MEDIOBANCA

Interim Report

for the six months ended 31 December 2017

MEDIOBANCA

LIMITED COMPANY
SHARE CAPITAL € 442,283,970
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 2017

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

translation from the Italian original which remains the definitive version

BOARD OF DIRECTORS

			Term expires
	Renato Pagliaro	Chairman	2020
*	Maurizia Angelo Comneno	Deputy Chairman	2020
	Alberto Pecci	Deputy Chairman	2020
*	Alberto Nagel	Chief Executive Officer	2020
*	Francesco Saverio Vinci	General Manager	2020
	César Alierta	Director	2020
	Marie Bolloré	Director	2020
	Maurizio Carfagna	Director	2020
	Maurizio Costa	Director	2020
	Angela Gamba	Director	2020
	Valérie Hortefeux	Director	2020
	Alberto Lupoi	Director	2020
	Elisabetta Magistretti	Director	2020
	Massimo Tononi	Director	2020
*	Gabriele Villa	Director	2020

* Member of Executive Committee

STATUTORY AUDIT COMMITTEE

Natale Freddi	Chairman	2020
Francesco Di Carlo	Standing Auditor	2020
Laura Gualtieri	Standing Auditor	2020
Alessandro Trotter	Alternate Auditor	2020
Barbara Negri	Alternate Auditor	2020
Stefano Sarubbi	Alternate Auditor	2020

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Massimo Bertolini — Secretary of the Board of Directors

CONTENTS

REVIEW OF OPERATIONS

REVIEW OF OPERATIONS

The Mediobanca Group reported a net profit of €476.3m in the six months under review, up 13.9% on the €418.2m posted last year, reflecting a gross operating profit from banking activities of over €400m (up 38.8%), due to improvements by all the Group's business divisions, plus ongoing consolidation of the recent acquisitions in Wealth Management. [1]

Total revenues were up 9.1%, from €1,072.4m to €1,169.9m, as follows:

- Net interest income rose by 5.7%, from €635.6m to €672.1m, reflecting a higher contribution from Consumer Banking of €432.3m (€408.4m), and a better performance from treasury management, which, while still negative, saw net interest expense decrease from €70.6m last year to €47.4m, due to the lower cost of funding and optimized liquidity management; the reduction in net interest income generated by Wholesale Banking (from €132m to €106m) was in part offset by the performances in Specialty Finance (up from €21.4m to €30m) and Wealth Management (up from €117.5m to €126.7m);
- Net treasury income grew from €63.8m to €85.4m, due to a recovery in client-driven capital market solutions business and to strong results posted in proprietary trading activity (up from €22.7m to €24.2m);
- Net fee and commission income totalled €291.2m, a sharp improvement on the €236.8m posted last year, due to higher business volumes as a result inter alia of the expanded scope of Wealth Management operations; the increase in fees earned from Specialty Finance (from €20.2m to €26.5m) reflects the higher income collected on the NPLs portfolio, much of which is non-recurring;
- The contribution from the Assicurazioni Generali stake and the other equity investments fell from €136.2m to €121.2m, on a poorer second-half performance by Generali (€31.4m) reflecting the charges taken by the company at end-September 2018 (due to losses upon disposals).

[1] Compared to last year, the six months under review include the results of the Mediobanca Private Banking division, which now incorporates the former Banca Esperia activities, while the figures for CheBanca! include the former Barclays' volumes for the full six months (as opposed to four months last year).

At the same time, the 15.1% increase in operating costs, from €463.5m to €533.6m. reflects the expanded scope of consolidation (net of the Banca Esperia and Barclays effects, the increase would have been 3.7%), the enhancement of operating structures (new distribution channels and IT platforms), plus the Banca Esperia integration costs (with the merger becoming effective in operating terms on 1 December 2017).

Loan loss provisions fell by 38.4%, from €183.7m to €113.2m, due to further improvement in the loan book risk profile, in Consumer Banking in particular (where provisioning declined from €159m to €121.6m), and Wholesale Banking (where a net amount of €36.5m was written back, almost 90% of which deriving from repayments on non-performing loans). The cost of risk fell to 58 bps, representing further improvement both on this time last year (102 bps) and the balance-sheet date (87 bps).

Net gains on the securities portfolio declined from €121.7m to €94.4m, and largely consist of the €89m gain realized on disposal of the Atlantia stake.

Earnings for the six months also reflect a €10.4m payment to the Deposit Guarantee Scheme (€5.4m of which by way of the ordinary DGS contribution for 2017, plus a one-off, €5m payment under the terms of the voluntary scheme [2]), and writedowns to AFS securities totalling €2.8m, after the holding in Cassa di Risparmio di Cesena was written off in return for asset-backed securities.

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The divisional results may be summarized as follows:

– *Corporate and Investment Banking* delivered an increase in net profit from €126.2m to €146.1m, helped by an improved performance in Wholesale Banking which posted a bottom line of €131.1m (€113.9m), due largely to writebacks, plus the good performance in Specialty Finance (up from €12.3m to €15m) on higher volumes in factoring as well as the NPL portfolios acquired;

– *Consumer Banking* delivered a net profit of €159.5m, up sharply on the €122.7m posted last year, due to higher revenues (up 3.7%) driven by the increase in lending, lower loan loss provisions (down from €159m to €121.6m), with operating costs stable (up just 0.1%);

[2] In connection with the recapitalization exercises for the Casse di Risparmio di Rimini, Cesena and San Miniato, ahead of their sale to Crédit Agricole Italy.

– *Wealth Management* posted profits of €36.2m, higher than the €23.7m recorded last year (net of the €25.1m in income deriving from the Barclays acquisition); the increase in scope of this division (which now includes the former Barclays and Banca Esperia operations, as well as the acquisitions by Spafid) was reflected in higher revenues of €255.5m (€214.3m) and higher operating costs of €200.6m (€170.7m). CheBanca! contributed profits of €15.9m (€4m not including the one-off gain referred to above), whereas Private Banking (including Spafid and Cairn Capital) delivered a net profit of €20.3m (€19.7m);

– *Principal Investing* recorded a net profit of €205m, below the €242m reported last year, due to gains on AFS disposals of €93.8m (lower than the €118.9m twelve months earlier), and gains on the Assicurazioni Generali stake (also down from €134.7m to €120.6m);

– *Holding Functions* posted a net loss of €70.2m, slightly over half the €122.6m loss reported last year, despite rising overheads (up from €70.5m to €80.9m) due to the expanding scope of operations and projects (mostly IT-related); these results were helped by the reduced contributions made to the resolution funds (€10.4m, compared with €54.5m last year), and the substantial reduction in net interest expense generated by treasury management (which totalled €47.4m, as opposed to €70.6m last year) due to the lower cost of funding and improved liquidity management. Leasing operations delivered a net profit in line with last year at €2.6m.

Total assets rose from €70.4bn to €72.1bn, on higher lending volumes and client equity investments, and reflect the following trends:

– Loans and advances to customers rose from €38.2bn to €39.6bn, in particular in Wholesale Banking (up 4.7%), Specialty Finance (up 23.6%) and Consumer Banking (up 3%);

– Banking book bonds declined from €8.4bn to €7.6bn, with a gradual increase in non-Italian European sovereign debt securities;

– Net treasury assets decreased from €7.3bn to €5.1bn, despite the higher gross balances (treasury financial assets indeed rose from €7.8bn to €10.1bn), due to higher investments in equities backed by derivatives trades with clients;

– The reduction in funding, from €49.1bn to €47.4bn, was due to more efficient liquidity management. The first T-LTRO has been repaid in full, while bonds expiring were only renewed in part;

– TFAs in Wealth Management grew from €30bn to €31.5bn, split between Private Banking with €23.9bn (€22.9bn) and the CheBanca! Affluent & Premier segment with €7.6bn (€7.1bn).

The Group's capital ratios as at 31 December 2017, applying the standard rules 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: the Common Equity Tier 1 ratio stood at 12.9% and the Total Capital ratio at 16.2%. The reduction versus the ratios at 30 June 2017 reflects the higher deduction of the Assicurazioni Generali stake in order to comply with the concentration limit set at 20% as from 31 December 2017. 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 being weighted at 370%) stand at 12.9% for the CET1 ratio and 16.4% for the Total Capital ratio.

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In accordance with the strategy underpinning the 2016-19 business plan, one of the priorities of which was to deliver growth in wealth management and asset management services, the following events took place during the six months under review:

– The merger of Banca Esperia into Mediobanca was completed, resulting in the creation of the new Mediobanca Private Banking division targeting the top end of the asset management market; the merger should generate cost synergies as a result of streamlining overheads and the elimination of one of the banking legal entities;

– A partnership has been entered into with RAM Active Investments SA, announced in November 2017 and pending receipt of authorization from the relevant authorities (the deal is expected to close by end-June 2018), with a view to strengthening the Group's asset management platform; RAM, established in 2007 and headquartered in Geneva, is one of the leading European systematic fund managers, offering a wide range of alternative funds (systematic equity investments based on fundamental analysis and discretionary fixed-income strategies) to a vast client base of institutional and professional investors. The company manages fourteen funds with a value of approx. CHF 5bn. The agreement provides for the initial acquisition of a 69% stake, with management retaining an interest and continuing to work for the company for at least ten years; the Reyl group, which is an historical shareholder and institutional investor in RAM, will retain a minority interest of 7.5% in the company. It is estimated that the deal will entail a net absorption of some 30 bps of CET 1, factoring the put and call options and seed capital into the valuation with payment 50% in cash and 50% in Mediobanca shares;

– Mediobanca SGR, formerly Duemme SGR, has been strengthened with the addition of a new Chief Executive Officer plus a team of fourteen fund managers from Banca Esperia; the objective is to develop a skill centre in traditional asset management (analysts and private fund managers, and institutional funds and fund managers) to serve the Group as a whole.

Other significant events that took place in the six months under review include:

– The ECB's decision, following the outcome of the SREP 2018 process, to confirm last year's capital requirements for the Mediobanca Group. In particular, the minimum CET1 ratio has been set at 7.625%, including the Pillar 2 requirement ("P2R") of 1.25%, while the minimum Total Capital ratio has been set at 11.125%. These ratios are higher than last year (7% and 10.5% respectively), due solely to the capital conservation buffer being increased for the transitional period (1.25% in 2017, 1.875% in 2018, and 2.50% in 2019). The requirements are among the best at European level, and reflect the Mediobanca Group's strong risk coverage and capital solidity even in stressed conditions;

– An agreement has been entered into with IBM Italia (effective from 1 January 2018) to outsource IT infrastructure, end-user, data connectivity and computer security services for the Mediobanca Group as a whole (led primarily by the Group consortium services company Mediobanca Innovation Services);

– In October 2017, rating agency S&P upgraded its ratings for Mediobanca from BBB- to BBB for the long term and from A-3 to A-2 for the short term, with stable outlook. This decision reflects the upgrade in the long- and short-term ratings for the republic of Italy (on 27 October 2017), from BBB-/A-3 to BBB/A-2 respectively; while the BBB rating assigned by rating agency Fitch remains unchanged.

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On 1 February 2018, Mediobanca received authorization from the European Central Bank to adopt the AIRB method in order to measure the capital requirements for credit risk on the corporate portfolio. The authorization will become effective from 31 March 2018. The saving in terms of risk-weighted assets is estimated at around €5bn (with the risk density for corporate exposures weighted at approx. 60%). This confirms the high quality of the Bank's lending processes, which have always been one of Mediobanca's distinctive features. The corresponding increase in CET1, of around 140 bps, will allow the Group's already high capital solidity levels to be strengthened further, and foster more robust growth in line with the three-year strategic plan objectives. In the meantime, the Group is committed to rolling out the internal models to the other other portfolios as well, in accordance with the plan approved by the European Central Bank.

Consolidated profit-and-loss/balance-sheet data*

The consolidated profit and loss account and balance sheet have been restated – including by business area – according to the new divisional segmentation, in order to provide the most accurate reflection of the Group's operations. 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 31/12/16	12 mths ended 30/6/17	6 mths ended 31/12/17	Chg. (%)
Profit-and-loss data				
Net interest income	635.6	1.287.8	672.1	5.7
Treasury income	63.8	121.3	85.4	33.9
Net fee and commission income	236.8	522.6	291.2	23.0
Equity-accounted compsanies	136.2	263.9	121.2	-11.0
Total income	**1,072.4**	**2,195.6**	**1,169.9**	**9.1**
Labour costs	(231.1)	(516.0)	(271.0)	17.3
Administrative expenses	(232.4)	(507.7)	(262.6)	13.0
Operating costs	**(463.5)**	**(1,023.7)**	**(533.6)**	**15.1**
Gain (losses) on AFS, HTM and L&R	121.7	168.6	94.4	-22.4
Loan loss provisions	(183.7)	(316.7)	(113.2)	-38.4
Provisions for financial assets	(7.9)	(7.9)	(0.4)	-94.9
Other profits (losses)	(26.2)	(101.9)	(10.4)	-60.3
Profit before tax	**512.8**	**914.0**	**606.7**	**18.3**
Income tax for the period	(92.9)	(171.7)	(128.6)	38.4
Minority interests	(1.7)	7.9	(1.8)	**5.9**
Net profit	**418.2**	**750.2**	**476.3**	**13.9**
Gross operating profit from banking activities	**289.2**	**586.6**	**401.3**	**38.8**

* 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)

	31/12/16	30/6/17	31/12/17
Assets			
Financial assets held for trading	10,335.7	7,833.9	10,105.0
Treasury financial assets	10,236.1	9,435.1	8,540.7
AFS equity	697.6	786.1	498.3
Banking book securities	8,272.7	8,357.7	7,605.7
Loans and advances to customers	37,598.3	38,190.9	39,612.4
Equity investments	3,441.1	3,036.5	3,185.7
Tangiible and intangible assets	787.8	857.8	855.9
Other assets	2,105.6	1,947.5	1,686.0
Total assets	**73,474.9**	**70,445.5**	**72,089.7**
Liabilities and net equity			
Funding	49,665.3	49,120.6	47,382.5
Treasury funding	5,337.4	4,037.2	6,870.2
Financial liabilities held for trading	7,413.3	5,920.6	6,699.5
Other liabilities	1,654.1	1,919.9	1,609.3
Provisions	261.8	255.6	219.9
Net equity	8,633.0	8,358.7	8,747.1
Minority interests	91.8	82.7	84.9
Profit for the period	418.2	750.2	476.3
Total liabilities and net equity	**73,474.9**	**70,445.5**	**72,089.7**
Tier 1 capital	*6,602.8*	*7,017.3*	*6,718.7*
Regulatory capital	*8,468.9*	*8,879.0*	*8,462.8*
Risk-weighted assets	*53,791.5*	*52,708.2*	*52,109.2*
Tier 1 capital/risk-weighted assetts	*12.27%*	*13.31%*	*12.89%*
Regulatory capital/risk-weighted assets	*15.74%*	*16.85%*	*16.24%*
No. of shares in issue (million)	*872.8*	*881.2*	*884.1*

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

(€m)

31 December 2017	Corporate and Investment Banking	Consumer Banking	Wealth Management	Principal Investing	Holding Functions	Group
Profit-and-loss data						
Net interest income	136.0	432.3	126.7	(3.6)	(24.6)	672.1
Treasury income	64.5	—	7.1	6.5	4.9	85.4
Net fee and commission income	116.5	60.8	121.7	—	8.6	291.2
Equity-accounted companies	—	—	—	121.2	—	121.2
Total income	**317.0**	**493.1**	**255.5**	**124.1**	**(11.1)**	**1.169.9**
Labour costs	(66.7)	(47.4)	(95.0)	(1.8)	(60.1)	(271.0)
Administrative expenses	(54.7)	(89.6)	(105.6)	(0.5)	(20.8)	(262.6)
Operating costs	**(121.4)**	**(137.0)**	**(200.6)**	**(2.3)**	**(80.9)**	**(533.6)**
Gains (losses) on AFS, HTM and L&R	—	—	0.6	93.8	—	94.4
Net loss provisions	22.8	(121.6)	(8.5)	(0.5)	(5.7)	(113.6)
Other profits (losses)	—	—	—	—	(10.5)	(10.4)
Profit before tax	**218.4**	**234.5**	**47.0**	**215.1**	**(108.2)**	**606.7**
Income tax for the period	(72.3)	(75.0)	(10.8)	(10.1)	39.8	(128.6)
Minority interest	—	—	—	—	(1.8)	(1.8)
Net profit	**146.1**	**159.5**	**36.2**	**205.0**	**(70.2)**	**476.3**
Cost/Income (%)	38.3	27.8	78.5	1.9	n.m.	45.6
Balance-sheet data						
Loans and advances to customers	15,467.0	12,097.5	9,871.8	—	2,176.1	39,612.4
Risk-weighted assets	24,863.5	11,668.5	5,668.2	5,976.1	3,932.9	52,109.2
No. of staff	577	1.417	1.821	12	862	4.689

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) performed by MBFacta and MBCredit Solutions;
   - Consumer Banking (CheBanca!): provides retail clients with the full range of consumer credit products, ranging from personal loans to salary-backed finance (Compass Banca, Futuro and Compass 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 the new Mediobanca Private Banking division (resulting from the merger of Banca Esperia) and Spafid, and in the Principality of Monaco by Compagnie Monégasque de Banque;
     - Alternative AM, which comprises Cairn Capital, Mediobanca SGR, Mediobanca Management Company, Compagnie Monégasque de Gestion;
   - 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 operations (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 based at Mediobanca S.p.A.; 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:
   - Adjustments/differences arising on consolidation between business areas (equal to €0.3m).

(€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	—	2,362.7	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.

Balance Sheet

The Group's total assets rose by 2.4%, from €70.4bn to €72.1bn. The main balance-sheet items, of which Mediobanca S.p.A. contributes 56%, reflect the following trends (comparison data as at 30 June 2017).

Funding – this item decreased from €49.1bn to €47.4bn, chiefly due to repayment of the first T-LTRO (€1.5bn) and partial renewal of bonds expiring with a view to optimizing liquidity management and reducing the cost of funding. During the six months under review there was new bond issuance totalling €2.3bn, including a covered bond issue for €750m, against redemptions of €2.7bn. The reduction in CheBanca! retail banking deposits (from €13.4bn to €13.1bn) was offset by an increase in private banking deposits (from €4.5bn to €5.1bn).

	30/6/17		31/12/17		Chg.
	(€m)	%	(€m)	%	
Debt securities (incl. ABS)	19,301.5	39%	18,802.8	40%	-2.6%
CheBanca retail funding	13,353.3	27%	13,078.4	28%	-2.1%
Private Banking deposits	4,482.0	9%	5,088.1	11%	13.5%
Interbank funding (+CD/CP)	4,301.0	9%	4,707.4	10%	9.4%
LTRO	5,854.1	12%	4,344.6	9%	-25.8%
Other funding	1,828.7	4%	1,361.2	2%	-25.6%
Total funding	**49,120.6**	**100%**	**47,382.5**	**100%**	**-3.5%**

Loans and advances to customers – the 3.7% increase in this item involved all segments but primarily Wholesale Banking (up 4.7%, from €12.8bn to €13.4bn) and Specialty Finance (up 23.6%, from €1.6bn to €2bn). Growth in Consumer Banking loans continued, which now total over €12bn (up 3%), as did that in mortgage lending (up 2.6%, from €7.5bn to €7.7bn), despite the entrenched trend in mortgage subrogations, as did growth in. The six months under review also showed increases in new loans in all the main segments: Wholesale Banking (up 26.7%, to €3,843m), Consumer Banking (up 7.1%, to €3,346.3m), Specialty Finance (up 39.4%, to €2,547.8m, in factoring in particular), and mortgage lending (up 30.4%, to €694.5m). Net non-performing loans decreased from €940.5m to €892.3m as a result of lower additions, disposals in Consumer Banking and repayments in Wholesale Banking; accordingly, NPLs declined still further as a percentage of total loans, from 2.5% to 2.3%, with the coverage ratio up from 54.6% to 55%.

Net bad loans amounted to €143.3m, and account for just 0.4% of the total loan book (virtually flat versus last year). The heading does not include the portfolios of NPLs acquired by MBCredit Solutions, the stock of which rose from €134.8m to €267.7m in the six months, as a result of the retail and SME unsecured portfolios purchased.

	30/6/17		31/12/17		Chg.
	(€m)	%	(€m)	%	
Wholesale Banking	12,840.0	33%	13,438.3	34%	4.7%
Specialty Finance	1,641.0	4%	2,028.7	5%	23.6%
Consumer Banking	11,750.3	31%	12,097.5	31%	3.0%
Retail Banking	7,513.2	20%	7,710.0	19%	2.6%
Private Banking	2,172.9	6%	2,161.8	5%	-0.5%
Leasing	2,273.5	6%	2,176.1	6%	-4.3%
Total loans and advances to customers	**38,190.9**	**100%**	**39,612.4**	**100%**	**3.7%**

	30/6/17		31/12/17		Chg.
	(€m)	Coverage ratio %	(€m)	Coverage ratio %	
Wholesale Banking	372.5	50.0%	351.0	46.8%	-5.8%
Specialty Finance	14.4	67.5%	13.0	73.1%	-9.7%
Consumer Banking	189.6	71.2%	189.4	71.8%	-0.1%
Retail Banking	180.6	47.8%	172.8	50.4%	-4.3%
Private Banking	14.4	35.6%	8.7	58.0%	-39.6%
Leasing	169.0	33.8%	157.4	32.2%	-6.9%
Total net non performing loans	**940.5**	**54.6%**	**892.3**	**55.0%**	**-5.1%**
– of which: bad loans	*156.8*		*143.3*		*-8.6%*

Equity investments – these rose from €3,036.5m to €3,185.7m, as a combined result of profits for the period totalling €94.1m and a €28m reduction in the valuation reserves; this item consists almost entirely of the investment in Assicurazioni Generali, now worth €3,146m compared with a market value of €3,081.2m one year previously (€3,232m based on current prices).

	% share capital	30/6/17	31/12/17
		(€m)	(€m)
Assicurazioni Generali	13.0	2,997.5	3,146.0
Burgo	22.1	—	—
Istituto Europeo di Oncologia	25.4	39.0	39.7
Total investments		**3,036.5**	**3,185.7**

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 €7.6bn, 9% lower than the €8.4bn reported at 30 June 2017. During the six months under review there were redemptions amounting to €0.7bn, new purchases totalling €0.9bn and sales of €0.9bn, generating gains of €11m. The exposure to Italian government securities remained stable at 67%, but reflects an ongoing process of trimming the holdings in Italian domestic sovereign debt in favour of other European nations' paper.

	30/6/17		31/12/17		Chg.
	(€m)	%	(€m)	%	
AFS securities	5,606.6	67%	4,907.9	65%	-12.5%
Financial assets held to maturity	2,400.2	29%	2,482.0	33%	3.4%
Unlisted debt securities (stated at cost)	350.9	4%	215.8	2%	-38.5%
Total banking book securities	**8,357.7**	**100%**	**7,605.7**	**100%**	**-9.0%**

(€m)

	30/6/17			31/12/17			Variazione
	Book Value	%	AFS reserve	Book Value	%	AFS reserve	
Italian government bonds	3,319.0	40%	63.3	2,677.3	35%	57.9	-19.3%
Foreign government bonds	2,284.2	27%	16.7	2,435.4	32%	15.2	6.6%
Bonds issued by financial institutions	1,862.1	22%	39.9	1,715.8	23%	44.8	-7.9%
- of which: Italian	*1,053.3*	*13%*	*25.6*	*1,036.5*	*14%*	*30.7*	*-1.6%*
Corporate bonds	892.4	11%	27.7	777.2	10%	25.9	-12.9%
Total debt securities	**8,357.7**	**100%**	**147.6**	**7,605.7**	**100%**	**143.8**	**-9.0%**

The valuation reserve for the portfolio declined from €147.6m to €143.8m, as a result of gains realized (€9m), in part offset by lower valuations (€5.2m); there were also €90.1m in unrealized gains on the portfolio at the reporting date (compared with €86.5m six months previously).

Available-for-sale shares (AFS) – this portfolio brings together the Group's holdings in equities and investments in funds, including those promoted by the Group itself (seed capital).

	30/6/17			31/12/17			Chg. %
	(€m)	%	AFS reserve	(€m)	%	AFS reserve	
Equity shares and UCITS	602.9	77%	234.8	314.8	63%	111.3	-47.8%
Seed capital	183.2	23%	11.9	183.5	37%	16.0	0.2%
Total AFS equity securities	**786.1**	**100%**	**246.7**	**498.3**	**100%**	**127.3**	**-36.6%**

The reduction in AFS securities, from €786.1m to €498.3m, reflects the sale of the Atlantia investment (removing €275.6m from this item) and net redemptions in private equity (€10.7m), plus net sales of other equities totalling €5.7m and the Cassa di Risparmio di Cesena investment being wiped out (€2.1m). Seed capital activity (i.e. investing in funds managed by the Group's own product factories) was virtually unchanged following new investments in funds promoted by Cairn Capital for a total of €7.9m, offset by other redemptions amounting to €8.2m. Investments in private equity funds reduced from €70.7m to €59.2m, following redemptions totalling €11.7m and new capital calls amounting to approx. €1m.

(€m)

	30/6/17			31/12/17		
	Book Value	% ord.	AFS reserve	Book Value	% ord.	AFS reserve
Atlantia	275.6	1.4	124.6	—	—	—
Italmobiliare	69.2	6.1	45.4	69.0	6.1	45.3
RCS MediaGroup	41.8	6.6	20.1	41.7	6.6	20.0
Other listed shares	12.7	—	5.0	12.2	—	5.1
Private equity	70.7	—	28.6	59.2	—	27.5
Other unlisted shares	132.9	—	11.1	132.7	—	13.4
Equity shares and UCITS	**602.9**		**234.8**	**314.8**		**111.3**

The valuation reserve for this segment (including seed capital) decreased from €246.7m to €127.3m, reflecting the sales for the six months under review (€125.7m) plus a slight increase in fair value (€6.1m).

Net treasury assets – these fell from €7,311.2m to €5,076m, due in particular to lower deposits being held at the European Central Bank (€194.8m; compared with €1,259.5m). The heading consists of equities worth €3,592.3m (€1,702.5m), almost all of which hedged by derivatives with clients, liquid assets totalling €1,098.8m (€2,368m), other net deposits (including repos) amounting to €571.7m (€3,030m), and holdings in debt securities being eliminated almost entirely at €4.9m (€579.4m).

	30/6/17 (€m)	31/12/17 (€m)	Chg.
Financial assets held for trading	7,833.9	10,105.0	29%
Treasury funds	9,435.1	8,540.7	-9%
Financial liabilities held for trading	(5,920.6)	(6,699.5)	13%
Treasury funding	(4,037.2)	(6,870.2)	70%
Net treasury assets	**7,311.2**	**5,076.0**	**-31%**

	30/6/17 (€m)	31/12/17 (€m)	Chg.
Loan trading	69.6	128.8	85%
Derivative contract valuations	(438.1)	(320.5)	-27%
Equities	1,702.5	3,592.3	n.m.
Bonds securities	579.4	4.9	n.m.
Financial instruments held for trading	**1,913.4**	**3,405.5**	**78%**

	30/6/17	31/12/17	Chg.
	(€m)	(€m)	
Cash and banks	2,368.0	1,098.8	-54%
Assets (repos and forwards)	1,535.5	(69.8)	n.m.
Financial assets deposits	457.0	330.3	-28%
Stock Lending	1,037.3	311.2	-70%
Net treasury assets	**5,397.8**	**1,670.5**	**-69%**

Tangible and intangible assets – these remained stable for the six months under review at €855.9m (€857.8m), after depreciation and amortization charges totalling €23.3m covered by new IT investments and the goodwill allocation process. Following completion of the purchase price allocation for the recently acquired companies and business units (Banca Esperia and the former Crédit Agricole operations acquired by Compagnie Monégasque de Banque), goodwill reduced by €10.9m against increases in other intangible assets: the Mediobanca Private Banking brand (€15.5m), the former Crédit Agricole client list now recognized by CMB (€6.5m), and the private banking client list now recognized by Mediobanca (€4.5m). Tangible assets reflect the business unit spun off by Mediobanca Innovation Services to IBM Italia (hardware and software) being temporarily reclassified in an amount of €14.5m as "non-current assets held for sale" pursuant to IFRS 5.

No items show any evidence of impairment.

	30/6/17		31/12/17		Chg.
	(€m)	%	(€m)	%	
Land and properties	268.0	31%	265.2	31%	-1.0%
- of which: core	*188.7*	*22%*	*186.8*	*22%*	*-1.0%*
Other tangible assets	37.5	4%	24.4	3%	-34.9%
Goodwill	483.6	57%	472.7	55%	-2.3%
Other intangible assets	68.7	8%	93.6	11%	36.2%
Total tangible and intangible assets	**857.8**	**100%**	**855.9**	**100%**	**-0.2%**

(€'000)

Operation	**30/6/17**	**31/12/17**
Compass-Linea	365,934	365,934
Spafid	12,793	12,793
Cairn Capital	42,225	41,849
Banca Esperia Private Banking	55,981	52,103
CMB-ex Crédit Agricole	6,624	—
Total goodwill	**483,557**	**472,679**

Provisions – these fell from €255.6m to €219.9m, following withdrawals for restructuring charges in relation to the reorganization of the former Barclays' operations (€17.4m) and Banca Esperia (€6.1m), plus other net withdrawals of €3.7m. The staff severance provision was virtually unchanged at €29.3m (€29.8m).

	30/6/17		31/12/17		Chg.
	(€m)	%	(€m)	%	
Provisions for risks and charges	225.8	88%	190.6	87%	-15.6%
Staff severance indemnity provision	29.8	12%	29.3	13%	-1.7%
of which: staff severance provision discount	*1.6*	—	*2.7*	—	*68.8%*
Total provisions	**255.6**	**100%**	**219.9**	**100%**	**-14.0%**

Net equity – the 1.3%, or €114.6m, increase in this item reflects the profit for the period (€476.3m) and the €45.6m reduction in the valuation reserves, most of which (€115.8m) was due to the decrease in the AFS securities reserve. Share capital increased from €440.6m to €442m, following the exercise of 1,332,500 stock options and the distribution of 1,515,699 performance shares to staff members for a total of €8.8m, including the share premium.

(€m)

	30/6/17	31/12/17	Chg.
Share capital	440.6	442.0	0.3%
Other reserves	7,046.7	7,479.4	6.1%
Valuation reserves	871.4	825.8	-5.2%
- of which: AFS securities	*319.4*	*203.6*	*-36.3%*
cash flow hedge	*(44.3)*	*(10.4)*	*-76.5%*
equity investments	*598.6*	*637.0*	*6.4%*
Profit for the period	750.2	476.3	-36.5%
Total Group net equity	**9,108.9**	**9,223.5**	**1.3%**

Of the AFS reserve, €127.3m involves equities, and €143.8m bonds and other financial instruments (including €57.9m in Italian government securities), net of the €67.5m tax effect.

(€m)

	30/6/17	31/12/17	Chg.
Equity shares and UCITS	246.7	127.3	-48.4%
Bonds	147.6	143.8	-2.6%
of which: Italian government bonds	*63.3*	*57.9*	*-8.5%*
Tax effect	(74.9)	(67.5)	-9.9%
Total AFS reserve	**319.4**	**203.6**	**-36.3%**

Profit and loss account

Net interest income – the 5.7% increase in net interest income, from €635.6m to €672.1m. reflects the positive trend in Consumer Banking (up 5.9%) driven by higher volumes and treasury management, where the negative contribution was almost halved as a result of the lower cost of funding and reduced holdings of cash and liquid assets. Net interest income earned from Specialty Finance operations climbed by 40.2%, due to higher volumes in factoring and to the NPLs acquired; Wealth Management also delivered an increase in this item of 7.8%, helped by the Barclays and Banca Esperia acquisitions. By contrast, the 19.7% reduction in net interest income earned by Wholesale Banking was attributable to a decline in profitability brought about by the trend in spreads and higher customer credit ratings.

(€m)

	6 mths ended 31/12/16	6 mths ended 31/12/17	Chg.
Wholesale Banking	132.0	106.0	-19.7%
Specialty Finance	21.4	30.0	40.2%
Consumer Banking	408.4	432.3	5.9%
Wealth Management*	117.5	126.7	7.8%
Holding Functions and other (including intercompany)	(43.7)	(22.9)	-47.6%
Net interest income	**635.6**	**672.1**	**5.7%**

* For end-December 2016, the 50% interest in Banca Esperia owned by Mediobanca (which contributed €2.9m) has been included in the Wealth Management division's results but not in the consolidated results.

Net treasury income – net treasury income increased from €63.8m to €85.4m, driven by the trading book's contribution, in particular fixed-income trading (boosted by client-driven capital market solutions activity) and the performance of the proprietary trading book. Gains on banking book trading rose from €3.7m to €6.5m, while profits from fixed-income trading rose from €31.5m to €42.8m and those from equity trading rose from €21.7m to €29.5m.

(€m)

	6 mths ended 31/12/16	6 mths ended 31/12/17	Chg.
AFS dividends	6.9	6.6	-4.3%
Fixed income trading profit	35.2	49.3	40.1%
of which: banking book	*3.7*	*6.5*	*75.7%*
Equity trading profit	21.7	29.5	35.9%
Net trading income	**63.8**	**85.4**	**33.9%**

Net fee and commission income – net fee and commission income grew from €236.8m to €291.2m, on an increased contribution from Wealth Management (up 34.9%, from €90.2m to €121.7m) helped by the expanded scope of operations (following the Banca Esperia acquisition, the former Barclays' business unit becoming fully operative and the new Spafid businesses being added); overall this segment now accounts for more than 40% of total fee income, with CheBanca! contributing €36.8m and Mediobanca Private Banking €40.2m. The growth posted by Specialty Finance, where fees rose from €20.2m to €26.5m, reflects higher amounts collected on the NPL portfolios totalling €14.8m (€7.7m). Wholesale Banking saw fees rise by 3.7%, from €86.8m to €90m, driven by capital markets activity in particular which generated €29.1m (€15.4m).

(€m)

	6 mths ended 31/12/16	6 mths ended 31/12/17	Chg.
Wholesale Banking	86.8	90.0	3.7%
Specialty Finance	20.2	26.5	31.2%
Consumer Banking	67.2	60.8	-9.5%
Wealth Management*	90.2	121.7	34.9%
Holding Functions and other (including intercompany)	(27.6)	(7.8)	n.m.
Net fee and commission income	**236.8**	**291.2**	**23.0%**

* For end-December 2016, the 50% interest in Banca Esperia owned by Mediobanca (which contributed €19.3m) has been included in the Wealth Management division's results but not in the consolidated results.

Equity-accounted companies – the €121.2m profit reported by the equity-accounted companies (€136.2m) reflects the lower contribution by Assicurazioni Generali (down from €134.7m to €120.6m).

Operating costs – operating costs rose by 15.1%, from €463.5m to €533.6m, chiefly due to the expanded area of consolidation; net of the Barclays and Banca Esperia effect, the increase would have been confined to 3.5%: labour costs rose by 3.3%, and administrative expenses by 3.7%. The increase in the latter in particular was attributable to the infrastructure component (data processing and info-provider expenses), as well as to higher property rental and maintenance charges.

(€m)

	6 mths ended 31/12/16	6 mths ended 31/12/17	Chg.
Labour costs	231.1	271.0	17.3%
of which: directors	*4.3*	*4.3*	*n.m.*
stock options and performance share schemes	*4.3*	*3.9*	*-9.3%*
Sundry operating costs and expenses	232.4	262.6	13.0%
of which: depreciations and amortizations	*21.2*	*23.3*	*9.9%*
administrative expenses	*209.4*	*238.7*	*14.0%*
Operating costs	**463.5**	**533.6**	**15.1%**

(€m)

	6 mths ended 31/12/16	6 mths ended 31/12/17	Chg.
Corporate & Investment Banking	50.5	54.7	8.3%
Consumer Banking	91.3	89.6	-1.9%
Wealth Management*	87.7	105.6	20.4%
Holding Functions	20.3	20.8	2.5%
Others (including intercompany)	(17.4)	(8.1)	-53.4%
Other administrative expenses	**232.4**	**262.6**	**13.0%**

* For end-December 2016, the 50% interest in Banca Esperia owned by Mediobanca (which contributed €6.9m) has been included in the Wealth Management division's results but not in the consolidated results.

(€m)

	6 mths ended 31/12/16	6 mths ended 31/12/17	Chg.
Legal, tax and professional services	6.1	6.4	4.9%
Other consultancy expenses	15.4	16.1	4.5%
Credit recovery activities	21.1	22.8	8.1%
Marketing and communication	25.0	21.7	-13.2%
Rent and property maintenance	22.0	27.1	23.2%
EDP	33.1	50.6	52.9%
Financial information subscriptions	16.0	18.4	15.0%
Bank services, collection and payment commissions	8.7	9.5	9.2%
Operating expenses	34.9	33.7	-3.4%
Other labour costs	10.0	11.3	13.0%
Other costs	10.0	13.8	38.0%
Direct and indirect taxes	7.1	7.3	2.8%
Total administrative expenses	**209.4**	**238.7**	**14.0%**

Loan loss provisions – these reduced by 38.4%, from €183.7m to €113.2m, demonstrating the high quality of the loan book to corporates and households, and reflecting a cost of risk of 58 bps, substantially lower than the 102 bps one year previously and in line with last quarter (57 bps), in part due to writebacks which are unlikely to be repeated. Consumer Banking saw a reduction in provisioning from €159m to €121.6m, at a cost of risk of 204 bps (versus 286 bps last year); Wholesale Banking recorded net writebacks of €36.5m, €32m of which due to collections on non-performing items. The increase in provisioning for Specialty Finance (from €10.7m to €14.6m) is due solely to amounts set aside on a prudential basis to cover the new portfolios acquired in order to neutralize any extra amounts collected. The overall coverage ratio for non-performing items was stable at 55% (71.8% for Consumer Banking, 50.4% for mortgage loans, 46.8% for Wholesale Banking and 32.2% for leasing).

(€m)

	6 mths ended 31/12/16	6 mths ended 31/12/17	Chg.
Wholesale Banking	(1.7)	(36.5)	n.m.
Specialty Finance	10.7	14.6	36.4%
Consumer Banking	159.0	121.6	-23.5%
Wealth Management*	9.8	8.6	-12.2%
Holding Functions	5.9	4.9	-16.9%
Loan loss provisions	**183.7**	**113.2**	**-38.4%**
Cost of risk (bps)	**102**	**58**	**-43.1%**

* For end-December 2016, the 50% interest in Banca Esperia owned by Mediobanca (which generated €0.3m in charges) has been included in the Wealth Management division's results but not in the consolidated results.

Provisions for other financial assets – these refer chiefly to the holding in Cassa di Risparmio di Cesena being written off (€2.1m) as part of the Crédit Agricole Italia transaction, and to other minor charges in respect of AFS provisions totalling €0.5m. Writebacks were also credited for bonds held to maturity in an amount of €2.9m.

(€m)

	6 mths ended 31/12/16	6 mths ended 31/12/17	Chg.
Equity investments	0.4	—	n.m.
Shares	1.7	2.6	n.m.
Bonds	5.8	(2.2)	n.m.
Total	**7.9**	**0.4**	**n.m.**

Income tax – income tax for the six months totalled €128.6m, at an effective tax rate of 21.2%, reflecting the PEX regime on equity investments.

Mediobanca (as consolidating entity) has adopted tax consolidation, which includes Compass Banca, SelmaBipiemme Leasing, MIS, CheBanca!, MBCredit Solutions 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

CORPORATE AND INVESTMENT BANKING

This division provides services to corporate customers (including sales and corporate gains) in the following areas:

– *Wholesale Banking:* CIB client business (lending, capital market activities and advisory services) and proprietary trading, performed by Mediobanca, Mediobanca International, Mediobanca Securities and Mediobanca Turkey;

– *Specialty Finance,* factoring and credit management (including acquisition and management of NPL portfolios), performed by MBFacta and MBCredit Solutions.

	6 mths ended 31/12/16	12 mths ended 30/6/17	6 mths ended 31/12/17	Chg. (%)
Profit-and-loss data				
Net interest income	153.4	292.6	136.0	-11.3
Treasury income	54.0	93.4	64.5	19.4
Net fee and commission income	107.0	249.9	116.5	8.9
Total income	**314.4**	**635.9**	**317.0**	**0.8**
Labour costs	(61.7)	(135.5)	(66.7)	8.1
Administrative expenses	(50.5)	(111.9)	(54.7)	8.3
Operating costs	**(112.2)**	**(247.4)**	**(121.4)**	**8.2**
Net loss provisions	(12.2)	(11.0)	22.8	n.m.
Profit before tax	**190.0**	**377.5**	**218.4**	**14.9**
Income tax for the period	(63.8)	(123.6)	(72.3)	13.3
Net profit	**126.2**	**253.9**	**146.1**	**15.8**
Cost/Income (%)	35.7	38.9	38.3	

	31/12/16	30/06/17	31/12/17
Balance-sheet data			
Loans and advances to customers	15,357.8	14,481.0	15,467.0
New loans	4,860.4	8,338.3	6,390.8
No. of staff	579	590	577
Risk-weighted assets	24,825.8	23,104.2	24,863.5

WHOLESALE BANKING

(€m)

	6 mths ended 31/12/16	12 mths ended 30/6/17	6 mths ended 31/12/17	Chg. (%)
Profit-and-loss data				
Net interest income	132.0	248.6	106.0	-19.7
Treasury income	53.9	93.5	64.6	19.9
Net fee and commission income	86.8	207.4	90.0	3.7
Total income	**272.7**	**549.5**	**260.6**	**-4.4**
Labour costs	(54.2)	(119.6)	(58.8)	8.5
Administrative expenses	(42.8)	(92.3)	(43.0)	0.5
Operating costs	**(97.0)**	**(211.9)**	**(101.8)**	**4.9**
Net provisions	(1.5)	11.9	37.4	n.m.
Profit before tax	**174.2**	**349.5**	**196.2**	**12.6**
Income tax for the period	(60.3)	(117.2)	(65.1)	8.0
Net profit	**113.9**	**232.3**	**131.1**	**15.1**
Cost/Income ratio (%)	35.6	38.6	39.1	

	31/12/16	30/06/17	31/12/17
Balance-sheet data			
Loans and advances to customers	14,207.8	12,840.0	13,438.3
New loans	3,033.1	4,536.9	3,843.0
No. of staff	363	367	341
Risk-weighted assets	23,707.4	21,499.7	22,817.0

The net profit earned by Wholesale Banking was up 15.1% in the six months, from €113.9m to €131.1m, due among other things to writebacks totalling €37.4m (compared with writedowns of €1.5m last year). Revenues were down 4.4%, from €272.7m to €260.6m, as a result of the decline in net interest income. The increase in labour costs regards non-recurring items in an amount of approx. €3m and provisioning for the variable remuneration component in relation to the revenue mix. The main items performed as follows:

Net interest income – this item recorded a decrease of 19.7%, from €132m to €106m, due to lower margins on loans and despite the 26.7% increase in new loans, attributable to the tightening of credit spreads and the priority given to safeguarding the quality of the portfolio.

(€m)

	6 months ended 31/12/16	6 months ended 31/12/17	Chg.
Interest income	173.2	142.1	-18.0%
Interest expense	(41.2)	(37.0)	-10.2%
Others [1]	—	0.9	n.m.
Net interest income	**132.0**	**106.0**	**-19.7%**

[1] Includes margins on interest rate derivative contracts (heading 80) and the hedging effect (heading 90).

Net treasury income – this item was up 19.9% at €64.6m (€53.9m), following positive contributions from both segments: equity trading added €29.5m (€21.7m), and fixed-income trading €35.1m (€32.2m). The result was boosted by the recovery in client-driven business by the capital market solutions team and proprietary dealing involving the trading book.

Net fee and commission income – fee income was up 3.7%, from €86.8m to €90m:

– The European investment banking market reflected a reduction in M&A activity for the period; growth in the French and German markets, of 48% and 18% respectively, while Italy and Spain saw reductions, of 57% and 13% respectively, and the other European countries fell as well. This situation drove a slight reduction in advisory fees compared to the same period last year, from €32.4m to €29.3m, bearing in mind that last year the majority of the fees were concentrated in the first six months. Some of the main deals completed include: ICBPI (various acquisitions in Italy), Amundi (acquisition in Italy), GEA Group (acquisition in Italy), Deutsche Alternative Asset Management (acquisition in Italy), Clessidra (disposal of majority interest), Atlantia (international combination), Maillefer International (disposal), Cerberus Capital Management (acquisitions);

– Equity capital markets (ECM) fees increased in all EU countries with the exception of the United Kingdom; the ten deals covered by Mediobanca during the six months under review drove an increase in fee income from €7.7m to €13.8m;

– Debt capital market (DCM) activity grew in Italy (by 37%), Spain (by 5%) and the United Kingdom (by 5%), and declined in France (down 30%) and Germany (down 9%); over thirty deals were executed in the six months under review, with fees doubling from €7.7m to €15.3m;

– The EMEA debt market declined during the period, by 8%; this was reflected in a reduction in lending fees, from €28.7m to €26.2m.

(€m)

	6 mths ended 31/12/2016	6 mths ended 31/12/2017	Chg.
Capital Market	15.4	29.1	89.0%
Lending	28.7	26.2	-8.7%
Advisory M&A	32.4	29.3	-9.6%
Markets, sales and other gains	10.3	5.4	-47.6%
Net fee and commission income	**86.8**	**90.0**	**3.7%**

Operating costs – the slight increase in operating costs, from €97m to €101.8m, involves chiefly the variable staff remuneration component, along with certain internal reorganization costs. Administrative expenses overall were stable, with project-related costs lower than last year offsetting the rise in IT expenses.

Loan loss provisions – financial assets (loans and banking book securities) recorded net writebacks of €37.4m, €32m of which in respect of non-performing items (chiefly Sorgenia Power and Maillefer), plus €5.4m in writebacks to loans and performing securities.

Loans and advances to customers rose by 4.7%, from €12.8bn to €13.4bn, on a 26.7% increase in new loans to €3.8bn. The domestic Italian share of the loan book was cut to just under half, with loans to French and Spanish clients rising accordingly.

	30/6/17		31/12/17		Chg.
	(€m)	%	(€m)	%	
Italy	6,444.1	50%	6,350.2	47%	-1.5%
France	1,025.5	8%	1,449.0	11%	41.3%
Spain	774.1	6%	1,065.2	8%	37.6%
Germany	818.1	6%	823.0	6%	0.6%
U.K.	846.1	7%	851.9	6%	0.7%
Other non resident	2,932.1	23%	2,899.0	22%	-1.1%
Total loans and advances to customers	**12,840.0**	**100%**	**13,438.3**	**100%**	**4.7%**

SPECIALTY FINANCE

(€m)

	6 mths ended 31/12/16	12 mths ended 30/6/17	6 mths ended 31/12/17	Chg. (%)
Profit-and-loss data				
Net interest income	21.4	44,0	30,0	40.2
Treasury income	0.1	(0.1)	(0.1)	n.m.
Net fee and commission income	20.2	42.5	26.5	31.2
Total income	**41.7**	**86.4**	**56.4**	**35.3**
Labour costs	(7.5)	(15.9)	(7.9)	5.3
Administrative expenses	(7.7)	(19.6)	(11.7)	51.9
Operating costs	**(15.2)**	**(35.5)**	**(19.6)**	**28.9**
Net provisions	(10.7)	(22.9)	(14.6)	36.4
Profit before tax	**15.8**	**28.0**	**22.2**	**40.5**
Income tax for the period	(3.5)	(6.4)	(7.2)	n.m.
Net profit	**12.3**	**21.6**	**15.0**	**22.0**
Cost/Income ratio (%)	36.5	41.1	34.8	

	31/12/16	30/06/17	31/12/17
Balance-sheet data			
Loans and advances to customers	1,150.0	1,641.0	2,028.7
New loans	1,827.3	3,801.4	2,547.8
No. of staff	216	223	236
Risk-weighted assets	1,118.4	1,604.5	2,046.5

This division reported a net profit of €15m (€12.3m), split between factoring (€6.8m, compared with €4.7m) and credit management/NPL portfolios (€8.2m, as against €7.6m). Revenues were up 35.3%, from €41.7m to €56.4m, for both items:

– Net interest income posted an increase of 40.2%, chiefly attributable to the higher NPL volumes (up from €4.6m to €11.8m);

– Net fee and commission income rose from €20.2m to €26.5m, and include €14.8m in income deriving from higher collections on the NPL portfolio (€7.7m).

Operating costs were up 28.9%, from €15.2m to €19.6m, reflecting the increase in credit recovery costs due to the higher volumes, and the performance of the NPLs portfolio. Labour costs were basically flat, despite the increase in the headcount from 216 to 236 staff.

Loan loss provisions rose from €10.7m to €14.6m, €6.9m of which in relation to factoring and €7.7m to the NPLs portfolio. The latter were almost entirely attributable to prudential provisioning in respect of the most-recently acquired portfolios in order to neutralize the extra amounts collected normally recorded in the first months of processing.

Growth of 23.6% in loans and advances to customers, from €1,641m to €2,028.7m, was attributable to ordinary factoring (€1,466,6m, as against €1,199.4m last year), whereas instalment factoring was down slightly, at €294.4m (€306.9m). NPLs were also acquired on a non-recourse basis during the period under review for a consideration of €146.8m (with a nominal value of €1,460.2m), over 60% of which in the retail unsecured segment in which the company traditionally operates. At the reporting date, net NPLs amounted to €280.6m (up 88% on the figure at the balance-sheet date), almost all of which accounted for by the NPL portfolios acquired (€267.7m), 80% of which refers to the retail unsecured segment. Accordingly, NPLs rose from 9% to 13.8%, with a coverage ratio of 73.1% (30/6/17: 67.5%). Net bad loans for Specialty Finance operations totalled €263.3m (€134.8m), again due to the increase in the NPLs portfolio.

CONSUMER BANKING

This division provides retail clients with the full range of consumer credit products: personal and special-purpose loans, and salary-backed finance (Compass Banca and Futuro). The division also includes Compass RE, which reinsures risks linked to insurance policies sold.

(€m)

	6 mths ended 31/12/16	12 mths ended 30/6/17	6 mths ended 31/12/17	Chg. (%)
Profit-and-loss data				
Net interest income	408.4	818.1	432.3	5.9
Net fee and commission income	67.2	118.1	60.8	-9.5
Total income	**475.6**	**936.2**	**493.1**	**3.7**
Labour costs	(45.5)	(93.9)	(47.4)	4.2
Administrative expenses	(91.3)	(186.0)	(89.6)	-1.9
Operating costs	**(136.8)**	**(279.9)**	**(137.0)**	**0.1**
Loan loss provisions	(159.0)	(276.2)	(121.6)	-23.5
Profit before tax	**179.8**	**380.1**	**234.5**	**30.4**
Income tax for the period	(57.1)	(121.9)	(75.0)	31.3
Net profit	**122.7**	**258.2**	**159.5**	**30.0**
Cost/Income ratio (%)	28.8	29.9	27.8	

	31/12/16	30/06/17	31/12/17
Balance-sheet data			
Loans and advances to customers	11,244.9	11,750.3	12,097.5
New loans	3,125.8	6,638.1	3,346.3
No. of branches	164	166	166
No. of staff	1,402	1,405	1,417
Risk-weighted assets	11,387.0	11,782.7	11,668.5

This division reported a net profit of €159.5m for the six months, higher than the €122.7m reported last year, on 3.7% growth in revenues (from €475.6m to €493.1m), flat costs, and lower loan loss provisions (down 23.5%). The second-quarter profit of €79.4m, despite the increase in commissions payable (due to rappel commissions from sales activities), confirmed the first-quarter performance (€80.1m). Growth of 5.9% in net interest income (from €408.4m to €432.3m) reflects the 5.8% increase in volumes, on resilient margins; whereas the 9.5% reduction in fees is linked to the distribution agreement renewals.

Operating costs were virtually stable at €137m, despite the 4.2% increase in labour costs attributable to payment of incentives to networks; whereas marketing and postal expenses increased. Loan loss provisions decreased by 23.5%, from €159m to €121.6m, at a cost of risk of 204 bps, representing further improvement on the figure recorded at the balance-sheet date (243 bps).

The increase in loans and advances to customers also continued in the six months under review, to €12,097.5m (30/6/17: €11,750.3m), on new loans for the period totalling €3,346.3m (up 7.1%, from €3,125.8m) concentrated in personal loans and credit cards. Non-performing loans remain at historically low levels, totalling €189.4m (or 1.6% of the loan book), reflecting a coverage ratio of 71.8% (basically unchanged). Bad loans came to €13.3m, representing 0.1% of the loan book (unchanged) with a coverage ratio of 93.3%. The process of selling non-performing accounts outside the Group continued during the six months, for a total of €97.5m).

WEALTH MANAGEMENT

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

– *Affluent & Premier* (CheBanca!);

– *Private & High Net Worth Individuals* (Mediobanca Private Banking, Mediobanca SGR and Spafid in Italy, Compagnie Monégasque de Banque in the Principality of Monaco; Cairn Capital, alternative asset management in London; and Mediobanca Management Company in Luxembourg).

(€m)

	6 mths ended 31/12/16	12 mths ended 30/6/17	12 mths ended 30/6/17	Chg. (%)
Profit-and-loss data				
Net interest income	117.5	244.1	126.7	7.8
Treasury income	6.6	12.3	7.1	7.6
Net fee and commission income	90.2	203.1	121.7	34.9
Total income	**214.3**	**459.5**	**255.5**	**19.2**
Labour costs	(83.0)	(187.0)	(95.0)	14.5
Administrative expenses	(87.7)	(189.3)	(105.6)	20.4
Operating costs	**(170.7)**	**(376.3)**	**(200.6)**	**17.5**
Gains (losses) on AFS, HTM and L&R	3.1	7.6	0.6	-80.6
Net loss provisions	(10.9)	(22.0)	(8.5)	-22.0
Other profits (losses)	27.3	(2.0)	—	n.m.
Profit before tax	**63.1**	**66.8**	**47.0**	**-25.5**
Income tax for the period	(14.3)	(11.8)	(10.8)	-24.5
Net profit	**48.8**	**55.0**	**36.2**	**-25.8**
Cost/Income ratio (%)	79.7	81.9	78.5	

	31/12/16	30/6/17	30/6/17
Balance-sheet data			
Loans and advances to customers	9,104.9	9,686.1	9,871.8
Loans	532.6	1,240.9	694.5
No. of staff	1.951	2.023	1,821
Risk-weighted assets	5,432.8	5,790.6	5,668.2

	31/12/16	30/06/17	31/12/17
AUM/AUA	21,326.9	30,005.4	31,499.0
AUC	11,371.1	12,106.0	8,935.5
Direct funding	17,888.2	17,755.6	17,969.4
Total Asseis under management, advice and custody	**50,586.2**	**59,867.0**	**58,403.9**

CHEBANCA!

(€m)

	6 mths ended 31/12/16	12 mths ended 30/6/17	6 mths ended 31/12/17	Chg. (%)
Profit-and-loss data				
Net interest income	100.0	205.3	106.6	6.6
Treasury income	0.2	0.4	0.3	50.0
Net fee and commission income	31.5	68.9	36.8	16.8
Total income	**131.7**	**274.6**	**143.7**	**9.1**
Labour costs	(47.6)	(101.5)	(49.5)	4.0
Administrative expenses	(63.3)	(135.5)	(65.0)	2.7
Operating costs	**(110.9)**	**(237.0)**	**(114.5)**	**3.2**
Net provisions	(10.4)	(19.4)	(8.3)	-20.2
Other profits (losses)	29.5	15.2	—	n.m.
Profit before tax	**39.9**	**33.4**	**20.9**	**-47.6**
Income tax for the period	(10.8)	(6.5)	(5.0)	-53.7
Net profit	**29.1**	**26.9**	**15.9**	**-45.4**
Cost/Income ratio (%)	84.2	86.3	79.7	

	31/12/16	30/06/17	31/12/17
Balance-sheet data			
Loans and advances to customers	7,441.5	7,513.2	7,710.0
New loans	532.6	1,240.9	694.5
Direct funding	13,841.8	13,353.3	13,078.4
AUM/AUA	6,934.2	7,079.0	7,566.0
No. of branches	143	141	109
No. of staff	1,484	1,401	1,295
Risk-weighted assets	3,503.0	3,498.9	3,684.2

During the six months under review, CheBanca! delivered a net profit of €15.9m, higher than the €4m (excluding the one-off PPA income deriving from the Barclays transaction) posted last year, on higher volumes (the former Barclays' business unit last year was consolidated for four months only, as opposed to the full six), with the cost base remaining under control. Revenues were up 9.1%, from €131.7m to €143.7m, due to the increase in the scope of operations plus the addition of a new fee stream. Net interest income rose by 6.6%, reflecting the ongoing reduction in the cost of funding (the average rate fell from 0.61% to 0.39% during the six months), and the higher average volumes only partly offset by the lower profitability of the new loans. Fee income climbed by 16.8% (or 2.8% on a like-for-like basis), contributing €20.6m in the second quarter, due to the increase in indirect funding (€487m compared with €86m in the first quarter). At the same time, operating costs rose by 3.2%, from €110.9m to €114.5m, but on a like-for-like basis were down 8.4% due to a reduction in labour costs (with 106 staff leaving as a result of redundancies, voluntary and otherwise), and factoring in the first benefits of integrating the platform to support the financial advisors' project (costs of €3m linked to support and IT activities incurred in respect of the 90 new FAs added).

Direct funding reduced slightly during the six months, from €13,353.3m to €13,078.4m, while indirect funding increased from €7,079m to €7,566m. Loans and advances to customers also increased, from €7,513.2m to €7,710m, on higher new loans of €694.5m (€532.6m) and fewer subrogations. Non-performing assets declined from €180.6m to €172.8m, and represent 2.2% of the loan book with a coverage ratio of 50.4% (47.8%); bad loans stood at €98.6m (or 1.3% of the total) and were covered as to 59.3% (56.4%).

PRIVATE BANKING

This division comprises Mediobanca Private Banking,[3] Compagnie Monégasque de Banque, Spafid, Cairn Capital (alternative AM), Mediobanca SGR and Mediobanca Management Company.

(€m)

	6 mths ended 31/12/16	12 mths ended 30/6/17	6 mths ended 31/12/17	Chg. (%)
Profit-and-loss data				
Net interest income	17.5	38.8	20.1	14.9
Treasury income	6.4	11.9	6.8	6.3
Net fee and commission income	58.7	134.2	84.9	44.6
Total income	**82.6**	**184.9**	**111.8**	**35.4**
Labour costs	(35.4)	(85.5)	(45.5)	28.5
Administrative expenses	(24.4)	(53.8)	(40.6)	66.4
Operating costs	**(59.8)**	**(139.3)**	**(86.1)**	**44.0**
Gains (losses) on AFS, HTM and L&R	3.1	7.6	0.6	-80.6
Net provisions	(0.5)	(2.6)	(0.2)	-60.0
Other profits (losses)	(2.2)	(17.2)	—	n.m.
Profit before tax	**23.2**	**33.4**	**26.1**	**12.5**
Income tax for the period	(3.5)	(5.3)	(5.8)	65.7
Net profit	**19.7**	**28.1**	**20.3**	**3.0**
Cost/Income ratio (%)	72.4	75.3	77.0	

	31/12/16	30/06/17	31/12/17
Balance-sheet data			
Loans and advances to customers	1,663.4	2,172.9	2,161.8
Direct funding	4,046.2	4,402.3	4,891.0
AUM/AUA	14,392.7	22,926.4	23,933.0
AUC	11,371.1	12,106.0	8,935.5
No. of staff	467	622	526
Risk-weighted assets	1,929.8	2,291.7	1,984.0

Private banking saw an increase in net profit in the six months, from €19.7m to €20.3m, boosted by the full consolidation of Banca Esperia (which previously was consolidated at 50%) and the minor acquisitions by Spafid becoming fully operative. Accordingly, gross operating profit rose by 12.5%, from €23.2m to €26.1m.

[3] As from this year, the former Banca Esperia central staff functions have been transferred to the Holding Functions division, while the divisions services expenses continue to be accounted for as administrative expenses.

Nominal revenues climbed by 35.4%, from €82.6m to €111.8m, and by 6.1% if the Banca Esperia contribution is recognized pro forma:

- Net interest income was up 14.9% (from €17.5m to €20.1m);
- Treasury income increased slightly, from €6.4m to €6.8m;
- Net fee and commission income rose strongly, by 44.6%, from €58.7m to €84.9m, split between Mediobanca Private Banking and its fund management companies with €40.1m (€38.6m), CMB with €25.1m (€22.4m), Cairn Capital with €9.8m (€11.7m), and Spafid with €9.9m (€5.3m).

At the same time operating costs were up 44%, from €59.8m to €86.1m; but the increase is limited to 10% net of the Banca Esperia effect, and chiefly reflects the IT systems' enhancement plus certain non-recurring labour cost items.

By individual company, CMB contributed a net profit of €14.8m, on revenues of €47.8m, costs totalling €30.2m, and tax of €3.4m; Mediobanca Private Banking and its fund management companies delivered a bottom line of €6.2m, on revenues totalling €44.3m and costs of €35.2m; Cairn Capital posted revenues of €10m and costs of €9.7m; and Spafid (fiduciary business and corporate services) posted revenues of €9.9m and costs of €9.5m.

AUM and AUA in the twelve months amounted to €23.9bn (€22.9bn), split as follows: CMB, stable at €6.7bn; Mediobanca Private Banking and the various product factories, €14.4bn (€13.7bn); and Cairn Capital, €2.8bn (€2.5bn). Securities under custody fell from €12.1bn to €8.9bn, after certain Cairn legacy positions under long-term advice were wound up as planned (now totalling €0.5bn, as opposed to €4bn), plus the reduction posted by Mediobanca Private Banking and the product factories (from €3.6bn to €3.1bn), most of which was offset by the higher volumes posted by Spafid of €5.2bn (€4.4bn).

PRINCIPAL INVESTING

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

(€m)

	6 mths ended 31/12/16	12 mths ended 30/6/17	6 mths ended 31/12/17	Chg. (%)
Profit-and-loss data				
Other incomes	3.2	9.6	2.9	-9.4
Equity-accounted companies	134.7	263.6	121.2	-10.0
Total income	**137.9**	**273.2**	**124.1**	**-10.0**
Labour costs	(1.6)	(3.8)	(1.8)	12.5
Administrative expenses	(0.3)	(0.8)	(0.5)	66.7
Operating costs	**(1.9)**	**(4.6)**	**(2.3)**	**21.1**
Gain (losses) on disposal of AFS shares	118.9	161.6	93.8	-21.1
Net loss provisions	(0.9)	(0.9)	(0.5)	-44.4
Profit before tax	**254.0**	**429.3**	**215.1**	**-15.3**
Income tax for the period	(12.0)	(7.2)	(10.1)	-15.8
Net profit	**242.0**	**422.1**	**205.0**	**-15.3**

	31/12/16	30/06/17	31/12/17
Balance-sheet data			
AFS securities	640.4	659.5	439.5
Equity investments	3,346.1	3,036.5	3,185.7
Risk-weighted assets	7,243.0	7,714.9	5,976.1

The reduction in the net profit posted by this division, from €242m last year to €205m, is due chiefly to the lower gains realized on disposal of AFS shares, of €93.8m (€118.9m), and the decrease in the contribution of Assicurazioni Generali (from €134.7m to €120.6m), with the company's 3Q 2017 performance reflecting the loss incurred on the disposal of its Dutch insurance business, and a reduction in operating profit earned by the non-life division as a result of the increase in disaster-related claims.

The book value of the Assicurazioni Generali investment increased from €2,997.5m to €3,146m, as a result of profit for the period (€120.6m) and adjustments to equity (€28m, including €38.1m attributable to the valuation reserves).

AFS shares declined from €659.5m to €439.5m, following sales of €250.1m (chiefly Atlantia), private equity fund redemptions of €20.2m, and investments totalling €9.5m (seed capital for Cairn funds €7.9m).

HOLDING FUNCTIONS (CENTRAL, TREASURY AND LEASING FUNCTIONS)

The centralized Holding Functions division houses the Group's the leasing operations, its Treasury and ALM activities (with the objective of optimizing management of the funding and liquidity process at consolidated level), and all costs relating to Group staffing and management functions. [4]

(€m)

	6 mths ended 31/12/16	12 mths ended 30/6/17	6 mths ended 31/12/17	Chg. (%)
Profit-and-loss data				
Net interest income	(47.1)	(76.3)	(24.6)	47.8
Treasury income	(0.3)	3.3	4.9	n.m.
Net fee and commission income	9.1	16.5	8.6	-5.5
Total income	**(38.3)**	**(56.5)**	**(11.1)**	**71.0**
Operating costs	**(70.5)**	**(166.2)**	**(80.9)**	**-14.8**
Net loss provisions	(9.3)	(16.0)	(5.7)	38.7
Other profits (losses)	(56.3)	(103.0)	(10.5)	81.3
Profit before tax	**(174.4)**	**(341.7)**	**(108.2)**	**38.0**
Income tax for the period	53.5	92.0	39.8	25.6
Minority interest	(1.7)	7.9	(1.8)	-5.9
Net profit	**(122.6)**	**(241.8)**	**(70.2)**	**42.7**

	31/12/16	30/06/17	31/12/17
Balance-sheet data			
Loans and advances to customers	2,362.7	2,273.5	2,176.1
Banking book securities	6,932.0	7,624.5	6,461.2
No. of staff	769	769	862
Risk-weighted assets	4,902.9	4,315.8	3,932.9

The Holding Functions division virtually halved last year's €122.6m loss to €70.2m, helped by the reduced contributions to the resolution funds (€10.4m, compared with €54.5m last year), and the gradual improvement in net interest income from treasury operations (net interest expense totalled €47.4m this year, compared with €70.6m twelve months earlier), reflecting the lower cost of funding and more profitable liquidity management (including at an intra-Group level). Conversely, operating costs rose by 14.8% (from €70.5m to €80.9m), due to the expanded scope in terms of central costs following the Banca Esperia merger and costs in connection with one-off projects.

[4] As from this year, the former Banca Esperia central staff functions have been included in the Holding Functions division, with all services provided charged to this division.

The division comprises:

- Group Treasury and ALM, which delivered a loss of €36.3m, considerably better than the €59.5m loss posted last year, driven by the performance in net interest expense (which decreased from €70.6m to €47.4m) which reflects more effective liquidity management and the ongoing reduction in the cost of funding. Overall the unit disbursed funding of €38.9bn (€40.6bn), €32.6bn (€31.4bn) of which was distributed to the various divisions, €6.5bn (€7.6bn) invested in banking book securities, and €1.4bn (€2.2bn) in net treasury assets;

(€m)

	6 mths ended 31/12/16	12 mths ended 30/6/17	6 mths ended 31/12/17	Chg. (%)
Profit-and-loss data				
Net interest income	(70.6)	(123.6)	(47.4)	32.8
Treasury income	(0.5)	3.0	4.8	n.m.
Net fee and commission income	0.1	1.4	0.1	n.m.
Total income	**(71.0)**	**(119.2)**	**(42.5)**	**40.2**
Labour costs	(2.9)	(6.8)	(2.7)	5.4
Administrative expenses	(10.6)	(25.8)	(11.0)	-4.2
Operating costs	**(13.4)**	**(32.6)**	**(13.7)**	**-2.2**
Net provisions	(3.0)	(2.2)	2.0	n.m.
Profit before tax	**(87.4)**	**(154.0)**	**(54.2)**	**38.0**
Income tax for the period	27.9	42.0	17.9	35.8
Net profit	**(59.5)**	**(112.0)**	**(36.3)**	**39.0**

- Leasing delivered a stable net profit of €2.6m, on lower loan loss provisions of €4.9m (€6.3m) offsetting the slight decline in revenues (from €24.5m to €24.1m) and rising costs (up from €11.1m to €13m), most of which were non-recurring. Accounts outstanding at the reporting date decreased from €2,273.5m to €2,176.1m, on new business for the six months of €192m (€213m). Net non-performing assets fell from €169m to €157.4m, and account for 7.2% of total loans with a coverage ratio of 32.2% (33.8%); while bad loans totalled €31m (€35.8m) and account for 1.4% of total loans, with a coverage ratio of 51.7% (51.8%).

(€m)

	6 mths ended 31/12/16	12 mths ended 30/6/17	6 mths ended 31/12/17	Chg. (%)
Profit-and-loss data				
Net interest income	23.5	47.2	22.5	-4.3
Treasury income	0.2	0.3	0.1	-50.0
Net fee and commission income	0.8	0.3	1.5	87.5
Total income	**24.5**	**47.8**	**24.1**	**-1.6**
Labour costs	(6.3)	(14.2)	(6.8)	7.9
Administrative expenses	(4.8)	(11.0)	(6.2)	29.2
Operating costs	**(11.1)**	**(25.2)**	**(13.0)**	**17.1**
Loan loss provisions	(6.3)	(12.0)	(4.9)	-22.2
Other profits (losses)	(0.8)	(27.5)	—	n.m.
Profit before tax	**6.3**	**(16.9)**	**6.2**	**-1.6**
Income tax for the period	(2.0)	(2.9)	(1.8)	-10.0
Minority interest	(1.7)	7.9	(1.8)	5.9
Net profit	**2.6**	**(11.9)**	**2.6**	**n.m.**
Cost/Income ratio (%)	45.3	52.7	53.9	

	31/12/16	30/06/17	31/12/17
Balance-sheet data			
New loans	213.0	418.0	192.0
No. of staff	142	144	142
Risk-weighted assets	2,120.3	2,053.6	1,951.3

Mediobanca SpA

RESTATED PROFIT AND LOSS ACCOUNT

(€m)

Profit-and-loss data	6 mths ended 31/12/16	12 mths ended 30/6/17	6 mths ended 31/12/17	Chg. (%)
Net interest income	40.1	84.6	47.6	18.7
Treasury income	61.3	116.3	77.6	26.6
Net fee and commission income	89.2	211.7	124.6	39.7
Dividends on investments	—	162.2	5.2	n.m.
Total income	**190.6**	**574.8**	**255.0**	**33.8**
Labour costs	(87.6)	(198.9)	(116.5)	33.0
Administrative expenses	(66.3)	(149.4)	(83.1)	25.3
Operating costs	**(153.9)**	**(348.3)**	**(199.6)**	**29.7**
Gains (losses) on AFS, HTM and L&R	118.9	161.6	93.8	-21.1
Loan loss provisions	2.0	13.0	36.1	n.m.
Provisions for financial assets	(6.6)	(4.1)	2.4	n.m.
Impairment on investments	(0.6)	(0.9)	—	n.m.
Other profits (losses)	(42.6)	(47.8)	(0.4)	n.m.
Profit before tax	**107.8**	**348.3**	**187.3**	**73.7**
Income tax for the period	(11.5)	(30.0)	(34.0)	n.m.
Net profit	**96.3**	**318.3**	**153.3**	**59.2**

RESTATED BALANCE SHEET

(€m)

Balance-sheet data	31/12/16	30/6/17	31/12/17
Assets			
Financial assets held for trading	9,489.3	7,271.3	10,069.3
Treasury funds	10,934.3	10,031.8	9,532.3
AFS securities	640.4	659.5	454.5
Banking book securities	10,434.6	10,764.3	11,350.5
Loans and advances to customers	25,716.5	25,226.7	25,686.0
Equity investments	2,786.5	3,057.0	2,940.3
Tangible and intangible assets	132.0	132.2	160.1
Other assets	986.3	766.1	556.3
Total assets	**61,119.9**	**57,908.9**	**60,749.3**
Liabilities and net equity			
Funding	41,668.9	41,038.2	40,367.1
Treasury funding	5,753.6	4,451.3	7,634.3
Financial liabilities held for trading	7,299.4	5,859.2	6,753.0
Other liabilities	1,205.4	1,136.4	805.7
Provisions	136.8	105.7	107.8
Net equity	4,959.5	4,999.8	4,928.1
Profit (loss) for the period	96.3	318.3	153.3
Total liabilities and net equity	**61,119.9**	**57,908.9**	**60,749.3**

A net profit of €153.3m was earned in the six months, higher than the €96.3m recorded last year, in part due to the effect of the Banca Esperia merger (included from the start of the financial year) and the absence of contributions to the resolution funds. All income streams delivered positive performances during the six months under review. Total revenues amounted to €255m (€190.6m), with the various items performing as follows:

– Net interest income climbed by 18.7%, from €40.1m to €47.6m, with over half the increase from the new Private Banking division (€3.9m);

– Net treasury income rose from €61.3m to €77.6m, helped by the performances in both fixed-income (from €29.1m to €35.1m) and equity trading (from €21.7m to €29.5m) and banking book activity of €6.5m (€3.7m);

– Net fee and commission income increased from €89.2m to €124.6m, driven by Private Banking (€28.3m) and the increase in Wholesale Banking fees from €89m to €96m (capital market fees in particular rose from €15m to €29m).

Operating costs climbed by 29.7%, from €153.9m to €199.6m, but on a like-for-like basis rose by 10.9%.

Net writebacks of €36.1m (€2m) were credited to the loan book, the majority of which attributable to amounts collected corporate non-performing positions; the coverage ratio for non-performing items overall was 47.2% (46.7% for Wholesale Banking and 77.3% for the new Private Banking division).

Gains realized on disposal of AFS shares totalled €93.8m (€118.9m), virtually all of which attributable to the sale of the Atlantia stake.

With regard to the main balance-sheet items:

- Loans and advances to customers rose by 1.8%, from €25.2bn to €25.7bn, €963m of which contributed by the Private Banking division; net non-performing loans in Wholesale Banking fell from €372m to €351m, as an effect of amounts collected during the six months, while NPLs in Private Banking amounted to €4m;
- Equity investments and AFS shares fell from €3,716.5m to €3,394m, due to sales and redemptions of AFS funds (€270.1m), AFS shares contributed post-merger (€62.5m), and the writeoff of the Banca Esperia investment (€195.3m), with Mediobanca SGR and Mediobanca Management Company booked for €36.7m and €4m respectively. MBFacta also implemented a €34.5m capital increase during the period. Based on the stock market price recorded at 29 December 2017, the Assicurazioni Generali investment reflects an unrealized gain of €1,985m (€2,090.4bn based on current prices);
- Banking book securities increased from €10,764.3m to €11,350.5m, and regard the AFS segment as to €4,367m;
- The difference between financial instruments held for trading and treasury assets and liabilities reflects a net balance of €5,214.3m significantly lower than the figure reported at end-June 2017 (€6,992.6m). The heading consists of: equities worth €3,539.6m (most of which are hedged by derivatives with clients); liquid assets totalling €533.8m (€1,889.9m); and other net deposits (including repos) amounting to €1,016.7m (€2,861.9m);
- The slight, 1.6% reduction in funding to €40.4bn derives from the repayment of all cash amounts under the European Central Bank's first T-LTRO with only partial renewal of the debt securities expiring. New debt issuance of €1.6bn was made during the six months. CheBanca! funding declined from

€11.4bn to €10.2bn, whereas private banking deposits raised from former Banca Esperia clients amounted to €1.7bn;

– The Bank's net equity, in view of the €153.3m profit for the period and the dividend distributed (€320.2m), fell from €5,318.1m to €5,081.4m; while the AFS reserves declined from €312.9m to €196.6m. Share capital increased from €440.6m to €442m, following the exercise of 1,332,500 stock options and the issuance of 1,515,699 performance shares worth a total of €8.8m, including the share premium;

– AUM/AUA in the Private Banking segment as at end-December 2017 amounted to €13.8bn.

The merger of Banca Esperia into Mediobanca was completed on 1 December 2017, retroactive with accounting and tax effects to 1 July 2017; and at the same time, the new Mediobanca Private Banking division was launched. The merger is intended to achieve enhanced operating efficiency and cost economies; and the new Mediobanca Private Banking brand will help to consolidate and develop customer relations. The Group's product factories will also be strengthened.

As a result of the merger, Mediobanca has also gained 100% control of Mediobanca SGR (formerly Duemme SGR) and Mediobanca Management Company S.A. (formerly Duemme International Luxembourg S.A.).

* * *

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

(€m)

Company	Percentage shareholding	Business Line	Total assets	Loans and advances to customers	Total net equity [1]	No. of employees
Mediobanca Securities (data in USDm)	100%	Wholesale Banking	5.9	—	4.7	4
Mediobanca Turkey (data in TRYm)	100%	Wholesale Banking	7.5	—	9.9	5
Quarzo MB	90%	Wholesale Banking	0.1	—	—	—
Mediobanca Funding Luxembourg	100%	Wholesale Banking	0.5	—	0.4	—
Mediobanca International	100%	Wholesale Banking / Holding Functions	5,612.1	3,491.2	328.6	11
MB Facta	100%	Specialty Finance	1,793.6	1,761.3	122.6	29
MB Credit Solutions	100%	Specialty Finance	314.9	267.7	117.3	210
Compass Banca	100%	Consumer Banking	11,912.0	10,495.1	1,581.7	1,345
Futuro	100%	Consumer Banking	1,670.1	1,602.5	109.3	75
Quarzo	90%	Consumer Banking	0.4	—	—	—
Quarzo CQS	90%	Consumer Banking	0.3	—	—	—
Compass RE	100%	Consumer Banking	328.4	—	100.2	1
CheBanca!	100%	Affluent & Premier	19,013.4	7,710.0	346.1	1,295
Mediobanca Covered Bond	90%	Affluent & Premier	0.4	—	0.1	—
Compagnie Monégasque de Banque	100%	Private Banking	4,180.1	1,200.9	745.2	221
Spafid	100%	Private Banking	57.6	—	48.9	53
Spafid Connect	100%	Private Banking	28.0	—	18.6	20
Spafid Family Office SIM	100%	Private Banking	1.0	—	0.7	4
Cairn Capital Group Limited (data in GBPm) *	100%	Private Banking	16.5	—	9.7	58
CMB Wealth Management UK (data in GBPm)	100%	Private Banking	1.4	—	1.4	—
Compagnie Monégasque de Gestion	100%	Private Banking	13.3	—	2.3	—
Spafid Trust S.r.l.	100%	Private Banking	1.5	—	1.2	3
Esperia Fiduciaria S.p.A.	100%	Private Banking	3.8	—	3.3	3
Mediobanca SGR S.p.A.	100%	Private Banking	27.3	—	19.6	36
Mediobanca Management Company S.A.	100%	Private Banking	17.3	—	2.9	6
Mediobanca International Immobilierè	100%	Holding Functions	1.9	—	1.7	—
SelmaBipiemme Leasing	60%	Holding Functions	2,375.0	2,176.3	207.8	142
Quarzo Lease (under liquidation)	90%	Holding Functions	—	—	—	—
Prominvestment (under liquidation and into an arrangement with creditors)	100%	Holding Functions	5.6	—	(3.0)	5
Mediobanca Innovation Services	100%	Holding Functions	78.2	—	37.5	177
Ricerche e Studi	100%	Holding Functions	1.2	—	0.1	14

[1] Does not include profit for the period.

* Taking into account the put and call option; see Part A1 - Section 3 - Area and methods of consolidation, p. 82.

(€m)

Company	Percentage shareholding	Business Line	Total income	Operating costs	Loss provisions	Gain/(loss) for the period
Mediobanca Securities (data in USDm)	100%	Wholesale Banking	1.9	(1.3)	—	0.3
Mediobanca Turkey (data in TRYm)	100%	Wholesale Banking	0.5	(3.4)	—	(2.9)
Quarzo MB	90%	Wholesale Banking	—	—	—	—
Mediobanca Funding Luxembourg	100%	Wholesale Banking	0.2	(0.2)	—	—
Mediobanca International	100%	Wholesale Banking / Holding Functions	13.6	(4.0)	0.2	7.2
MB Facta	100%	Specialty Finance	20.1	(3.7)	(6.9)	6.3
MB Credit Solutions	100%	Specialty Finance	36.7	(16.4)	(7.8)	8.7
Compass Banca	100%	Consumer Banking	435.1	(127.6)	(119.2)	126.7
Futuro	100%	Consumer Banking	28.9	(9.2)	(2.5)	11.7
Quarzo	90%	Consumer Banking	0.1	(0.1)	—	—
Quarzo CQS	90%	Consumer Banking	—	—	—	—
Compass RE	100%	Consumer Banking	29.3	(0.4)	—	21.1
CheBanca!	100%	Affluent & Premier	143.7	(114.5)	(8.4)	7.3
Mediobanca Covered Bond	90%	Affluent & Premier	—	—	—	—
Compagnie Monégasque de Banque	100%	Private Banking	44.0	(28.7)	—	13.8
Spafid	100%	Private Banking	4.6	(4.3)	—	0.2
Spafid Connect	100%	Private Banking	3.5	(4.0)	—	(0.3)
Spafid Family Office SIM	100%	Private Banking	0.6	(0.6)	—	—
Cairn Capital Group Limited (data in GBPm) *	100%	Private Banking	8.9	(8.7)	—	0.1
CMB Wealth Management UK (data in GBPm)	100%	Private Banking	—	(0.1)	—	(0.1)
Compagnie Monégasque de Gestion	100%	Private Banking	5.4	(1.4)	—	2.7
Spafid Trust S.r.l.	100%	Private Banking	0.4	(0.3)	—	0.1
Esperia Fiduciaria S.p.A.	100%	Private Banking	0.9	(0.4)	(0.1)	0.2
Mediobanca SGR S.p.A.	100%	Private Banking	7.9	(4.9)	—	2.1
Mediobanca Management Company S.A.	100%	Private Banking	3.9	(1.5)	—	1.9
Mediobanca International Immobilierè	100%	Holding Functions	0.1	—	—	—
SelmaBipiemme Leasing	60%	Holding Functions	24.0	(13.0)	(4.9)	4.4
Quarzo Lease (under liquidation)	90%	Holding Functions	—	—	—	—
Prominvestment (under liquidation and into an arrangement with creditors)	100%	Holding Functions	0.1	(0.8)	—	(0.8)
Mediobanca Innovation Services	100%	Holding Functions	36.6	(36.8)	—	—
Ricerche e Studi	100%	Holding Functions	1.3	(1.2)	—	(0.1)

* Taking into account the put and call option; see Part A1 - Section 3 - Area and methods of consolidation, p. 82.

Other information

Related party disclosure

Financial accounts outstanding as at 31 December 2017 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 affected by this 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 a description 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 with its analysis of companies and capital markets as in the past. The company produced the forty-second edition of its Annual Directory, which includes analysis of leading Italian listed companies, and published the profiles of around seventy other industrial and financial groups online. The twenty-second edition of R&S's survey of the world's leading industrial and service multinationals has been published, as has the fifteenth edition of its survey of the leading international banks, and the seventh 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-2 (both aligned with the Italy sovereign risk). The rating assigned by Fitch to Mediobanca is BBB with stable outlook (short-term rating F2).

Outlook

In the next six months, assuming there are no significant changes in market interest rates, net interest income should continue in line with the trend witnessed during the first half-year (Consumer Banking and Specialty Finance boosted by growing volumes; treasury management helped by the lower cost of funding; and Wholesale Banking declining slightly). Fees should benefit from growth in assets managed by Wealth Management, Private Banking in particular, and the healthy

M&A pipeline. The increase in operating costs is expected to be consistent with some of the benefits of the recent integration and outsourcing projects. The cost of risk is expected to rise, albeit still at levels comfortably below last year's levels, given that some of the writebacks to corporate exposures cannot physically be repeated. The Assicurazioni Generali earnings performance and gains on disposal of AFS shares will continue to depend on external factors.

Reconciliation of shareholders' equity and net profit

(€'000)

	Shareholders' equity	Net profit (loss)
Balance at 31/12 as per Mediobanca S.p.A. accounts	4,928,083	153,318
Net surplus over book value for consolidated companies	14,822	211,193
Differences on exchange rates originating from conversion of accounts made up in currencies other than the Euro	(7,184)	—
Other adjustments and restatements on consolidation, including the effects of accounting for companies on an equity basis	3,811,405	111,815
Dividends received during the period	—	—
TOTAL	**8,747,126**	**476,326**

Milan, 8 February 2018

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 Emanuele Flappini, 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 2017.
2. Assessment of the adequacy of said administrative and accounting procedures for the financial statements for the six months ended 31 December 2017 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 2018

Chief Executive Officer	*Head of Company Financial Reporting*
Alberto Nagel	Emanuele Flappini

EXTERNAL AUDITORS' REPORT

pwc

Review report on consolidated condensed interim financial statements

To the shareholders of
Mediobanca SpA

Foreword

We have reviewed the accompanying consolidated condensed interim financial statements of Mediobanca SpA and its subsidiaries (the Group Mediobanca) as of 31 December 2017, 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 2017 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 2018

PricewaterhouseCoopers SpA

Marco Palumbo
(Partner)

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

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet

(€'000)

Assets	31/12/17	30/6/17
10. Cash and cash equivalents	267,310	1,330,224
20. Financial assets held for trading	10,105,026	7,833,903
30. Financial assets at fair value through profit or loss	—	—
40. Financial assets available-for-sale	5,406,152	6,392,680
50. Financial assets held-to-maturity	2,482,003	2,400,203
60. Due from banks	6,774,687	7,959,931
70. Due from customers	41,435,830	38,763,124
80. Hedging derivatives	225,789	462,300
90. Adjustment of hedging financial assets (+/-)	—	—
100. Equity investments	3,185,722	3,036,541
110. Reinsured portion of technical reserves	—	—
120. Property, plant and equipment	289,591	305,556
130. Intangible assets	566,265	552,208
of which:		
goodwill	*472,679*	*483,557*
140. Tax assets	754,765	847,361
a) current	*97,912*	*132,002*
b) deferred	*656,853*	*715,359*
of which under L. 214/2011	*549,870*	*609,074*
150. Loans classified as held-for-sale	14,527	—
160. Other assets	582,043	561,533
Total assets	**72,089,710**	**70,445,564**

(€'000)

Liabilities and net equity	31/12/17	30/6/17
10. Due to banks	12,647,350	12,689,595
20. Due to customers	21,721,908	20,365,999
30. Debt securities in issue	19,899,521	20,108,721
40. Trading liabilities	6,699,520	5,920,583
50. Financial liabilities designated at fair value	—	—
60. Hedging derivatives	240,823	341,159
70. Changes in fair value of portfolio hedged items (-)	—	—
80. Tax liabilities	483,041	559,982
a) current	*112,360*	*189,736*
b) deferred	*370,681*	*370,246*
90. Liabilities included in disposal groups classified as held for sale	502	—
100. Other liabilities	698,523	846,260
110. Staff severance indemnity provision	29,289	29,779
120. Provisions	190,579	225,850
a) post-employment and similar benefits	—	—
b) other provisions	*190,579*	*225,850*
130. Insurance reserves	170,333	165,974
140. Revaluation reserves	825,817	871,387
150. Redeemable shares repayable on demand	—	—
160. Equity instruments repayable on demand	—	—
170. Reserves	5,481,364	5,056,865
180. Share premium reserve	2,195,624	2,187,580
190. Share capital	442,030	440,606
200. Treasury shares	(197,709)	(197,709)
210. Minority interest	84,869	82,733
220. Profit for the period	476,326	750,200
Total liabilities and net equity	**72,089,710**	**70,445,564**

Consolidated Profit and Loss Account

(€'000)

Items		31/12/17	30/6/17	31/12/16
10.	Interest and similar income	941,807	1,916,412	962,605
20.	Interest expense and similar charges	(257,260)	(638,884)	(326,906)
30.	**Net interest income**	**684,547**	**1,277,528**	**635,699**
40.	Fee and commission income	270,404	482,516	203,547
50.	Fee and commission expense	(65,627)	(104,589)	(38,127)
60.	**Net fee and commission income**	**204,777**	**377,927**	**165,420**
70.	Dividends and similar income	26,161	81,381	35,873
80.	Net trading income	50,903	34,245	2,125
90.	Net hedging income (expense)	(1,059)	15,782	7,694
100.	Gain (loss) on disposal/repurchase of:	90,184	156,410	143,281
	a) loans and advances	*3,690*	*(11,132)*	*2,679*
	b) AFS securities	*93,004*	*183,338*	*149,984*
	c) financial assets held to maturity	*(2,116)*	*2,090*	*3,946*
	d) financial liabilities	*(4,394)*	*(17,886)*	*(13,328)*
120.	**Total income**	**1,055,513**	**1,943,273**	**990,092**
130.	Adjustments for impairment to:	(100,870)	(293,673)	(186,477)
	a) loans and advances	*(102,197)*	*(285,823)*	*(185,638)*
	b) AFS securities	*(3,294)*	*(3,079)*	*(1,729)*
	c) financial assets held to maturity	*3,010*	*(2,864)*	*(5,606)*
	d) other financial assets	*1,611*	*(1,907)*	*6,496*
140.	**Net income from financial operation**	**954,643**	**1,649,600**	**803,615**
150.	Premiums earned (net)	28,422	52,324	25,395
160.	Other income (net) from insurance activities	(244)	(14,427)	(7,119)
170.	**Net profit from financial and insurance activities**	**982,821**	**1,687,497**	**821,891**
180.	Administrative expenses:	(536,191)	(1,218,004)	(556,428)
	a) personnel costs	*(272,376)*	*(531,947)*	*(235,578)*
	b) other administrative expenses	*(263,815)*	*(686,057)*	*(320,850)*
190.	Net transfers to provisions	716	(16,387)	(26,744)
200.	Net adjustments to tangible assets	(8,902)	(17,585)	(8,737)
210.	Net adjustments to intangible assets	(14,359)	(27,035)	(12,503)
220.	Other operating income (expense)	61,349	243,303	159,474
230.	**Operating costs**	**(497,387)**	**(1,035,708)**	**(444,938)**
240.	Gain (loss) on equity investments	121,228	263,452	135,863
270.	Gain (loss) on disposal of investments	4	(1,254)	7
280.	**Profit (loss) on ordinary activity before tax**	**606,666**	**913,987**	**512,823**
290.	Income tax for the year on ordinary activities	(128,589)	(171,738)	(92,855)
300.	**Profit (loss) on ordinary activities after tax**	**478,077**	**742,249**	**419,968**
310.	**Gain (loss) on disposal of investments after tax**	**—**	**—**	**—**
320.	**Net profit (loss) for the period**	**478,077**	**742,249**	**419,968**
330.	Net profit (loss) for the period attributabe to minorities	(1,751)	7,951	(1,729)
340.	**Net profit (loss) for the period attributable to Mediobanca**	**476,326**	**750,200**	**418,239**

Consolidated Comprehensive Profit and Loss Account

(€'000)

		31/12/17	31/12/16
10.	Profit (loss) for the period	478.077	419.968
	Other income items net of tax without passing through profit and loss	**11,000**	**(42,696)**
20.	Property, plant and equipment	—	—
30.	Intangible assets	—	—
40.	Defined benefit schemes	(1,061)	228
50.	Non-current assets being sold	—	—
60.	Share of valuation reserves attributable to equity-accounted companies	12,061	(42,924)
	Other income items net of tax passing through profit and loss	**(56,186)**	**60,916**
70.	Foreign investments hedges	—	—
80.	Exchange rate differences	(1,037)	(1,393)
90.	Cash flow hedges	34,282	(611)
100.	AFS financial assets	(115,763)	(87,601)
110.	Non-current assets being sold	—	—
120.	Share of valuation reserves attributable to equity-accounted companies	26,332	150,521
130.	**Total other income items, net of tax**	**(45,186)**	**18,220**
140.	**Comprehensive income (headings 10 + 130)**	**432,891**	**438,188**
150.	**Minority interests in consolidated comprehensive incomes**	**2,134**	**2,559**
160.	**Consolidated comprehensive income attributable to Mediobanca**	**430,757**	**435,629**

Statement of Changes to Consolidated Net Equity

(€'000)

	Previously reported balance at 30/6/17	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	Treasury shares acquired	Extra-ordinary dividend payouts	Changes to equity instruments	Treasury shares derivates	Stock options [1]	Changes to investments	Overall consolidated profit for the 6 mths ended 31/12/17	Total net equity at 31/12/17	Net equity attributable to the group at 31/12/17	Net equity attributable to the minorities at 31/12/17
Share capital:	457,155	—	—	—	1,426	—	—	—	—	—	—	—	458,581	442,030	16,551
a) ordinary shares	457,155	—	—	—	1,426	—	—	—	—	—	—	—	458,581	442,030	16,551
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	2,189,428	—	—	—	8,044	—	—	—	—	—	—	—	2,197,472	2,195,624	1,848
Reserves:	5,132,771	742,249	(320,226)	(9,168)	(758)	—	—	—	—	4,451	—	—	5,549,319	5,481,364	67,955
a) retained earnings	4,998,175	742,249	(320,226)	(9,168)	(758)								5,410,272	5,342,317	67,955
b) others	134,596	—	—	—	—	—	—	—	—	4,451	—	—	139,047	139,047	—
Valuation reserves	867,768	—	—	—	—	—	—	—	—	—	—	(45,187)	822,581	825,817	(3,236)
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(197,709)	—	—	—	—	—	—	—	—	—	—	—	(197,709)	(197,709)	—
Profit (loss) for the period	742,249	(742,249)	—	—	—	—	—	—	—	—	—	478,077	478,077	476,326	1,751
Total net equity	9,191,662	—	(320,226)	(9,168)	8,712	—	—	—	—	4,451	—	432,890	9,308,321	X	X
Net equity attributable to the group	9,108,929	—	(320,226)	(9,168)	8,710	—	—	—	—	4,451	—	430,756	X	9,223,452	X
Net equity attributable to minorities	82,733	—	—	—	2	—	—	—	—	—	—	2,134	X	X	84,869

[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 30/6/16	Allocation of profit for previous period		Changes during the reference period									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
		Reserves	Dividends and other fund application	Changes to reserves	Transactions involving net equity							Overall consolidated profit for the 6 mths ended 31/12/16			
					New shares issued	Treasury shares acquired	Extra-ordinary dividends payout	Changes to equity instruments	Treasury shares derivatives	Stock options [1]	Changes in equity instruments				
Share capital:	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.

Consolidated Cash Flow Statement Direct Method

(€'000)

	Amount	
	31/12/17	**31/12/16**
A. Cash flow from operating activities		
1. Operating activities	**76,171**	**431,114**
- interest received	2,397,485	1,586,094
- interest paid	(1,921,390)	(922,853)
- dividends and similar income	18,011	31,450
- net fees and commission income	67,790	68,357
- cash payments to employees	(202,341)	(198,060)
- net premium income	37,485	31,631
- other premium from insurance activities	(68,128)	(81,888)
- other expenses paid	(514,673)	(521,497)
- other income received	247,959	486,795
- income taxes paid	13,973	(48,915)
- net expense/income from groups of assets being sold	—	—
2. Cash generated/absorbed by financial assets	**189,794**	**(6,832,012)**
- financial assets held for trading	(1,772,971)	(232,117)
- financial assets recognized at fair value	—	—
- AFS securities	666,735	1,679,749
- due from customers	(2,052,462)	(2,606,056)
- due from banks: on demand	978,199	(4,727,317)
- due from banks: other	1,438,158	(785,877)
- other assets	932,135	(160,394)
3. Cash generated/absorbed by financial liabilities	**(912,755)**	**7,844,739**
- due to banks: on demand	(359,826)	293,284
- due to banks: other	448,918	6,148,398
- due to customers	1,272,221	2,702,557
- debt securities	(1,966,403)	(1,301,423)
- trading liabilities	(194,709)	(121,560)
- financial liabilities assets recognized at fair value	—	—
- other liabilities	(112,956)	123,483
Net cash flow (outflow) from operating activities	**(646,790)**	**1,443,841**
B. Investment activities		
1. Cash generated from	**45,019**	**118,540**
- disposals of shareholdings	—	—
- dividends received in respect of equity investments	—	—
- disposals/redemptions of financial assets held to maturity	43,112	117,826
- disposals of tangible assets	1,799	714
- disposals of intangible assets	108	—
- disposals of subsidiaries or business units	—	—
2. Cash absorbed by	**(149,627)**	**209,780**
- acquisitions of shareholdings	—	—
- acquisitions of held-to-maturity investments	(132,583)	(210,995)
- acquisitions of tangible assets	(4,046)	(9,969)
- acquisitions of intangible assets	(12,998)	(18,043)
- acquisitions of subsidiaries or business units	—	448,787
Net cash flow (outflow) from investment/servicing of finance	**(104,608)**	**328,320**
C. Funding activities	**(311,515)**	**(230,327)**
- issuance/acquisition of treasury shares	8,711	588
- issuance/acquisitions of equity instruments	—	—
- dividends payout and other applications of funds	(320,226)	(230,915)
Net cash flow (outflow) from funding activities	**(311,515)**	**(230,327)**
Net cash flow (outflow) during period	**(1,062,913)**	**1,541,834**

Reconciliation of Movements in Cash Flow during the Period

(€'000)

	Amounts	
	31/12/17	31/12/16
Cash and cash equivalents: balance at start of period	1,330,224	156,342
Total cash flow (ouflow) during period	(1,062,913)	1,541,834
Cash and cash equivalents: exchange rate effect	(1)	—
Cash and cash equivalents: balance at end of period	267,310	1,698,176

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 2017 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 replaces IAS 39 and is 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 project

The Mediobanca Group will adopt the new standard starting from 1 July 2018. An internal project was launched in 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 Organization, 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). Now that the "Assessment" and "Design & Implementation" phases have been completed, as from January 2018 the testing phase of the new IFRS 9 systems and processes has begun, including a period in which IAS 39 and IFRS 9 run in parallel before application proper begins for the Mediobanca Group. Alongside the IT developments, changes to the Group's organizational structure and internal regulations are in progress, in order to ensure that the revision and update activities carried out on the processes and methodological policies are adequately formalized and documented.

The Group has informed the external auditors on a regular basis of the methodologies adopted during the project and the implementation framework. In the course of 2017, a Thematic Review of credit institutions was also carried out by the Single Supervisory Mechanism with a view to assessing their state of preparation for application of IFRS 9. The results should be published by end-1Q 2018.

Principal evidence to emerge

A summary of the main conclusions reached with reference to areas which are most relevant to the IFRS 9 application process is provided below:

- Governance, processes, systems and information: the internal documentation on methodologies chosen, application processes (including IT processes) and disclosure has been revised and expanded;
- Business model assessment and financial instruments classification: the Group's entire financial assets portfolio has been analysed in view of the strategy instituted by senior management, risk management on the portfolio, remuneration mechanisms, reporting methodologies and movements (past sales and future expectations). The analysis showed no critical issues. Confirming the transition to "held to collect" status for loans and debt securities recognized at amortized cost. As for the shares currently held as available for sale, the Group will exercise the option to recognize them at fair value against an equity reserve (without the accumulated changes in value passing through the profit and loss account), with the exception of the stock units in UCITS (see below). These considerations have been incorporated in the internal management policies, which as well as reiterating the link between the business model and accounting treatment, also introduce frequency and significance thresholds for portfolios recognized at cost;
- SPPI test implementation: the standardized process for the SPPI test implementation has been prepared through the completion of decision-making trees, for the individual financial instrument or product according to the degree of customization involved. Specific analysis methodologies have been developed both for instruments that require benchmark testing for the time value of the modified money, and to value the credit risk on securitization tranches. The analysis carried out for the whole portfolio of financial assets showed no significant impact for either loans or debt securities, except for a marginal share of subordinated and structured securities. Conversely UCITS, according to the recent rulings of the IFRS Interpretation Committee, must compulsorily be recognized at fair value through the profit and loss account (this will require reclassification from the current available-for-sale portfolio with reversal from current AFS reserve to the retained earnings reserve). It is important to emphasize that different testing methods will be applied to loans depending on whether the are retail and corporate (at the level of product for the former, per individual drawdown for the latter);

- Valuation of the significant increase in credit risk. This takes into account objective items, both qualitative and quantitative, and serves to identify significant deterioration in the counterparty's credit standing for each facility. The recognition of forbearance measures and the thirty days past due criterion are considered as backstop indicators. In accordance with the supervisory authority's expectations, the simplified, or "low credit risk exemption" approach to identify credit exposures in stage 1 has only been used to a very limited degree. The criteria defined for the purposes of transferring exposures from stage 2 to stage 1 are symmetrical to those of the significant increase in credit risk (i.e. when significant deterioration indicators no longer apply, the exposure returns to stage 1);
- Inclusion of forward-looking information within the expected loss calculation model: forward-looking information is considered with reference to three possible scenarios (baseline, mild-positive and mild-negative) which impact on the risk parameters (PD and LGD). The estimates are limited to three years, in order to ensure a reasonable time horizon;
- Validation and backtesting: with reference to models based on detecting expected losses, a process for validation and retrospective testing has been finalized. The framework adopted provides for the unit responsible for model development to be independent of the unit responsible for validation, and provides clear definition of roles and responsibilities. Provision is also made for regular analysis to be carried out to ensure that the assumptions underlying the model continue to be valid and that new information available is taken into account;
- Twelve-month and life-time expected loss calculations: the IFRS 9 estimate of the PD, LGD and EAD parameters is based both on existing prudential models (for example, internal models if present) and on specific models, adjusted with the necessary adjustments aimed at incorporating forward-looking information and multi-period horizon.

Impact on balance sheet and profit and loss account

Application of the new accounting standard will chiefly affect the calculation of the lifetime expected loss for all assets which have recorded significant deterioration in credit risk. The high quality of the Group's portfolio is also demonstrated by the new impairment models, as the estimated impact is aligned with the main EU banks.

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.

The merger of Banca Esperia S.p.A. into Mediobanca was completed during the six months under review. As a result, the former Banca Esperia subsidiaries Duemme SGR and Duemme International Luxembourg have come under the parent company's direct control and have been renamed Mediobanca SGR and Mediobanca Management Company respectively. The other two former Banca Esperia subsidiaries, Esperia Trust (now renamed Spafid Trust) and Esperia Servizi Fiduciari, have been spun off to Spafid.

The liquidation process for Quarzo Lease S.r.l. has also commenced.

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 and arrangement with creditors*	Milan	1	A.1.1	100.0	100.0
3.	SPAFID S.P.A	Milan	1	A.1.1	100.0	100.0
4.	SPAFID CONNECT S.P.A.	Milan	1	A.1.3	100.0	70.0
5.	MEDIOBANCA INNOVATION SERVICES - S.C.P.A.	Milan	1	A.1.1	100.0	100.0
6.	COMPAGNIE MONEGASQUE DE BANQUE - CMB S.A.M.	Monte Carlo	1	A.1.1	100.0	100.0
7.	C.M.G. COMPAGNIE MONEGASQUE DE GESTION S.A.M.	Monte Carlo	1	A.1.6	99.92	99.92
8.	SMEF SOCIETE MONEGASQUE DES ETUDES FINANCIERE S.A.M.	Monte Carlo	1	A.1.6	99.96	99.96
9.	CMB ASSET MANAGEMENT S.A.M.	Monte Carlo	1	A.1.6	99.3	99.3
10.	CMB WEALTH MANAGEMENT LIMITED	London	1	A.1.1	100.0	100.0
11.	MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.	Luxembourg	1	A.1.1	99.0	99.0
			1	A.1.12	1.0	1.0
12.	COMPASS BANCA S.P.A.	Milan	1	A.1.1	100.0	100.0
13.	CHEBANCA! S.P.A.	Milan	1	A.1.1	100.0	100.0
14.	MB CREDIT SOLUTIONS S.P.A.	Milan	1	A.1.12	100.0	100.0
15.	SELMABIPIEMME LEASING S.P.A.	Milan	1	A.1.1	60.0	60.0
16.	MB FUNDING LUXEMBOURG S.A.	Luxembourg	1	A.1.1	100.0	100.0
17.	RICERCHE E STUDI S.P.A.	Milan	1	A.1.1	100.0	100.0
18.	MEDIOBANCA SECURITIES USA LLC	New York	1	A.1.1	100.0	100.0
19.	MB FACTA S.P.A.	Milan	1	A.1.1	100.0	100.0
20.	QUARZO S.R.L.	Milan	1	A.1.12	90.0	90.0
21.	QUARZO LEASE S.R.L. - *under liquidation*	Milan	1	A.1.15	90.0	90.0
22.	FUTURO S.P.A	Milan	1	A.1.12	100.0	100.0
23.	QUARZO CQS S.R.L.	Milan	1	A.1.22	90.0	90.0
24.	QUARZO MB S.R.L.	Milan	1	A.1.1	90.0	90.0
25.	MEDIOBANCA COVERED BOND S.R.L.	Milan	1	A.1.13	90.0	90.0
26.	COMPASS RE (LUXEMBOURG) S.A.	Luxembourg	1	A.1.12	100.0	100.0
27.	MEDIOBANCA INTERNATIONAL IMMOBILIERE S. A R.L.	Luxembourg	1	A.1.11	100.0	100.0
28.	MB ADVISORY KURUMSAL DANISMANLIK HIZMETLERI ANONIM SIRKETI	Istanbul	1	A.1.1	100.0	100.0
29.	CAIRN CAPITAL GROUP LIMITED	London	1	A.1.1	100.0*	51.0
30.	CAIRN CAPITAL LIMITED	London	1	A.1.29	100.0	100.0
31.	CAIRN CAPITAL NORTH AMERICA INC.	Stamford (U.S.A.)	1	A.1.29	100.0	100.0
32.	CAIRN CAPITAL GUARANTEE LIMITTED (non operating)	London	1	A.1.29	100.0	100.0
33.	CAIRN CAPITAL INVESTMENTS LIMITED (non operating)	London	1	A.1.29	100.0	100.0
34.	CAIRN INVESTMENT MANAGERS LIMITED (non operating)	London	1	A.1.29	100.0	100.0
35.	AMPLUS FINANCE (non operating)	London	1	A.1.29	100.0	100.0
36.	SPAFID FAMILY OFFICE SIM	Milan	1	A.1.3	100.0	100.0
37.	SPAFID TRUST S.R.L.	Milan	1	A.1.3	100.0	100.0
38.	ESPERIA FIDUCIARIA S.P.A.	Milan	1	A.1.3	100.0	100.0
39.	MEDIOBANCA MANAGEMENT COMPANY S.A.	Luxembourg	1	A.1.1	100.0	100.0
40.	MEDIOBANCA SGR S.P.A.	Milan	1	A.1.1	100.0	100.0

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

Legend

[1] Type of relationship:
1 = majority of voting rights in ordinary AGMs.
2 = dominant influence in ordinary AGMs.

[2] Effective and potential voting rights in ordinary AGMs.

2. Considerations and significant assumptions used to determine consolidation area

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

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

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

Investments in associates and joint arrangements are consolidated using the equity method. Associates are companies which are subject to dominant influence, a concept which is defined as the power to participate in activities which are significant for the company without having control of it. Dominant influence is assumed to exist in cases where one company holds at least 20% of the voting rights of another. In establishing whether or not dominant influence exists, account is also taken of potential rights, rights still to be exercised pursuant to options, warrants or conversion rights embedded in financial instruments; consideration is also given to issues of ownership structure, e.g. voting rights owned by other investors, 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 2017.

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 A - Information on fair value, pp. 98-109, 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,[2] which includes transaction costs and income directly attributable to them. Thereafter they continue to be measured at fair value. Changes in fair value are recognized in a separate net equity reserve, which is then eliminated against the corresponding item in the profit and loss account as and when an asset is disposed of or impairment is recognized. Fair value is measured on the same principles as described for trading instruments. 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 attributable to them. Following their initial recognition they are measured at

[2] See Part A - Information on fair value, pp. 98-109, for further details.

[3] See Part A - Information on fair value, pp. 98-109, for further details..

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

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

show expectations regarding effectiveness, the latter to show the degree of effectiveness actually achieved by the hedge during the period concerned. If an instrument proves to be ineffective, hedge accounting is discontinued and the derivative concerned is accounted for under trading securities, with the effects taken through the profit and loss account.

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

Equity investments

This heading consists of investments in:

– Associates, which are equity-accounted. Associates are defined as companies in which at least 20% of the voting rights are held, and those in which the size of the investment is sufficient to ensure an influence in the governance of the investee company;

– Jointly-controlled companies, which are also equity-accounted;

– Other investments of negligible value, which are recognized at cost.

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

Property, plant and equipment

This heading comprises land, core and investment properties, plant, furniture, fittings, equipment and assets used under the terms of finance leases, despite the fact that such assets remain the legal property of the lessor rather than the lessee.

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

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

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

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

Intangible assets

These chiefly comprise goodwill, 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.

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.

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 nation insurance system are recorded on the basis of contribution accrued during the period.

[5] Until 30 June 2012 the Group accounted for these items directly as labour costs.

Foreign currency transactions

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

Assets and liabilities denominated in currencies other than the Euro are translated into Euros using exchange rates ruling at the dates of the transactions. Differences on cash items due to translation are recorded through the profit and loss account, whereas those on non-cash items are recorded according to the valuation criteria used in respect of the category they belong to (i.e. at cost, through the profit and loss account or on an equity basis).

The assets and liabilities of the non-Italian entities consolidated line-by-line have been converted at the exchange rate prevailing at the reporting date, whereas the profit-and-loss items have been converted 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 Schemes 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 3% of the company's share capital, and the entities controlled by or controlling them;

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

c) Management with strategic responsibilities, that is, individuals with powers and responsibilities, directly or indirectly, for the planning, direction and control of the parent company's activities, including the members of the Board of Directors and Statutory Audit Committee;

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

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

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

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

A.3 - Information on transfers between financial asset portfolios

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

(€'000)

Type of instrument	Transferred from	Transferred to	Book value at 31/12/17	Fair value at 31/12/17	Additions to P&L if assets not transferred (pre-tax)		Additions to P&L made during the year (pre-tax)	
					Valuation	Other	Valuation	Other
Debt securities [1] (ABS)	Financial assets held for trading	Due from customers	61,484	64,313	961	431	—	431
Debt securities [1] (ABS)	AFS securities	Due from customers	7,922	8,204	183	65	—	65
Debt securities [2]	AFS securities	Financial assets held to maturity	132,247	141,801	(1,957)	3,278	—	3,278
Total			201,653	214,318	(813)	3,774	—	3,774

[1] Made during FY 08/09.

[2] Made during FY 10/11.

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.[6]

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.

[6] 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), 31/12/17	+/- delta vs MtM (€ 000), 30/6/17
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)	559	624
Equity-equity correlation	Equal to 1% between two indexes and 2% between two single stocks	110	50

Measurement techniques used for equity, credit and interest rate products

Product	Measurement technique	Non-observable inputs	Fair value* Assets 31/12/17 (€ m)	Fair value* Liabilities 31/12/17 (€ m)	Fair value* Assets 30/6/17(€ m)	Fair value* Liabilities 30/6/17(€ m)
OTC equity plain vanilla options, OTC equity digital options, Variance swap	Black-Scholes/ Black model	Implicit volatility[1]	0.99	(3.44)	1.25	(9.87)
OTC equity basket options, best of/ worst of	Black-Scholes method	Implicit volatility Equity-equity correlation[2]	2.59	(3.41)	2.80	(0.34)
Synthetic CDOS	Gaussian copula model using factor with base correlation	Base correlation with bootstrap starting from quoted data on liquid index tranches[3]	—	—	0.14	(0.13)

* 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 among fair value ranking levels

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

An instrument is transferred from fair value Level 1 to Level 2 or vice versa mainly as a result of 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)

Financial assets/Liabilities measured at fair value	31/12/17			30/6/17		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	6,570,965	3,353,636	180,425	4,302,012	3,352,940	178,951
2. Financial assets recognized at fair value	—	—	—	—	—	—
3. AFS securities	4,761,001	360,340	284,811	5,675,439	431,611	285,630
4. Hedge derivatives	—	225,789	—	—	462,300	—
5. Tangible assets	—	—	—	—	—	—
6. Intangible assets	—	—	—	—	—	—
Total	11,331,966	3,939,765	465,236	9,977,451	4,246,851	464,581
1. Financial liabilities held for trading	(3,244,099)	(3,371,918)	(83,503)	(2,730,204)	(3,107,364)	(83,015)
2. Financial liabilities recognized at fair value	—	—	—	—	—	—
3. Hedge derivatives	—	(240,823)	—	—	(341,159)	—
Total	(3,244,099)	(3,612,741)	(83,503)	(2,730,204)	(3,448,523)	(83,015)

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 €70.1m (30/6/17: €65.4m), plus €6.6m (€7.4m) in options linked to bonds issued and hedged on the market.

Net of these items, the level 3 assets decreased from €106.1m to €103.8m, including new deals worth €4.2m, disposals and redemptions totalling €3m, and other changes, including movements in fair value, amounting to minus €3.5m.

AFS assets consist of investments in unlisted companies (valued on the basis of internal models) and private equity funds and are almost unchanged to €284.8m, following purchases of €14m, sales totalling €21.8m, and other additions amounting to €7m (gains, valuations and transfers between levels).

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	106,139	—	285,626	—
2. Additions	5,366	—	25,518	—
2.1 Purchases	4,215	—	14,032	—
2.2 Profits recognized in:	1,151	—	10,927	—
2.2.1 profit and loss	1,151	—	4,075	—
- of which, gains	634	—	—	—
2.2.2 net equity	X	X	6,852	—
2.3 Transfers from other levels	—	—	559	—
2.4 Other additions	—	—	—	—
3. Reductions	7,731	—	26,348	—
3.1 Disposals	2,199	—	21,848	—
3.2 Redemptions	887	—	—	—
3.3 Losses recognized in:	3,724	—	4,500	—
3.3.1 profit and loss	3,724	—	2,583	—
- of which, losses	3,724	—	2,583	—
3.3.2 net equity	X	X	1,916	—
3.4 Transfers to other levels	—	—	—	—
3.5 Other reductions	921	—	—	—
4. Balance at end of period	103,774	—	284,796	—

[1] Includes market value of options covering those attached to bond (€ 6.6m as at 31/12/17 and € 7.4m as at 30/6/17) as well as options traded (€ 70.1m and € 65.4m 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	10,205	—	—
2. Additions	5,707	—	—
2.1 Issues	3,543	—	—
2.2 Losses recognized in:	2,037	—	—
2.2.1 profit and loss	2,037	—	—
- of which, losses	2,037	—	—
2.2.2 net equity	X	X	—
2.3 Transfers from other levels	—	—	—
2.4 Other additions	127	—	—
3. Reductions	9,062	—	—
3.1 Redemptions	2,921	—	—
3.2 Buybacks	—	—	—
3.3 Profits recognized in:	6,141	—	—
3.3.1 profit and loss	6,141	—	—
- of which, gains	6,141	—	—
3.3.2 net equity	X	X	—
3.4 Transfers to other levels	—	—	—
3.5 Other reductions	—	—	—
4. Balance at end of period	6,850	—	—

[1] Includes market value of options covering those attached to bond (€6.6m as at 31/12/17 and €7.4m as at 30/6/17) as well as options traded (€70.1m and €65.4m 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	31/12/17				30/6/17			
	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	2,482,003	2,483,826	56,302	—	2,400,203	2,433,680	50,933	—
2. Due from banks	6,774,687	—	5,585,428	1,203,468	7,959,932	—	6,696,414	1,269,332
3. Due from customers	41,435,830	—	10,745,726	33,505,311	38,763,124	—	8,824,394	32,102,043
4. Tangible assets held for investment purposes	78,345	—	—	157,521	79,328	—	—	158,300
5. Non-current assets and groups of assets being sold	14,527	—	—	—	—	—	—	—
Total	50,785,392	2,483,826	16,387,456	34,866,300	49,202,587	2,433,680	15,571,741	33,529,675
1. Due to banks	12,647,350	—	12,647,350	—	12,689,595	—	12,689,595	—
2. Due to customers	21,721,908	—	21,727,893	—	20,365,999	—	20,383,215	—
3. Debt securities in issue	19,899,521	194,419	20,027,832	39,944	20,108,721	1,526,064	18,855,280	31,583
4. Liabilities in respect of non-current assets being sold	502	—	—	—	—	—	—	—
Total	54,269,281	194,419	54,403,075	39,944	53,164,315	1,526,064	51,928,090	31,583

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.

Part B - Notes to consolidated balance sheet *

Assets

SECTION 1

Heading 10: Cash and cash equivalents

1.1 Cash and cash equivalents: composition

	31/12/17	30/6/17
a) Cash	72,478	70,734
b) Demand deposits with Central banks	194,832	1,259,490
Total	267,310	1,330,224

SECTION 2

Heading 20: Financial assets held for trading

*2.1 Financial assets held for trading: composition **

Items/Values	31/12/17			30/6/17		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Balance-sheet assets						
1. Debt securities	2,498,431	247,276	39	2,281,662	450,897	2,321
1.1 Structured securities	8,195	9,437	—	10,711	16,345	—
1.2 Others	2,490,236	237,839	39	2,270,951	434,552	2,321
2. Equity instruments	3,485,046	—	89,075	1,453,540	—	88,071
3. Units in investment funds	62,879	18,702	11,080	93,736	133,017	11,691
4. Loans	128,772	—	—	9,960	59,639	—
4.1 Repos	—	—	—	—	—	—
4.2 Others	128,772	—	—	9,960	59,639	—
Total A	6,175,128	265,978	100,194	3,838,898	643,553	102,083
B. Derivative instruments						
1. Financial derivatives	395,837	2,784,364	80,231	463,114	2,532,927	76,682
1.1 Trading	395,837	2,694,934	74,296 [2]	463,114	2,229,591	69,444 [2]
1.2 Related to fair value option	—	—	—	—	—	—
1.3 Others	—	89,430	5,935 [3]	—	303,336	7,418 [3]
2. Credit derivatives	—	303,294	—	—	176,460	6
2.1 Trading	—	303,294	—	—	176,460	6
2.2 Related to fair value option	—	—	—	—	—	—
2.3 Others	—	—	—	—	—	—
Total B	395,837	3,087,658	80,231	463,114	2,709,387	76,868
Total (A+B)	6,570,965	3,353,636	180,425	4,302,012	3,352,940	178,951

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

[2] Respectively €70,104,000 and €65,407,000 by way of options traded, with the equivalent amount being recorded as trading liabilities.

[3] Includes the market value of options (€6.6m at 31/12/17 and €7.4m at 30/6/17) covering those linked with bonds issued, with the equivalent amount being recorded as trading liabilities.

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

SECTION 4

Heading 40: Available for sale (AFS) securities

*4.1 AFS securities: composition **

Items/Values	31/12/17			30/6/17		
	Level 1	Level 2	Level 3 [1]	Level 1	Level 2	Level 3 [1]
1. Debt securities	4,547,553	360,340	—	5,222,852	383,630	70
1.1 Structured securities	—	—	—	—	—	—
1.2 Other	4,547,553	360,340	—	5,222,852	383,630	70
2. Equity instruments	124,391	—	27,658	400,572	—	33,745
2.1 Designated at fair value	124,391	—	27,658	400,572	—	33,745
2.2 Recognised at cost	—	—	—	—	—	—
3. Units in investment funds	89,057	—	257,153	52,015	47,981	251,815
4. Loans	—	—	—	—	—	—
Total	4,761,001	360,340	284,811	5,675,439	431,611	285,630

* 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 based on internal rating models.

SECTION 5

Heading 50: Financial assets held to maturity

*5.1 Financial assets held to maturity: composition **

	31/12/17				30/6/17			
	Book Value	Fair value			Book Value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	2,482,003	2,483,826	56,302	—	2,400,203	2,433,680	50,933	—
- structured	—	—	—	—	—	—	—	—
- other	2,482,003	2,483,826	56,302	—	2,400,203	2,433,680	50,933	—
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	31/12/17				30/6/17			
	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	208,667	—	208,670	—	208,806	—	208,809	—
1. Time deposits	—	X	X	X	—	X	X	X
2. Compulsory reserves	208,667	X	X	X	208,806	X	X	X
3. Repos	—	X	X	X	—	X	X	X
4. Other	—	X	X	X	—	X	X	X
B. Loans to banks	6,566,020	—	5,376,758	1,203,468	7,751,125	—	6,487,605	1,269,332
1. Loans	6,566,020	—	5,376,758	1,203,468	7,751,125	—	6,487,605	1,269,332
1.1 Current accounts and demand deposits	1,052,962	X	X	X	1,276,888	X	X	X
1.2 Time deposits	130	X	X	X	51,223	X	X	X
1.3 Other loans	5,512,928	X	X	X	6,423,014	X	X	X
- Repos	4,374,418	X	X	X	5,315,656	X	X	X
- Finance leases	4,122	X	X	X	4,703	X	X	X
- Other	1,134,388	X	X	X	1,102,655	X	X	X
2. Debt securities	—	—	—	—	—	—	—	—
2.1 Structured	—	X	X	X	—	X	X	X
2.2 Other	—	X	X	X	—	X	X	X
Total	6,774,687	—	5,585,428	1,203,468	7,959,931	—	6,696,414	1,269,332

* 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	31/12/17						30/6/17					
	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	40,060,157	267,387	892,474	—	10,743,592	33,214,594	37,336,867	134,768	940,536	—	8,748,122	31,825,394
1. Current accounts	1,128,410	136,551	217	X	X	X	1,101,170	—	3,095	X	X	X
2. Repos	2,206,769	—	—	X	X	X	677,543	—	—	X	X	X
3. Mortgages	20,138,185	—	526,250	X	X	X	19,286,249	—	558,796	X	X	X
4. Credit cards, personal loans and salary-backed finance	9,348,454	104,256	158,444	X	X	X	9,158,017	118,129	159,801	X	X	X
5. Financial leases	2,013,642	22,664	155,586	X	X	X	2,098,886	16,639	167,023	X	X	X
6. Factoring	1,720,833	—	12,966	X	X	X	1,481,940	—	14,385	X	X	X
7. Other loans	3,503,864	3,916	39,011	X	X	X	3,533,062	—	37,436	X	X	X
Debt securities	215,812	—	—	—	2,134	290,717	350,953	—	—	—	76,272	276,649
8. Structured instruments	—	—	—	X	X	X	—	—	—	X	X	X
9. Others	215,812	—	—	X	X	X	350,953	—	—	X	X	X
Total	40,275,969	267,387	892,474	—	10,745,726	33,505,311	37,687,820	134,768	940,536	—	8,824,394	32,102,043

* 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 8

Heading 80: Hedging derivatives

8.1 Hedge derivatives: by hedge type and level

	31/12/17				30/6/17			
	Fair value			Nominal value	Fair value			Nominal Value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	—	225,789	—	9,171,290	—	462,300	—	7,803,389
1) Fair value	—	225,789	—	9,171,290	—	462,300	—	7,803,389
2) Cash flow	—	—	—	—	—	—	—	—
3) Net investments in foreign subsidiaries	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	—	225,789	—	9,171,290	—	462,300	—	7,803,389

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

Transaction/Type of hedging	Fair Value						Cash-flow hedges		Non Italian investments
	Micro					General	Specific	General	
	Interest rate risk	Currency risk	Credit risk	Price risk	Multiple risk				
1. Available-for-sale financial instruments	—	—	—	—	—	X	—	X	X
2. Loans and receivables	513	—	—	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	513	—	—	—	—	—	—	—	—
1. Financial liabilities	225,276	—	—	X	—	X	—	X	X
2. Portfolio	X	X	X	X	X	—	X	—	X
Total liabilities	225,276	—	—	X	—	—	—	—	X
1. Estimated transactions	X	X	X	X	X	X	—	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 2017, the stakes held as part of the Equity investment portfolio reflected a book value of €3,185.7m.

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. Entities under signficant influence						
1. Assicurazioni Generali S.p.A.	Trieste	Milan	2	Mediobanca S.p.A.	12.98	12.98
2. Istituto Europeo di Oncologia S.r.l.	Milan	Milan	2	Mediobanca S.p.A.	25.37	25.37
3. Burgo Group S.p.A.	Altavilla Vicentina (VI)	Milan	2	Mediobanca S.p.A.	22.13	22.13

Legend:

1 Joint control.

2 Subject to significant influence.

3 Exclusively controlled and not consolidated.

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. Entities under significant influence		
1. Assicurazioni Generali S.p.A.	3,145,970	3,081,245
2. Istituto Europeo di Oncologia S.r.l.	39,704	—
3. Burgo Group S.p.A.	—	—
4. Others	48	—
Total	3,185,722	

* Available only for listed companies.

SECTION 12

Heading 120: Property, plant and equipment

12.1 Tangible core assets stated at cost: composition

Assets/Values	31/12/17	30/6/17
1. Assets owned by the Group	211,246	226,228
a) land	84,883	84,883
b) buildings	101,941	103,836
c) furniture	9,661	10,105
d) electronic equipment	9,859	11,293
e) other assets	4,902	16,111
2. Assets acquired under finance leases	—	—
a) land	—	—
b) buildings	—	—
c) furniture	—	—
d) electronic equipment	—	—
e) other assets	—	—
Total	211,246	226,228

The decrease in the item is due to the agreement signed at Group level with IBM Italia (effective from 1 January 2018) to outsource IT infrastructure, end-user, data connectivity and computer security services (performed primarily by the Group consortium services company Mediobanca Innovation Services) for the Mediobanca Group as a whole.

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

Assets/Values	31/12/17				30/6/17			
	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	78,345	—	—	157,521	79,328	—	—	158,300
a) land	30,224	—	—	85,366	30,224	—	—	85,205
b) buildings	48,121	—	—	72,155	49,104	—	—	73,095
2. Assets acquired under finance lease	—	—	—	—	—	—	—	—
a) land	—	—	—	—	—	—	—	—
b) buildings	—	—	—	—	—	—	—	—
Total	78,345	—	—	157,521	79,328	—	—	158,300

SECTION 13

Heading 130: Intangible assets

13.1 Intangible assets: composition by category

Assets/Values	31/12/17		30/6/17	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X	472,679	X	483,557
A.1.1 Attributable to the Group	X	472,679	X	483,557
A.1.2 Attributable to minorities	X	—	X	—
A.2 Other intangible assets	78,097	15,489	68,651	—
A.2.1 Assets valued at cost	78,097	15,489	68,651	—
a) Intangible assets generated internally	—	—	—	—
b) Other assets	78,097	15,489	68,651	—
A.2.2 Assets valued at fair value	—	—	—	—
a) Intangible assets generated internally	—	—	—	—
b) Other assets	—	—	—	—
Total	78,097	488,168	68,651	483,557

Information on intangible assets and goodwill

Intangible assets also include the effects of acquisitions made by the Group.

During the six months under review, the PPA process has been completed for both the acquisition of Banca Esperia by Mediobanca and the former Crédit Agricole operations acquired by Compagnie Monégasque de Banque.

Pursuant to IFRS 3, the acquiring company has to restate the assets and liabilities acquired (including any intangible assets and contingent liabilities not recognized in the acquired companies' own financial statements) at their fair value in its own financial statements following the PPA process.

With reference to the Banca Esperia PPA process, no potential liabilities were identified, while the following other issues have been identified and estimated:

– Negative fair values in an amount of €11.2m in respect of receivables (non-performing or closely monitored) and UCITS investments in the AFS portfolio (valued according to more stringent criteria);

– A client list, recorded among the intangible assets in an amount of €4.5m, reflecting relations within the integrated private banking business (AUM/AUA, direct funding and lending arrangements);

– One brand, valued at €15.5m, representing the strength and reach of the Esperia brand, which has been further enhanced since the acquisition and being renamed as Mediobanca Private Banking; a strong brand allows for a greater control over the assets under management and contains revenue volatility, thus reducing the loss rate for private bankers and making relations with customers more stable and resilient over time. This value, the residual useful life of which is basically indefinite, has been calculated as the higher value of discounted cash flows from Banca Esperia's AUM/AUA operations, compared to those of a normal market operator (or market participant).

The book value of other assets/liabilities is equal to their fair value, because they have been recognized at fair value since their initial recognition or because they are short-term items.

Net equity thus reduced from €176.6m to €178.7m, which, compared with an acquisition cost of €233.9m, generated goodwill of €55.2m, corresponding to the expected value generated by the acquisition through the achievement of indivisible synergies (by the acquiring company itself). The aggregate goodwill has been distributed between the Cash Generating Units involved in the transaction, i.e. fiduciary activities (spun off to Spafid), the Private Banking division, and Mid Cap Corporate activities.

Table 1: Summary of Esperia PPA effects

	Esperia
Acquisition date	*6/4/2017*
Price paid	233,920
of which: ancillary charges	—
Liabilities	—
Intangible assets, defined life	(4,508)
no. of years amortization	*5*
Brands	(15,489)
Fair Value adjustments	11,232
Balance of other assets (liabilities)	(176,559)
Tax effects	6,613
Goodwill	**55,209**

Table 2: Goodwill

CGU	Deal	31/12/17
Private Banking	Mediobanca	29,453
Mid Corporate	Mediobanca	22,676
Fiduciary activities	Spafid	3,080
Total goodwill		**55,209**

Table 3: Other intangible assets acquired through extraordinary transactions

(€'000)

Type	Deal	30/6/17	31/12/17
Customer relationship		25,884	36,032
	Spafid	*4,236*	*4,022*
	Barclays	*21,648*	*21,306*
	MB Private	—	*4,188*
	CMB-ex Credit Agricole	—	*6,516*
Brand		983	16,472
	ISPS	*983*	*983*
	MB Private	—	*15,489*
Commercial agreements	Linea	1,370	685
Acquired software	Spafid Connect	5,077	5,402
Total		**33,314**	**58,591**

The PPA process for the former Crédit Agricole business acquired by Compagnie Monégasque de Banque resulted in intangible assets with defined useful life being identified in an amount of €6.5m, exclusively in respect of the client list with a residual useful life of ten 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

	31/12/17	30/6/17
- Balancing to the profit and loss	647,134	700,672
- Balancing to the net equity	9,719	14,687
Total	656,853	715,359

14.2 Deferred tax liabilities: composition

	31/12/17	30/6/17
- Balancing to the profit and loss	295,715	290,368
- Balancing to the net equity	74,966	79,878
Total	370,681	370,246

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

	31/12/17	30/6/17
1. Opening balance	700,672	728,782
2. Increases	38,180	41,108
2.1 Deferred tax assets of the year	38,153	28,417
a) Relating to previous years	35,981	2,589
b) Due to change in accounting policies	—	—
c) Write-backs	—	—
d) Other (creation of temporary differences, use of TLCF)	2,172	25,828
2.2 New taxes or increase in tax rates	—	—
2.3 Other increases	27	12,691
3. Decreases	91,718	69,218
3.1 Deferred tax assets derecognised in the year	83,517	59,422
a) Reversals of temporary differences	83,353	59,164
b) Write-downs of non-recoverable items	—	—
c) Change in accounting policies	—	—
d) Other	164	258
3.2 Reduction in tax rates	—	173
3.3 Other decreases	8,201	9,623
a) Conversion into tax credit under L. 214/2011	—	99
b) Other	8,201	9,524
4. Final amount	647,134	700,672

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

	31/12/17	30/6/17
1. Opening balance	609,074	647,526
2. Increases	(579)	3,415
3. Decreases	58,655	41,867
3.1 Reversals of temporary differences	56,043	40,243
3.2 Conversion on tax credit deriving from	—	—
a) year losses	—	—
b) tax losses	—	—
3.3 Other decreases	2,612	1,624
4. Final amount	549,870	609,074

* 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)

	31/12/17	30/6/17
1. Opening balance	290,368	279,641
2. Increases	7,698	20,704
2.1 Deferred tax liabilities of the year	4,048	18,810
a) Relating to previous years	—	—
b) Due to change in accounting policies	—	—
c) Other	4,048	18,810
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	3,650	1,894
3. Decreases	2,351	9,977
3.1 Deferred tax liabilities derecognised in the year	2,150	6,637
a) Reversals of temporary differences	613	310
b) Due to change in accounting policies	—	—
c) Other	1,537	6,327
3.2 Reductions in tax rates	—	35
3.3 Other decreases	201	3,305
4. Final amount	295,715	290,368

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

	31/12/17	30/6/17
1. Opening balance	14,687	22,545
2. Increases	2,278	28,039
2.1 Deferred tax assets of the year	1,854	25,091
a) Relating to previous years	—	—
b) Due to change in accounting policies	—	—
c) Other (creation of temporary differences)	1,854	25,091
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	424	2,948
3. Decreases	7,246	35,897
3.1 Deferred tax assets derecognised during the year	7,126	34,618
a) Reversals of temporary differences	6,554	31,221
b) Writedowns of non-recoverable items	—	—
c) Due to change in accounting policies	—	—
d) Other	572	3,397
3.2 Reduction in tax rates	—	1,261
3.3 Other decreases	120	18
4. Final amount	9,719	14,687

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

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

	31/12/17	30/6/17
1. Opening balance	79,878	85,433
2. Increases	144,450	313,559
2.1 Deferred tax liabilities of the year	144,359	310,367
a) Relating to previous years	—	—
b) Due to change in accounting policies	—	—
c) Other (creation of temporary differences)	144,359	310,367
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	91	3,192
3. Decreases	149,362	319,114
3.1 Deferred tax liabilities derecognised in the year	149,362	317,724
a) Reversals of temporary differences	149,224	316,824
b) Due to change in accounting policies	—	—
c) Other	138	900
3.2 Reduction in tax rates	—	—
3.3 Other decreases	—	1,390
4. Final amount	74,966	79,878

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

SECTION 15

Assets heading 150 and Liability heading 90: Non-current assets and disposal groups classified as held for sale

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

	31/12/17
A. Individual assets	
A.1 Financial assets	—
A.2 Equity investments	—
A.3 Tangible assets	—
A.4 Intangible assets	—
A.5 Non current - Other	—
Total A	**—**
of which carried at cost	—
of which carried at fair value level 1	—
of which carried at fair value level 2	—
of which carried at fair value level 3	—
B. Asset group classified as held for sale (discontinued operations)	**—**
B.1 Financial assets held for trading	—
B.2 Financial assets designated at fair value	—
B.3 Available for sale financial assets	—
B.4 Held to maturity investments	—
B.5 Loans and receivables with banks	—
B.6 Loans and receivables with customers	—
B.7 Equity investments	—
B.8 Tangible assets	9,661
B.9 Intangible assets	998
B.10 Other assets	3,868
Total B	**14,527**
of which carried at cost	*14,527*
of which carried at fair value level 1	—
of which carried at fair value level 2	—
of which carried at fair value level 3	—
C. Liabilities included in disposal groups classified as held for sale	**—**
C.1 Deposits	—
C.2 Securities	—
C.3 Other liabilities	—
Total C	**—**
of which carried at cost	—
of which carried at fair value level 1	—
of which carried at fair value level 2	—
of which carried at fair value level 3	—
D. Liabilities included in disposal group classified as held for sale	**—**
D.1 Deposits from banks	—
D.2 Deposits from customers	—
D.3 Debt securities in issue	—
D.4 Financial liabilities held for trading	—
D.5 Financial liabilties designated at fair value	—
D.6 Reserve	(288)
D.7 Other Liabilities	(214)
Total D	**(502)**
of which carried at cost	*(502)*
of which carried at fair value level 1	—
of which carried at fair value level 2	—
of which carried at fair value level 3	—

SECTION 16

Heading 160: Other assets

16.1 Other assets: composition

	31/12/17	30/6/17
1. Gold, silver and precious metals	695	695
2. Accrued income other than capitalized income from financial assets	15,796	15,370
3. Trade receivables or invoices to be issued	257,360	209,129
4. Amounts due from tax revenue authorities (not recorded under Heading 140)	197,416	205,527
5. Other items	110,776	130,812
- bills for collection	34,718	30,246
- amounts due in respect of premiums, grants, indemnities and other items in respect of lending transactions	20,493	23,827
- advance payments on deposit commissions	5,832	3,205
- other items in transit	15,759	40,225
- amounts due from staff	402	369
- sundry other items	30,914	30,286
- improvements on third parties' assets	2,658	2,654
Total	582,043	561,533

Liabilities

SECTION 1

Heading 10: Due to banks

1.1 Due to banks: composition

Type of transaction/Values	31/12/17	30/6/17
1. Deposits from Central Banks	4,386,361	5,898,813
2. Deposits from banks	8,260,989	6,790,782
2.1 Other current accounts and demand deposits	463,491	484,662
2.2 Time deposits	99,986	13,172
2.3 Loans	7,645,298	6,118,109
2.3.1 Repos	4,187,960	2,797,931
2.3.2 Other	3,457,338	3,320,178
2.4 Liabilities in respect of commitments to repurchase treasury shares	—	—
2.5 Other debt	52,214	174,839
Total	12,647,350	12,689,595
Fair Value - Level 1	—	—
Fair Value - Level 2	12,647,350	12,689,595
Fair Value - Level 3	—	—
Total Fair Value	12,647,350	12,689,595

SECTION 2

Heading 20: Due to customers

2.1 Due to customers: composition

Type of transaction/Values	31/12/17	30/6/17
1. Current accounts and demand deposits	14,604,949	13,976,774
2. Time deposits including saving deposits with maturity	4,033,516	4,591,746
3. Loans	2,921,664	1,660,672
3.1 Repos	2,110,630	577,708
3.2 Other	811,034	1,082,964
4. Liabilities in respect of commitments to repurchase treasury shares	—	—
5. Other	161,779	136,807
Total	21,721,908	20,365,999
Fair Value - Level 1	—	—
Fair Value - Level 2	21,727,893	20,383,215
Fair Value - Level 3	—	—
Total Fair Value	21,727,893	20,383,215

SECTION 3

Heading 30: Debt securities in issue

3.1 Debt securities in issue: composition

Type of transaction/ Values	31/12/17				30/6/17			
	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	18,802,894	194,419	18,971,148	—	19,345,948	1,526,064	18,124,091	—
1.1 structured	5,154,381	—	5,396,699	—	6,366,798	—	6,600,518	—
1.2 other	13,648,513	194,419	13,574,449	—	12,979,150	1,526,064	11,523,573	—
2. Other structured securities	1,096,627	—	1,056,684	39,944	762,773	—	731,189	31,583
2.1 structured	—	—	—	—	—	—	—	—
2.2 other	1,096,627	—	1,056,684	39,944	762,773	—	731,189	31,583
Total	19,899,521	194,419	20,027,832	39,944	20,108,721	1,526,064	18,855,280	31,583

* The fair values are shown net of Mediobanca issuer risk; if this item is included, the fair value at 31 December 2017 would show a gain of €68.8m (€216.4m higher).

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

The heading "Debt securities in issue" includes the following seven subordinate Tier 2 issues, for a total amount of €2,470,722,000:

Issue	31/12/17		
	ISIN code	Nominal value	Book value
MB GBP Lower Tier II Fixed/Floating Rate Note 2018 (Not included in calculation of regulatory capital)	XS0270002669	21,909	24,745
MB Subordinato Mar 29	XS1579416741	50,000	50,484
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	614,065	654,421
MB Opera 3.75 2026	IT0005188351	297,649	290,848
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	390,996	392,889
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	499,678	507,241
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	494,323	550,094
Total subordinated securities		2,368,620	2,470,722

SECTION 4

Heading 40: Trading liabilities

4.1 Trading liabilities: composition

Type of transaction/Values	31/12/17					30/6/17				
	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	1,527,714	1,725,773	31	—	1,725,804	1,456,852	1,710,400	182	—	1,710,582
2. Deposits from customers	964,483	1,089,523	19	—	1,089,542	445,006	522,452	55	—	522,507
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	2,492,197	2,815,296	50	—	2,815,346	1,901,858	2,232,852	237	—	2,233,089
B. Derivative instruments										
1. Financial derivatives	X	428,803	2,064,108	83,503	X	X	497,352	2,679,520	83,015	X
1.1 Trading	X	428,803	1,941,979	75,486 [1]	X	X	497,352	2,362,770	74,114 [1]	X
1.2 Related with fair value option	X	—	—	—	X	X	—	—	—	X
1.3 Other	X	—	122,129	8,017 [2]	X	X	—	316,750	8,901 [2]	X
2. Credit derivatives		—	1,307,760	—	X		—	427,607	—	X
2.1 Trading	X	—	1,307,760	—	X	X	—	427,607	—	X
2.2 Related with fair value option	X	—	—	—	X	X	—	—	—	X
2.3 Other	X	—	—	—	X	X	—	—	—	X
Total B	X	428,803	3,371,868	83,503	X	X	497,352	3,107,127	83,015	X
Total (A + B)	X	3,244,099	3,371,918	83,503	X	X	2,730,204	3,107,364	83,015	X

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

[1] Respectively €70,104,000 and €65,407,000 for options traded, matching the amount recorded among assets held for trading.

[2] Includes the market value (€6.6m at 31/12/17 and €7.4m at 30/6/17) 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	31/12/17				30 giugno 2017			
	Fair value			Nominal value	Fair value			Nominal value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Derivati finanziari	—	240,823	—	8,110,043	—	341,159	—	10,189,130
1) *Fair value*	—	234,652	—	8,070,043	—	298,764	—	9,259,111
2) Flussi finanziari	—	6,171	—	40,000	—	42,395	—	930,019
3) Investimenti esteri	—	—	—	—	—	—	—	—
B. Derivati creditizi	—	—	—	—	—	—	—	—
1) *Fair value*	—	—	—	—	—	—	—	—
2) Flussi finanziari	—	—	—	—	—	—	—	—
Total	—	240,823	—	8,110,043	—	341,159	—	10,189,130

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	44,386	—	—	—	—	X	—	X	X
2. Loans and advances	59,268	—	—	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	103,654	—	—	—	—	—	—	—	—
1. Financial liabilities	130,998	—	—	X	—	X	6,171	X	X
2. Portfolio	X	X	X	X	X	—	X	—	X
Total liabilities	130,998	—	—	—	—	—	6,171	—	—
1. Expected transactions	X	X	X	X	X	X	—	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 9

Heading 90: Liabilities included in disposal groups classified as held for sale

Please see asset section 15.

SECTION 10

Heading 100: Other liabilities

10.1 Other liabilities: composition

	31/12/17	30/6/17
1. Payment agreements (IFRS 2)	—	—
2. Impaired endorsements	14,156	14,089
3. Working capital payables and invoices pending receipt	321,353	409,300
4. Amounts due to revenue authorities	54,477	63,924
5. Amounts due to staff	175,941	178,861
6. Other items:	132,596	180,086
- bills for collection	25,709	25,583
- coupons and dividends pending collection	2,343	2,289
- available sums payable to third parties	26,996	24,506
- premiums, grants and other items in respect of lending transactions	31,720	31,767
- credit notes to be issued	—	—
- other [1]	45,828	95,941
7. Adjustments upon consolidation	—	—
Total	698,523	846,260

[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.

SECTION 11

Heading 110: Staff severance indemnity provision

11.1 Staff severance indemnity provision: changes during the year

	31/12/17	30/6/17
A. Initial amount	29,779	28,975
B. Increases	6,157	15,064
B.1 Provision of the year	4,821	10,658
B.2 Other increases	1,336	4,406
C. Reductions	6,647	14,260
C.1 Severance payments	2,173	2,502
C.2 Other decreases [1]	4,474	11,758
D. Closing balance	29,289	29,779
Total	29,289	29,779

[1] Includes €2,298,000 in transfers to external, defined contribution pension schemes (30/6/17: €6,764,000).

SECTION 12

Heading 120: Provisions

12.1 Provisions: composition

Items	31/12/17	30/6/17
1. Provision to retirement payments and similar	—	—
2. Other provisions	190,579	225,850
2.1 Staff expenses	6,311	5,611
2.2 Other [1]	184,268	220,239
Total	190,579	225,850

[1] The item "Other provisions: other" includes €63.8m in respect of the CheBanca! restructuring (linked to the Barclays acquisition) and €4.1m for the Banca Esperia restructuring.

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.

At 31 December 2017, the heading "Other provisions" stood at €190.6m, which includes €6.3m in staff-related costs, €184.3m in litigation and other contingent liabilities to cover the Barclays and Banca Esperia restructuring processes (including the staff restructuring schemes). The provisions mainly refer to Mediobanca (€99.1m), CheBanca! (€72.8m), Compagnie Monégasque de Banque (€4.7m), and SelmaBipiemme (€5.7m).

With reference to the litigation pending against Mediobanca S.p.A. as at 31 December 2017, there have been no major changes during the six months; hence reference is made to Section 12 – Liabilities of the Annual Accounts and Report as at 30 June 2017 for further details.

With reference to the disputes outstanding with the Italian revenue authorities, as at 31 December 2017 the Mediobanca Group had a total of eighteen cases pending in respect of higher tax worth a notified amount of €24.5m, plus interest and penalties, basically unchanged since end-June 2017. During the six months under review, five new cases have been brought in respect of higher tax payable for a notified amount of just under €1m and due for the most part to withholding tax on real estate funds managed by Mediobanca SGR. Mediobanca SGR has meanwhile also agreed to settle outstanding claims and litigations (as permitted pursuant to Article 11 of Italian Decree Law 50/17), regarding a dispute on VAT tax receivables by paying €1.2m (all of which has been set aside already during the past financial year).

Mediobanca believes that the provisions are adequate to cover any charges due in connection with the cases that have been brought against the Bank itself and the other Group companies (for which no other significant litigation is pending) and any other contingent liabilities, of which, as permitted by IAS 37, paragraph 92, no precise indication has been given.

12.2 Provisions: movements during the year

Items	Charges relating to staff *	Other provisions	Total
A. Opening balance	5,611	220,239	225,850
B. Increases	700	11,963	12,663
B.1 Provision for the year	700	11,236	11,936
B.2 Changes due to the passage of time	—	—	—
B.3 Difference due to discount rate changes	—	—	—
B.4 Other increases	—	727	727
C. Decreases	—	47,934	47,934
C.1 Use during the year [1]	—	39,574	39,574
C.2 Difference due to discount rate changes	—	—	—
C.3 Other decreases	—	8,360	8,360
D. Closing balance	6,311	184,268	190,579

* Includes sums set aside in respect of staff exit incentivizations. The item does not include the Barclays and Banca Esperia severances.

[1] The item "Other provisions" reflects the following withdrawals during the period: €17.4m in respect of the CheBanca! restructuring following the Barclays acquisition; and €6.1m in respect of the Banca Esperia restructuring.

SECTION 13

Heading 130: Technical reserves

13.1 Technical reserves: composition

	Direct business	Indirect business	31/12/17	30/6/17
A. Non-life business:	—	170,333	170,333	165,974
A.1 Provision for unearned premiums	—	160,580	160,580	150,806
A.2 Provision for outstanding claims	—	9,753	9,753	15,168
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	—	170,333	170,333	165,974

13.2 Technical reserves: movements during the year

	31/12/17	30/6/17
A. Non-life business		
Balance at start of period	165,974	147,861
Combinations involving group companies	—	—
Changes to reserves (+/-)	4,359	18,113
Other additions	—	—
Balance at end of period	170,333	165,974
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	170,333	165,974

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	881,212,658
- entirely unrestricted	881,212,658
- with restrictions	—
A.1 Treasury shares (-)	(15,758,511)
A.2 Shares in issue: balance at start of period	865,454,147
B. Additions	2,848,199
B.1 New share issuance as a result of:	2,848,199
- rights issues	—
- business combinations	—
- bond conversions	—
- exercise of warrants	—
- others	—
- bonus issues	2,848,199
- to staff members	2,848,199
- 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	868,302,346
D.1 Add: treasury shares (+)	(15,758,511)
D.2 Shares in issue at end of period	884,060,857
- entirely unrestricted	884,060,857
- with restrictions	—

15.3 Share capital: other information

As at 31 December 2017, a total of 21,725 treasury shares were reserved for awards.

15.4 Profit reserves: other information

Item	31/12/17	30/6/17
Legal reserve	88,124	87,102
Statutory reserve	1,284,482	1,288,162
Treasury shares	197,709	197,709
Others	3,911,049	3,483,892
Total	5,481,364	5,056,865

SECTION 16

Heading 210: Net equity attributable to minorities

16.1 Net equity attributable to minorities: composition

Company name	31/12/17	30/6/17
1. SelmaBipiemme S.p.A.	84,865	82,722
2. Other minors	4	11
Total	84,869	82,733

Other information

1. Guarantees and commitments

Operations	31/12/17	30/6/17
1) Financial guarantees given to	820,775	890,885
a) Banks	70,964	198,636
b) Customers	749,811	692,249
2) Commercial guarantees given to	56,500	32,532
a) Banks	391	392
b) Customers	56,109	32,140
3) Irrevocable commitments to disburse funds	8,926,132	6,948,659
a) Banks	450,809	144,384
i) usage certain	450,659	136,496
ii) usage uncertain	150	7,888
b) Customers	8,475,323	6,804,275
i) usage certain	6,668,361	6,369,612
ii) usage uncertain	1,806,962	434,663
4) Commitments underlying credit derivatives protection sales [1]	15,952,513	11,782,148
5) Assets formed as collateral for third-party obligations	—	—
6) Other commitments	3,119,253	3,468,325
Total	28,875,173	23,122,549

[1] Includes transactions fully matched by hedge buys (€7,856,724,000 and €4,997,186,000 respectively).

5. Assets managed and traded on behalf of third parties

Type of service	31/12/17	30/6/17
1. Orders execution on behalf of customers	14,750,443	29,743,503
a) purchases	7,508,893	14,901,757
1. settled	7,481,222	14,756,642
2. unsettled	27,671	145,115
b) sales	7,241,550	14,841,746
1. settled	7,213,879	14,696,631
2. unsettled	27,671	145,115
2. Portfolio management	15,786,671	15,668,947
a) Individual	4,970,383	6,010,445
b) Collective	10,816,288	9,658,502
3. Custody and administration of securities	46,285,100	50,162,636
a) Third-party securities on deposits; relating to depositary banks activities (excluding segregating accounts)	9,675,217	9,682,059
1. securities issued by companies included in area of consolidation	202,119	297,405
2. other securities	9,473,098	9,384,654
b) Third-party securities held in deposits (excluding segregating accounts): other	14,542,430	13,947,083
1. securities issued by companies included in area of consolidation	—	151,496
2. other securities	14,542,430	13,795,587
c) securities of third deposited to third	13,976,722	16,453,997
d) property securities deposited to third	8,090,731	10,079,497
4. Other operations	897,440	572,029

Part C - Notes to consolidated profit and loss account

SECTION 1

Headings 10 and 20: Net interest income

1.1 Interest and similar income: composition

Voices/Technical forms	Debt securities	Loans	Other transactions	6 mths ended 31/12/17	6 mths ended 31/12/16
1. Financial assets held for trading - Cash instruments	7,443	957	—	8,400	17,113
2. Financial assets designated at fair value through profit or loss	—	—	—	—	—
3. Available for sale financial assets	33,982	—	—	33,982	45,250
4. Held to maturity investments	20,829	—	—	20,829	22,826
5. Loans and receivables with banks	—	12,206	—	12,206	13,052
6. Loans and receivables with customers	3,851	808,646	—	812,497	785,761
7. Hedging derivatives	X	X	44,446	44,446	75,273
8. Other assets	X	X	9,377	9,377	3,330
Total	66,105	821,809	53,823	941,807	962,605

1.4 Interest expense and similar charges: composition

Voices/Technical forms	Debts	Securities	Other transactions	6 mths ended 31/12/17	6 mths ended 31/12/16
1. Deposits from central banks	(408)	X	—	(408)	(997)
2. Deposits from banks	(8,643)	X	—	(8,643)	(10,755)
3. Deposits from customers	(30,861)	X	—	(30,861)	(51,882)
4. Debt securities in issue	X	(214,934)	—	(214,934)	(261,185)
5. Financial liabilities held for trading	—	—	—	—	—
6. Financial liabilities at fair value through profit or loss	—	—	—	—	—
7. Other liabilities and found	X	X	(2,414)	(2,414)	(2,087)
8. Hedging derivatives	X	X	—	—	—
Total	(39,912)	(214,934)	(2,414)	(257,260)	(326,906)

SECTION 2

Headings 40 and 50: Net fee and commission income

2.1 Fee and commission income: composition

Total	6 mths ended 31/12/17	6 mths ended 31/12/16
a) guarantees given	643	278
b) credit derivatives	—	—
c) management, brokerage and consultancy incomes:	161,451	103,088
1. securities trading	6,916	6,386
2. currency trading	—	42
3. portfolio management	42,171	11,819
3.1 individual	17,252	3,821
3.2 collective	24,919	7,998
4. custody and administration of securities	7,249	6,214
5. custodian bank	—	—
6. placement of securities	48,325	28,888
7. reception and transmission of orders	5,658	5,781
8. advisory services	6,032	3,689
8.1 related to investments	6,032	3,689
8.2 related to financial structure	—	—
9. distribution of third parties services	45,100	40,269
9.1 portfolio management	17,112	11,436
9.1.1 individual	17,053	11,436
9.1.2 collective	59	—
9.2 insurance products	26,528	26,782
9.3 other products	1,460	2,051
d) collection and payment services	10,417	8,953
e) securitization servicing	—	—
f) factoring services	2,853	1,993
g) tax collection services	—	—
h) manaement of multilateral trading facilities	—	—
i) management of current accounts	3,331	2,062
j) other services	91,709	87,173
Total	270,404	203,547

The heading “Fee and commission income” includes €46.3m for the six months ended 31 December 2017, in connection with the Esperia group mainly deriving from asset management, brokerage and advisory activities.

2.2 Fee and commission expense: composition

Services/Amounts	6 mths ended 31/12/17	6 mths ended 31/12/16
a) guarantees received	(3)	(8)
b) credit derivatives	—	—
c) management, brokerage and consultancy services: [1]	(11,318)	(5,283)
1. trading in financial instruments	(4,346)	(3,313)
2. currency trading	—	—
3. portfolio management	(2,884)	—
3.1 own portfolio	(91)	—
3.2 third parties portfolio	(2,793)	—
4. custody and administration securities	(2,162)	(1,238)
5. financial instruments placement	(1,926)	(732)
6. off-site distribution of financial instruments, products and services	—	—
d) collection and payment services	(6,634)	(4,665)
e) other services [2]	(47,672)	(28,171)
Total	(65,627)	(38,127)

[1] The new Mediobanca Private Banking division contributed €6.2m in 1H FY 2017/18.

[2] The increase is due to higher rappel commissions from sales activity, in the distribution of Consumer Banking fees, and to fees credited back in connection with the new Spafid Connect business.

SECTION 3

Heading 70: Dividends and similar income

3.1 Dividends and similar income: composition

Items/Income	6 mths ended 31/12/17		6 mths ended 31/12/16	
	Dividends	Incomes from units in investment funds	Dividends	Incomes from units in investment funds
a) Financial assets held for trading	19,175	373	28,792	188
b) Available for sale financial assets	174	6,439	5,193	1,700
c) Financial assets through profit or loss - other	—	—	—	—
d) Investments	—	X	—	X
Total	19,349	6,812	33,985	1,888

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	102,787	72,719	(158,408)	(81,374)	(64,276)
1.1 Debt securities	39,807	18,460	(30,740)	(31,327)	(3,800)
1.2 Equity	60,801	53,414	(118,713)	(50,031)	(54,529)
1.3 Units in investment funds	1,829	614	(8,791)	(16)	(6,364)
1.4 Loans	350	231	(164)	—	417
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	33,465
4. Derivatives	2,003,381	921,494	(1,960,857)	(873,687)	81,714
4.1 Financial derivatives	1,746,472	711,600	(987,184)	(685,723)	776,548
- on debt securities and interest rates [1]	1,177,867	148,195	(466,146)	(154,603)	705,313
- on equity securities and shares' indexes	568,605	539,281	(520,799)	(531,120)	55,967
- on currencies and gold	X	X	X	X	(8,617)
- other	—	24,124	(239)	—	23,885
4.2 Credit derivatives	256,909	209,894	(973,673)	(187,964)	(694,834)
Total	2,106,168	994,213	(2,119,265)	(955,061)	50,903

[1] Of which €910,000 in negative margins on interest rate derivatives (31/12/16: minus €7,770,000).

SECTION 5

Heading 90: Net hedging income (expense)

5.1 Net hedging income (expense): composition

Income elements/Amounts	6 mths ended 31/12/17	6 mths ended 31/12/16
A. Incomes from:		
A.1 Fair value hedging instruments	265,920	95,351
A.2 Hedged asset items (in fair value hedge relationships)	23,292	16,851
A.3 Hedged liability items (in fair value hedge relationship)	232,094	278,887
A.4 Cash-flows hedging derivatives (including ineffectiveness of net investment hedge)	—	5
A.5 Assets and liabilities denominated in currency (not derivative hedging instruments)	—	—
Total gains on hedging activities (A)	521,306	391,094
B. Losses on:		
B.1 Fair value hedging instruments	(436,823)	(282,413)
B.2 Hedged asset items (in fair value hedge relationships)	(53,302)	(77,720)
B.3 Hedged liability items (in fair value hedge relationship)	(32,238)	(23,266)
B.4 Cash-flows hedging derivatives (including ineffectiveness of net investment hedge)	(2)	(1)
B.5 Assets and liabilities denominated in currency (not derivative hedging instruments)	—	—
Total losses on hedging activities (B)	(522,365)	(383,400)
C. Net profit from hedging activities (A-B)	(1,059)	7,694

SECTION 6

Heading 100: Gains (losses) on disposals/repurchases

6.1 Gains (losses) on disposals/repurchases: composition

Items/Income	6 mths ended 31/12/17			6 mths ended 31/12/16		
	Gains	Losses	Net profit	Gains	Losses	Net profit
Financial assets						
1. Loans and receivables with banks	—	—	—	—	—	—
2. Loans and receivables with customers	6,477	(2,787)	3,690	3,751	(1,072)	2,679
3. Financial assets available for sale	103,951	(10,947)	93,004	150,178	(194)	149,984
3.1 Debt securities	9,452	(10,877)	(1,425)	28,523	(194)	28,329
3.2 Equity instruments	94,482	—	94,482	121,655	—	121,655
3.3 Units in investment funds	17	(70)	(53)	—	—	—
3.4 Loans	—	—	—	—	—	—
4. Financial assets held to maturity	462	(2,578)	(2,116)	3,946	—	3,946
Total assets	110,890	(16,312)	94,578	157,875	(1,266)	156,609
Financial liabilities						
1. Deposits with banks	1,097	—	1,097	—	—	—
2. Deposits with customers	—	—	—	—	—	—
3. Debt securities in issue	—	(5,491)	(5,491)	134	(13,462)	(13,328)
Total liabilities	1,097	(5,491)	(4,394)	134	(13,462)	(13,328)

The losses on AFS and HTM debt securities regard almost exclusively the valuation of bonds denominated in a foreign currency at current exchange rates; such losses amount to €12.9m, €10.6m of which in respect of the AFS portfolio.

SECTION 8

Heading 130: Adjustments for impairment

8.1 Adjustments for impairment on credits: composition

Transactions/Income	Writedowns			Writebacks				6 mths ended 31/12/17	6 mths ended 31/12/16
	Specific		Portfolio	Specific		Portfolio			
	Write - offs	Other		A	B	A	B		
A. Loans and receivables with banks									
- Loans	—	—	(258)	—	—	—	—	(258)	(560)
- Debt receivables	—	—	—	—	—	—	—	—	(2,176)
B. Loans and receivables with customers									
Deteriorated purchased loans									
- Loans	(13,531)	—	X	—	20,683 [1]	X	X	7,152	(602)
- Debt securities	—	—	X	—	—	X	X	—	—
Other receivables									
- Loans	(9,135)	(152,797)	(158,154)	2,210	85,834	—	122,110	(109,932)	(181,815)
- Debt receivables	—	—	—	—	—	—	841	841	(485)
C. Total	(22,666)	(152,797)	(158,412)	2,210	106,517	—	122,951	(102,197)	(185,638)

[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 31/12/17	6 mths ended 31/12/16
	Specific		Specific			
	Write - offs	Other	A	B		
A. Debt securities	—	(713)	—	—	(713)	—
B. Equity instruments [1]	—	(2,165)	X	X	(2,165)	(1,678)
C. Units in investment funds	—	(416)	X	—	(416)	(51)
D. Loans to banks	—	—	—	—	—	—
E. Loans to customers	—	—	—	—	—	—
Total	—	(3,294)	—	—	(3,294)	(1,729)

[1] Related to the operation linked to the Cassa di Risparmio di Cesena.

Legend
A = interest
B = other amounts recovered

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

Transactions/Income	Writedowns			Writebacks				6 mths ended 31/12/17	6 mths ended 31/12/16
	Specific		Portfolio	Specific		Portfolio			
	Writeoffs	Other		A	B	A	B		
A. Debt securities	—	—	—	—	—	—	3,010	3,010	(5,606)
B. Loans to banks	—	—	—	—	—	—	—	—	—
C. Loans to customers	—	—	—	—	—	—	—	—	—
D. Total	—	—	—	—	—	—	3,010	3,010	(5,606)

Legend

A = interest

B = other amounts recovered

8.4 Adjustments for impairment on other financial transactions: composition

Transactions/Income	Writedowns			Writebacks				6 mths ended 31/12/17	6 mths ended 31/12/16
	Specific		Portfolio	Specific		Portfolio			
	Writeoffs	Other		A	B	A	B		
A. Guarantees given	—	—	(17)	—	—	—	—	(17)	637
B. Credit derivatives	—	—	—	—	—	—	—	—	—
C. Commitments to disburse funds	—	(330)	(2,944)	—	1,783	—	3,234	1,743	5,859
D. Other transactions	(282)	(150)	—	—	317	—	—	(115)	—
E. Total	(282)	(480)	(2,961)	—	2,100	—	3,234	1,611	6,496

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 31/12/17	6 mths ended 31/12/16
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 (+)	—	38,196	38,196	32,774
B.2 Reinsurance premiums paid (-)	—	X	—	—
B.3 Change in gross value of premium reserve (+/-)	—	(9,774)	(9,774)	(7,379)
B.4 Change in provision for unearned premiums ceded to reinsurers (+/-)	—	—	—	—
B.5 Total	—	28,422	28,422	25,395
C. Total net premiums	—	28,422	28,422	25,395

SECTION 10

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

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

	6 mths ended 31/12/17	6 mths ended 31/12/16
1. Net change in insurance provisions	—	—
2. Claims paid pertaining to the year [1]	2,783	(3,564)
3. Other income and expense (net) from insurance business	(3,027)	(3,555)
Total	(244)	(7,119)

[1] The item "Claims paid for the period" includes writebacks in an amount of €6.4m for the six months ended 31/12/17, against the valuation reserve for risks in respect of claims estimated but not yet reported.

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

Changes for claims	6 mths ended 31/12/17	6 mths ended 31/12/16
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	(2,632)	(3,339)
C.1 Gross annual amount	(2,632)	(3,339)
C.2 Amount attributable to reinsurers (-)	—	—
D. Change in recoveries net of reinsurers portion	—	—
E. Change in claims reserves	5,415	(225)
E.1 Gross annual amount	5,415	(225)
E.2 Amount attributable to reinsurers (-)	—	—
Total non-life business claims	2,783	(3,564)

SECTION 11

Heading 180: Administrative expenses

11.1 Personnel cost: composition

Type of expense/Amounts	6 mths ended 31/12/17	6 mths ended 31/12/16
1) Employees	(262,150)	(227,043)
a) wages and salaries	(188,389)	(161,693)
b) social security contributions	(41,783)	(38,998)
c) Severance pay (only for Italian legal entities)	(4,174)	(2,817)
d) social security costs	—	—
e) allocation to employees severance pay provision	(3,301)	(2,966)
f) provision for retirement and similar provisions	—	—
- defined contribution	—	—
- defined benefits	—	—
g) payments to external pension funds	(8,017)	(6,696)
- defined contribution	(8,017)	(6,696)
- defined benefits	—	—
h) expenses resulting from share-based payments	(3,906)	(4,269)
i) other employees' benefits	(12,580)	(9,604)
2) Other staff	(2,705)	(2,278)
3) Directors and Statutory Auditors	(4,291)	(4,250)
4) Early retirement costs	(3,230)	(2,007)
Total	(272,376)	(235,578)

The increase in the item ”Personnel costs” is due chiefly to the inclusion of the Esperia Group, adding 269 employees.

11.2 Average number of staff by category

	6 mths ended 31/12/17	6 mths ended 31/12/16
Employees:		
a) Senior executives	393	285
b) Executives	1,814	1,556
c) Other employees	2,481	2,416
Other staff	206	182
Total	4,894	4,439

11.5 Other administrative expenses: composition

Type of exposure/Amounts	6 mths ended 31/12/17	6 mths ended 31/12/16
OTHER ADMINISTRATIVE EXPENSES		
– legal, tax and professional services	(23,940)	(49,316)
– loan recovery activity	(29,258)	(25,707)
– marketing and communications	(21,747)	(26,852)
– property	(27,072)	(24,193)
– EDP	(50,584)	(35,179)
– info-provider	(18,444)	(16,033)
– bank charges, collection and payment fees	(9,530)	(8,925)
– operating expenses	(33,687)	(37,981)
– other staff expenses	(11,945)	(10,875)
– other costs [1]	(16,055)	(64,243)
– indirect and other taxes	(21,553)	(21,546)
Total other administrative expenses	(263,815)	(320,850)

[1] The item includes contributions to the various resolution funds: €10.4m for the six months ended 31/12/17 and €49.6m for the six months ended 31/12/16.

Other administrative expenses for the six months ended 31 December 2017 include €17.2m due to inclusion of the Esperia group.

SECTION 12

Heading 190: Net transfers to provisions

12.1 Net transfers to provisions: composition

	6 mths ended 31/12/17	6 mths ended 31/12/16
Net transfers to provisions for risks and charges - legal expenses	(403)	(134)
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]	1,119	(26,610)
Total transfers to provisions for risks and charges	716	(26,744)

[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	(8,902)	—	—	(8,902)
- For operational use	(7,888)	—	—	(7,888)
- For investment	(1,014)	—	—	(1,014)
A.2 Acquired through finance lease	—	—	—	—
- For operational use	—	—	—	—
- For investment	—	—	—	—
Total	(8,902)	—	—	(8,902)

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	(14,359)	—	—	(14,359)
- Software	(2,438)	—	—	(2,438)
- Other	(11,921)	—	—	(11,921)
A.2 Acquired through finance lease	—	—	—	—
Total	(14,359)	—	—	(14,359)

SECTION 15

Heading 220: Other operating income (expense)

15.1 Other operating expenses: composition

Income-based components/Values	6 mths ended 31/12/17	6 mths ended 31/12/16
a) Leasing activity	(6,294)	(7,332)
b) Sundry costs and expenses [1]	(8,451)	(145,117)
Total	(14,745)	(152,449)

[1] Of which €141,690,000 in charges relating to the purchase price allocation process for the Barclays Italy business unit, for the six months ended 31/12/16.

15.2 Other operating income: composition

Income-based components/Values	6 mths ended 31/12/17	6 mths ended 31/12/16
a) Amounts received from customers	22,828	19,987
b) Leasing activity	5,526	6,211
c) Other income [1]	47,740	285,725
Total	76,094	311,923

[1] Of which €240,000,000 in badwill collected under the terms of the Barclays Italy acquisition, for the six months ended 31/12/16.

SECTION 16

Heading 240: Gains (losses) on equity investments

16.1 Gains (losses) on equity investments: composition

Income/Value	6 mths ended 31/12/17	6 mths ended 31/12/16
1) Joint venture		
A. Incomes	—	1,496
1. Revaluation	—	1,496
2. Gains on disposal	—	—
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	—	—
1. Writedowns	—	—
2. Impairment losses	—	—
3. Losses on disposal	—	—
4. Other expenses	—	—
Net profit	—	1,496
2) Companies subject to significant influence		
A. Incomes	121,228	134,731
1. Revaluation	121,228	134,731
2. Gains on disposal	—	—
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	—	(364)
1. Writedowns	—	—
2. Impairment losses	—	(364)
3. Losses on disposal	—	—
4. Other expenses	—	—
Net profit	121,228	134,367
Total	121,228	135,863

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 31/12/17**	**6 mths ended 31/12/16**
A. Assets	—	8
- Gains on disposal	—	—
- Losses on disposal	—	8
B. Other assets	4	—
- Gains on disposal	4	—
- Losses on disposal	—	—
C. Equity investments	—	(1)
- Gains on disposal	—	1
- Losses on disposal	—	(2)
Net result	4	7

SECTION 20

Heading 290: Income tax on ordinary activities

20.1 Income tax on ordinary activities: composition

Income components/Sectors	**6 mths ended 31/12/17**	**6 mths ended 31/12/16**
1. Current tax expense (-)	(41,641)	(57,477)
2. Changes of current tax expense of previous years (+/-) [1]	(29,633)	55
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 (+)	—	—
4. Changes of deferred tax assets (+/-)	(53,557)	(33,264)
5. Changes of deferred tax liabilities (+/-)	(3,758)	(2,169)
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(128,589)	(92,855)

[1] This item refers mainly to CheBanca!, the change in which is due to: the different tax treatment for items arising from the PPA process (following an explanation provided by the Italian revenue authority); elimination of the one-off increase; and the tax wedge being defined correctly.

SECTION 21

Heading 310: Profit (Loss) after tax from discontinued operations

The IT activities business unit booked to this heading pursuant to IFRS 5 was transferred on 1 January 2018 at a price of €16.5m; this value was estimated based on as at 30 September 2017, and is therefore subject to adjustment within sixty days.

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 31/12/17	6 mths ended 31/12/16
1. SelmaBipiemme S.p.A.	1,763	1,738
2. Others	(12)	(9)
Total	1,751	1,729

SECTION 24

Earnings per share

24.1 Average number of ordinary shares on a diluted basis

	6 mths ended 31/12/17	6 mths ended 31/12/16
Net profit	476,326	418,239
Avg. no. of shares in issue	857,874,975	850,101,368
Avg. no. if potentially diluted shares	8,352,269	19,664,170
Avg. no. of diluted shares	866,227,244	869,765,538
Earnings per share	0.56	0.49
Earnings per share, diluted	0.55	0.48

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), the Internal Rating Systems (IRB) at the parent company level and the Roll-Out Scheme for gradually extending the IRB approach across the whole Group, 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 management 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 approving the funding plan, monitoring the Group's ALM risk-taking and management policy (treasury and funding), and approving the methodologies for measuring exposure to liquidity and interest rate risk and the internal fund transfer rate; the Investments committee, with executive powers for equity investments owned and banking book equities; the New Operations committee, for prior analysis of new operations and approval of entry to new sectors, new products and the related pricing models, and the fair value calculation methodologies; 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 systems 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; vi)

Wealth Risk Management, which monitors the risks faced in private banking activities; vii) Group Risk Management, which co-ordinates relations with the supervisory authorities, and gives operational guidance on the activities and projects involving the Group as a whole and Mediobanca S.p.A.

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, 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

With reference to the authorization process to use internal models in order to calculate the regulatory capital requirements for credit risk, the Group has passed the pre-validation and validation phases performed by the regulatory authorities on the Mediobanca and Mediobanca International Corporates rating system (Probability of Default and Loss Given Default); authorization to use the internal ratings-based AIRB model was granted to Mediobanca by the European Central Bank on 1 February 2018, and will become effective starting from the COREP report on 31 March 2018.

An integral part of the above process, in accordance with the regulatory provisions in force on prudential requirements for credit institutions (Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June

2013), the Group has compiled a roll-out scheme for the gradual adoption of the internal models for the various credit exposures (the "Roll-Out Scheme"). In this connection it should be noted that the application for the pre-validation of internal models for the CheBanca! mortgage portfolio is expected to be submitted by the end of 1Q 2018.

In accordance with the Roll-Out Scheme, while still adopting the standardized methodology defined by the supervisory provisions in force for calculating regulatory capital, the Group has also instituted internal rating models for credit risk in the following customer segments (in addition to the Corporates segment referred to above): Banks, Insurances (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 MBFacta for instalment factoring).

In accordance with Bank of Italy circular 272/2008 (seventh update), 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 and Mediobanca International)

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 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 Mediobanca International Risks 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.

Provisions are calculated individually for non-performing items and based on PD and LGD indicators for the performing portfolio. For individual provisioning, valuations based on discounted cash flows and balance-sheet multiples are applied to businesses which constitute going concerns, while asset valuations are used for companies in liquidation. For provisioning in respect of performing loans, the PD calculated for use in the regulatory models is adjusted to reflect a point-in-time approach, while the LGD calculated for the same models is revised to exclude the additional prudential items to account for the downturn and the effect of indirect costs.

Leasing

Individual applications are processed using similar methods to those described above for corporate banking, including via the use of internal ratings models 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).

The activities of analysis, disbursement, monitoring and risk control are supported significantly by the company's IT system; and the asset under lease is also subjected to a technical valuation.

With a view to making aligning risk management to the overall macroeconomic scenario, the system of powers of approval has been centralized at senior management level, and the measurement and control processes enhanced, through regular assessment of performing accounts inter alia from an early warning (watch list) perspective. Sub-standard accounts are managed in a variety of ways which prioritize either recovery of the amount owed or the asset under lease, according to the specific risk profile of the account concerned. The quantification of provisions for all non-performing accounts is 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 collectively based on LDG indicators distinguished by product type (vehicles, core goods – including yachts – real estate). 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-performance, 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 MBCredit Solutions), 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 (MB Facta)

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 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 twelve 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.

NPLs business (MBCredit Solutions)

MBCredit Solutions operates on the NPLs market, acquiring non-performing loans on a no recourse basis at a price well below the nominal value. Credit risk is managed by a series of consolidated regulations, structures and instruments in line with the Group policies. The company pursues the objective of splitting up the client portfolio according to selective criteria which are consistent with the objectives in terms of capital and risk/return indicated to it by Mediobanca S.p.A.

The purchase price for the non-performing loans is arrived at by following well-established procedures which include appropriate sample-based or statistical analysis of the positions being sold, and take due account of projections in terms of the amounts recovered, expenses and margins anticipated. At each annual or interim reporting date the amounts expected to be collected for each individual position are compared systematically with the amounts actually collected. If losses are anticipated at the operating stages, the collection is adjusted downwards on an individual basis. If there is objective evidence of possible losses of value due to the future cash flows being overestimated, the flows are recalculated and adjustments charged based on the difference between the scheduled value at the valuation date (amortized cost) and the discounted value of the cash flows expected, which are calculated by applying the original effective interest rate. The estimated cash flows take account of the expected collection times, the assumed realizable value of any guarantees, and the costs which it is considered will have to be incurred in order to recover the credit exposure.

Private Banking (Mediobanca Private Banking and CMB)

Private banking operations include granting loans as a complementary activity in serving private and institutional clients, with the aim of providing them with wealth management and asset management services. Lending to clients takes various forms, such as cash loans (by granting credit on current account or through short-, medium- or long-term loans), authorizing overdrafts on current account, endorsements, mortgages and credit limits on credit cards.

Loans themselves are normally guaranteed, i.e. backed by endorsements or real guarantees (pledges over financial instruments, assets under management or administration, mortgages over properties or guarantees issued by other credit institutions).

Lending activity is governed through operating powers which require the proposed loan to be assessed at various levels of the organization, with approval by the appointed bodies according to the level of risk being assumed based on the type, size and guarantees of the loans themselves. Such loans are reviewed on a regular basis.

Provisioning for non-performing items is made on an individual basis, and takes into account the value of the guarantees provided. Any provisions set aside in respect of the performing loan book are based on the estimated PD and LGD values distinguished by counterparty, and whether or not there are guarantees.

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, and in any case when the account is classified as non-performing, 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 property enforcement procedures are initiated through external lawyer.

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.

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)	Overdue exposures (performing) [1]	Performing exposures	Total
1. AFS securities	—	—	—	—	4,771,605	4,771,605
2. Financial assets held to maturity	—	—	—	—	2,482,003	2,482,003
3. Due from banks	—	—	—	—	6,694,112	6,694,112
4. Due from customers	406,557	688,834	64,470	342,067	39,917,163	41,419,091
5. Financial assets recognized at fair value	—	—	—	—	—	—
6. Financial assets being sold	—	—	—	—	—	—
Total 31/12/17	406,557	688,834	64,470	342,067	53,864,883	55,366,811
Total 30/6/17	291,596	727,685	56,033	465,898	52,978,439	54,519,651

[1] Regards the net exposure to unpaid instalments totalling €24.1m, chiefly involving €124.8m to CheBanca! mortgage loans (0.31% of the performing loans in this segment), €82.1m consumer credit (0.21%), and €68.6m leasing (0.17%). Gross exposures being renegotiated under the terms of collective agreements amount to €27.5m, virtually all of which is attributable to Consumer Banking.

* The item includes bad loans attributable to MB Credit Solutions (see below p. 167).

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	—	—	—	4,771,605	—	4,771,605	4,771,605
2. Financial assets held to maturity	—	—	—	2,488,690	(6,687)	2,482,003	2,482,003
3. Due from banks	—	—	—	6,696,798	(2,686)	6,694,112	6,694,112
4. Due from customers	2,248,498	(1,088,637)	1,159,861	40,669,336	(410,107)	40,259,229	41,419,090
5. Financial assets recognized at fair value	—	—	—	X	X	—	—
6. Financial assets being sold	—	—	—	—	—	—	—
Total 31/12/17	2,248,498	(1,088,637)	1,159,861	54,626,429	(419,480)	54,206,949	55,366,810
Total 30/6/17	2,207,014	(1,131,700)	1,075,314	53,866,758	(422,421)	53,444,337	54,519,651

* The item includes bad loans attributable to MB Credit Solutions (see below p. 167).

Asset portfolio/quality	Assets with obviously poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	—	8,515	6,435,072
2. Hedge derivatives	—	—	225,789
Total 31/12/17	—	8,515	6,660,861
Total 30/6/17	—	9,268	6,291,890

Information on sovereign debt exposures

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

Portfolio/quality	Non performing loans				In *bonis*			Total net exposure [1]
	Gross exposure	Individual adjustments	Collective adjustments	Net exposure	Gross exposure	Collective adjustments	Net exposure	
1. Financial assets held for trading	—	—	—	—	X	X	(409,817)	(409,817)
Italy	—	—	—	—	X	X	(194,565)	(194,565)
Germany	—	—	—	—	X	X	109,998	109,998
France	—	—	—	—	X	X	(232,264)	(232,264)
Others	—	—	—	—	X	X	(65,980)	(65,980)
2. AFS securities	—	—	—	—	X	X	(27,006)	(27,006)
Italy	—	—	—	—	3,236,951	—	3,236,951	3,236,951
U.S.A.	—	—	—	—	1,541,695	—	1,541,695	1,541,695
Germany	—	—	—	—	1,078,474	—	1,078,474	1,078,474
France	—	—	—	—	280,703	—	280,703	280,703
United States	—	—	—	—	179,353	—	179,353	179,353
Others	—	—	—	—	156,726	—	156,726	156,726
3. Financial assets held to maturity	—	—	—	—	1,875,186	—	1,875,186	1,875,186
Italy	—	—	—	—	1,135,644	—	1,135,644	1,135,644
France	—	—	—	—	353,232	—	353,232	353,232
Spain	—	—	—	—	202,619	—	202,619	202,619
Germany	—	—	—	—	151,148	—	151,148	151,148
Others	—	—	—	—	32,543	—	32,543	32,543
Total 31/12/17	—	—	—	—	5,112,137	—	4,702,320	4,702,320

* Does not include financial or credit derivates.

[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 €32.4m.

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	(176,423)	(194,565)	2,49	2,583,952	2,677,339	2,695,058	2.67
Germany	104,470	109,998	39,79	1,175,000	1,229,622	1,230,071	4.51
France	(65,056)	(65,980)	2,59	355,000	359,345	361,490	3.83
Spain	(199,712)	(232,264)	3,32	527,076	532,585	534,533	2.96
United States	—	—	—	329,213	280,703	280,703	4.26
Others	(25,000)	(27,006)	—	39,532	32,543	42,675	—
Total 31/12/17	(361,721)	(409,817)		5,009,773	5,112,137	5,144,530	

[1] Does not include sales of €250m on Bund/Bobl/Schatz futures (Germany), with a fair value of €1m and sales of €4.7m on the *BPT future* (Italy) with a fair value of minus €0.2m. Net hedge buys of €600m (€570m of which on France country risk and €30m 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 €0.7m.

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: forborne exposures*	—	—	—	—	*X*	—	*X*	—
b) Unlikely to pay	—	—	—	—	X	—	X	—
- *of which: forborne exposures*	—	—	—	—	*X*	—	*X*	—
c) Overdue exposures (NPLs)	—	—	—	—	X	—	X	—
- *of which: forborne exposures*	—	—	—	—	*X*	—	*X*	—
d) Overdue exposures (performing)	X	X	X	X	—	X	—	—
- *of which: forborne exposures*	*X*	*X*	*X*	*X*	—	*X*	—	—
e) Other exposures (performing)	X	X	X	X	8,099,663	X	(3,311)	8,096,352
- *of which: forborne exposures*	*X*	*X*	*X*	*X*	—	*X*	—	—
Total A	—	—	—	—	8,099,663	—	(3,311)	8,096,352
B. OFF-BALANCE-SHEET EXPOSURES								
a) Non-performing	—	—	—	—	X	—	X	—
b) Performing	X	X	X	X	37,279,648	X	(137)	37,279,511
Total B	—	—	—	—	37,279,648	—	(137)	37,279,511
Total (A+B)	—	—	—	—	45,379,311	—	(3,448)	45,375,863

[1] Balance includes trades worth €7,856,724,000, fully matched by hedge buys.

*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 *	30,798	637	8,725	735,016	X	(368,619)	X	406,557
- of which: forborne exposures	*8,822*	*275*	*2,655*	*68,873*	*X*	*(66,547)*	*X*	*14,078*
b) Unlikely to pay	833,341	65,754	194,801	216,481	X	(621,543)	X	688,834
- of which: forborne exposures	*776,058*	*37,319*	*61,569*	*118,190*	*X*	*(443,089)*	*X*	*550,047*
c) Overdue exposures (NPLs)	29,935	101,590	16,122	15,298	X	(98,475)	X	64,470
- of which: forborne exposures	*7,361*	*26,934*	*136*	*167*	*X*	*(26,169)*	*X*	*8,429*
d) Overdue exposures (performing)	X	X	X	X	417,075	X	(75,007)	342,068
- of which: forborne exposures	*X*	*X*	*X*	*X*	*77,159*	*X*	*(21,660)*	*55,499*
e) Other exposures (performing)	X	X	X	X	48,984,209	X	(341,162)	48,643,047
- of which: forborne exposures	*X*	*X*	*X*	*X*	*619,786*	*X*	*(49,705)*	*570,081*
Total A	894,074	167,981	219,648	966,795	49,401,284	(1,088,637)	(416,169)	50,144,976
B. OFF-BALANCE-SHEET EXPOSURES								
a) Non-performing	11,760	-	-	-	X	(2,320)	X	9,440
b) Performing	X	X	X	X	28,204,364	X	(8,788)	28,195,576
Total B	11,760	-	-	-	28,204,364	(2,320)	(8,788)	28,205,016
Total (A+B)	905,834	167,981	219,648	966,795	77,605,648	(1,090,957)	(424,957)	78,349,992

* The item includes bad loans attributable to MBCredit Solutions (see comments below).

The non-performing items include €263.3m attributable to MBCredit Solutions, i.e. acquisitions of non-performing loans with a nominal value of €4.2bn. Of these items, €12.2m (with a nominal book value of €794.2m) 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	661,673	1,394,037	151,304
- *of which: exposures sold but not derecognized*	*23,640*	*93,584*	*48,959*
B. Additions	224,110	294,768	223,480
B.1 transferred from performing exposures	1,140	86,525	191,910
B.2 transferred from other categories of non-performing exposure	65,311	156,432	23,749
B.3 other additions	157,659	51,811	7,821
C. Reductions	110,607	378,428	211,839
C.1 transferred to performing exposures	1,552	49,440	24,119
C.2 writeoffs	62,688	95,657	2,918
C.3 collections	36,572	96,580	23,888
C.4 amounts realized on disposals	4,868	33,046	28
C.5 losses incurred on disposals	53	2,368	224
C.6 transferred to other categories of non-performing exposure	960	85,488	159,045
C.7 other reductions	3,914	15,854	1,617
D. Gross exposure at end of period	775,176	1,310,377	162,945
- *of which: exposures sold but not derecognized*	*25,877*	*131,296*	*53,969*

* The item includes bad loans attributable to MB Credit Solutions (see below p. 167).

The item “Other additions” mainly includes portfolios purchased by MBCredit Solutions.

A.1.7bis Banking Group - On-balance sheet credit exposures with customers: gross changes by credit quality in forborne exposures

Descriptions/categories	Overdue exposures for which concessions have been made (NPLs)	Overdue exposures for which concessions have been made (performing)
A. Gross exposure at start of period	1,194,263	707,498
- of which: exposures sold but not derecognized	*36,646*	*84,315*
B. Additions	160,299	204,353
B.1 transferred from performing exposures for which no concessions have been made	7,573	124,573
B.2 transferred from performing exposures for which concessions have been made	69,680	X
B.3 transferred from non-performing exposures for which concessions have been made	X	33,242
B.4 other additions	83,046	46,538
C. Reductions	246,203	233,371
C.1 transferred to performing exposures for which no concessions have been made	X	76,357
C.2 transferred to performing exposures for which concessions have been made	33,242	X
C.3 transferred to non-performing exposures for which concessions have been made	X	69,680
C.4 writeoffs	60,734	18,530
C.5 collections	87,032	63,117
C.6 amounts realized on disposals	12,727	-
C.7 losses incurred on disposals	1,765	23
C.8 other reductions	50,703	5,664
D. Gross exposure at end of period	1,108,278	667,431
- of which: exposures sold but not derecognized	*56,732*	*100,208*

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)	
	Total	Of which: forborne	Total	Of which: forborne	Total	Of which: forborne
A. Overall adjustments at start of period	370,076	69,124	666,352	500,089	95,272	26,695
- of which: exposures sold but not derecognized	*22,447*	*2,774*	*65,996*	*15,672*	*37,359*	*8,240*
B. Additions	82,365	16,505	176,088	64,083	116,723	40,740
B.1 value adjustments	40,687	3,916	73,323	23,436	59,581	9,999
B.2 losses incurred on disposals	53	5	944	292	224	49
B.3 transferred from other categories of non-performing exposure	38,891	10,299	69,147	18,479	11,711	2,841
B.4 other additions	2,734	2,285	32,674	21,876	45,207	27,851
C. Reductions	83,822	19,082	220,897	121,083	113,520	41,266
C.1 amounts reversed following changes in valuation	5,930	2,707	21,158	12,994	4,078	1,220
C.2 amounts reversed following collections	6,730	1,868	41,248	36,433	1,098	474
C.3 gains realized on disposals	2,752	995	1,887	277	5	-
C.4 writeoffs	62,688	10,870	95,657	48,531	2,918	311
C.5 transferred to other categories of non-performing exposure	566	237	48,360	14,596	70,823	18,428
C.6 other reductions	5,156	2,405	12,587	8,252	34,598	20,833
D. Overall adjustments at end of period	368,619	66,547	621,543	443,089	98,475	26,169
- of which: exposures sold but not derecognized	*24,473*	*3,931*	*94,195*	*25,959*	*41,258*	*10,674*

* The item includes bad loans attributable to MB Credit Solutions (see below p. 167).

As at 31 December 2017 net non-performing loans classified as "forborne" amounted to €573m, or 1.38% of total customer loans, with a coverage ratio of 48%; while performing forborne positions amounted to €626m, with a coverage ratio of 10%. Overall the non-performing forborne positions represent 1.38% of the total customer loan book, and the performing forborne exposures 1.51%.

B.4a Credit risk indicators

	31/12/17	30/6/17
a) Gross bad loans / total loans	1.65%	1.42%
b) NPLs/cash exposures	4.06%	4.05%
c) Net bad loans / regulatory capital	4.80%	3.28%

B.4b Large risks

	31/12/17	30/6/17
a) Book value	9,286,164	10,647,251
b) Weighted value	6,793,365	7,421,973
c) No. of exposures	7	7

At the reporting date, aggregate exposures (including market risks and equity investments) to a total of seven groups of clients were in excess of 10% of the regulatory capital, split between two industrial groups (one more than at end-June 2017), an insurance company and four banking groups (one fewer), for a gross exposure of €9.3bn (€6.8bn taking into account guarantees and weightings). On a like-for-like basis, the exposure decreased in the first six-months, from €10.6bn to €9.3bn and from €7.4bn to €6.8bn respectively), due to lower volumes in short-term treasury operations (secured financing); the new corporate addition regards one item currently accounted for off-balance sheet.

C. Securitization

C.1 Securitization

QUALITATIVE INFORMATION

The Group's portfolio of securities deriving from securitizations by other issuers totalled €248.6m, lower than last year (€314.3m), following the cancellation of residual trading positions (€2.3m), banking book sales and repayments (€65.6m).

The portfolio is concentrated in the banking book (AFS and HTM) and senior-ranking securities (approx. 90%); there are two mezzanine issues carried at €23.1m and one junior-ranking security carried at €3.7m, unchanged since 30 June 2017.

With reference to the underlying instruments, the Group's portfolio remains concentrated in senior tranches of domestic stocks backed by mortgages (€24.8m) and state-owned properties (€57.4m) – the latter were recalled by the issuer in January 2018, resulting in a gain of approx. €2m, NPL portfolios with underlying retail or SME receivables originated by Italian banks (€55.8m) and Spanish banks banks (€88.4m).

Mediobanca has invested €20.1m in Cairn Loan Investments LLP (CLI), a CLO investment manager operating under the Cairn brand which, in order to comply with prudential rules (Article 405 of EU Regulation no. 585/2013) invests in the junior tranches of CLOs which it manages, and €30m in the Italian Recovery Fund (formerly Atlante II),[1] currently already drawn as to €15.3m, for financing NPLs operations involving Banca Etruria, CR Chieti, Banca Marche and CR Ferrara).

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	81,235	5	1,057	—	—	—
B. Italy NPLs	52,179	—	—	—	3,658	—
C. Spain NPLs (residential mortgages and real estates)	88,450	—	—	—	—	—
D. Other receivables	—	—	22,021	451	—	—
Total 31/12/17	221,864	5	23,078	451	3,658	—
Total 30/6/17	284,916	59	24,796	442	4,586	26

C.3 Banking Group - Securitization SPVs

Name	Head office	Type of consolidation	Assets			Liabilities		
			Receivables	Debt securities	Other items	Senior	Mezzanine	Junior
Quarzo 5 - Quarzo S.r.l.	Milan	Accounting	2,049,730	—	162,398	1,694,000	—	517,000
Quarzo 6 - Quarzo S.r.l.	Milan	Accounting	3,080,918	—	232,571	2,640,000	—	672,012
Quarzo 7 - Quarzo S.r.l.	Milan	Accounting	1,410,307	—	96,116	1,215,000	—	290,900
Quarzo CQS S.r.l.	Milan	Accounting	327,000	—	57,000	266,000	—	82,000
MB Funding Lux S.A.	Luxembourg	Accounting	300,000	—	—	300,000	—	—

[1] Closed, alternative investment fund (FIA) incorporated under Italian law and managed by Quaestio Capital Management SGR.

C.4 Securitization SPVs not consolidated

In the last financial year, the Mediobanca Group took part as arranger and sponsor in the structuring of a securitization in which the Intesa SanPaolo Group was the originator and which involved the sale of a portfolio of performing loans worth a nominal €2bn to the newly-incorporated vehicle company (SPV Project 1702 S.r.l.), which has issued senior bonds for €97.9m and junior notes for €73.9m.

To ensure the net economic interest in the securitization does not fall below 5% (as required by Article 405 of Regulation (EU) 575/2013 on prudential requirements for credit institutions), Mediobanca has invested in 5% of the junior tranche (€3.7m) and 100% of the senior tranche that were partially sold on the market during the period (involving an outlay of €37m at a gain of €2m).

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

Servicer	Vehicle company	Securitized assets (31/12/17)		Receivables collected during the year		Percentage share of securities repaid (31/12/17)					
						Senior		Mezzanine		Junior	
		Non performing	Performing	Non performing	Performing	Non performing	Performing	Non performing	Performing	Non performing	Performing
Futuro	Quarzo CQS	8,791	338,625	4,349	104,099	—	35.99	—	—	—	—
Compass	Quarzo Srl	200,790	6,683,675	8,429	1,985,020	—	—	—	—	—	—

* The other SPVs (Quarzo MB S.r.l. and MB Funding Lux S.A.) are not performing any servicer activity.

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, which are therefore difficult to change).

D.1 Consolidated structured entities

The four 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., Quarzo CQS S.r.l, Quarzo MB S.r.l. (90%-owned by Mediobanca S.p.A., with the other 10% owned by SPV Holding), plus the newly-established company incorporated under Luxembourg law MB Funding Lux S.A. (100%-owned by Mediobanca S.p.A.).

D.2 Structured entities not consolidated in accounting terms

Il Gruppo, non ha altre interessenze nel capitale di entità strutturate da The Group has no other interests in structured entities to report, apart from the stock units held in UCITs in relation to:

- Sponsor activity performed by CheBanca! (€18.6m invested in the five Yellow Funds Sicav sub-funds) and Compagnie Monégasque de Banque (€15.4mn invested in CMB Global Lux and CMG funds);
- Funds managed by Cairn Capital (€133.5m under the terms of the Seed Capital Agreement in the Cairn European Commercial Mortgage Fund, Cairn European Loan Fund, and Cairn Loan Investments);
- Investments by Mediobanca S.p.A. in the Mediobanca Social Impact funds (€7m), in Duemme CoCo (€7.6m) and in Duemme fondo per le imprese I and II (€11.6m).

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 SICAVs.

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 – "Due from customers: composition", in which the Group is the sole lender involve an amount of €402.6m, plus €58.1m in notes held as available for sale.

Leveraged finance transactions

The definition of leveraged finance operations is aligned with that provided in the ECB's "Guidance on leveraged transactions – May 2017", and includes transactions that have at least one of the following features:

– Credit exposures to parties where the post-transaction relationship between gross total debt (in the budget and "committed" off-balance sheet) and EBITDA exceeds 4 times;
– Credit exposures to controlled parties (control or possession of more than 50% of the share capital) by a financial sponsor (investment company that carries out corporate acquisitions, debt- or non-debt financed, with a medium–term time horizon).

As from 31 December 2017, Mediobanca has adopted the new definition of leveraged finance operations agreed with the regulator, which revises the parameters used for classifying such transactions. This has resulted in an increase in the number of counterparties included in the scope of classification, with an increase in the amount at 30 June 2017 from €1,211m to €3,943m.

Based on the new definition, the Group's overall exposure to this type of transaction as at 31 December 2017 amounted to €4,750m [2] (€3,943m), representing 32.8% of the corporate portfolio, of which 34.8% in respect of domestic transactions, five transactions with North American counterparties (€469m), and the remainder deals within the confines of the European Union.

During the period under review increases of €1,127m were recorded (including the opening of eighteen new deals), with repayments totalling €321m (including three deals being closed).

[2] Plus off-balance-sheet exposures (commitments and derivatives) totalling €665.5m (30/6/17: €519.4m).

E. Disposals

B. Financial assets sold and fully derecognized with recognition of continuing involvement.

E.4 Banking Group - covered bond issues

In October 2017 a new covered bond was issued to institutional investors for in an amount of €750m (rated AA by Fitch) at a fixed rate of 1.25% and with a twelve-year maturity, backed by mortgage loans worth a total of €1.3bn.

During the six months under review, disposals to support the other existing issues continued totalling €261m (against repurchase agreements of €34.1m).

1.2 BANKING GROUP - MARKET RISK

1.2.1 INTEREST RATE RISK AND PRICE RISK - TRADING BOOK

QUALITATIVE INFORMATION

Exposure to market risk on the trading book, which is faced virtually entirely by Mediobanca S.p.A., is measured in operating terms on a daily basis by calculating the following main indicators:

– 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, etc.). Sensitivity analysis shows the increase or decrease in value of financial assets and derivatives to localized changes in the above risk factors, providing a static representation of the market risk faced by the trading portfolio;

– Value-at-risk 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 to ensure that the operating and back-testing limits on the Bank's trading book are complied with. 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 extreme but historically accurate changes in market variables.

In addition to these metrics, other complementary but more specific risk indicators are also used in order to capture other risks on trading positions which are not fully measured by VaR and sensitivity analysis more effectively. The products requiring the use of such metrics in any case account for an extremely minor proportion of Mediobanca's overall trading portfolio.

With reference to market risks, the VaR for the trading book during the period under review fluctuated between a low of €1.1m, recorded at the start of October, and a high of around €3.5m, recorded in July. The average figure VaR reading for the six months was €2m, lower than the €3.3m last year. The six months under review saw substantial stability in the volatility of the main risk factors, along with the individual desks' stocks, in the last quarter in particular, save for certain directional positions: the €3.5m high concerns one directional position in shares (added in June and then gradually wound up by September) and one credit risk exposure (subsequently hedged and then sold in December).

The expected shortfall on the trading book (historical simulation calculation) decreased in the first six months, from €5.2m to €2m, due to a reduction in the weight of the extreme historical scenarios (increasingly remote from the current period) plus a substantial reduction of directional positions.

The results of the daily backtesting of the trading positions, based on comparison with the theoretical profits and losses, show no days on which losses in excess of the VaR were observed in the last six months.

Table 1: Value-at-risk and expected shortfall: trading book

Risk factors (€'000)	**6 mths to 31/12/17**				**2016-2017 Avg.**
	31/12	**Min**	**Max**	**Avg.**	
Interest rates	797	362	1,243	524	993
Credit	493	475	1,574	833	1,237
Share prices	1,326	807	2,936	1,667	2,282
Exchange rates	232	64	517	224	804
Inflation	109	109	495	264	931
Volatility	590	401	1,395	554	1,608
Diversification effect *	*(2,001)*	*(1,378)*	*(3,001)*	*(2,075)*	*(4,521)*
Total	1,546	1,129	3,512	1,991	3,335
Expected Shortfall	**2,306**	**(3,001)**	**(1,378)**	**(2,075)**	**5,159**

* Due to mismatch between risk factors.

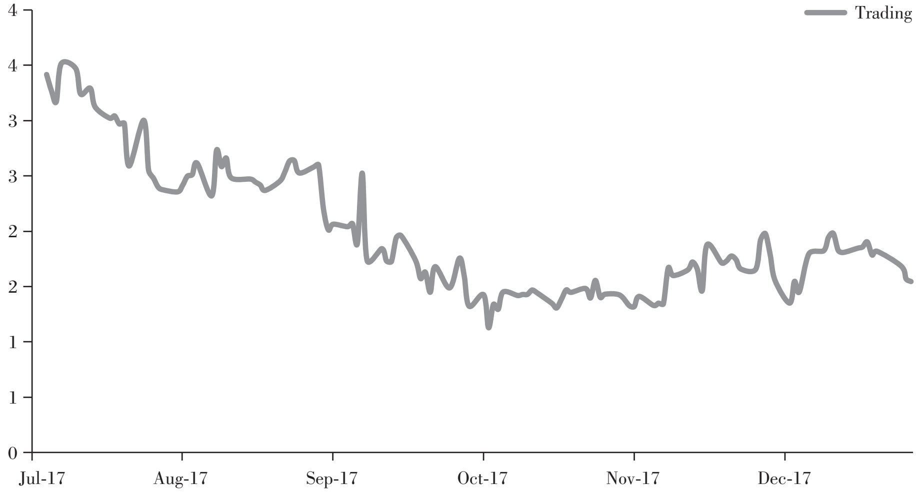
The contribution to market risk arising from the portfolios of the other Group companies concerns exclusively CMB's HFT and AFS positions. The VaR, calculated with a 99% probability over a one-day time horizon, came to €508,000, down sharply on last year (€937,000), due to the reduction in the investment portfolio against an increase in the deposits held by the Mediobanca S.p.A. Treasury department.

In addition to a VaR limit and VaR sub-limits as for main portfolios, there are also sensitivity limits to the movements of the various risk factors (1 basis point for interest rates and credit spreads, 1 percentage point for shares, exchange rates and volatility). The equity desks show structurally long delta positions linked to the proprietary trading desk, which mainly operates by assuming directional risk positions in shares, and short vega positions, due to options sold to hedge the delta risk. The exposure to interest rates fluctuated between minus €135,000 and plus €175,000, with a very low average reading of around €11,000, highlighting a minimal trading book exposure to swap and Euribor rates. The exchange rate showed a small number of highs lasting short periods, and a very low average reading.

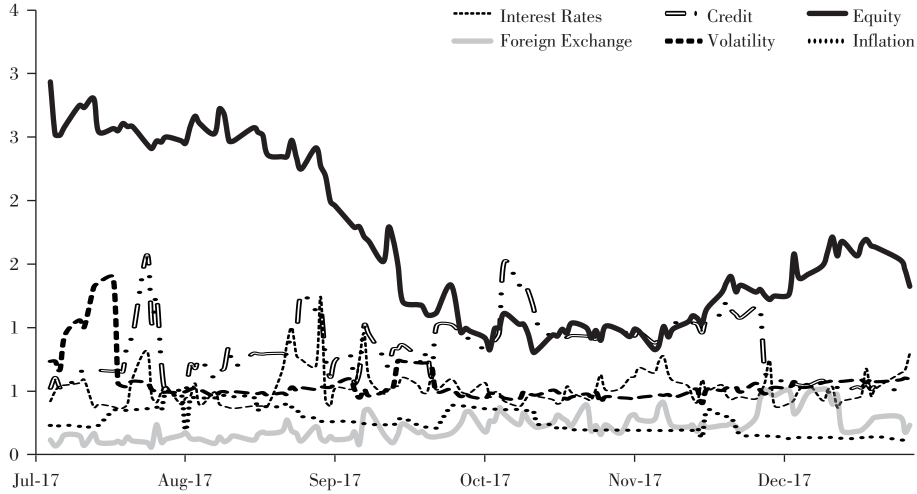
Table 2: Overview of trends in main sensitivities for trading book

Risk factors (€'000)	**6 mths to 31/12/17**			
	31/12	**Min**	**Max**	**Avg.**
Equity delta (+1%)	1,085	635	1,348	937
Equity vega (+1%)	(302)	(648)	54	(232)
Interest rate delta (+1bp)	137	(135)	175	11
Inflation delta (+1 bp)	7	(11)	42	23
Exchange rate delta (+1%)	80	(500)	186	(109)
Credit delta (+1bp)	253	62	487	251

Trends in VaR



Trends in VaR constituents



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 200 bps shock in the interest rate curve on current earnings. The latter is calculated by comparing the on the discounted value of future cash flows in the worst-case scenario envisaged by the Basel Committee guidelines.

With reference to the positions of the Group's banking book as at 31 December 2017, in the event of a parallel and instantaneous 200 basis points discount ("parallel down"), the expected net interest income would reduce by approx. €40m.

With reference to analysis of the discounted value of estimated cash flows on the Group's banking book, an instantaneous and parallel shift of 200 basis points would generate a €79m loss at Group level, representing the difference between the losses recorded by Mediobanca (€170m) and other minor subsidiaries (€56.5m) and the increase for Compass (€44.9m).

The data described above are summarized in the table below:

Data at 31/12/17		Banking Book				
		Group	Mediobanca S.p.A.	CheBanca!	Compass	Other
Net interest income sensitivity	- 200 bps	(39.8)	17.8	(23.7)	(27.8)	(6.1)
Discounted value of cash flows senstivity	- 200 bps	(182.7)	(170.5)	(0.5)	44.9	(56.5)

At Group level, the values obtained in both scenarios continue to remain within the limits set in the Group Policy for Managing Interest Rate Risk on the Banking Book, which are respectively 12% (net interest income sensitivity (including trading book)/regulatory capital) and 6.5% (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 given 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). [3]

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.

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.

[3] 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.

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

Exposures to credit risk generated by operations in derivatives and short-term loan collateralization products (repos and securities lending) with clients or institutional investors counterparty risk is calculated using the method of simulating the potential peak exposure (based on a 95% confidence level) at various points over a time horizon of up to 30 years. The scope of application regards all groups of counterparties which have relations with Mediobanca, taking into account the existence or otherwise of netting agreements (e.g. ISDA, GMSLA or GMRA) and collateralization agreements (e.g. CSA), plus exposures deriving from interbank market transactions for which the Bank's exposure is valued at the value disbursed to the counterparty. For these three types of transactions, there are internal management lines maintained separately and granted to each counterparty and/or group following internal analysis and approval by the Lending and Underwriting Committee.

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 six months under review, the directional positions taken on exchange rates have been contained by executing hedges to reduce the exposure where necessary. The VaR for the foreign exchange component for the six months under review shows an average reading of approx. €10m (against a point-in-time reading at end-December 2017 of €9.4m), up approx. €3.5m compared to the corresponding period last year. The VaR reading showed some short-term spikes due to sudden increases in the volatility of currencies and in directional positions undertaken for short-term needs.

1.2.4 DERIVATIVE FINANCIAL INSTRUMENTS

A. Financial Derivatives

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

Underlying assets/Type of derivatives	31/12/17		30/6/17	
	Over the counter	Clearing house	Over the counter	Clearing house
1. Debt securities and interest rate indexes	88,205,566	20,755,793	89,599,408	31,570,511
a) Options	6,021,098	19,438,945	—	30,721,864
b) Swap	79,734,088	—	86,903,408	—
c) Forward	104,380	—	—	—
d) Futures	—	1,316,848	—	848,647
e) Others	2,346,000	—	2,696,000	—
2. Equity instruments and stock indexes	19,877,195	10,749,250	14,537,682	11,250,774
a) Options	17,228,603	10,481,008	13,586,813	11,011,994
b) Swap	2,531,443	—	833,720	—
c) Forward	117,149	—	117,149	—
d) Futures	—	268,242	—	238,780
e) Others	—	—	—	—
3. Gold and currencies	13,482,437	—	8,843,295	—
a) Options	5,272,236	—	277,521	—
b) Swap	3,383,665	—	3,578,982	—
c) Forward	4,826,536	—	4,986,792	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other underlyings	—	—	—	—
Total	121,565,198	31,505,043	112,980,385	42,821,285

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

A.2.1 Hedge derivatives

Underlying assets/Type of derivatives	**31/12/17**		**30/6/17**	
	Over the counter	**Clearing house**	**Over the counter**	**Clearing house**
1. Debt securities and interest rate indexes	17,686,300	—	17,147,090	—
a) Options	330,000	—	—	—
b) Swap	17,256,300	—	17,007,090	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	100,000	—	140,000	—
2. Equity instruments and stock indexes	—	—	240,048	—
a) Options	—	—	29	—
b) Swap	—	—	—	—
c) Forward	—	—	240,019	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Gold and currencies	—	—	—	—
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other underlyings	—	—	—	—
Total	17,686,300	—	17,387,138	—

A.2.2 Other derivatives

Uunderlying assets/Type of derivatives	31/12/17		30/6/17	
	Over the counter	Clearing house	Over the counter	Clearing house
1. Debt securities and interest rate indexes	1,021,714	—	1,172,835	—
a) Options	—	—	—	—
b) Swap	1,021,714	—	1,132,835	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	40,000	—
2. Equity instruments and stock indexes	1,727,789	—	1,825,557	—
a) Options	1,727,789	—	1,825,557	—
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	2,749,503	—	2,998,392	—

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

Portfolios/Type of derivatives	Positive fair value			
	31/12/17		30/6/17	
	Over the counter	Clearing House	Over the counter	Clearing House
A. Regulatory trading portfolio	2,762,848	395,746	2,291,303	462,562
a) Options	427,841	388,808	311,962	455,566
b) Interest rate swap	2,108,945	—	1,645,465	—
c) Cross currency swap	163,177	—	197,256	—
d) Equity swap	29,168	—	30,542	—
e) Forward	33,717	—	106,078	—
f) Futures	—	6,938	—	6,996
g) Others	—	—	—	—
B. Banking book - Hedging derivatives	225,789	—	461,972	—
a) Options	4,256	—	—	—
b) Interest rate swap	221,533	—	461,972	—
c) Cross currency swap	—	—	—	—
d) Equity swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
C. Banking book - Other derivatives	101,840	—	319,041	—
a) Options	95,365	—	122,862	—
b) Interest rate swap	6,475	—	8,286	—
c) Cross currency swap	—	—	—	—
d) Equity swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	187,893	—
Total	3,090,477	395,746	3,072,316	462,562

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

Portfolios/Type of derivatives	Negative fair value			
	31/12/17		30/6/17	
	Over the counter	Clearing House	Over the counter	Clearing House
A. Regulatory trading portfolio	(2,044,180)	(428,417)	(2,332,027)	(496,834)
a) Options	(461,607)	(426,476)	(313,647)	(492,721)
b) Interest rate swap	(1,264,310)	—	(1,563,214)	—
c) Cross currency swap	(163,233)	—	(209,128)	—
d) Equity swap	(13,741)	—	(21,032)	—
e) Forward	(141,289)	—	(225,006)	—
f) Futures	—	(1,941)	—	(4,113)
g) Others	—	—	—	—
B. Banking book - Hedging derivatives	(221,490)	—	(313,183)	—
a) Options	(1,815)	—	(2,452)	—
b) Interest rate swap	(219,675)	—	(275,160)	—
c) Cross currency swap	—	—	—	—
d) Equity swap	—	—	—	—
e) Forward	—	—	(35,571)	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
C. Banking book - Other derivatives	(122,129)	—	(325,650)	—
a) Options	(122,129)	—	(325,650)	—
b) Interest rate swap	—	—	—	—
c) Cross currency swap	—	—	—	—
d) Equity swap	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	(2,387,799)	(428,417)	(2,970,860)	(496,834)

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	—	—	400,000	300,000	—	30,632	—
- positive fair value	—	—	—	—	—	168	—
- negative fair value	—	—	—	(127)	—	(389)	—
- future exposure	—	—	—	—	—	353	—
2. Equity instruments and stock indexes							
- notional amount	—	—	—	—	—	—	29
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	(1)
- future exposure	—	—	—	—	—	—	2
3. Gold and currencies							
- notional amount	—	—	966	—	—	2,085,516	—
- positive fair value	—	—	1	—	—	16,136	—
- negative fair value	—	—	—	—	—	(8,041)	—
- future exposure	—	—	—	—	—	20,855	—
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	—	—	32,109,059	48,353,239	749,261	6,263,375	—
- positive fair value	—	—	1,678,447	265,916	78,960	223,459	—
- negative fair value	—	—	(1,009,729)	(405,099)	(18,365)	(18,928)	—
2. Equity instruments and stock indexes							
- notional amount	—	—	12,817,299	4,668,436	805,961	1,585,471	—
- positive fair value	—	—	142,432	48,614	1,059	83,495	—
- negative fair value	—	—	(264,188)	(56,280)	(3,661)	(16,065)	—
3. Gold and currencies							
- notional amount	—	—	7,129,325	1,684,134	342,775	2,240,688	—
- positive fair value	—	—	58,543	71,851	814	92,953	—
- negative fair value	—	—	(124,896)	(12,662)	(3,702)	(102,278)	—
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	—	—	1,120	—	—	—	—
- negative fair value	—	—	(6,612)	—	—	—	—
- future exposure	—	—	433	—	—	—	—
2. Equity instruments and stock indexes							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
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	—	—	9,029,693	8,260,757	—	350,000	—
- positive fair value	—	—	192,662	32,007	—	—	—
- negative fair value	—	—	(173,919)	(21,564)	—	(20,276)	—
2. Equity instruments and stock indexes							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
3. Gold and currencies							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
4. Other instruments							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

B. Credit Derivatives

B.1 Credit derivatives: 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	1,322,411	8,862,235	240,480	3,037,522
b) Credit spread products	—	—	—	—
c) Total rate of return swaps	—	—	—	—
d) Others	—	—	—	—
Total 31/12/17	1,322,411	8,862,235	240,480	3,037,522
Total 30/6/17	1,718,403	6,407,880	350,980	12,906
2. Protection seller's contracts				
a) Credit default products	9,585,187	1,374,671	609,400	4,383,256
b) Credit spread products	—	—	—	—
c) Total rate of return swaps	—	—	—	—
d) Others	—	—	—	—
Total 31/12/17	9,585,187	1,374,671	609,400	4,383,256
Total 30/6/17	1,402,802	5,816,219	28,849	4,529,278

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

Portfolio/Type of derivatives	Positive fair value	
	31/12/17	30/6/17
A. Regulatory trading book	261,671	161,621
a) Credit default products	261,671	161,621
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
B. Banking book	41,623	14,840
a) Credit default products	41,623	14,840
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
Total	303,294	176,461

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

Portfolio/Type of derivatives	Negative fair value	
	31/12/17	30/6/17
A. Regulatory trading book	(1,304,259)	(543,791)
a) Credit default products [1]	(1,304,259)	(543,791)
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
B. Banking book	(3,501)	(16,805)
a) Credit default products	(3,501)	(16,805)
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
Total	(1,307,760)	(560,596)

[1] Of which certificates in an amount of €255,715,000 and €352,793,000 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	—	—	527.218	12.251	—	—	—
- positive fair value	—	—	12.718	3.400	—	—	—
- negative fair value [1]	—	—	(255.715)	—	—	—	—
- future exposure	—	—	25.000	613	—	—	—
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] Exclusively related to certificates.

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	—	—	4,054,286	5,390,892	200,000	—	—
- positive fair value	—	—	1	264	2,869	—	—
- negative fair value	—	—	(128,010)	(207,598)	—	—	—
2. Protection sale							
- notional amount	—	—	5,637,808	5,322,048	—	—	—
- positive fair value	—	—	69,649	172,770	—	—	—
- negative fair value	—	—	(712,737)	(199)	—	—	—
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	—	—	213,819	51,875	77,701	371,888	—
- negative fair value	—	—	(455,026)	(171,767)	(19,202)	(118,804)	—
- future exposure	—	—	747,671	318,519	27,084	219,934	—
- net counterparty risk	—	—	746,287	359,354	44,849	568,541	—

* Representing the sum of the positive fair value and future exposure, net of cash collateral received amounting to €309,458,000, €215,202,000 of which in respect of banks, €11,040,000 of financial companies, €59,936,000 of insurances and €23,280,000 other non-financial companies. Conversely, to cover negative fair value readings, cash collateral of €476,311,000 was paid in, €342,109,000 of which in respect of banks, €125,060,000 of financial companies, and €9,142,000 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) as defined in the "Group Liquidity Risk Management Policy (the "Policy").

The main principles on which the Regulations are based are:

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

The Group's objective is to maintain a level of liquidity that will allow it to meet the payment obligations it has undertaken, ordinary and extraordinary, 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. Through use of maturity ladder reports, i.e. projections of the net financial position over time, the underlying methodology consists of evaluating the entire Group's ability to withstand a liquidity crisis in the event of a system or specific crisis situation occurring. This ability is calculated assuming there are no changes in the Group's business structure or asset profile.

Through use of maturity ladder reports, i.e. projections of the net financial position over time, the underlying methodology consists of evaluating the entire Group's ability to withstand a liquidity crisis in the event of a system or specific crisis situation occurring. This ability is calculated assuming there are no changes in the Group's business structure or asset profile.

Stress testing assumes extraordinary factors such as:

– Drawdowns on committed credit lines granted to customers;
– Reductions in debt security funding or interbank funding channels;
– Renewal of only part of the retail funding expiring ; and
– Full disbursement of lending deals in the pipeline.

The liquidity risk tolerance threshold is defined as the maximum exposure to risk deemed sustainable by the management in the normal course of business, as well as "stress situations".

In addition to the above, the Group also prepares the weekly liquidity position update required by the Bank of Italy. The maturity ladder report, prepared in accordance with the authority's guidelines, lists the principal maturities falling due in the months following the reference date, and contains a summary of the movements in both directions on the interbank market and a table showing the Group's funding balances by individual form. This monitoring instrument forms a point of contact with the other operational metrics used and promotes dialogue with the regulatory bodies regarding the trends influencing the liquidity risk profile over time. 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.

Throughout the twelve months under review, the regulatory indicators (the liquidity coverage ratio and net stable funding ratio) and the other indicators established in the Group Risk Appetite Framework were well above the set limits at all times; and the LCR as at 31 December 2017 stood at 191%.

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

The objective of the 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.

In a market environment characterized by the announcement of a progressive reduction in the ECB quantitative easing and of the need to refinanced the T-LTRO expiring, the Group has chosen to focus on achieving a mix of diversified sources of funding while keeping down the respective costs, consistent with the duration of the loans themselves, as part of increasingly integrated asset and liability management.

During the six months under review, in addition to repayments totalling €2.6bn, there have been new issuances of senior unsecured bonds for €1.6bn (with an average maturity of approx. 4 years) together with the issuance of a covered bond for €750m, with a twelve-year maturity. ECB-related funding, through T-LTRO refinancing operations, decreased to €4.4bn following the full repayment of the T-LTRO 1 tranche (€1.5bn).

As at 31 December 2017 the counterbalancing capacity stood at €8.6bn, €8.2bn of which in the form of bonds deliverable in exchange for cash from the ECB (€11.1bn at 30 June 2017, €9.6bn of which available securities); while the balance of liquidity reserves established at the European Central Bank amounted to approx. €6.9bn (30/6/17: €7.2bn), approx. €2.5bn 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	3,584,399	2,535,684	464,628	2,270,911	3,216,587	3,135,617	5,804,122	26,509,592	11,777,646	207,809
A.1 Government securities	—	—	—	16,770	1,205	201	59,293	91,924	102,055	467
A.2 Other debt securities	2,063	405	99,791	69,465	225,736	89,013	724,857	6,248,775	1,876,601	—
A.3 UCITS units	38,210	—	—	—	—	—	—	12	—	—
A.4 Loans and advances	3,544,126	2,535,279	364,837	2,184,676	2,989,646	3,046,403	5,019,972	20,168,881	9,798,990	207,342
- to banks	2,734,579	1,671,309	36,697	180,661	446,833	329,870	1,237,921	1,050,857	346,520	188,142
- to customers	809,547	863,970	328,140	2,004,015	2,542,813	2,716,533	3,782,051	19,118,024	9,452,470	19,200
Cash liabilities	16,503,765	1,145,153	1,103,914	2,635,268	1,980,311	2,654,603	5,189,748	20,142,044	5,870,181	494
B.1 Deposits and currentaccounts	14,814,182	470,589	143,768	275,545	1,002,898	1,482,741	1,948,433	80,000	—	—
- to banks	466,888	25	—	2,632	5,873	283,267	19,706	—	—	—
- to customers	14,347,294	470,564	143,768	272,913	997,025	1,199,474	1,928,727	80,000	—	—
B.2 Debt securities	1,064	521	6,941	522,289	157,706	857,732	1,696,614	11,296,127	5,569,751	—
B.3 Other liabilities	1,688,519	674,043	953,205	1,837,434	819,707	314,130	1,544,701	8,765,917	300,430	494
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions	—	687,099	219,137	1,382,196	790,319	908,108	2,283,288	1,760,711	480,746	—
- short positions	—	155,727	271,664	831,129	671,240	915,056	1,529,333	2,140,679	544,651	—
C.2 Financial derivatives without principal exchange of										
- long positions	4,291,248	—	—	—	—	—	—	40,104	—	—
- short positions	3,481,899	—	—	48	40,443	408	795	—	—	—
C.3 Deposits and loans for collection										
- long positions	—	739,132	18,598	2,100,467	163,968	155,530	1,097,531	206,995	—	—
- short positions	—	—	—	174,859	51,633	431,177	302,140	3,039,769	482,643	—
C.4 Irrevocable commitments to disburse funds *	—	—	—	—	—	—	—	—	—	—
- long positions	3,382	288	28	25,774	315,211	6,664	1,907,871	3,364,304	3,803,383	—
- short positions	1,394,998	743,706	537,547	4,476,292	191,871	133,418	1,528,838	376,158	44,077	—
C.5 Financed guarantees issued	—	—	—	105	8,755	1,445	5,471	750	403	70,000
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of principal										
- long positions	—	—	—	—	81,000	114,520	38,700	2,666,449	183,238	—
- short positions	—	—	—	—	94,390	147,400	10,000	1,838,599	993,518	—
C.8 Credit derivatives without exchange of principal										
- long positions	1,091,095	—	—	—	—	—	—	—	—	—
- short positions	1,841,508	—	—	—	—	—	—	—	—	—

* 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% of the three-year average for the relevant indicator. Based on this method of calculation, the capital requirement as at the reporting date was €284.1m, 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. 131.

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 among those 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 on the AFS banking book portfolio, i.e. the potential reduction in value of the Group's equity investments in listed or unlisted companies, as a result of negative fluctuations of financial markets or downgrades for counterparties (where not already considered in the other categories of risk);

- 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;
- 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.
- 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.

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

Part F - Information on consolidated capital

SECTION 1

Consolidated capital

B. Quantitative information

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

Net asset items	Banking Group	Insurance companies	Other companies	Consolidation adjustments and eliminations	Total	Of which: minorities
Share capital	458,581	—	—	—	458,581	16,551
Share premium reserve	2,197,472	—	—	—	2,197,472	1,848
Reserves	5,549,319	—	—	—	5,549,319	67,955
Equity instruments	—	—	—	—	—	—
Treasury shares	(197,709)	—	—	—	(197,709)	—
Revaluation reserves:	822,581	—	—	—	822,581	(3,236)
- Financial assets available-for-sale	201,062	2,530	—	—	203,592	—
- Property, plant and equipment	—	—	—	—	—	—
- Intangible assets	—	—	—	—	—	—
- Foreign investment hedges	—	—	—	—	—	—
- Cash flow hedges	(13,541)	—	—	—	(13,541)	(3,126)
- Exchange differences	(7,184)	—	—	—	(7,184)	—
- Non-current assets and disposal group held-for-sale	—	—	—	—	—	—
- Actuarial gains (losses) on defined-benefit pension schemes	(6,873)	—	—	—	(6,873)	(110)
- Portion of measurement reserves relating to investments carried at equity method	639,485	(2,530)	—	—	636,955	—
- Special revaluation laws	9,632	—	—	—	9,632	—
Net profit (loss) for the period (+/-) of Group and minorities	478,077	—	—	—	478,077	1,751
Total	9,308,321	—	—	—	9,308,321	84,869

* Includes Compass RE (insurance) and R&S (other companies), consolidated at net equity.

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	96,545	(3,169)	2,530	—	—	—	—	—	99,075	(3,169)
2. Equities	76,761	(48)	—	—	—	—	—	—	76,761	(48)
3. UCITS units	32,005	(1,032)	—	—	—	—	—	—	32,005	(1,032)
4. Loans and advances	—	—	—	—	—	—	—	—	—	—
Total at 31/12/17	205,311	(4,249)	2,530	—	—	—	—	—	207,841	(4,249)
Total at 30/6/17	324,347	(7,266)	2,443	(168)	—	—	—	—	326,790	(7,434)

B.3 AFS valuation reserves: movements during the period

	Debt securities	Equity securities	UCITS units
1. Opening balance	98,834	192,574	27,947
2. Additions	18,708	1,791	4,928
2.1 Increases in fair value	18,640	1,791	4,879
2.2 Negative reserves charged back to profit and loss as a esult of	63	—	43
– impairment	—	—	—
– disposals	63	—	43
2.3 Other additions	5	—	6
3. Reductions	21,636	117,653	1,902
3.1 Reductions in fair value	15,555	507	1,898
3.2 Adjustments for impairment	—	—	—
3.3 Positive reserves credited back to profit and loss as a result of: disposals	6,071	117,146	2
3.4 Other reductions	10	—	2
4. Balance at end of period	95,906	76,712	30,973

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 identified in the Internal Capital Adequacy Assessment Process (ICAAP) and the process performed by the regulator as part of the SREP 2017 which set the limit for CET1 at 7.625% and that for total capital at 11.125%, among the lowest levels of all Italian banks. These figures include the new capital conservation phase-in regime (1.875%, 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. 275, 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, which as from this half-year has decreased - from 25% to 20%, in order to comply with the limit versus related parties).

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 €794.5m, or 80%, of the positive AFS equity reserves, €40.5m of which on government bonds and €632m deriving from the equity consolidation of Assicurazioni Generali) and the profit for the period (€275m) net of the dividend (€203m) for the period calculated based on last year's payout. From this amount the following items are deducted: treasury shares (€198m), intangible assets (€97.2m), goodwill (€473m) other prudential adjustments (€32.7m) in connection with the values of financial instruments (AVAs and DVAs), plus €1,585.5m in interests in financial companies (banking and insurance companies), €1,360.7m 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 (€1,938m) plus 10% of the positive reserves for AFS securities (€94.3m), which does not include the net gain of EU member states' government securities. Deductions of €288.2m regard the investments in Tier 2 instruments, in particular subordinated loans to Italian insurance companies, and the share of the investments in financial companies, based on the provisions of the phase-in regime; these include €151.2m in respect of the Assicurazioni Generali investment.

Issue	**31/12/17**		
	ISIN	**Nominal value**	**Book value***
MB Subordinato Mar 29	XS1579416741	50,000	48,507
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	614,065	344,617
MB OPERA 3.75 2026	IT0005188351	297,649	291,213
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	390,996	266,530
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	499,678	491,533
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	494,323	495,644
Total subordinated debt securities		2,346,711	1,938,045

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

Subordinated liabilities considered decreased from €2,036.4m to €1,938m, due to movements during the period and the share repaid during the period (€99.5m). No Class 2 subordinated (Tier 2) loan benefits from the grandfathering permitted under Article 483ff of the CRR.

B. Quantitative information

	31/12/17	30/6/17
A. Common equity tier 1 (CET1) prior to application of prudential filters	9,075,171	8,843,333
of which: CET1 instruments subject to phase-in regime	—	—
B. CET1 prudential filters (+/-)	(2,378)	(4,460)
C. CET1 gross of items to be deducted and effects of phase-in regime (A +/- B)	9,072,793	8,838,873
D. Items to be deducted from CET1	(2,491,707)	(1,779,520)
E. Phase-in regime - impact on CET1 (+/-), including minority interests subject to phase-in regime	137,631	(42,072)
F. Total common equity tieer 1 (CET1) (C-D+/-E)	6,718,717	7,017,281
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	1,938,045	2,036,402
of which: T2 instruments subject to phase-in regime	—	—
N. Items to be deducted from T2	(108,626)	(149,070)
O. Phase-in regime - Impact on T2 (+/-), including instruments issued by branches and included in T2 as a result of phase-in provisions	(85,340)	(25,599)
P. Total T2 (M-N+/-O)	1,744,079	1,861,733
Q. Total own funds (F+L+P)	8,462,796	8,879,014

2.3 Capital adequacy

Qualitative Information

As at 31 December 2017, the Group's Common Equity Ratio, calculated as tier 1 capital as a percentage of total risk-weighted assets, amounted to 12.89%, lower than at 30 June 2017 (13.31%) due to the higher deduction of the Assicurazioni Generali investment (from €875.4m to €1,360.7m), necessary to comply with the new concentration risk threshold of 20%. RWAs decreased from €52.7bn to €52.1bn, mainly due to the €1,496m reduction in RWAs in connection with the Assicurazioni Generali investment, and the remainder to the rest of the Principal Investing portfolio (€246m); RWAs relating to the CIB division rose on account of the higher lending volumes and the recovery in trading activity (market risks rose from €2.2bn to €2.6bn).

During the period under review:

- The Liquidity Coverage Ratio (LCR) down from 245% to 191%, widely above the regulatory threshold, 100% from the 1st of January
- The Leverage Ratio down from 9.5% to 8.9% but it's still above the 3% regulatory threshold, in force from the 1st of January 2018

B. Quantitative information

Categories/Amounts	Unweighted amounts		Weighted amounts/requirements	
	31/12/17	30/6/17	31/12/17	30/6/17
A. RISK ASSETS				
A.1 Credit and counterpart risk	61,900,360	62,865,854	45,297,827	46,158,581
1. Standard methodology	61,651,580	62,553,175	45,074,367	45,873,175
2. Internal rating methodology	—	—	—	—
2.1 Basic	—	—	—	—
2.2 Advanced	—	—	—	—
3. Securitization	248,780	312,679	223,461	285,406
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			3,623,826	3,692,686
B.2 Credit valuation risk			52,710	60,699
B.3 Settlement risk			—	—
B.4 Market risk			208,051	179,130
1. Standard methodology			208,051	179,130
2. Internal models			—	—
3. Concentration risk			—	—
B.5 Other prudential requirements			284,144	284,144
1. Basic Indicator Approach (BIA)			284,144	284,144
2. Standard methodology			—	—
3. Advanced methodology			—	—
B.6 Other calculation elements			—	—
B.7 Total prudential requirements			4,168,732	4,216,660
C. RISK ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets			52,109,152	52,708,249
C.2 CET1 capital/risk-weighted assets (CET1 capital ratio)			12.89%	13.31%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 capital ratio)			12.89%	13.31%
C.4 Regulatory capital/risk-weighted assets (total capital ratio)			16.24%	16.85%

Part G - Combinations involving Group companies or business units

SECTION 1

Transactions completed during the period

The merger of Banca Esperia into Mediobanca S.p.A. was completed on 1 December 2017, retrospective for accounting and tax effects to 1 July 2017. At the same time, the new Mediobanca Private Banking division been created.

The entities owned by Banca Esperia are now directly controlled by Mediobanca S.p.A. (Mediobanca SGR, formerly known as Duemme SGR, and Mediobanca Management Company SA, formerly known as Duemme International Luxembourg SA), and their book value has been adjusted to reflect their fair value.

The two other entities controlled by Banca Esperia (Esperia Fiduciaria and Esperia Trust Company) have been spun off to Spafid (in early September and at end-June 2017 respectively).

See Part B - Assets, Section 13 - Intangible assets for further details.

SECTION 2

Transactions completed since the reporting date

No transactions have been completed since the reporting date.

SECTION 3

Retrospective adjustments

No adjustments have been made to the accounts for the period under review in connection with previous business combinations.

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 2017. 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

During the six months under review there have been no new transactions to report.

2.2 Quantitative information

The exposure (representing the sum of assets plus guarantees and commitments) rose from €1.1bn to €1.4bn in the six months, due to Telecom Italia becoming part of the Bolloré group, and now represents 1.9% (30/6/17:

1.6%) of total assets; at the same time, interest income represents 1.3% of this item. Liabilities of €815.8m (€225.3m) reflect short-term liquidity management operations.

Situation at 31 December 2017

(€m)

	Directors, statutory auditors and strategic management	Associates	Other related parties	Total
Assets	1.1	438.5	813.9	1.253.5
of which: other assets	—	*238.7*	*322.3*	*561.0*
loans and advances	*1.1*	*199.8*	*491.6*	*692.5*
Liabilities	12.5	0.2	815.8	828.5
Guarantees and commitments	—	—	145.0	145.0
Interest income	—	4.9	6.8	11.7
Interest expense	—	—	(0.9)	(0.9)
Net fee income	—	2.5	19.1	21.6
Other income (costs)	(16.4) [1]	4.0	13.8	1.4

[1] Of which: short-term benefits amounting to €15.2m and performance shares worth €1.2m. The figure refers to the staff included in the definition of management with strategic responsibilities during the year.

Situation at 30 June 2017

(€m)

	Directors, statutory auditors and strategic management	Associates	Other related parties	Total
Assets	1.5	501.3	572.5	1.075.3
of which: other assets	—	*297.1*	*340.0*	*637.1*
loans and advances	*1.5*	*204.2*	*232.5*	*438.2*
Liabilities	19.4	—	225.3	244.7
Guarantees and commitments	—	—	63.3	63.3
Interest income	—	21.9	17.4	39.3
Interest expense	(0.1)	—	(2.5)	(2.6)
Net fee income	—	6.2	94.3	100.5
Other income (costs)	(29.4) [1]	(3.7)	9.7	(23.4)

[1] Of which: short-term benefits amounting to €26.0m and performance shares worth €3.1m. 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	No. of shares approved	Awards expire on	Deadline for exercising options	No. of options and performance shares awarded
For use in connection with stock option and performance stock option schemes				
28 October 2004	15,000,000	28 October 2009	1 July 2020	12,765,000
of which directors [1]	4,000,000	28 October 2009	1 July 2020	3,375,000 [2]
27 October 2007	40,000,000	27 June 2012	1 July 2022	15,536,000
For use in connection with performance share schemes				
28 October 2015	20,000,000	X	28 October 2020	5,198,819 [3]

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

[2] 2,000,000 of which granted to one former director.

[3] In respect of awards made in 2014, 2015, 2016 and 2017.

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 15,758,511 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 2017 financial year, a total of 1,708,069 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 790,846 in FY 2019/20, up to 466,658 in FY 2020/21, up to 344,641 in FY 2021/22, and up to 105,924 in FY 2022/23). A total of 106,927 performance shares have also been recovered, and a further 91,113 performance shares have been awarded.

On 24 November 2017 a total of 1,515,699 shares were issued, in connection with the performance share awards made in 2013, 2014 and 2015, against the capital increase implemented in 2015.

B. QUANTITATIVE INFORMATION

1. Changes to stock option scheme during the period

	31/12/17			30/6/17		
	No. of performance shares	**Avg. price**	**Avg. expiry**	**No. of performance shares**	**Avg. price**	**Avg. expiry**
A. Balance at start of period	4,442,500	6,53	August 18	10,167,500	6,55	August 18
B. Additions						
B.1 New issues	—	—	X	—	—	X
B.2 Other additions	—	—	X	—	—	X
C. Reductions						
C.1 Performance shares cancelled	—	—	X	—	—	X
C.2 Performance shares made available	1,332,500	6,53	X	5,725,000	6,57	X
C.3 Performance shares expired	—	—	X	—	—	X
C.4 Other reductions	—	—	X	—	—	X
D. Balance at end of period	3,110,000	6,53	August 18	4,442,500	6,53	August 18
E. Performance shares exercisable as at reporting date	3,110,000	6,53	X	4,442,500	6,53	X

2. Changes to performance share scheme during the period

	31/12/17		30/6/17	
	No. of performance shares	**Avg. price**	**No. of performance shares**	**Avg. price**
A. Balance at start of period	5,065,713	6,37	7,377,896	5.27
B. Additions				
B.1 New issues	1,799,182	7,92	2,229,665	5.07
B.2 Other additions	—	—	—	—
C. Reductions				
C.1 Performance shares cancelled	—	—	—	—
C.2 Performance shares made available	1,515,699	7,08	4,489,290	3.92
C.3 Performance shares expired	—	—	—	—
C.4 Other reductions	106,927	6,60	52,558	5.10
D. Balance at end of period	5,242,269	6,69	5,065,713	6.37

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 activities in:
  - Retail banking and asset management for the various client brackets: Affluent & Premier (CheBanca!);
  - Private & HNWI, headed up in Italy by the new Mediobanca Private Banking division (as a result of the Banca Esperia merger) and Spafid, and in the Principality of Monaco by Compagnie Monégasque de Banque;
  - Alternative AM, including Cairn Capital, Duemme SGR, Duemme International and Compagnie Monegasque de Gestion;
- *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 Banking**	**Wealth Management**	**Principal Investing**	**Holding Function**	**Adjustments [1]**	**Group**
Net interest income	136.0	432.3	126.7	(3.6)	(24.6)	5.3	672.1
Net trading income	64.5	—	7.1	6.5	4.9	2.4	85.4
Net fee and commission income	116.5	60.8	121.7	—	8.6	(16.0)	291.2
Share in profits earned by equity-accounted companies	—	—	—	121.2	—	—	121.2
Total income	**317.0**	**493.1**	**255.5**	**124.1**	**(11.1)**	**(8.7)**	**1.169.9**
Personnel costs	(66.7)	(47.4)	(95.0)	(1.8)	(60.1)	—	(271.0)
Administrative expenses	(54.7)	(90.0)	(105.6)	(0.5)	(20.8)	8.6	(262.6)
Operating costs	**(121.4)**	**(137.0)**	**(200.6)**	**(2.3)**	**(80.9)**	**8.6**	**(533.6)**
Gain (losses) on AFS	—	—	0.6	93.8	—	—	94.4
Net loss provisions	22.8	(121.6)	(9.0)	(0.5)	(6.0)	(0.1)	(113.6)
Others	—	—	—	—	(11.0)	0.1	(10.4)
Profit before tax	**218.4**	**234.5**	**47.0**	**215.1**	**(108.2)**	**(0.1)**	**606.7**
Income tax for the period	(72.3)	(75.0)	(10.8)	(10.1)	40.0	(0.2)	(128.6)
Minority interest	—	—	—	—	(1.8)	—	(1.8)
Net profit	**146.1**	**159.5**	**36.0**	**205.0**	**(70.2)**	**(0.3)**	**476.3**
Cost/Income %	38.3	27.8	78.5	1.9	n.m.	n.m.	45.6

[1] The column headed "Adjustments" includes various adjustments in connection with differences arising on consolidation (e.g. inter-company elisions) between the different business segments.

A.2 Balance-sheet data by business segment (net of inter-company accounts)

(€m)

Balance-sheet data	**Corporate & Investment Banking**	**Consumer Banking**	**Wealth Management**	**Principal Investing**	**Holding Function**	**Adjustments**	**Group**
Financial assets held for trading	10,064.8	—	36.5	—	—	3.7	10,105.0
Treasury funds	4,206.8	243.0	280.3	—	3,810.5	0.1	8,540.7
AFS securites	—	1.4	42.3	454.5	—	—	498.3
Banking book securities	599.3	136.3	408.9	—	6,461.2	—	7,605.7
Loans and advances to customers	15,467.8	12,097.5	9,873.0	—	2,176.0	(1.8)	39,612.4
Equity investments	—	—	0.3	3,185.7	—	(0.3)	3,185.7
Tangible and intangible assets	0.9	379.7	119.3	—	356.0	—	855.9
Other assets	25.7	531.6	357.1	—	771.6	(0.1)	1,686.0
Total assets	**30,365.2**	**13,389.5**	**11,117.8**	**3,640.2**	**13,575.3**	**1.7**	**72,089.7**
Funding	56.3	2,230.5	18,174.8	—	26,921.0	(0.1)	47,382.5
Treasury funding	4,861.5	—	—	—	2,008.7	—	6,870.2
Financial liabilities held for trading	3,783.7	—	—	—	2,915.8	—	6,699.5

ANNEXES

Consolidated Balance Sheet/Profit and Loss Accounts

Reconciliation between Reclassified Balance Sheet and mandatory Balance Sheet pursuant to Bank of Italy Circular 262/2005.

The Balance Sheet provided on p. 16 reflects the following restatements: with reference to 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 60 “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”, heading 150 “Non-current assets and disposal groups classified as held for sale” and other debtors under heading 60 “Due from banks” and 70 “Due from customers”;

with reference to 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”, heading 90 “Liabilities included in disposal groups classified as held for sale” and heading 130 “Insurance reserves”.

Consolidated Balance Sheet as at 31 December 2017

(€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	—	267.3	—	—	—	—	—	—	**267.3**
20. Financials assets held for trading	10,105.0	—	—	—	—	—	—	—	**10,105.0**
30. Financials assets recognized at fair value through profit or loss	—	—	—	—	—	—	—	—	**—**
40. Financial assets available-for-sale	—	—	498.3	4,907.9	—	—	—	—	**5,406.2**
50. Financial assets held-to-maturity	—	—	—	2,482.0	—	—	—	—	**2,482.0**
60. Due from banks	—	5,670.4	—	—	1,093.8	—	—	10.5	**6,774.7**
70. Due from customers	—	2,598.4	—	215.8	38,518.6	—	—	103.0	**41,435.8**
80. Hedging derivatives	—	—	—	—	—	—	—	225.8	**225.8**
90. Adjustment of hedging financial assets (+/-)	—	—	—	—	—	—	—	—	**—**
100. Equity investments	—	—	—	—	—	3,185.7	—	—	**3.185.7**
110. Reinsured portion of technical reserves	—	—	—	—	—	—	—	—	**—**
120. Property, plant and equipment	—	—	—	—	—	—	289.6	—	**289.6**
130. Intangible assets	—	—	—	—	—	—	566.3	—	**566.3**
140. Tax assets	—	—	—	—	—	—	—	754.8	**754.8**
150. Loans classified as held-for-sale	—	—	—	—	—	—	—	14.5	**14.5**
160. Other assets	—	4.6	—	—	—	—	—	577.4	**582.0**
Total assets	**10,105.0**	**8,540.7**	**498.3**	**7,605.7**	**39,612.4**	**3,185.7**	**855.9**	**1.686.0**	**72.089.7**

Consolidated Balance Sheet as at 31 December 2017

(€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	7,995.4	4.640.9	—	11.1	—	—	**12,647.4**
20. Due to customers	19,487.7	2.229.3	—	4.9	—	—	**21,721.9**
30. Debt securities in issue	19,899.4	—	—	0.1	—	—	**19,899.5**
40. Trading liabilities	—	—	6,699.5	—	—	—	**6,699.5**
50. Financial liabilities designated at fair value	—	—	—	—	—	—	**—**
60. Hedging derivatives	—	—	—	240.8	—	—	**240.8**
70. Changes in fair value of portfolio hedged items (-)	—	—	—	—	—	—	**—**
80. Tax liabilities	—	—	—	483.0	—	—	**483.0**
90. Liabilities included in disposal groups classified as held for sale	—	—	—	0.5	—	—	**0.5**
100. Other liabilities	—	—	—	698.6	—	—	**698.6**
110. Staff severance indemnity provision	—	—	—	—	29.3	—	**29.3**
120. Provisions	—	—	—	—	190.6	—	**190.6**
130. Insurance reserves	—	—	—	170.3	—	—	**170.3**
140. Revaluation reserves	—	—	—	—	—	825.8	**825.8**
150. Redeemable shares repayable on demand	—	—	—	—	—	—	**—**
160. Equity instruments repayable on demand	—	—	—	—	—	—	**—**
170. Reserves	—	—	—	—	—	5.481.4	**5,481.4**
180. Share premium reserve	—	—	—	—	—	2.195.6	**2,195.6**
190. Share capital	—	—	—	—	—	442.0	**442.0**
200. Treasury shares	—	—	—	—	—	(197.7)	**(197.7)**
210. Minority interest	—	—	—	—	—	84.9	**84.9**
220. Profit for the period	—	—	—	—	—	476.3	**476.3**
Total liabilities and net equity	**47,382.5**	**6,870.2**	**6,699.5**	**1,609.3**	**219.9**	**9,308.3**	**72,089.7**

Consolidated Balance Sheet as at 31 December 2016

(€m)

Assets	Financial assets held for trading	Treasury financial assets	AFS equity	Banking book securities	Loans and advances to customers	Equity investments	Tangiible 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 as at 31 December 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**

Reconciliation between Reclassified Profit and Loss and mandatory Profit and Loss pursuant to 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 for the 6 mths ended 31 December 2017

(€m)

Profit and loss account	Net interest income	Treasury income	Net fee and commission income	Equity-accounted companies	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	941.8	—	—	—	—	—	—	—	—	—	—	941.8
20. Interest expense and similar charges	(257.3)	—	—	—	—	—	—	—	—	—	—	(257.3)
30. Net interest income	**684.5**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**684.5**
40. Fee and commission income	—	4.6	265.8	—	—	—	—	—	—	—	—	270.4
50. Fee and commission expense	—	(1.4)	(64.3)	—	—	—	—	—	—	—	—	(65.7)
60. Net fee and commission income	**—**	**3.2**	**201.5**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**204.7**
70. Dividends and similar income	—	26.2	—	—	—	—	—	—	—	—	—	26.2
80. Net trading income	(11.3)	62.2	—	—	—	—	—	—	—	—	—	50.9
90. Net hedging income (expense)	(1.1)	—	—	—	—	—	—	—	—	—	—	(1.1)
100. Gain (loss) on disposal/repurchase	—	(6.2)	—	—	—	94.4	2.0	—	—	—	—	90.2
120. Total income	**672.1**	**85.4**	**201.5**	**—**	**—**	**94.4**	**2.0**	**—**	**—**	**—**	**—**	**1,055.4**
130. Adjustments for impairment	—	—	14.8	—	—	—	(115.3)	(0.4)	—	—	—	(100.9)
140. Net income from financial operations	**672.1**	**85.4**	**216.3**	**—**	**—**	**94.4**	**(113.2)**	**(0.4)**	**—**	**—**	**—**	**954.6**
150. Net premium earned (net)	—	—	28.4	—	—	—	—	—	—	—	—	28.4
160. Other income (net) from insurance activities	—	—	(0.2)	—	—	—	—	—	—	—	—	(0.2)
170. Net profit from financial and insurance activities	**672.1**	**85.4**	**244.5**	**—**	**—**	**94.4**	**(113.2)**	**(0.4)**	**—**	**—**	**—**	**982.8**
180. Administrative expenses	—	—	—	—	(525.8)	—	—	—	(10.4)	—	—	(536.2)
190. Net transfers to provisions	—	—	—	—	0.7	—	—	—	—	—	—	0.7
200. Net adjustment to tangible assets	—	—	—	—	(8.9)	—	—	—	—	—	—	(8.9)
210. Net adjustment to intangible assets	—	—	—	—	(14.4)	—	—	—	—	—	—	(14.4)
220. Other operating income (expenses)	—	—	46.7	—	14.8	—	—	—	—	—	—	61.5
230. Operating costs	**—**	**—**	**46.7**	**—**	**(533.6)**	**—**	**—**	**—**	**(10.4)**	**—**	**—**	**(497.3)**
240. Gain (loss) on equity investments	—	—	—	121.2	—	—	—	—	—	—	—	121.2
270. gain (loss) on disposal of investments	—	—	—	—	—	—	—	—	—	—	—	—
280. Profit (loss) on ordinary activity before tax	**672.1**	**85.4**	**291.2**	**121.2**	**(533.6)**	**94.4**	**(113.2)**	**(0.4)**	**(10.4)**	**—**	**—**	**606.7**
290. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—	—	(128.6)	—	(128.6)
300. Profit (loss) on ordinary activities after tax	**672.1**	**85.4**	**291.2**	**121.2**	**(533.6)**	**94.4**	**(113.2)**	**(0.4)**	**(10.4)**	**(128.6)**	**—**	**478.1**
310. Gain (loss) on disposal of investments after tax	—	—	—	—	—	—	—	—	—	—	—	—
320. Net profit (loss) for the period	**672.1**	**85.4**	**291.2**	**121.2**	**(533.6)**	**94.4**	**(113.2)**	**(0.4)**	**(10.4)**	**(128.6)**	**—**	**478.1**
330. Net profit (loss) for the period attributable to minorities	—	—	—	—	—	—	—	—	—	—	(1.8)	(1.8)
340. Net profit (loss) for the period attributable to Mediobanca	**672.1**	**85.4**	**291.2**	**121.2**	**(533.6)**	**94.4**	**(113.2)**	**(0.4)**	**(10.4)**	**(128.6)**	**(1.8)**	**476.3**

Consolidated Profit and Loss for the 6 mths ended 31 December 2016

(€m)

Profit and loss account	Net interest income	Treasury income	Net fee and commission income	Equity-accounted companies	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**

Mediobanca S.p.A: Balance sheet/Profit and loss Account

Reconciliation between reclassified Balance Sheet* and mandatory Balance Sheet pursuant to Bank of Italy circular 262/2005

Mediobanca S.p.A. Balance Sheet as at 31 December 2017 (€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	—	195.3	—	—	—	—	—	—	**195.3**
20. Financial assets held for trading	10,069.3	—	—	—	—	—	—	—	**10,069.3**
40. Financial assets available-for-sale	—	—	454.5	4,366.6	—	—	—	—	**4,821.1**
50. Financial assets held-to-maturity	—	—	—	2,477.5	—	—	—	—	**2,477.5**
60. Due from banks	—	5,276.8	—	383.6	12,742.4	—	—	11.1	**18,413.9**
70. Due from customers	—	4,060.2	—	4,122.8	12,943.6	—	—	20.1	**21,146.7**
80. Hedging derivatives	—	—	—	—	—	—	—	224.7	**224.7**
100. Equity investments	—	—	—	—	—	2,940.3	—	—	**2,940.3**
120. Property, plant and equipment	—	—	—	—	—	—	117.7	—	**117.7**
130. Intangible assets	—	—	—	—	—	—	42.4	—	**42.4**
140. Tax assets	—	—	—	—	—	—	—	166.2	**166.2**
150. Other assets	—	—	—	—	—	—	—	134.2	**134.2**
Total assets	**10,069.3**	**9,532.3**	**454.5**	**11,350.5**	**25,686.0**	**2,940.3**	**160.1**	**556.3**	**60,749.3**

Mediobanca S.p.A. Balance Sheet as at 31 December 2017 (€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	19,307.1	5,403.5	—	13.9	—	—	**24,724.5**
20. Due to customers	3,150.0	2,230.8	—	1.5	—	—	**5,382.3**
30. Debt securities in issue	17,910.0	—	—	0.1	—	—	**17,910.1**
40. Trading liabilities	—	—	6,753.0	—	—	—	**6,753.0**
60. Hedging derivatives	—	—	—	215.9	—	—	**215.9**
80. Tax liabilities	—	—	—	340.2	—	—	**340.2**
100. Other liabilities	—	—	—	234.1	—	—	**234.1**
110. Staff severance indemnity provision	—	—	—	—	8.7	—	**8.7**
120. Provisions	—	—	—	—	99.1	—	**99.1**
130. Revaluation reserves	—	—	—	—	—	202.2	**202.2**
140. Redeemable shares repayable on demand	—	—	—	—	—	—	**—**
150. Equity instruments repayable on demand	—	—	—	—	—	—	**—**
160. Reserves	—	—	—	—	—	2,286.0	**2,286.0**
170. Share premium reserve	—	—	—	—	—	2,195.6	**2,195.6**
180. Share capital	—	—	—	—	—	442.0	**442.0**
190. Treasury shares (-)	—	—	—	—	—	(197.7)	**(197.7)**
200. Profit for the period (+/-)	—	—	—	—	—	153.3	**153.3**
Total liabilities and net equity	**40,367.1**	**7,634.3**	**6,753.0**	**805.7**	**107.8**	**5,081.4**	**60,749.3**

* See p. 47.

Mediobanca S.p.A. Balance Sheet as at 31 December 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 as at 31 December 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	—	—	—	—	—	**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**

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

Mediobanca S.p.A.: Profit and Loss for the 6 mths ended 31 December 2017

(€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	372.8	—	—	—	—	—	—	—	—	—	—	372.8
20. Interest expense and similar cherges	(324.6)	—	—	—	—	—	—	—	—	—	—	(324.6)
30. Net interest income	**48.2**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**48.2**
40. Fee and commission income	1.3	4.6	123.5	—	—	—	—	—	—	—	—	129.4
50. Fee and commission expense	—	(1.9)	(9.8)	—	—	—	—	—	—	—	—	(11.7)
60. Net fee and commission income	**1.3**	**2.7**	**113.7**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**117.7**
70. Dividend and similar income	—	26.0	—	5.2	—	—	—	—	—	—	—	31.2
80. Net trading income	(2.0)	59.6	—	—	—		—	—	—	—	—	57.6
90. Net hedging income (expense)	0.1	—	—	—	—	—	—	—	—	—	—	0.1
100. Gain (loss) on disposal/repurchase	—	(10.7)	—	—	—	93.8	(1.4)	—	—	—	—	81.7
120. Total income	**47.6**	**77.6**	**113.7**	**5.2**	**—**	**93.8**	**(1.4)**	**—**	**—**	**—**	**—**	**336.5**
130. Adjustment for impairment	—	—	—	—	—	—	37.5	2.4		—	—	40.0
140. Net income from financial operations	**47.6**	**77.6**	**113.7**	**5.2**	**—**	**93.8**	**36.1**	**2.4**	**—**	**—**	**—**	**376.4**
150. Administrative expenses	—	—	—	—	(191.5)	—	—	—	—	(0.4)	—	(191.9)
160. Net transfers to provisions	—	—	—	—	3.0	—	—	—	—	—	—	3.0
170. Net adjustments to tangible assets	—	—		—	(1.8)	—	—	—	—	—	—	(1.8)
180. Net adjustments to intangible assets	—	—	—	—	(4.4)	—	—	—	—	—	—	(4.4)
190. Other operating income (expenses)	—		10.9	—	(4.9)		—	—	—	—	—	6.0
200. Operating costs	**—**	**—**	**10.9**	**—**	**(199.6)**	**—**	**—**	**—**	**—**	**(0.4)**	**—**	**(189.1)**
210. Gain (loss) on equity investments	—	—	—	—	—	—	—	—	—	—	—	—
240. Gain (loss) on disposal of investments	—	—	—	—	—	—	—	—		—	—	—
250. Profit (loss) on ordinary activities before tax	**47.6**	**77.6**	**124.6**	**5.2**	**(199.6)**	**93.8**	**36.1**	**2.4**	**—**	**(0.4)**	**—**	**187.3**
260. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—		—	(34.0)	(34.0)
270. Profit (loss) on ordinary activities after tax	**47.6**	**77.6**	**124.6**	**5.2**	**(199.6)**	**93.8**	**36.1**	**2.4**	**—**	**(0.4)**	**(34.0)**	**153.3**
290 Net profit (loss) for the period	**47.6**	**77.6**	**124.6**	**5.2**	**(199.6)**	**93.8**	**36.1**	**2.4**	**—**	**(0.4)**	**(34.0)**	**153.3**

* See p. 46.

Mediobanca S.p.A.: Profit and Loss for the 6 mths ended 31 December 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**

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