,436	5,946,520	

[1] Does not include sales of €27.7m on Bund/Bobl/Schatz futures (Germany), with a fair value of minus €0.2m; or sales of €34.5m on the Treasury future (United States, with a fair value of €0.01m), and sales of €64.6m on the BPT future (Italy) with a fair value of minus €0.9m. Net hedge buys of €207m (€200m of which on France country risk and €7m on Italy country risk) have also not been included.

[2] Item does not include Greek GDP-linkers securities in a notional amount of €127m recorded at a fair value of €0.3m.

A.1.3 Banking Group - Cash and off-balance-sheet exposures to banks: gross/net values and overdue classes

Type of exposure/asset	Gross exposure					Individual adjustments	Collective 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 loans	—	—	—	—	X	—	X	—
- of which: exposures for which concessions have been made	—	—	—	—	X	—	X	—
b) Unlikely to pay	—	—	—	—	X	—	X	—
- of which: exposures for which concessions have been made	—	—	—	—	X	—	X	—
c) Overdue exposures (NPLs)	—	—	—	—	X	—	X	—
- of which: exposures for which concessions have been made	—	—	—	—	X	—	X	—
d) Overdue exposures (performing)	X	X	X	X	—	X	—	—
- of which: exposures for which concessions have been made	X	X	X	X	—	X	—	—
e) Other exposures (performing)	X	X	X	X	8,018,068	X	(6,734)	8,011,334
- of which: exposures for which concessions have been made	X	X	X	X	—	X	—	—
Total A	—	—	—	—	8,018,068	—	(6,734)	8,011,334
B. OFF-BALANCE-SHEET EXPOSURES								
a) Non-performing	—	—	—	—	X	—	X	—
b) Performing	X	X	X	X	25,815,969	X	(185)	25,815,784
Total B	—	—	—	—	25,815,969	—	(185)	25,815,784
Total (A+B)	—	—	—	—	33,834,037	—	(6,919)	33,827,118

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

Type of exposure/asset	Gross exposure					Individual adjustments	Collective 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 loans	17,299	568	11,247	586,806	X	(370,737)	X	245,183
- of which: exposures for which concessions have been made	*5,115*	*215*	*2,377*	*76,669*	*X*	*(68,434)*	*X*	*15,942*
b) Unlikely to pay	731,424	72,823	362,666	215,898	X	(666,828)	X	715,983
- of which: exposures for which concessions have been made	*706,638*	*29,436*	*228,148*	*112,820*	*X*	*(504,908)*	*X*	*572,134*
c) Overdue exposures (NPLs)	8,091	119,094	13,515	10,126	X	(94,546)	X	56,280
- of which: exposures for which concessions have been made	*549*	*34,051*	*167*	*70*	*X*	*(26,544)*	*X*	*8,293*
d) Overdue exposures (performing)	X	X	X	X	450,761	X	(67,560)	383,201
- of which: exposures for which concessions have been made	*X*	*X*	*X*	*X*	*101,544*	*X*	*(21,521)*	*80,023*
e) Other exposures (performing)	X	X	X	X	49,434,324	X	(350,109)	49,084,215
- of which: exposures for which concessions have been made	*X*	*X*	*X*	*X*	*651,381*	*X*	*(44,291)*	*607,090*
TOTAL A	756,814	192,485	387,428	812,830	49,885,085	(1,132,111)	(417,669)	50,484,862
B. OFF-BALANCE-SHEET EXPOSURES								
a) Non-performing	13,106	—	—	—	X	(2,571)	X	10,535
b) Performing	X	X	X	X	17,939,996	X	(8,132)	17,931,864
TOTAL B	13,106	—	—	—	17,939,996	(2,571)	(8,132)	17,942,399
TOTAL (A+B)	769,920	192,485	387,428	812,830	67,825,081	(1,134,682)	(425,801)	68,427,261

* The acquisition of Barclays Italy operations contribute for €2.3bn, of which €2.2bn of in bonis exposures, €36.3m of performing overdue exposures, €5m of overdue exposures (NPLs) and €22m of unlikely to pay exposures.

The non-performing items include €76.7m attributable to Creditech, i.e. acquisitions of non-performing loans with a nominal value of €2bn. Of these items, €13.8m (with a nominal book value of €627m) involve assets acquired over time 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

Descriptions/categories	Bad loans	Unlikely to pay	Overdue exposures (NPLs)
A. Gross exposure at start of period	624,533	1,373,945	145,088
- of which: exposures sold but not derecognized	*2,222*	*31,333*	*28,930*
B. Additions	132,034	287,888	214,657
B.1 transferred from performing exposures	2,165	64,399	183,119
B.2 transferred from other categories of non-performing exposure	106,693	163,126	12,386
B.3 other additions	23,176	60,363	19,152
C. Reductions	140,647	279,022	208,919
C.1 transferred to performing exposures	982	40,031	13,653
C.2 writeoffs	24,565	4,701	567
C.3 collections	42,455	65,228	21,886
C.4 amounts realized on disposals	6,416	3,176	1,007
C.5 losses incurred on disposals	59,477	34,057	4,072
C.6 transferred to other categories of non-performing exposure	1,139	114,735	166,330
C.7 other reductions	5,613	17,094	1,404
D. Gross exposure at end of period	615,920	1,382,811	150,826
- of which: exposures sold but not derecognized	*9,822*	*68,935*	*35,992*

A.1.8 Banking Group - Cash exposures to non-performing customers: trends in collective value adjustments

Descriptions/categories	Bad loans	Unlikely to pay	Overdue exposures (NPLs)
A. Overall adjustments at start of period	368,614	663,294	91,456
- of which: exposures sold but not derecognized	*1,966*	*21,826*	*22,535*
B. Additions	148,846	248,244	158,432
B.1 value adjustments	24,593	63,983	59,418
B.2 losses incurred on disposals	59,477	34,057	4,072
B.3 transferred from other categories of non-performing exposure	63,776	62,614	4,571
B.4 other additions	1,000	87,590	90,371
C. Reductions	146,723	244,710	155,342
C.1 amounts reversed following changes in valuation	7,539	23,248	2,387
C.2 amounts reversed following collections	4,807	5,093	1,169
C.3 gains realized on disposals	2,929	988	887
C.4 writeoffs	61,645	37,581	2,362
C.5 transferred to other categories of non-performing exposure	403	65,414	65,144
C.6 other reductions	69,400	112,386	83,393
D. Overall adjustments at end of period	370,737	666,828	94,546
- of which: exposures sold but not derecognized	*9,307*	*52,334*	*27,818*

As at 31 December 2016 net non-performing loans classified as “forborne” amounted to €596m, or 1.47% of total customer loans, with a coverage ratio of 50%; while performing forborne positions amounted to €687m (1.7% of customer loans), with a coverage ratio of 9%.

B.4a Credit risk indicators

	31/12/16	30/6/16
a) Gross bad loans/total loans	1.33%	1.39%
b) NPLs/cash exposures	3.91%	4.01%
c) Net bad loans/regulatory capital	2.90%	3.11%

B.4b Large risks

	31/12/16	30/6/16
a) Book value	9,990,426	7,302,743
b) Weighted value	6,253,831	5,297,734
c) No. of exposures	6	6

C. Securitization

C.1 Securitization

QUALITATIVE INFORMATION

The Group’s portfolio of securities deriving from securitizations by other issuers totalled €260.6m, higher than last year (€204.5m), following purchases of €111.8m which were partly offset by sales and repayments totalling €55.3m.

The portfolio is concentrated in the banking book (AFS and HTM) and senior-ranking securities (approx. 86%); there are seven mezzanine issues carried at €36.2m and one junior-ranking security carried at €0.9m. The majority of the securities have external ratings, and around half are eligible for refinancing transactions with the European Central Bank.

The fair value of the securities held for trading, calculated based on prices supplied by info-providers, increased very slightly, by €0.1m. Securities held to maturity (€203.3m), for which internal valuation models have been used as well, reflect a notional gain of €2.4m.

The Group's portfolio remains concentrated on senior tranches of domestic stocks backed by mortgages (€60.9m) and state-owned properties (€66.2m). Most of the other exposures involve senior securities with non-performing loans as the underlying instrument (€73.4m). There is also a single synthetic security carried at €22.4m.

Mediobanca has invested €12m in Cairn Loan Investments LLP (CLI), a CLO investment manager operating under the Cairn brand which invests in the junior tranches of the CLOs which it manages, and €50m in the Cairn European Commercial Mortgage Fund, which has tranches of EU mortgage securitizations among its underlying instruments.

QUANTITATIVE INFORMATION

C.2 Banking Group - Exposures deriving from principal third-party securitizations by underlying asset and type of exposure

Type of securitized assets/Exposure	Cash exposure					
	Senior		Mezzanine		Junior	
	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks
A. Mortgage loans on properties	127,192	58	6,994	89	918	23
B. Other receivables	95,988	—	21,214	—	—	—
C. Collateralized Loan Obligation	304	—	8,001	(6)	—	—
Total 31/12/16	223,484	58	36,209	83	918	23
Total 30/6/16	179,353	166	24,229	(647)	894	(15)

C.5 Banking Group - Servicing activity – own securitizations: collections of securitized receivables and redemptions of securities issued by SPVs

Servicer	Vehicle company	Securitized assets (31/12/16)		Receivables collected during the year		Percentage share of securities repaid (31/12/16)					
		Non performing	Performing	Non performing	Performing	Senior		Mezzanine		Junior	
						Non performing	Performing	Non performing	Performing	Non performing	Performing
Futuro	Quarzo CQS	7,860	535,052	3,669	106,560	—	39.43%	—	—	—	—
Compass	Quarzo	105,985	5,245,034	1,951	1,628,763	—	—	—	—	—	—

D. Disclosure on structured entities

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

The five securitization SPVs are included in the Group's area of consolidation, as described in Part A – Section 3 of the Notes to the Accounts pursuant to Italian law 130/99: Quarzo S.r.l., Quarzo Lease S.r.l. and Quarzo CQS S.r.l., all of which were consolidated last year, Quarzo MB S.r.l. (90%-owned by Mediobanca S.p.A., with the other 10% owned by SPV Holding), and the newly-incorporated MB Funding Lux S.A. (100%-owned by Mediobanca).

D.2 Structured entities not consolidated in accounting terms

The Group has no other interests in structured entities to report, apart from the stock units held in UCITs (stated in Part B, Assets, tables 2.1 and 4.1) in connection with its activity as sponsor for funds distributed by CheBanca! (€19.7m invested in Yellow Sicav) and Compagnie Monégasque de Banque (€9.9m invested in CMB Global Sicav Lux) and in funds managed by Cairn Capital (€90.1m under the terms of a seed capital agreement with Mediobanca S.p.A. and €1.4m in direct investments). During the six months under review there were net investments totalling €25.4m (chiefly in Cairn) on sales totalling €9.7m (CMB Global Sicav).

The process of delegating and sub-delegating investment activity, along with the broad powers of discretion afforded to delegates, mean that the ability to impact on returns stipulated by IFRS 10 as a precondition for establishing control does not apply in this case. Mediobanca therefore does not have direct control over the two Sicavs.

With reference to the Cairn funds for which Cairn Capital is the investment manager, Mediobanca could be the principal investor; anyway, it has been decided not to include into consolidation based on that:

– the seed capital agreements provide for timescales for new investors to be sought, meaning the current status as sole (or principal) investor is limited in time;

– the fund is managed by an investment management agreement with Cairn Capital itself, in which Mediobanca acts as a third party with no decisional power. In fact, the fund is managed independently on the basis of local rules and provisions, which require the same treating and conditions for all investors.

QUALITATIVE INFORMATION

Asset-backed SPEs

The entities in this case have been set up to acquire, build or manage actual or financial assets, for which the prospect of recovering the credit concerned depend largely on the cash flows to be generated by the assets.

As part of its ordinary lending operations, the Group finances asset-backed SPEs but without holding any form of direct equity stake or interest in them, hence such activity does not constitute acting as sponsor.

The lending transactions, recorded under asset heading 70, in which the Group is the sole lender involve an amount of €922m, plus €52m in notes held as available for sale (asset heading 40).

D.3 Leveraged finance transactions

The definition of leveraged finance has been revised in accordance with the preliminary guidance received as part of the Thematic Review carried out by the Single Supervisory Mechanism on the European banking system. In particular the following types of deal are treated as leveraged finance transactions:

- deals to acquire unlisted companies sponsored by private equity funds on a no recourse basis with debt commensurate with future cash flows;
- deals to acquire companies sponsored by corporates or financial holding companies on a no recourse basis with very high risk profiles;
- deals to support the distribution of capital (including in the form of share buybacks) by very high-risk borrowers.

As at 31 December 2016, commitments to deals of this nature amounted to €1,352.4m,[1] slightly higher than the €1,182.2m reported at the balance-sheet date. Such deals represented slightly less than 9% of the corporate portfolio, 13.5% of which in relation to domestic transactions, five deals with North American clients (for a value of approx. €202m) and the remainder deals within the confines of the European Union. During the period under review the leveraged finance market remained buoyant, with repayments of €317m (including four deals being wound up) and additions totalling €487m (with seven new deals).

C. Disposals

E.4 Banking Group - covered bond issues

No new issues were made during the six months; accordingly, reference is made to the most recent annual report published for further information on such issues.

[1] Plus off-balance-sheet exposures (commitments and derivatives) totalling €123.7m (30/6/16: €162.9m).

1.2 BANKING GROUP – MARKET RISK

1.2.1 INTEREST RATE RISK AND PRICE RISK – TRADING BOOK

QUALITATIVE INFORMATION

Financial and market risks, which are faced predominantly by Mediobanca S.p.A. among all the Group companies, is measured on a daily basis via two principal indicators, which are then summarized in daily reporting:

– Sensitivity to minor changes in the principal risk factors (such as interest rates, share prices, exchange rates, credit spreads, inflation and volatility, dividends and correlations);

– Value-at-risk,[1] calculated using historical scenarios which are updated daily, assuming a disposal period of a single trading day and a confidence level of 99%.

VaR is calculated daily for the Group's entire asset structure, i.e. both trading and banking books, but excluding the equity investments. The result provided shows a disaggregation for the VaR reading between the factors which generate it, so a distinction may be made between risks deriving from movements in market rates and those deriving from movements in credit spreads. Stress tests are also carried out once a month on the main risk factors, to show the impact which more substantial movements in the main market variables might have, such as share prices and interest or exchange rates, calibrated on the basis of the most pronounced historical oscillations.

In addition to these metrics, specific indicators are measured in order to capture other risks not fully captured by VaR for specific types of transaction.

Apart from the overall VaR limit, there are also individual limits in force for the various trading books, the AFS securities portfolio, and the securities held to hedge interest rate risk on the Group's asset items. The individual trading books also have limits in the form of sensitivities ("Greeks") to movements in the various risk factors (1 basis point for interest rates and credit spreads, 1 percentage point for equities, exchange rates and volatility).

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

Since October 2015, the official VaR methodology used to monitor the limits set on traders has been the historical simulation method, based on a time horizon of one day, to the 99 percentile and with a moving weighted average factor (parameter λ) of 0.992. However, VaR readings are still calculated and made available to traders based on the Monte Carlo method, as is the expected shortfall (or conditional VaR) calculated to the 99th percentile. The expected shortfall represents average loss in 1% of the most unfavourable scenarios not included in the calculation of VaR.

With reference to market risks, the VaR for the aggregate of the Group's asset structure fluctuated between a high of €53.3m, recorded at the start of July in conjunction with the Brexit vote, and a low of €22m recorded in mid-December. The six months saw a gradual reduction in positions, and were characterized by market stability (save for the period following the US elections), reflected in an attenuation of the historical scenarios' weighting. The average VaR reading for the six months was €37.5m, lower than the average reading of €41.6m for last year.

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

Risk factors (€ '000)	**6 mths to 31/12/16**				**6 mths to 31/12/15**
	31/12	**Min**	**Max**	**Avg.**	**Avg.**
Interest rates	9,766	2,051	12,016	5,706	9,780
Credit	13,836	13,065	28,755	19,461	20,320
Share prices	8,309	8,309	26,318	17,199	16,798
Exchange rates	8,216	2,548	16,873	6,816	4,133
Inflation	3,387	2,470	4,697	3,511	4,104
Volatility	2,239	1,755	10,195	2,415	2,870
Diversification effect *	(22,439)			(17,558)	(16,343)
Total	23,312	22,097	53,370	37,550	41,664
Expected Shortfall	40,704	34,283	138,497	75,437	51,502

* Due to mismatch between risk factors.

The expected shortfall showed a sharp increase in the average reading, from €51.5m to €75.4m on account of the strong market volatility which resulted in extreme historical scenarios, during the summer in particular; the average fell to approx. €51m in the last quarter.

The average VaR reading on the trading book fell from €6.2m to €3.3m due to a reduction in all asset classes of risk positions in both segments: equities from €3.2m to €2.3m, and interest rates from €2.7m to €1m. The trend in the course of the six months as a whole reflected substantial stability, save for a peak at end-September in connection with one position in particular held by the proprietary trading desk which was closed in early October.

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

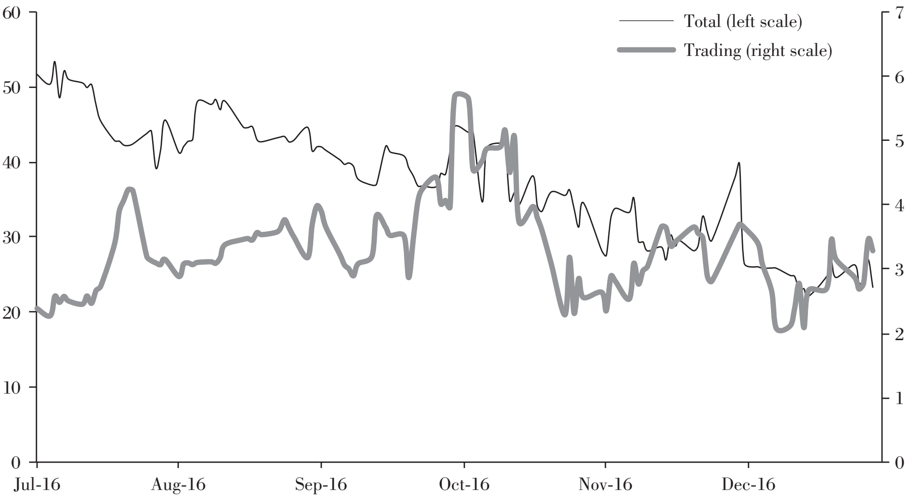
Risk factors (€ '000)	**6 mths to 31/12/16**				**6 mths to 31/12/15**
	31/12	**Min**	**Max**	**Avg.**	**Avg.**
Interest rates	916	536	2,094	993	2,672
Credit	940	581	5,014	1,237	2,760
Share prices	1,019	1,019	3,942	2,282	3,226
Exchange rates	672	232	2,258	804	1,249
Inflation	1,072	480	1,523	931	1,726
Volatility	1,549	1,281	2,698	1,608	1,796
Diversification effect *	(2,882)	(2,533)	(8,189)	(4,521)	(7,221)
Total	3,287	2,081	5,685	3,335	6,207
Expected Shortfall	**5,616**	**2,593**	**8,677**	**5,159**	**7,476**

* Due to mismatches between risk factors.

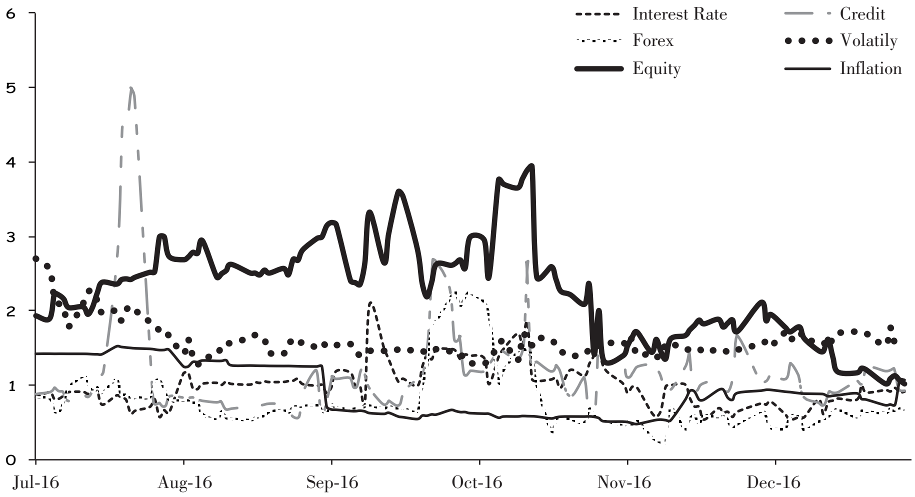
Equally, the average expected shortfall on the trading book fell from €7.5m to €5.2m.

The trading books of other Mediobanca Group companies remain extremely limited. Apart from the Mediobanca VaR, the only other company to contribute is Compagnie Monégasque de Banque. CMB's average VaR reading for the six months, again calculated at the 99^{th} percentile, was approx. €1m, higher than the average figure of approx. €700,000 reported last year. The increase was chiefly due to the acquisition of substantial positions in US government securities.

Trends in VaR



Trends in VaR constituents



The results of the daily back-testing based on calculations of theoretical profits and losses show no breaches at all during the six months under review.

With reference to the sensitivity of net interest income, the trading book (Mediobanca only) as at 31 December 2016 showed a loss of €7.8m in the event of a 100 bps rise in interest rates, compared with a €0.3m gain in the opposite scenario (100 bps reduction).

Data at 31/12/16 (€m)		**Trading Book**
Net interest income sensitivity	+ 100 bps	(7.82)
	- 100 bps	0.32
Discounted value of cash flows sensitivity	+ 200 bps	244.86
	- 200 bps	(95.37)

1.2.2 INTEREST RATE RISK AND PRICE RISK – BANKING BOOK

QUALITATIVE INFORMATION

The Mediobanca Group monitors and manages interest rate risk through sensitivity testing of net interest income and economic value. The former quantifies the impact of a parallel and simultaneous 100 bps shock in the interest rate curve on current earnings. The latter is calculated by comparing the discounted value of expected cash flows using the yield curve at the current date with the value obtained using a yield curve which is 100 bps higher or lower (parallel shock).

With reference to the positions held as part of the banking book as at 31 December 2016, if interest rates were to rise, net interest income would fall by €5m.

With reference to analysis of the discounted value of estimated cash flows on the Group's banking book, the instantaneous and parallel shifts of 200 basis points generate a loss of €79m, at Group level, representing the difference between the losses recorded by Mediobanca (€393m) and Compass (€157m) and the increase for CheBanca! (€471m). In the opposite scenario, i.e. if interest rates reduce, net interest income on the banking book at Group level would rise by €48m.

The data described above are summarized in the table below:

Data at 31/12/16 (€m)		Banking Book			
		Group	Mediobanca S.p.A.	CheBanca!	Compass
Net interest income sensitivity	+ 100 bps	(5.37)	(35.45)	30.03	0.04
	- 100 bps	(0.27)	(0.27)	(0.00)	—
Discounted value of cash flows senstivity	+ 200 bps	(79.18)	(393.32)	471.24	(157.10)
	- 200 bps	48.41	95.37	(66.48)	19.53

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 respectively 7.5% (net interest income sensitivity (including trading book)/regulatory capital) and 15% (economic value sensitivity/regulatory capital).

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) [2].

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. It is principally the fixed-rate, zero coupon and structured bond issues that are fair-value hedged. If structured bonds in particular do not show risks related to the main risk, the interest-rate component (hedge) is stripped out from the other risks represented in the trading book, and usually hedged by trades of the opposite sign.

[2] 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.

Fair value hedges are used by Mediobanca S.p.A. to hedge fixed-rate transactions involving corporate loans and AFS securities or positions accounted for as Loans and receivables, and also to mitigate price risk on equity investments held as available for sale. Like-for-like books of fixed-rate mortgage loans granted by CheBanca! are also fair value-hedged.

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.

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

Counterparty credit risk is measured in operating terms through use of the potential future exposure metric, or PFE, calculated using the Monte Carlo Method and therefore based on volatility and historical correlations between relevant risk factors prevalent at the time. As far as regards derivatives and short-term loan collateralization products (repos and securities lending), counterparty risk is represented by the potential exposure peaking at various points on a time horizon that reaches up to 30 years, assuming a 95% confidence level. 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 agreements (e.g. CSA), plus exposures deriving from interbank market transactions. For these three types of operations there are distinct limits for every counterparty and/or group of counterparties. For medium-/long-term collateralized loans or securities with reduced liquidity and/or high correlation with the counterparty, the exposure is measured using an ad hoc metric which assumes combined default scenarios (i.e. counterparty and collateral) and conditions of particular stress with regard to the stocks' liquidation.

For derivatives transactions, as required by IFRS 13, the fair value incorporates the effects of the counterparty's credit risk (CVA) and Mediobanca's credit risk (DVA) based on the future exposure profile of the aggregate of such contracts outstanding.

1.2.3 EXCHANGE RATE RISK

QUALITATIVE INFORMATION

A. General aspects, operating processes and measurement techniques

B. Exchange rate risk hedging

2. Internal models and other methodologies used for sensitivity analysis

During the year under review, the directional positions taken on exchange rates remained stable versus all the main currencies as a result of hedges being implemented. The period under view, however, was marked by strong foreign currency market turbulence driven by Brexit and the results of the US elections. The VaR for the forex component showed an average reading for the six months up from €4.1m to €6.8m, with a point-in-time reading as at 31 December 2016 of €8.2m.

1.2.4 DERIVATIVE FINANCIAL INSTRUMENTS

A. Financial derivatives

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

Underlying assets/Type of derivatives	31/12/16		31/12/16	
	Over the counter	Clearing house	Over the counter	Clearing house
1. Debt securities and interest rate indexes	97,751,582	22,168,945	102,502,160	88,455,146
a) Options	—	21,625,296	—	87,729,988
b) Swap	93,855,582	—	97,586,160	—
c) Forward	—	—	—	—
d) Futures	—	543,649	—	725,158
e) Others	3,896,000	—	4,916,000	—
2. Equity instruments and stock indexes	14,125,141	9,391,964	14,948,134	11,742,610
a) Options	12,207,539	9,184,740	13,978,569	11,508,167
b) Swap	1,800,453	—	969,565	—
c) Forward	117,149	—	—	—
d) Futures	—	207,224	—	234,443
e) Others	—	—	—	—
3. Gold and currencies	11,316,831	—	10,156,104	—
a) Options	556,123	—	1,735,370	—
b) Swap	3,760,790	—	3,915,853	—
c) Forward	6,999,918	—	4,504,881	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other underlyings	—	—	—	—
Total	123,193,554	31,560,909	127,606,398	100,197,756

A.2 Banking book: reporting-date notional values

A.2.1 Hedge derivatives

Underlying assets/Type of derivatives	**31/12/16**		**30/6/16**	
	Over the counter	**Clearing house**	**Over the counter**	**Clearing house**
1. Debt securities and interest rate indexes	17,269,295	—	16,618,937	—
a) Options	—	—	—	—
b) Swap	17,060,096	—	16,389,738	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	209,199	—	229,199	—
2. Equity instruments and stock indexes	130,865	—	85,708	—
a) Options	29	—	29	—
b) Swap	—	—	—	—
c) Forward	130,836	—	85,679	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Gold and currencies	—	—	—	—
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other underlyings	—	—	—	—
Total	17,400,160	—	16,704,645	—

A.2.2 Other derivatives

Underlying assets/Type of derivatives	31/12/16		30/6/16	
	Over the counter	Clearing house	Over the counter	Clearing house
1. Debt securities and interest rate indexes	560,385	—	536,449	—
a) Options	—	—	—	—
b) Swap	451,187	—	407,251	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	109,198	—	129,198	—
2. Equity instruments and stock indexes	1,882,029	—	2,178,229	—
a) Options	1,882,029	—	2,178,229	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Gold and currencies	—	—	—	—
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other underlyings	—	—	—	—
Total	2,442,414	—	2,714,678	—

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

Portfolios/Type of derivatives	Positive fair value			
	31/12/16		30/6/16	
	Over the counter	**Clearing House**	**Over the counter**	**Clearing House**
A. Regulatory trading portfolio	3,219,652	460,049	3,847,443	632,131
a) Options	320,066	458,446	419,192	629,729
b) Interest rate swap	2,357,980	—	2,910,959	—
c) Cross currency swap	258,291	—	243,239	—
d) Equity swap	3,964	—	75,174	—
e) Forward	279,351	—	198,879	—
f) Futures	—	1,603	—	2,402
g) Others	—	—	—	—
B. Banking book - Hedging derivatives	667,983	—	933,004	—
a) Options	—	—	—	—
b) Interest rate swap	667,893	—	926,381	—
c) Cross currency swap	—	—	—	—
d) Equity swap	—	—	—	—
e) Forward	90	—	6,623	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
C. Banking book - Other derivatives	435,535	—	472,760	—
a) Options	115,930	—	64,877	—
b) Interest rate swap	3,893	—	—	—
c) Cross currency swap	—	—	—	—
d) Equity swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	315,712	—	407,883	—
Total	4,323,170	460,049	5,253,207	632,131

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

Portfolios/Type of derivatives	Negative fair value			
	31/12/16		30/6/16	
	Over the counter	Clearing House	Over the counter	Clearing House
A. Regulatory trading portfolio	(3,452,322)	(500,264)	(3,857,285)	(660,552)
a) Options	(363,093)	(498,220)	(454,531)	(649,353)
b) Interest rate swap	(2,357,189)	—	(2,918,000)	—
c) Cross currency swap	(298,602)	—	(267,668)	—
d) Equity swap	(56,116)	—	(17,044)	—
e) Forward	(377,322)	—	(200,042)	—
f) Futures	—	(2,044)	—	(11,199)
g) Others	—	—	—	—
B. Banking book - Hedging derivatives	(277,357)	—	(313,519)	—
a) Options	(3,424)	—	(4,525)	—
b) Interest rate swap	(271,401)	—	(308,994)	—
c) Cross currency swap	—	—	—	—
d) Equity swap	—	—	—	—
e) Forward	(2,532)	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
C. Banking book - Other derivatives	(443,117)	—	(490,064)	—
a) Options	(443,117)	—	(489,008)	—
b) Interest rate swap	—	—	(1,056)	—
c) Cross currency swap	—	—	—	—
d) Equity swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	(4,172,796)	(500,264)	(4,660,868)	(660,552)

A.5 OTC financial derivatives regulatory trading book: gross fair 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	—	—	950,000	118,918	110,500	1,248,080	—
- positive fair value	—	—	22,079	486	—	29,360	—
- negative fair value	—	—	(2,505)	(7,288)	(1)	(3,775)	—
- future exposure	—	—	3,750	717	553	9,607	—
2. Equity instruments and stock indexes							
- notional amount	—	—	—	437,405	1,135	61,801	—
- positive fair value	—	—	—	246	22	3,060	—
- negative fair value	—	—	—	—	(24)	(2,282)	—
- future exposure	—	—	—	26,244	113	4,398	—
3. Gold and currencies							
- notional amount	—	—	—	261,075	—	378,452	2,057
- positive fair value	—	—	—	1,311	—	13,141	80
- negative fair value	—	—	—	(656)	—	(4,229)	(4)
- future exposure	—	—	—	2,612	—	17,706	21
4. Other instruments							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—

A.6 OTC financial derivatives regulatory trading book: gross fair 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	—	—	43,914,730	46,157,789	605,539	4,646,026	—
- positive fair value	—	—	1,536,936	468,578	88,158	327,478	—
- negative fair value	—	—	(1,770,295)	(655,333)	(1,055)	(46,166)	—
2. Equity instruments and stock indexes							
- notional amount	—	—	6,385,256	5,886,487	153,385	1,199,674	—
- positive fair value	—	—	88,288	68,597	582	46,632	—
- negative fair value	—	—	(273,918)	(79,533)	(16,210)	(19,823)	—
3. Gold and currencies							
- notional amount	294,090	—	6,753,365	1,741,421	290,244	1,596,129	—
- positive fair value	14,995	—	301,137	152,152	10,669	45,664	—
- negative fair value	—	—	(323,876)	(8,359)	(989)	(235,994)	—
4. Other instruments							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

A.7 OTC financial derivatives banking book: notional values, 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	—	—	45,850	—	—	—	—
- positive fair value	—	—	1,175	—	—	—	—
- negative fair value	—	—	(7,913)	—	—	—	—
- future exposure	—	—	459	—	—	—	—
2. Equity instruments and stock indexes							
- notional amount	—	—	—	—	—	—	29
- 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 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	—	—	12,564,921	4,658,523	—	—	—
- positive fair value	—	—	520,169	146,549	—	—	—
- negative fair value	—	—	(236,863)	(30,049)	—	—	—
2. Equity instruments and stock indexes							
- notional amount	—	—	130,836	—	—	—	—
- positive fair value	—	—	90	—	—	—	—
- negative fair value	—	—	(2,532)	—	—	—	—
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: 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	1,675,910	7,197,661	301,440	12,906
b) Credit spread products	—	—	—	—
c) Total rate of return swaps	—	—	—	—
d) Others	—	—	—	—
Total 31/12/16	1,675,910	7,197,661	301,440	12,906
Total 30/6/16	1,619,250	6,414,250	240,120	13,000
2. Protection seller's contracts				
a) Credit default products	1,253,203	7,353,001	36,200	2,910,813
b) Credit spread products	—	—	—	—
c) Total rate of return swaps	—	—	—	—
d) Others	—	—	—	—
Total 31/12/16	1,253,203	7,353,001	36,200	2,910,813
Total 30/6/16	1,287,762	6,382,010	36,200	2,701,937

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

Portfolio/Type of derivatives	Positive fair value	
	31/12/16	30/6/16
A. Regulatory trading book	191,101	166,863
a) Credit default products	191,101	166,863
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
B. Banking book	24,688	27,334
a) Credit default products	24,688	27,334
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
Total	215,789	194,197

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

Portfolio/Type of derivatives	Negative fair value	
	31/12/16	30/6/16
A. Regulatory trading book	(504,723)	(521,123)
a) Credit default products [1]	(504,723)	(521,123)
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
B. Banking book	(13,885)	(15,863)
a) Credit default products	(13,885)	(15,863)
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
Total	(518,608)	(536,986)

[1] Of which certificates in an amount of €284,119,000 and €319,225,000 respectively.

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

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	—	—	996,152	—	200,000	—	—
- positive fair value	—	—	32,531	—	4,989	—	—
- negative fair value [1]	—	—	(346,244)	—	—	—	—
- future exposure	—	—	42,500	—	10,000	—	—
2. Protection sale							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
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.

[1] Of which certificates in an amount of €284,119,000.

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

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	—	—	6,142,435	1,534,984	—	—	—
- positive fair value	—	—	3,952	36	—	—	—
- negative fair value	—	—	(93,817)	(58,027)	—	—	—
2. Protection sale							
- notional amount	—	—	7,133,823	1,472,383	—	—	—
- positive fair value	—	—	94,525	55,067	—	—	—
- negative fair value	—	—	(6,046)	(589)	—	—	—
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 credit and financial 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	14,995	—	209,900	178,238	95,927	339,998	—
- negative fair value	—	—	(508,194)	(626,960)	(14,732)	(223,310)	—
- future exposure	2,941	—	488,552	271,395	11,224	127,225	—
- net counterparty risk	17,936	—	495,663	309,153	32,775	412,703	—

* Representing the sum of the positive fair value and future exposure, net of cash collateral received amounting to €474,613,000, €205,237,000 of which in respect of banks, €140,480,000 of financial companies, €74,376,000 of insurances and €54,520,000 other non-financial companies. Conversely, to cover negative fair value readings, cash collateral of €623,066,000 was paid in, €487,896,000 of which in respect of banks, €131,520,000 of financial companies, and €3,650,000 of insurances.

1.3 BANKING GROUP – LIQUIDITY RISK

QUALITATIVE INFORMATION

The Mediobanca Group monitors and manages liquidity risk in accordance with the regulatory provisions in force (Bank of Italy circulars 285 and 286 as amended, CRR/CRD IV/Commission Delegated Regulation of the European Parliament and Council with regard to liquidity coverage requirement, technical standards and guidelines issued by the European Banking Authority) and with the Liquidity risk management policy (the "Policy") and the Contingency funding plan ("CFP").

The Policy defines the policies adopted by the Mediobanca Group with respect to the system for measuring, managing and controlling liquidity risk in terms of:

- Organizational model and governance structures for managing and controlling liquidity risk for the Group as a whole;
- Instruments and methodologies for identifying and measuring liquidity risk;
- Compliance with the regulatory requirements in terms of limits and reporting;
- System of trading limits established in accordance with the maximum tolerance threshold for liquidity risk approved;
- Process of monitoring short- and medium-/long-term liquidity limits to ensure control of risks, including intraday liquidity risks;
- Framework for stress tests to identify the methodologies, frequency of testing and type of scenarios to apply;
- Process of defining the contingency funding plan with a view to identifying ahead of time any corrective measures necessary to overcome particularly stressful conditions which the Group may potentially have to face;
- Principles for defining the internal fund transfer pricing system.

The Group's objective is to maintain a level of liquidity that will allow it to meet the payment obligations it has undertaken, ordinary and extraordinary, at the present maturities, while at the same time keeping the costs involved to a minimum and hence without incurring non-recurring losses. Specifically, monitoring operating liquidity is intended to ensure that the mismatch between cash inflows and outflows, expected and not expected, remains sustainable in the short term.

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. The operational maturity ladder report, with a time horizon of one year, represents the projections of liquidity imbalances, and hence the net financial position in the time window for the period of analysis. The Group's liquidity risk tolerance is defined as the maximum exposure held to be sustainable by management, via a set of limits and thresholds, in both the ordinary course of business and in stressful situations.

The main factors used in stress testing are attributable to: reductions in the debt security funding or unsecured funding channels; renewal of only part of the retail funding expiring; drawdowns on committed lines granted to customers; and anticipation and full realization of lending volumes in the pipeline.

In addition to the above, the Group also prepares the weekly liquidity position update required by the Bank of Italy. Monitoring structural liquidity, on the other hand, is intended to ensure that the structure has an adequate financial balance for maturities of more than twelve months. Maintaining an appropriate ratio between assets and liabilities in the medium/long term also serves the purpose of avoiding future pressures in the short term as well. The operating methods adopted involve analysing the maturity profiles for both assets and liabilities over the medium and long term checking that inflows cover 100% of outflows for maturities of more than one year, reduced to 90% of outflows for maturities of more than five years.

Throughout the six months under review, both indicators, short- and long-term, were at all times above the limits set in the policy.

The objectives and metrics described above are addressed through the preparation of the Group Funding Plan, involving sustainable analysis of sources and applications, short-term and structural, and through definition of the Group Risk Appetite Framework, namely the regulatory indicators (the liquidity coverage ratio and net stable funding ratio) and the retail funding ratio, which remained within the set limits at all times during the six months under review. In compliance with Regulation 61/2015 (EU), the Liquidity Coverage Ratio has been a compulsory indicator adopted since September last year, and at 31 December 2016 stood at 372%, far above the regulatory limit of 100%, and higher than at end-June 2016 as well (223%).

Alongside the previous indicators, an event governance model has also been provided known as the Contingency Liquidity Funding Plan, to be implemented in the event of a crisis by following a procedure approved by the Board of Directors.

The objective of the Group Contingency Funding Plan is to ensure prompt implementation of effective action to tackle a liquidity crisis, through precise identification of stakeholders, powers, responsibilities, communication procedures and reporting criteria, in order to increase the likelihood of coming through the state of emergency successfully. This objective is achieved primarily by activating an extraordinary operational and liquidity governance model, supported by consistent internal and external reporting and a series of specific indicators.

Before a contingency situation develops, a system of early warning indicators (EWIs) has been prepared, to monitor situations that could lead to a deterioration in the Group's liquidity position deriving from external factors (market or sector) or from situations which are specific to the Banking Group itself.

With the returns on assets increasingly negligible, attention has been focused on the cost of funding in the sense of optimizing the funding sources. The addition of the Barclays deposits (totalling €2.9bn) caused an increase in direct funding from retail clients, meaning this source now accounts for some 30% of consolidated funding. New bond issuance worth a total of approx. €1bn was made during the period, with an average duration of seven years, to cover the €1.1bn in bonds falling due. Recourse to the ECB's TLTRO (targeted longer-term refinancing operations) facilities also increased, from €5.5bn to €6.5bn.

As at 31 December 2016 the counterbalancing capacity included bonds deliverable in exchange for cash from the ECB totalling €9.3bn; while the balance of liquidity reserves established at the European Central bank amounted to approx. €7.3bn (30/6/16: €6.8bn), approx. €0.8bn of which in the form of cash not used and hence qualifying as part of the counterbalancing capacity.

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	7,424,737	1,215,455	960,295	1,605,621	3,526,070	3,734,550	5,267,418	26,344,687	9,819,131	213,676
A.1 Government securities	418	401	535	17,850	335,910	1,538,051	513,384	4,513,230	1,043,693	—
A.2 Other debt securities	1,280	19	24,432	180,741	423,169	128,935	220,456	1,804,795	950,190	—
A.3 UCITS units	87,834	—	—	—	—	—	—	6	—	—
A.4 Loans and advances	7,335,205	1,215,035	935,328	1,407,030	2,766,991	2,067,564	4,533,578	20,026,656	7,825,248	213,676
– to banks	2,773,563	234,090	89,374	416,073	628,239	453,300	471,526	1,138,552	995	187,278
– to customers	4,561,642	980,945	845,954	990,957	2,138,752	1,614,264	4,062,052	18,888,104	7,824,253	26,398
Cash liabilities	15,973,146	1,889,271	375,254	1,348,329	6,130,059	4,159,965	5,359,788	18,783,481	5,284,407	495
B.1 Deposits and currentaccounts	13,939,014	404,222	215,528	463,016	1,599,739	1,686,133	1,842,392	781,844	195,183	—
– to banks	704,339	113	—	78,054	8,139	333,995	45,666	69,562	65,604	—
– to customers	13,234,675	404,109	215,528	384,962	1,591,600	1,352,138	1,796,726	712,282	129,579	—
B.2 Debt securities	1,241	422	8,421	115,249	1,226,314	1,780,186	2,869,176	9,814,331	4,863,973	—
B.3 Other liabilities	2,032,891	1,484,627	151,305	770,064	3,304,006	693,646	648,220	8,187,306	225,251	495
Off-balance-sheet transactions	8,095,272	6,753,845	503,968	3,183,408	3,049,648	1,872,566	3,991,482	12,931,500	7,298,195	70,353
C.1 Financial derivatives with exchange of principal	—	2,227,381	311,751	2,029,130	1,408,328	644,396	2,011,697	2,932,309	2,091,233	—
– long positions	—	1,427,427	150,232	1,443,233	883,490	270,109	1,048,562	524,704	136,400	—
– short positions	—	799,954	161,519	585,897	524,838	374,287	963,135	2,407,605	1,954,833	—
C.2 Financial derivatives without principal exchange of	6,479,723	1,642	8,252	27,223	73,552	90,652	175,150	5,851	—	—
– long positions	3,240,582	378	3,343	19,038	39,832	48,039	89,213	5,851	—	—
– short positions	3,239,141	1,264	4,909	8,185	33,720	42,613	85,937	—	—	—
C.3 Deposits and loans for collection	—	1,752,652	183,965	678,780	792,440	286,516	396,298	3,527,064	1,579,976	—
– long positions	—	1,726,437	183,965	677,174	700,076	205,002	318,994	787,198	—	—
– short positions	—	26,215	—	1,606	92,364	81,514	77,304	2,739,866	1,579,976	—
C.4 Irrevocable commitments to disburse funds *	1,316,214	2,772,120	—	447,164	650,968	779,210	1,261,633	3,303,389	1,609,711	—
– long positions	22,597	2,705	—	38,943	376,618	442,060	687,840	2,889,732	1,609,711	—
– short positions	1,293,617	2,769,415	—	408,221	274,350	337,150	573,793	413,657	—	—
C.5 Financed guarantees issued	7,682	50	—	1,111	3,360	8,075	5,104	82,255	3,384	70,353
C.6 Financial guarantees received	—	—	—	—	—	—	—	—	—	—
C.7 Credit derivatives with exchange of principal	—	—	—	—	121,000	63,717	141,600	3,080,632	2,013,891	—
– long positions	—	—	—	—	60,500	10,000	56,150	1,545,879	1,037,891	—
– short positions	—	—	—	—	60,500	53,717	85,450	1,534,753	976,000	—
C.8 Credit derivatives without exchange of principal	291,653	—	—	—	—	—	—	—	—	—
– long positions	143,488	—	—	—	—	—	—	—	—	—
– short positions	148,165	—	—	—	—	—	—	—	—	—

* Includes hedge sales perfectly matched by purchases for the same amount.

1.4 BANKING GROUP – OPERATIONAL RISK

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 €264.7m, unchanged since the balance-sheet date.

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, 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.

With reference to IT risk in particular, the Group has its own IT Governance unit which, in conjunction with the Operational Risk Management unit, is responsible for guaranteeing IT risk assessment and mitigation, presiding over the security systems, and developing business continuity and disaster recovery plans.

Legal risk: risks deriving from litigation pending

For a description of the claims currently pending against Mediobanca S.p.A., please see Section B – Liabilities on pp. 122-123.

SECTION 5

Other risks

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);
- 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);
- Investment risk, i.e. the risk of incurring losses as a result of negative fluctuations in the market value of the Group’s equity investments;

- AFS equities portfolio risk, in connection with the potential reduction in the value of shares held as part of the AFS portfolio due to unfavourable movements in the financial markets or to downgrades of counterparties;
- Sovereign risk, i.e. the risk of a potential downgrade in the ratings of the sovereign states, or national central banks, to which the Group is exposed;
- Basis risk: in the context of market risk, this 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 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**

	Banking Group	Insurance companies	Other companies	Consolidation adjustments and eliminations	Total	Of which: minorities
Share capital	452,941	—	—	—	452,941	16,540
Share premium reserve	2,155,220	—	—	—	2,155,220	1,848
Reserves	5,156,534	—	—	(1,834)	5,154,700	75,905
Equity instruments	—	—	—	—	—	
(Treasury shares)	(197,982)	—	—	—	(197,982)	
Revaluation reserves:	1,158,136	—	—	—	1,158,136	(4,245)
- Financial assets available-for-sale	292,093	2,880	—	325	295,298	
- Property, plant and equipment	—	—	—	—	—	
- Intangible assets	—	—	—	—	—	
- Foreign investment hedges	—	—	—	—	—	
- Cash flow hedges	(21,976)	—	—	—	(21,976)	(4,137)
- Exchange differences	(4,843)	—	—	—	(4,843)	
- Non-current assets and disposal group held-for-sale	—	—	—	—	—	
- Actuarial gains (losses) on defined-benefit pension schemes	(6,960)	—	1	232	(6,727)	(108)
- Portion of measurement reserves relating to investments carried at equity method	890,190	(2,880)	(1)	(557)	886,752	
- Special revaluation laws	9,632	—	—	—	9,632	
Net profit (loss) for the period (+/-) of Group and minorities	419,967	—	—	—	419,967	1,729
Total	9,144,816	—	—	(1,834)	9,142,982	91,777

* 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	106,298	(12,077)	2,880	—	—	—	(148)	1,189	109,030	(10,888)
2. Equities	176,737	(40)	—	—	—	—	(5)	7	176,732	(33)
3. UCITS units	23,288	(2,113)	—	—	—	—	(1,093)	375	22,195	(1,738)
4. Loans and advances	—	—	—	—	—	—	—	—	—	—
Total at 31/12/16	306,323	(14,230)	2,880	—	—	—	(1,246)	1,571	307,957	(12,659)
Total at 30/6/16	397,031	(14,421)	3,266	(133)	—	—	(3,114)	270	397,183	(14,284)

B.3 AFS valuation reserves: movements during the period

	Debt securities	Equity securities	UCITS units	Loans
1. Opening balance	113,104	254,047	15,748	—
2. Additions	17,166	27,943	5,872	—
2.1 Increases in fair value	15,618	27,943	5,675	—
2.2 Negative reserves charged back to profit and loss as a result of	1,548	—	197	—
– impairment	—	—	—	—
– disposals	1,548	—	197	—
2.3 Other additions	—	—		—
3. Reductions	32,128	105,291	1,163	—
3.1 Reductions in fair value	20,322	2,772	1,011	—
3.2 Adjustments for impairment	—	—	—	—
3.3 Positive reserves credited back to profit and loss as a result of: disposals	11,806	102,519	152	—
3.4 Other reductions	—	—	—	—
4. Balance at end of period	98,142	176,699	20,457	—

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 comfortable margin emerging from the Internal Capital Adequacy Assessment Process (ICAAP) and the process performed by the regulator as part of the SREP 2016 which set the limit for CET1 at 7% and that for total capital at 10.5%, among the lowest levels of all Italian banks. These figures include the new capital conservation phase-in regime (1.25%, compared with 2.5% fully-phased). Further details are available in the 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, having received the relevant authorizations, has weighted the Assicurazioni Generali investment at 370% as permitted by Article 471 of the CRR (up to the book value as at end-December 2012 and in compliance with the concentration limits versus insurance groups). Furthermore, as from this quarter CET1 also includes 60% of the valuation reserves for sovereign debt issued by EU member states and held as AFS financial assets (€34.9m).

2.2 Bank equity

Qualitative information

Common Equity Tier 1 (CET1) capital consists of the share attributable to the Group and to minority shareholders of capital paid up, reserves (including €832.5m, or 60%, of the positive AFS equity reserves) and the profit for the period (€252.7m) net of the estimated dividend based on the conventional measurement of the payout announced (40%). From this amount the following items are deducted: treasury shares (€198m), intangible assets (€73m), goodwill (€423.3m) other prudential adjustments (€43.8m) in connection with the values of financial instruments (AVAs and DVAs), plus €1,308.7m in interests in banking, financial and insurance companies, €1,145.2m of which in respect of the Assicurazioni Generali investment.

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

Tier 2 capital includes the liabilities issued (€2,088.9m) plus 20% of the positive reserves for AFS securities (€265.8m), which does not include the net gain of EU member states' government securities. Deductions of €488.7m regard the investments in Tier 2 instruments, in particular subordinated loans to Italian insurance companies, and the share of the investments in banking, financial and insurance companies, based on the provisions of the phase-in regime; these include €286.3m in respect of the Assicurazioni Generali investment.

Issue	31/12/16		
	ISIN	Nominal value	Book value*
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	615,572	466,146
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	396,033	345,308
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	495,730	494,780
MB Valore Tasso Variabile con minimo 3% 2025 Tier 2	IT0005127508	500,000	491,544
MBOpera 3,75%, 2026 Lower Tier 2	IT0005188351	299,715	291,147
Total subordinated debt securities		**2,307,050**	**2,088,925**

* The calculated value differs from the book value for items recognized at fair value and amortized cost and for buyback commitments.

Subordinated liabilities included in the calculation fell from €2,103.8m to €2,088.9m as a result of the partial buyback of the MB Secondo Atto and MB Quarto Atto subordinated issues which had entered the repayment phase (in an amount of €141.8m and €114.9m respectively), and of the share repaid during the six months (€49.9m) which was only in part offset by the issue of the new MB Opera subordinated bond in an amount of €300m. No subordinated tier 2 issue benefits from the grand-fathering permitted under Articles 483ff of the CRR.

On 28 December 2016 the MB Secondo Atto and MB Quarto Atto bonds still held on the Group's books were written off in a nominal amount of €131.4m and €100m respectively.

Quantitative information

	31/12/16	30/6/16
A. Common equity tier 1 (CET1) prior to application of prudential filters	8,946,687	8,666,398
of which: CET1 instruments subject to phase-in regime		—
B. CET1 prudential filters (+/-)	1,646	(788)
C. CET1 gross of items to be deducted and effects of phase-in regime (A +/- B)	8,948,333	8,665,610
D. Items to be deducted from CET1	(2,292,217)	(2,109,090)
E. Phase-in regime - impact on CET1 (+/-), including minority interests subject to phase-in regime	(53,284)	(51,718)
F. Total common equity tieer 1 (CET1) (C-D+/-E)	6,602,832	6,504,802
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	2,088,925	2,103,802
of which: T2 instruments subject to phase-in regime	—	—
N. Items to be deducted from T2	(137,534)	(315,501)
O. Phase-in regime - Impact on T2 (+/-), including instruments issued by branches and included in T2 as a result of phase-in provisions	(85,302)	(65,938)
P. Total T2 (M-N+/-O)	1,866,089	1,722,363
Q. Total own funds (F+L+P)	8,468,921	8,227,165

2.3 Capital adequacy

Qualitative information

As at 31 December 2016, the Group's Common Equity Ratio, calculated as tier 1 capital as a percentage of total risk-weighted assets, amounted to 12.27%, higher than at 30 June 2016 (12.08%) due to tier 1 capital increasing to €6.6bn (€6.5bn). The variation in RWAs, from €53.9bn to €53.8bn, is due to consolidation of the new Barclays business unit (€900m) and to growth in credit positions, completely absorbed by a rationalization of market positions (€2.5bn against €3.9bn). Equally, the total capital ratio increased from 15.27% to 15.74%.

Quantitative information

Categorie/valori	Unweighted amounts		Weighted amounts/requirements	
	31/12/16	30/6/16	31/12/16	30/6/16
A. RISK ASSETS				
A.1 Credit and counterpart risk	62,603,332	59,963,345	47,025,786	45,713,920
1. Standard methodology	62,358,854	59,802,028	46,553,418	45,320,982
2. Internal rating methodology	—	—	—	—
2.1 Basic	—	—	—	—
2.2 Advanced	—	—	—	—
3. Securitization	244,478	161,317	472,368	392,938
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			3,762,063	3,657,113
B.2 Credit valuation risk			62,801	65,925
B.3 Settlement risk			—	—
B.4 Market risk			213,781	321,214
1. Standard methodology			213,781	321,214
2. Internal models			—	—
3. Concentration risk			—	—
B.5 Other prudential requirements			264,671	264,671
1. Basic Indicator Approach (BIA)			264,671	264,671
2. Standard methodology			—	—
3. Advanced methodology			—	—
B.6 Other calculation elements			—	—
B.7 Total prudential requirements			4,303,316	4,308,923
C. RISK ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets			53,791,455	53,861,538
C.2 CET1 capital/risk-weighted assets (CET1 capital ratio)			12.27%	12.08%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 capital ratio)			12.27%	12.08%
C.4 Regulatory capital/risk-weighted assets (total capital ratio)			15.74%	15.27%

Part H - Related party disclosure

2. Related party disclosure

In January 2011 the Group adopted its own related parties' procedure, in pursuance of Consob resolution no. 17221 issued on 12 March 2010. The purpose of the procedure is to ensure that transactions with related parties executed directly by Mediobanca or via subsidiaries are managed transparently and fairly.

The Board of Directors of Mediobanca, having received favourable opinions from the Bank's Related Parties and Statutory Audit Committees, has incorporated the Bank of Italy's most recent instructions on this subject to this procedure, which introduce prudential limits for risk activities versus related parties. The new version of the procedure came into force on 31 December 2012 and was updated in May. 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.

2.1 Regular financial disclosure: most significant transactions

In November 2016, the Board of Directors adopted a resolution, subject to a favourable opinion being expressed by the Related Parties Committee, approving the Group's participation as Global Co-ordinator in the pre-underwriting syndicate for the capital increase by Unicredit S.p.A. up to a maximum amount of €3bn (guarantee subsequently released effectively in an amount of €1.15bn). The financial terms and conditions are equivalent based on parity of role for all participants in the underwriting syndicate.

2.2 Quantitative information

The exposure (representing the sum of assets plus guarantees and commitments) passed during the six months from €1.6bn to €1.2bn, due chiefly to the repayment of certain transactions, and now represents 1.6% (30/6/16: 2.3%) of total assets; symmetrically, interest income represents 1.8% of its item. The increase in commissions depends chiefly on insurance contracts' distribution agreements by Group' entities.

Situation at 31 December 2016

(€m)

	Directors, statutory auditors and strategic management	Associates	Other related parties	Total
Assets	1.6	496.2	566.6	1,064.4
of which: other assets	—	*295.6*	*345.4*	*641.0*
loans and advances	*1.6*	*200.6*	*221.2*	*423.4*
Liabilities	16.3	0.5	693.9	710.7
Guarantees and commitments	—	—	118.3	118.3
Interest income	—	11.5	5.4	16.9
Interest expense	(0.1)	—	(0.7)	(0.8)
Net fee income	—	3.6	22.1	25.7
Other income (costs)	(14.2) [1]	(3.8)	20.3	2.3

[1] Of which: short-term benefits amounting to €12.8m and performance shares worth €1m. The figure refers to the staff included in the definition of management with strategic responsibilities during the year.

Situation at 30 June 2016

(€m)

	Directors, statutory auditors and strategic management	Associates	Other related parties	Total
Assets	1.6	582.8	865.6	1,450.0
of which: other assets	—	*373.5*	*344.5*	*718.0*
loans and advances	*1.6*	*209.3*	*521.1*	*732.0*
Liabilities	17.6	0.5	864.4	882.5
Guarantees and commitments	—	—	163.2	163.2
Interest income	—	25.7	17.8	43.5
Interest expense	(0.1)	—	(3.0)	(3.1)
Net fee income	—	31.4	12.6	44.0
Other income (costs)	(28.5) [1]	(7.2)	(8.3)	(44.0)

[1] Of which: short-term benefits amounting to €25.4m and performance shares worth €2.8m. 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				
27 October 2007	40,000,000	27 June 2012	1 July 2022	15,536,000
FOR USE IN CONNECTION WITH PERFORMANCE SHARE SCHEMES				
28 October 2015	20,000,000	X	28 October 2020	7,852,165 [1]

[1] In respect of awards made in 2012, 2013, 2014, 2015 and 2016.

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.

Awards of stock options finished with the financial year ended 30 June 2012, and the vesting ended in June 2015; hence the remaining shares from the resolution adopted by shareholders in general meeting cannot be used.

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 (in renewal of the scheme approved by shareholders in annual general meeting on 28 October 2010).

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; the 15,780,237 treasury shares owned by the Bank may also be used for this purpose.

During the period under review, as part of staff variable remuneration for the 2016 financial year, a total of 2,208,774 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 four tranches (up to 1,013,906 in FY 2018/19, up to 629,456 in FY 2019/20, up to 443,330 in FY 2020/21, and up to 122,082 in FY 2021/22).

On 25 November 2016 a total of 1,691,054 shares were issued, in connection with the performance share awards made in 2012, 2013 and 2014, against the capital increase implemented in 2015.

B. QUANTITATIVE INFORMATION

1. Changes to stock option scheme during the period

	31/12/16			30/6/16		
	No. of performance shares	**Avg. price**	**Avg. expiry**	**No. of performance shares**	**Avg. price**	**Avg. expiry**
A. Balance at start of period	10,167,500	6.55	August 18	22,256,000	8.57	July 17
B. Additions						
B.1 New issues	—	—	X	—	—	X
B.2 Other additions	—	—	X	—	—	X
C. Reductions						
C.1 Performance shares cancelled			X	10,706,000	10.74	X
C.2 Performance shares made available	90,000	6.54	X	1,382,500	6.53	X
C.3 Performance shares expired	—	—	X	—	—	X
C.4 Other reductions	—	—	X	—	—	X
D. Balance at end of period	10,077,500	6.55	August 18	10,167,500	6.55	August 18
E. Performance shares exercisable as at reporting date	10,077,500		X	10,167,500	6.55	X

2. Changes to performance share scheme during the period

	31/12/16		30/6/16	
	No. of performance shares	**Avg. price**	**No. of performance shares**	**Avg. price**
A. Balance at start of period	7,377,896	5.27	7,980,504	4.20
B. Additions				
B.1 New issues	2,208,774	5.05	1,858,951	8.21
B.2 Other additions	—	—	—	—
C. Reductions				
C.1 Performance shares cancelled	—	—	—	—
C.2 Performance shares made available	1,691,054	4.82	2,461,559	4.62
C.3 Performance shares expired	—	—	—	—
C.4 Other reductions	—	—	—	—
D. Balance at end of period	7,895,616	5.30	7,377,896	5.27

Part L - Segmental reporting

A. PRIMARY SEGMENTAL REPORTING

Under the new three-year strategic plan, the Group's operations are now structured into five separate divisions:

– *Corporate & Investment Banking (CIB):* this division brings together all services provided to corporate clients in the following areas: Wholesale Banking (lending, advisory, capital markets activity and proprietary trading); and Specialty Finance (factoring and credit management, including NPL portfolios);

– *Consumer Banking (CB):* this division provides retail clients with the full range of consumer credit products, ranging from personal loans to salary-backed finance (Compass and Futuro);

– *Wealth Management (WM):* this division brings together the Group's retail banking activities (CheBanca!) along with asset management for the various client brackets: Affluent & Premier (CheBanca!); Private & HNWI (Banca Esperia, Spafid and Compagnie Monégasque de Banque); the division also comprises Cairn Capital (Alternative AM);

– *Principal Investing (PI):* the Group's portfolio of equity investments and holdings, including the stake in Assicurazioni Generali;

– *Holding Functions formerly the Corporate Centre):* this division houses the Group's Treasury and ALM activities (which previously were included in the CIB division) with the aim of optimizing consolidated funding and liquidity management; it also includes all costs relating to Group management functions, most of which were also previously allocated to CIB, and to Leasing operations.

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

(€m)

Profit-and-loss data	Corporate & Investment Banking	Consumer	Wealth Management	Principal Investing	Holding Function	Writeoffs [1]	Group
Net interest income	153.4	408.4	117.5	(3.6)	(47.1)	7.0	635.6
Net trading income	54.0	—	6.6	6.8	(0.3)	(3.3)	63.8
Net fee and commission income	107.0	67.2	90.2	—	9.1	(36.7)	236.8
Share in profits earned by equity-accounted companies	—	—	—	134.7	—	1.5	136.2
Total income	**314.4**	**475.6**	**214.3**	**137.9**	**(38.3)**	**(31.5)**	**1,072.4**
Personnel costs	(61.7)	(45.5)	(83.0)	(1.6)	(50.2)	10.9	(231.1)
Administrative expenses	(50.5)	(91.3)	(87.7)	(0.3)	(20.3)	17.7	(232.4)
Operating costs	**(112.2)**	**(136.8)**	**(170.7)**	**(1.9)**	**(70.5)**	**28.6**	**(463.5)**
Gain (losses) on AFS	—	—	3.1	118.9	—	(0.3)	121.7
Net loss provisions	(12.2)	(159.0)	(10.9)	(0.9)	(9.3)	0.7	(191.6)
Others	—	—	27.3	—	(56.3)	2.8	(26.2)
Profit before tax	**190.0**	**179.8**	**63.1**	**254.0**	**(174.4)**	**0.3**	**512.8**
Income tax for the period	(63.8)	(57.1)	(14.3)	(12.0)	53.5	0.8	(92.9)
Minority interest	—	—	—	—	(1.7)	—	(1.7)
Net profit	**126.2**	**122.7**	**48.8**	**242.0**	**(122.6)**	**1.1**	**418.2**

A.2 Balance-sheet data by business segment

(€m)

Profit-and-loss data	Corporate & Investment Banking	Consumer	Wealth Management	Principal Investing	Holding Function	Writeoffs [1]	Group
Financial assets held for trading	9,595.6	—	34.8	—	—	705.2	10,335.7
Treasury funds	1,937.4	—	0.2	—	8,300.2	(1.7)	10,236.1
AFS securites	—	1.1	56.5	640.4	—	(0.4)	697.6
Banking book securities	662.3	75.4	602.9	—	6,932.0	0.1	8,272.7
Loans and advances to customers	15,357.8	11,244.9	9,104.9	—	2,362.2	(471.5)	37,598.3
Equity investments	—	—	—	3,346.1	—	95.1	3,441.1
Tangible and intangible assets	1.2	369.3	31.7	—	247.3	138.3	787.8
Other assets	29.8	613.0	348.8	—	1,075.2	38.8	2,105.6
Total assets	**27,584.1**	**12,303.7**	**10,179.8**	**3,986.5**	**18,916.9**	**503.8**	**73,474.9**
Funding	—	2,147.6	18,100.7	—	30.118.3	(701.3)	49,665.3

[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

New restated balance sheet: reconciliation

With the presentation of the new three-year strategic plan, it has been decided to adopt a new internal balance sheet format which is more closely aligned with the official reporting schemes (Finrep), in particular with respect to Total Assets, for which the definitions now match perfectly to ensure that a single figure is used to calculate the various indicators.

There are three main changes compared to the previous format:

1. The heading "Net treasury assets" has been split into four new headings (two on the asset and two on the liability side), which include investments in securities and derivatives (treated as assets or liabilities depending on the respective fair value), and treasury liquidity operations (deposits, repos and securities lending) which are treated as amounts due from and/or to banks or customers;
2. Hedge derivatives are no longer represented according to the instrument hedge but on the basis of the accounting sign;
3. AFS debt securities have all been allocated to a single heading together.

The scheme for reconciliation of the balance-sheet data for the periods ending 31 December 2015 and 30 June 2016 is as follows:

31 december 2015

(€m)

Assets and Liabilities	Net treasury funds	AFS securities	Banking book securities	Loans and advances to customers	Equity investments	Tangible and intangible assets	Other assets	Total assets	Funding	Other liabilities	Provisions	Total liabilities
Financial assets held for trading	13,108.2	—	—	—	—	—	—	**13,108.2**	—	—	—	**—**
Treasury financial assets	9,861.6	—	—	—	—	—	—	**9,861.6**	—	—	—	**—**
AFS equities	—	928.1	—	—	—	—	—	**928.1**	—	—	—	**—**
Banking book securities	—	7,181.5	1,515.4	—	—	—	—	**8,696.9**	—	—	—	**—**
Customer loans	—	—	—	33,018.9	—	—	—	**33,018.9**	—	—	—	**—**
Equity investments	—	—	—	—	3,113.0	—	—	**3,113.0**	—	—	—	**—**
Tangible and intangible assets	—	—	—	—	—	765.2	—	**765.2**	—	—	—	**—**
Other assets	—	—	—	11.3	—	—	1,335.5	**1,346.8**	710.3	—	—	**710.3**
Total assets	**22,969.8**	**8,109.6**	**1,515.4**	**33,030.2**	**3,113.0**	**765.2**	**1,335.5**	**70,838.6**	**710.3**	**—**	**—**	**710.3**
Funding	—	—	—	—	—	—	—	**—**	44,754.4	—	—	**44,754.4**
Treasury financial liabilities	8,049.7	—	—	—	—	—	—	**8,049.7**	—	—	—	**—**
Financial liabilities held for trading	8,559.8	—	—	—	—	—	—	**8,559.8**	—	—	—	**—**
Other liabilities	—	—	—	27.9	—	—	—	**27.9**	222.7	1,214.9	—	**1,437.5**
Provisions	—	—	—	—	—	—	—	**—**	—	—	181.2	**181.2**
Total liabilities	**16,609.5**	**—**	**—**	**27.9**	**—**	**—**	**—**	**16,637.3**	**44,977.1**	**1,214.9**	**181.2**	**46,373.1**
Total	**6,360.4**	**8,109.6**	**1,515.4**	**33,002.3**	**3,113.0**	**765.2**	**1,335.5**	**54,201.3**	**(44,266.7)**	**(1,214.9)**	**(181.2)**	**(45,662.8)**

30 june 2016

(€m)

Assets and Liabilities	Net treasury funds	AFS securities	Banking book securities	Loans and advances to customers	Equity investments	Tangible and intangible assets	Other assets	Total assets	Funding	Other liabilities	Provisions	Total liabilities
Financial assets held for trading	9,505.3	—	—	—	—	—	—	**9,505.3**	—	—	—	**—**
Treasury financial assets	8,407.9	—	—	—	—	—	—	**8,407.9**	—	—	—	**—**
AFS equities	—	914.3	—	—	—	—	—	**914.3**	—	—	—	**—**
Banking book securities	—	7,725.1	2,165.2	—	—	—	—	**9,890.3**	—	—	—	**—**
Customer loans	—	—	—	34,738.7	—	—	—	**34,738.7**	—	—	—	**—**
Equity investments	—	—	—	—	3,193.3	—	—	**3,193.3**	—	—	—	**—**
Tangible and intangible assets	—	—	—	—	—	757.8	—	**757.8**	—	—	—	**—**
Other assets	—	—	—	—	—	—	1,484.6	**1,484.6**	926.4	—	—	**926.4**
Total assets	**17,913.2**	**8,639.4**	**2,165.2**	**34,738.7**	**3,193.3**	**757.8**	**1,484.6**	**68,892.2**	**926.4**	**—**	**—**	**926.4**
Funding	—	—	—	—	—	—	—	**—**	46,658.4	—	—	**46,658.4**
Treasury financial liabilities	5,254.7	—	—	—	—	—	—	**5,254.7**	—	—	—	**—**
Financial liabilities held for trading	7,141.5	—	—	—	—	—	—	**7,141.5**	—	—	—	**—**
Other liabilities	—	—	—	146.0	—	—	—	**146.0**	201.7	1,314.1	—	**1,515.9**
Provisions	—	—	—	—	—	—	—	**—**	—	—	180.3	**180.3**
Total liabilities	**12,396.2**	**—**	**—**	**146.0**	**—**	**—**	**—**	**12,542.2**	**46,860.1**	**1,314.1**	**180.3**	**48,354.6**
Total	**5,517.1**	**8,639.4**	**2,165.2**	**34,592.7**	**3,193.3**	**757.8**	**1,484.6**	**56,350.1**	**(45,933.8)**	**(1,314.1)**	**(180.3)**	**(47,428.2)**

Reconciliation between new and old divisions

Revenues

(€m)

31 december 2015	Wholesale banking	Private Banking	Consumer Banking	Retail Banking	Principal Investing	Corporate Center	*of which Leasing*	Writeoffs and IC	Total
Corporate & Investment Banking (CIB)	**279.0**	**—**	**17.9**	**—**	**—**	**—**	**—**	**9.0**	**305.9**
of which Wholesale banking	*279.0*	—	—	—	—	—	—		*279.0*
Specialty Finance	—	—	*17.9*	—	—	—	—	*9.0*	*26.9*
Consumer Banking (CB)	**—**	**—**	**422.6**	**—**	**—**	**—**	**—**	**—**	**422.6**
Wealth Management (WM)	**—**	**66.8**	**—**	**96.2**	**—**	**—**	**—**	**—**	**163.0**
of which Private Banking	—	*66.8*	—	—	—	—	—	—	*66.8*
Chebanca!	—	—	—	*96.2*	—	—	—	—	*96.2*
Principal Investing (PI)	**—**	**—**	**—**	**—**	**153.2**	**—**	**—**	**—**	**153.2**
Holding Functions (HF)	**(28.5)**	**—**	**—**	**—**	**—**	**33.6**	**—**	**—**	**5.1**
of which Leasing	—	—	—	—	—	—	*28.6*	—	*28.6*
Writeoffs and IC	—	—	—	—	—	—	—	—	—
Total revenues	**250.5**	**66.8**	**440.5**	**96.2**	**153.2**	**33.6**	**28.6**	**9.0**	**1,049.8**

Costs

(€m)

31 december 2015	Wholesale banking	Private Banking	Consumer Banking	Retail Banking	Principal Investing	Corporate Center	*of which Leasing*	Writeoffs and IC	Total
Corporate & Investment Banking (CIB)	**(101.0)**	**—**	**(12.7)**	**—**	**—**	**—**	**—**	**0.5**	**(113.2)**
of which Wholesale banking	*(101.0)*	—		—	—	—	—		*(101.0)*
Specialty Finance	—	—	*(12.7)*	—	—	—	—	*0.5*	*(12.2)*
Consumer Banking (CB)	**—**	**—**	**(120.9)**	**—**	**—**	**—**	**—**	**(9.6)**	**(130.5)**
Wealth Management (WM)	**—**	**(48.4)**	**—**	**(80.2)**	**—**	**—**	**—**	**0.5**	**(128.1)**
of which Private Banking	—	*(48.4)*	—	—	—	—	—		*(48.4)*
Chebanca!	—	—	—	*(80.2)*	—	—	—	*0.5*	*(79.7)*
Principal Investing (PI)	**—**	**—**	**—**	**—**	**(4.5)**	**—**	**—**	**1.5**	**(3.0)**
Holding Functions (HF)	**(41.7)**	**—**	**—**	**—**	**—**	**(33.9)**	**—**	**—**	**(75.6)**
of which Leasing		—	—	—	—	—	*(13.8)*	—	*(13.8)*
Writeoffs and IC	2.2	—	—	—	—	—	—	—	2.2
Total costs	**(140.5)**	**(48.4)**	**(133.6)**	**(80.2)**	**(4.5)**	**(33.9)**	**(13.8)**	**(7.1)**	**(448.2)**

Net profit/(loss)

(€m)

31 december 2015	Wholesale banking	Private Banking	Consumer Banking	Retail Banking	Principal Investing	Corporate Center	*of which Leasing*	Writeoffs and IC	Total
Corporate & Investmenti Banking (CIB)	**100.5**	**—**	**(3.6)**	**—**	**—**	**—**	**—**	**9.4**	**106.4**
of which Wholesale banking	*100.5*	—	—	—	—	—	—	—	*100.5*
Specialty Finance	—	—	*(3.6)*	—	—	—	—	*9.4*	*5.8*
Consumer Banking (CB)	**—**	**—**	**69.7**	**—**	**—**	**—**	**—**	**0.5**	**70.2**
Wealth Management (WM)	**—**	**17.9**	**—**	**5.3**	**—**	**—**	**—**	**0.5**	**23.7**
of which Private Banking	—	*17.9*	—	—	—	—	—	—	*17.9*
Chebanca!	—	—	—	*5.3*	—	—	—	*0.5*	*5.8*
Principal Investing (PI)	**—**	**—**	**—**	**—**	**228.2**	**—**	**—**	**1.5**	**229.7**
Holding Functions (HF)	**(41.2)**	**—**	**—**	**—**	**—**	**(51.9)**	**—**	**0.1**	**(93.0)**
of which Leasing	—	—	—	—	—	—	*3.0*	—	*3.0*
Writeoffs and IC	(2.6)	—	—	—	—	—	—	(13.2)	(15.8)
Net profit/(loss) for the period	**56.7**	**17.9**	**66.1**	**5.3**	**228.2**	**(51.9)**	**3.0**	**(1.2)**	**321.1**

RWA

(€m)

31 december 2015	Wholesale banking	Private Banking	Consumer Banking	Retail Banking	Principal Investing	Corporate Center	Total
Corporate & Investmenti Banking (CIB)	**28,339.6**	**—**	**720.7**	**—**	**—**	**—**	**29,060.2**
of which Wholesale banking	*28,296.6*	—	—	—	—	—	*28,296.6*
Specialty Finance	*42.9*	—	*720.7*	—	—	—	*763.6*
Consumer Banking (CB)	**341.3**	**—**	**9,932.0**	**—**	**—**	**—**	**10,273.3**
Whealth Management (WM)	**456.8**	**1,651.4**	**—**	**1,973.3**	**—**	**—**	**4,081.6**
of which CheBanca!	*454.0*	—	—	*1,973.3*	—	—	*2,427.4*
Private Bankig	*2.8*	*1,651.4*	—	—	—	—	*1,654.2*
Principal Investing (PI)	**141.9**	**—**	**—**	**—**	**11,148.4**	**—**	**11,290.4**
Holding Functions (HF)	**1,691.2**	**—**	**—**	**—**	**—**	**2,374.4**	**4,065.6**
Total RWA	**30,970.8**	**1,651.4**	**10,652.7**	**1,973.3**	**11,148.4**	**2,374.4**	**58,771.1**

Revenues

(€m)

30 june 2016	Wholesale banking	Private Banking	Consumer Banking	Retail Banking	Principal Investing	Corporate Center	*of which Leasing*	Writeoffs and IC	Total
Corporate & Investment Banking (CIB)	**568.2**	**—**	**56.8**	**—**	**—**	**—**	**—**	**—**	**625.0**
of which Wholesale banking	*568.2*	*—*	*—*	*—*	*—*	*—*	*—*	*—*	*568.2*
Specialty Finance	*—*	*—*	*56.8*	*—*	*—*	*—*	*—*	*—*	*56.8*
Consumer Banking (CB)	**—**	**—**	**873**	**—**	**—**	**—**	**—**	**—**	**873.0**
Wealth Management (WM)	**—**	**141.7**	**—**	**192.4**	**—**	**—**	**—**	**—**	**334.1**
of which Private Banking	*—*	*141.7*	*—*	*—*	*—*	*—*	*—*	*—*	*141.7*
Chebanca!	*—*	*—*	*—*	*192.4*	*—*	*—*	*—*	*—*	*192.4*
Principal Investing (PI)	**—**	**—**	**—**	**—**	**284.2**	**—**	**—**	**—**	**284.2**
Holding Functions (HF)	**(71.3)**	**—**	**—**	**—**	**—**	**64.1**	**54.6**	**0.7**	**(6.5)**
of which Leasing	*—*	*—*	*—*	*—*	*—*	*—*	*54.6*	*—*	*54.6*
Writeoffs and IC	—	—	(5.3)	—	—	—	—	—	(5.3)
Total revenues	**496.9**	**141.7**	**924.5**	**192.4**	**284.2**	**64.1**	**54.6**	**0.7**	**2,104.5**

Costs

(€m)

30 june 2016	Wholesale banking	Private Banking	Consumer Banking	Retail Banking	Principal Investing	Corporate Center	*of which Leasing*	Writeoffs and IC	Total
Corporate & Investment Banking (CIB)	**(211.5)**	**—**	**(30.8)**	**—**	**—**	**—**	**—**	**—**	**(242.3)**
of which Wholesale banking	*(211.5)*	*—*	*—*	*—*	*—*	*—*	*—*	*—*	*(211.5)*
Specialty Finance	*—*	*—*	*(30.8)*	*—*	*—*	*—*	*—*	*—*	*(30.8)*
Consumer Banking (CB)	**—**	**—**	**(274.0)**	**—**	**—**	**—**	**—**	**—**	**(274.0)**
Wealth Management (WM)	**—**	**(106.1)**	**—**	**(163.3)**	**—**	**—**	**—**	**1.0**	**(268.4)**
of which Private Banking	*—*	*(106.1)*	*—*	*—*	*—*	*—*	*—*	*—*	*(106.1)*
Chebanca!	*—*	*—*	*—*	*(163.3)*	*—*	*—*	*—*	*1.0*	*(162.3)*
Principal Investing (PI)	**—**	**—**	**—**	**—**	**(8.9)**	**—**	**—**	**3.0**	**(5.9)**
Holding Functions (HF)	**(94.3)**	**—**	**—**	**—**	**—**	**(67.9)**	**(28.7)**	**—**	**(162.2)**
of which Leasing	*—*	*—*	*—*	*—*	*—*	*—*	*(28.7)*	*—*	*(28.7)*
Writeoffs and IC	*4.1*	*—*	*8.5*	*—*	*—*	*—*	*—*	*—*	*12.6*
Total costs	**(301.7)**	**(106.1)**	**(296.3)**	**(163.3)**	**(8.9)**	**(67.9)**	**(28.7)**	**4.0**	**(940.2)**

Net profit/(loss)

(€m)

30 june 2016	Wholesale banking	Private Banking	Consumer Banking	Retail Banking	Principal Investing	Corporate Center	*of which Leasing*	Writeoffs and IC	Total
Corporate & Investmenti Banking (CIB)	**206.8**	**—**	**16.0**	**—**	**—**	**—**	**—**	**—**	**222.8**
of which Wholesale banking	*206.8*	*—*	*—*	*—*	*—*	*—*	*—*	*—*	*206.8*
Specialty Finance	*—*	*—*	*16.0*	*—*	*—*	*—*	*—*	*—*	*16.0*
Consumer Banking (CB)	**—**	**—**	**153.8**	**—**	**—**	**—**	**—**	**—**	**153.8**
Wealth Management (WM)	**—**	**29.5**	**—**	**7.5**	**—**	**—**	**—**	**1**	**38.0**
of which Private Banking	*—*	*29.5*	*—*	*—*	*—*	*—*	*—*	*—*	*29.5*
Chebanca!	*—*	*—*	*—*	*7.5*	*—*	*—*	*—*	*1*	*8.5*
Principal Investing (PI)	**—**	**—**	**—**	**—**	**370.2**	**—**	**—**	**3**	**373.2**
Holding Functions (HF)	**(107.7)**	**—**	**—**	**—**	**—**	**(77.0)**	**—**	**—**	**(184.7)**
of which Leasing	*—*	*—*	*—*	*—*	*—*	*—*	*4.6*	*—*	*4.6*
Writeoffs and IC	5.4	—	0.7	—	—	—	—	(4.8)	(1.3)
Net profit/(loss) for the period	**104.5**	**29.5**	**170.5**	**7.5**	**370.2**	**(77.0)**	**4.6**	**(0.8)**	**604.5**

RWA

(€m)

30 june 2016	Wholesale banking	Private Banking	Consumer Banking	Retail Banking	Principal Investing	Corporate Center	Total
Corporate & Investmenti Banking (CIB)	**26,326.3**	**—**	**903.4**	**—**	**—**	**—**	**27,229.7**
of which Wholesale banking	*26,305.3*	*—*	*—*	*—*	*—*	*—*	*26,305.3*
Specialty Finance	*21.0*	*—*	*903.4*	*—*	*—*	*—*	*924.4*
Consumer Banking (CB)	**376.2**	**—**	**10,872.2**	**—**	**—**	**—**	**11,248.4**
Whealth Management (WM)	**400.8**	**1,837.3**	**—**	**2,118.0**	**—**	**—**	**4,356.1**
of which CheBanca!	*394.3*	*—*	*—*	*2,118.0*	*—*	*—*	*2,512.3*
Private Bankig	*6.5*	*1,837.3*	*—*	*—*	*—*	*—*	*1,843.8*
Principal Investing (PI)	**183.8**	**—**	**—**	**—**	**6,572.5**	**—**	**6,756.3**
Holding Functions (HF)	**2,038.8**	**—**	**—**	**—**	**—**	**2,232.3**	**4,271.1**
Total RWA	**29,325.9**	**1,837.3**	**11,775.6**	**2,118.0**	**6,572.5**	**2,232.3**	**53,861.6**

Consolidated Balance Sheet/Profit and Loss Accounts Reconciliation between Reclassified Balance Sheet and mandatory Balance Sheet ex. Bank of Italy Circular 262/2005.

The Balance Sheet provided on p. 16 reflects the following restatements:

for which regards Assets:

– *Treasury funds* comprises asset headings 10 “Cash and cash equivalents”; current account and demand deposits, repos, as well as other time deposits and other hedging under heading 60 “Due from banks” and 70 “Due from customers”; and also other items under heading 160 “Other assets”;

– *Banking book securities* comprises debt securities under heading 40 “Financial assets available-for-sale”, heading 50 “Financial assets held-to-maturity”, heading 6o “Due from banks” and heading 70 “Due from customers”;

– *Loans and advances to customers* comprises heading 60 “Due from banks” and 70 “Due from customers”, except for amounts directly reclassified in other headings;

– *Other assets* comprises the entire heading 160 “Other assets”, heading 140 “Tax assets”, heading 80 “Hedging derivatives” and other debtors under heading 60 “Due from banks” and 70 “Due from customers”;

for which regards Liabilities:

– *Funding* comprises heading 10 “Due to banks” and 20 “Due to customers”, except from items that are comprised into Treasury funding and other creditors which are comprised into *Other liabilities*;

– *Treasury funding* comprises current account and demand deposits, repos, as well as other time deposits and other hedging under heading 10 “Due to banks” and 20 “Due to customers”;

– *Other liabilities* comprises other creditors under heading 10 “Due to banks” and 20 “Due to customers”, heading 60 “Hedging derivatives”, heading 80 “Tax liabilities” and heading 130 “Insurance reserves”.

Consolidated Balance Sheet 31/12/2016

(€m)

Assets	Financial assets held for trading	Treasury financial assets	AFS equity	Banking book securities	Loans and advances to customers	Equity investments	Tangible and intangible assets	Other assets	Total assets
10. Cash and cash equivalents	—	1,698.1	—	—	—	—	—	—	**1,698.1**
20. Financials assets held for trading	10,335.7	—	—	—	—	—	—	—	**10,335.7**
30. Financials assets recognized at fair value through profit or loss	—	—	—	—	—	—	—	—	**—**
40. Financial assets available-for-sale	—	—	697.6	5,957.5	—	—	—	—	**6,655.1**
50. Financial assets held-to-maturity	—	—	—	2,058.1	—	—	—	—	**2,058.1**
60. Due from banks	—	5,343.3	—	—	1,074.6	—	—	36.3	**6,454.2**
70. Due from customers	—	3,185.6	—	257.1	36,523.6	—	—	81.2	**40,047.5**
80. Hedging derivatives	—	—	—	—	—	—	—	668.4	**668.4**
90. Adjustment of hedging financial assets (+/-)	—	—	—	—	—	—	—	—	—
100. Equity investments	—	—	—	—	—	3,441.1	—	—	**3,441.1**
110. Reinsured portion of technical reserves	—	—	—	—	—	—	—	—	**—**
120. Property, plant and equipment	—	—	—	—	—	—	305.5	—	**305.5**
130. Intangible assets	—	—	—	—	—	—	482.3	—	**482.3**
140. Tax assets	—	—	—	—	—	—	—	840.0	**840.0**
150. Loans classified as held-for-sale	—	—	—	—	—	—	—	—	—
160. Other assets	—	9.1	—	—	—	—	—	479.7	**488.8**
Total assets	**10,335.7**	**10,236.1**	**697.6**	**8,272.7**	**37,598.3**	**3,441.1**	**787.8**	**2,105.6**	**73,474.9**

Consolidated Balance Sheet 31/12/2016

(€m)

Liabilities and net equity	Funding	Treasury funding	Financial liabilities held for trading	Other liabilities	Provisions	Net equity and minority interests	Total liabilities and net equity
10. Due to banks	10,032.8	3,374.4	—	7.6	—	—	**13,414.9**
20. Due to customers	19,282.0	1,962.9	—	4.0	—	—	**21,249.0**
30. Debt securities in issue	20,350.4	—	—	—	—	—	**20,350.4**
40. Trading liabilities	—	—	7,413.3	—	—	—	**7,413.3**
50. Financial liabilities designated at fair value	—	—	—	—	—	—	**—**
60. Hedging derivatives	—	—	—	282.7	—	—	**282.7**
70. Changes in fair value of portfolio hedged items (-)	—	—	—	—	—	—	**—**
80. Tax liabilities	—	—	—	480.8	—	—	**480.8**
90. Liabilities included in disposal groups classified as held for sale	—	—	—	—	—	—	**—**
100. Other liabilities	—	—	—	723.5	—	—	**723.5**
110. Staff severance indemnity provision	—	—	—	—	29.4	—	**29.4**
120. Provisions	—	—	—	—	232.4	—	**232.4**
130. Insurance reserves	—	—	—	155.5	—	—	**155.5**
140. Revaluation reserves	—	—	—	—	—	1,162.4	**1,162.4**
150. Redeemable shares repayable on demand	—	—	—	—	—	—	**—**
160. Equity instruments repayable on demand	—	—	—	—	—	—	**—**
170. Reserves	—	—	—	—	—	5,078.8	**5,078.8**
180. Share premium reserve	—	—	—	—	—	2,153.4	**2,153.4**
190. Share capital	—	—	—	—	—	436.4	**436.4**
200. Treasury shares	—	—	—	—	—	(198.0)	**(198.0)**
210. Minority interest	—	—	—	—	—	91.8	**91.8**
220. Profit for the period	—	—	—	—	—	418.2	**418.2**
Total liabilities and net equity	**49,665.3**	**5,337.4**	**7,413.3**	**1,654.1**	**261.8**	**9,143.0**	**73,474.9**

Consolidated Balance Sheet 30/06/2016

(€m)

Assets	Financial assets held for trading	Treasury financial assets	AFS equity	Banking book securities	Loans and advances to customers	Equity investments	Tangible and intangible assets	Other assets	Total assets
10. Cash and cash equivalents	—	156.3	—	—	—	—	—	—	**156.3**
20. Financials assets held for trading	9,505.3	—	—	—	—	—	—	—	**9,505.3**
30. Financials assets recognized at fair value through profit or loss	—	—	—	—	—	—	—	—	**—**
40. Financial assets available-for-sale	—	—	914.3	7,725.1	—	—	—	—	**8,639.4**
50. Financial assets held-to-maturity	—	—	—	1,975.4	—	—	—	—	**1,975.4**
60. Due from banks	—	3,964.2	—		1,390.6	—	—	31.8	**5,386.6**
70. Due from customers	—	4,278.6	—	189.8	33,348.1	—	—	65.0	**37,881.5**
80. Hedging derivatives	—	—	—	—	—	—	—	933.4	**933.4**
90. Adjustment of hedging financial assets (+/-)	—	—	—	—	—	—	—	—	—
100. Equity investments	—	—	—	—	—	3,193.3	—	—	**3,193.3**
110. Reinsured portion of technical reserves	—	—	—	—	—	—	—	—	**—**
120. Property, plant and equipment	—	—	—	—	—	—	304.8	—	**304.8**
130. Intangible assets	—	—	—	—	—	—	452.9	—	**452.9**
140. Tax assets	—	—	—	—	—	—	—	988.7	**988.7**
150. Loans classified as held-for-sale	—	—	—	—	—	—	—	—	—
160. Other assets	—	8.7	—	—	—	—	—	392.1	**400.8**
Total assets	**9,505.3**	**8,407.9**	**914.3**	**9,890.3**	**34,738.7**	**3,193.3**	**757.8**	**2,411.0**	**69,818.6**

Consolidated Balance Sheet 30/06/2016

(€m)

Liabilities and net equity	Funding	Treasury funding	Financial liabilities held for trading	Other liabilities	Provisions	Net equity and minority interests	Total liabilities and net equity
10. Due to banks	9,407.1	2,532.2	—	1.0	—	—	**11,940.3**
20. Due to customers	15,438.2	2,722.5	—	3.8	—	—	**18,164.5**
30. Debt securities in issue	21,813.0	—	—	0.1	—	—	**21,813.1**
40. Trading liabilities	—	—	7,141.5	—	—	—	**7,141.5**
50. Financial liabilities designated at fair value	—	—	—	—	—	—	**—**
60. Hedging derivatives	—	—	—	339.9	—	—	**339.9**
70. Changes in fair value of portfolio hedged items (-)	—	—	—	—	—	—	**—**
80. Tax liabilities	—	—	—	573.–	—	—	**573.0**
90. Liabilities included in disposal groups classified as held for sale	—	—	—	—	—	—	**—**
100. Other liabilities	—	—	—	596.3	—	—	**596.3**
110. Staff severance indemnity provision	—	—	—	—	29.0	—	**29.0**
120. Provisions	—	—	—	—	151.3	—	**151.3**
130. Insurance reserves	—	—	—	147.9	—	—	**147.9**
140. Revaluation reserves	—	—	—	—	—	1,145.0	**1,145.0**
150. Redeemable shares repayable on demand	—	—	—	—	—	—	**—**
160. Equity instruments repayable on demand	—	—	—	—	—	—	**—**
170. Reserves	—	—	—	—	—	4,692.7	**4,692.7**
180. Share premium reserve	—	—	—	—	—	2,152.8	**2.152.8**
190. Share capital	—	—	—	—	—	435.5	**435.5**
200. Treasury shares	—	—	—	—	—	(198.0)	**(198.0)**
210. Minority interest	—	—	—	—	—	89.2	**89.2**
220. Profit for the period	—	—	—	—	—	604.5	**604.5**
Total liabilities and net equity	**46,658.4**	**5,254.7**	**7,141.5**	**1,661.8**	**180.3**	**8,921.8**	**69,818.6**

Consolidated Balance Sheet 31/12/2015

(€m)

Assets	Financial assets held for trading	Treasury financial assets	AFS equity	Banking book securities	Loans and advances to customers	Equity investments	Tangible and intangible assets	Other assets	Total assets
10. Cash and cash equivalents	—	48.2	—	—	—	—	—	—	**48.2**
20. Financials assets held for trading	13,108.2	—	—	—	—	—	—	—	**13,108.2**
30. Financials assets recognized at fair value through profit or loss	—	—	—	—	—	—	—	—	**—**
40. Financial assets available-for-sale	—	—	928.1	7,181.6	—	—	—	—	**8,109.7**
50. Financial assets held-to-maturity	—	—	—	1,189.0	—	—	—	—	**1,189.0**
60. Due from banks	—	6,202.1	—	—	1,363.1	—	—	31.3	**7,596.4**
70. Due from customers	—	3,608.4	—	326.3	31,655.8	—	—	67.6	**35,658.1**
80. Hedging derivatives	—	—	—	—	—	—	—	727.6	**727.6**
90. Adjustment of hedging financial assets (+/-)	—	—	—	—	—	—	—	—	—
100. Equity investments	—	—	—	—	—	3,113.0	—	—	**3,113.0**
110. Reinsured portion of technical reserves	—	—	—	—	—	—	—	—	**—**
120. Property, plant and equipment	—	—	—	—	—	—	309.7	—	**309.7**
130. Intangible assets	—	—	—	—	—	—	455.6	—	**455.6**
140. Tax assets	—	—	—	—	—	—	—	869.9	**869.9**
150. Loans classified as held-for-sale	—	—	—	—	—	—	—	—	—
160. Other assets	—	2.9	—	—	—	—	—	360.7	**363.6**
Total assets	**13,108.2**	**9,861.6**	**928.1**	**8,696.9**	**33,018.9**	**3,113.0**	**765.2**	**2,057.1**	**71,548.9**

Consolidated Balance Sheet 31/12/2015

(€m)

Liabilities and net equity	Funding	Treasury funding	Financial liabilities held for trading	Other liabilities	Provisions	Net equity and minority interests	Total liabilities and net equity
10. Due to banks	9,545.2	5,692.2	—	3.4	—	—	**15,240.8**
20. Due to customers	13,958.0	2,341.1	—	3.4	—	—	**16,302.5**
30. Debt securities in issue	21,251.3	—	—	0.1	—	—	**21,251.3**
40. Trading liabilities	—	—	8,559.8	—	—	—	**8,559.8**
50. Financial liabilities designated at fair value	—	—	—	—	—	—	**—**
60. Hedging derivatives	—	—	—	301.8	—	—	**301.8**
70. Changes in fair value of portfolio hedged items (-)	—	—	—	—	—	—	**—**
80. Tax liabilities	—	—	—	512.6	—	—	**512.6**
90. Liabilities included in disposal groups classified as held for sale	—	—	—	—	—	—	**—**
100. Other liabilities	—	16.3	—	506.3	—	—	**522.6**
110. Staff severance indemnity provision	—	—	—	—	26.3	—	**26.3**
120. Provisions	—	—	—	—	154.9	—	**154.9**
130. Insurance reserves	—	—	—	137.8	—	—	**137.8**
140. Revaluation reserves	—	—	—	—	—	1,061.2	**1,061.2**
150. Redeemable shares repayable on demand	—	—	—	—	—	—	**—**
160. Equity instruments repayable on demand	—	—	—	—	—	—	**—**
170. Reserves	—	—	—	—	—	4,681.7	**4,681.7**
180. Share premium reserve	—	—	—	—	—	2,148.9	**2,148.9**
190. Share capital	—	—	—	—	—	435.2	**435.2**
200. Treasury shares	—	—	—	—	—	(198.3)	**(198.3)**
210. Minority interest	—	—	—	—	—	88.7	**88.7**
220. Profit for the period	—	—	—	—	—	321.1	**321.1**
Total liabilities and net equity	**44,754.4**	**8,049.7**	**8,559.8**	**1,465.4**	**181.2**	**8,538.5**	**71,548.9**

Reconciliation between Reclassified Profit and Loss and mandatory Profit and Loss ex. Bank of Italy Circular 262/2005

The Profit and Loss provided on p. 15 reflects the following restatements:

– *Net interest margin* comprises heading 10 "Interest and similar income", heading 20 "Interest expenses and similar charges", hedging derivatives differentials related to held-for-trading securities of heading 80 "Net trading income" and the net result from hedging activities of loans to customers and of funding of heading 90 "Net hedging income (expense)";

– *Treasury income* comprises heading 70 "Dividends and similar income", heading 80 "Net trading income" (except for the amount under the *net margin interest*), the result of the *banking book securities* included in heading 100 "Gain (loss) on disposal/repurchase" and the share of repos in headings 40 "Fee and commission income" and 50 "Fee and commission expense";

– *Net fee and commission income* comprises heading 60 "Net fee and commission income", the operating incomes of heading 220 "Other operating income (expenses)" and the reversal on purchased NPL exposures of heading 130 "Adjustments for impairment";

– *Loan loss provisions* comprise heading 130 "Adjustments for impairment" (apart from NPL write-backs) and the losses on credit disposal included in the heading 100 "Gain (loss) on disposal/repurchase ";

– *Other profits (losses)* comprise the non-recurring costs of heading 180 "Administrative costs", especially the contributes to the SRF and the DGS, the provisions for restructuring and impairment of tangible and intangible assets.

Consolidated Profit and Loss 31/12/2016

(€m)

Profit and loss account	Net interest income	Treasury income	Net fee and commission income	*Equity-accounted compsanies*	Operating costs	Gain (losses) on AFS, HTM and L&R	Loan loss provisions	Provisions for financial assets	Other profits (losses)	Income tax for the period	Minority interests	Net profit
10. Interest and similar income	962.6	—	—	—	—	—	—	—	—	—	—	962.6
20. Interest expense and similar charges	(326.9)	—	—	—	—	—	—	—	—	—	—	(326.9)
30. Net interest income	**635.7**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**635.7**
40. Fee and commission income	—	1.1	202.4	—	—	—	—	—	—	—	—	203.5
50. Fee and commission expense	—	(1.9)	(36.2)	—	—	—	—	—	—	—	—	(38.1)
60. Net fee and commission income	**—**	**(0.8)**	**166.2**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**165.4**
70. Dividends and similar income	—	35.9	—	—	—	—	—	—	—	—	—	35.9
80. Net trading income	(7.8)	10.0	—	—	—	—	—	—	—	—	—	2.2
90. Net hedging income (expense)	7.7	—	—	—	—	—	—	—	—	—	—	7.7
100. Gain (loss) on disposal/repurchase	—	18.7	—	—	—	121.7	2.9	—	—	—	—	143.3
120. Total income	**635.6**	**63.8**	**166.2**	**—**	**—**	**121.7**	**2.9**	**—**	**—**	**—**	**—**	**990.2**
130. Adjustments for impairment	—	—	7.7	—	—	—	(186.6)	7.6	—	—	—	186.5
140. Net income from financial operations	**635.6**	**63.8**	**173.9**	**—**	**—**	**121.7**	**(183.7)**	**7.6**	**—**	**—**	**—**	**803.7**
150. Net premium earned (net)	—	—	25.4	—	—	—	—	—	—	—	—	25.4
160. Other income (net) from insurance activities	—	—	(7.1)	—	—	—	—	—	—	—	—	(7.1)
170. Net profit from financial and insurance activities	**635.6**	**63.8**	**192.2**	**—**	**—**	**121.7**	**(183.7)**	**7.6**	**—**	**—**	**—**	**822.0**
180. Administrative expenses	—	—	—	—	(457.0)	—	—	—	(99.6)	—	—	(556.5)
190. Net transfers to provisions	—	—	—	—	(1.8)	—	—	—	(24.9)	—	—	(26.7)
200. Net adjustment to tangible assets	—	—	—	—	(8.7)	—	—	—	—	—	—	(8.7)
210. Net adjustment to intangible assets	—	—	—	—	(12.5)	—	—	—	—	—	—	(12.5)
220. Other operating income (expenses)	—	—	44.6	—	16.5	—	—	—	98.3	—	—	159.4
230. Operating costs	**—**	**—**	**44.6**	**—**	**(463.5)**	**—**	**—**	**—**	**(26.2)**	**—**	**—**	**(445.1)**
240. Gain (loss) on equity investments	—	—	—	136.2	—	—	—	(0.3)	—	—	—	135.9
270. gain (loss) on disposal of investments	—	—	—	—	—	—	—	—	—	—	—	—
280. Profit (loss) on ordinary activity before tax	**635.6**	**63.8**	**236.8**	**136.2**	**(463.5)**	**121.7**	**(183.7)**	**(7.9)**	**(26.2)**	**—**	**—**	**512.8**
290. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—	—	(92.9)	—	(92.9)
300. Profit (loss) on ordinary activities after tax	**635.6**	**63.8**	**236.8**	**136.2**	**(463.5)**	**121.7**	**(183.7)**	**(7.9)**	**(26.2)**	**(92.9)**	**—**	**419.9**
310. Gain (loss) on disposal of investments after tax	—	—	—	—	—	—	—	—	—	—	—	—
320. Net profit (loss) for the period	**635.6**	**63.8**	**236.8**	**136.2**	**(463.5)**	**121.7**	**(183.7)**	**(7.9)**	**(26.2)**	**(92.9)**	**—**	**419.9**
330. Net profit (loss) for the period attributable to minorities	—	—	—	—	—	—	—	—	—	—	(1.7)	(1.7)
340. Net profit (loss) for the period attributable to Mediobanca	**635.6**	**63.8**	**236.8**	**136.2**	**(463.5)**	**121.7**	**(183.7)**	**(7.9)**	**(26.2)**	**(92.9)**	**(1.7)**	**418.2**

Consolidated Profit and Loss 30/06/2016

(€m)

Profit and loss account	Net interest income	Treasury income	Net fee and commission income	Equity-accounted compsanies	Operating costs	Gain (losses) on AFS, HTM and L&R	Loan loss provisions	Provisions for financial assets	Other profits (losses)	Income tax for the period	Minority interests	Net profit
10. Interest and similar income	1,906.6	—	—	—	—	—	—	—	—	—	—	1,906.6
20. Interest expense and similar charges	(706.1)	—	—	—	—	—	—	—	—	—	—	(706.1)
30. Net interest income	**1,200.5**	**—**	**0.0**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,200.5**
40. Fee and commission income	—	1.2	405.6	—	—	—	—	—	—	—	—	406.8
50. Fee and commission expense	—	(2.2)	(81.8)	—	—	—	—	—	—	—	—	(84.0)
60. Net fee and commission income	**—**	**(1.0)**	**323.7**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**322.7**
70. Dividends and similar income	—	80.5	—	—	—	—	—	—	—	—	—	80.5
80. Net trading income	(2.1)	40.7	—	—	—	—	—	—	—	—	—	38.6
90. Net hedging income (expense)	8.3	—	—	—	—	—	—	—	—	—	—	8.3
100. Gain (loss) on disposal/repurchase	—	13.0	—	—	—	104.2	(20.9)	—	—	—	—	96.3
120. Total income	**1,206.7**	**133.1**	**323.7**	**—**	**—**	**104.2**	**(20.9)**	**—**	**—**	**—**	**—**	**1,747.0**
130. Adjustments for impairment	—	—	0.0	—	—	—	(398.0)	(19.4)	0.1	—	—	(417.4)
140. Net income from financial operations	**1,206.7**	**133.1**	**323.7**	**—**	**—**	**104.2**	**(418.9)**	**(19.4)**	**0.1**	**—**	**—**	**1,329.6**
150. Net premium earned (net)	—	—	46.8	—	—	—	—	—	—	—	—	46.8
160. Other income (net) from insurance activities	—	—	(15.6)	—	—	—	—	—	—	—	—	(15.6)
170. Net profit from financial and insurance activities	**1,206.7**	**133.1**	**355.0**	**—**	**—**	**104.2**	**(418.9)**	**(19.4)**	**0.1**	**—**	**—**	**1,360.8**
180. Administrative expenses	—	—	(0.4)	—	(897.9)	—	—	—	(102.4)	—	—	(1,000.6)
190. Net transfers to provisions	—	—	—	—	(3.0)	—	—	—	(2.0)	—	—	(5.0)
200. Net adjustment to tangible assets	—	—	—	—	(20.6)	—	—	—	—	—	—	(20.6)
210. Net adjustment to intangible assets	—	—	—	—	(19.8)	—	—	—	—	—	—	(19.8)
220. Other operating income (expenses)	—	—	95.5	—	49.4	—	—	—	—	—	—	144.9
230. Operating costs	**—**	**—**	**95.2**	**—**	**(891.9)**	**—**	**—**	**—**	**(104.4)**	**—**	**—**	**(901.1)**
240. Gain (loss) on equity investments	—	—	—	256.7	—	20.0	—	—	—	—	—	276.7
270. gain (loss) on disposal of investments	—	—	—	—	—	—	—	—	—	—	—	—
280. Profit (loss) on ordinary activity before tax	**1,206.7**	**133.1**	**450.1**	**256.7**	**(891.9)**	**124.2**	**(418.9)**	**(19.4)**	**(104.3)**	**—**	**—**	**736.3**
290. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—	—	(128.7)		(128.7)
300. Profit (loss) on ordinary activities after tax	**1,206.7**	**133.1**	**450.1**	**256.7**	**(891.9)**	**124.2**	**(418.9)**	**(19.4)**	**(104.3)**	**(128.7)**	**—**	**607.6**
310. Gain (loss) on disposal of investments after tax	—	—	—	—	—	—	—	—	—	—	—	—
320. Net profit (loss) for the period	**1,206.7**	**133.1**	**450.1**	**256.7**	**(891.9)**	**124.2**	**(418.9)**	**(19.4)**	**(104.3)**	**(128.7)**	**—**	**607.6**
330. Net profit (loss) for the period attributable to minorities	—	—	—	—	—	—	—	—	—	—	(3.1)	(3.1)
340. Net profit (loss) for the period attributable to Mediobanca	**1,206.7**	**133.1**	**450.1**	**256.7**	**(891.9)**	**124.2**	**(418.9)**	**(19.4)**	**(104.3)**	**(128.7)**	**(3.1)**	**604.5**

Consolidated Profit and Loss 31/12/2015

(€m)

Profit and loss account	Net interest income	Treasury income	Net fee and commission income	Equity-accounted compsanies	Operating costs	Gain (losses) on AFS, HTM and L&R	Loan loss provisions	Provisions for financial assets	Other profits (losses)	Income tax for the period	Minority interests	Net profit
10. Interest and similar income	966.0	—	—	—	—	—	—	—	—	—	—	966.0
20. Interest expense and similar charges	(364.4)	—	—	—	—	—	—	—	—	—	—	(364.4)
30. Net interest income	**601.6**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**601.6**
40. Fee and commission income	—	0.6	204.9	—	—	—	—	—	—	—	—	205.5
50. Fee and commission expense	—	(0.9)	(41.3)	—	—	—	—	—	—	—	—	(42.2)
60. Net fee and commission income	**—**	**(0.3)**	**163.6**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**163.3**
70. Dividends and similar income	—	29.0	—	—	—	—	—	—	—	—	—	29.0
80. Net trading income	(0.6)	10.5	—	—	—		—	—	—	—	—	9.9
90. Net hedging income (expense)	3.3	—	—	—	—	—	—	—	—	—	—	3.3
100. Gain (loss) on disposal/repurchase	—	6.7	—	—	—	92.5	1.1	—	—	—	—	100.2
120. Total income	**604.3**	**45.8**	**163.6**	**—**	**—**	**92.5**	**1.1**	**—**	**—**	**—**	**—**	**907.3**
130. Adjustments for impairment	—	—	—	—	—	—	(225.6)	(12.7)	—	—	—	(238.3)
140. Net income from financial operations	**604.3**	**45.8**	**163.6**	**—**	**—**	**92.5**	**(224.5)**	**(12.7)**	**—**	**—**	**—**	**669.0**
150. Net premium earned (net)	—	—	22.4	—	—	—	—	—	—	—	—	22.4
160. Other income (net) from insurance activities	—	—	(7.6)	—	—	—	—	—	—	—	—	(7.6)
170. Net profit from financial and insurance activities	**604.3**	**45.8**	**178.3**	**—**	**—**	**92.5**	**(224.5)**	**(12.7)**	**—**	**—**	**—**	**683.7**
180. Administrative expenses	—	—	(0.1)	—	(417.7)	—	—	—	(71.5)	—	—	(489.3)
190. Net transfers to provisions	—	—	—	—	(1.1)	—	—	—	—	—	—	(1.1)
200. Net adjustment to tangible assets	—	—		—	(9.7)	—	—	—	—	—	—	(9.7)
210. Net adjustment to intangible assets	—	—	—	—	(9.2)	—	—	—	—	—	—	(9.2)
220. Other operating income (expenses)	—		49.2	—	17.8		—	—	—	—	—	67.0
230. Operating costs	**—**	**—**	**49.1**	**—**	**(419.8)**	**—**	**—**	**—**	**(71.5)**	**—**	**—**	**(442.2)**
240. Gain (loss) on equity investments	—	—	—	138.8	—	—	—	—	—	—	—	138.8
270. gain (loss) on disposal of investments	—	—	—	—	—	—	—	—	—	—	—	—
280. Profit (loss) on ordinary activity before tax	**604.3**	**45.8**	**227.4**	**138.8**	**(419.8)**	**92.5**	**(224.5)**	**(12.7)**	**(71.5)**	**—**	**—**	**380.3**
290. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—	—	(57.2)	—	(57.2)
300. Profit (loss) on ordinary activities after tax	**604.3**	**45.8**	**227.4**	**138.8**	**(419.8)**	**92.5**	**(224.5)**	**(12.7)**	**(71.5)**	**(57.2)**	**—**	**323.1**
310. Gain (loss) on disposal of investments after tax	—	—	—	—	—	—	—	—	—	—	—	—
320. Net profit (loss) for the period	**604.3**	**45.8**	**227.4**	**138.8**	**(419.8)**	**92.5**	**(224.5)**	**(12.7)**	**(71.5)**	**(57.2)**	**—**	**323.1**
330. Net profit (loss) for the period attributable to minorities	—	—	—	—	—	—	—	—	—	—	(2.0)	(2.0)
340. Net profit (loss) for the period attributable to Mediobanca	**604.3**	**45.8**	**227.4**	**138.8**	**(419.8)**	**92.5**	**(224.5)**	**(12.7)**	**(71.5)**	**(57.2)**	**(2.0)**	**321.1**

Mediobanca S.p.A: Balance sheet/Profit and loss Account Reconciliation between reclassified Balance Sheet and mandatory Balance Sheet ex Bank of Italy circular 262/2005

Mediobanca S.p.A. Balance Sheet 31/12/2016

(€m)

Assets	Financial assets held for trading	Treasury financial assets	AFS equity	Banking book securities	Loans and advances to customers	Equity investments	Tangible and intangible assets	Other assets	Total assets
10. Cash and cash equivalents	—	1,632.2	—	—	—	—	—	—	**1,632.2**
20. Financial assets held for trading	9,489.3	—	—	—	—	—	—	—	**9,489.3**
40. Financial assets available-for-sale	—	—	640.4	5,284.7	—	—	—	—	**5,925.1**
50. Financial assets held-to-maturity	—	—	—	2,051.7	—	—	—	—	**2,051.7**
60. Due from banks	—	5,423.9	—	95.1	13,738.7	—	—	20.1	**19,277.8**
70. Due from customers	—	3,878.2	—	3,003.1	11,977.8	—	—	25.2	**18,884.3**
80. Hedging derivatives	—	—	—	—	—	—	—	670.1	**670.1**
100. Equity investments	—	—	—	—	—	2,786.5	—	—	**2,786.5**
120. Property, plant and equipment	—	—	—	—	—	—	118.0	—	**118.0**
130. Intangible assets	—	—	—	—	—	—	14.0	—	**14.0**
140. Tax assets	—	—	—	—	—	—	—	199.9	**199.9**
150. Other assets	—	—	—	—	—	—	—	71.0	**71.0**
Total assets	**9,489.3**	**10,934.3**	**640.4**	**10,434.6**	**25,716.5**	**2,786.5**	**132.0**	**986.3**	**61,119.9**

Mediobanca S.p.A. Balance Sheet 31/12/2016

(€m)

Liabilities and net equity	Funding	Treasury funding	Financial liabilities held for trading	Other liabilities	Provisions	Net equity	Total liabilities and net equity
10. Due to banks	21,066.5	3,789.6	—	10.8	—	—	**24,866.9**
20. Due to customers	1,357.6	1,964.0	—	1.5	—	—	**3,323.1**
30. Debt securities in issue	19,244.8	—	—	0.0	—	—	**19,244.8**
40. Trading liabilities	—	—	7,299.4		—	—	**7,299.4**
60. Hedging derivatives	—	—	—	592.7	—	—	**592.7**
80. Tax liabilities	—	—	—	362.2	—	—	**362.2**
100. Other liabilities	—	—	—	238.2	—	—	**238.2**
110. Staff severance indemnity provision	—	—	—	—	9.5	—	**9.5**
120. Provisions	—	—	—	—	127.3	—	**127.3**
130. Revaluation reserves	—	—	—	—	—	289.8	**289.8**
140. Redeemable shares repayable on demand	—	—	—	—	—	—	**—**
150. Equity instruments repayable on demand	—	—	—	—	—	—	**—**
160. Reserves	—	—	—	—	—	2,277.9	**2,277.9**
170. Share premium reserve	—	—	—	—	—	2,153.4	**2,153.4**
180. Share capital	—	—	—	—	—	436.4	**436.4**
190. Treasury shares (-)	—	—	—	—	—	(198.0)	**(198.0)**
200. Profit for the period (+/-)	—	—	—	—	—	96.3	**96.3**
Total liabilities and net equity	**41,668.9**	**5,753.6**	**7,299.4**	**1,205.4**	**136.8**	**5,055.8**	**61,119.9**

Mediobanca S.p.A. Balance Sheet 30/06/2016

(€m)

Assets	Financial assets held for trading	Treasury financial assets	AFS equity	Banking book securities	Loans and advances to customers	Equity investments	Tangible and intangible assets	Other assets	Total assets
10. Cash and cash equivalents	—	102.2	—	—	—	—	—	—	**102.2**
20. Financial assets held for trading	8,535.2	—	—	—	—	—	—	—	**8,535.2**
30. Financial assets recognised at fair value through profit and loss	—	—	—	—	—	—	—	—	**—**
40. Financial assets available-for-sale	—	—	851.9	6,816.2	—	—	—	—	**7,668.1**
50. Financial assets held-to-maturity	—	—	—	1,963.3	—	—	—	—	**1,963.3**
60. Due from banks	—	4,042.7	—	—	10,959.1	—	—	28.0	**15,029.8**
70. Due from customers	—	4,299.4	—	2,955.6	12,279.7	—	—	17.6	**19,552.3**
80. Hedging derivatives	—	—	—	—	—	—	—	936.7	**936.7**
100. Equity investments	—	—	—	—	—	2,687.7	—	—	**2,687.7**
110. Property, plant and equipment	—	—	—	—	—	—	119.4	—	**119.4**
120. Intangible assets	—	—	—	—	—	—	12.7	—	**12.7**
130. Tax assets	—	—	—	—	—	—	—	295.1	**295.1**
150. Other assets	—	—	—	—	—	—	—	105.0	**105.0**
Total assets	**8,535.2**	**8,444.3**	**851.9**	**11,735.0**	**23,238.8**	**2,687.7**	**132.0**	**1,382.4**	**57,007.4**

Mediobanca S.p.A. Balance Sheet 30/06/2016

(€m)

Liabilities and net equity	Funding	Treasury funding	Financial liabilities held for trading	Other liabilities	Provisions	Net equity	Total liabilities and net equity
10. Due to banks	16,803.2	2,941.3	—	4.0	—	—	**19,748.6**
20. Due to customers	1,128.5	2,724.1	—	2.6	—	—	**3,855.3**
30. Debt securities in issue	19,536.4	—	—	0.1	—	—	**19,536.5**
40. Trading liabilities	—	—	7,043.0	—	—	—	**7,043.0**
50. Liabilities designated at fair value	—	—	—	—	—	—	**—**
60. Hedging derivatives	—	—	—	726.3	—	—	**726.3**
70. Changes in fair value of portfolio hedged items	—	—	—	—	—	—	**—**
80. Tax liabilities	—	—	—	447.1	—	—	**447.1**
100. Other liabilities	—	1.3	—	234.2	—	—	**235.5**
110. Staff severance indemnity provision	—	—	—	—	9.6	—	**9.6**
120. Provisions	—	—	—	—	130.3	—	**130.3**
130. Revaluation reserves	—	—	—	—	—	379.5	**379.5**
140. Redeemable shares repayable on demand	—	—	—	—	—	—	**—**
150. Equity instruments repayable on demand	—	—	—	—	—	—	**—**
160. Reserves	—	—	—	—	—	2,217.3	**2,217.3**
170. Share premium reserve	—	—	—	—	—	2,152.8	**2,152.8**
180. Share capital	—	—	—	—	—	435.5	**435.5**
190. Treasury shares (-)	—	—	—	—	—	(198.0)	**(198.0)**
200. Profit for the period (+/-)	—	—	—	—	—	288.0	**288.0**
Total liabilities and net equity	**37,468.2**	**5,666.8**	**7,043.0**	**1,414.2**	**139.9**	**5,275.3**	**57,007.4**

Mediobanca S.p.A. Balance Sheet 31/12/2015

(€m)

Assets	Financial assets held for trading	Treasury financial assets	AFS equity	Banking book securities	Loans and advances to customers	Equity investments	Tangible and intangible assets	Other assets	Total assets
10. Cash and cash equivalents	—	0.5	—	—	—	—	—	—	**0.5**
20. Financial assets held for trading	12,122.5	—	—	—	—	—	—	—	**12,122.5**
40. Financial assets available-for-sale	—	—	320.9	6,264.3	—	—	—	—	**6,585.2**
50. Financial assets held-to-maturity	—	—	—	1,175.9	—	—	—	—	**1,175.9**
60. Due from banks	—	6,591.1	—	—	9,859.6	—	—	59.2	**16,509.9**
70. Due from customers	—	3,123.2	—	3,462.2	11,778.8	—	—	39.8	**18,404.0**
80. Hedging derivatives	—	—	—	—	—	—	—	795.2	**795.2**
100. Equity investments	—	—	—	—	—	3,191.9	—	—	**3,191.9**
110. Property, plant and equipment	—	—	—	—	—	—	120.6	—	**120.6**
120. Intangible assets	—	—	—	—	—	—	10.2	—	**10.2**
130. Tax assets	—	—	—	—	—	—	—	216.1	**216.1**
150. Other assets	—	—	—	—	—	—	—	63.9	**63.9**
Total assets	**12,122.5**	**9,714.8**	**320.9**	**10,902.4**	**21,638.5**	**3,191.9**	**130.8**	**1,174.1**	**59,195.9**

Mediobanca S.p.A. Balance Sheet 31/12/2015

(€m)

Liabilities and net equity	Funding	Treasury funding	Financial liabilities held for trading	Other liabilities	Provisions	Net equity	Total liabilities and net equity
10. Due to banks	16,103.1	6,106.2	—	21.3	—	—	**22,230.6**
20. Due to customers	408.0	2,343.0	—	7.9	—	—	**2,758.9**
30. Debt securities in issue	19,427.8	—	—	0.1	—	—	**19,427.9**
40. Trading liabilities	—	—	8,441.4		—	—	**8,441.4**
60. Hedging derivatives	—	—	—	585.9	—	—	**585.9**
80. Tax liabilities	—	—	—	377.2	—	—	**377.2**
100. Other liabilities	—	2.3	—	195.4	—	—	**197.7**
110. Staff severance indemnity provision	—	—	—	—	8.7	—	**8.7**
120. Provisions	—	—	—	—	138.5	—	**138.5**
130. Revaluation reserves	—	—	—	—	—	373.3	**373.3**
140. Redeemable shares repayable on demand	—	—	—	—	—	—	**—**
150. Equity instruments repayable on demand	—	—	—	—	—	—	**—**
160. Reserves	—	—	—	—	—	2,197.6	**2,197.6**
170. Share premium reserve	—	—	—	—	—	2,148.9	**2,148.9**
180. Share capital	—	—	—	—	—	435.2	**435.2**
190. Treasury shares (-)	—	—	—	—	—	(198.3)	**(198.3)**
200. Profit for the period (+/-)	—	—	—	—	—	72.4	**72.4**
Total liabilities and net equity	**35,938.9**	**8,451.5**	**8,441.4**	**1,187.8**	**147.3**	**5,029.0**	**59,195.9**

Reconciliation between reclassified Profit and loss Account and mandatory Profit and Loss ex Bank of Italy circular 262/2005

Mediobanca S.p.A.: Profit and loss Account 31/12/2016

(€m)

Profit and loss account	Net interest income	Treasury income	Net fee and commission income	Dividends on investments	Operating costs	Gains (losses) on AFS, HTM and L&R	Loan loss provisions	Provisions for financial assets	Impairment charges to equity investments	Other profits (losses)	Income tax for the period	Net profit (loss)
10. Interest and similar income	407.3	—	—	—	—	—	—	—	—	—	—	407.3
20. Interest expense and similar cherges	(376.1)	—	—	—	—	—	—	—	—	—	—	(376.1)
30. Net interest income	**31.2**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**31.2**
40. Fee and commission income	2.8	1.2	85.8	—	—	—	—	—	—	—	—	89.8
50. Fee and commission expense	—	(1.9)	(4.8)	—	—	—	—	—	—	—	—	(6.7)
60. Net fee and commission income	**2.8**	**(0.7)**	**81.0**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**83.1**
70. Dividend and similar income	—	35.7	—	—	—	—	—	—	—	—	—	35.7
80. Net trading income	0.9	6.4	—	—	—	—	—	—	—	—	—	7.3
90. Net hedging income (expense)	5.2	—	—	—	—	—	—	—	—	—	—	5.2
100. Gain (loss) on disposal/repurchase	—	19.9	—	—	—	118.9	—	—	—	—	—	138.8
120. Total income	**40.1**	**61.3**	**81.0**	**—**	**—**	**118.9**	**—**	**—**	**—**	**—**	**—**	**301.3**
130. Adjustment for impairment	—	—	—	—	—	—	2.0	(6.6)	—	—	—	(4.6)
140. Net income from financial operations	**40.1**	**61.3**	**81.0**	**—**	**—**	**118.9**	**2.0**	**(6.6)**	**—**	**—**	**—**	**296.7**
150. Administrative expenses	—	—	—	—	(147.4)	—	—	—	—	(42.6)	—	(190.0)
160. Net transfers to provisions	—	—	—	—	—	—	—	—	—	—	—	—
170. Net adjustments to tangible assets	—	—	—	—	(1.8)	—	—	—	—	—	—	(1.8)
180. Net adjustments to intangible assets	—	—	—	—	(4.1)	—	—	—	—	—	—	(4.1)
190. Other operating income (expenses)	—	—	8.2	—	(0.6)	—	—	—	—	—	—	7.6
200. Operating costs	**—**	**—**	**8.2**	**—**	**(153.9)**	**—**	**—**	**—**	**—**	**(42.6)**	**—**	**(188.3)**
210. Gain (loss) on equity investments	—	—	—	—	—	—	—		(0.6)	—	—	(0.6)
240. Gain (loss) on disposal of investments	—	—	—	—	—	—	—	—	—	—	—	—
250. Profit (loss) on ordinary activities before tax	**40.1**	**61.3**	**89.2**	**—**	**(153.9)**	**118.9**	**2.0**	**(6.6)**	**(0.6)**	**(42.6)**	**—**	**107.8**
260. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—	—	—	(11.5)	(11.5)
270. Profit (loss) on ordinary activities after tax	**40.1**	**61.3**	**89.2**	**—**	**(153.9)**	**118.9**	**2.0**	**(6.6)**	**(0.6)**	**(42.6)**	**(11.5)**	**96.3**
290 Net profit (loss) for the period	**40.1**	**61.3**	**89.2**	**—**	**(153.9)**	**118.9**	**2.0**	**(6.6)**	**(0.6)**	**(42.6)**	**(11.5)**	**96.3**

Mediobanca S.p.A.: Profit and loss Account 30/06/2016

(€m)

Profit and loss account	Net interest income	Treasury income	Net fee and commission income	Dividends on investments	Operating costs	Gains (losses) on AFS, HTM and L&R	Loan loss provisions	Provisions for financial assets	Impairment charges to equity investments	Other profits (losses)	Income tax for the period	Net profit (loss)
10. Interest and similar income	902.5	—	—	—	—	—	—	—	—	—	—	902.5
20. Interest expense and similar cherges	(770.3)	—	—	—	—	—	—	—	—	—	—	(770.3)
30. Net interest income	**132.2**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**132.2**
40. Fee and commission income	—	2.3	209.4	—	—	—	—	—	—	—	—	211.6
50. Fee and commission expense	—	(2.2)	(12.3)	—	—	—	—	—	—	—	—	(14.5)
60. Net fee and commission income	**—**	**—**	**197.1**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**197.1**
70. Dividend and similar income	—	80.3	—	146.0	—	—	—	—	—	—	—	226.3
80. Net trading income	7.4	35.9	—	—	—	—	—	—	—	—	—	43.3
90. Net hedging income (expense)	7.6	—	—	—	—	—	—	—	—	—	—	7.6
100. Gain (loss) on disposal/repurchase	—	11.7	—	—	—	99.8	—	—	—	—	—	111.4
120. Total income	**147.2**	**127.9**	**197.1**	**146.0**	**—**	**99.8**	**—**	**—**	**—**	**—**	**—**	**718.0**
130. Adjustment for impairment	—	—	—	—	—	—	(29.5)	(19.3)	—	—	—	(48.8)
140. Net income from financial operations	**147.2**	**127.9**	**197.1**	**146.0**	**—**	**99.8**	**(29.5)**	**(19.3)**	**—**	**—**	**—**	**669.2**
150. Administrative expenses	—	—	(0.4)	—	(323.6)	—	—	—	—	(81.8)	—	(405.8)
160. Net transfers to provisions	—	—	—	—	—	—	—	—	—	—	—	—
170. Net adjustments to tangible assets	—	—	—	—	(3.7)	—	—	—	—	—	—	(3.7)
180. Net adjustments to intangible assets	—	—	—	—	(6.0)	—	—	—	—	—	—	(6.0)
190. Other operating income (expenses)	—	—	24.7	—	(4.0)	—	—	—	—	—	—	20.7
200. Operating costs	**—**	**—**	**24.3**	**—**	**(337.3)**	**—**	**—**	**—**	**—**	**(81.8)**	**—**	**(394.7)**
210. Gain (loss) on equity investments	—	—	—	—	—	41.6	—	—	(2.5)	—	—	39.1
240. Gain (loss) on disposal of investments	—	—	—	—	—		—	—	—	—	—	—
250. Profit (loss) on ordinary activities before tax	**147.2**	**127.9**	**221.4**	**146.0**	**(337.3)**	**141.4**	**(29.5)**	**(19.3)**	**(2.5)**	**(81.8)**	**—**	**313.6**
260. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—		—	(25.6)	(25.6)
270. Profit (loss) on ordinary activities after tax	**147.2**	**127.9**	**221.4**	**146.0**	**(337.3)**	**141.4**	**(29.5)**	**(19.3)**	**(2.5)**	**(81.8)**	**(25.6)**	**288.0**
290. Net profit (loss) for the period	**147.2**	**127.9**	**221.4**	**146.0**	**(337.3)**	**141.4**	**(29.5)**	**(19.3)**	**(2.5)**	**(81.8)**	**(25.6)**	**288.0**

Mediobanca S.p.A.: Profit and loss Account 31/12/2015

(€m)

Profit and loss account	Net interest income	Treasury income	Net fee and commission income	Dividends on investments	Operating costs	Gains (losses) on AFS, HTM and L&R	Loan loss provisions	Provisions for financial assets	Impairment on investments	Other gains (losses)	Income tax for the period	Net profit
10. Interest and similar income	470.5	—	—	—	—	—	—	—	—	—	—	470.5
20. Interest expense and similar cherges	(393.2)	—	—	—	—	—	—	—	—	—	—	(393.2)
30. Net interest income	**77.3**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**77.3**
40. Fee and commission income	—	0.9	110.6	—	—	—	—	—	—	—	—	111.5
50. Fee and commission expense	—	(0.9)	(4.7)	—	—	—	—	—	—	—	—	(5.6)
60. Net fee and commission income	**—**	**—**	**105.8**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**105.9**
70. Dividend and similar income	—	20.0	—	—	—	—	—	—	—	—	—	20.0
80. Net trading income	4.3	9.1	—	—	—	—	—	—	—	—	—	13.5
90. Net hedging income (expense)	3.1	—	—	—	—	—	—	—	—	—	—	3.1
100. Gain (loss) on disposal/repurchase	—	6.1	—	—	—	91.5	—	—	—	—	—	97.6
120. Total income	**84.7**	**35.3**	**105.8**	**—**	**—**	**91.5**	**—**	**—**	**—**	**—**	**—**	**317.3**
130. Adjustment for impairment	—	—	—	—	—	—	(18.2)	(12.8)	—	—	—	(31.0)
140. Net income from financial operations	**84.7**	**35.3**	**105.8**	**—**	**—**	**91.5**	**(18.2)**	**(12.8)**	**—**	**—**	**—**	**286.3**
150. Administrative expenses	—	—	(0.1)	—	(151.2)	—	—	—	—	(63.7)	—	(215.0)
160. Net transfers to provisions	—	—	—	—	—	—	—	—	—	—	—	—
170. Net adjustments to tangible assets	—	—	—	—	(1.8)	—	—	—	—	—	—	(1.8)
180. Net adjustments to intangible assets	—	—	—	—	(2.9)	—	—	—	—	—	—	(2.9)
190. Other operating income (expenses)	—	—	16.4	—	(2.7)	—	—	—	—	—	—	13.7
200. Operating costs	**—**	**—**	**16.3**	**—**	**(158.6)**	**—**	**—**	**—**	**—**	**(63.7)**	**—**	**(206.0)**
210. Gain (loss) on equity investments	—	—	—	—	—	—	—	—	—	—	—	—
240. Gain (loss) on disposal of investments	—	—	—	—	—	—	—	—	—	—	—	—
250. Profit (loss) on ordinary activities before tax	**84.7**	**35.3**	**122.1**	**—**	**(158.6)**	**91.5**	**(18.2)**	**(12.8)**	**—**	**(63.7)**	**—**	**80.4**
260. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—	—	—	(8.0)	(8.0)
270. Profit (loss) on ordinary activities after tax	**84.7**	**35.3**	**122.1**	**—**	**(158.6)**	**91.5**	**(18.2)**	**(12.8)**	**—**	**(63.7)**	**(8.0)**	**72.4**
290. Net profit (loss) for the period	**84.7**	**35.3**	**122.1**	**—**	**(158.6)**	**91.5**	**(18.2)**	**(12.8)**	**—**	**(63.7)**	**(8.0)**	**72.4**

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