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MEDIOBANCA

LIMITED COMPANY
SHARE CAPITAL € 443,521,470
HEAD OFFICE: PIAZZETTA ENRICO CUCCIA 1, MILAN, ITALY

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

Mediobanca S.p.A. Financial Statements as at 30 June 2018

Annual General Meeting 27 October 2018

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
	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
*	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 to the Board of Directors

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ANNUAL GENERAL MEETING,
27 OCTOBER 2018

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ACCOUNTS OF THE BANK

REVIEW OF OPERATIONS

REVIEW OF OPERATIONS

Overview

In the twelve months under review, Mediobanca earned a net profit of €337m, higher than the €318.3m recorded last year, in part due to the merger of Banca Esperia with the latter's results included for the full twelve months for the first time.

Revenues reflect substantial, 20.1% growth, from €574.8m to €690.1m (up 9.5% on a like-for-like basis), with all the main income sources contributing positively:

– Net interest income rose by 12.4%, from €84.6m to €95.1m, due to an increase in lending volumes in corporate banking (up 4.2%), the addition of certain private banking positions (€965m, adding net interest income of €8.3m), and a reduction in the cost of funding;

– Net treasury income climbed 26.2%, from €116.3m to €146.8m, on AFS dividends totalling €21.9m (€16.7m), dealing profits of €108.7m (€95m), and gains on disposals of banking book securities worth €23.9m (€22.9m);

– Net fee and commission income was up 27.9%, from €211.7m to €270.7m, driven by asset management and private banking investment services (€52.2m), with Wholesale Banking fees resilient at €219m (€211m);

– Dividends from equity investments were 9.4% higher, up from €162.2m to €177.5m, due to the higher payout by Assicurazioni Generali.

Operating costs increased by 19.1%, from €348.3m to €414.8m, split equally between labour costs and overheads and administrative expenses; on a like-for-like basis, however, the increase was just under 1%.

Writebacks of €43.6m to the loan book (€13m) were 90% attributable to amounts collected in respect of corporate non-performing exposures.

Lower gains on disposal of AFS equities of €96.3m (€161.6m) were offset by the reduction in contributions to the resolution funds (down from €62.8 to €30.3m) due to the lower extraordinary component of €8.3m (€42.6m).

On the balance-sheet side, total assets rose from €57.9bn to €59.2bn, chiefly due to the higher lending volumes:

– Corporate loans rose from €9.6bn to €9.9bn; the consolidation of former Banca Esperia assets from private banking operations, included for the first time, also added nearly €1bn;

– Net treasury assets decreased from €10bn to €9.2bn, which was offset by an increase in banking book bonds, from €10.8bn to €11.5bn;

– Funding reduced from €41bn to €39.2bn, mostly on account of the €1.5bn repayment of the first T-LTRO programme.

Mediobanca's capital ratios as at 30 June 2018, taking into account the possibility of weighting the Assicurazioni Generali investment at 370% (thus complying with the concentration limit versus the company) and the proposed dividend (€0.47 per share), continued to reflect high levels, above the regulatory limits set: in particular the Common Equity ratio was up from 15% to 16.24% and the Total Capital ratio up from 19.97% to 21.51%. RWAs declined from €32.4bn to €29.4bn, following application of the AIRB models for the Large Corporate portfolio (which cut RWAs by €5bn). The fully-loaded ratios, i.e. without weighting the Assicurazioni Generali investment at 370%, reduce to 15.1% (CET1 ratio) and 21.1% (Total Capital ratio) respectively, but continue to reflect high levels.

Financial highlights

The profit and loss account and balance sheet have been restated to provide the most accurate reflection of the Bank's operations. The results are also presented in the format recommended by the Bank of Italy in the annex.

RESTATED PROFIT AND LOSS ACCOUNT

(€m)

Profit-and-loss data	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg. (%)
Net interest income	84.6	95.1	12.4
Net trading income	116.3	146.8	26.2
Net fee and commission income	211.7	270.7	27.9
Dividends on investments	162.2	177.5	9.4
Total income	**574.8**	**690.1**	**20.1**
Labour costs	(198.9)	(237.8)	19.6
Administrative expenses	(149.4)	(177.0)	18.5
Operating costs	**(348.3)**	**(414.8)**	**19.1**
Gain (loss) on AFS, HTM and L&R	161.6	96.3	-40.4
Loan loss provisions	13.0	44.3	n.m.
Provisions for other financial assets	(4.1)	1.1	n.m.
Impairment on investments	(0.9)	(0.3)	-66.7
Other gains (losses)	(47.8)	(32.7)	-31.6
Profit before tax	**348.3**	**384.0**	**10.2**
Income tax for the period	(30.0)	(47.0)	56.7
Net profit	**318.3**	**337.0**	**5.9**

RESTATED BALANCE SHEET

(€m)

	30/6/17	30/6/18
Assets		
Financial assets held for trading	7,271.3	8,211.9
Treasury funds	10,031.8	9,236.0
AFS securities	659.5	746.8
Banking book securities	10,764.3	11,454.9
Loans and advances to customers	25,226.7	25,745.1
Equity investments	3,057.0	3,084.2
Tangible and intangible assets	132.2	155.4
Other assets	766.1	600.1
Total assets	**57,908.9**	**59,234.4**
Liabilities and net equity		
Funding	41,038.2	39,173.0
Treasury funding	4,451.3	7,287.4
Financial liabiliites held for trading	5,859.2	6,510.5
Other liabilities	1,136.4	872.5
Provisions	105.7	105.5
Net equity	4,999.8	4,948.5
Profit (loss) for the period	318.3	337.0
Total liabilities and net equity	**57,908.9**	**59,234.4**
Regulatory capital (€ mln)	4,861.5	4,772.7
Solvency margin (€ mln)	6,470.0	6,323.1
RWA (€ mln)	32,399.6	29,395.2
Regulatory capital/RWA	15.0%	16.24%
Solvency margin/RWA	19.97%	21.51%
No. of shares outstanding (€ mln)	881.2	886.6
Market capitalization (€ mln)	7,613.7	7,062.6
No. of staff	757	982

Review of key items

Funding – this item reduced by 4.5%, from €41bn to €39.2bn, following repayment of the first tranche of the T-LTRO (€1.5bn), and the reduction in debt securities, from €18.8bn to €16.8bn, only in part offset by the increased contribution from CheBanca! (up from €10.7bn to €11.2bn). In the twelve months under review there were new issues worth approx. €1.8bn, made up entirely of senior notes, including a covered bond issue with CheBanca! mortgage receivables as the underlying instrument (€750m), against redemptions and buybacks totalling €4.2bn.

	30/6/17		30/6/18		Chg.
	(€m)	%	(€m)	%	
Debt securities	18,826.8	45%	16,769.4	42%	-10.9%
Interbank funding	14,289.7	35%	14,767.7	38%	3.3%
- of which: CheBanca! intercompany	*10,741.6*	*26%*	*11,192.4*	*29%*	*4.2%*
ECB (T-LTRO / LTRO)	5,611.9	14%	4,363.1	11%	-22.3%
Other funding	2,309.8	6%	3,272.8	8%	41.7%
Total funding	**41,038.2**	**100%**	**39,173.0**	**100%**	**-4.5%**

Loans and advances to customers – loans and advances to customers remained basically stable at €25.7bn (€25.2bn), following the addition of private banking positions (€1bn) which offset the reduction in loans to other Group companies (which decreased from €15.6bn to €14.8bn), in particular to Compass (€0.9bn lower), financed through securitizations subscribed to entirely by Mediobanca with the securities held as part of the banking book (€3.9bn, €1.2bn of which issued during the financial year). The corporate banking component increased from €9.6bn to €9.9bn, in particular non-Italian loans, following disbursements of €4.1bn and redemptions totalling €2.9bn, €1.7bn of which are early redemptions. New loans for the year were up 58%.

	30/6/17		30/6/18		Chg.
	(€m)	%	(€m)	%	
Corporate customers	9,591.4	38%	9,934.2	39%	3.6%
Private customers *	—	—	965.0	4%	—
Group companies	15,635.3	62%	14,845.9	57%	-5.0%
Total loans and advances to customers	**25,226.7**	**100%**	**25,745.1**	**100%**	**2.1%**
– of which: impaired assets	*371.7*		*344.0*		*-7.5%*

(*) Following Banca Esperia merger.

	30/6/17		30/6/18		Chg.
	(€m)	%	(€m)	%	
Italy	6,440.4	67%	6,525.1	60%	1.3%
France	965.5	10%	1,022.5	9%	5.9%
Spain	713.8	7%	1,312.0	12%	83.8%
Germany	456.0	5%	645.7	6%	41.6%
UK	—	—	500.0	5%	n.m.
Other non-resident	1,015.7	11%	893.9	8%	-12.0%
Total loans and advances to customers	**9,591.4**	**100%**	**10,899.2**	**100%**	**13.6%**

	30/6/17		30/6/18		Chg.
	(€m)	%	(€m)	%	
Compass Banca	5,333.9	35%	4,405.1	30%	-17.4%
CheBanca!	5,195.9	33%	5,336.2	36%	2.7%
Leasing	1,519.1	10%	1,639.0	11%	7.9%
Mediobanca International	2,242.2	14%	2,133.3	14%	-4.9%
Consumer and Factoring	1,314.8	8%	1,294.0	9%	-1.6%
Others	29.4	—	38.3	—	30.3%
Total loans and advances to Group companies	**15,635.3**	**100%**	**14,845.9**	**100%**	**-5.0%**

Non-performing loans totalled €344m (€371.7m), and consist of five exposures, two fewer than last year, and three private banking positions (generated by the former Banca Esperia); together they represent 3.2% (3.9%) of the corporate loan book, plus exposures in the form of endorsements totalling €9.3m (€17.3m); the coverage ratio improved to 47.7% (46%). Bad debts of €3.8m are attributable to private banking operations and have been written off in full.

Equity investments – these increased slightly from €3,057m to €3,084.2m, due to: movements in the period which regard capital increases by Mediobanca Group companies (€36.9m, €34.5m of which to MBFACTA); the acquisition of RAM Active Investments SA (€143.4m); completion of the Banca Esperia merger, which entailed its two subsidiaries Mediobanca SGR (formerly Duemme SGR) and Mediobanca Management Company (formerly Duemme International Luxembourg) being recognized in the accounts at their fair value (€38m and €4m respectively), after the Banca Esperia investment was discharged (€195.4m).

(€m)

	Percentage shareholding	30/6/17	30/6/18
Associates			
Assicurazioni Generali	13.0	1,096.3	1,096.3
Istituto Europeo di Oncologia	25.4	39.0	39.0
Burgo Group	22.1	—	—
Total associates		**1,135.3**	**1,135.3**
Total subsidiaries		1,921.7	1,948.9
Total equity investments		**3,057.0**	**3,084.2**

Investments in associates are unchanged and chiefly regard the stakes held in:

– Assicurazioni Generali, equal to 13% of the ordinary share capital booked at €1,096.3m, and reflects a gain as at the reporting date of €1,816.7m.

– Istituto Europeo di Oncologia, an interest of 25.4%, worth €39m.

The criteria adopted for the valuations and impairment tests are explained in section 10 part B of the notes to the accounts.

Banking book securities – these include debt securities held as part of the AFS, HTM and unlisted portfolios, and at the reporting date were worth a total of €11.5bn, up 6.4% on the €10.8bn reported one year previously. During the twelve months under review there were redemptions of €2.6bn, yielding gains of €12.1m (€10.4m of which in exchange rate adjustments). The exposure to Italian government securities fell from €3.2bn to €2.6bn, and accounts for 23% of the banking book, with an average duration of under three years. The exposure to non-Italian government securities totalled €2,560.8m (€2,205.2m), and reflects a higher degree of securitization within the Eurozone. The exposure to securitizations of Consumer Banking receivables (Compass and Futuro) rose from €2.7bn to €3.9bn and accounts for 34% of the balance.

	30/6/17		30/6/18		Chg.
	(€m)	%	(€m)	%	
AFS securities	5,004.9	47%	4,419.5	39%	-11.7%
Securities held to maturity	2,394.9	22%	2,595.1	23%	8.4%
Unlisted debt securities (stated at cost)	3,364.5	31%	4,440.3	38%	32.0%
Total fixed financial assets	**10,764.3**	**100%**	**11,454.9**	**100%**	**6.4%**

(€m)

	30/6/17			30/6/18		
	Book Value	%	AFS reserve	Book Value	%	AFS reserve
Italian government securities	3,179.0	30%	61.6	2,582.9	23%	25.2
Foreign government bonds	2,205.2	20%	17.4	2,560.8	22%	14.0
Bonds issued by financial institutions	4,564.8	42%	37.1	5,610.2	49%	16.6
- of which: Consumer Banking ABS securities	*2,725.7*	*25%*	—	*3,891.3*	*34%*	—
Corporate bonds	815.3	8%	27.2	701.0	6%	16.2
Total debt securities	**10,764.3**	**100%**	**143.3**	**11,454.9**	**100%**	**72.0**

The valuation reserve decreased from €143.3m to €72m, in part as a result of the disposals (€28.9m) and the reduction in Italian government securities recorded at end-June; there were also €37.7m in unrealized gains on fixed financial assets (versus €86.5m as at 30 June 2017).

AFS shares – this portfolio brings together equities and investments in funds, including those promoted by the Group through seed capital.

(€m)

	30/6/17			30/6/18		
	Book value	% ord.	AFS reserve	Book value	% ord.	AFS reserve
Atlantia	275.6	1.4	124.6	—	—	—
Italmobiliare	69.2	6.1	45.4	60.8	6.1	37.0
RCS MediaGroup	41.8	6.6	20.1	36.9	6.6	15.2
Other listed equities	12.7	—	5.0	141.6	—	(0.9)
Private equity	63.6	—	25.5	67.0	—	22.1
Other unlisted equities	67.1	—	11.6	125.1	—	11.9
Seed capital	129.5	—	11.2	315.4	—	7.5
Total equities	**659.5**		**243.4**	**746.8**		**92.8**

The portfolio increased in value from €659.5m to €746.8m, representing the difference between sales of shares totalling €301.6m, which mostly involved the remaining shares in Atlantia (disposal of €240m, generating a €89m gain), new investments in listed equities totalling €128.9m, and fund investment activity (€170.8m), chiefly subscription to five RAM funds for a total nav amount as at 30 June 2018 of €171.4m. There was also €1.8m in net value adjustments. The valuation reserve for the portfolio decreased from €243.4m to €92.8m, as a result of the disposals (which reduced the reserve by €131.7m) and downward adjustments to reflect fair value at the reporting date totalling €18.3m.

Net treasury assets – the balance between financial instruments held for trading purposes and trading assets and liabilities totalled €3,650m, a substantial reduction compared to the €6,992.6m last year, due to more effective liquidity management in a negative market interest rate scenario. The strategy drove a reduction in net deposits in repos (from €4,004.6m to €462.9m) and other liquid assets (from €1,575.5m to €1,485.7m), in particular assets held with the European Central Bank (from €1,255.2m to €1,172.2m). The heading includes equities totalling €1,625.9m (€1,534.4m), over 87% of which are hedged by derivatives with clients, and debt securities of €310.7m (€175m).

(€m)

	30/6/17	30/6/18	Chg.
Financial assets held for trading	7,271.3	8,211.9	13%
Treasury funds	10,031.8	9,236.0	-8%
Financial liabilities held for trading	(5,859.2)	(6,510.5)	11%
Treasury funding	(4,451.3)	(7,287.4)	64%
Total	**6,992.6**	**3,650.0**	**-48%**

(€m)

	30/6/17	30/6/18	Chg.
Loan trading	59.6	25.0	-58%
Derivatives contract valuations	(356.9)	(260.1)	-27%
Equities	1,534.4	1,625.8	6%
Bond securities	175.0	310.7	78%
Financial instruments held for trading	**1,412.1**	**1,701.4**	**20%**

(€m)

	30/6/17	30/6/18	Chg.
Cash and banks	1,575.5	1,485.7	-6%
PCT&PT	1,168.8	(960.0)	n.m.
Financial assets deposits	1,798.8	146.2	n.m.
Stock Lending	1,037.4	1,276.7	23%
Net treasury assets	**5,580.5**	**1,948.6**	**-65%**

Tangible and intangible assets – these increased, from €132.2m to €155.4m, chiefly due to registration of the brand (€15.5m) and goodwill (€12.5m) following the Banca Esperia merger and related purchase price allocation. Depreciation and amortization charges for the period totalled €11.8m (€12.1m), while investments amounted to €3.3m (€12.3m), due chiefly to new IT applications.

	30/6/17		30/6/18		Chg.
	(€m)	%	(€m)	%	
Land and properties	113.4	86%	112.3	72%	-1.0%
- of which: core	*87.9*	*66%*	*87.1*	*56%*	*-0.9%*
Other tangible assets	4.6	3%	4.5	3%	-2.2%
Other intangible assets	14.2	11%	38.6	25%	n.m.
- of which: goodwill	—	—	*12.5*	*8%*	—
- of which: brand	—	—	*15.5*	*10%*	—
Total tangible and intangible assets	**132.2**	**100%**	**155.4**	**100%**	**17.5%**

Provisions – this item was basically unchanged at €105.5m (€105.7m), following transfers to the provisions for risks totalling €2m in connection with the reorganization of the CIB area, and net withdrawals of €1.7m, chiefly due to the effects of the Banca Esperia merger. The share of the staff severance indemnity provision declined from €8.9m to €7.7m, with the discount reserve virtually stable (down from €0.4m to €0.5m).

	30/6/17		30/6/18		Chg.
	(€m)	%	(€m)	%	
Provisions for risk and charges	96.8	92%	97.8	93%	1.0%
Staff severance provision	8.9	8%	7.7	7%	-13.5%
of which: staff severance provision discount	*0.4*	—	*0.5*	—	*25.0%*
Total provisions	**105.7**	**100%**	**105.5**	**100%**	**-0.2%**

Net equity – the €32.6m, or 0.6%, decrease in net equity reflects the €155.2m reduction in the valuation reserves, in particular those for AFS equities (down €186.2m), and the 2017 dividend (€320.2m) which accounted for the profit for the year (€337m) and the reduction in treasury shares (from €197.7m to €109.3m) after 7,021,953 shares were used as part of the consideration in the RAM Active Investments acquisition in February 2018.

The Bank's share capital increased from €440.6m to €443.3m, following the exercise of 3,770,000 stock options and the award of 1,537,782 performance shares to staff worth a total amount of €23.7m, including the share premium.

(€m)

	30/6/17	30/6/18	Chg.
Share capital	440.6	443.3	0.6%
Other reserves	4,274.0	4,375.2	2.4%
Valuation reserves	285.2	130.0	-54.4%
-of which: AFS securities	*312.9*	*126.7*	*-59.5%*
cash flow hedge	*(33.6)*	*(2.6)*	*n.m.*
Profit for the period	318.3	337.0	5.9%
Total net equity	**5,318.1**	**5,285.5**	**-0.6%**

The AFS reserve involves equities as to €92.7m, Italian government securities as to €25.2m, and other bonds as to €46.8m, net of the €38m tax effect.

(€m)

	30/6/17	30/6/18	Chg.
Equities	243.5	92.7	-61.9%
Bonds	143.4	72.0	-49.8%
of which: Italian government bonds	*61.6*	*25.2*	*-59.1%*
Tax effect	(74.0)	(38.0)	-48.6%
Total AFS reserve	**312.9**	**126.7**	**-59.5%**

Net interest income – net interest income improved despite interest rate stagnation and the reduction in returns on corporate loans, rising 12.4%, from €84.6m to €95.1m, due to the contribution from the former Banca Esperia private banking portfolio and the lower cost of funding. On a like-for-like basis the increase would have been 2.3%.

(€m)

	30/6/17	30/6/18	Chg.
Interest income	813.1	762.7	-6.2%
Interest expense	(742.0)	(667.6)	-10.0%
Other [1]	13.5	—	n.m.
Interest margin	**84.6**	**95.1**	**12.4%**

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

Net trading income – net trading income increased from €116.3m to €146.8m, with all segments contributing despite the market instability during the fourth quarter: AFS dividends rose from €16.7m to €21.9m, equity trading posted an increase from €44.6m to €55.7m, and fixed-income trading from €55m to €69.2m, including gains realized on banking book securities totalling €23.9m (€22.9m).

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg.
AFS Dividends	16.7	21.9	31.1%
Fixed-income trading profit	55.0	69.2	25.8%
Equity trading profit	44.6	55.7	24.9%
Net trading income	**116.3**	**146.8**	**26.2%**

Net fee and commission income – the significant, 27.9% improvement in this item, from €211.7m to €270.7m, was due to the inclusion of private banking activities for the first time which contributed €52.5m. On a like-for-like basis there would have been an increase in any case, of 3.1%. Fees earned from Wholesale Banking rose from €196.7m to €199.1m, on 35.2% growth in M&A advisory fees, from €47.8m to €64.7m, and growth in Debt Capital Market fees (from €17.4m to €24.9m), which offset the lower performance in Equity Capital markets of €40.9m (€68.7m), which last year included one especially large deal.

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg.
Lending	43.9	46.8	6.6%
Advisory M&A	47.8	64.7	35.2%
Capital Market	86.1	65.8	-23.5%
Sales and Markets	18.5	21.8	17.9%
Private Banking	—	52.5	n.m.
Other income	15.4	19.1	23.9%
Net fee and commission income	**211.7**	**270.7**	**27.9%**

Operating costs – the 19.1% increase in this item, from €348.3m to €414.8m, was split equally between labour costs and administrative expenses; net of the former Banca Esperia contribution, the increase reduces to around 1%. The Banca Esperia merger resulted in higher consultancy costs (up from €18.2m to €22.3m) and data processing expenses (up from €43.5m to €52.8m).

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg.
Labour costs	198.9	237.8	19.6%
of which: directors	*3.4*	*3.5*	*1.9%*
stock options and performance shares schemes	*11.5*	*7.8*	*-32.-%*
Sundry operating costs and expenses	149.4	177.0	18.5%
of which: depreciations and amortizations	*12.1*	*11.8*	*-2.5%*
administrative expenses	*137.3*	*168.1*	*22.4%*
Operating costs	**348.3**	**414.8**	**19.1%**

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg.
Legal, tax and professional services	9.2	11.9	29.3%
Other consultancy expenses	18.2	22.3	22.5%
Marketing and communication	2.9	4.9	69.0%
Rent and property maintenance	8.2	11.4	39.0%
EDP	43.5	52.8	21.4%
Financial information subscription	18.0	19.5	8.3%
Bank services, collection and payment commissions	1.4	1.9	35.7%
Operating expenses	6.0	6.6	10.0%
Other labour costs	9.0	11.9	32.2%
Other costs	16.1	19.9	23.6%
Direct and indirect taxes	4.8	5.0	4.2%
Total administrative expenses	**137.3**	**168.1**	**22.4%**

Loan loss provisions – writebacks of provisions increased significantly, from €14m to €44m, due to the improved risk profile; writebacks due to collections on non-performing accounts represented around €39m of the total.

Provisions for other financial assets and impairment charges to investments – writebacks in respect of performing fixed financial assets (€2.9m) offset the writedowns charged to the value of investments in Group companies (€0.3m) and to AFS equities (€1.8m), chiefly attributable to real estate funds.

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg.
Equity investments	0.9	0.3	-66.7%
Equities	0.9	1.8	n.m.
Bonds	3.2	(2.9)	n.m.
Total	**5.0**	**(0.8)**	**n.m.**

Income tax for the year – on a GOP of €384m (versus €348.3m last year), income tax for the year was €47m (€30m). The effective tax rate, around 12%, was assisted by the partial dividend exemption regime and capital gains tax, albeit less so than last year (9%).

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.

* * *

Significant events that have taken place during the twelve months under review include:

- The merger of Banca Esperia into Mediobanca was completed, resulting in the new Mediobanca Private Banking division, targeting the top end of the asset management market; the merger will generate cost synergies as a result of streamlining overheads and eliminating one of the banking legal entities;
- The acquisition of RAM Active Investments SA was completed, with a view to strengthening the Group's alternative asset management platform. RAM, established in 2007 and headquartered in Geneva, is one of the leading European systematic asset managers, offering a wide range of alternative funds (systematic equity investments based on fundamental analysis and discretionary fixed-income strategies) to a vast client basis of professional and institutional investors. The company manages fourteen funds with a combined value of approx. CHF 5bn. The agreement involved the 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, has retained a minority interest of 7.5% in the company;
- Reorganization of the Mediobanca S.p.A. Corporate and Investment Banking division, which is now headed up by Francisco Bachiller (Country Head, Spain & Latin America) and Francesco Canzonieri (Country Head, Italy).

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

- Authorization from the European Central Bank to adopt the AIRB models, or internal risk management systems, starting from 31 March 2018, to manage the capital requisites for credit risk on the Large Corporate portfolio;
- 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. Rating agency Moody's also issued its first ratings for Mediobanca: Baa1 long-term, A3 for deposits, and P-2 short-term. These

are the highest ratings assigned to an Italian bank and higher even than the sovereign ratings for the republic of Italy. The outlook assigned by Moody's is stable for the long term, and has been changed from negative for deposits to "under review for downgrade", after the same decision was made for the outlook for the republic of Italy on 30 May 2018.

Related party disclosure

Financial accounts outstanding as at 30 June 2018 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 respect of transparency pursuant to Consob resolution 17221 issued on 12 March 2010.

All such accounts fall within the company's ordinary operations, are maintained on an arm's length basis, and are entered into in the interests of the Group itself. No atypical or unusual transactions have been entered into with these counterparties.

Other information

With regard to securities trading, a total of 22.9 million Mediobanca shares were traded on behalf of customers, worth €216.4m.

Information regarding the Bank's ownership structure as required under Article 123-bis of Italian Legislative Decree 58/98 is contained in the annual statement on corporate governance attached hereto and available on the Bank's website under Corporate Governance.

Assets which have been revalued and recorded in the balance sheet are listed in table A.

The other information on ratings and research is shown on p. 59 of the consolidated Review of Operations.

Information on the most important litigation pending involving the Bank is also provided in Liabilities, section 12.

Outlook

The healthy performance by the Bank's core businesses should continue next year, despite the scenario in terms of very low interest rates, uncertainty on financial markets (in particular the domestic Italian market), and fiercer competition which inevitably affect net interest income, the results of treasury activity and performance in terms of fees and commissions. The cost/income ratio should remain at its current levels, and the trend in the cost of risk should continue to be favourable.

Milan, 20 September 2018

THE BOARD OF DIRECTORS

Proposal to approve financial statements and profit allocation for the year ended 30 June 2018

Dear shareholders,
The net profit for the year was € 337,033,833.68

€ 580,772,80	to the Legal Reserve, which accordingly would amount to € 88,704,294.00, or 20% of the Bank's share capital;
€ 33,122,610.57	to the Statutory Reserve;
€ 303,330,450.31	as profit remaining

We therefore propose to distribute a €0.47 dividend on each of the 878,328,107 shares in issue entitling their holders to such rights, which, including the redistribution of amounts payable in respect of the treasury shares, makes for a total amount of €412,814,210.29, to be made up from the profit remaining plus €109,483,759.98 to be taken from the Statutory Reserve, as per the table shown below.

Accordingly, you are invited to approve the financial statements for the year ended 30 June 2018, including the balance sheet, profit and loss account and accompanying schedules, and the following profit allocation:

Net profit for the year	€ 337,033,833.68
To the Legal Reserve	€ 580,772.80
To the Statutory Reserve	€ 33,122,610.57
Remaining profit	€ 303,330,450.31
From the Statutory Reserve	€ 109,483,759.98
Dividend of €0.37 on 865,476,647 shares	€ 412,814,210.29

The dividend of €0.47 per share will be paid on 19 November 2018, with the shares going ex-rights on 20 November 2018.

Milan, 31 July 2018

THE BOARD OF DIRECTORS

DECLARATION IN RESPECT OF INDIVIDUAL FINANCIAL STATEMENTS

DECLARATION IN RESPECT OF
INDIVIDUAL FINANCIAL STATEMENTS
as required by Article 81-*ter* of Consob resolution no. 11971
issued on 14 May 1999 as amended

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1. The undersigned Alberto Nagel and Emanuele Flappini, in their respective capacities as Chief Executive Officer and Head of Company Financial Reporting of Mediobanca hereby declare, and in view *inter alia* of the provisions contained in Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree 58/98, that the administrative and accounting procedures used in the preparation of the separate financial statements:
   – were adequate in view of the company's characteristics;
   – were effectively applied in the year ended 30 June 2018.
2. Assessment of the adequacy of said administrative and accounting procedures for the preparation of the separate financial statements as at 30 June 2018 was based on a model defined by Mediobanca in accordance with benchmark standards for internal control systems which are widely accepted at international level (CoSO and CobiT framework).
3. It is further hereby declared that

   3.1 the separate financial statements:
   – have been drawn up in accordance with the International Financial Reporting Standards adopted by the European Union pursuant to EC regulation no. 1606/02 issued by the European Parliament and Council on 19 July 2002;
   – correspond to the data recorded in the company's books and accounts ledgers;
   – are adequate for the purpose of providing a truthful and accurate representation of the capital, earnings and financial situation of the issuer and the group of companies included within its area of consolidation.

   3.2 the review of operations contains reliable analysis of the Group's operating performance and results, and of the situation of Mediobanca S.p.A. and the group of companies comprised within its area of consolidation, along with a description of the main risks and uncertainties to which they are exposed.

Milan, 20 September 2018

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

AUDITORS' REPORT

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Relazione della società di revisione indipendente

ai sensi dell'articolo 14 del DLgs 27 gennaio 2010, n° 39 e dell'articolo 10 del Regolamento (UE) n° 537/2014

Agli azionisti di Mediobanca SpA

Relazione sulla revisione contabile del bilancio d'esercizio

Giudizio

Abbiamo svolto la revisione contabile del bilancio d'esercizio di Mediobanca SpA (la Società), costituito dallo Stato Patrimoniale 30 giugno 2018, dal conto economico, dal prospetto della redditività complessiva, dal prospetto delle variazioni del patrimonio netto, dal rendiconto finanziario per l'esercizio chiuso a tale data e dalle note esplicative ed integrative al bilancio che includono anche la sintesi dei più significativi principi contabili applicati.

A nostro giudizio, il bilancio d'esercizio fornisce una rappresentazione veritiera e corretta della situazione patrimoniale e finanziaria della Società al 30 giugno 2018, del risultato economico e dei flussi di cassa per l'esercizio chiuso a tale data in conformità agli International Financial Reporting Standards adottati dall'Unione Europea nonché ai provvedimenti emanati in attuazione dell'articolo 9 del DLgs n° 38/05 e dell'articolo 43 del DLgs n° 136/15.

Elementi alla base del giudizio

Abbiamo svolto la revisione contabile in conformità ai principi di revisione internazionali (ISA Italia). Le nostre responsabilità ai sensi di tali principi sono ulteriormente descritte nella sezione *Responsabilità della società di revisione per la revisione contabile del bilancio d'esercizio* della presente relazione. Siamo indipendenti rispetto alla Società in conformità alle norme e ai principi in materia di etica e di indipendenza applicabili nell'ordinamento italiano alla revisione contabile del bilancio. Riteniamo di aver acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio.

Aspetti chiave della revisione contabile

Gli aspetti chiave della revisione contabile sono quegli aspetti che, secondo il nostro giudizio professionale, sono stati maggiormente significativi nell'ambito della revisione contabile del bilancio dell'esercizio in esame. Tali aspetti sono stati da noi affrontati nell'ambito della revisione contabile e nella formazione del nostro giudizio sul bilancio d'esercizio nel suo complesso; pertanto su

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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tali aspetti non esprimiamo un giudizio separato.

Aspetti chiave	***Procedure di revisione in risposta agli aspetti chiave***
Valutazione dei crediti verso la clientela per finanziamenti *Nota integrativa:* *Parte A – Politiche contabili;* *Parte B – Informazioni sullo stato patrimoniale alla sezione 7 dell'attivo;* *Parte C – Informazioni sul conto economico alla sezione 8;* *Parte E - Informazioni sui rischi e sulle relative politiche di copertura.* I crediti verso la clientela per finanziamenti al 30 giugno 2018 mostrano un saldo pari ad euro 14,7 miliardi, corrispondente al 24% del totale dell'attivo del bilancio. Le rettifiche di valore nette dei crediti verso la clientela per finanziamenti rilevate nell'esercizio ammontano a euro 32,9 milioni. A tali crediti è stata dedicata particolare attenzione nell'ambito della nostra attività di revisione tenuto conto della rilevanza del valore di bilancio e che i processi e le modalità di valutazione risultano caratterizzati dal ricorso a complessi processi di stima di numerose variabili. Tali variabili riguardano, principalmente, l'esistenza di indicatori di possibili perdite di valore, la determinazione dei flussi di cassa attesi ed i relativi tempi di recupero, il valore di realizzo delle garanzie, nonché l'utilizzo di dati interni ed esterni osservabili alla data di valutazione.	Nell'ambito delle attività di revisione, sono state svolte le seguenti principali attività, al fine di indirizzare tale aspetto chiave: • analisi sull'adeguatezza dell'ambiente informatico e verifiche sull'efficacia operativa dei controlli rilevanti a presidio dei sistemi e degli applicativi informatici utilizzati; • analisi delle procedure e dei processi aziendali e verifiche sull'efficacia operativa dei controlli rilevanti ai fini del processo di valutazione dei crediti verso la clientela per finanziamenti; • procedure di analisi comparativa con riferimento agli scostamenti maggiormente significativi rispetto ai dati dell'esercizio precedente ed analisi delle risultanze con le funzioni aziendali coinvolte; • analisi dei modelli e delle metodologie di valutazione, sia su base collettiva che su base individuale, e verifiche, su base campionaria, dell'effettiva applicazione dei criteri definiti, della ragionevolezza delle variabili oggetto di stima nell'ambito di tali modelli, nonché delle assunzioni relative alla recuperabilità. Tali attività sono state svolte con il supporto di esperti della rete PwC; • verifiche su base campionaria della valutazione e della classificazione in bilancio secondo le categorie previste dal quadro normativo sull'informazione finanziaria e regolamentare applicabile; • esame dell'appropriatezza e della completezza dell'informativa di bilancio.
Valutazione degli strumenti finanziari complessi non quotati valutati al *fair value* (o "valore equo") *Nota Integrativa:* *Parte A – Politiche contabili;* *Parte B – Informazioni sullo stato patrimoniale*	Nell'ambito delle attività di revisione, sono state svolte le seguenti principali attività, al fine di indirizzare tale aspetto chiave: • analisi sull'adeguatezza dell'ambiente informatico e verifiche sull'efficacia operativa dei controlli rilevanti a presidio dei

Aspetti chiave	***Procedure di revisione in risposta agli aspetti chiave***
alle sezioni 2 e 8 dell'attivo e alle sezioni 4 e 6 del passivo; *Parte C – Informazioni sul conto economico alle sezioni 4 e 5.* Nell'ambito della nostra attività di revisione è stata posta particolare attenzione all'analisi dei modelli di valutazione degli strumenti finanziari complessi non quotati e valutati al *fair value*. Il ricorso a stime rileva principalmente per determinate tipologie di titoli strutturati e strumenti finanziari derivati, per i quali si fa ricorso a modelli valutativi complessi, riconosciuti nella prassi prevalente, che sono alimentati da dati non direttamente osservabili sul mercato e stimati internamente sulla base di assunzioni qualitative e quantitative (strumenti finanziari con livello di *fair value* 2 e livello di *fair value* 3).	sistemi e degli applicativi informatici utilizzati; • analisi delle procedure e dei processi aziendali e verifiche sull'efficacia operativa dei controlli rilevanti ai fini del processo di valutazione degli strumenti finanziari con livello di *fair value* 2 e livello di *fair value* 3; • comprensione dei modelli valutativi utilizzati dalla Società e verifica indipendente, su base campionaria, del *fair value* al fine di analizzare la ragionevolezza delle assunzioni qualitative e quantitative formulate e dei parametri di input utilizzati; tali analisi sono state condotte con il supporto di esperti della rete PwC; • verifiche su base campionaria della classificazione in bilancio secondo le categorie previste dal quadro normativo sull'informazione finanziaria e regolamentare applicabile.
Rilevazione contabile delle operazioni straordinarie con riferimento alla fusione per incorporazione di Banca Esperia *Nota integrativa:* *Parte A – Politiche contabili;* *Parte B – Informazioni sullo stato patrimoniale alla sezione 10 e 12 dell'attivo del bilancio;* *Parte G – Operazioni di aggregazione riguardanti imprese o rami d'azienda.* A seguito dell'acquisizione del controllo di Banca Esperia perfezionatasi nell'aprile 2017, la Società, nel corso dell'esercizio corrente, ha proceduto alla fusione per incorporazione della stessa. A tale aspetto è stata posta particolare attenzione nell'ambito delle nostre attività di revisione, per effetto della complessità delle metodologie di valutazione adottate, che sono state caratterizzate dal ricorso a processi di stima. Ai fini dell'allocazione della differenza di fusione sono state utilizzate infatti le risultanze del processo di allocazione del prezzo pagato ("*Purchase Price Allocation" o "PPA"),* valorizzando al *fair value* le attività di Banca Esperia (principalmente	Nell'ambito delle attività di revisione, con il supporto di esperti della rete PwC, sono state svolte le seguenti principali attività, al fine di indirizzare tale aspetto chiave: • analisi documentale e discussione con le funzioni aziendali coinvolte; • comprensione e valutazione della metodologia di determinazione del *fair value* delle attività; • comprensione e valutazione dei criteri adottati dalla Società per l'identificazione e la rilevazione del marchio e dell'avviamento; • analisi della rilevazione contabile dell'operazione nel suo complesso e verifica dell'adeguatezza dell'informativa anche in relazione a quanto previsto dai principi contabili di riferimento.

Aspetti chiave	Procedure di revisione in risposta agli aspetti chiave
partecipazioni, crediti e titoli) per complessivi euro 12,5 milioni, attività immateriali (*"marchio"*) per euro 15,5 milioni e, in via residuale, un avviamento positivo pari a euro 12,5 milioni.	

Responsabilità degli amministratori e del collegio sindacale per il bilancio d'esercizio

Gli amministratori sono responsabili per la redazione del bilancio d'esercizio che fornisca una rappresentazione veritiera e corretta in conformità agli International Financial Reporting Standards adottati dall'Unione Europea nonché ai provvedimenti emanati in attuazione dell'articolo 9 del DLgs n° 38/05 e dell'articolo 43 del DLgs n° 136/15 e, nei termini previsti dalla legge, per quella parte del controllo interno dagli stessi ritenuta necessaria per consentire la redazione di un bilancio che non contenga errori significativi dovuti a frodi o a comportamenti o eventi non intenzionali.

Gli amministratori sono responsabili per la valutazione della capacità della Società di continuare ad operare come un'entità in funzionamento e, nella redazione del bilancio d'esercizio, per l'appropriatezza dell'utilizzo del presupposto della continuità aziendale, nonché per una adeguata informativa in materia. Gli amministratori utilizzano il presupposto della continuità aziendale nella redazione del bilancio d'esercizio a meno che abbiano valutato che sussistono le condizioni per la liquidazione della Società o per l'interruzione dell'attività o non abbiano alternative realistiche a tali scelte.
Il collegio sindacale ha la responsabilità della vigilanza, nei termini previsti dalla legge, sul processo di predisposizione dell'informativa finanziaria della Società.

Responsabilità della società di revisione per la revisione contabile del bilancio d'esercizio

I nostri obiettivi sono l'acquisizione di una ragionevole sicurezza che il bilancio d'esercizio nel suo complesso non contenga errori significativi, dovuti a frodi o a comportamenti o eventi non intenzionali, e l'emissione di una relazione di revisione che includa il nostro giudizio. Per ragionevole sicurezza si intende un livello elevato di sicurezza che, tuttavia, non fornisce la garanzia che una revisione contabile svolta in conformità ai principi di revisione internazionali (ISA Italia) individui sempre un errore significativo, qualora esistente. Gli errori possono derivare da frodi o da comportamenti o eventi non intenzionali e sono considerati significativi qualora ci si possa ragionevolmente attendere che essi, singolarmente o nel loro insieme, siano in grado di influenzare le decisioni economiche prese dagli utilizzatori sulla base del bilancio d'esercizio.

Nell'ambito della revisione contabile svolta in conformità ai principi di revisione internazionali (ISA Italia), abbiamo esercitato il giudizio professionale e abbiamo mantenuto lo scetticismo professionale per tutta la durata della revisione contabile. Inoltre:

- abbiamo identificato e valutato i rischi di errori significativi nel bilancio d'esercizio, dovuti a frodi o a comportamenti o eventi non intenzionali; abbiamo definito e svolto procedure di revisione in risposta a tali rischi; abbiamo acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio. Il rischio di non individuare un errore significativo dovuto a frodi è più elevato rispetto al rischio di non individuare un errore significativo derivante da comportamenti o eventi non intenzionali, poiché la frode può implicare l'esistenza di collusioni, falsificazioni, omissioni intenzionali, rappresentazioni fuorvianti o forzature del controllo interno;

- abbiamo acquisito una comprensione del controllo interno rilevante ai fini della revisione contabile allo scopo di definire procedure di revisione appropriate nelle circostanze e non per esprimere un giudizio sull'efficacia del controllo interno della Società;
- abbiamo valutato l'appropriatezza dei principi contabili utilizzati nonché la ragionevolezza delle stime contabili effettuate dagli amministratori, inclusa la relativa informativa;
- siamo giunti ad una conclusione sull'appropriatezza dell'utilizzo da parte degli amministratori del presupposto della continuità aziendale e, in base agli elementi probativi acquisiti, sull'eventuale esistenza di una incertezza significativa riguardo a eventi o circostanze che possono far sorgere dubbi significativi sulla capacità della Società di continuare ad operare come un'entità in funzionamento. In presenza di un'incertezza significativa, siamo tenuti a richiamare l'attenzione nella relazione di revisione sulla relativa informativa di bilancio ovvero, qualora tale informativa sia inadeguata, a riflettere tale circostanza nella formulazione del nostro giudizio. Le nostre conclusioni sono basate sugli elementi probativi acquisiti fino alla data della presente relazione. Tuttavia, eventi o circostanze successivi possono comportare che la Società cessi di operare come un'entità in funzionamento;
- abbiamo valutato la presentazione, la struttura e il contenuto del bilancio d'esercizio nel suo complesso, inclusa l'informativa, e se il bilancio d'esercizio rappresenti le operazioni e gli eventi sottostanti in modo da fornire una corretta rappresentazione.

Abbiamo comunicato ai responsabili delle attività di governance, identificati ad un livello appropriato come richiesto dagli ISA Italia, tra gli altri aspetti, la portata e la tempistica pianificate per la revisione contabile e i risultati significativi emersi, incluse le eventuali carenze significative nel controllo interno identificate nel corso della revisione contabile.

Abbiamo fornito ai responsabili delle attività di governance anche una dichiarazione sul fatto che abbiamo rispettato le norme e i principi in materia di etica e di indipendenza applicabili nell'ordinamento italiano e abbiamo comunicato loro ogni situazione che possa ragionevolmente avere un effetto sulla nostra indipendenza e, ove applicabile, le relative misure di salvaguardia.

Tra gli aspetti comunicati ai responsabili delle attività di governance, abbiamo identificato quelli che sono stati più rilevanti nell'ambito della revisione contabile del bilancio dell'esercizio in esame, che hanno costituito quindi gli aspetti chiave della revisione. Abbiamo descritto tali aspetti nella relazione di revisione.

Altre informazioni comunicate ai sensi dell'articolo 10 del Regolamento (UE) 537/2014

L'assemblea degli azionisti di Mediobanca SpA ci ha conferito in data 27 ottobre 2012 l'incarico di revisione legale del bilancio d'esercizio e consolidato della Società per gli esercizi dal 30 giugno 2013 al 30 giugno 2021.

Dichiariamo che non sono stati prestati servizi diversi dalla revisione contabile vietati ai sensi dell'articolo 5, paragrafo 1, del Regolamento (UE) 537/2014 e che siamo rimasti indipendenti rispetto alla Società nell'esecuzione della revisione legale.

Confermiamo che il giudizio sul bilancio d'esercizio espresso nella presente relazione è in linea con quanto indicato nella relazione aggiuntiva destinata al collegio sindacale, nella sua funzione di comitato per il controllo interno e la revisione contabile, predisposta ai sensi dell'articolo 11 del citato Regolamento.

Relazione su altre disposizioni di legge e regolamentari

Giudizio ai sensi dell'articolo 14, comma 2, lettera e), del DLgs 39/10 e dell'articolo 123-bis, comma 4, del DLgs 58/98

Gli amministratori di Mediobanca SpA sono responsabili per la predisposizione della relazione sulla gestione e della relazione sul governo societario e gli assetti proprietari di Mediobanca SpA al 30 giugno 2018, incluse la loro coerenza con il relativo bilancio d'esercizio e la loro conformità alle norme di legge.

Abbiamo svolto le procedure indicate nel principio di revisione (SA Italia) n° 720B al fine di esprimere un giudizio sulla coerenza della relazione sulla gestione e di alcune specifiche informazioni contenute nella relazione sul governo societario e gli assetti proprietari indicate nell'articolo 123-bis, comma 4, del DLgs 58/98, con il bilancio d'esercizio di Mediobanca SpA al 30 giugno 2018 e sulla conformità delle stesse alle norme di legge, nonché di rilasciare una dichiarazione su eventuali errori significativi.

A nostro giudizio, la relazione sulla gestione e alcune specifiche informazioni contenute nella relazione sul governo societario e gli assetti proprietari sopra richiamate sono coerenti con il bilancio d'esercizio di Mediobanca SpA al 30 giugno 2018 e sono redatte in conformità alle norme di legge.

Con riferimento alla dichiarazione di cui all'articolo 14, comma 2, lettera e), del DLgs 39/10, rilasciata sulla base delle conoscenze e della comprensione dell'impresa e del relativo contesto acquisite nel corso dell'attività di revisione, non abbiamo nulla da riportare.

Milano, 1 ottobre 2018

PricewaterhouseCoopers SpA

Marco Palumbo
(Revisore legale)

STATUTORY AUDITORS' REPORT

STATUTORY AUDIT COMMITTEE'S REPORT
as required under Article 153 of Italian Legislative Decree 58/98

Dear Shareholders,

This report, which has been prepared as required under Article 153 of Italian Legislative Decree 58/98 (the "Italian Consolidated Finance Act"), refers to the activities carried out by the Statutory Audit Committee (the "Statutory Audit Committee") of Mediobanca S.p.A. ("Mediobanca", the "Bank" or the "Company") during the financial year ended 30 June 2018, in accordance with the relevant regulations, and taking into account the Rules of Conduct for Statutory Audit Committees recommended by the Italian national council of chartered accounts and accounting experts. During the course of the year, the Statutory Audit Committee met on a total of 29 occasions, 12 of which with the Risks Committee; it also took part in 11 Board meetings, 12 Executive Committee meetings, 9 Related Parties' Committee meetings, and 8 Remuneration Committee meetings.

1. Supervision of compliance with law and Articles of Association

The Statutory Audit Committee has received regular information from the directors, *inter alia* through participating in meetings of the Board of Directors, Executive Committee and the other Board committees, on the activities carried out, the management actions performed, and the most significant transactions in earnings, financial and capital terms approved and executed by the Bank and the other Group companies, including in compliance with Article 150, paragraph 1 of the Italian Consolidated Finance Act. Based on the information available, the Statutory Audit Committee can provide reasonable assurance that these transactions have been carried out in compliance with the provisions of the law and the company's Articles of Association, and are not manifestly imprudent or risky, in conflict with the resolutions adopted by shareholders in general meeting, or such as may compromise the integrity of the Company's assets. Furthermore, all transactions in relation to which the Directors were the bearers of interests have been approved in compliance with the provisions of the law, the regulations in force and the company's Articles of Association.

Significant events during the twelve months under review which the Statutory Audit Committee considers appropriate to recall here in view of their relevance to assessment of the Bank's solidity and the consistency of the management decisions made with the strategic guidelines established in the 2016-19 business plan include:

- The merger of Banca Esperia into Mediobanca was completed, resulting in the new Mediobanca Private Banking division, targeting the top end of the asset management market; the merger will generate cost synergies as a result of streamlining overheads and eliminating one of the banking legal entities;
- The acquisition of RAM Active Investments SA was completed, with a view to strengthening the Group's alternative asset management platform. RAM, established in 2007 and headquartered in Geneva, is one of the leading European systematic asset managers, offering a wide range of alternative funds (systematic equity investments based on fundamental analysis and discretionary fixed-income strategies) to a vast client basis of professional and institutional investors.
- The ECB's decision, at the outcome of the SREP 2017 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%. 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.
- Authorization from the European Central Bank for Mediobanca to adopt its own internal risk management systems (AIRB models) as from 31 March 2018 to measure the capital requisites for credit risk in the large corporate segment; the roll-out plan for the models to be adopted progressively for the other businesses has also been approved (use of the models for CheBanca! mortgage loans should be launched this year);
- Agreement with IBM Italy (effective from 1 January 2018) to outsource IT infrastructure, end-user, data connectivity and computer security services for the whole Mediobanca Group, which were previously provided by the Group consortium services company Mediobanca Innovation Services.

At Group level, in August 2018 an agreement was reached between Compass Banca and the Trinugraha consortium to acquire a 19.9% stake in Indonesian company BFI Finance, a consumer credit player operating in the local market. The deal forms part of the process of redeploying capital to specialized, high-growth and highly-profitable banking business and expanding the Group's international footprint. The deal is subject to authorization from the European Central Bank.

With reference to relations with the authorities, the Statutory Audit Committee has at all times been kept updated by the relevant company units – in particular Risk Management insofar as regards the ECB – of the checks which the authorities have carried out. On a monthly basis Risk Management informs the Committee of the various activities performed by the ECB (Thematic Review, onsite inspection, etc.), presents the results of such activities, and reports on the remediation actions in progress for problems raised by the authority.

Particular attention has been devoted by the Statutory Audit Committee to the action plans agreed with the ECB for work to be done in connection with management and the control system for interest rate risk on the banking book, implementation of IFRS9, authorization to use internal models, and liquidity and funding risk management.

2. Monitoring compliance with principles of proper management and adequacy of the Bank's organizational structure

The Statutory Audit Committee has been informed regarding, and has monitored the adequacy of, the Bank's organizational structure and its compliance with the principles of proper management, by obtaining information from the heads of the relevant company divisions and meetings with the External Auditors involving the mutual exchange of relevant data and information. It has also monitored the adequacy of the instructions given by the company to its subsidiaries, as required by Article 114, paragraph 2 of Italian Legislative Decree 58/98.

With reference to the principles of proper management, from the meetings held with the heads of the governance areas and control units, the Head of Company Financial Reporting and the external auditors, the Statutory Audit Committee can reasonably affirm that the operations performed have been carried out in accordance with the principles of proper management, and that the operating decisions have been taken on the basis of adequate reporting flows being made available and with awareness of the risks involved.

The Statutory Audit Committee also noted that no atypical and/or unusual transactions have been entered into with Group companies, third parties or related parties.

During the twelve months under review, the rationalization of some of the Bank's internal units has continued. The following actions in particular have been completed:

– The AML unit has been centralized at parent company level, with the objective of creating a specialist skill centre on issues which are common to the various Italian companies so as to ensure more uniform risk governance strategies and leverage operating synergies based on an approach which aims to achieve ongoing improvement in the effectiveness and efficiency of the company's control processes;

– The Group Audit Unit has been redesigned following the Banca Esperia merger, with the establishment of the following units: Parent Company and CIB, Wealth Management, and Consumer Banking;
– A Group Governance & Treasury unit has been set up to combine the Group Corporate Affairs and Group Treasury units;
– A new unit, Capital and COREP controls, has been set up as part of the Planning and Control area, tasked *inter alia* with checking the accuracy and coherence of the regulatory capital calculations, and checking the COREP reports before they are sent.

Particular attention has been focused on the new Private Banking division, set up following the merger and integration of Banca Esperia, and reporting directly to the General Manager of Mediobanca. With reference to the integration of the former Banca Esperia control units, these have been reallocated to the model and respective control units of Mediobanca. The control units themselves have also set up a specific Wealth Management team.

The organizational structure has also been strongly affected by the outsourcing the Group's IT infrastructure, end-user, data connectivity and hardware IT security services, which historically were performed by the Group's consortium company MIS (Mediobanca Innovation Service), with the objective of rationalizing the increasing costs due to updating and managing hardware. A contract was finalized with IBM, selected following a competitive procedure which took due account of technical and financial issues, in respect of a business unit comprising not only hardware but also human resources (around 70 staff). The contract, which has a duration of ten years, was authorized by the ECB and makes provision for control measures to ensure adequate service levels are provided.

The Committee followed the progress of the entire outsourcing process, from the competitive phase to execution of the contract.

Subsequently it met on several occasions with the Chief Operating Officer to discuss the state of progress with the project, which will require another few months to be completed, even if the state of the services provided does not show any critical issues, substantial continuity having been achieved through effective co-operation during the "transition" phase. The checks carried out by the Group Audit Unit have also confirmed that the situation with respect to management of the outsourced activities is substantially adequate.

Our review of the annual reports on the financial statements of Group companies by the Statutory Audit Committee revealed no critical issues. Equally, no such issues emerged from our meetings with the members of the same Committees, which in each of the Group companies also act as the supervisory bodies instituted pursuant to Italian Legislative Decree 231/01.

The Statutory Audit Committee also reviewed the corporate processes which led to the definition of the company's remunerations policies, with reference in particular to the executive directors, the heads of the control units, and the Head of Company Financial Reporting.

3. Supervision of the internal control and risk management systems

The Statutory Audit Committee has monitored the adequacy of the internal control and risk management system, by:

– Holding meetings with the Bank's senior management to examine the internal control and risk management system;
– Holding regular meetings with the Group Audit, Compliance/AML and Risk Management units (the "Control Units") to evaluate the methods used for planning activities based on an identification and assessment of the principal risks involved in the various processes and organizational units;
– Review of the Control Units' reports and regular information on the outcome of monitoring activity and the status of corrective action highlighted;
– Receiving information from the heads of the various divisions of the company;
– Meetings with the heads of the supervisory bodies of the leading Group companies, in accordance with the provisions of Article 151, paragraphs 1 and 2 of the Italian Consolidated Finance Act, in the course of which the Statutory Audit Committee received information on developments involving the Group companies and the internal controls system considered to be significant;
– Discussion of the results of the work performed by the External Auditors;
– Taking part in meetings of the Risks Committee, and dealing with issues in conjunction with it where necessary.

Some time ago Mediobanca adopted a Group Policy on the Internal Controls System which defines the internal control system's structure, the roles and responsibilities of the governing bodies and the control units, and the means of co-ordination between these units. The Mediobanca internal controls system is compliant with the recommendations of international progress as applied in Italy by Bank of Italy circular no. 285. The control system is structured across three levels; the first refers to line controls intended to guarantee that operations are performed correctly; the second level to control of risks and compliance; and the third level to identifying breaches of procedures and internal regulations.

Regarding the first-level controls, Mediobanca has instituted operational procedures (or process flows) which cover all activities performed and define, in accordance with the company process tree, the relevant activities, roles, instruments and line controls.

These procedures are updated by Group Organization on a regular basis, to bring them in line with any changes in the external or internal regulations, changes to the Bank's organizational structure and operating methods, and to incorporate suggestions for improvement which emerge from the activities performed by the control units themselves. Regarding the activities of the Private Banking division deriving from the newly-merged Banca Esperia, the work of adapting the procedures is still in progress. However, adaptation of the internal regulations on the most important issues, those involving the Compliance, AML, Loan Processing and Approval, Complaints and Data Privacy, has been completed.

As far as regards the second and third levels, in the performance of its control activities, the Statutory Audit Committee has maintained an ongoing dialogue with the Control Units; a summary of these units' activities is provided below.

The Group Audit Unit's operations are based on three-year and one-year audit plans. The three-year Group plan sets the objectives, and serves also to co-ordinate and direct the work for the three-year and one-year plans prepared by the individual companies. In the space of three years assurance is provided for all processes identified in the risk assessment used to define priority of audit. The one-year plan establishes which activities and processes are to be analysed in accordance with the three-year plan and from a risk-based perspective. The plans are approved once a year by the Board of Directors.

The activities planned for the year under review substantially covered the scope of activities which the unit had undertaken to execute, and also the target in terms of mix of audits to be carried out was basically met. No significant critical issues emerged from this activity. The audit and follow-up activities performed (including at Group level) in any case highlighted the need for the relevant company units to implement the remediation actions identified, in order to mitigate the risks inherent in certain operating processes and practices which are residual in any banking activity but without prejudicing the reliability of the internal controls system which as a whole continues to be adequate.

In addition to the normal activities performed on an annual basis, the Unit has also performed activities at the specific request of the Statutory Audit Committee, the European Central Bank following their inspections, and from projects of systemic importance in progress, notably the IFRS9. The results have all been brought to the Statutory Audit Committee's attention, which has also monitored the state of progress made in the mitigation activities implemented to rectify critical issues and/or suggestions for improvements that have emerged.

The Compliance & AML unit presides directly over those regulatory areas considered to present the highest reputational risks (e.g. MiFID, market abuse, transparency, conduct, remuneration policies and anti-money laundering), and also, by means of a "graduated" model, the areas of regulations covered by other specialist units. In the year under review its activity was focused on the numerous regulations that have come into force during the twelve months under review, notably MiFID II and GDPR for which the project activities have been completed, with the exception of some residual activities which will be closed by year-end 2018 due both to the complexity of the subject matters in question, and to IT implementations required which involve third-party suppliers.

The most important project for the Compliance unit involved integration of the former Banca Esperia's activities into the new Private Banking division. The most important activity performed by the unit was the due diligence performed on the operating and assessment procedures regarding customer classification criteria and assessment of the adequacy from a MiFID perspective of transactions and client portfolios, including in view of the changes introduced by MiFID2. Some areas for improvement identified have been resolved, whereas others will be completed by the year-end.

In connection with the activities performed by the AML unit, the Statutory Audit Committee also monitored, with reference to tackling money-laundering and terrorist financing, the development of electronic and control instruments intended to strengthen the measures in force. Regarding the controls carried out after the fact to ensure that the AML procedures have been complied with, no significant critical issues were noted.

With reference to the AML risk self-assessment, there has been an increase in the potential risk facing Mediobanca since last year, due to the activities of the new Private Banking division being included in the assessment process. The Bank's residual risk is therefore now assessed as "Low" (compared with "Not significant" as previously), but nonetheless reflecting the good quality and broad solidity of the measures in force, with the need for limited residual work to strengthen required, some of which has already been launched.

The Risk Management unit manages and monitors the principal risks to which the Bank is involved with reference to credit risk, financial and market risks and operational risks. This activity revealed no critical issues worth reporting, while for the points noted as requiring improvement, remediation action is already underway.

During the year under review, the strengthening of the Risk Management processes and unit continued at Group level, with more precise definition of the governance, interactions and information flows between the local and central teams, and the integrated Group processes.

This process took place at the same time as some important project initiatives, led by the Risk Management unit of Mediobanca S.p.A. but with fundamental implications for the local teams as well. In particular, the adoption of IFRS9 has seen Risk Management involved throughout the year in a Group-wide project across several units. The new framework for calculating impairment has been defined on a like-for-like business for the various portfolios, and has involved aspects of methodology, process and IT architecture.

In the same way, close co-operation between central and local units has been required by the authorization process for internal credit risk models being extended to the CheBanca! mortgage loan book, in line with Group's Roll-Out plan.

A further area in which governance was strengthened was the progress made in centralization of liquidity risk management. Centralization at parent company level has also been extended to include the weekly reports to the Bank of Italy and to measurement of the operating and structural liquidity position.

The Committee has examined the internal capital adequacy assessment process (ICAAP) which quantifies the internal capital, current and future, to be held to cover the risks faced by the Group, and the internal liquidity adequacy assessment process (ILAAP), which assesses the adequacy of the liquidity held by the Bank, both of which were approved by the Board of Directors at a meeting held on 19 October 2017, *inter alia* on the basis of the reports received from the Validation and Group Audit units which conclude that the regulatory provisions have been complied with.

In February 2018, the European Central Bank authorized the adoption, starting from 31 March 2018, of the internal models for measuring credit risk for the large corporate portfolio in calculating the capital requirements. The Committee monitored the exhaustiveness, adequacy, functioning and reliability of these systems, finding that they meet the regulatory requirements *inter alia* for the purposes of the annual statement issued by the Board of Directors. The Committee has reviewed the report issued by the Validation and Group Audit units, both of which conclude that the system overall is compliant with the relevant regulations.

On 12 July 2018, the Board of Directors of Mediobanca S.p.A. approved the annual revised version of the Risk Appetite Framework (RAF). The framework has developed in terms of the structure of the document itself and the calibration of the risk metrics and limits, in order to address the recommendations made by the regulatory authorities and the guidance contained in the regulations themselves. A structured risk monitoring and internal reporting process was also finalized for the Private Banking division, using indicators applied at the individual company level for the division as a whole.

Particular attention is paid by the control units to the activities of the international branches, where the Group Audit Unit carries out specific audits. The activities thus performed have not revealed any particular issues requiring to be brought to shareholders' attention.

The Statutory Audit Committee notes that the annual reports by the Control Units conclude with a favourable opinion overall being expressed on the internal controls system.

On the subject of business continuity and IT risk, ad hoc reports have been prepared in accordance with the supervisory instructions in force. With reference to business continuity, the planned tests performed during the year have all been passed successfully. Regarding IT risk, the annual analysis showed no significant risks.

The Statutory Audit Committee, having been vested with the powers attributable to the supervisory body instituted pursuant to Article 6, para. 4-bis of the Italian Legislative Decree 231/01 regarding corporate administrative liability, viewed and obtained information regarding the organizational and procedural activity implemented in compliance with the aforementioned legislative decree. In this connection, the Supervisory Body has been involved in the activities of updating the Organizational, Management and Control Model which was formally completed in July 2018. This update was necessary in order to incorporate the new types of underlying crimes and to rationalize the Model's content on the basis of the experience acquired since it was first instituted. The supervisory body reported on the activities performed by it during the year ended 30 June 2018 without highlighting any critical issues, revealing a situation which on the whole was satisfactory and in line with the provisions set forth in the Organizational, management and control model.

Based on the activities performed, the information obtained and the contents of the Control Units' reports, the Statutory Audit Committee believes there are no critical issues that could jeopardize the Group's internal controls and risk management system.

4. Supervision of the administrative and accounting system and the financial reporting process

The Statutory Audit Committee, in its capacity as the committee responsible for internal control and auditing pursuant to Article 19, paragraph 2, letter A) of Italian Legislative Decree 39/10, has monitored the process and reviewed the effectiveness of the internal controls and risk management systems with reference to the issue of financial reporting.

Financial reporting is monitored by the Head of Company Financial Reporting (the "Head of Company Financial Reporting"), adopting Models based on the best market practices (the COSO Report and the CobIT Framework) which provide reasonable assurance over the reliability of the financial reporting, the effectiveness and efficiency of the business operations, and compliance with the provisions of the law and the internal regulations. The processes and controls are revised and updated annually.

Work continued in FY 2017-18 on keeping the map of processes in line with the projects in progress, the new forms of operations undertaken and the organizational changes that have been made. In particular, the Bank has proceeded to map the administrative and accounting processes relating to the former Banca Esperia, MB International Luxembourg, Mediobanca SGR and MBFacta, the latter two companies having entered the scope of companies on which controls are to be performed. Key controls have been updated for CMB following organizational changes and the IT systems migration. Controls to ensure that the Model is functioning correctly are guaranteed by a series of self-assessments made by the individual process owners as supplemented by checks carried out by the Group Audit Unit.

The Statutory Audit Committee has met regularly with the Head of Company Financial Reporting to exchange information on the administrative and accounting system, its reliability for the purposes of correctly representing operations, and has reviewed the Head of Company Financial Reporting's report containing the results of the tests of the controls performed and the main problems noted in the application of Italian law 262/05. From the report, it emerged that the points requiring attention which were raised in the previous report have all been resolved, while some projects to bring about improvements have been launched recently and will be completed during the year under review.

The Statutory Audit Committee also reviewed the statements made by the Chief Executive Officer and the Head of Company Financial Reporting as required by the instructions contained in Article 154- bis of the Italian Finance Act. It has also met with the Group Audit Unit to review the results of the activities performed to this end.

The Committee has monitored the state of progress in the IFRS9 project for the new standard coming into force to replace IAS39. Mediobanca has launched a project to adapt the processes and procedures to make them compliant with the new accounting standard. With the support of the Validation unit and the external auditors, the Statutory Audit Committee has supervised the development of the activities, including in view of the disclosures on the impact of first-time application (FTA) of IFRS9 to be made in the financial statements for the year ending 30 June 2018, in accordance with the guidance issued by ESMA in November 2016. The ECB has carried out a Thematic Review on the application of this standard, which concluded with an assessment in line with the expectations, while suggesting areas for improvement which have for the most part been implemented. Disclosure on FTA has been provided in the notes to the financial statements for the year ended 30 June 2018.

As far as regards the formation of the individual and consolidated financial statements, the Statutory Audit Committee:

– Duly notes that the Board of Directors, at a meeting held on 14 June 2018, approved the impairment procedure as required by the joint Bank of Italy/Consob/ISVAP document dated 3 March 2010;
– On the issue of legal and tax risks, refers to the notes and accompanying schedules to the consolidated financial statements on the subject of litigation pending which involves Mediobanca.

The representatives of the External Auditors, in their regular meetings with the Statutory Audit Committee, have not reported any issues which could affect the internal controls system with reference to the administrative and accounting procedures.

The Statutory Audit Committee has ascertained that the flows provided by the non-EU Group companies of significant relevance are adequate to allow the activity of auditing the annual and interim accounts to be performed as required by Article 15 of the Regulations for Markets.

Based on the foregoing, no evidence has emerged of deficiencies that could affect the assessment of the internal control system's adequacy, the process of financial reporting, and the reliability of the administrative and accounting procedures in representing the Bank's operations.

5. Supervision of transactions with related parties

The Statutory Audit Committee has reviewed the Procedure in respect of related parties, its compliance with the regulations in force, and its application in practice. It has taken part in meetings of the Related Parties Committee, instituted under the procedure referred to, and has received regular information on the transactions that have been performed. The Statutory Audit Committee is not aware of any intra-group transactions or deals with related parties carried out in conflict with the interests of Mediobanca.

During the year under review, no transactions qualifying as "most significant" under the terms of the Procedure were executed.

The Statutory Audit Committee checked that adequate information had been provided on transactions with related parties by the Board of Directors in its Review of Operations and the notes to the accounts, in view of the requirements set in the regulations in force.

The Procedure in respect of related parties, which includes the internal controls policies on risk assets and conflicts of interest versus connected parties as an annex, was revised by the Board of Directors at a meeting held on 7 May 2018. The changes involved: the definition of "Significant Interests" in relation to operations with SelmaBipiemme Leasing, the approval phase for most significant transactions for transparency purposes, and the introduction of specific regulations on transactions in which employees have a personal interest.

The Statutory Audit Committee expressed a favourable opinion on the changes.

The Statutory Audit Committee, in view *inter alia* of the results of the activities of the various units involved in the Related Parties procedure, considers that transactions with related parties are managed adequately.

6. Methods for implementing corporate governance rules in practice

The Statutory Audit Committee has assessed the ways in which the Code of conduct in respect of listed companies operated by Borsa Italiana and adopted by Mediobanca on the terms illustrated in the "Annual statement on corporate governance and ownership structure" is implemented.

The Statutory Audit Committee has also ascertained that the criteria and procedures adopted by the Board of Directors to assess the independence of its members have been applied correctly.

7. Supervision of External Auditors' activity

In accordance with the provisions of Article 19 of Italian Legislative Decree 39/10, the Statutory Audit Committee, identified therein as the "Committee for internal control and auditing", duly carried out the required activity in terms of monitoring the External Auditor's operations.

PricewaterhouseCoopers is the company which the shareholders of Mediobanca, at an ordinary annual general meeting held on 27 October 2012, appointed to serve as its external auditors to audit the company's individual and consolidated financial statements until the end of the financial year ending on 30 June 2021. This appointment includes the responsibility for checking that the company's books are kept properly, that operations are recorded correctly in the book entries, reviewing the accounts of the international branches for their inclusion in the consolidated reporting, limited audit of the interim statements, audits relating to signing off tax returns, and the statements to be made to the Italian deposit guarantee fund.

The Statutory Audit Committee met on several occasions with the External Auditors as appointed *inter alia* pursuant to Article 150 of the Italian Consolidated Finance Act in order to exchange information regarding the latter's activity. In such meetings the External Auditor has at no stage shown evidence of facts considered to be censurable or other irregularities such as would warrant reporting as required by Article 155, para. 2 of the Italian Consolidated Finance Act.

In particular it met with the External Auditor during the year under review during the preparation of the company's interim financial statements for the period ended 31 December 2017. On this occasion, the External Auditor submitted a document summarizing its activities, with reference in particular to the most significant valuation items. On 9 February the External Auditor issued a report on its limited audit of the consolidated interim financial statements, with no irregularities noted.

On 1 October 2018 the External Auditor, appointed pursuant to Article 14 of Italian Legislative Decree 39/10, issued its reports on the individual and consolidated financial statements for the year ended 30 June 2018. With reference to the opinions and declarations, in its audit report on the financial statements the External Auditors:

– Issued an opinion from which it emerges that Mediobanca's company's individual and consolidated financial statements present a truthful and proper reflection of the company's and Group's capital and financial situation as at 30 June 2018, their earnings results, changes to their net equity and cash flows during the year under review in accordance with the International

Financial Reporting Standards adopted by the European Union, and the rulings issued in implementation of Article 9 del Italian Legislative Decree n. 38/05 and Article 43 del Italian Legislative Decree 136/15;

– Presented the key aspects of the auditing process which according to its own professional judgement, are most significant and contribute to the formation of the overall opinion on the financial statements;

– Issued their opinion that the Reviews of Operations attached to the individual and consolidated financial statements for the twelve months ended 30 June 2018 are consistent with certain specific information contained in the "Report on Corporate Governance and Ownership Structure" stipulated in Article 123-bis, para. 4 of the Italian Consolidated Finance Act, responsibility for which lies with the Bank's directors, and have been drawn up in accordance with the legal provisions in force;

– Declared, with reference to the possibility of there being material errors in the Reviews of Operations, that based on their knowledge and understanding of the company and the scenario in which it operates, obtained as a result of their audit activities, that they had no comment to make in this connection.

– Reviewed the Directors' approval of the Consolidated Non-Financial Statement.

On 1 October 2018 the External Auditors also submitted the additional report required under Article 11 of Regulation (EU) no. 537/2014 to the Statutory Audit Committee. As an annex to the additional report, the External Auditor also submitted its statement of independence, as required by Article 6 of Regulation (EU) no. 537/2014, to the Statutory Audit Committee, from which no situations emerged that could compromise its independence. The Committee also duly noted the report on transparency prepared by the external auditors and published on its own website pursuant to Article 18 of Italian Legislative Decree 39/2010.

In addition to the duties prescribed by regulations for listed companies, the External Auditors and the other companies forming part of its network have received other mandates, the fees paid in respect of which, shown also in the notes to the financial statements as required by Article 149-*duodecies* of the Regulations for Issuers, have been recognized in the consolidated profit and loss as follows:

Type of service	**PricewaterhouseCoopers €'000**	**PricewaterhouseCoopers network €'000**
Statements	256	119
Other services	—	33
Total	256	152

The statement services are different from audit services but are performed by an auditor by law or by an authority, along with activities that constitute an extension to auditing (such as agreed audit procedures, issuance of comfort letters, etc.). Such activities are normally performed by the external auditor as by their nature they are held to be unable to comprise its independence.

Given the mandates conferred on PricewaterhouseCoopers S.p.A. and its network by Mediobanca and the other Group companies, the Statutory Audit Committee does not consider that there are any critical issues arising with respect to the External Auditor's independence.

The External Auditors have also confirmed to the Statutory Audit Committee that no external opinions have been expressed by them as required by law in the course of the financial year under review, in the absence of any grounds for such opinions.

8. Omissions, censurable facts, opinions given and initiatives undertaken

During the year under review, the Statutory Audit Committee received a letter pursuant to Article 2408 of the Italian Civil Code from shareholder Tommaso Marino on 4 December 2017, regarding: (i) with reference to the annual general meeting held on 28 October 2017, the failure to provide answers to some of the questions tabled prior to the meeting. In addition, the same shareholder sent two further letters on 20 November 2017 and 12 December 2017 asking for checks to be carried out regarding: (ii) "Barclays' decision to join the underwriting syndicate for the capital increase by Carige", and in particular "the advantages and disadvantages for the Mediobanca Group, to ascertain whether or not significant losses of capital could result from such decision"; (iii) the liability and censure of those Barclays mortgage contracts indexed in CHF.

The Committee reviewed the complaints, carried out the requisite enquiries and analysis, and obtained the relevant information from the Bank's various units. Based on this initial activity the Committee felt that there were no grounds for following up on the complaints received. In particular: (i) during the Annual General Meeting, answers were provided to the questions submitted, and Annex C of the minutes to the said meeting show the questions asked by shareholders and the answers provided to them; (ii) Barclays is not a Mediobanca Group company, and Mediobanca did not take part in the underwriting syndicate for the Carige capital increase; and (iii) CheBanca!, in its acquisition of the Barclays business unit, did not acquire the portfolio of mortgage loans indexed in CHF.

The Statutory Audit Committee is not aware of any facts or complaints, other than those referred to above, to be reported on to shareholders in general meeting.

The Statutory Audit Committee issued opinions or made observations as required by the regulations in force, in particular as follows:

- Favourable opinion on the changes to the Procedure in respect of transactions with related parties referred to under section 5 above;
- Favourable opinion regarding suitability of appointment to position of head of the AML unit;
- Favourable opinion on the formal approval by the Board of Directors on meeting the requisites to use the internal risk measurement systems;
- Opinion on the issuance of covered bonds;
- Considerations on the annual report on outsourcing important corporate functions.

In the course of the Committee's activities and based on the information obtained, no omissions, censurable facts, irregularities or other significant circumstances such as would require the supervisory authorities to be notified or as would warrant inclusion in this report have come to its attention.

9. Consolidated non-financial statement

The Statutory Audit Committee, in the exercise of its functions, has monitored compliance with the provisions of Italian Legislative Decree 254/16 and the Consob regulation implementing the said decree adopted under resolution no. 20267 of 18 January 2018, in particular with reference to the process of drawing up, and the contents of, the Consolidated Non-Financial Statement (CNFS) published by Mediobanca.

The CNFS was approved by the Board of Directors at a meeting held on 20 September 2018 as a document separate from the consolidated Review of Operations for the year ended 30 June 2018.

The external auditors retained to perform the limited assurance with reference to the CNFS as required by Article 3, paragraph 10 of Italian Legislative Decree 254/16, in its report issued on 1 October 2018, state that no evidence has reached its attention such as to suggest that the CNFS prepared by the Mediobanca Group for the year ended 30 June 2018, has not been prepared in all significant aspects, as required by Articles 3 and 4 of Italian Legislative Decree 254/16 and the "Global Reporting Initiative Sustainability Reporting Standards".

The Statutory Audit Committee is not aware of any breaches of the regulatory provisions.

10. Conclusions

The agenda for the ordinary Annual General Meeting of Mediobanca shareholders to take place on 27 October 2018 includes the following items in addition to approval of the financial statements for the year ended 30 June 2018:

– Measures required under Article 15 of the company's Articles of Association: appointment of two Directors.

– Remuneration policies:

  a. Staff remuneration policies.

  b. Cap on variable and fixed remuneration based on a ratio of 2:1.

  c. Policies in the event of beneficiaries leaving office or ceasing to work for Mediobanca.

– Proposal for authorization to buy back and sell treasury shares. Related resolutions.

In view of the specific duties assigned to the External Auditors in terms of auditing the Group's accounts and appraising the reliability of its financial statements, the Statutory Audit Committee has no observations to make to shareholders in general meeting, pursuant to Article 153 of the Italian Consolidated Finance Act, regarding approval of the financial statements for the year ended 30 June 2018 and the Review of Operations as presented by the Board of Directors, and the proposed profit allocation and dividend distribution formulated by the Board itself.

Milan, 1 October 2018

THE STATUTORY AUDIT COMMITTEE

INDIVIDUAL
FINANCIAL STATEMENTS *

* Figures in Euros.

Mediobanca S.p.A. Balance Sheet

Assets	30/6/18	30/6/17
10. Cash and cash equivalents	1,173,154,677	1,255,629,468
20. Financial assets held for trading	8,211,913,655	7,271,344,274
30. Financial assets at fair value through profit or loss	—	—
40. Financial assets available-for-sale	5,166,351,679	5,664,401,363
50. Financial assets held-to-maturity	2,595,142,322	2,394,875,243
60. Due from banks	19,553,430,989	20,408,727,799
70. Due from customers	18,725,997,984	16,991,344,037
80. Hedging derivatives	235,591,092	462,595,557
90. Adjustment of hedging financial assets (+/-)	—	—
100. Equity investments	3,084,158,386	3,056,998,433
110. Property, plant and equipment	116,806,552	118,063,530
120. Intangible assets	38,629,954	14,165,449
of which: goodwill	*12,514,145*	—
130. Tax assets	236,334,661	207,452,093
a) current	*133,984,760*	*93,598,346*
b) deferred	*102,349,901*	*113,853,747*
of which under L. 214/2011	*50,322,879*	*54,950,270*
140. Loans classified as held-for-sale	—	—
150. Other assets	96,899,605	63,311,007
Total assets	**59,234,411,556**	**57,908,908,253**

Liabilities and net equity	30/6/18	30/6/17
10. Due to banks	25,519,218,956	24,242,941,954
20. Due to customers	4,124,182,895	2,350,342,477
30. Debt securities in issue	16,827,008,980	18,902,615,956
40. Trading liabilities	6,510,480,039	5,859,160,778
50. Financial liabilities designated at fair value	—	—
60. Hedging derivatives	220,712,763	498,679,049
70. Changes in fair value of portfolio hedged items (-)	—	—
80. Tax liabilities	363,933,424	412,789,546
a) current	*105,752,737*	*122,415,558*
b) deferred	*258,180,687*	*290,373,988*
100. Other liabilities	277,857,220	218,544,938
110. Staff severance indemnity provision	7,723,450	8,860,341
120. Provisions	97,786,044	96,808,459
a) post-employment and similar benefits	—	—
b) other provisions	*97,786,044*	*96,808,459*
130. Revaluation reserves	129,954,143	285,167,356
140. Redeemable shares repayable on demand	—	—
150. Equity instruments repayable on demand	—	—
160. Reserves	2,292,839,423	2,284,194,072
170. Share premium reserve	2,191,742,930	2,187,579,966
180. Share capital	443,275,220	440,606,329
190. Treasury shares (-)	(109,337,765)	(197,708,966)
200. Profit for the period (+/-)	337,033,834	318,325,998
Total liabilities and net equity	**59,234,411,556**	**57,908,908,253**

Mediobanca S.p.A. Profit and Loss Account

Item		30/6/18	30/6/17
10.	Interest and similar income	762,701,644	813,117,541
20.	Interest expense and similar charges	(667,617,589)	(742,001,588)
30.	**Net interest income**	**95,084,055**	**71,115,953**
40.	Fee and commission income	284,692,778	219,137,973
50.	Fee and commission expense	(26,134,905)	(16,908,369)
60.	**Net fee and commission income**	**258,557,873**	**202,229,604**
70.	Dividends and similar income	261,588,554	243,247,631
80.	Net trading income	37,058,760	41,387,411
90.	Net hedging income (expense)	822,028	10,655,427
100.	Gain (loss) on disposal/repurchase of:	112,753,049	152,373,547
	a) loans and advances	*1,584,206*	*(5,317,397)*
	b) AFS securities	*119,795,869*	*174,077,143*
	c) financial assets held to maturity	*(919,453)*	*1,981,349*
	d) financial liabilities	*(7,707,573)*	*(18,367,548)*
110.	Net result from assets/liabilities recognized	—	—
120.	**Total income**	**765,864,319**	**721,009,573**
130.	Adjustments for impairment to:	46,831,412	8,971,734
	a) loans and advances	*34,387,805*	*1,773,181*
	b) AFS securities	*(1,848,277)*	*(869,064)*
	c) financial assets held to maturity	*2,970,784*	*(3,184,519)*
	d) other financial assets	*11,321,100*	*11,252,136*
140.	**Net income from financial operation**	**812,695,731**	**729,981,307**
150.	Administrative expenses:	(430,233,782)	(396,811,281)
	a) personnel costs	*(237,826,064)*	*(198,897,926)*
	b) other administrative expenses	*(192,407,717)*	*(197,913,355)*
160.	Net transfers to provisions	995,023	15,000,000
170.	Net adjustments to tangible assets	(3,504,538)	(3,454,693)
180.	Net adjustments to intangible assets	(8,344,677)	(8,655,724)
	of which: goodwill	—	—
190.	Other operating income (expense)	12,735,088	13,191,978
200.	**Operating costs**	**(428,352,886)**	**(380,729,720)**
210.	Gain (loss) on equity investments	(309,031)	(925,631)
230.	Writedowns on intangible assets - goodwill	—	—
240.	Gain (loss) on disposal of investments in:	20	42
	a) property	—	—
	b) other assets	*20*	*42*
250.	**Profit (loss) on ordinary activities before tax**	**384,033,834**	**348,325,998**
260.	Income tax for the year on ordinary activities	(47,000,000)	(30,000,000)
270.	**Profit (loss) on ordinary activities after tax**	**337,033,834**	**318,325,998**
290.	**Net profit (loss) for the period**	**337,033,834**	**318,325,998**

Mediobanca S.p.A. Comprehensive Profit and Loss Account

Item		30/6/18	30/6/17
10.	Profit (loss) for the period	337,033,834	318,325,998
	Other income items net of tax without passing through profit and loss	**43,174**	**743,363**
20.	Property, plant and equipment	—	—
30.	Intangible assets	—	—
40.	Defined benefit schemes	43,174	743,363
50.	Non-current assets being sold	—	—
60.	Share of valuation reserves attributable to equity-accounted companies	—	—
	Other income items net of tax passing through profit and loss	**(155,256,387)**	**(95,113,520)**
70.	Foreign investments hedges	—	—
80.	Exchange rate differences	—	—
90.	Cash flow hedges	31,011,688	(39,752,968)
100.	AFS financial assets	(186,268,074)	(55,360,552)
110.	Non-current assets being sold	—	—
120.	Share of valuation reserves attributable to equity-accounted companies	—	—
130.	**Total other income items, net of tax**	**(155,213,213)**	**(94,370,157)**
140.	**Comprehensive income (headings 10 + 130)**	**181,820,621**	**223,955,841**

Statement of Changes to Mediobanca Net Equity

	Previously reported balance at 30/6/17	Allocation of profit for previous period		Changes during the reference period							Other comprehensive income statement for the 12 mths ended 30/6/18	Total net equity at 30/6/18
					Transactions involving net equity							
		Reserves	Dividends and other fund application	Changes to reserves	New shares issued	Treasury shares acquired	Extra-ordinary dividends payout	Changes to equity instruments	Treasury shares derivatives	Stock options [1]		
Share capital:	440,606,329	—	—	—	2,668,891	—	—	—	—	—	—	443,275,220
a) ordinary shares	440,606,329	—	—	—	2,668,891	—	—	—	—	—	—	443,275,220
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	2,187,579,966	—	—	—	4,162,964 [2]	—	—	—	—	—	—	2,191,742,930
Reserves:	2,284,194,072	318,325,998	(320,226,359)	—	(768,891)	(272,578)	—	—	—	11,587,181	—	2,292,839,423
a) retained earnings	2,148,015,263	318,325,998	(320,226,359)	—	(768,891)	—	—	—	—	—	—	2,145,346,011
b) others	136,178,809	—	—	—		(272,578)	—	—	—	11,587,181	—	147,493,412
Valuation reserves	285,167,356	—	—	—	—	—	—	—	—	—	(155,213,213)	129,954,143
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(197,708,966)	—	—	—	88,098,623	272,578	—	—	—	—	—	(109,337,765)
Profit (loss) for the period	318,325,998	(318,325,998)	—	—	—	—	—	—	—	—	337,033,834	337,033,834
Total net equity	5,318,164,755	—	(320,226,359)	—	94,161,588	—	—	—	—	11,587,181	181,820,621	5,285,507,785

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

[2] Includes the negative difference between the market price and the book value of treasury shares used for the acquisition of the RAM AI equity interest, equal to €18.8m.

Statement of Changes to Mediobanca Net Equity

	Previously reported balance at 30/6/16	Allocation of profit for previous period		Changes during the reference period							Other comprehensive income statement for the 12 mths ended 30/6/17	Total net equity at 30/6/17
		Reserves	Dividends and other fund application	Changes to reserves	Transactions involving net equity							
					New shares issued	Treasury shares acquired	Extra-ordinary dividends payout	Changes to equity instruments	Treasury shares derivatives	Stock options [1]		
Share capital:	435,510,047	—	—	—	5,096,282	—	—	—	—	—	—	440,606,329
a) ordinary shares	435,510,047	—	—	—	5,096,282	—	—	—	—	—	—	440,606,329
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	2,152,828,778	—	—	—	34,751,188	—	—	—	—	—	—	2,187,579,966
Reserves:	2,217,335,267	288,037,576	(230,914,761)	—	(2,233,782)	(272,580)	—	—	—	12,242,352	—	2,284,194,072
a) retained earnings	2,093,126,230	288,037,576	(230,914,761)	—	(2,233,782) [2]	—	—	—	—	—	—	2,148,015,263
b) others	124,209,037	—	—	—	—	(272,580)	—	—	—	12,242,352	—	136,178,809
Valuation reserves	379,537,513	—	—	—	—	—	—	—	—	—	(94,370,157)	285,167,356
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(197,981,546)	—	—	—	—	272,580	—	—	—	—	—	(197,708,966)
Profit (loss) for the period	288,037,576	(288,037,576)	—	—	—	—	—	—	—	—	318,325,998	318,325,998
Total net equity	5,275,267,635	—	(230,914,761)	—	37,613,688	—	—	—	—	12,242,352	223,955,841	5,318,164,755

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

[2] Free equity granting following the performance shares scheme.

Mediobanca Cash Flow Statement Direct Method

	Amount	
	30/6/18	**30/6/17**
A. Cash flow from operating activities		
1. Operating activities	**(205,874,865)**	**(14,102,028)**
- interest received	2,780,442,543	2,245,472,442
- interest paid	(2,520,886,308)	(2,013,595,367)
- dividends and similar income	78,058,468	64,271,566
- net fees and commission income	87,531,956	60,902,154
- cash payments to employees	(128,059,333)	(105,273,959)
- net premiums gains (+)	—	—
- other insurance gains/losses (+/-)	—	—
- other expenses paid	(706,412,057)	(911,978,844)
- other income received	267,801,263	568,975,301
- income taxes paid	(64,351,396)	77,124,678
- net expense/income from groups of assets being sold	—	—
2. Cash generated/absorbed by financial assets	**1,255,364,989**	**20,701,063**
- financial assets held for trading	(381,747,441)	(353,692,676)
- financial assets recognized at fair value	—	—
- AFS securities	(426,199,021)	2,042,178,751
- due from customers	(725,508,303)	2,653,091,972
- due from banks: on demand	2,653,967,433	863,776,079
- due from banks: other	7,830,088	(5,098,640,475)
- other assets	127,022,232	(86,012,590)
3. Cash generated/absorbed by financial liabilities	**(627,157,974)**	**2,002,429,465**
- due to banks: on demand	4,787,034,767	7,072,906,267
- due to banks: other	944,100,559	952,104,150
- due to customers	(3,785,370,455)	(5,527,258,750)
- debt securities	(2,236,819,552)	(302,602,903)
- trading liabilities	(216,234,772)	(171,252,467)
- financial liabilities assets recognized at fair value	—	—
- other liabilities	(119,868,521)	(21,466,832)
Net cash flow (outflow) from operating activities	**422,332,150**	**2,009,028,499**
B. Investment activities		
1. Cash generated from	**360,771,360**	**372,460,582**
- disposals of shareholdings	350	2,592,482
- dividends received in respect of equity investments	177,506,484	162,170,808
- disposals/redemptions of financial assets held to maturity	183,264,526	207,697,292
- disposals of tangible assets	—	—
- disposals of intangible assets	—	—
- disposals of business units	—	—
2. Cash absorbed by	**(570,187,191)**	**(1,034,712,337)**
- acquisitions of shareholdings	(222,517,552)	(369,689,321)
- acquisitions of held-to-maturity investments	(342,582,640)	(652,718,016)
- acquisitions of tangible assets	(1,645,000)	(2,149,000)
- acquisitions of intangible assets	(3,442,000)	(10,156,000)
- acquisitions of business units	—	—
Net cash flow (outflow) from investment/servicing of finance	**(209,415,832)**	**(662,251,755)**
C. Funding activities		
- issuance/acquisition of treasury shares	24,835,250	37,613,688
- issuance/acquisitions of equity instruments	—	—
- dividends payout and other applications of funds	(320,226,359)	(230,914,761)
Net cash flow (outflow) from funding activities	**(295,391,109)**	**(193,301,074)**
Net cash flow (outflow) during period	**(82,474,791)**	**1,153,475,670**

Reconciliation of Movements in Cash Flow During the Period

	Amounts	
	30/6/18	30/6/17
Cash and cash equivalents: balance at start of period	1,255,629,468	102,153,798
Total cash flow (ouflow) during period	(82,474,791)	1,153,475,670
Cash and cash equivalents: exchange rate effect	—	—
Cash and cash equivalents: balance at end of period	1,173,154,677	1,255,629,468

NOTES TO INDIVIDUAL ACCOUNTS

NOTES TO THE ACCOUNTS

Part A - Accounting policies

A.1 - General policies

SECTION 1

Statement of conformity with IAS/IFRS

Mediobanca individual financial statements for the period ended 30 June 2018 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 individual financial statements for the period ended 30 June 2018 have also been prepared on the basis of IAS34 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 individual 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.

In table below are presented regulations approved by the European Commission in the next 12 months and which will be applied immediately, which have integrated the current regulations on accounting principles and have been incorporated into the Mediobanca accounting policies:

Approval regulation	Group application date	Topic
2017/1989, approved on November 6, 2017	July 1, 2017	Changes to IAS12 – *Taxes on income*
2017/1990, approved on November 6, 2017	July 1, 2017	Changes to IAS7 – *Cash flow statement*
2018/182 approved on February 7, 2017	July 1, 2017	Changes to IFRS12 – *Disclosure of interest in other entities*

In table below are presented regulations approved by the European Commission in the next 12 months and which will be applied during the next period or later, which have integrated the current regulations on accounting principles and have been incorporated into the Mediobanca accounting policies:

Approval regulation	Group application date	Topic
2017/1986 approved on October 31, 2017	July 1, 2019	Adoption IFRS16 – *Leases*
2016/1905 approved on September, 22, 2016	July 1, 2018	Adoption IFRS15– *Revenue from contracts with customers;*
2017/1987 approved on October 31, 2017		Amendments to IFRS15
2016/2067 approved on November 22, 2016	July 1, 2018	Adoption IFRS9 – *Financial instruments*
2018/498 approved on March 22, 2018	July 1, 2019	Amendments to IFRS9 – *Financial instruments*
2018/182 approved on February 7, 2018	July 1, 2018	Amendments to IAS28 – *Investments in associates and joint ventures*
	July 1, 2018	Amendments to IFRS1 – *First time adoption of financial reporting*
2018/289 approved on February 26, 2018	July 1, 2018	Amendments to IFRS2 – *Share based payment*
2018/400 approved on March 14, 2018	July 1, 2018	Amendments to IAS40 – *Investment property*
2018/498 approved on March 22, 2018	July 1, 2019	Amendments to IFRS9 – *Financial instruments*
2018/519 approved on March 28, 2018	July 1, 2018	Adoption IFRIC22 – *Foreign Currency Transactions and Advance Consideration*

IFRS9: Mediobanca Group Project

Regulatory scenario

In July 2014 the International Accounting Standards Board (IASB) issued the new IFRS9 "Financial Instruments", with the aim of introducing new regulations on the classification and measurement of financial instruments, the criteria and methods for calculating value adjustments, and the hedge accounting model. The ratification process was completed with the issue of Commission Regulation (EU) 2016/2067 of 22 November 2016, published in the Official Journal of the European Union, L 323, on 29 November 2016.

IFRS9 replaces IAS39 and applies from the starting date of the first financial year which commences on 1 January 2018 or thereafter. Mediobanca, which ends its financial year on 30 June each year, will adopt the new standard as from 1 July 2018.

In accordance with the guidance of the European Securities and Markets Authority (ESMA), contained in the document entitled "European common enforcement priorities for 2017 financial statements" dated 27 October 2017, and pursuant to the requirements of IAS8 sections 30 and 31, in this section Mediobanca sets out its disclosure on implementation of the new standard.

IFRS9, with regard to financial instruments, is structured into three different areas: "Classification and measurement", "Impairment" and "Hedge accounting". For each of these areas, we describe the results to emerge from the project environment, and provide an indication of the main qualitative impacts and an estimate of the quantitative impacts.

The most important changes involve the "Classification and measurement" and "Impairment" areas, whereas the changes introduced in on the issue of "Hedge accounting" are less significant. Details are as follows:

– On the first issue, the classification and method used to measure financial assets (apart from shares) will be subject to two tests: one on the business model, and the other on the contractual features of the cash flows involved (known as the "SPPI test", i.e. "Solely Payment of Principal and Interest"). Only those instruments which pass both tests can be recognized at amortized cost; otherwise, the assets will have to be recognized at fair value and the effects taken through the profit and loss account (this category therefore becomes the residual portfolio). There is also an intermediate portfolio (Held to collect and sell), which, like the current Available for Sale portfolio, involves recognition at fair value against a matching entry in net equity ("Other Comprehensive Income").

Shares must always be recognized at fair value, with the possibility, for those not held for trading purposes, of the fair value effects being recognized in a net equity reserve (rather than through the profit and loss account); "recycling", however, is abolished (i.e. the effects of the disposals will no longer be taken through the profit and loss account.

No major changes will be made to the treatment of financial liabilities in terms of their classification and measurement. Indeed, the existing rules will remain in force apart from the accounting treatment of own credit risk: for financial liabilities recognized at fair value (or under the fair value option), the standard stipulates that the changes in fair value attributable to changes in own credit risk must be booked to net equity, unless such treatment creates or inflates an accounting asymmetry in the profit for the period, whereas the remaining amount of the changes in the fair value of the liabilities must be taken through profit and loss.

- On the issue of impairment, for instruments recognized at amortized cost and fair value against a matching entry in net equity (apart from equity instruments), the new standard marks the transition from an incurred to an expected loss calculation model; with the focus on the expected losses in value, provisioning has to be made in respect of the entire portfolio (including performing items) and on the basis of estimates which take into account macroeconomic factors. In particular, at the initial recognition stage (stage 1), the instrument must already reflect an expected loss over a twelve-month time horizon; if a significant increase in credit risk then occurs, the asset is classified in the underperforming portfolio (stage 2), which means incorporating an expected loss across the entire outstanding life of the asset; and finally, if further impairment occurs, the asset is classified as non-performing (stage 3), in which the final recovery value is estimated. The expected loss must be based on point-in-time data reflecting the internal credit models used.
- As for hedge accounting, the new model rewrites the rules for designating a hedge relationship and for checking its effectiveness, with the objective

of aligning accounting representation with risk management activities, and improving the disclosure on risk management activities performed by the entity preparing the financial reporting.

Current project

An internal project was launched in 2015, led jointly by Risk Management and Group Financial Reporting, with the involvement of all the other areas affected (in particular Front Office, Group Technology and Operations, Group Organization, Group ALM, Group Treasury). The initiative was organized ac-cording to the three areas defined by the new standard (Classification and Measurement, Impairment and Hedge Accounting). The testing phase of the new IFRS9 systems and processes began in January 2018, in which IAS39 and IFRS9 ran in parallel to allow the system of internal regulations (methodologies, processes and procedures) to be updated, and the IT systems to be checked.

In the course of 2017, the framework for implementation was the subject of a Thematic Review by the Single Supervisory Mechanism to assess the state of preparation for application of IFRS9, which resulted in certain limited "recommendations" that have already been addressed in an action plan shared with the supervisory authority.

The main results, in terms of impacts expected and decisions taken within the Mediobanca Group are set out below, divided according to the main project areas.

Classification and measurement

Among the activities required for classification and measurement of financial instruments, IFRS9 has introduced new rules for financial assets based on the portfolio management model used and the contractual cash flow characteristics of the instruments concerned, as certified via the SPPI (Solely Payment of Principal and Interest) test.

The standard identifies two main macro models: Hold to collect and Hold to collect and sell, plus a residual business model (Other) which brings together all portfolios held for trading purposes which continue to be recognized at fair value with any changes to it taken through the profit and loss account.

For the purposes of classifying financial instruments, the business model analysis was performed by valuing the Group's portfolio of assets in the light of the strategy adopted by senior management, risk management for the portfolios concerned, remuneration mechanisms, reporting methods, and movements (past sales and future expectations). Such considerations are incorporated into the internal management policies, which reiterate the correlation between business model and accounting treatment, and introduce thresholds in terms of frequency and significance for movements in portfolios recognized at amortized cost.

The analysis showed the following results:

- The loan books – which under IAS39 were recognized at amortized cost as "Loans and Receivables" – have a management strategy which is consistent with a Hold to Collect business model;
- Debt securities held as part of the banking book which constitute "Financial assets held to maturity" under IAS39, are classified based on a Hold to Collect model;
- Debt securities held as part of the banking book which constitute "Financial assets available for sale" under IAS39 are classified almost entirely on the basis of a Hold to Collect and Sell business models; in some limited cases portfolio reclassifications have been made to reflect the business model as at the date of first-time adoption of the standard;
- Debt securities held as part of the trading book move to the "Other" business model;
- As for equities, shares held for trading purposes also move to the "Other" business model, while the Group has exercised its option to recognize AFS equities at fair value against a matching net equity reserve, without the cumulative changes in value being recycled through the profit and loss account (accounting category: "Fair Value to Other Comprehensive Income", or "FVOCI"). For funds, stock units held over the medium/long-term horizon are consistent with a Hold to Collect and Sell business model, while those which form part of trading strategies are treated in accordance with the "Other" business model.

It should be noted that although the standard allows the reporting institution to opt, at the initial recognition stage and irrevocably, to measure financial assets which would otherwise be recognized at amortized cost, or FVOCI, at fair value, and to take the effects through the profit and loss account ("Fair Value Through Profit & Loss", or "FVPL"), the Group has not decided to take up this option for assets but to use it only for a limited number of liability instruments, to eliminate or significantly reduce accounting asymmetries.

To complete the classification phase for financial instruments according to the new categories provided for by IFRS9, the business model analysis must be accompanied by analysis of the contractual cash flows (the "Solely Payment of Principal and Interest", or "SPPI", test).

The SPPI test is performed at the level of the individual financial instrument, product or sub-product, and is based on the contractual features of the asset being tested. To this end, the Group has drawn up a standardized process for performing the test, which involves analysing the loans via a specific tool developed internally (the "SPPI Tool") structured on the basis of decision-making trees, at the level of individual financial instrument or product based on their differing degrees of customization. If the instrument or product fails the test, the SPPI Tool will suggest recognizing the asset at fair value and taking the effects through the profit and loss account ("Fair Value Through Profit & Loss", or "FVPL"). The method for testing loans will be distinguished between retail and corporate (at the product level for retail loans, and analytically for each drawdown of corporate loans). For analysis of debt securities, an external info provider will be used; if the test results are unavailable for whatever reason, the instrument will be analysed by the SPPI Tool developed internally.

In addition to the above, specific analysis methodologies have been developed both for instruments which require a benchmark test for the modified time value of money, and to evaluate the credit risk of securitization tranches.

The analysis carried out on the portfolio of financial assets has shown that the measurement criteria for the new categories according to which the financial instruments will be classified are substantially in line with the IAS39 categories. The only exceptions to this are a few cases described in more detail in the section on First-Time Adoption (FTA).

Impairment

Under IFRS9, all financial assets not measured at fair value and taken through the profit and loss account, i.e. debt securities and loans as well as off-balance-sheet exposures, are associated with Hold to Collect or Hold to Collect and Sell business models and must be subject to the new forward-looking impairment model. In practice, compared to the previous approach which was based on the "incurred loss", an "expected loss" approach will be adopted, with the loss estimated at twelve months or the end of the instrument's remaining life. For this reason the losses must be booked to reflect not only the objective loss of value recorded at the reporting date, but also the expected future value losses which have not yet occurred. In view of these factors, IFRS9 stipulates that financial instruments must be classified in three categories (or stages), reflecting increasing levels of impairment in credit standing.

For purposes of the individual reporting, intercompany positions too were subject to the same rules.

In order to comply with the IFRS9 requirements, the Group has drawn up a stage allocation model for financial instruments, to ensure that performing exposures are correctly allocated to stage 1 or stage 2 if there has been a "Significant Increase in Credit Risk" ("SICR").

For impaired exposures, by contrast, the fact that our practice is aligned with the default accounting and regulatory definitions, means the criteria according to which exposures are classified as "non-performing/impaired" will be the same as those for exposures to be classified within stage 3, albeit with certain very minor differences of valuation (cf. below).

The main methodological choices made on the issue of impairment are summarized below:

– Assessment of significant increase in credit risk: the assessment is based on both qualitative and quantitative criteria to identify whether or not a there has been a significant risk in the credit risk associated with the counterparty for each facility. The recognition of forbearance measures or the "30 days past due" criterion are considered as backstop indicators. As per the supervisory authority's expectations, only limited use will be made of the simplified approach, or “low credit risk exemption”. The criteria defined for exposures to transition from stage 2 to stage 1 mirror those for the significant increase in credit risk (i.e. when the aspects which denote the significant deterioration cease to exist, the exposure returns to stage 1);

- Inclusion of forward-looking information in the model used to calculate the expected losses: forward looking information is considered with reference to three scenarios (baseline, mild-positive and mild-negative) which impact on the risk parameters (PD and LGD). The estimates are limited to three years, to ensure a time horizon held to be reasonable is considered. The use of forward-looking scenarios is consistent with the macroeconomic estimating processes adopted by the Group for risk management purposes, and are compiled by a specific unit within Mediobanca S.p.A.;
- Adoption of forward-looking parameters also to calculate the expected loss on exposures which qualify as stage 3. Alternative scenarios have been simulated, including in relation to the different options for managing and recovering defaulted positions (including disposal scenarios);
- Validation and back-testing: in connection with the models based on recording expected losses, a process has been finalized for validation and back-testing. The reference framework adopted means that the unit which develops the model must be independent of the unit which validates it, with a clear definition of the roles and responsibilities between them. Regular testing is also carried out to ensure that the assumptions on which the model is based continue to be valid, and that the any new information which becomes available is factored in accordingly;
- Calculation of expected losses at twelve months and over life-time: the IFRS9 estimate of the PD, LGD and EAD indicators is based on the existing prudential models (e.g. internal models where present) and on specific models adapted with the necessary adjustments to incorporate the forward-looking information and the multi-period time horizon;
- Calculation of expected losses on intercompany exposures – including off-balance-sheet items – through the use of PD and LGD parameters compiled using internal models where available.

Hedge accounting

As for the IFRS9 requirements on the new hedge accounting model, the new standard seeks to simplify the treatment by ensuring that the representation of the hedges in the accounts is more closely aligned with the risk management criteria on which such representation is based. In particular, the new model expands the hedge accounting rules in terms of the hedge instruments themselves and the related "eligible" risks. Although the new standard does provide for the possibility of using the hedging rules in force under IAS39, the Group will opt in to the new criteria introduced for general hedging, and does not foresee any significant impact in doing so.

Effects of first-time adoption (FTA)

The changes introduced by IFRS9 in the areas of "Classification and measurement" and "Impairment" produce their effects at the first-time adoption stage on the amount and composition of Net equity.

With respect to "Classification and measurement", the analysis carried out for the entire portfolio of financial assets has not revealed any significant impact.

The existing business model basically reflects the new IFRS9 portfolios, as follows:

- Receivables and debt securities are recognized at amortized cost and restated according to the Hold to collect business model;
- Securities held for trading fall within the remit of the "Other" business model;
- Debt securities currently held as "Available for Sale" will be treated according to the Hold to Collect and Sell business model;
- Available for sale equities which the Group has elected to recognize at fair value against a matching reserve in net equity, with the existing Available For Sale reserve transferred to the OCI (Other Comprehensive Income) reserve.

In some cases, however, changes in the business models used to manage the financial instruments or contractual cash flows not in line with the SPPI notion have been detected, hence the transition from IAS39 to IFRS9 with reference to "Classification and Measurement" will entail reclassification as follows:

– Loans and receivables will be reclassified as FVPL in view of the fact that the instruments' characteristics (subordination, equity convertible options, indirect exposure to equity) mean they would not pass the SPPI test;
– Available-for-sale debt securities will be reclassified as HTC to provide a better representation of the business model's strategies, which will lead to the net equity reserve accumulated written back and the historical acquisition cost being recovered;
– Debt securities held as part of the banking book will be reclassified as FVPL, as a result of failing the SPPI test;
– Stock units held in investment funds classified as AFS have been reclassified as assets compulsorily recognized at fair value with effects taken through profit and loss and the current AFS reserve being transferred to the earnings reserve; this is consistent with the ale IFRS Interpretation Committee's recent statements that such financial assets should be treated as equities;
– AFS equities will be reclassified as financial assets recognized at FVOCI (without passing through profit and loss);
– Held-for-trading financial assets will be reclassified as FVOCI following changes to the business model.

Adoption of the new classification rules for financial instruments should gen-erate a limited negative effect on net equity.

The most significant impact of the transition to IFRS9, however, derives from the changes in relation to "Impairment", which involves the value adjustments to financial assets having to be recalculated based on the expected loss method, and for non-performing loans, the use of forward-looking parameters to calculate the expected losses. Compared to the IAS39 provisioning, there is an overall increase in expected losses, which is entirely attributable to the performing exposures (stages 1 and 2) and in particular the intercompany accounts.

The stage 2 positions account for 10% of the performing exposures.

The combined changes generate an impact of approx. €26m on the Bank's net equity (€18m net of the tax effect), with minimal impact at the CET1 ratio level.

These impacts recorded represent the best information that the Group had available at the date on which these financial statements were approved and hence are subject to possible changes as a result of completion of the FTA process for IFRS9, including following the scheduled validation and internal and external control activities. In any case, the impacts are relatively low compared to those of other Italian banks and in line with the leading EU banks, and reflect the good quality of the Group's asset portfolios.

In order to mitigate the impact of the new standards on the prudential ratios, Regulation (E) 2017/2395 of the European Parliament and of the Council as regards "Transitional arrangements for mitigating the impact of the introduction of IFRS9 on own funds", amending Regulation (EU) 575/2013 (the "CRR"), with the new Article 473-bis "Introduction of IFRS9", offers the possibility for banks to distribute the impact of the introduction of IFRS9 on own funds for a transitional period of five years, by including a decreasing amount of the impact in CET1. The Group will apply the static approach, to neutralize the effect of the higher provisioning for performing assets, starting from the first-time adoption of IFRS9 and for the next five years [1].

With reference in particular to the means by which first-time adoption of the standard will be represented, the Group will take advantage of the possibility provided for by IFRS9 and IFRS1 "First-Time Adoption of International Financial Reporting Standards", whereby the comparison data in the FTA financial statements do not have to be restated on a like-for-like basis. According to the guidance contained in the fifth update of Bank of Italy circular no. 262 "Financial statements for banks: tables and rules for compilation" (December 2017), the Bank, in taking advantage of the exemption from the obligation to restate comparative values, must nonetheless include a specific table in its first set of financial statements prepared under the new circular no. 262, illustrating the methodology used and reconciling the data from the most recent set of accounts approved and the first set of accounts drawn up under the new provisions. The form and content of this disclosure is at the discretion of the relevant corporate bodies.

[1] Year 1: 95%; year 2: 85%; year 3: 70%; year 4: 50%; year 5: 25%.

IFRS15: Revenues from contracts with customers

The new accounting standard introduces a new model for the recognition of revenues coming from contracts with customers. The new standard will replace the current requirements in IFRS for the recognition of revenues: IAS11 Construction Contracts, IAS18 Revenue, IFRIC13 Customer Loyalty Programs, IFRIC15 Agreements for the Construction of Real Estate, IFRIC18 Transfers of Assets from Customers and SIC31 Revenue - Barter Transaction involving Advertising Services.

The standard is effective from 1 January 2018, for the Mediobanca Group from 1 July 2018. The new IFRS provides for the recognition of revenue on the basis of the following five steps:

– identification of the contract;
– identification of individual performance obligation;
– determination of the transaction price;
– allocation of the transaction price to each performance obligation, on a “market prices” basis (“stand-alone selling price”);
– recognition of the revenues allocated to the single bond when it is settled, i.e. when the customer obtains control of the goods and services.

The implementation of the new standard was centrally coordinated by the Parent Company through a customized working group to extend the analysis to the whole Group involving the subsidiaries where necessary.

The analysis carried out led to the identification of all types of contracts with customers and to the revenues recognition in order to establish an accordance with the principle. No significant impacts arose from the application of the new standard.

The other standard that may impact the Mediobanca Group is the IFRS16 – Leases, whose application runs from 1 January 2019 (on 1 July 2019 for the Mediobanca Group). The standard will replace the IAS17 currently in force for leasing contracts, as well as the interpretations IFRIC4, SIC15 and SIC27.

This new principle mainly impacts the lease accounting rules as for the lessee, who must take into account the elimination of the financial and operating leases distinction. All contracts must be accounted for following the rules of the “old” financial leasing standard, i.e. by recording an asset/liability in the balance sheet and recognizing financial expenses through the profit and loss account.

As for the lessor no change arises.

SECTION 3

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 period ended 30 June 2018.

In July the liquidation of the subsidiaries MB advisory Turkey and Quarzo MB has been started.

SECTION 4

Other aspects

The consolidated financial statements and the financial statements of the parent company are audited by the auditing company PricewaterhouseCoopers SpA, pursuant to Legislative Decree no. January 27, 2010 n. 39 and in execution of the Shareholders’ Meeting resolution of October 27, 2012, for the years from 2013 to 2021.

For a description of the other significant events that occurred after the closing period, please refer to the information provided in the Review of Operations.

A.2 - Significant accounting policies

Financial assets held for trading

This category comprises debt securities, equities, loans held for trading purposes, and the positive value of derivatives held for trading including those embedded in complex instruments such as structured bonds (recorded separately).

At the settlement date for securities and subscription date for derivatives, such assets are recognized at fair value [2] 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*.

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, [3] 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

[2] See Part A – Information on fair value, pp. 103 - 114, for further details.

[3] See Part A – Information on fair value, pp. 103 - 114, for further details.

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

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

[4] See Part A – Information on fair value, pp. 103 - 114, for further details.

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

IAS17 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 [5].

[5] As required by the amortized cost rules under IAS39.

Hedges

There are two types of hedge:

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

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

Hedge derivatives are recognized at fair value as follows:

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

Hedge accounting is permitted for derivatives where the hedging relationship is formally designated and documented and provided that the hedge is effective at its inception and is expected to be so for its entire life.

A hedge is considered to be effective when the changes in fair value or cash flow of the hedging instrument offset those of the hedged item within a range of 80-125%. The effectiveness of a hedge is assessed both prospectively and retrospectively at annual and interim reporting dates, the former to show expectations regarding effectiveness, the latter to show the degree of 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:

– Subsidiaries
– 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.

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 IAS37, 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 IAS19 revised (Employee Benefits), which was approved by the IASB on 16 June 2011 and incorporated into EU law under regulation EU 475/12 [6].

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.

[6] 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 IFRIC21.

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 IAS24, 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 30/6/18	Fair value at 30/6/18	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	—	—	(1,868)	530	—	530
Debt securities [1] (ABS)	AFS securities	Due from customers	—	—	(98)	78	—	78
Debt securities [2]	AFS securities	Financial assets held to maturity	134,678	141,221	(4,968)	6,385		6,385
Totale			134,678	141,221	(6,934)	6,993	—	6,993

[1] Made during FY 08/09, and entirely sold during the period.

[2] Made during FY 10/11.

A.3.2 Reclassified financial assets: effects on comprehensive profit and loss before transfer

(€'000)

Type of instrument	Transferred from	Transferred to	Profit and Loss plus/minus (pre-tax)		Balance Sheet plus/minus (pre-tax)	
			30/6/18	30/6/17	30/6/18	30/6/17
Debt securities (ABS)	Financial assets held to maturity	Due from customers	—	23	—	—
Total			—	23	—	—

A.4 – Information on Fair Value

QUALITATIVE INFORMATION

This section provides the disclosure on fair value stipulated by IFRS13 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 open-end funds), private equity funds, hedge funds (including funds of funds) and real-estate funds the fair value is represented by the per share Net Asset Value (NAV) disclosed by them to the market. Lastly, some residual equity securities, for which it is not possible to reliably determine the fair value according to one of mentioned methods, are evaluated 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 [7].

[7] Cf. IFRS13, 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 IFRS13, paragraphs 72-90.

In accordance with the provisions of IFRS13 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.

– 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/debit valuation adjustment;

– Other adjustments.

Credit/debit valuation adjustment (CVA/DVA)

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

– CVA is a negative quantity which takes into account the scenarios in which the counterparty might fail before the Bank does while amounts are still receivable (positive MTM) by the Bank from the counterparty;

– DVA is a positive quantity which takes into account the scenarios in which the Bank itself might fail before the party does while amounts are still payable (negative MTM) to the counterparty.

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

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

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

– 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 and on valuation parameters and for taking into account the cost of funding.

With reference to this latter point, the fair value of non-collateralized derivatives may be influenced by the Bank's cost of funding, for those linked to these transactions. For taking into account this aspect, some cost of funding adjustments are calculated (Funding Value Adjustments), by using a discount curve representative of the average funding level of banks participating to the European corporate derivative market.

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

Assets and liabilities measured at fair value on a recurring basis

This section provides disclosure on the measurement techniques and inputs used for assets and liabilities measured at fair value on a recurring basis.

- Bonds: instruments not traded on active markets are marked to model using the implied credit spread curves obtained from Level 1 instruments, to which a further spread is added to reflect their illiquidity. The model makes maximum use of observable inputs and minimum use of non-observable inputs. In this way, depending on how representative the credit spread curve applied is, bonds are categorized as either Level 2 or Level 3 (the latter in cases where non-observable credit spreads are used). In fair value measurement, fair value adjustments can be used in cases where there is reduced liquidity and model risk, to compensate for the lack of observable market inputs for Level 2 and Level 3 positions.
- Asset-backed securities, CLOs and loans: the measurement process relies on information providers which effectively collect market prices. All ABS held in the Bank's portfolio 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; for them fair value is determined on the basis of internal models.
- Investment funds: the Bank holds interests in investment funds which provide the per share Net Asset Value (NAV, and the last available NAV is used, if not older than 3 months), including OICR, private equity funds, hedge funds (including funds of funds) and real-estate funds. Funds are generally classified into Level 1 when a quote is available on an active market, in other cases into 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 discounted cash flows, 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 IFRS13, 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), 30/6/18**	**+/- 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)	620	624
Equity-equity correlation	Equal to 1% between two indexes and 2% between two single stocks	325	50

Measurement techniques used for equity, credit and interest rate products

Product	**Measurement technique**	**Non-observable inputs**	**Fair value* Assets 30/6/18 (€m)**	**Fair value* Liabilities 30/6/18 (€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 swaps, bond options	Black-Scholes/ Black model	Implicit volatility [1]	1.46	(7.81)	1.25	(9.87)
OTC equity basket options, best of/ worst of	Black-Scholes method	Implicit volatility Equity-equity correlation [2]	2.70	(4.84)	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

Transfers between levels of fair value ranking

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

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

The significance level for input data, in particular for the weight that not-observable inputs assume in respect of observable inputs, determines instead the transfer from Level 2 to Level 3 or viceversa.

A.4.4 Other information

The Mediobanca Group has availed itself of the exception provided under IFRS13, 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.

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	30/6/18			30/6/17		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	4,805,778	3,253,877	152,259	4,004,381	3,122,863	144,100
2. Financial assets recognized at fair value	—	—	—	—	—	—
3. AFS securities	4,563,419	298,863	304,070	5,020,919	383,326	260,156
4. Hedge derivatives	—	235,591	—	—	462,596	—
5. Tangible assets	—	—	—	—	—	—
6. Intangible assets	—	—	—	—	—	—
Total	9,369,197	3,788,331	456,329	9,025,300	3,968,785	404,256
1. Financial liabilities held for trading	(3,206,919)	(3,216,430)	(87,131)	(2,730,204)	(3,045,815)	(83,142)
2. Financial liabilities recognized at fair value	—	—	—	—	—	—
3. Hedge derivatives	—	(220,713)	—	—	(498,679)	—
Total	(3,206,919)	(3,437,143)	(87,131)	(2,730,204)	(3,544,494)	(83,142)

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 €72.6m (30/6/17: €65.4m), plus €1.9m (€7.4m) in options linked to bonds issued and hedged on the market.

Net of these items, the level 3 assets increased from €71.3m to €77.8m, after new deals worth €16.2m, disposals and redemptions totalling €5.9m, and other negative changes, including movements in fair value, amounting to €3.8m.

AFS assets consist of investments in unlisted companies (valued on the basis of internal models) and private equity funds. During the year under review AFS assets rose from €260.2m to €304.1m, representing the balance between purchases of €110.6m, sales of €80.1m and positive variations for €13.4m (gains, evaluations and transfers from other 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 the beginning of the period	71,287	—	260,156	—
2. Increases	19,063	—	136,702	—
2.1 Purchases	16,232	—	110,577	—
2.2 Profits recognized in:	2,845	—	10,557	—
2.2.1 profit and loss	2,845	—	4,199	—
- of which, gains	*871*	—	—	—
2.2.2 net equity	—	—	6,358	—
2.3 Transfers from other levels	—	—	559	—
2.4 Other increases	(14)	—	15,009	—
3. Decreases	12,570	—	92,788	—
3.1 Disposals	2,237	—	80,115	—
3.2 Redemptions	3,667	—	—	—
3.3 Losses recognized in:	6,666	—	12,673	—
3.3.1 profit and loss	6,666	—	5,766	—
- of which, losses	*6,666*	—	*1,848*	—
3.3.2 net equity	—	—	6,907	—
3.4 Transfers to other levels	—	—	—	—
3.5 Other decreases	—	—	—	—
4. Balance at end of period	77,780	—	304,070	—

[1] Net of the market value of options covering those attached to bond issues (€1.9m as at 30/6/18 and €7.4m as at 30/6/17) as well as options traded (€72.6m 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

(€'000)

	FINANCIAL LIABILITIES		
	Held for trading [1]	**Recognized at fair value**	**Hedges**
1. Balance at the beginning of the period	10,333	—	—
2. Increases	11,627	—	—
2.1 Issues	9,643	—	—
2.2 Losses recognized in:	1,984	—	—
2.2.1 profit and loss	1,984	—	—
- of which, losses	*1,984*	—	—
2.2.2 net equity	—	—	—
2.3 Transfers from other levels	—	—	—
2.4 Other increases	—	—	—
3. Decreases	9,308	—	—
3.1 Redemptions	2,650	—	—
3.2 Buybacks	—	—	—
3.3 Profits recognized in:	6,658	—	—
3.3.1 profit and loss	6,658	—	—
- of which, gains	*6,658*	—	—
3.3.2 net equity	—	—	—
3.4 Transfers to other levels	—	—	—
3.5 Other decreases	—	—	—
4. Balance at end of period	12,652	—	—

[1] Includes market value of options covering those attached to bond issues (€1.9m as at 30/6/18 and €7.4m as at 30/6/17) as well as options traded (€72.6m 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

(€'000)

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	**30/6/18**				**30/6/17**			
	Book value	**Fair value**			**Book value**	**Fair value**		
		Level1	**Level2**	**Level3**		**Level1**	**Level2**	**Level3**
1. Financial assets held to maturity	2,595,142	2,576,912	28,086		2,394,875	2,416,975	50,933	—
2. Due from banks	19,553,431	—	6,620,038	12,952,352	20,408,728	—	6,992,576	13,429,009
3. Due from customers	18,725,998	—	7,136,216	10,702,838	16,991,344	—	7,693,013	9,337,914
4. Tangible assets held for investment purposes	25,162	—	—	94,077	25,505	—	—	92,961
5. Non-current assets and groups of assets being sold	—	—	—	—	—	—	—	—
Total	40,899,733	2,576,912	13,784,340	23,749,267	39,820,452	2,416,975	14,736,522	22,859,884
1. Due to banks	25,519,219	—	25,519,219	—	24,242,942	—	24,242,942	—
2. Due to customers	4,124,183	—	4,124,183	—	2,350,342	—	2,350,342	—
3. Debt securities in issue	16,827,009	—	17,108,510	49,719	18,902,616	1,261,457	17,915,904	31,583
4. Liabilities in respect of non-current assets being sold	—	—	—	—	—	—	—	—
Total	46,470,411	—	46,751,912	49,719	45,495,900	1,261,457	44,509,188	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.

During the period from 1 July 2016 to 30 June 2017 this principle was applied by suspending the approx. €10m surplus generated on an arbitrage transaction between the acquisition of a financial instrument convertible into listed equities (starting from year 5) and the sale of the corresponding listed equities. This difference was generated from the use of an internal model to value the unlisted instrument which, pursuant to paras. AG76 and AG76A of IAS39, was suspended and will be released to the profit and loss account pro rata throughout the duration of the transaction (five years). The portion recognized in profit and loss during the period amounted to approx. €2m, the portion that remains suspended amounts to approx. €6.7m (30/6/17: €8.7m).

Part B - Notes to Individual Balance Sheet *

Assets

SECTION 1

Heading 10: Cash and cash equivalents

1.1 Cash and cash equivalents: composition

	30/6/18	30/6/17
a) Cash	574	450
b) Demand deposits with Central Banks	1,172,581	1,255,179
Total	1,173,155	1,255,629

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

SECTION 2

Heading 20: Financial assets held for trading

*2.1 Financial assets held for trading: composition**

Items/Values	30/6/18			30/6/17		
	Level1	Level2	Level3	Level1	Level2	Level3
A. Balance-sheet assets						
1. Debt securities [1]	2,538,652	252,030	14,128	1,993,991	334,167	2,321
1.1 Structured securities	109	11,526	—	10,711	20,267	—
1.2 Others	2,538,543	240,504	14,128	1,983,280	313,900	2,321
2. Equity instruments [2]	1,616,416	—	50,145	1,453,540	—	54,253
3. Units in investment funds	101,498	—	9,342	93,736	—	10,524
4. Loans	24,966	—	—	—	59,639	—
4.1 Repos	—	—	—	—	—	—
4.2 Others	24,966	—	—	—	59,639	—
Total A	4,281,532	252,030	73,615	3,541,267	393,806	67,098
B. Derivative instruments						
1. Financial derivatives	524,246	2,796,956	78,644	463,114	2,555,934	77,002
1.1 Trading	524,246	2,727,313	77,072 [3]	463,114	2,252,596	69,584 [3]
1.2 Related to fair value option	—	—	—	—	—	—
1.3 Others	—	69,643	1,572 [4]	—	303,338	7,418 [4]
2. Credit derivatives	—	204,891	—	—	173,123	—
2.1 Trading	—	204,891	—	—	173,123	—
2.2 Related to fair value option	—	—	—	—	—	—
2.3 Others	—	—	—	—	—	—
Total B	524,246	3,001,847	78,644	463,114	2,729,057	77,002
Total (A+B)	4,805,778	3,253,877	152,259	4,004,381	3,122,863	144,100

* 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] Debt securities as at 30/6/17 do not include €194.7m in securities formerly owned by Banca Esperia, which has now been merged into Mediobanca S.p.A.

[2] Equities as at 30/6/18 include shares committed in securities lending transactions totalling €982,223,000 (30/6/17: €737,408,000).

[3] Respectively €72,603,000 and €65,407,000 by way of options traded, with the equivalent amount being recorded as trading liabilities.

[4] Includes the market value of options (€1.9m as at 30/6/18 and €7.4m as at 30/6/17) matching those associated with bond issues recorded among financial instruments held for trading.

2.2 Financial assets held for trading: by borrower/issuer

Items/Values	30/6/18	30/6/17
A. FINANCIAL ASSETS (NON-DERIVATIVES)		
1. Debt securities	2,804,810	2,330,479
a) Governments and Central Banks [1]	2,333,021	1,779,053
b) Other public-sector entities	20,680	15,160
c) Banks	120,771	135,197
d) Other issuers	330,338	401,069
2. Equity instruments	1,666,561	1,507,793
a) Banks	118,343	81,293
b) Other issuers:	1,548,218	1,426,500
- Insurance companies	16,939	54,142
- Financial companies	16,942	55,014
- Non-financial companies	1,514,337	1,317,344
- Other	—	—
3. Units in investment funds	110,840	104,260
4. Loans	24,966	59,639
a) Goverments and Central Banks	—	—
b) Other public-sector entities	—	—
c) Banks	—	59,639
d) Other issuers	24,966	—
Total A	4,607,177	4,002,171
B. DERIVATIVE INSTRUMENTS		
a) Banks	2,431,842	2,088,094
- Fair Value	2,431,842	2,088,094
b) Customers	1,172,895	1,181,079
- Fair Value	1,172,895	1,181,079
Total B	3,604,737	3,269,173
Total (A+B)	8,211,914	7,271,344

[1] Debt securities as at 30/6/17 do not include €194.7m in securities formerly owned by Banca Esperia, which has now been merged into Mediobanca S.p.A.

SECTION 4

Heading 40: Available for sale (AFS) securities

4.1 AFS securities: composition

Items/Values	30/6/18			30/6/17		
	Level1	Level2	Level3 *	Level1	Level2	Level3 *
1. Debt securities	4,120,642	298,863	—	4,621,602	383,326	—
1.1 Structured securities	—	—	—	—	—	—
1.2 Other	4,120,642	298,863	—	4,621,602	383,326	—
2. Equity instruments	239,266	—	21,478	399,317	—	26,670
2.1 Designated at fair value	239,266	—	21,478	399,317	—	26,670
2.2 Recognised at cost	—	—	—	—	—	—
3. Units in investment funds [1]	203,511	—	282,592	—	—	233,486
4. Loans	—	—	—	—	—	—
Total	4,563,419	298,863	304,070	5,020,919	383,326	260,156

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

[1] UCITS stock units as at 30/6/17 do not include €77.5m in units formerly owned by Banca Esperia, which has now been merged into Mediobanca S.p.A.

4.2 AFS securities: by borrower/issuer

Items/Values	30/6/18	30/6/17
1. Debt securities	4,419,505	5,004,928
a) Governments and Central Banks	2,886,008	3,422,929
b) Other public-sector entities	386,845	214,203
c) Banks	656,736	698,869
d) Other entities	489,916	668,927
2. Equity instruments	260,744	425,987
a) Banks	112	—
b) Other issuers:	260,632	425,987
- Insurance companies	—	—
- Financial companies	24,352	21,618
- Non-financial companies	236,280	404,369
- Other	—	—
3. Units in investment funds (including Private Equity funds) [1]	486,103	233,486
4. Loans	—	—
a) Governments and Central banks	—	—
b) Other public-sector entities	—	—
c) Banks	—	—
d) Other entities	—	—
Total	5,166,352	5,664,401

[1] UCITS stock units as at 30/6/17 do not include €77.5m in units formerly owned by Banca Esperia, which has now been merged into Mediobanca S.p.A.

4.3 AFS securities: assets subject to specific hedging

Items/Values	30/6/18	30/6/17
1. Financial assets subject to fair value micro hedging	1,899,326	2,255,207
a) Interest rate risk	1,899,326	2,255,207
b) Currency rsk	—	—
c) Credit risk	—	—
d) Multiple risks	—	—
2. Financial assets subject to cash flow micro hedging	—	240,019
a) Interest rate risk	—	—
b) Currency rsk	—	—
c) Other	—	240,019
Total	1,899,326	2,495,226

SECTION 5

Heading 50: Financial assets held to maturity

5.1 Financial assets held to maturity: composition

	30/6/18				30/6/17			
	Book Value	Fair Value			Book Value	Fair Value		
		Level1	Level2	Level3		Level1	Level2	Level3
1. Debt securities	2,595,142	2,576,912	28,086	—	2,394,875	2,416,975	50,933	—
- structured	—	—	—	—	—	—	—	—
- other	2,595,142	2,576,912	28,086	—	2,394,875	2,416,975	50,933	—
2. Loans	—	—	—	—	—	—	—	—

5.2 Financial assets held to maturity: by borrower/issuer

Type of transaction/Values	30/6/18	30/6/17
1. Debt securities	2,595,142	2,394,875
a) Government and Central Banks	1,838,768	1,747,050
b) Other public-sector entities	—	—
c) Banks	176,968	251,778
d) Other issuers	579,406	396,047
2. Loans	—	—
a) Government and Central banks	—	—
b) Other public-sector entities	—	—
c) Banks	—	—
d) Other entities	—	—
Total	2,595,142	2,394,875
Total Fair Value	2,604,998	2,467,908

SECTION 6

Heading 60 - Due from banks

6.1 Due from banks: composition

Type of transactions/Values	30/6/18				30/6/17			
	Book Value	Fair Value			Book Value	Fair Value		
		Level1	Level2	Level3		Level1	Level2	Level3
A. Loans to Central Banks	163,515	—	163,515	—	157,191	—	157,191	—
1. Time deposits	—	X	X	X	—	X	X	X
2. Compulsory reserves	163,515	X	X	X	157,191	X	X	X
3. Repos	—	X	X	X	—	X	X	X
4. Other	—	X	X	X	—	X	X	X
B. Loans to banks	19,389,916	—	6,456,523	12,952,352	20,251,537	—	6,835,385	13,429,009
1. Loans [1]	19,003,904	—	6,070,511	12,952,352	19,963,757	—	6,542,160	13,429,009
1.1 Current accounts and demand deposits	597,132	X	X	X	718,447	X	X	X
1.2 Time deposits	51,551	X	X	X	45,000	X	X	X
1.3 Other loans	18,355,221	X	X	X	19,200,310	X	X	X
- Repos	4,902,337	X	X	X	5,315,656	X	X	X
- Finance leases	—	X	X	X	—	X	X	X
- Other	13,452,884	X	X	X	13,884,654	X	X	X
2. Debt securities	386,012	—	386,012	—	287,780	—	293,225	—
2.1 Structured	—	X	X	X	—	X	X	X
2.2 Other	386,012	X	X	X	287,780	X	X	X
Total	19,553,431	—	6,620,038	12,952,352	20,408,728	—	6,992,576	13,429,009

[1] At 30/6/17 does not include €79.2m formerly owned by Banca Esperia, which has now been merged into Mediobanca S.p.A. and concerns current accounts and demand deposits and concerns (€71.3m) and time deposits (€6.1m).

6.2 Due from banks: subject to specific hedging

	30/6/18	30/6/17
1. Receivables subject to specific hedging of fair value	629	1.921
a) Interest rate risk	629	1.921
b) Currency risk	—	—
c) Credit risk	—	—
d) Multiple risks	—	—
2. Receivables subject to specific hedging of cash flows	—	—
a) Interest rate risk	—	—
b) Currency risk	—	—
c) Other	—	—
Total	629	1.921

SECTION 7

Heading 70: Due from customers

7.1 Due from customers: composition

Type of transaction/Value	30/6/18						30/6/17					
	Book Value			Fair Value			Book Value			*Fair Value*		
	Performing	Non performing		Level1	Level2	Level3	Performing	Non performing		Level1	Level2	Level3
		Purchased	Other					Purchased	Other			
Loans [1]	14,327,748	—	343,993	—	7,136,216	6,649,518	13,542,916	—	371,736	—	7,616,741	6,321,659
1. Current accounts	1,029,162	—	—	X	X	X	424,966	—	—	X	X	X
2. Repos	446,410	—	—	X	X	X	677,543	—	—	X	X	X
3. Mortgages	11,198,337	—	343,993	X	X	X	10,601,040	—	371,736	X	X	X
4. Credit cards, personal loans and salary-backed finance	—	—	—	X	X	X	—	—	—	X	X	X
5. Financial leases	—	—	—	X	X	X	—	—	—	X	X	X
6. Factoring	—	—	—	X	X	X	—	—	—	X	X	X
7. Other loans	1,653,839	—	—	X	X	X	1,839,367	—	—	X	X	X
Debt securities	4,054,257	—	—	—	—	4,053,320	3,076,692	—	—	—	76,272	3,016,255
8. Structured securities	—	—	—	X	X	X	—	—	—	X	X	X
9. Others [2]	4,054,257	—	—	X	X	X	3,076,692	—	—	X	X	X
Total	18,382,005	—	343,993	—	7,136,216	10,702,838	16,619,608	—	371,736	—	7,693,013	9,337,914

[1] At 30/6/17 does not include €930.1m in performing loans and €11.6m in NPLs formerly attributable to Banca Esperia which has since been merged into Mediobanca S.p.A., and chiefly regard current accounts and untied deposits as well as the sub-heading Other loans.

[2] €3,889,268,000 of which in respect of securitizations by Group companies (Compass and Futuro).

7.2 Due from customers: by borrower/issuer

Type of transaction/Values	30/6/18			30/6/17		
	Performing	Non performing		Performing	Non performing	
		Purchased	Other		Purchased	Other
1. Debt securities issued by:	4,054,257	—	—	3,076,693	—	—
a) Governments	—	—	—	—	—	—
b) Other public-sector entities	—	—	—	—	—	—
c) Other issuers	4,054,257	—	—	3,076,693	—	—
- Non-financial companies	2,140	—	—	74,064	—	—
- Financial companies	4,019,298	—	—	3,002,629	—	—
- Insurance companies	32,819	—	—	—	—	—
- Other	—	—	—	—	—	—
2. Loans to:	14,327,748	—	343,993	13,542,916	—	371,736
a) Governments	—	—	—	—	—	—
b) Other public-sector entities	150,762	—	—	3,182	—	—
c) Other entities	14,176,986	—	343,993	13,539,734	—	371,736
- Non-financial companies	6,054,969	—	329,100	6,390,527	—	356,438
- Financial companies	6,495,032	—	14,790	6,226,864	—	15,298
- Insurance companies	655,099	—	1	922,320	—	—
- Other [1]	971,886	—	102	23	—	—
Total	18,382,005	—	343,993	16,619,609	—	371,736

[1] At 30/6/17 does not include €930.1m in performing loans deriving from the Banca Esperia acquisition; and €11.6m in NPLs formerly attributable to Banca Esperia which has since been merged into Mediobanca S.p.A..

7.3 Due from customers: assets subject to specific hedging

	30/6/18	30/6/17
1. Loans and receivables subject to micro-hedging of fair value	354,256	576,789
a) Interest rate risk	354,256	576,789
b) Currency risk	—	—
c) Credit risk	—	—
d) Multiple risk	—	—
2. Loans and receivables subject to micro-hedging of cash flows	—	—
a) Interest rate risk	—	—
b) Currency risk	—	—
c) Other	—	—
Total	354,256	576,789

SECTION 8

Heading 80: Hedging derivatives

8.1 Hedging derivatives: by hedge type and level

	30/6/18				30/6/17			
	Fair Value			Nominal value	Fair Value			Nominal Value
	Level1	Level2	Level3		Level1	Level2	Level3	
A. Financial derivatives	—	235,591	—	9,953,466	—	462,596	—	8,367,129
1) Fair value	—	235,591	—	9,953,466	—	462,596	—	8,367,129
2) Cash flow	—	—	—	—	—	—	—	—
3) Net investments in foreign subsidiaries	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	—	235,591	—	9,953,466	—	462,596	—	8,367,129

8.2 Hedging 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	249	—	—	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	249	—	—	—	—	—	—	—	—
1. Financial liabilities	235,342	—	—	X	—	X	—	X	X
2. Portfolio	X	X	X	X	X	—	X	—	X
Total liabilities	235,342	—	—	—	—	—	—	—	—
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 30 June 2018, the stakes held as part of the Equity investment portfolio reflected a book value of €3,084.2m.

10.1 Equity investments: disclosure on relationships

Company name	Legal office	Operating office	Shareholding %	Voting right %
A. Directly-held investments				
Cairn Capital Group Limited *				
Share capital GBP 263, in par value €0.005 shares	London	London	100.00 (*)	51.00
CheBanca S.p.A.				
Share capital € 226.3m, in par value € 0.50 shares	Milan	Milan	100.00	100.00
Compagnie Monegasque de Banque - CMB S.A.M.				
Share capital € 111.1m, in par value € 200 shares	Montecarlo	Montecarlo	100.00	100.00
CMB Wealth Management Limited				
Share capital GBP 3m, in par value GBP 1 shares	London	London	100.00	100.00
Compass Banca S.p.A.				
Share capital € 587.5m, in par value € 5 shares	Milan	Milan	100.00	100.00
Mediobanca Innovation Services - MIS S.c.p.A.				
Share capital € 35m, in par value € 5 shares	Milan	Milan	99.99	99.99
Mediobanca Management Company S.A.				
Share capital € 500,000 in par value € 10 shares	Luxembourg	Luxembourg	100.00	100.00
Mediobanca SGR S.p.A.				
Share capital € 10.3m, in par value € 51.65 shares	Milan	Milan	100.00	100.00
MB Advisory Kurumsal Danismanlik Hizmetleri A.S.				
Share capital TRY 14m shares	Istanbul	Istanbul	100.00	100.00
MB Facta S.p.A.				
Share capital € 120m in par value €1 shares	Milan	Milan	100.00	100.00
MB Funding Lux S.A.				
Share capital € 431,000, in par value € 1 shares	Luxembourg	Luxembourg	100.00	100.00
MB International (Luxembourg) S.A.				
Share capital € 10m, in par value € 10 shares	Luxembourg	Luxembourg	99.00	99.00
MB Securities USA LLC				
Share capital $ 2.25m	New York	New York	100.00	100.00
Prominvestment S.p.A. (under liquidation)				
Share capital € 743,000, in par value € 0.52 shares	Milan	Rome	100.00	100.00
Quarzo MB S.r.l.				
Share capital € 30,000	Milan	Milan	90.00	90.00
RAM Active Investments S.A.				
Share capital CHF 1m in par value CHF 10 shares	Geneva	Geneva	89.3 (**)	69.00
Ricerche e Studi S.p.A.				
Share capital € 100,000, in par value € 5 shares	Milan	Milan	100.00	100.00
SelmaBipiemme Leasing S.p.A.				
Share capital € 41.3m, in par value € 0.50 shares	Milan	Milan	60.00	60.00
Spafid S.p.A.				
Share capital € 6.1m, in par value € 10 shares	Milan	Milan	100.00	100.00
B. Companies subject to significant influence				
Assicurazioni Generali S.p.A.				
Share capital € 1,561.8m, in par value € 1 shares	Trieste	Trieste	13.00	13.00
Burgo Group S.p.A.				
Share capital € 20m	Altavilla Vicentina (VI)	Altavilla Vicentina (VI)	22.13	22.13
Istituto Europeo di Oncologia S.r.l.				
Share capital € 80.6m	Milan	Milan	25.37	25.37

* Taking into account the put-and-call option exercisable from the third year after the date on which the transaction was executed.

** Taking into account the put-and-call option exercisable from year 3 to year 10 after the date on which the transaction was executed.

10.2 Equity investments: book values, fair values and dividends received

Company name	**Book value**	**Fair Value**	**Dividends received**
A. Directly-held companies			
Cairn Capital Group Limited	33,466	n.a.	—
Chebanca! S.p.A.	383,373	n.a.	—
Compagnie Monegasque de Banque - CMB S.A.M.	371,983	n.a.	—
CMB Wealth Management Limited	1,580	n.a.	—
Compass Banca S.p.A.	765,354	n.a.	—
Mediobanca Innovation Services - MIS S.c.p.A.	35,020	n.a.	—
Mediobanca Management Company S.A.	3,993	n.a.	—
Mediobanca SGR S.p.A.	37,974	n.a.	—
MB Advisory Kurumsal Danismanlik Hizmetleri A. S.	4,214	n.a.	—
MBFACTA S.p.A.	120,023	n.a.	—
MB Funding Lux S.A.	431	n.a.	—
MB International (Luxembourg) S.A.	5,942	n.a.	—
MB Securities USA LLC	211	n.a.	—
Prominvestment S.p.A. (under liquidation)	—	n.a.	—
Quarzo MB S.r.l.	45	n.a.	—
RAM Active Investments S.A.	143,382	n.a.	—
Ricerche e Studi S.p.A.	103	n.a.	—
SelmaBipiemme Leasing S.p.A.	32,909	n.a.	—
Spafid S.p.A.	8,888	n.a.	—
B. Companies under significant influence			
Assicurazioni Generali S.p.A.	1,096,272	2,912,993	172,306
Burgo Group S.p.A.	—	n.a.	—
Istituto Europeo di Oncologia S.r.l.	38,995	n.a.	—
Total	3,084,158		

The criteria for establishing whether or not an investee company is subject to joint control or significant influence are illustrated in “Section 3 - Part A - Accounting Policies” to which reference is made.

10.3 Significant investments: accounting data*

Company name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues **	Interest margin	Adjustments and reversals on tangible and intangible assets	Profit/ (Loss) from ordinary activities before tax	Profit/ (Loss) from ordinary activities after tax	Profit/(Loss) from held-for-sale assets after tax	Profit/(Loss) for the period (1)	Other profit/loss items after tax (2)	Total profit/ loss (3) = (1) +(2)
A. Directly-controlled companies														
Cairn Capital Group Limited	—	3,716	9,481	1,174	2,124	19,670	8	(147)	(1,279)	(1,094)	—	(1,094)	34	(1,060)
CheBanca! S.p.A.	60,798	19,754,847	342,738	19,516,753	280,799	291,623	209,180	(7,220)	27,730	18,999	—	18,999	(3,356)	15,643
Compagnie Monegasque de Banque - CMB S.A.M.	2,597	3,755,052	49,081	3,006,967	25,124	91,457	35,028	(4,649)	38,936	34,941	—	34,941	(6,877)	28,064
CMB Wealth Management UK Limitied	—	1,515	1	—	119	—	—	(30)	(129)	(129)	—	(129)	—	(129)
Compass Banca S.p.A.	1,430	11,423,368	978,667	10,346,261	222,405	796,589	806,173	(3,694)	375,089	252,830	—	252,830	3,046	255,876
Mediobanca Innovation Services - MIS S.c.p.A.	—	39	82,689	34,443	10,752	—	—	(10,005)	(1,173)	2	—	2	(74)	(72)
Mediobanca Management Company S.A.	2	7,907	6,689	—	8,752	7,217	—	(5)	3,889	2,996	—	2,996	—	2,996
Mediobanca SGR S.p.A.	2	13,857	17,745	—	7,490	17,560	—	(26)	6,507	4,434	—	4,434	2	4,436
MB Advisory Kurumsal Danismanlik Hizmetleri A.S.	—	849	197	28	66	195	148	(2)	(1,038)	(1,038)	—	(1,038)	—	(1,038)
MBFACTA S.p.A.	—	1,872,692	1,056	1,728,886	8,748	42,924	38,978	(7)	20,032	13,500	—	13,500	(17)	13,483
MB Funding Lux S.A.	—	209	278	—	56	—	—	—	(5)	—	—	—	—	—
MB International (Luxembourg) S.A.	—	6,912,515	108,608	6,645,949	34,248	25,841	23,275	(6)	16,782	12,374	—	12,374	—	12,374
MB Securities USA LLC	—	5,429	315	—	1,021	3,511	(33)	(13)	1,276	715	—	715	—	715
Prominvestment S.p.A. (under liquidation)	—	771	102	2,802	2,130	53	(16)	—	(1,061)	(1,061)	—	(1,061)	—	(1,061)
Quarzo MB S.r.l.	—	52	—	—	48	—	—	—	(26)	(26)	—	(26)	—	(26)
RAM Active Investments S.A.	—	3,108	16,453	—	8,768	13,869	(6)	(11)	6,387	4,791	—	4,790	—	4,790
Ricerche e Studi S.p.A.	3	842	512	—	1,305	—	—	(1)	9	(3)	—	(3)	(2)	(5)
SelmaBipiemme Leasing S.p.A.	6	2,174,390	150,139	2,063,826	44,186	45,489	45,381	(1,823)	11,566	8,092	—	8,092	1,608	9,700
Spafid S.p.A.	4	41,589	14,878	2,460	4,666	8,769	123	(273)	628	438	—	438	(2)	436
B. Companies subject to significant influence														
Assicurazioni Generali S.p.A.	X	482,909,000	47,323,000	52,810,000	458,092,000	89,204,000	X	X	3,686,000	2,513,000	(217)	2,295,000	(189,000)	2,106,000
Burgo Group S.p.A.	X	591,341	976,205	1,156,442	185,629	2,008,220	X	X	17,503	8,727	—	8,727	(1,629)	7,098
Istituto Europeo di Oncologia S.r.l.	X	97,284	113,436	84,143	66,092	332,903	X	X	7,826	5,968	—	5,968	—	5,968

* All data in Euros, including for non-Italian Group companies.

** Interim results: total income as per the financial statements.

The following significant events took place during the twelve months under review:

In December 2017, Group company Banca Esperia S.p.A. was merged into Mediobanca S.p.A. and the new Mediobanca Private Banking division was launched. The aim of the merger was to achieve significant economies of cost and to develop and consolidate customer relations, including through synergies with the Mid-Cap area of the Corporate and Investment Banking division (CIB).

The purchase price allocation process has also been used to allocate the differences arising on merger, with some changes compared to the consolidated financial statements.

The two subsidiaries 100%-owned by Banca Esperia which have now come under the parent company's direct ownership have been recognized at fair value in the individual accounts: Duemme SGR (recognized at €37.1m), now renamed Mediobanca SGR, and Duemme International Luxembourg (recognized at €4m), now renamed Mediobanca Management Company Luxembourg.

Also booked to the individual accounts are the Mediobanca Private Banking brand (€15.5m), adjustments to the fair value of receivables and securities (in an amount of €12.5m), and residual goodwill of €12.5m.

On 28 February 2018, acquisition was also completed of a 69% stake in RAM AI, a leading European systematic fund manager offering a wide range of alternative funds to institutional and professional investors with systematic management, both equity (RAM Systematic Funds) and discretionary fixed-income (RAM Tactical Funds).

The deal was structured to allow the founder partners to retain a significant interest in the company, and the Reyl group, a historical shareholder and investor in RAM AI, also retains a 7.5%.

The acquisition cost was CHF 164.8m, or €143.4m. Half of the purchase price for the 69% stake was settled via the delivery of 7,021,953 Mediobanca shares at current stock market prices.

A put-and-call option was also taken out which, once exercised, will allow Mediobanca to increase its stake to 89.3%.

The Assicurazioni Generali investment continues to be recognized at cost.

The book value of the CheBanca! CheBanca!, Mediobanca SGR and Mediobanca Management Company investments were subject to impairment testing but no evidence of impairment was recorded.

10.5 Equity investments: movements during the period

	30/6/18	30/6/17
A. Opening balance	3,056,998	2,687,686
B. Increases	222,509	372,204
B.1 Purchases	221,836	364,651
B.2 Writebacks	—	—
B.3 Revaluations	—	—
B.4 Other changes	673	7,553
C. Decreases	195,349	2,892
C.1 Sales	195,349	2,258
C.2 Adjustments	—	—
C.3 Other changes	—	634
D. Closing balance	3,084,158	3,056,998
E. Total revaluations	—	—
F. Total adjustments	820,806	820,806

SECTION 11

Heading 110: Property, plant and equipment

11.1 Tangible assets stated at cost

Assets/Values	30/6/18	30/6/17
1. Assets owned by the Group	91,645	92,559
a) land	67,897	67,897
b) buildings	19,245	20,023
c) furniture	921	1,059
d) electronic equipment	1,539	1,554
e) other assets	2,043	2,026
2. Assets acquired under finance leases	—	—
a) land	—	—
b) buildings	—	—
c) furniture	—	—
d) electronic equipment	—	—
e) other assets	—	—
Total	91,645	92,559

11.2 Properties held for investment purposes stated at cost

Items/Value	30/6/18				30/6/17			
	Book Value	Fair Value			Book Value	Fair Value		
		Level1	Level2	Level3		Level1	Level2	Level3
1. Owned assets	25,162	—	—	94,077	25,505	—	—	92,961
a) Land	20,350	—	—	74,103	20,350	—	—	73,224
b) Buildings	4,812	—	—	19,974	5,155	—	—	19,737
2. Leased assets	—	—	—	—	—	—	—	—
a) Land	—	—	—	—	—	—	—	—
b) Buildings	—	—	—	—	—	—	—	—
Total	25,162	—	—	94,077	25,505	—	—	92,961

11.5 Core properties: movements during the period

Assets/Values	Land	Buildings	Furniture	Electronic system	Other	Total
A. Gross opening balance	67,897	41,104	5,422	7,943	20,291	142,657
A.1 Total net reduction value	—	(21,081)	(4,363)	(6,389)	(18,265)	(50,098)
A.2 Net opening balance	67,897	20,023	1,059	1,554	2,026	92,559
B. Increases	—	460	263	469	984	2,176
B.1 Purchases	—	—	263	469	984	1,716
B.2 Capitalized expenditures on improvements	—	460	—	—	—	460
B.3 Write-backs	—	—	—	—	—	—
B.4 Positive changes in fair value allocated to:	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit and loss	—	—	—	—	—	—
B.5 Positive exchange differences	—	—	—	—	—	—
B.6 Transfer from investment properties	—	—	—	—	—	—
B.7 Other adjustments	—	—	—	—	—	—
C. Decreases	—	1,238	401	484	967	3,090
C.1 Sales	—	—	—	—	—	—
C.2 Amortizations	—	1,238	401	484	967	3,090
C.3 Impairment losses allocated to:	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit and loss	—	—	—	—	—	—
C.4 Negative changes in fair value allocated to:	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit and loss	—	—	—	—	—	—
C.5 Negative exchange differences	—	—	—	—	—	—
C.6 Transfers to:	—	—	—	—	—	—
a) tangible assets held for investment purpose	—	—	—	—	—	—
b) assets classified as held-for-sale	—	—	—	—	—	—
C.7 Other adjustments	—	—	—	—	—	—
D. Net closing balance	67,897	19,245	921	1,539	2,043	91,645
D.1 Total net write-downs	—	(22,246)	(7,421)	(7,156)	(26,065)	(62,888)
D.2 Final gross balance	67,897	41,491	8,342	8,695	28,108	154,533
E. Carried at cost	—	—	—	—	—	—

11.6 Properties held for investment purposes: movements during the period

	Total	
	Land	Building
A. Opening balance	20,350	5,155
B. Increases	—	71
B.1 Purchases	—	—
B.2 Capitalized expenditures on improvements	—	71
B.3 Increases in fair value	—	—
B.4 Write-backs	—	—
B.5 Positive exchange difference	—	—
B.6 Transfers from properties used in the business	—	—
B.7 Other changes	—	—
C. Reductions	—	414
C.1 Disposals	—	—
C.2 Depreciations	—	414
C.3 Negative changes in fair value	—	—
C.4 Impairment losses	—	—
C.5 Negative exchange differences	—	—
C.6 Transfers to:	—	—
a) properties used in the business	—	—
b) non-current assets classified as held-for-sale	—	—
C.7 Other changes	—	—
D. Closing balance	20,350	4,812
E. Measured at fair value	74,103	19,974

SECTION 12

Heading 120: Intangible assets

12.1 Intangible assets: composition

Assets/Values	30/6/18		30/6/17	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X	12,514	X	—
A.2 Other intangible assets	10,626	15,490	14,165	—
A.2.1 Assets valued at cost	10,626	15,490	14,165	—
a) Intangible assets generated internally	—	—	—	—
b) Other assets	10,626	15,490	14,165	—
A.2.2 Assets valued at fair value	—	—	—	—
a) Intangible assets generated internally	—	—	—	—
b) Other assets	—	—	—	—
Total	10,626	28,004	14,165	—

12.2 Intangible assets: movements during the period

	Goodwill	Other intangible assets generated internally		Other		Total
		Finite	Indefinite	Finite	Indefinite	
A. Gross opening balance	—	—	—	83,450	—	83,450
A.1 Total net reduction in value	—	—	—	(69,285)	—	(69,285)
A.2 Net opening balance	—	—	—	14,165	—	14,165
B. Increases	12,514	—	—	4,806	15,490	32,810
B.1 Purchases	12,514	—	—	4,806	15,490	32,810
B.2 Increases in intangible assets generated internally	X	—	—	—	—	—
B.3 Write-backs	X	—	—	—	—	—
B.4 Increases in fair value allocated to:	—	—	—	—	—	—
- net equity	X	—	—	—	—	—
- profit and loss	X	—	—	—	—	—
B.5 Positive exchange differences	—	—	—	—	—	—
B.6 Other changes	—	—	—	—	—	—
C. Reduction	—	—	—	8,345	—	8,345
C.1 Disposals	—	—	—	—	—	—
C.2 Write-downs	—	—	—	8,345	—	8,345
- Amortization	X	—	—	8,345	—	8,345
- Write-downs	—	—	—	—	—	—
+ in equity	X	—	—	—	—	—
+ in profit and loss	—	—	—	—	—	—
C.3 Reduction in fair value allocated to	—	—	—	—	—	—
- net equity	X	—	—	—	—	—
- profit and loss	X	—	—	—	—	—
C.4 Transfers to non-current assets held-for-sale	—	—	—	—	—	—
C.5 Negative exchange differences	—	—	—	—	—	—
C.6 Other changes	—	—	—	—	—	—
D. Net closing balance	12,514	—	—	10,626	15,490	38,630
D.1 Total net reduction in value	—	—	—	(85,252)	—	(85,252)
E. Closing balance	12,514	—	—	95,878	15,490	123,882
F. Carried at cost	—	—	—	—	—	—

The new indefinite life intangible assets regard the Mediobanca Private Banking and goodwill, or the difference arising on the Banca Esperia merger. In continuity with the consolidated accounts, it has been decided to record the Mediobanca Private Banking as a defensive intangible asset, that is, an asset which the buyer does not intend to use or intends to use differently compared to other market operators. The value has been established based on the assumption that it increases visibility, thus helping to increase the retention rate for bankers and clients compared to an unbranded entity, thus stabilizing revenue flows over time.

Goodwill refers to the difference arising on the merger as stated above.

The values of the brand and the goodwill have been tested for impairment test, but no need emerged for adjustments to be made. For further details see the section on Equity Investments (section 10 on p. 124-128 of the Individual Financial Statements) and the Notes to the Consolidated Accounts (section 10, pp. 144-148).

SECTION 13

Asset heading 130 and Liability heading 80: Tax assets and liabilities

13.1 Advance tax assets: composition

	30/6/18	30/6/17
Balancing to the Profit and Loss	92,422	107,998
Balancing to the Net Equity	9,928	5,855
Total	102,350	113,853

13.2 Deferred tax liabilities: composition

	30/6/18	30/6/17
Balancing to the Profit and Loss	203,254	212,536
Balancing to the Net Equity	54,927	77,838
Total	258,181	290,374

13.3 Changes in advance tax during the period

	30/6/18	30/6/17
1. Opening balance	107,998	125,090
2. Increases	14,007	1,079
2.1 Deferred tax assets of the year	1,648	1,079
a) Relating to previous years	—	—
b) Due to change in accounting policies	—	—
c) Write-backs	—	—
d) Other (creation of temporary differences, use of TLCF)	1,648	1,079
2.2 New taxes or increase in tax rates	—	—
2.3 Other increases	12,359	—
3. Decreases	29,583	18,171
3.1 Deferred tax assets derecognised during the year	29,583	18,171
a) Reversals of temporary differences	29,583	18,171
b) Write-downs of non-recoverable items	—	—
c) Change in accounting policies	—	—
d) Other	—	—
3.2 Reduction in tax rates	—	—
3.3 Other decreases	—	—
a) Conversion into tax credit under L. 214/2011	—	—
b) Other	—	—
4. Final amount	92,422	107,998

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

	30/6/18	30/6/17
1. Opening balance	54,950	57,842
2. Increases	682	—
3. Decreases	5,309	2,892
3.1 Reversals of temporary differences	4,698	2,892
3.2 Conversion on tax credit deriving from	—	—
a) year losses	—	—
b) tax losses	—	—
3.3 Other decreases	611	—
4. Final amount	50,323	54,950

* Mediobanca has elected to retain its right to take advantage of the possibility of converting DTAs into tax credits provided for by Italian decree law 59/16 on 29 April 2016, as amended by Italian decree law 237/16. The exercise of this option is effective for all companies included in the tax consolidation. Such companies are not required to make the annual 1.5% payment as the tax paid by the consolidating entity exceeds the increase in the DTAs at the reporting date since 30 June 2008.

13.4 Changes in deferred tax during the period

	30/6/18	30/6/17
1. Opening balance	212,536	212,325
2. Increases	597	490
2.1 Deferred tax liabilities of the year	—	490
a) Relating to previous years	—	—
b) Due to change in accounting policies	—	—
c) Other	—	490
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	597	—
3. Decreases	9,879	279
3.1 Deferred tax liabilities derecognised during the year	9,879	279
a) Reversals of temporary differences	9,879	279
b) Due to change in accounting policies	—	—
c) Other	—	—
3.2 Reductions in tax rates	—	—
3.3 Other decreases	—	—
4. Final amount	203,254	212,536

13.5 Changes in advance tax during the period[1]

	30/6/18	30/6/17
1. Opening balance	5,855	7,232
2. Increases	12,808	25,011
2.1 Deferred tax assets of the year	12,581	25,011
a) Relating to previous years	—	—
b) Due to change in accounting policies	—	—
c) Other (creation of temporary differences)	12,581	25,011
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	227	—
3. Decreases	8,735	26,388
3.1 Deferred tax assets derecognised during the year	8,735	26,388
a) Reversals of temporary differences	8,735	26,388
b) Writedowns of non-recoverable items	—	—
c) Due to change in accounting policies	—	—
d) Other	—	—
3.2 Reduction in tax rates	—	—
3.3 Other decreases	—	—
4. Final amount	9,928	5,855

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

13.6 Changes in deferred tax during the period[1]

	30/6/18	30/6/17
1. Opening balance	77,838	84,277
2. Increases	254,898	309,235
2.1 Deferred tax liabilities of the year	253,687	309,235
a) Relating to previous years	—	—
b) Due to change in accounting policies	—	—
c) Other (creation of temporary differences)	253,687	309,235
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	1,211	—
3. Decreases	277,809	315,674
3.1 Deferred tax liabilities derecognised in the year	277,809	315,674
a) Reversals of temporary differences	277,809	315,674
b) Due to change in accounting policies	—	—
c) Other	—	—
3.2 Reduction in tax rates	—	—
3.3 Other decreases	—	—
4. Final amount	54,927	77,838

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

SECTION 15

Heading 150: Other assets

15.1 Other assets: composition

	30/6/18	30/6/17
1. Gold, silver and precious metals	—	—
2. Accrued income other than capitalized income from financial assets	12,791	7,742
3. Trade receivables or invoices to be issued	41,253	43,858
4. Amounts due from tax revenue authorities (not recorded under Heading 140)	32,295	5,326
5. Other items:	10,561	6,385
- futures and other securities transactions	938	168
- advance payments on deposit commissions	—	—
- other items in transit [1]	6,857	—
- amounts due from staff	226	187
- improvements on third parties assets	1,846	2,626
- fiscal consolidated	—	583
- sundry other items	694	2,821
Total other assets	96,900	63,311

[1] Entirely attributable to the new Private Banking division (formerly Banca Esperia).

Liabilities

SECTION 1

Heading 10: Due to banks

1.1 Due to banks: composition

Type of transaction/Values	30/6/18	30/6/17
1. Deposits from Central Banks [1]	4,384,592	5,649,082
2. Deposits from banks	21,134,627	18,593,860
2.1 Other current accounts and demand deposits	13,320,028	13,633,457
2.2 Time deposits	1,729,319	480,643
2.3 Loans	5,941,371	4,299,916
2.3.1 Repos	4,224,600	3,209,125
2.3.2 Other	1,716,771	1,090,791
2.4 Liabilities in respect of commitments to repurchase treasury shares	—	—
2.5 Other debt	143,909	179,844
Total	25,519,219	24,242,942
Fair Value - Level1	—	—
Fair Value - Level2	25,519,219	24,242,942
Fair Value - Level3	—	—
Total Fair Value	25,519,219	24,242,942

[1] This item as at 30/6/17 includes €251.3m for Banca Esperia, since merged into Mediobanca S.p.A., and regards deposits held with the Bank of Italy.

1.4 Due to banks: items subject to specific hedges

	30/6/18	30/6/17
1. Liability items subject to micro-hedging of fair value:	733,462	1,115,469
a) Interest rate risk	733,462	1,115,469
b) Currency risk	—	—
c) Multiple risks	—	—
2. Liability items subject to micro-hedging of cash flows;	—	—
a) Interest rate risk	—	—
b) Currency risk	—	—
c) Other	—	—
Total	733,462	1,115,469

SECTION 2

Heading 20: Due to customers

2.1 Due to customers: composition

Type of transaction/Values	30/6/18	30/6/17
1. Current accounts and demand deposits [1]	3,129,363	1,671,529
2. Time deposits including saving deposits with maturity [2]	62,644	—
3. Loans	931,850	678,481
3.1 Repos	806,937	577,708
3.2 Other	124,913	100,773
4. Liabilities in respect of commitments to repurchase treasury shares	—	—
5. Other	326	332
Total	4,124,183	2,350,342
Fair Value - Level1	—	—
Fair Value - Level2	4,124,183	2,350,342
Fair Value - Level3	—	—
Total Fair Value	4,124,183	2,350,342

[1] This item as at 30/6/17 includes €1,137m deriving from the Banca Esperia acquisition, since merged into Mediobanca S.p.A.

[2] This item as at 30/6/17 includes €157.9m deriving from the Banca Esperia acquisition, since merged into Mediobanca S.p.A.

SECTION 3

Heading 30: Debt securities in issue

3.1 Debt securities in issue: composition

Type of securities/ Values	30/6/18				30/6/17			
	Book Value	Fair Value *			Book Value	Fair Value *		
		Level1	Level2	Level3		Level1	Level2	Level3
A. Debt certificates including bonds								
1. Bonds	16,777,290	—	17,108,510	—	18,871,032	1,261,457	17,915,904	—
1.1 structured	5,021,049	—	5,145,546	—	6,174,664	—	6,408,765	—
1.2 other	11,756,241	—	11,962,964	—	12,696,368	1,261,457	11,507,139	—
2. Other structured securities	49,719	—	—	49,719	31,584	—	—	31,583
2.1 structured	—	—	—	—	—	—	—	—
2.2 other	49,719	—	—	49,719	31,584	—	—	31,583
Total	16,827,009	—	17,108,510	49,719	18,902,616	1,261,457	17,915,904	31,583

* The fair values are shown net of Mediobanca issuer risk; if this item is included, the fair value at 30 June 2018 would show a gain of €251.2m (€203.7m).

Debt securities in issue declined from €18,871,032,000to €16,777,290,000, on new issuance of €1.8bn, redemptions and buybacks of €4bn (generating losses of €8.8m).

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

The heading "Debt securities in issue" includes the following seven subordinated Lower Tier 2 issues, for a total amount of €2,470,249,000:

Issue	**30/6/18**		
	ISIN code	**Nominal value**	**Book value**
MB GBP Lower Tier II Fixed/Floating Rate Note 2018 (Non included in the regolatory capital)	XS0270002669	21,739	24,620
MB Subordinato Mar 29	XS1579416741	50,000	50,476
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	615,570	665,668
MB OPERA 3.75 2026	IT0005188351	299,960	290,392
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	393,884	396,713
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	499,930	507,355
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	495,242	535,025
Total subordinated securities		2,376,325	2,470,249

3.3 Debt securities in issue: items subject to specific hedges

	30/6/18	**30/6/17**
1. Securities subject to micro-hedging of fair value:	12,099,153	12,430,548
a) Interest rate risk	12,099,153	12,430,548
b) Currency risk	—	—
c) Multiple risks	—	—
2. Securities subject to micro-hedging of cash flows:	—	—
a) Interest rate risk	—	—
b) Currency risk	—	—
c) Other	—	—
Total	12,099,153	12,430,548

SECTION 4

Heading 40: Trading liabilities

4.1 Trading liabilities: composition

Type of transaction/Values	30/6/18					30/6/17				
	Nominal values	Fair Value			Fair Value *	Nominal values	Fair Value			Fair Value *
		Level1	Level2	Level3			Level1	Level2	Level3	
A. Financial liabilities										
1. Deposits from banks	2,081,829	2,399,210	—	—	2,399,210	1,456,852	1,710,400	182	—	1,710,582
2. Deposits from customers	213,819	246,452	—	—	246,452	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)	2,295,648	2,645,662	—	—	2,645,662	1,901,858	2,232,852	237	—	2,233,089
B. Derivative instruments										
1. Financial derivatives	—	561,257	1,983,295	87,131	2,631,683	—	497,352	2,622,063	83,015	3,202,430
1.1 Trading	X	561,257	1,896,136	83,713 [1]	X	X	497,352	2,305,314	74,114 [1]	X
1.2 Related with fair value option	X	—	—	—	X	X	—	—	—	X
1.3 Other	X	—	87,159	3,418 [2]	X	X	—	316,749	8,901 [2]	X
2. Credit derivatives	—	—	1,233,135	—	1,233,135	—	—	423,515	127	423,642
2.1 Trading	X	—	1,233,135	—	X	X	—	423,515	127	X
2.2 Related with fair value option	X	—	—	—	X	X	—	—	—	X
2.3 Other	X	—	—	—	X	X	—	—	—	X
Total (B)	X	561,257	3,216,430	87,131	X	X	497,352	3,045,578	83,142	X
Total (A+B)	X	3,206,919	3,216,430	87,131	X	X	2,730,204	3,045,815	83,142	X

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

[1] Respectively €72,603,000 and €65,407,000 for options traded, matching the amount recorded among assets held for trading.

[2] Includes the market value (€1.9m at 30/6/18 and €7.4m at 30/6/17) of options covering options matched with bonds issued by Mediobanca and Mediobanca International, against the same amount recorded among assets held for trading.

SECTION 6

Heading 60: Hedging derivatives

6.1 Hedging derivatives: by type of hedge/ranking

	30/6/18				30/6/17			
	Fair Value			Nominal value	Fair Value			Nominal value
	Level1	Level2	Level3		Level1	Level2	Level3	
A. Financial derivatives	—	220,713	—	9,235,466	—	498,679	—	9,577,633
1) Fair value	—	220,713	—	9,235,466	—	463,108	—	9,337,614
2) Cash flow	—	—	—	—	—	35,571	—	240,019
3) Net investment in foreign subsidiaries	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	—	220,713	—	9,235,466	—	498,679	—	9,577,633

6.2 Hedging derivatives: by portfolio hedged/hedge 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	52,303	—	—	—	—	X	—	X	X
2. Loans and advances	40,247	—	—	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	92,550	—	—	—	—	—	—	—	—
1. Financial liabilities	128,163	—	—	X	—	X	—	X	X
2. Portfolio	X	X	X	X	X	—	X	—	X
Total liabilities	128,163	—	—	—	—	—	—	—	—
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 13.

SECTION 10

Heading 100: Other liabilities

10.1 Other liabilities: composition

	30/6/18	30/6/17
1. Payments agreements (IFRS2)	—	—
2. Impaired endorsements	23,658	67,793
3. Working capital payables and invoices pending receipts	33,645	28,439
4. Prepaid expenses other than capitalized expenses or related financial assets	3,509	959
5. Amounts due to revenue authorities	26,226	8,301
6. Amounts due to staff	119,030	100,344
7. Other items	71,789	12,709
- coupons and dividends pending collection	2,324	2,286
- available sum payable to third parties	4,489	10,358
- fiscal consolidation	63,918	—
- other	1,058	65
Total	277,857	218,545

SECTION 11

Heading 110: Staff severance indemnity provision

11.1 Staff severance indemnity provision: changes during the period

	30/6/18	30/6/17
A. Opening balance	8,860	9,603
B. Increases	2,245	2,465
B.1 Provision of the year	1,246	2,465
B.2 Other increases	999	—
C. Reductions	3,382	3,208
C.1 Severance payments	2,687	675
C.2 Other decreases [1]	695	2,533
D. Closing balance	7,723	8,860
Total	7,723	8,860

[1] Includes €52,000 in transfers to external, defined contribution pension schemes (30/6/17: €2,197,000).

11.2 Other information

The staff severance indemnity provision, calculated in accordance with the provisions of the Italian Civil Code, amounts to €7,259,000 (€8,494,000); no new service costs accrued for the year.

In order to calculate the actuarial value, the provision has been adjusted in line with a rate of 1.45% for the current year, and discounted using the IBOXX Eurozone Corporate AA index (for a panel of comparable companies), with an effect (interest cost) of €128,000.

SECTION 12

Heading 120: Provisions

12.1 Provisions: composition

Items	30/6/18	30/6/17
1. Provision to retirement payments and similar	—	—
2. Other provisions	97,786	96,808
2.1 Staff expenses	3,834	—
2.2 Other	93,952	96,808
Total	97,786	96,808

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

As at 30 June 2018, the heading "Other provisions" totalled €97.8m, €3.8m of which to cover personnel expenses in relation to staff reorganization schemes, and €94m for litigation and other contingent liabilities. No provisions have been set aside in respect of disputes with the Italian revenue authorities.

The most significant litigation still pending against Mediobanca consists of the two requests for damages made respectively by:

– Fondazione Monte dei Paschi di Siena ("FMPS"): against the former directors of FMPS and Mediobanca, jointly with thirteen other banks. The liability with which the banks are charged is non-contractual, and consists of alleged participation in the former FMPS directors' contractual liability for damages caused to FMPS with the execution of the Term Facility Agreement on 4 June 2011 and the consequent breach of FMPS's Articles of Association (20% limit on debt/equity ratio) in a total amount of €286m. Judgement is currently pending at the court of Florence, and the next hearing has been set for 27 September 2018 to discuss whether or not authorization is needed from the Italian ministry for the economy and finance for FMPS to initiate proceedings against its former directors and the other preliminary enquiries, including the preliminary exemption for arbitration at the London Court of International Arbitration (LCIA) in Paris.
– Lucchini S.p.A. in extraordinary administration ("Lucchini"): against twelve banks, including Mediobanca, for their alleged involvement in the financial disaster which affected the company on account of their having compiled and implemented a business and financial plan for Lucchini based on estimates alleged to have been unrealistic as well as a restructuring agreement pursuant to Article 182-bis of the Italian bankruptcy law which included unbalanced guarantees in favour of the banks, leading to a delay in Lucchini entering the extraordinary administration procedure. The first hearing has been set for 30 October 2018.

With reference to Private Banking division, a claim is pending for damages to costumers for a total amount in the region of €0.9m.

With reference to the disputes outstanding with the Italian revenue authorities as at 2018, the Bank had only one claim outstanding, regarding its alleged failure to apply withholding tax in granting a medium-/long-term loan to a non-Italian counterparty, involving higher tax worth a notified amount of €375,000. The Bank was successful at the second stage of the ruling process but the appeal submitted by the Italian tax authority is still pending at the Court of Cassation.

Mediobanca believes that the provisions are adequate to cover any charges due in connection with all 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 IAS37, paragraph 92, no precise indication has been given.

12.2 Provisions for risks and charges: movements during the period

	Charges relating to staff	**Other provisions**	**Total**
A. Opening balance	—	96,808	96,808
B. Increases	6,406	9,213	15,619
B.1 Provision for the year	2,000	8,708	10,708
B.2 Changes due to the passage of time	—	—	—
B.3 Difference due to discount rate changes	—	—	—
B.4 Other increases	4,406	505	4,911
C. Decreases	2,572	12,069	14,641
C.1 Use during the year	2,572	12,069	14,641
C.2 Difference due to discount rate changes	—	—	—
C.3 Other decreases	—	—	—
D. Closing balance	3,834	93,952	97,786

SECTION 14

Headings 130, 150, 160, 170, 180, 190 and 200: Net equity

14.1 "Capital" and "treasury shares": composition

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

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

Item/type	Ordinary
A. Shares in issue at the beginning of the 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 the beginning of the period	865,454,147
B. Increases	12,381,460
B.1 New share issuance as a result of:	5,337,782
- rights issues	—
- business combinations	—
- bond conversions	—
- exercise of warrants	—
- others	—
- bonus issues	5,337,782
- to staff members	5,337,782
- to Board members	—
- others	—
B.2 Treasury share disposals	7,043,678
B.3 Other increases	—
C. Decreases	—
C.1 Cancellations	—
C.2 Treasury share buybacks	—
C.3 Disposals of businesses	—
C.4 Other decreases	—
D. Shares in issue: balance at end of period	877,835,607
D.1 Add: treasury shares	8,714,833
D.2 Shares in issue at end of period	886,550,440
- entirely unrestricted	886,550,440
- with restrictions	—

14.3 Share capital: other information

The reduction in treasury shares is due to the use of 7,021,953 ordinary Mediobanca shares delivered by way of partial consideration for the RAM Active Investments acquisition in February 2018. A total of 21,725 treasury shares were also awarded to staff in the course of the financial year under review, in connection with the performance share scheme; as at 30 June 2018 there are no other treasury shares tied to awards of any kind.

14.4 Net equity: available and distributable reserves (Article 2427 of the Italian Civil Code, para. 7-bis)

	Amount	Possible uses	Portion available	Summary of uses over three previous years	
				To cover losses	Other
Share capital	443,275	—	—	—	—
Share premium reserve	2,191,743	A – B – C	2,191,743	—	—
Reserves:					
- Legal reserve	88,124	B	88,124	—	—
- Statutory reserve	1,284,471	A – B – C	1,284,471	—	33,733
- Treasury share reserve	109,338	A – B – C	109,338	—	—
- Other reserves	810,906	A – B – C	810,906	—	—
Valuation reserves:					
- AFS securities	126,665	—	—	—	—
- Cash flow hedges	(2,579)	—	—	—	—
- Special laws	9,632	A – B – C	9,632	—	—
- Treasury shares	(3,764)	—	—	—	—
- Own shares	(109,338)	—	—	—	—
Total	4,948,473	—	4,494,214	—	33,733
Portion unavailable	—	—	197,462	—	—
Remainder distributable	—	—	4,296,752	—	—

Legend:
A: Due to rights issues
B: To cover losses
C: Distribution to shareholders.

Other information

1. Guarantees and commitments

Operations	30/6/18	30/6/17
1) Financial guarantees given to	6,127,832	4,424,675
a) Banks	2,554,934	1,546,552
b) Customers	3,572,898	2,878,123
2) Commercial guarantees given to	77,160	66,812
a) Banks	19,598	12,497
b) Customers	57,562	54,315
3) Irrevocable commitments to disburse funds	10,234,617	9,569,083
a) Banks	1,118,165	1,746,782
i) usage certain	1,118,165	1,746,782
ii) usage uncertain	—	—
b) Customers	9,116,452	7,822,301
i) usage certain	8,286,231	7,621,534
ii) usage uncertain	830,221	200,767
4) Commitments underlying credit derivatives protection sales [1]	19,593,735	11,686,393
5) Assets formed as collateral for third-party obligations	—	—
6) Other commitments	3,094,714	2,482,442
Total	39,128,058	28,229,405

[1] Includes transactions fully matched by hedge buys (€9,075,742,000 and €4,997,186,000 respectively).

2. Assets pledged as collateral for own liabilities and commitments

Portfolio	30/6/18	30/6/17
1. Financial instruments held for trading	3,089,233	2,489,838
2. Financial instruments designated at fair value	—	—
3. Financial instruments available for sale	1,823,019	2,750,235
4. Financial instruments held to maturity	1,262,240	1,260,208
5. Loans and receivables with banks	691,165	669,368
6. Loans and receivables with customers	4,966,219	5,199,924
7. Property, plant and equipment	—	—

4. Assets managed and traded on behalf of customers

Type of service	30/6/18	30/6/17
1. Orders execution on behalf of customers	33,181,966	29,733,276
a) purchases	16,781,419	14,899,875
1. settled	16,633,525	14,754,760
2. unsettled	147,894	145,115
b) sales	16,400,547	14,833,401
1. settled	16,252,653	14,688,286
2. unsettled	147,894	145,115
2. Portfolio management [1]	3,864,382	—
a) Individual	3,864,382	—
b) Collective	—	—
3. Custody and administration of securities [2]	41,994,255	33,499,344
a) Third-party securities on deposits; relating to depositary banks activities (excluding segregating accounts)	8,894,582	9,678,117
1. securities issued by companies included in area of consolidation	194,759	297,405
2. other securities	8,699,823	9,380,712
b) Third-party securities held in deposits (excluding segregating accounts): other	5,054,619	—
1. securities issued by companies included in area of consolidation	—	—
2. other securities	5,054,619	—
c) securities of third deposited to third	13,673,186	8,757,803
d) property securities deposited to third	14,371,868	15,063,424
4. Other operations *	1,934,851	—

Entirely attributable to the new Private Banking division (formerly Banca Esperia).

[1] This item as at 30/6/17 includes €12.1bn deriving from the Banca Esperia acquisition, since merged into Mediobanca S.p.A.

[2] This item as at 30/6/17 includes €7.8bn deriving from the Banca Esperia acquisition, since merged into Mediobanca S.p.A.

5. Financial assets subject to netting or master agreements or similar arrangements

Instrument type	Gross amount of financial assets (a)	Financial liabilities offset in Balance Sheet (b)	Net Balance Sheet value of financial assets (c=a-b)	Related amounts not recognised in Balance Sheet		Net amount 30/6/18 (f=c-d-e)	Net amount 30/6/17
				Financial instruments (d)	Cash collateral received (e)		
1. Derivatives	3,211,541	—	3,211,541	2,395,795	366,897	448,849	484,555
2. Repos	5,348,747	—	5,348,747	5,348,747	—	—	—
3. Securities lending	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—
Total 30/6/18	8,560,288	—	8,560,288	7,744,542	366,897	448,849	X
Total 30/6/17	9,156,040	—	9,156,040	8,342,828	328,657	X	484,555

6. Financial liabilities subject to netting or master agreements or similar arrangements

Forme tecniche	Gross amounts of financial liabilities (a)	Financial assets offset in Balance Sheet (b)	Net Balance Sheet value of financial liabilities (c=a-b)	Related amount not recognised in Balance Sheet		Net amount 30/6/18 (f=c-d-e)	Net amount 30/6/17
				Financial instruments (d)	Cash collateral pledged (e)		
1. Derivatives	3,130,349	49,050	3,081,299	2,395,795	451,846	233,658	406,914
2. Repos	5,031,537	—	5,031,537	5,031,537	—	—	—
3. Securities lending	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—
Total 30/6/18	8,161,886	49,050	8,112,836	7,427,332	451,846	233,658	X
Total 30/6/17	7,027,133	38,687	6,988,446	6,130,344	451,188	X	406,914

Part C - Notes to individual profit and loss account

SECTION 1

Headings 10 and 20: Net interest income

1.1 Interest and similar income: breakdown

Voices/Technical forms	Debt securities	Loans	Other transactions	12 mths ended 30/6/18	12 mths ended 30/6/17
1. Financial assets held for trading - Cash Instruments	9,670	1,486	—	11,156	24,164
2. Available for sale financial assets	55,478	—	—	55,478	72,918
3. Held to maturity investments	40,212	—	—	40,212	42,812
4. Loans and receivables with banks	5,201	259,443	—	264,644	275,136
5. Loans and receivables with customers	52,773	194,581	—	247,354	238,676
6. Financial assets designated at fair value through profit or loss	—	—	—	—	—
7. Hedging derivaives	X	X	125,758	125,758	149,457
8. Other assets	X	X	18,100	18,100	9,955
Total	163,334	455,510	143,858	762,702	813,118

Last year, Banca Esperia contribute to interest income was equal to €15.7m.

1.2 Interest and similar income: differences arising on hedging transactions

Items	12 mths ended 30/6/18	12 mths ended 30/6/17
A. Positive differentials related to hedging operations	1,535,920	336,138
B. Negative differentials related to hedging operations	(1,410,162)	(186,681)
C. Net differentials (A-B)	125,758	149,457

1.3 Interest and similar income: other information

Items	12 mths ended 30/6/18	12 mths ended 30/6/17
Interest income from currency assets	71,112	61,834
Interest income from leasing	—	—
Interest income on receivables involving customers' funds held on a discretionary basis	—	—
Total	71,112	61,834

1.4 Interest expense and similar charges: breakdown

Voices/Technical forms	Debts	Securities	Other transactions	12 mths ended 30/6/18	12 mths ended 30/6/17
1. Deposits from central banks	(714)	X	—	(714)	(1,768)
2. Deposits from banks	(203,667)	X	—	(203,667)	(216,750)
3. Deposits from customers	(5,578)	X	—	(5,578)	(259)
4. Debt securities in issue	X	(453,987)	—	(453,987)	(516,745)
5. Financial liabilities held for trading	—	—	—	—	—
6. Financial liabilities at fair value through profit or loss	—	—	—	—	—
7. Other liabilities and found	X	X	(3,672)	(3,672)	(6,480)
8. Hedging derivatives	X	X	—	—	—
Total	(209,959)	(453,987)	(3,672)	(667,618)	(742,002)

Last year, Banca Esperia contribute to interest expense was equal to €5.6m.

1.6 Interest expense and similar charges: other information

Items	12 mths ended 30/6/18	12 mths ended 30/6/17
Interest expense on liabilities held in foreign currency	(76,144)	(59,145)
Interest expense on finance lease transactions	—	—
Interest payable on customers' funds held on a non-discretionary basis	—	—
Total	(76,144)	(59,145)

SECTION 2

Headings 40 and 50: Net fee and commission income

2.1 Fee and commission income: breakdown

Type of services/Values	12 mths ended 30/6/18	12 mths ended 30/6/17
a) guarantees given	5,773	6,284
b) credit derivatives	—	—
c) management, brokerage and consultancy services:	137,239	107,258
1. securities trading	12,343	13,018
2. currency trading	—	—
3. portfolio management	24,122	—
3.1 individual	24,122	—
3.2 collective	—	—
4. custody and administration of securities	1,127	—
5. custodian bank	7,458	7,458
6. placement of securities	72,554	86,500
7. reception and transmission of orders	3,748	282
8. advisory services	5,672	—
8.1 related to investments	5,672	—
8.2 related to financial structure	—	—
9. distribution of third parties services	10,215	—
9.1 portfolio management	7,356	—
9.1.1 individual	832	—
9.1.2 collective	6,524	—
9.2 insurance products	2,859	—
9.3 other products	—	—
d) collection and payment services	159	—
e) securitization servicing	—	—
f) factoring services	—	—
g) tax collection services	—	—
h) manaement of multilateral trading facilities	—	—
i) management of current accounts	435	—
j) other services	141,087	105,596
Total	284,693	219,138

Last year, Banca Esperia contribute to commission income was equal to €48.3m, split into funds asset management (€22m), advisory activity (€5.8m) and distribution of third-party services (€7.3m).

2.2 Fee and commission income: by product/service distribution channel

Canals/Values	12 mths ended 30/6/18	12 mths ended 30/6/17
a) through Group bank branches	106,891	86,500
1. portfolio management	24,122	—
2. placement of securities	72,554	86,500
3. others' products and services	10,215	—
b) off-site	—	—
1. portfolio management	—	—
2. placement of securities	—	—
3. others' products and services	—	—
c) other distribution channels	—	—
1. portfolio management	—	—
2. placement of securities	—	—
3. others products and services	—	—

2.3 Fee and commission expense: breakdown

Services/Amounts	12 mths ended 30/6/18	12 mths ended 30/6/17
a) guarantees received	—	—
b) credit derivatives	—	—
c) management, brokerage and consultancy services:	(11,471)	(7,309)
1. trading in financial instruments	(3,786)	(3,785)
2. currency trading	—	—
3. portfolio management	(3,309)	—
3.1 own portfolio	(3,309)	—
3.2 third parties portfolio	—	—
4. custody and administration securities	(1,501)	(1,312)
5. financial instruments placement	(2,875)	(2,212)
6. off-site distribution of financial instruments, products and services	—	—
d) collection and payment services	(3,556)	(3,316)
e) other services	(11,108)	(6,283)
Total	(26,135)	(16,908)

Last year, Banca Esperia contribute to commission expense was equal to €3.5m.

SECTION 3

Heading 70: Dividends and similar income

3.1 Dividends and similar income: breakdown

Items/Income	12 mths ended 30/6/18		12 mths ended 30/6/17	
	Dividends	Incomes from units in investment funds	Dividends	Incomes from units in investment funds
a) Financial assets held for trading	61,455	729	63,602	777
b) Available for sale financial assets	2,953	18,946	14,058	2,639
c) Financial assets at fair value through profit or loss	—	—	—	—
d) Investments	177,506	X	162,172	X
Total	241,914	19,675	239,832	3,416

SECTION 4

Heading 80: Net trading income

4.1 Net trading income: breakdown

Transaction/Income	Unrealized profit (A)	Realized profit (B)	Unrealized loss (C)	Realized loss (D)	Net Profit (A+B)-(C+D)
1. Financial assets held for trading	122,457	240,923	(241,935)	(277,792)	(156,347)
1.1 Debt securities	85,792	40,109	(91,056)	(37,673)	(2,828)
1.2 Equity	33,626	197,586	(149,419)	(212,377)	(130,584)
1.3 Units in investment funds	3,039	1,749	(1,151)	(27,742)	(24,105)
1.4 Loans	—	1,479	(309)	—	1,170
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	(10,949)
4. Derivatives	2,338,557	1,743,901	(2,275,476)	(1,645,924)	204,355
4.1 Financial derivatives	2,079,723	1,256,528	(1,310,075)	(1,182,178)	887,295
- on debt securities and interest rates [1]	1,387,469	256,841	(729,346)	(230,350)	684,614
- on equity securities and shares' indexes	692,254	960,111	(580,729)	(951,828)	119,808
- on currencies and gold	X	X	X	X	43,297
- other [2]	—	39,576	—	—	39,576
4.2 Credit derivatives	258,834	487,373	(965,401)	(463,746)	(682,940)
Total	2,461,014	1,984,824	(2,517,411)	(1,923,716)	37,059

[1] Of which minus €3,388,000 in margins on interest rate derivatives (30/6/17: minus €2,579,000).

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

SECTION 5

Heading 90: Net hedging income (expense)

5.1 Net hedging income (expense): breakdown

Income elements/Amounts	12 mths ended 30/6/18	12 mths ended 30/6/17
A. Incomes from:		
A.1 Fair value hedging instruments	499,777	333,406
A.2 Hedged asset items (in fair value hedge relationships)	27,938	22,995
A.3 Hedged liability items (in fair value hedge relationship)	79,090	250,394
A.4 Cash-flows hedging derivatives (including ineffectiveness of net investment hedge)	—	—
A.5 Assets and liabilities denominated in currency (not derivative hedging instruments)	—	—
Total gains on hedging activities (A)	606,805	606,795
B. Losses on:		
B.1 Fair value hedging instruments	(479,784)	(484,123)
B.2 Hedged asset items (in fair value hedge relationships)	(63,163)	(62,531)
B.3 Hedged liability items (in fair value hedge relationship)	(63,036)	(49,486)
B.4 Cash-flows hedging derivatives (including ineffectiveness of net investment hedge)	—	—
B.5 Assets and liabilities denominated in currency (not derivative hedging instruments)	—	—
Total losses on hedging activities (B)	(605,983)	(596,140)
C. Net profit from hedging activities (A-B)	822	10,655

SECTION 6

Heading 100: Gains (losses) on disposals/repurchases

6.1 Gains (losses) on disposals/repurchases: breakdown

Items/Income	12 mths ended 30/6/18			12 mths ended 30/6/17		
	Gains	Losses	Net profit	Gains	Losses	Net profit
Financial assets						
1. Loans and receivables with banks	5,502	(7,350)	(1,848)	—	(5,570)	(5,570)
2. Loans and receivables with customers	5,232	(1,800)	3,432	933	(680)	253
3. Financial assets available for sale	130,090	(10,294)	119,796	187,826	(13,749)	174,077
3.1 Debt securities	33,682	(10,178)	23,504	26,215	(13,749)	12,466
3.2 Equity instruments	94,241	—	94,241	161,611	—	161,611
3.3 Units in investment funds	2,167	(116)	2,051	—	—	—
3.4 Loans	—	—	—	—	—	—
4. Financial assets held to maturity	462	(1,381)	(919)	3,413	(1,432)	1,981
Total assets	141,286	(20,825)	120,461	192,172	(21,431)	170,741
Financial liabilities						—
1. Deposits with banks	1,097	—	1,097	—	—	—
2. Deposits with customers	—	—	—	—	—	—
3. Debt securities in issue	—	(8,805)	(8,805)	—	(18,367)	(18,367)
Total liabilities	1,097	(8,805)	(7,708)	—	(18,367)	(18,367)

Losses on debt securities (available-for-sale and held-to-maturity securities) relate almost entirely to the exchange-rate valuation of foreign-currency bonds (€11.6m, €10.2m of which for AFS securities).

SECTION 8

Heading 130: Adjustments for impairment

8.1 Net value adjustments for impairment: breakdown

Transactions/Income	Writedowns			Writebacks				12 mths ended 30/6/18	12 mths ended 30/6/17
	Specific		Portfolio	Specific		Portfolio			
	Write - offs	Others		A	B	A	B		
A. Loans and receivables with banks									
- Loans	—	—	—	—	—	—	771	771	(522)
- Debt receivables	—	—	—	—	—	—	—	—	—
B. Loans and receivables with customers									
Deteriorated purchased receivables									
- Loans	—	—	X	—	—	X	X	—	—
- Debt securities	—	—	X	—	—	X	X	—	—
Other receivables									
- Loans	—	(4,677)	—	—	23,153	—	14,475	32,951	3,478
- Debt securities	—	—	—	—	—	—	666	666	(1,183)
C. Total	—	(4,677)	—	—	23,153	—	15,912	34,388	1,773

Legend

A = interest

B = other amounts recovered.

8.2 Net value adjustments for impairment to AFS securities: breakdown

Transactions/Income	Adjustments		Reversals of impairment losses		12 mths ended 30/6/18	12 mths ended 30/6/17
	Specific		Specific			
	Write - offs	Others	A	B		
A. Debt securities	—	—	—	—	—	—
B. Equity instruments	—	(70)	X	X	(70)	(816)
C. Units in investment funds	—	(1,778)	X	—	(1,778)	(53)
D. Loans to banks	—	—	—	—	—	—
E. Loans to customers	—	—	—	—	—	—
Total	—	(1,848)	—	—	(1,848)	(869)

Legend

A = interest

B = other amounts recovered.

8.3 Net value adjustments for impairment to financial assets held to maturity: breakdown

Transactions/Income	Writedowns			Writebacks				12 mths ended 30/6/18	12 mths ended 30/6/17
	Specific		Portfolio	Specific		Portfolio			
	Writeoffs	Others		A	B	A	B		
A. Debt securities	—	—	—	—	—	—	2,971	2,971	(3,185)
B. Loans to banks	—	—	—	—	—	—	—	—	—
C. Loans to customers	—	—	—	—	—	—	—	—	—
D. Total	—	—	—	—	—	—	2,971	2,971	(3,185)

Legend

A = interest

B = other amounts recovered.

8.4 Net value adjustments for impairment to other financial transactions: breakdown

Transactions/Income	Writedowns			Writebacks				12 mths ended 30/6/18	12 mths ended 30/6/17
	Specific		Portfolio	Specific		Portfolio			
	Writeoffs	Others		A	B	A	B		
A. Guarantees given	—	(73)	(2,770)	—	15,769	—	—	12,926	4,758
B. Credit derivatives	—	—	—	—	—	—	—	—	—
C. Commitments to disburse funds	—	(315)	(3,040)	—	1,750	—	—	(1,605)	6,495
D. Other transactions	—	—	—	—	—	—	—	—	—
E. Total	—	(388)	(5,810)	—	17,518	—	—	11,321	11,253

Legend

A = interest

B = other amounts recovered.

SECTION 9

Heading 150: Administrative expenses

9.1 Personnel costs: breakdown

Type of expense/Amounts	12 mths ended 30/6/18	12 mths ended 30/6/17
1) Employees	(224,479)	(185,137)
a) wages and salaries	(162,826)	(131,757)
b) social security contributions	(34,976)	(28,179)
c) severance pay (only for Italian legal entities)	—	—
d) social security costs	—	—
e) allocation to employees severance pay provision	(5,513)	(4,172)
f) provision for retirement and similar provisions	—	—
- defined contribution	—	—
- defined benefits	—	—
g) payments to external pension funds	(7,019)	(6,427)
- defined contribution	(7,019)	(6,427)
- defined benefits	—	—
h) expenses resulting from share-based payments	(10,300)	(11,545)
i) other employees' benefits	(3,845)	(3,057)
2) Other staff	(5,186)	(4,994)
3) Directors and Statutory Auditors	(3,464)	(3,403)
4) Early retirement costs	(5,832)	(6,500)
5) Recovery of expenses for employees seconded to other companies	1,135	1,136
6) Reimbursement of cost of third-party employees seconded to the Bank	—	—
Total	(237,826)	(198,898)

Last year, Banca Esperia contribute to personnel costs was equal to €55.4m.

9.2 Average number of staff by category

	12 mths ended 30/6/18	12 mths ended 30/6/17
Employees		
a) Senior managers	247	179
b) Managers	567	462
c) Remaining employees staff	174	130
Other staff	110	83
Total	1,098	854

Last year, Banca Esperia total number of staff was equal to 245 employees (of which 87 senior executives) and 10 other staff.

9.5 Other administrative expenses: breakdown

	12 mths ended 30/6/18	12 mths ended 30/6/17
OTHER ADMINISTRATIVE EXPENSES		
– legal, tax and professional services	(34,209)	(27,615)
– loan recovery activity	—	—
– marketing and communications	(4,855)	(2,944)
– property	(11,374)	(8,165)
– EDP	(52,763)	(43,537)
– info-provider	(19,486)	(17,991)
– bank charges, collection and payment fees	(1,914)	(1,411)
– operating expenses	(6,586)	(5,950)
– other staff expenses	(11,926)	(8,994)
– other costs [1]	(44,231)	(75,896)
– indirect and other taxes	(5,064)	(5,410)
Total other administrative expenses	(192,408)	(197,913)

[1] Includes €30,700,000 (30/6/17: €62,800,000) transfer to Single Resolution Fund (SRF).

Last year, Banca Esperia contribute to administrative expenses was equal to €25.7m, and main components were: expenses for legal, fiscal and professional services (€6m), real-estates related expenses (€3.6m) and ongoing expenses (€5.8m).

SECTION 10

Heading 160: Net transfers to provisions

10.1 Net transfers to provisions: breakdown

	12 mths ended 30/6/18	12 mths ended 30/6/17
Net transfers to provisions for risks and charges - legal expenses	—	—
Net transfers to provisions for risks and charges - promotional commitment	—	—
Net transfers to provisions for risks and charges - certain or probable exposures or commitments	995	15,000
Total transfers to provisions for risks and charges	995	15,000

SECTION 11

Heading 170: Net adjustments to tangible assets

11.1 Net adjustments to tangible assets: breakdown

Assets/Income	Depreciation (a)	Impairment losses (b)	Write - backs (c)	Net result (a+b+c)
A. Property, plant and equipment				
A.1 Owned	(3,504)	—	—	(3,504)
- For operational use	(3,090)	—	—	(3,090)
- For investment	(414)	—	—	(414)
A.2 Acquired through finance lease	—	—	—	—
- For operational use	—	—	—	—
- For investment	—	—	—	—
Total	(3,504)	—	—	(3,504)

SECTION 12

Heading 180: Net adjustments to intangible assets

12.1 Net adjustments to intangible assets: breakdown

Asset/Income	Depreciation (a)	Impairment losses (b)	Write - backs (c)	Net result (a + b - c)
A. Intangible assets				
A.1 Owned	(8,345)	—	—	(8,345)
- Software	—	—	—	—
- Other	(8,345)	—	—	(8,345)
A.2 Acquired under finance lease	—	—	—	—
Total	(8,345)	—	—	(8,345)

SECTION 13

Heading 190: Other operating income (expense)

13.1 Other operating expense: breakdown

Income-based components/values	12 mths ended 30/6/18	12 mths ended 30/6/17
a) Leasing activity	—	—
b) Sundry costs and expenses	(6,741)	(3,013)
Total	(6,741)	(3,013)

13.2 Other operating income: breakdown

Income-based components/values	12 mths ended 30/6/18	12 mths ended 30/6/17
a) Amounts recovered from customers	271	793
b) Other income	19,205	15,412
Total	19,476	16,205

SECTION 14

Heading 210: Gains (losses) on equity investments

14.1 Gains (losses) on equity investments: breakdown

Income/Value	12 mths ended 30/6/18	12 mths ended 30/6/17
A. Incomes	—	1,958
1. Revaluations	—	—
2. Gains on disposal	—	1,958
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	(309)	(2,884)
1. Writedowns	—	—
2. Impairment losses	(309)	(2,884)
3. Losses on disposal	—	—
4. Other expenses	—	—
Total	(309)	(926)

SECTION 18

Heading 260: Income tax on ordinary activities

18.1 Income tax on ordinary activities: breakdown

Income components/Sectors	12 mths ended 30/6/18	12 mths ended 30/6/17
1. Current tax expense (-)	(28,943)	(12,699)
2. Changes of current tax expense of previous years (+/-)	—	—
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 (+/-)	(27,936)	(17,090)
5. Changes of deferred tax liabilities (+/-)	9,879	(211)
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(47,000)	(30,000)

18.2 Reconciliation between theoretical and effective tax burden

	12 mths ended 30/6/18	
	Amounts %	Absolute value
Total profit or loss before tax from current operations	100.0%	383,413
Theoretical tax rate	27.50%	105,438
Dividends (-)	-12.49%	(47,906)
Gains on disposals of equity investments (PEX) (-)	-6.13%	(23,502)
Gains on equity-accounted investments (-)	—	—
Changes in deferred tax for previous years (-)	—	—
Other taxes (non-Italian companies) (+/-)	—	—
Non-taxable income 10% IRAP (-)	-0.11%	(404)
Interest on exempt securities (-)	—	—
Tax losses (-)	—	—
Tax sparing credit (-)	-0.06%	(233)
Non-deductible interest expense 3% (+)	—	—
Benefit from tax consolidation (-)	—	—
Impairment (+/–)	0.03%	104
Extraordinary items (rate adjustments, …)	—	—
Other differences (+/-)	0.78%	3,003
TOTAL IRES	9.52%	36,500
IRAP	2.74%	10,500
TOTAL HEADING [1]	12.26%	47,000

[1] Compared with a tax rate of 8.61% in the previous financial year.

SECTION 21

Earnings per share

21.1 Average number of ordinary shares on a diluted basis

	12 mths ended 30/6/18	12 mths ended 30/6/17
Net profit	337,034	318,326
Avg. no. of shares in issue	859,633,153	854,445,929
Avg. no. of potentially diluted shares	5,738,709	9,508,213
Avg. no. of diluted shares	865,371,862	863,954,142
Earnings per share	0.39	0.37
Earnings per share, diluted	0.39	0.37

Part D – Comprehensive Profit and Loss Account

Breakdown of Comprehensive Profit and Loss Constituents

Items	Before tax effect	Tax effect	After tax effect
10. Profit (loss) for the period	**X**	**X**	**337,034**
Other comprehensive income without passing through profit and loss			
20. Property, plant and equipment	—	—	—
30. Intangible assets	—	—	—
40. Defined benefits schemes	61	(18)	43
50. Non-current assets classified as held-for-sale	—	—	—
60. Valuation reserves from equity-accounted investments:	—	—	—
Other comprehensive income passing through profit and loss			**—**
70. Hedges of non-Italian investments:	—	—	—
a) changes in fair value:	—	—	—
b) reclassifications through profit and loss account	—	—	—
c) other variations	—	—	—
80. Exchange differences:	—	—	—
a) changes in fair value:	—	—	—
b) reclassifications through profit and loss account	—	—	—
c) other variations	—	—	—
90. Cash flow hedges:	32,993	(1,981)	31,012
a) changes in fair value:	32,993	(1,981)	31,012
b) reclassifications through profit and loss account	—	—	—
c) other variations	—	—	—
100. AFS securities:	(221,826)	35,558	(186,268)
a) changes in fair value:	(61,290)	15,797	(45,493)
b) reclassifications through profit and loss account	(160,536)	19,761	(140,775)
- due to impairment	—	—	—
- gain/losses on disposals	*(160,536)*	*19,761*	*(140,775)*
c) other variations	—	—	—
110. Non-current assets classified as held-for-sale:	—	—	—
a) changes in fair value:	—	—	—
b) reclassifications through profit and loss account	—	—	—
c) other variations	—	—	—
120. Valuation reserves from equity-accounted investments:	—	—	—
a) changes in fair value:	—	—	—
b) reclassifications through profit and loss account	—	—	—
- due to impairment	—	—	—
- gain/losses on disposals	—	—	—
c) other variations	—	—	—
130. Total other comprehensive income	**(188,772)**	**33,559**	**(155,213)**
140. Comprehensive income after tax (10 + 130)	**X**	**X**	**181,821**

Part E - Information on risks and related hedging policies

SECTION 1

Credit risk

QUALITATIVE INFORMATION

Description of risk governance organization

The Bank 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, risk management and internal control policies, and the Recovery Plan drawn up in accordance with the provisions of the Bank Recovery and Resolution Directive (Directive 2014/59/EU).

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

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

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

Within the framework of the risk governance system implemented by Mediobanca S.p.A., the following managerial committees have specific responsibilities in the processes of taking, managing, measuring and controlling risks: the Group Risk Management committee, with powers of consultation on matters of credit, issuer, operational and conduct risk, and executive powers on market risks; Lending and Underwriting committee, for credit, issuer and conduct risk; Group ALM committee and Operational ALM committee, for monitoring the Group's ALM risk-taking and management policy (treasury and funding) and approving the methodologies for measuring exposure to liquidity and interest rate risk and the internal fund transfer rate; the Investments committee for equity investments owned and banking book equities; the New Operations committee, for prior analysis of new operations and the possibility of entering new sectors, new products and the related pricing models; and the Operational risks committee, for management of operational risks in terms of monitoring risk profiles and defining mitigation actions; and the Private Investments Committee, with the duty of proposing the investment strategy to the Executive Committee and approving the asset classes which make up the investible universe, its composition, the top recommendations and model portfolio.

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 Group Risk Management unit, which reports directly to the Chief Executive Officer under the Group Chief Risk Officer's direction, consists of the following sub-units: i) Group Enterprise Risk Management & Supervisory Relations, which manages the integrated Group processes (ICAAP, RAF, Recovery Plan, support in strategic planning, etc.) and relations with the supervisory authorities, develops the quantitative methodologies for measuring and managing credit, market and counterparty risks, formulates the credit risk management policies, and is responsible for carrying out second-level controls; ii) Credit Risk Management, responsible for credit risk analysis, assigning internal ratings to counterparties and the loss-given default indicator; iii) Market and Liquidity Risk Management, which monitors market, counterparty, liquidity and interest rate risk on the banking book; iv) Operational Risk Management, responsible for developing and maintaining the systems for measuring and managing operational risks; v) Group Internal Validation, which defines the methodologies, processes, instruments and reporting for use in internal validation activities, and itself is responsible for validating the Group's risk measurement systems; vi) Wealth Risk Management, which manages risks related to the investment products and services offered to clients by the Group's Wealth Management division; vii) Risk Management London Branch, which is responsible for controlling risks and co-ordinating operations between the London front office teams and the various risk management sub-units based at Mediobanca S.p.A.

Establishment of risk appetite 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 Bank 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 AIRB models to calculate the regulatory capital requirements for credit risk, the Bank has been authorized by the supervisory authorities to calculate its capital requirements using its own internal rating system (based on the Probability of Default and Loss Given Default indicators) for the corporate loan book.

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 accordance with the Roll-Out Scheme, while currently adopting the Standardized methodology defined by the supervisory provisions in force for calculating regulatory capital, the Bank has also instituted internal rating models for credit risk in the Banks segment.

In accordance with Bank of Italy circular 272/08, 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.

Corporate lending

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 are analysed and assigned an internal rating, assigned by the Risk Management unit on the basis of internal models which takes into account the specific quantitative and qualitative characteristics of the counterparty concerned. Proposed transactions are also subject to the application of LGD models where appropriate.

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

The Credit Risk Management unit carries out a review of the ratings assigned to the counterparties at least once a year. Approved loans must also be confirmed by the approving body at least the same intervals, in accordance with the limits established by the Executive Committee's resolution in respect of operating powers.

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

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.

Private Banking (Mediobanca)

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

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

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

Provisioning for all non-performing is made on an individual basis, and takes into account the value of the real 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.

QUANTITATIVE INFORMATION

A. Credit quality

A.1 Non-performing and performing accounts: amounts, adjustments, trends, segmentation by earnings 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)	Other exposures (performing) *	Total
1. AFS securities	—	—	—	—	4,419,505	4,419,505
2. Financial assets held to maturity	—	—	—	—	2,595,142	2,595,142
3. Due from banks	—	—	—	—	19,553,431	19,553,431
4. Due from customers	—	343,366	627	13,559	18,368,446	18,725,998
5. Financial assets recognized at fair value	—	—	—	—	—	—
6. Financial assets being sold	—	—	—	—	—	—
Total 30/6/18	—	343,366	627	13,559	44,936,524	45,294,076
Total 30/6/17	—	371,736	—	—	44,428,139	44,799,875

* No performing exposures which are past due or subject to renegotiation under collective agreements.

Last year, Banca Esperia reported €0.2m in non-performing exposures past due and €30.7m in performing exposures past due.

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	—	—	—	4,419,505	—	4,419,505	4,419,505
2. Financial assets held to maturity	—	—	—	2,599,389	(4,247)	2,595,142	2,595,142
3. Due from banks	—	—	—	19,555,071	(1,640)	19,553,431	19,553,431
4. Due from customers	658,155	(314,162)	343,993	18,409,723	(27,718)	18,382,005	18,725,998
5. Financial assets recognized at fair value	—	—	—	X	X	—	—
6. Financial assets being sold	—	—	—	—	—	—	—
Total 30/6/18	658,155	(314,162)	343,993	44,983,688	(33,605)	44,950,083	45,294,076
Total 30/6/17	694,926	(323,190)	371,736	44,477,017	(48,878)	44,428,139	44,799,875

Asset portfolio/quality	Assets with obviously poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	—	7,881	6,426,632
2. Hedge derivatives	—	—	235,591
Total 30/6/18	—	7,881	6,662,223
Total 30/6/17	—	9,268	6,112,619

Information on exposures to sovereign debt

*A.1.2.a Exposures to sovereign debt securities by country/counterparty and portfolio**

Portfolio/quality	Non performing loans				Performing			Total (net exposure) [1]
	Gross exposure	Specific adjustments	Portfolio adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
1. Financial assets held for trading	—	—	—	—	X	X	(129,249)	(129,249)
Italy	—	—	—	—	X	X	165,202	165,202
Spain	—	—	—	—	X	X	219,896	219,896
Germany	—	—	—	—	X	X	(75,564)	(75,564)
France	—	—	—	—	X	X	(223,950)	(223,950)
Others	—	—	—	—	X	X	(214,833)	(214,833)
2. AFS securities	—	—	—	—	3,272,318	—	3,272,318	3,272,318
Italy	—	—	—	—	1,450,738	—	1,450,738	1,450,738
Germany	—	—	—	—	1,081,683	—	1,081,683	1,081,683
United States	—	—	—	—	386,845	—	386,845	386,845
France	—	—	—	—	201,993	—	201,993	201,993
Spain	—	—	—	—	151,059	—	151,059	151,059
3. Financial assets held to maturity	—	—	—	—	1,870,776	—	1,870,776	1,870,776
Italy	—	—	—	—	1,132,123	—	1,132,123	1,132,123
France	—	—	—	—	353,013	—	353,013	353,013
Spain	—	—	—	—	202,626	—	202,626	202,626
Germany	—	—	—	—	151,006	—	151,006	151,006
Others	—	—	—	—	32,008	—	32,008	32,008
Total at 30/6/18	—	—	—	—	5,143,094	—	5,013,845	5,013,845

* Does not include financial or credit derivatives.

[1] The net exposure includes positions in securities (long and short) recognized at fair value (including the outstanding accrual) except for assets held to maturity which are stated at amortized cost, the implied fair value of which is €2.2m.

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	157,933	165,202	2.64	2,526,550	2,582,861	2,573,011	2.53
Germany	(74,500)	(75,564)	2.21	1,175,000	1,232,689	1,234,185	4.01
Spain *	203,220	219,896	25.05	350,000	353,685	356,181	3.51
United States	—	—	—	386,001	386,845	386,845	1.76
France	(199,440)	(223,950)	2.71	550,000	555,006	558,249	2.75
Others	(212,827)	(214,833)	—	32,000	32,008	32,381	—
Total at 30/6/18	(125,614)	(129,249)		5,019,551	5,143,094	5,140,852	

* The figure does not include forward sales with a notional amount of €220m.

[1] Does not include sales of €518m on *Bund/Bobl/Schatz* futures (Germany), with a negative fair value of €4m; or sales of €136.8m on the *BPT* future (Italy) with a negative fair value of €3.0m. Net hedge buys of €637m have also not been included (€608m of which on France country risk and €28m on Italy country risk).

[2] Item does not include Greek GDP-linkers securities in a notional amount of €127m recorded at a fair value of €0.5m.

A.1.3 Cash and off-balance-sheet exposures: gross/net values

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	20,509,722	X	(1,814)	20,507,908
- of which: forborne exposures	*X*	*X*	*X*	*X*	—	*X*	—	—
Total A	—	—	—	—	20,509,722	—	(1,814)	20,507,908
B. OFF-BALANCE-SHEET EXPOSURES								
a) Non-performing	—	—	—	—	X	—	X	—
b) Performing [1]	X	X	X	X	61,050,474	X	—	61,050,474
Total B	—	—	—	—	61,050,474	—	—	61,050,474
Total (A+B)	—	—	—	—	81,560,196	—	(1,814)	81,558,382

[1] Balance as at 30/6/18 includes trades worth €9,075,742,000, fully matched by hedge buys.

A.1.6 Cash and off-balance-sheet exposures to customers: gross/net values length of time past due

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	1	—	—	3,824	X	(3,825)	X	—
- of which: forborne exposures	*—*	*—*	*—*	*—*	*X*	*—*	*X*	*—*
b) Unlikely to pay	649,477	—	4,115	—	X	(310,226)	X	343,366
- of which: forborne exposures	*646,502*	*—*	*4,115*	*—*	*X*	*(307,946)*	*X*	*342,671*
c) Overdue exposures (NPLs)	104	524	17	93	X	(111)	X	627
- of which: forborne exposures	*86*	*—*	*—*	*—*	*X*	*(8)*	*X*	*78*
d) Overdue exposures (performing)	X	X	X	X	13,592	X	(33)	13,559
- of which: forborne exposures	*X*	*X*	*X*	*X*	*—*	*X*	*—*	*—*
e) Other exposures (performing)	X	X	X	X	27,290,150	X	(31,758)	27,258,392
- of which: forborne exposures	*X*	*X*	*X*	*X*	*256,222*	*X*	*(6,090)*	*250,132*
Total A	649,582	524	4,132	3,917	27,303,742	(314,162)	(31,791)	27,615,944
B. OFF-BALANCE-SHEET EXPOSURES								
a) Non-performing	13,096	—	—	—	X	(3,830)	X	9,266
b) Performing	X	X	X	X	33,027,471	X	(19,829)	33,007,642
Total B	13,096	—	—	—	33,027,471	(3,830)	(19,829)	33,016,908
Total (A+B)	662,678	524	4,132	3,917	60,331,213	(317,992)	(51,620)	60,632,852

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

Descriptions/categories	Bad loans	Unlikely to pay	Overdue exposures (NPLs)
A. Gross exposure at the beginning of the period	—	694,926	—
- of which: exposures sold but not derecognized	—	—	—
B. Increases	3,908	32,572	1,213
B.1 transferred from performing exposures	—	—	884
B.2 transferred from other categories of non-performing exposure	—	—	—
B.3 other increases	3,908	32,572	329
C. Decreases	83	73,906	475
C.1 transferred to performing exposures	—	—	35
C.2 writeoffs	—	—	—
C.3 collections	83	62,995	440
C.4 amounts realized on disposals	—	9,492	—
C.5 losses incurred on disposals	—	1,419	—
C.6 transferred to other categories of non-performing exposure	—	—	—
C.7 other decreases	—	—	—
D. Gross exposure at end of period	3,991	653,592	1,688
- of which: exposures sold but not derecognized	—	—	—

A.1.7bis Cash exposures to customers: trends in gross exposures subject to forbearance measures, by credit quality

Descriptions/categories	Overdue exposures for which concessions have been made (NPLs)	Overdue exposures for which concessions have been made (performing)
A. Gross exposure at the beginning of the period	694,419	294,565
- of which: exposures sold but not derecognized	—	—
B. Increases	23,934	44,667
B.1 transferred from performing exposures for which no concessions have been made	—	372
B.2 transferred from performing exposures for which concessions have been made	—	X
B.3 transferred from non-performing exposures for which concessions have been made	X	—
B.4 other increases	24,015	55,342
C. Decreases	67,731	94,057
C.1 transferred to performing exposures for which no concessions have been made	X	25,708
C.2 transferred to performing exposures for which concessions have been made	—	X
C.3 transferred to non-performing exposures for which concessions have been made	X	—
C.4 writeoffs	—	—
C.5 collections	56,820	68,349
C.6 amounts realized on disposals	9,492	—
C.7 losses incurred on disposals	1,419	—
C.8 other decreases	—	—
D. Gross exposure at end of period	650,703	256,222
- of which: exposures sold but not derecognized	—	—

A.1.8 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 the beginning of the period	—	—	323,190	323,124	—	—
- of which: exposures sold but not derecognized	—	—	—	—	—	—
B. Increases	3,825	—	10,361	7,657	133	8
B.1 value adjustments	969	—	4,890	4,380	67	—
B.2 losses incurred on disposals	—	—	—	—	—	—
B.3 transferred from other categories of non-performing exposure	—	—	—	—	—	—
B.4 other increases	2,856	—	5,471	3,277	66	8
C. Decreases	—	—	23,325	22,835	22	—
C.1 amounts reversed following changes in valuation	—	—	—	—	3	—
C.2 amounts reversed following collections	—	—	23,325	22,835	19	—
C.3 gains realized on disposals	—	—	—	—	—	—
C.4 writeoffs	—	—	—	—	—	—
C.5 transferred to other categories of non-performing exposure	—	—	—	—	—	—
C.6 other decreases	—	—	—	—	—	—
D. Overall adjustments at end of period	3,825	—	310,226	307,946	111	8
- of which: exposures sold but not derecognized	—	—	—	—	—	—

As at 30 June 2018 non-performing loans net of forborne exposures amounted to €342.7m, with a coverage ratio of 47%, while performing loans qualifying as forborne amounted to €250m with a coverage ratio of 2%. Overall the non-performing forborne positions represent 1.83% of the total customer loan book, and the performing forborne exposures 1.34%.

A.2 Exposures by internal and external ratings

A.2.1 Cash and off-balance-sheet exposures by internal rating category

Exposures	External rating classes						Lower than B-	Total
	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	Lower than B-		
A. Cash credit exposures	3,018,476	4,132,377	29,546,725	1,073,806	304,841	6,090	10,041,537	48,123,852
B. Derivative contracts	1,603,343	34,503,354	21,467,405	822,073	2,251,715	168,537	16,789,086	77,605,513
B.1 Financial derivative contracts	1,603,343	25,145,046	13,299,182	822,073	2,251,715	168,537	14,841,882	58,131,778
B.2 Credit derivatives [1]	—	9,358,308	8,168,223	—	—	—	1,947,204	19,473,735
C. Guarantees given	—	—	2,797,503	629,320	248,057	—	2,530,112	6,204,992
D. Other commitments to disburse funds	859,688	94,983	5,132,416	760,848	96,781	—	3,312,161	10,256,877
E. Others	—	—	—	—	—	—	—	—
Total	5,481,507	38,730,714	58,944,049	3,286,047	2,901,394	174,627	32,672,896	142,191,234

[1] Balance as at 30/6/18 includes trades worth €9,075,742,000, fully matched by hedge buys.

The Mediobanca Group adopts the Standard & Poor's ratings for all portfolios subject to assessment.

A.2.2 Distribution of cash and off-balance-sheet exposures by internal rating category

Exposures	Internal rating classes						NPLs	Without rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6			
A. Cash exposures	3,118,271	4,257,594	32,892,299	4,562,494	882,087	485	343,993	2,066,629	48,123,852
B. Derivative contracts	3,203,270	33,000,392	27,447,694	3,859,501	3,628,135	—	—	6,466,521	77,605,513
B.1 Financial derivative contracts	2,858,476	24,012,878	19,187,571	3,859,501	3,628,135	—	—	4,585,217	58,131,778
B.2 Credit derivatives	344,794	8,987,514	8,260,123	—	—	—	—	1,881,304	19,473,735
C. Guarantees given	—	156,435	3,217,917	2,481,020	246,380	—	203	103,037	6,204,992
D. Other commitments to disburse funds	935,688	120,767	6,631,275	1,678,735	253,311	—	9,063	628,038	10,256,877
E. Others	—	—	—	—	—	—	—	—	—
Total	7,257,229	37,535,188	70,189,185	12,581,750	5,009,913	485	353,259	9,264,225	142,191,234

Mediobanca uses the models developed internally in the process of managing credit risk to assign counterparties ratings.

The models' different rating scales are mapped against a single Group master scale consisting of six different rating classes based on the underlying probability of default (PD) attributable to the S&P master scale.

A.3 Secured exposures by type of security

A.3.1 Secured cash exposures to banks

	Net exposures	Collaterals (1)				Guarantees (2)										Total (1)+(2)
		Property, Mortgages	Financial leasing property	securities	Other guarantees	CLN	Credit derivatives				Signature loans				
							Other derivatives				Governments and Central Banks	Other public entities	Banks	Other entities	
							Governments and Central Banks	Other public entities	Banks	Other entities					
1. Secured balance sheet credit exposures	680,140	—	—	244,992	—	—	—	—	—	—	640	—	—	—	245,632
1.1 totally secured	220,618	—	—	219,978	—	—	—	—	—	—	640	—	—	—	220,618
- of which impaired	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1.2 partially secured	459,522	—	—	25,014	—	—	—	—	—	—	—	—	—	—	25,014
- of which impaired	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Secured off-balance sheet credit exposures	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2.1 totally secured	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
- of which impaired	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2.2 partially secured	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
- of which impaired	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

A.3.2 Secured cash exposures to customers

	Net exposures	Collaterals (1)				Guarantees (2)									Total (1)+(2)
		Property, Mortgages	Financial leasing property	securities	Other guarantees	CLN	Credit derivatives				Signature loans				
							Other derivatives				Governments and Central Banks	Other public entities	Banks	Other entities	
							Governments and Central Banks	Other public entities	Banks	Other entities					
1. Secured balance sheet credit exposures	9,070,138	558,853	—	4,388,029	565,461	—	—	—	—	—	37,997	—	1,812	862,390	6,414,542
1.1 totally secured	4,523,575	558,853	—	2,533,831	528,692	—	—	—	—	—	37,997	—	1,812	862,390	4,523,575
- of which impaired	*75,952*	*62,255*	—	*389*	*506*	—	—	—	—	—	—	—	—	*12,802*	*75,952*
1.2 partially secured	4,546,563	—	—	1,854,198	36,769	—	—	—	—	—	—	—	—	—	1,890,967
- of which impaired	*249,479*	—	—	*6,948*	*23,022*	—	—	—	—	—	—	—	—	—	*29,970*
2. Secured off-balance sheet credit exposures	1,381,471	38,810	—	237,676	123,098	—	—	—	—	—	—	—	—	923,060	1,322,644
2.1 totally secured	1,310,586	38,810	—	233,763	122,536	—	—	—	—	—	—	—	—	915,477	1,310,586
- of which impaired	*4,370*	—	—	—	—	—	—	—	—	—	—	—	—	*4,370*	*4,370*
2.2 partially secured	70,885	—	—	3,913	562	—	—	—	—	—	—	—	—	7,583	12,058
- of which impaired	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

B. Loan distribution and concentration

B.1 Cash and off-balance-sheet exposure to customers by sector (book value)

	Governments			Other public entities			Financial companies			Insurances			Non-financial companies			Other parties		
	Net exposure	Individual value adjustments	Collective value adjustments	Net exposure	Individual value adjustments	Collective value adjustments	Net exposure	Individual value adjustments	Collective value adjustments	Net exposure	Individual value adjustments	Collective value adjustments	Net exposure	Individual value adjustments	Collective value adjustments	Net exposure	Individual value adjustments	Collective value adjustments
A. Cash exposures																		
A.1 Bad loans	—	—	X	—	—	X	—	(2,037)	X	—	—	X	—	(1,788)	X	—	—	X
- *of which forborne exposures*	—	—	*X*	—	—	*X*	—	—	*X*	—	—	*X*	—	—	*X*	—	—	*X*
A.2 Unlikely to pay	—	—	X	—	—	X	14,772	(7,322)	X	—	—	X	328,594	(302,904)	X	—	—	X
- *of which forborne exposures*	—	—	*X*	—	—	*X*	*14,075*	*(5,043)*	*X*	—	—	*X*	*328,594*	*(302,904)*	*X*	—	—	*X*
A.3 Past due exposures (NPLs)	—	—	X	—	—	X	21	(29)	X	—	(2)	X	504	(22)	X	102	(58)	X
- *of which forborne exposures*	—	—	*X*	—	—	*X*	—	—	*X*	—	—	*X*	—	—	*X*	*78*	*(8)*	*X*
A.4 Performing exposures	7,060,951	X	—	558,324	X	—	11,102,617	X	(9,833)	853,678	X	(1,560)	6,739,833	X	(15,161)	956,548	X	(5,237)
- *of which forborne exposures*	—	*X*	—	—	*X*	—	*214,570*	*X*	*(5,322)*	—	*X*	—	*26,191*	*X*	*(404)*	*9,371*	*X*	*(364)*
Total A	7,060,951	—	—	558,324	—	—	11,117,410	(9,388)	(9,833)	853,678	(2)	(1,560)	7,068,931	(304,714)	(15,161)	956,650	(58)	(5,237)
B. Off-balance-sheet exposures																		
B.1 Bad loans	—	—	X	—	—	X	—	—	X	—	—	X	—	—	X	—	—	X
B.2 Unlikely to pay	—	—	X	—	—	X	5,000	(630)	X	—	—	X	4,266	(3,200)	X	—	—	X
B.3 Other non performing exposures	—	—	X	—	—	X	—	—	X	—	—	X	—	—	X	—	—	X
B.4 Performing exposures	1,844,556	X	—	2,645	X	—	15,313,218	X	(4,059)	717,391	X	—	14,828,907	X	(15,770)	300,925	X	—
Total B	1,844,556	—	—	2,645	—	—	15,318,218	(630)	(4,059)	717,391	—	—	14,833,173	(3,200)	(15,770)	300,925	—	—
Total (A+B) 30/6/18	8,905,507	—	—	560,969	—	—	26,435,628	(10,018)	(13,892)	1,571,069	(2)	(1,560)	21,902,104	(307,914)	(30,931)	1,257,575	(58)	(5,237)
Total (A+B) 30/6/17	7,687,295	—	—	290,804	—	—	20,539,088	(16,078)	(17,022)	2,011,638	—	(2,101)	19,638,243	(360,716)	(40,014)	67,227	—	—

B.2 Cash and off-balance-sheet exposures to customers by geography (book value)

Exposures/geographical areas	Italy		Other European countries		Americas		Asia		Rest of world	
	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments
A. Cash exposures										
A.1 Bad loans	—	(3,825)	—	—	—	—	—	—	—	—
A.2 Unlikely to pay	343,366	(310,226)	—	—	—	—	—	—	—	—
A.3 Past due exposures (NPLs)	627	(111)	—	—	—	—	—	—	—	—
A.4 Performing exposures	19,830,366	(21,953)	6,927,926	(6,653)	491,268	(3,161)	22,391	(24)	—	—
Total A	20,174,359	(336,115)	6,927,926	(6,653)	491,268	(3,161)	22,391	(24)	—	—
B. Off-balance-sheet exposures										
B.1 Bad loans	—	—	—	—	—	—	—	—	—	—
B.2 Unlikely to pay	9,266	(2,381)	—	(1,449) [1]	—	—	—	—	—	—
B.3 Other non performing exposures	—	—	—	—	—	—	—	—	—	—
B.4 Performing exposures	10,616,058	(4,972)	20,660,285	(11,838)	1,580,097	(2,555)	151,202	(464)	—	—
Total B	10,625,324	(7,353)	20,660,285	(13,287)	1,580,097	(2,555)	151,202	(464)	—	—
Total A+B 30/6/18	30,799,683	(343,468)	27,588,211	(19,940)	2,071,365	(5,716)	173,593	(488)	—	—
Total A+B 30/6/17	29,464,065	(359,139)	19,910,603	(74,727)	854,703	(2,065)	—	—	4,924	—

[1] This amount refers to a written guarantee issued in favour of a Group company which has been written off in full.

B.3 Cash and off-balance-sheet exposures to banks by geography (book value)

Exposures/geographical areas	Italy		Other European countries		Americas		Asia		Rest of world	
	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments	Net exposure	Collective value adjustments
A. Cash exposures										
A.1 Bad loans	—	—	—	—	—	—	—	—	—	—
A.2 Unlikely to pay	—	—	—	—	—	—	—	—	—	—
A.3 Past due exposures (NPLs)	—	—	—	—	—	—	—	—	—	—
A.4 Performing exposures	12,172,779	(594)	8,284,399	(1,201)	45,329	(19)	5,400	—	1	—
Total A	12,172,779	(594)	8,284,399	(1,201)	45,329	(19)	5,400	—	1	—
B. Off-balance-sheet exposures										
B.1 Bad loans	—	—	—	—	—	—	—	—	—	—
B.2 Unlikely to pay	—	—	—	—	—	—	—	—	—	—
B.3 Other non performing exposures	—	—	—	—	—	—	—	—	—	—
B.4 Performing exposures	15,600,110	—	45,449,848	—	516	—	—	—	—	—
Total B	15,600,110	—	45,449,848	—	516	—	—	—	—	—
Total A+B 30/6/18	27,772,889	(594)	53,734,247	(1,201)	45,845	(19)	5,400	—	1	—
Total A+B 30/6/17	26,313,179	(2,883)	36,910,408	(1,040)	64,630	(7)	148	—	1	—

B.4 Large exposures

	30/6/18	30/6/17
a) Book value	10,662,567	10,975,849
b) Weighted value	6,801,878	7,733,160
c) No. of exposures	8	9

At the reporting date, aggregate exposures (including market risks and equity investments) to a total of eight groups of clients (one fewer than last year) were in excess of 10% of the regulatory capital, for a gross exposure of €10.7bn (€6.8bn, taking into account guarantees and weightings), also basically stable versus the figures at end-June 2017 (which were €11bn and €7.7bn respectively). In detail the eight exposures are to two industrial groups, one insurance company and five banking groups.

C. Securitizations

QUALITATIVE INFORMATION

The bulk of the portfolio consists of the Group's senior securitizations, with €3,842.3m in Quarzo bonds, with performing Compass receivables as the underlying instrument, and €48.9m in Quarzo CQS notes (which have Futuro salary-backed finance receivables as the underlying instrument).

The Group's portfolio of securities deriving from securitizations by other issuers totalled €181.8m (approx. 90% of which as part of the banking book), down sharply on the €314.3m reported last year, following disposals and redemptions totalling €300m only in part offset by new investments amounting to €161.7m. The portfolio remains concentrated in senior class securities (approx. 95%); also featured is a single mezzanine issue (carried at €6.9m) and a junior security (at €3.2m).

The balance of trading securities totalled €21m (€2.3m), and consists of two issues, including one mezzanine CLO; during the twelve months under review, securities worth a total of some €60m were disposed of, generating gains of €1.1m.

The banking book (not including inter-company deals) reflects a value of €160.8m (€312m) and regards three deals: FINO (originated by Unicredit), the securitization of receivables from Banca Intesa group NPLs, in which Mediobanca acted as arranger with a retention share of 5% of the assets (including the junior note), and a third deal with non-performing loans in respect of Spanish mortgages as the underlying instrument.

In addition to direct exposures, Mediobanca invested €25.8m in Cairn Loan Investments LLP (CLI), a Cairn-branded CLO management company, which, in order to comply with the prudential regulations (Article 405 of Regulation (EU) 585/2013), invests in the junior tranches of the CLOs managed, and €30m in Italian Recovery Fund[1], so far drawn as to €28.5m.

QUANTITATIVE INFORMATION

C.2 Banking Group – exposures deriving from main customer securitizations by asset type/exposure

Type of securitized asset/ Exposure	Cash exposures					
	Senior		Mezzanine		Junior	
	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks
A. Mortgage loans on properties	—	—	—	—	—	—
B. Other receivables	—	—	6,911	(73)	—	—
C. Other receivables held by Group's entities	3,891,353	—	—	—	—	—
D. NPLs Italy	138,908	(52)	—	—	3,166	—
E. NPLs Spain (residential mortgages and real estates)	32,819	—	—	—	—	—
Total 30/6/18	4,063,080	(52)	6,911	(73)	3,166	—
Total 30/6/17	3,010,655	59	24,796	442	4,586	26

C.4 Securitization SPVs not consolidated

No disclosure is given here, having already been provided in the Notes to the consolidated financial statements.

D. Disclosure on structured entities other than securitization SPVs

QUALITATIVE INFORMATION

No disclosure is given here, having already been provided in the Notes to the consolidated financial statements.

QUANTITATIVE INFORMATION

No disclosure is given here, having already been provided in the Notes to the consolidated financial statements.

[1] A closed-end alternative investment fund (AIF) incorporated under Italian law and managed by Quaestio Capital Management SGR, which is currently invested in four deals (Valentine, Berenice, Cube and Este).

E. Assets disposal

A. Financial assets sold but not derecognized

QUANTITATIVE INFORMATION

*E.1 Financial assets sold but not derecognized: book value and full value **

Type/Portfolio	Financial assets held for trading	Financial assets carried at fair value	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables with banks	Loans and receivables with customers	Total	
							30/6/18	30/6/17
A. Balance sheet assets	2,737,168	—	1,119,345	382,376	—	186,663	4,425,552	3,777,691
1. Debt securities	2,053,620	—	1,119,345	382,376	—	—	3,555,341	3,223,812
2. Equity securities	683,548	—	—	X	X	X	683,548	289,841
3. UCITS	—	—	—	X	X	X	—	—
4. Loans	—	—	—	—	—	186,663	186,663	264,038
B. Derivatives	—	X	X	X	X	X	—	—
Total 30/6/18	2,737,168	—	1,119,345	382,376	—	186,663	4,425,552	x
of which: impaired	—	—	—	—	—	—	—	x
Total 30/6/17	1,865,882	—	1,122,267	525,504	—	264,038	x	3,777,691
of which: impaired	—	—	—	—	—	—	x	—

* Includes only sold financial assets which are still fully recognized.

E.2 Financial liabilities in respect of financial assets sold but not derecognized: book value

Liabilities/Portfolio assets	Financial assets held for trading	Financial assets carried at fair value	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables with banks	Loans and receivables with customers	Total
1. Deposits from customers	165,258	—	402,912	305,531	—	—	873,701
a) Related to fully recognized assets	165,258	—	402,912	305,531	—	—	873,701
b) Related to partially recognized assets	—	—	—	—	—	—	—
2. Deposits from banks	2,475,359	—	597,457	59,903	—	118,357	3,251,076
a) Related to fully recognized assets	2,475,359	—	597,457	59,903	—	118,357	3,251,076
b) Related to partially recognized assets	—	—	—	—	—	—	—
Total 30/6/18	2,640,617	—	1,000,369	365,434	—	118,357	4,124,777
Total 30/6/17	1,844,701	—	993,226	497,747	—	220,947	3,556,621

*E.3 Disposals with liabilities referring exclusively to assets sold: fair value * [1]*

Instruments/Portfolio	Financial assets held for trading	Financial assets carried at fair value	Available-for-sale financial assets	Held-to-maturity investments (fair value)	Due from banks (fair value)	Due from customers (fair value)	Total	
							30/6/18	30/6/17
A. Cash assets	2,737,168	—	1,119,345	382,376	—	186,663	4,425,552	3,791,496
1. Debt securities	2,053,620	—	1,119,345	382,376	—	—	3,555,341	3,237,617
2. Equities	683,548	—	—	X	X	X	683,548	289,841
3. UCITS	—	—	—	X	X	X	—	—
4. Loans	—	—	—	—	—	186,663	186,663	264,038
B. Derivative instruments	—	X	X	X	X	X	—	—
Total assets	2,737,168	—	1,119,345	382,376	—	186,663	4,425,552	3,791,496
C. Associated liabilities	2,640,617	—	1,000,369	365,434	—	118,357	X	X
1. Due from customers	165,258	—	402,912	305,531	—	—	X	X
2. Due from banks	2,475,359	—	597,457	59,903	—	118,357	X	X
Total liabilities	2,640,617	—	1,000,369	365,434	—	118,357	4,124,777	3,723,404
Net value 30/6/18	96,551	—	118,976	16,942	—	68,306	300,775	X
Net value 30/6/17	9,378	—	13,161	2,462	—	43,091	X	68,092

* Includes only sold financial assets which are still fully recognized.

[1] The table includes collateralized liability transactions: repos, securities lending and other secured financing transactions.

SECTION 2

Market risks

2.1 INTEREST RATE RISK AND PRICE RISK – TRADING BOOK

QUALITATIVE INFORMATION

Exposure to financial risks on the trading book is measured 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 daily and monthly 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 value-at-risk on the trading portfolio ranged from a low of €1.1m (in October 2017) and a high of approx. €7.1m (during June 2018). The average reading for the twelve months was €2.3m, down on the average figure for last year (€3m). The VaR for the trading book stood at around €3.5m at the start of the year, before falling gradually due to the sale of certain directional positions taken at the end of the previous year, reaching its lowest values at the start of October, then rising again with the increase in market volatility and settling from end-November 2017 to early June 2018 at around €2m. The indicator then climbed again to reach a high of €7m, due solely to the addition of an equity position which was subsequently reduced by a significant amount before the reporting date. Indeed, the point-in-time figure observed at end-June 2018 had returned to €2.8m.

The expected shortfall on the combined trading portfolio also showed a sharp reduction in the average reading, from €4.5m to €3m, due especially to the reduction in the trading positions during the year.

The results of the daily back-testing based on calculations of theoretical profits and losses, show three events where the notional losses were in excess of the VaR. Two occurred in May 2018 and the other in the month of June, and were due primarily to adverse movements in individual stocks.

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

Risk factors	**12 mths to 30/6/18**				**12 mths to 30/6/17**
	30/6	**Min**	**Max**	**Avg.**	**Avg.**
Interest rates	2,046	248	2,046	559	916
Credit	1,928	317	1,928	784	1,201
Share prices	1,307	807	6,297	1,986	2,006
Exchange rates	733	64	771	320	581
Inflation	45	25	495	161	649
Volatility	691	401	1,395	626	1,394
Diversification effect *	(3,901)	—	—	(2,105)	(3,703)
Total	2,848	1,129	7,109	2,330	3,044
Expected Shortfall	4,065	1,771	8,049	3,080	4,504

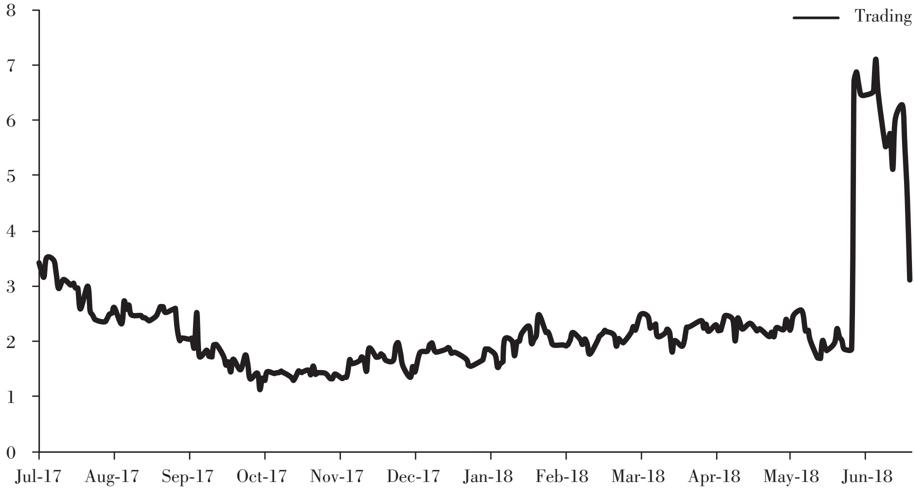
* Due to mismatch between risk factors.

Apart from the overall VaR limit for the trading and General Management books, a system of granular VaR sub-limits is also in place for the individual trading portfolios, and there are also limits in terms of the sensitivities to movements in the various risk factors (1 basis point for interest rates and credit spreads, 1 percentage point for equities, exchange rates and volatility). The equity desks like last year reflect long delta and short vega positions, albeit with a higher exposure to equity markets than last year. The exposure to interest rates ranged from minus €152,000 to €534,000, with an average reading which again was low, at around €30,000 (30/6/17: €36,000). The exchange rate trend reflected an exposure which was higher on average than last year in terms of highs and lows, but with average readings which were in any case low.

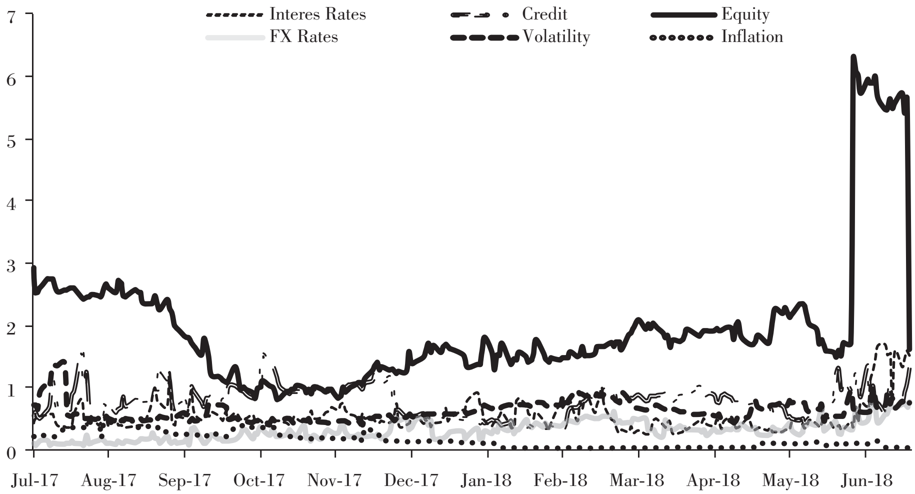
Table 2: Overview of trends in main sensitivities for trading book

Risk factors (€ '000)	**12 mths to 30/6/18**			
	30/6	**Min**	**Max**	**Avg.**
Equity delta (+1%)	741,318	589,715	2,619,223	1,166,546
Equity vega (+1%)	174,068	(856,632)	905,314	(131,505)
Interest rate delta (+1bp)	422,435	(151,749)	533,791	30,265
Inflation delta (+1bp)	4,145	(23,965)	42,125	10,118
Exchange rate delta (+1%)	(1,073,090)	(1,239,569)	1,732,332	295,358
Credit delta (+1bp)	524,814	65,847	565,985	253,825

Trends in VaR



Trends in VaR constituents



QUANTITATIVE INFORMATION

1. Regulatory trading book by outstanding maturity (repricing date) of cash assets and liabilities and financial derivative products

Type/residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets	—	49,320	918,609	56,322	1,219,617	404,254	156,689	—
1.1 Debt securities	—	49,320	918,609	56,322	1,219,617	404,254	156,689	—
– with early redemption option	—	—	—	—	—	—	—	—
– others	—	49,320	918,609	56,322	1,219,617	404,254	156,689	—
1.2 Other assets	—	—	—	—	—	—	—	—
2. Cash liabilities	—	79,457	113,869	57,330	1,948,451	284,744	10,302	—
2.1 Debt securities in issue	—	—	—	—	—	—	—	—
2.2 Other liabilities	—	79,457	113,869	57,330	1,948,451	284,744	10,302	—
3. Financial derivatives	—	—	—	—	—	—	—	—
3.1 With underlying securities	—	—	—	—	—	—	—	—
– Options	—	—	—	—	—	—	—	—
+ long positions	—	—	265,000	—	7,710,000	—	—	—
+ short positions	—	—	265,000	—	7,710,000	—	—	—
– Others	—	—	—	—	—	—	—	—
+ long positions	—	699,545	250,000	300,000	—	104,380	—	—
+ short positions	—	699,545	250,000	300,000	—	104,380	—	—
3.2 Without underlying securities	—	—	—	—	—	—	—	—
– Options	—	—	—	—	—	—	—	—
+ long positions	—	18,855,483	29,553,794	874,686	5,810,839	2,013,135	1,518,252	—
+ short positions	—	18,855,483	29,553,794	874,686	5,810,839	2,013,135	1,518,252	—
– Others	—	—	—	—	—	—	—	—
+ long positions	—	32,860,444	17,126,845	4,951,646	27,389,916	9,949,085	6,607,259	—
+ short positions	—	29,026,572	20,830,960	3,798,139	27,590,196	10,732,955	6,906,373	—

2. Regulatory trading book: cash exposures in equities and UCITS units

Type of exposure/Amounts	Book value		
	Level1	Level2	Level3
A. Equities [1]			
A.1 Shares	1,466,238	-	50,145
A.2 Innovative equity instruments	-	-	-
A.3 Other equity instruments	-	-	-
B. UCITS units			
B.1 Italian	-	-	9,343
- harmonized open	-	-	-
- non-harmonized open	-	-	-
- closed	-	-	9,343
- reserved	-	-	-
- speculative	-	-	-
B.2 Other EU states	100,166	-	-
- harmonized	69,085	-	-
- non-harmonized open	-	-	-
- non-harmonized closed	31,081	-	-
B.3 Non-EU states	-	-	-
- open	-	-	-
- closed	-	-	-
Total	1,566,404	-	59,488

[1] Net mismatch between trading assets and technical shortfalls booked as trading liabilities; over 96% of the next exposure regards other European countries.

2.2 INTEREST RATE AND PRICE RISK – BANKING BOOK

QUALITATIVE INFORMATION

Mediobanca monitors and manages interest rate risk through sensitivity testing of net interest income and economic value. The former quantifies the impact of parallel and simultaneous 200bps shocks in the interest rate curve on current earnings. In this testing, the balance sheet is maintained constant, renewing the items falling due with the same financial characteristics and assuming a time horizon of twelve months.

Conversely, the sensitivity of economic value measures the impact of future flows on the current value in the worst case scenario of those contemplated in the Basel Committee guidelines (BCBS).

All the scenarios present a floor set by the BCBS at minus 1.5% on the demand maturity with linear progression up to 0% at the 30 year maturity.

For both sensitivities, the balance-sheet items have been treated based on their contractual profile.

To determine the value of the discounted cash flows, various benchmark curves have been used in order to discount and then determine the future interest rates, based on the value date on which the balance-sheet item itself is traded (multi-curve). The credit component has been stripped out of the cash flows for the economic value sensitivity only.

With reference to the banking book positions at 30 June 2018, net interest income is not expected to be affected by the interest rate scenarios.

With reference to analysis of the discounted value of estimated cash flows on the banking book, a down parallel shock would generate an €8m reduction.

The values obtained in both scenarios continue to remain within the limits set by the regulations on monitoring and operational control, which are respectively 12% (net interest income sensitivity/estimated Group net interest income) 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 certain financial risk factor (interest rate, exchange rate, credit or some other risk parameter), through the gains that may be realized on a hedge instrument which allow the changes in fair value or cash flows to be offset. For fair value hedges in particular, the Bank seeks to minimize the financial risk on interest rates by bringing the entire interest-bearing exposure in line with Euribor (generally Euribor 3 months)[2].

A. Fair value hedges

Fair value hedges are used to neutralize exposure to interest rate, price or credit risk for particular asset or liability positions, via derivative contracts entered into with leading counterparties with high credit standings. 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 the Bank 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.

B. Cash flow hedges

These are used chiefly as part of certain Group companies' operations, in particular those operating in consumer credit and leasing. In these cases the numerous, generally fixed-rate and relatively small-sized transactions are hedged by floating-rate deposits for large amounts. The hedge is made in order to transform floating-rate deposits into fixed rate positions, correlating the relevant cash flows. Normally the Bank uses the derivative to fix the expected cost of

[2] This target is maintained even in the presence of hedging contracts with market counterparties with netting agreements and CSAs (collateralized standard agreements) have been entered into, the valuation of which is made on the basis of Eonia interest rates.

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

Counterparty risk

Counterparty risk generated by market transactions with clients or institutional counterparties is measured in terms of potential future market value. As far as regards derivatives and short-term loan collateralization products (repos and securities lending), the calculation is based on determining the maximum potential exposure (assuming a 95% confidence level) at various points on a time horizon that reaches up to 30 years. The scope of application regards all groups of counterparties which have relations with Mediobanca, taking into account the existence or otherwise of netting agreements (e.g. ISDA, GMSLA or GMRA) and collateralization agreements (e.g. CSA), plus exposures deriving from interbank market transactions. For these three types of operations there are different ceilings split by counterparty and/or group subject to internal analysis and approval by the Lending and Underwriting Committee.

For derivatives transactions, as required by IFRS13, the fair value incorporates the effects of the counterparty's credit risk (CVA) and Mediobanca's credit risk (DVA) based on the future exposure profile of the aggregate of such contracts outstanding.

QUANTITATIVE INFORMATION

1. Banking book by outstanding maturity (repricing date) of cash assets and liabilities

Type	On demand	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets	3,827,602	23,358,204	4,080,776	1,338,891	9,967,506	1,305,797	401,639	24,665
1.1 Debt securities	—	3,529,420	421,160	682,829	5,815,216	1,000,941	3,265	—
– with early repayment option	—	—	—	—	—	—	—	—
– others	—	3,529,420	421,160	682,829	5,815,216	1,000,941	3,265	—
1.2 Loans to banks	3,327,466	11,302,737	1,353,042	217,240	2,335,500	194,064	389,740	2,353
1.3 Loans to customers	500,136	8,526,047	2,306,574	438,822	1,816,790	110,792	8,634	22,312
– current accounts	2	—	—	—	173,259	—	—	—
– other loans	500,134	8,526,047	2,306,574	438,822	1,643,531	110,792	8,634	22,312
– with early repayment option	—	—	—	—	—	—	—	—
– others	500,134	8,526,047	2,306,574	438,822	1,643,531	110,792	8,634	22,312
2. Cash liabilities	18,448,983	9,662,115	1,802,923	3,727,529	9,414,810	2,131,623	1,187,886	494
2.1 Due to customers	3,378,198	534,550	147,132	983	—	—	—	494
– current accounts	3,129,360	—	—	—	—	—	—	—
– other amounts due	248,838	534,550	147,132	983	—	—	—	494
– with early repayment option	—	—	—	—	—	—	—	—
– others	248,838	534,550	147,132	983	—	—	—	494
2.2 Due to banks	14,793,268	3,282,128	1,144,037	1,019,099	4,915,232	—	391,850	—
– current accounts	13,320,028	—	—	—	—	—	—	—
– other amounts due	1,473,240	3,282,128	1,144,037	1,019,099	4,915,232	—	391,850	—
2.3 Debt securities	277,517	5,845,437	511,754	2,707,447	4,499,578	2,131,623	796,036	—
– with early repayment option	—	—	—	—	—	—	—	—
– others	277,517	5,845,437	511,754	2,707,447	4,499,578	2,131,623	796,036	—
2.4 Other liabilities	—	—	—	—	—	—	—	—
– with early repayment option	—	—	—	—	—	—	—	—
– others	—	—	—	—	—	—	—	—
3. Financial derivative products	—	—	—	—	—	—	—	—
3.1 With underlying securities	—	—	—	—	—	—	—	—
– Options	—	—	—	—	—	—	—	—
+ long positions	—	—	—	—	—	—	—	—
+ short positions	—	—	—	—	—	—	—	—
– Others	—	—	—	—	—	—	—	—
+ long positions	—	—	—	—	—	—	—	—
+ short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities	—	—	—	—	—	—	—	—
– Options	—	—	—	—	—	—	—	—
+ long positions	—	—	—	100,000	130,000	—	—	—
+ short positions	—	—	—	100,000	130,000	—	—	—
– Others	—	—	—	—	—	—	—	—
+ long positions		7,237,830	1,707,500	510,238	5,432,694	3,293,022	777,649	—
+ short positions	—	11,392,764	740,000	100,000	5,011,500	1,687,169	27,500	—
4. Other OTC trades	—	—	—	—	—	—	—	—
+ long positions	—	2,212,360	618,631	337,867	8,494,294	283,578	7,515	—
+ short positions	—	903,627	646,269	453,457	9,767,909	43,898	139,085	—

2. Regulatory trading book: cash exposures in equities and UCITS units

Type of exposure/Amounts	Book value		
	Level1	Level2	Level3
A. Equities [1]			
A.1 Shares	239,266	—	23,846
A.2 Innovative equity instruments	—	—	—
A.3 Other equity instruments	—	—	—
B. UCITS units			
B.1 Italian	32,150	—	131,885
- harmonized open	32,150	—	—
- non-harmonized open	—	—	—
- closed	—	—	126,025
- reserved	—	—	—
- speculative	—	—	5,860
B.2 Other EU states	171,361	—	145,021
- harmonized	—	—	—
- non-harmonized open	—	—	—
- non-harmonized closed	171,361	—	145,021
B.3 Non-EU states	—	—	3,318
- open	—	—	—
- closed	—	—	3,318
Total	442,777	—	304,070

[1] Of which 40% Italian and 60% other EU countries.

2.3 EXCHANGE RATE RISK

QUALITATIVE INFORMATION

A. General aspects, operating processes and measurement techniques

B. Exchange rate risk hedging

The trend in the exchange rate component of VaR shown on p. 188 is an effective representation of changes in the risks taken on the forex market, in view of the fact that exposures to foreign exchange rates are managed globally within the Bank's Finance area.

QUANTITATIVE INFORMATION

1. Assets, liabilities and derivatives by currency

Line items	Currency					
	US dollars	Pounds sterling	Japanese yen	Canadian dollars	Swiss francs	Other
A. Financial assets	3,123,635	2,341,240	37,424	8,193	172,464	95,181
A.1 Debt securities	545,626	617,283	—	—	1,447	—
A.2 Equity securities	117,530	441,292	—	—	2,426	—
A.3 Loans and advances to banks	2,164,729	1,261,276	37,415	1,255	163,461	12,371
A.4 Loans and advances to customers	295,750	21,389	9	6,938	5,130	82,810
A.5 Other financial assets	—	—	—	—	—	—
B. Other assets	—	—	—	—	—	—
C. Financial liabilities	(3,510,421)	(1,913,951)	(30,468)	(26,467)	(173,213)	(17,221)
C.1 Due to banks	(1,889,626)	(1,187,083)	(30,462)	(26,459)	(172,452)	(16,777)
C.2 Due to customers	(97,058)	(2,298)	(6)	(8)	(761)	(3)
C.3 Debt securities	(1,523,737)	(724,570)	—	—	—	(441)
C.4 Other financial liabilities	—	—	—	—	—	—
D. Other liabilities	—	—	—	—	—	—
E. Financial derivative products	349,273	(395,531)	(7,804)	19,432	(7,310)	5,231
- Options	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—
- Other derivatives	349,273	(395,531)	(7,804)	19,432	(7,310)	5,231
+ Long positions	3,923,564	577,742	67,010	40,529	319,563	198,568
+ Short positionsw	(3,574,291)	(973,273)	(74,814)	(21,097)	(326,873)	(193,337)
Total assets	7,047,199	2,918,982	104,434	48,722	492,027	293,749
Total liabilities	(7,084,712)	(2,887,224)	(105,282)	(47,564)	(500,086)	(210,558)
Difference (+/-)	(37,513)	31,758	(848)	1,158	(8,059)	83,191

2. Internal models and other methodologies used for sensitivity analysis

During the year under review, directional positions taken on exchange rates at the aggregate initially remained in line with those last year but with more pronounced volatility, generating a higher VaR for the same levels. The positions were then gradually increased from the end of March onwards. The VaR for the forex component at the aggregate level therefore showed an average reading of above €11m, up around 50% on the average reading recorded one year previously. As mentioned previously, the VaR reading was impacted by the increased volatility for this asset class throughout the year as a whole, plus the increase in the positions. The point-in-time reading for VaR as at 30 June 2018 was approx. €13.2m.

2.4 DERIVATIVE FINANCIAL PRODUCTS

A. FINANCIAL DERIVATIVES

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

Underlying assets/ Type of derivatives	**30/6/18**		**30/6/17**	
	Over the counter	**Clearing House**	**Over the counter**	**Controparti Centrali**
1. Debt securities and interest rate indexes	109,412,856	41,323,280	94,752,501	31,570,511
a) Options	17,349,836	40,445,401	52,800	30,721,864
b) Swap	89,272,640	—	92,003,701	—
c) Forward	654,380	—	—	—
d) Futures	—	877,879	—	848,647
e) Others	2,136,000	—	2,696,000	—
2. Equity instruments and stock indexes	17,705,052	14,505,823	14,632,399	11,250,774
a) Options	16,625,425	14,108,938	13,644,647	11,011,994
b) Swap	928,224	—	836,349	—
c) Forward	151,403	—	151,403	—
d) Futures	—	396,885	—	238,780
e) Others	—	—	—	—
3. Gold and currencies	16,104,175	—	9,279,363	—
a) Options	6,669,954	—	277,521	—
b) Swap	3,923,649	—	3,670,869	—
c) Forward	5,510,572	—	5,330,973	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other underlyings	—	—	—	—
Total	143,222,083	55,829,103	118,664,263	42,821,285

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

A.2.1 Hedge derivatives

Underlying assets/ Type of derivatives	30/6/18		30/6/17	
	Over the counter	Clearing House	Over the counter	Clearing House
1. Debt securities and interest rate indexes	19,188,933	—	17,784,743	—
a) Options	130,000	—	—	—
b) Swap	18,958,933	—	17,604,743	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	100,000	—	180,000	—
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	19,188,933	—	18,024,791	—

A.2.2 Other derivatives

Underlying assets/ Type of derivatives	30/6/18		30/6/17	
	Over the counter	Clearing House	Over the counter	Clearing House
1. Debt securities and interest rate indexes	725,509	—	460,974	—
a) Options	—	—	—	—
b) Swap	725,509	—	460,974	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
2. Equity instruments and stock indexes	1,435,116	—	1,822,928	—
a) Options	1,419,844	—	1,822,928	—
b) Swap	—	—	—	—
c) Forward	15,272	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Gold and currencies	—	—	—	—
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other underlyings	—	—	—	—
Total	2,160,625	—	2,283,902	—

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

Portfolios/Types of derivatives	Positive fair value			
	30/6/18		30/6/17	
	Over the counter	Clearing House	Over the counter	Clearing House
A. Regulatory trading portfolio	2,808,351	520,282	2,322,734	462,562
a) Options	465,323	518,256	312,589	455,566
b) Interest rate swaps	2,051,341	—	1,674,937	—
c) Cross currency swap	196,992	—	197,844	—
d) Equity Swaps	26,405	—	30,597	—
e) Forward	68,290	—	106,767	—
f) Futures	—	2,026	—	6,996
g) Others	—	—	—	—
B. Banking book - Hedging derivatives	235,591	—	462,596	—
a) Options	4,134	—	—	—
b) Interest rate swaps	231,457	—	462,596	—
c) Cross currency swap	—	—	—	—
d) Equity Swaps	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
C. Banking book - Other derivatives	71,215	—	310,755	—
a) Options	71,215	—	310,755	—
b) Interest rate swaps	—	—	—	—
c) Cross currency swap	—	—	—	—
d) Equity Swaps	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	3,115,157	520,282	3,096,085	462,562

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

Portfolios/Type of derivatives	Negative fair value			
	30/6/18		30/6/17	
	Over the counter	Clearing House	Over the counter	Clearing House
A. Regulatory trading portfolio	(1,980,556)	(560,550)	(2,379,946)	(496,834)
a) Options	(448,223)	(543,781)	(313,652)	(492,721)
b) Interest rate swaps	(1,239,216)	—	(1,605,338)	—
c) Cross currency swap	(131,925)	—	(210,103)	—
d) Equity swaps	(1,489)	—	(21,032)	—
e) Forward	(159,703)	—	(229,821)	—
f) Futures	—	(16,769)	—	(4,113)
g) Others	—	—	—	—
B. Banking book - Hedging derivatives	(220,713)	—	(498,679)	—
a) Options	(1,897)	—	2,452	—
b) Interest rate swaps	(218,816)	—	(460,656)	—
c) Cross currency swap	—	—	—	—
d) Equity swaps	—	—	—	—
e) Forward	—	—	(35,571)	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
C. Banking book - Other derivatives	(90,577)	—	(325,650)	—
a) Options	(90,577)	—	(325,650)	—
b) Interest rate swaps	—	—	—	—
c) Cross currency swap	—	—	—	—
d) Equity swaps	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
Total	(2,291,846)	(560,550)	(3,204,275)	(496,834)

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

Contracts not included in netting agreement	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	—	—	—	—	—	179,204	—
- positive fair value	—	—	—	—	—	172	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	896	—
2. Equity instruments and stock indexes							
- notional amount	—	—	—	—	150,463	—	29
- positive fair value	—	—	—	—	76	—	—
- negative fair value	—	—	—	—	(72)	—	(1)
- future exposure	—	—	—	—	13,506	—	—
3. Gold and currencies							
- notional amount	—	—	3,093	—	—	102,934	—
- positive fair value	—	—	—	—	—	8,502	—
- negative fair value	—	—	(3)	—	—	—	—
- future exposure	—	—	31	—	—	7,720	—
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 agreement	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	—	—	44,734,429	56,527,705	736,534	7,234,983	—
- positive fair value	—	—	1,654,180	273,808	77,333	210,469	—
- negative fair value	—	—	(970,228)	(425,705)	(41,181)	(30,143)	—
2. Equity instruments and stock indexes							
- notional amount	—	—	9,561,640	4,921,733	1,486,885	1,584,303	—
- positive fair value	—	—	107,398	74,806	2,928	115,093	—
- negative fair value	—	—	(232,439)	(60,663)	(6,333)	(7,500)	—
3. Gold and currencies							
- notional amount	—	—	10,520,079	2,790,896	284,039	2,403,134	—
- positive fair value	—	—	112,732	79,642	7,056	84,156	—
- negative fair value	—	—	(116,878)	(14,410)	(931)	(74,069)	—
4. Other instruments							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

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

Contracts included in netting agreements	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rate indexes							
- notional amount	—	—	7,596,547	11,242,386	—	350,000	—
- positive fair value	—	—	187,135	48,456	—	—	—
- negative fair value	—	—	(161,408)	(35,867)	—	(23,438)	—
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	—	—	—	—	—	—	—

A.9 OTC financial derivatives by outstanding life: notional values

Underlyng/ residual	Up to 1 year	Over 1 year up to 5 year	Over 5 year	Total
A. Regulatory trading book	36,685,440	73,772,168	32,764,475	143,222,083
A.1 Financial derivative contracts on debt securities and interest rates	16,101,546	61,788,520	31,522,790	109,412,856
A.2 Financial derivative contracts on equity securities and stock indexes	7,557,966	9,934,747	212,339	17,705,052
A.3 Financial derivative contracts on exchange rates and gold	13,025,928	2,048,901	1,029,346	16,104,175
A.4 Financial derivative contracts on other values	—	—	—	—
B. Banking book	2,658,015	13,786,723	4,904,820	21,349,558
B.1 Financial derivative contracts on debt securities and interest rates	2,620,319	12,389,303	4,904,820	19,914,442
B.2 Financial derivative contracts on equity securities and stock indexes	37,696	1,397,420	—	1,435,116
B.3 Financial derivative contracts on exchange rates and gold	—	—	—	—
B.4 Financial derivative contracts on other values	—	—	—	—
Total 30/6/18	39,343,455	87,558,891	37,669,295	164,571,641
Total 30/6/17	32,088,844	76,097,537	30,786,576	138,972,957

B. CREDIT DERIVATIVES

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

Type of transaction	Regulatory trading portfolio		Banking book	
	with a single counterparty	with more than one counterparty (basket)	with a single counterparty	with more than one counterparty (basket)
1. Protection buyer's contracts				
a) Credit default products	1,071,784	10,993,427	189,090	257,334
b) Credit spread products	—	—	—	—
c) Total rate of return swaps	—	—	—	—
d) Others	—	—	—	—
Total 30/6/18	1,071,784	10,993,427	189,090	257,334
Total 30/6/17	1,643,772	6,413,088	217,900	5,000
2. Protection seller's contracts				
a) Credit default products	2,083,457	12,525,774	14,526	4,969,978
b) Credit spread products	—	—	—	—
c) Total rate of return swaps	—	—	—	—
d) Others	—	—	—	—
Total 30/6/18	2,083,457	12,525,774	14,526	4,969,978
Total 30/6/17	1,328,247	6,692,490	12,649	3,653,007

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

Portfolio/Type of derivatives	Positive Fair Value	
	30/6/18	30/6/17
A. Regulatory trading book	191,255	160,171
a) Credit default products	191,255	160,171
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
B. Banking book	13,636	12,952
a) Credit default products	13,636	12,952
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
Total	204,891	173,123

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

Portfolio/Type of derivatives	Negative fair value	
	30/6/18	**30/6/17**
A. Regulatory trading book	(1,227,705)	(412,051)
a) Credit default products [1]	(1,227,705)	(412,051)
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
B. Banking book	(5,430)	(11,591)
a) Credit default products	(5,430)	(11,591)
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
Total	(1,233,135)	(423,642)

[1] Of which certificates in an amount of €288,997,000 and €219,804,000 respectively.

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

Contracts not included in netting agreements	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
Regulatory trading portfolio							
1. Protection purchase							
- notional amount	—	—	500,000	12,251	—	—	—
- positive fair value	—	—	16,934	3,400	—	—	—
- negative fair value [1]	—	—	(288,997)	—	—	—	—
- 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] Including certificates amounting to €288,997,000.

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

Contracts included in netting agreements	Governments and central banks	Other public sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
Regulatory trading portfolio							
1. Protection purchase							
- notional amount	—	—	5,858,131	5,494,829	200,000	—	—
- positive fair value	—	—	6,715	100	2,779	—	—
- negative fair value	—	—	(806,624)	(129,176)	—	—	—
2. Protection sale							
- notional amount	—	—	9,178,944	5,430,286	—	—	—
- positive fair value	—	—	43,673	117,654	—	—	—
- negative fair value	—	—	(2,673)	(235)	—	—	—
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.

B.6 Credit derivatives by outstanding duration: notional values

Underlying / Residual	Up to 1 year	From 1 year up to 5 years	Over 5 years	Total
A. Regulatory trading	1,415,201	12,366,905	12,892,336	26,674,442
A.1 Credit derivatives with "qualified" "reference obligation"	208,845	920,689	1,215,645	2,345,179
A.2 Credit derivatives with "not qualified" "reference obligation"	1,206,356	11,446,216	11,676,691	24,329,263
B. Banking portfolio	170,968	2,077,836	3,182,124	5,430,928
B.1 Credit derivatives with "qualified" "reference obligation"	85,190	21,000	459,590	565,780
B.2 Credit derivatives with "not qualified" "reference obligation"	85,778	2,056,836	2,722,534	4,865,148
Total 30/6/18	1,586,169	14,444,741	16,074,460	32,105,370
Total 30/6/17	3,777,094	9,832,887	6,356,172	19,966,153

C. CREDIT AND FINANCIAL DERIVATIVES

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

	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1) Netting agreements related to financial derivatives							
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
- net counterparty risk	—	—	—	—	—	—	—
2) Netting agreements related to credit derivatives							
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
- net counterparty risk	—	—	—	—	—	—	—
3) Cross product netting agreements							
- positive fair value	—	—	247,814	86,733	84,255	395,177	—
- negative fair value	—	—	(366,696)	(364,836)	(42,828)	(97,300)	—
- future exposure	—	—	848,695	411,752	53,703	191,217	—
- net counterparty risk	—	—	868,852	429,782	71,292	541,736	—

* Representing the sum of the positive fair value and future exposure, net of cash collateral received amounting to €407,683,000, €227,657,000 of which in respect of banks, €68,702,000 of financial companies, €66,666,000 of insurances and €44,658,000 other non-financial companies. Conversely, to cover negative fair value readings, cash collateral of €462,856,000 was paid in, €282,145,000 of which in respect of banks, €139,170,000 of financial companies, and €41,541,000 of insurances.

SECTION 3

Liquidity risk

QUALITATIVE INFORMATION

Banks are naturally exposed to liquidity risk as a result of the role they perform in the maturity transformation process.

In defining liquidity risk, a distinction is usually made between risks which refer to the short term (known as "liquidity risk") and risks which refer to the long term ("funding risk"):

- Liquidity risk is the current or potential risk of the entity not being able to manage its own liquidity needs effectively in the short term;
- Funding risk is the risk of the entity not having stable sources of financing in the medium or long term, generating a current or potential risk of it not being able to meet its own financial requirements without incurring an excessive increase in the cost of financing.

Within the Mediobanca Group, liquidity and funding risk is governed by the Group Liquidity Risk Management Policy (the "Regulations") approved by the Board of Directors of Mediobanca S.p.A. The Regulations set out the roles and responsibilities of the company units and governing bodies, the risk measurement metrics in use, the guidelines for carrying out the stress testing process, the funds transfer pricing system and the Contingency Funding Plan.

In application of Article 86 of Directive 2013/36/EU, the Mediobanca Group identifies, measures, manages and monitors liquidity risk as part of the internal liquidity adequacy assessment process (ILAAP). In this process, which constitutes an integral part of the supervisory authority's activities (Supervisory Review and Evaluation Process, or SREP), the Mediobanca Group carries out a self-assessment of its liquidity risk management and measurement from both a qualitative and quantitative perspective. The results of the risk profile adequacy assessment and the overall self-assessment are presented annually to the governing bodies.

The liquidity governance process for the Mediobanca Group as a whole is centralized at the parent company level, where the strategy and guidelines are devised which the Group companies must comply with, thereby ensuring that the liquidity position is managed and controlled at the consolidated.

The Regulations assign various important duties to the Board of Directors, including definition and approval of the guidelines and strategic direction, responsibility for ensuring that the risk governance system is fully reliable, and monitoring the trends in liquidity and funding risk and the Group's Risk Appetite Framework over time.

The issues most relevant to liquidity risk are discussed by the Group ALM Committee which defines the asset and liability structure and related risk taking, directing management in line with the commercial and financial objectives set in the budget and the Group RAF.

The parent company units responsible for ensuring that the Regulations are applied accurately are:

– Group Treasury, which is responsible at Group level for managing liquidity, funding, collateral and the funds transfer pricing system;
– The Accounting and Financial Reporting unit supports Risk Management and Group Treasury in drawing up the Group Funding Plan which is consistent with the budget objectives;
– Risk Management, in compliance with the principles of separation and independence, is responsible for the Group's integrated control system for current and future risks, in accordance with the Group's regulations and governance strategies.

The Group Audit Unit is responsible for appraising the functioning and reliability of the controls system for liquidity risk management and for reviewing adequacy and compliance with the requisites established by the regulations. The results of the checks carried out are submitted to the governing bodies once a year.

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

For a description of the metrics used to monitor short- and medium-/long-term liquidity, reference is made to Part E of the Notes to the Consolidated Accounts.

In accordance with the Regulations, Mediobanca S.p.A assesses the LCR (Liquidity Coverage Ratio), ALMM (Additional Liquidity Monitoring Metrics) regulatory indicators at individual level. Throughout the twelve months under review, the LCR remained above the limits set at all times.

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

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

In order to identify a "contingency" state in timely manner, a system of early warning indicators (EWIs) has been prepared, to monitor situations that could lead to deterioration in the Group's liquidity position deriving from external factors or from situations which are specific to the Banking Group itself.

To summarize, the liquidity risk mitigation factors adopted by the Mediobanca Group are as follows:

- An adequate level of high-quality, highly liquid assets, available to each Group legal entity, to offset any liquidity mismatches, extended or otherwise;
- Precise short-term and long-term liquidity planning, alongside careful estimating and monitoring activity;
- A robust stress testing framework which is updated regularly;
- An efficient contingency funding plan to identify crisis states and the actions to be taken in such circumstances, through a reliable early warning indicator system.

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	3,871,022	2,005,726	332,501	833,911	1,655,241	2,814,934	3,007,093	25,699,702	7,092,843	188,180
A.1 Government securities	—	788	—	6,123	111,259	502,327	43,013	4,846,744	1,053,484	—
A.2 Other debt securities	1,165	713	3,296	19,794	79,854	85,039	201,467	6,402,282	917,579	—
A.3 UCITS units	—	—	—	—	—	—	—	—	—	—
A.4 Loans and advances	3,869,857	2,004,225	329,205	807,994	1,464,128	2,227,568	2,762,613	14,450,676	5,121,780	188,180
– to banks	3,360,782	1,700,582	282,550	45,313	493,560	1,459,586	1,134,696	6,328,253	4,363,008	165,868
– to customers	509,075	303,643	46,655	762,681	970,568	767,982	1,627,917	8,122,423	758,772	22,312
Cash liabilities	18,158,238	841,290	198,587	873,186	1,935,152	1,308,267	3,287,958	17,587,963	5,166,032	494
B.1 Deposits and currentaccounts	16,449,390	—	—	—	—	—	—	—	—	—
– to banks	13,320,028	—	—	—	—	—	—	—	—	—
– to customers	3,129,362	—	—	—	—	—	—	—	—	—
B.2 Debt securities	929	228	1,104	10,347	1,363,948	261,305	2,192,479	9,633,338	3,881,268	
B.3 Other liabilities	1,707,919	841,062	197,483	862,839	571,204	1,046,962	1,095,479	7,954,625	1,284,764	494
Off-balance-sheet transactions	—	—	—	—	—	—	—	—	—	—
C.1 Financial derivatives with exchange of principal	—	—	—	—	—	—	—	—	—	—
– long positions	—	836,052	82,189	2,131,580	3,483,624	1,765,912	899,054	1,377,716	550,887	—
– short positions	—	254,133	438,418	2,011,178	2,805,782	602,868	706,278	3,955,635	478,459	—
C.2 Financial derivatives without principal exchange of	—	—	—	—	—	—	—	—	—	—
– long positions	4,180,193	4,619	2,554	4,236	68,948	43,382	69,484	—	—	—
– short positions	3,421,517	5,972	2,424	6,363	25,442	61,154	65,691	—	—	—
C.3 Deposits and loans for collection	—	—	—	—	—	—	—	—	—	—
– long positions	—	589,753	—	21,255	152,144	619,384	177,460	638,379	—	—
– short positions	—	—	—	—	—	189,055	55,723	1,712,118	241,479	—
C.4 Irrevocable commitments to disburse funds *	—	—	—	—	—	—	—	—	—	—
– long positions	—	—	—	6,831	28,627	26,884	58,682	2,515,495	125,855	—
– short positions	—	1,233,493	—	426,102	158,168	403,666	177,000	356,430	7,515	—
C.5 Financed guarantees issued	—	—	—	—	—	—	—	—	—	—
C.6 Financial guarantees received	—	—	—	—	—	—	—	—	—	—
C.7 Credit derivatives with exchange of principal	—	—	—	—	7,000	32,900	841,326	3,843,552	1,193,923	—
- long positions	—	—	—	—	7,000	22,900	592,480	2,169,323	167,647	—
- short positions	—	—	—	—	—	10,000	248,846	1,674,229	1,026,276	—
C.8 Credit derivatives without exchange of principal	—	—	—	—	—	—	—	—	—	—
- long positions	847,967	—	—	—	—	—	—	—	—	—
- short positions	1,587,480	—	—	—	—	—	—	—	—	—

* This item includes hedge sales perfectly offset by acquisitions for the same amount.

SECTION 4

Operational risks

QUALITATIVE INFORMATION

Definition

Operating risk is the risk of incurring losses as a result of the inadequacy or malfunctioning of procedures, staff and IT systems, human error or external events.

Capital requirements for operational risk

Mediobanca has adopted the Basic Indicator Approach (BIA) in order to calculate the capital requirement for covering operating risk, applying a margin of 15% to the three-year average for the relevant indicator. Based on this method of calculation, the capital requirement 30 June 2018 was €112.2m (€114.9m).

Risk mitigation

For a more indepth description of the risk mitigation policies in force, reference is made to Part E – Market Risks – Operational Risks in the Notes to the Consolidated Accounts.

Legal risk: risks deriving from litigations pending

For a description of the claims currently pending against Mediobanca S.p.A., please see Section B – Liabilities on pp. 142-144.

Other risks

For a more indepth description of the other risks, reference is made to Part E – Market Risks – Other Risks in the Notes to the Consolidated Accounts.

Part F - Information on capital

SECTION 1

Capital of the company

QUANTITATIVE INFORMATION

B.1 Net equity: composition

Net equity constituents	30/6/18	30/6/17
1. Share capital	443,275	440,606
2. Share premium	2,191,743	2,187,580
3. Reserves	2,292,839	2,284,194
- of gains	2,064,659	2,148,015
a) legal	88,124	87,102
b) statutory	1,284,471	1,288,162
c) treasury shares	109,338	197,709
d) others	582,726	575,042
- others	228,180	136,179
4. Equity instruments	—	—
5. (Treasury shares)	(109,338)	(197,709)
6. Valuation reserves:	129,954	285,167
- AFS securities	126,665	312,932
- Property, plant and equipment	—	—
- Intangible assets	—	—
- Foreign investment hedges	—	—
- Cash flow hedges	(2,579)	(33,590)
- Exchange rate difference	—	—
- Non-current assets being sold	—	—
- Actuarial gains (losses) on defined-benefit pension schemes	(3,764)	(3,807)
- Share of valuation reserves represented by equity-accounted companies	—	—
- Special valuation laws	9,632	9,632
7. Gain (loss) for the period	337,034	318,326
Total	5,285,507	5,318,164

For further information, please see Section 14 "Capital of the company – Headings 130, 150, 160, 170, 180, 190 and 200".

B.2 AFS valuation reserves: composition

Assets/amounts	30/6/18		30/6/17	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	63,468	(15,260)	99,936	(3,981)
2. Equity securities	59,555	(5,506)	190,210	(43)
3. UCITS units	28,132	(3,726)	27,217	(406)
4. Loans and advances	—	—	—	—
Total	151,155	(24,492)	317,363	(4,430)

B.3 AFS valuation reserves: movements during the period

	Debt securities	Equity securities	UCITS units	Loans
1. Opening balance	95,955	190,167	26,811	—
2. Additions	12,852	1,095	8,443	—
2.1 Increases in fair value	12,366	1,095	8,402	—
2.2 Negative reserves charged back to profit and loss as result of	486	—	41	—
– impairment	—	—	—	—
– disposals	486	—	41	—
2.3 Other additions	—	—	—	—
3. Reductions	60,598	137,212	10,848	—
3.1 Reductions in fair value	40,798	19,680	6,880	—
3.2 Adjustments for impairment	—	—	—	—
3.3 Positive reserves credited back to profit and loss as a result of: disposals	19,800	117,532	3,968	—
3.4 Other reductions	—	—	—	—
4. Balance at end of period	48,209	54,050	24,406	—

SECTION 2

Own funds and supervisory requirements

Since its inception, one of the distinguishing features of Mediobanca has been the solidity of its financial structure, with capital ratios consistently higher than those required by the regulatory guidelines. The surplus capital is justified by the type of operations performed by the Bank on the corporate market.

2.1 Own funds

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 June 2013 and incorporated into the Italian regulatory framework under Bank of Italy circular no. 285, Mediobanca has applied the phase-in regime, and in particular, once the requisite clearance was obtained, it proceeded to weight the investment Assicurazioni Generali at 370% as permitted by Article 471 of the CRR.

As from 30 June 2016, authorization to weight the Assicurazioni Generali investment at 370% has been confined to the part required to comply with the concentration limit of 20% of regulatory capital; a level which is met comfortably.

QUALITATIVE INFORMATION

Common Equity Tier 1 (CET1) capital consists of capital paid up, reserves (including €126.7m of the positive AFS reserves, €22.2m of which sovereign debt securities) and profit for the period (€337m) net of the dividend for the year (€412.8m), calculated based on a dividend of €0.47 per share. From this amount the following items are deducted: treasury shares (€109.3m), intangible assets (€29.3m), goodwill (€12.5m, arising from the Banca Esperia merger), the other prudential adjustments (€40.4m) in connection with the values of financial instruments (AVAs and DVAs), plus €21.7m in interests in financial companies (banks and insurances) exceeding the limits set under the regime.

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

Tier 2 capital includes the liabilities issued (€1,819.4m) and the surplus of value adjustments over expected losses (€9.7m).

Issue	**30/6/18**		
	ISIN	**Nominal value**	**Book value ***
MB Subordinato Mar 29	XS1579416741	50,000	48,500
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	615,570	285,377
MB OPERA 3,75 2026	IT0005188351	299,960	291,450
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	393,884	228,804
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	499,930	491,436
MB CARATTERE 5.75% 2023 Lower Tier 2	IT0004917842	495,242	473,861
Total subordinated debt securities		**2,354,586**	**1,819,428**

* Book value differ from share of equity calculated because of fair value and amortized cost components and also commitments to buy back securities.

Subordinated liabilities fell from €2,036.4m to €1,819.4m due to movements for the period plus the repayment share (€266.5m). No subordinated tier 2 issue benefits from the grand-fathering permitted under Articles 483ff of the CRR.

QUANTITATIVE INFORMATION

	30/6/18	30/6/17
A. Common equity tier 1 (CET1) prior to application of prudential filters	4,874,074	4,997,939
of which: CET1 instruments subject to phase-in regime	—	—
B. CET1 prudential filters (+/-)	(37,858)	(39,877)
C. CET1 gross of items to be deducted and effects of phase-in regime (A +/- B)	4,836,216	4,958,062
D. Items to be deducted from CET1	(928,616)	(45,508)
E. Phase-in regime - impact on CET1 (+/-)	865,084	(51,063)
F. Total common equity tieer 1 (CET1) (C - D +/- E)	4,772,684	4,861,491
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 (+/-)	—	—
L. Total Additional Tier 1 (AT1) gross of items to be deducted and effects of phase-in regime (G - H +/- I)	—	—
M. Tier 2 (T2) gross of items to be deducted and effects of phase-in regime	1,829,094	2,036,402
of which: T2 instruments subject to phase-in regime	—	—
N. Items to be deducted from T2	(278,715)	(443,914)
O. Phase-in regime - Impact on T2 (+/-)	—	15,943
P. Total T2 (M - N +/- O)	1,550,379	1,608,431
Q. Total own funds (F+L+P)	6,323,063	6,469,922

2.2 Capital adequacy

A. QUALITATIVE INFORMATION

As at 30 June 2018, the Bank's Common Equity Ratio, calculated as Tier 1 capital as a percentage of total risk-weighted assets, amounted to 16.24%, higher than last year (15%) due to the reduction in RWAs (from €29.4bn to €32.4bn), chiefly due to application of the AIRB models to calculate RWAs for the Large Corporate portfolio (translating to a reduction of some €5bn in RWAs). There was also an equivalent rise in the total capital ratio, from 19.97% to 21.51%.

B. QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts		Weighted amounts/requirements	
	30/6/18	30/6/17	30/6/18	30/6/17
A. RISK ASSETS				
A.1 Credit and counterpart risk	60,220,201	59,176,180	25,055,650	28,071,129
1. Standard methodology	45,590,591	58,863,501	16,734,818	27,785,723
2. Internal rating methodology	14,467,969	—	8,192,795	—
2.1 Basic	14,467,969	—	8,192,795	—
2.2 Advanced	—	—	—	—
3. Securitization	161,641	312,679	128,037	285,406
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			2,004,452	2,245,690
B.2 Credit valuation risk			51,090	60,262
B.3 Settlement risk			—	—
B.4 Market risk			183,914	171,126
1. Standard methodology			183,914	171,126
2. Internal models			—	—
3. Concentration risk			—	—
B.5 Operational risk			112,157	114,886
1. Basic Indicator Approach (BIA)			112,157	114,886
2. Standard methodology			—	—
3. Advanced methodology			—	—
B.6 Other prudential requirements			—	—
B.7 Total prudential requirements			2,351,614	2,591,965
C. RISK ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets			29,395,171	32,399,561
C.2 CET 1 capital/risk-weighted assets (CET 1 capital ratio)			16.24%	15.0%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 capital ratio)			16.24%	15.0%
C.4 Total own funds/risk-weighted assets (Total capital ratio)			21.51%	19.97%

Part G – Combinations involving Group companies or business units

SECTION 1

Transactions completed during the period

On 28 February 2018, Mediobanca S.p.A. completed the acquisition of a 69% stake in RAM AI. The acquisition cost was €143.4m.

A put-and-call option was also taken out which, once exercised, will allow Mediobanca to increase its stake to 89.3%. During the year some extraordinary intragroup transactions were also carried out; the details are listed below .

Following the acquisition of the remaining 50% of Banca Esperia, completed during the previous year (during 1H FY 2017-18), Mediobanca has completed the allocation (PPA) process, recognizing a brand valued at €15.5m and residual goodwill outstanding of €12.5m in its financial statements.

On 1 December 2017, Banca Esperia was merged into Mediobanca with effect in accounting and tax terms from 1 July 2017; and on the same date the new Mediobanca Private Banking was established.

The details of the transaction are as follows.

Table 1 shows the asset and liability situation at the acquisition date based on the book values reported by the former Banca Esperia and the initial recognition (fair) values recorded by Mediobanca S.p.A. in the individual accounts.

Table 1

(€m)

Assets/Liabilities	Carrying Value	*Fair value*
Assets		
Cash	0.1	0.1
Financial assets held for trading	199.5	199.5
Financial assets available for sale	82.8	86.8
Due from banks	654.2	654.2
Due from customers	941.8	933.7
Equity investments	16.4	48.1
Tangible assets	0.5	0.5
Intangible assets	1.3	16.8
Goodwill	—	12.5
Tax assets	13.2	6.2
Other assets	60.3	60.3
Total assets	**1,970.1**	**2,018.7**
Liabilities		
Due to banks	264.8	264.6
Due to customers	1,311.3	1,311.3
Securities in issue	173.0	173.0
Financial liabilities held for trading	6.4	6.4
Tax liabilities	1.8	1.8
Other liabilities	43.9	43.9
Staff severance indemnity provision	1.0	1.0
Provisions	19.1	19.1
Revaluation reserves	1.8	2.3
Reserves	62.5	106.6
Share premium reserve	38.6	38.6
Share capital	63.0	63.0
Profit/loss for the period	(17.1)	(12.9)
Total liabilities	**1,970.1**	**2,018.7**

Table 2 shows the allocation of the various fair values recorded at the acquisition date.

Table 2

	(€m)
Acquisition cost allocation	***Carrying value***
Equity investments, at book value	**195.3**
Shareholders' equity	**(147.0)**
Difference to be allocated	**48.3**
Fair value differences of acquired assets and assumed laibilties	
Due from customers	(8.0)
Other financial assets	4.0
Equity investments	31.8
Brand	15.5
Actuarial reserve	(0.5)
Total of fair value differences recognized at the acquisition date (gross of tax)	**42.8**
Tax effects	(7.0)
Total net plus on assets acquired and assumed liabilities	**35.8**
Goodwill	**12.5**

The subsidiaries owned by Banca Esperia thus came to be controlled directly by Mediobanca S.p.A. (Duemme SGR, renamed Mediobanca SGR, and Duemme International Luxembourg SA, renamed Mediobanca Management Company SA) and their book value has been readjusted to fair value, at €38m and €4m respectively.

Details of the purchase price allocation process for Banca Esperia are provided in section 10 of the Notes to the Accounts.

SECTION 2:

Transactions completed since the reporting date

No transactions have taken place since the reporting date.

SECTION 3:

Retrospective adjustments

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

Part H - Related party disclosure

1. Board member and senior management remuneration

Remuneration paid to directors, statutory auditors and management with strategic responsibilities

	Compensation			
	Emoluments payable in connection with post	Non-cash benefits*	Bonuses and other incentives	Other compensation
BOARD OF DIRECTORS[1]	2,345.9	1,188.4	3,009.3	5,213.3
of which: management	*332.6*	*1,188.4*	*3,009.3*	*5,013.3*
MANAGEMENT with strategic responsibilities[2]	—	287.1	1,250.4	3,603.4
STATUTORY AUDIT COMMITTEE[3]	424.1	—	—	—

* Includes the value of fringe benefits (according to which items are taxable), including insurance policies and complementary pension schemes, and hence does not include costs in respect of equity payments equal to €2.8m

[1] Includes fourteen directors in office at 30 June 2018

[2] Includes eight strategic managers at 30 June 2018.

[3] Includes three statutory auditors in office at 30 June 2018.

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 2018. The full document is published on the Bank's website at www.mediobanca.com.

For the definition of related parties adopted, please see part A of the notes to the accounts (Accounting Policies).

Accounts with related parties fall within the ordinary operations of the Group companies, are maintained on an arm's length basis, and are entered into in the interests of the individual companies concerned. Details of Directors' and strategic management's compensation are provided in a footnote to the table.

1.1 Regular financial disclosure: most significant transactions

There were no such transactions to report during the financial year under review.

1.2 Quantitative information

The exposure to non-Group companies (representing the sum of assets plus guarantees and commitments) remained unchanged during the year under review, (€1bn) and now represents approx. 1.6% of total assets. Similarly, interest income from such items fell from 3.9% to 2.8% of the profit and loss account.

Situation as at 30 June 2018

(€m)

	Group companies	Directors, statutory auditors and strategic management	Associates	Other related parties	Total
Assets	20,553.0	—	407.4	559.1	21,519.5
of which: other assets	*5,707.1*	—	*212.1*	*372.2*	*6,291.4*
loans and advances	*14,845.9*	—	*195.3*	*186.9*	*15,228.1*
Liabilities	16,529.2	—	0.1	177.6	16,706.9
Guarantees and commitments	10,434.1	—	—	43.0	10,477.1
Interest income	320.5	—	8.8	12.2	341.5
Interest expense	(192.5)	—	—	—	(192.5)
Net fee income	20.9	—	2.7	10.0	33.6
Other income (costs)	2.1	(17.6) [1]	(0.7)	(1.5)	(17.7)

[1] Of which: short-term benefits amounting to €19.7m and performance shares worth €2.8m. The figure refers to the eight staff members included in the definition of management with strategic responsibilities

Situation as at 30 June 2017

(€m)

	Group companies	Directors, statutory auditors and strategic management	Associates	Other related parties	Total
Assets	20,094.7	—	491.3	426.5	21,012.5
of which: other assets	*4,459.4*	—	*291.1*	*194.5*	*4,945.0*
loans and advances	*15,635.3*	—	*200.2*	*232.0*	*16,067.5*
Liabilities	15,352.2	—	—	139.4	15,491.6
Guarantees and commitments	9,167.1	—	—	63.3	9,230.4
Interest income	337.9	—	21.7	10.7	370.3
Interest expense	(207.9)	—	—	(0.2)	(208.1)
Net fee income	23.7	—	4.1	55.6	83.4
Other income (costs)	(110.9) [1]	(17.7) [2]	(10.4)	34.0	(105.0)

[1] Includes €65m in respect of hedge derivatives

[2] Of which: short-term benefits amounting to €15.1m and performance shares worth €2.6m. The figure includes five management staff with strategic responsibilities.

Part I - Share-based payment schemes

QUALITATIVE INFORMATION

1. *Information on capital increases for use in share-based payment schemes using the Bank's own equity instruments*

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

Extraordinary general meeting held on	No. of shares approved	Awards expire on	Deadline for exercising options	No. of options and performance shares awarded
Stock options schemes				
28 October 2004	15,000,000	28 October 2009	1 July 2020	12,765,000
of which to directors [1]	*4,000,000*	*28 October 2009*	*1 July 2020*	*3,375,000* [2]
27 October 2007	40,000,000	27 June 2012	1 July 2022	15,536,000
Performance Share schemes				
28 October 2015	20,000,000	X	28 October 2020	5,096,209 [3]

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

[2] Of these, 2,000,000 were 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: 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, in certain conditions Mediobanca shares may be awarded to staff free of charge at the end of a vesting period. The rationale for the scheme is to:

– Bring the Bank's remuneration structure into line with the regulations requiring that a share of the variable remuneration component 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 8,714,833 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 1,579.009 performance shares (were awarded, net of 108,647 recovered); the shares, which are conditional upon certain performance targets being met over a three-year time horizon (or four years in the case of Directors who are also members of the Group's management), will be made available in tranches (up to 718,815 in FY 2019-20, up to 439,201 in FY 2020-21, up to 321,368 in FY 2021-22, and up to 99,625 in FY 2022-23).

Beneficiaries were also awarded a total of 1,500,283 shares, 21,725 of which were treasury shares allocated and the remainder assigned under the limit approved by shareholders in general meeting in 2015; and a further 135,834 shares were recovered.

Subsequently, as part of staff variable remuneration for the 2018 financial year, a total of 1,639,456 performance shares were awarded, at a notional cost of €11m, in connection with the variable component only; the shares, which are conditional upon certain performance targets being met over a three- or four-year time horizon, will be made available in tranches in November 2020 (up to 763,905), November 2021 (up to 451,496), November 2022 (up to 327,600) and November 2023 (up to 96,455).

B. QUANTITATIVE INFORMATION

1. Changes to stock option scheme during the period

	30/6/18			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	4,412,500	6.53	August 18	10,097,500	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	3,770,000	6.54	X	5,685,000	6.57	X
C.3 Performance shares expired	—	—	X	—	—	X
C.4 Other reductions	—	—	X	—	—	X
D. Balance at end of period	642,500	6.51	October 18	4,412,500	6.53	August 18
E. Performance shares exercisable as at reporting date	642,500	6.51	X	4,412,500	6.53	X

2. Changes to performance share scheme during the period

	30/6/18		30/6/17	
	No. of performance shares	Avg. price	*No. of performance shares*	Avg. price
A. Balance at start of period	4,834,282	6.38	7,235,821	5.23
B. Additions				
B.1 New issues	1,687,656	7.92	2,108,818	5.05
B.2 Other additions	—	—	—	—
C. Reductions				
C.1 Performance shares cancelled	—	—	—	—
C.2 Performance shares made available	1,500,283	7.08	4,457,799	3.91
C.3 Performance shares expired	—	—	—	—
C.4 Other reductions	244,481	6.99	52,558	5.10
D. Balance at end of period	4,777,174	6.67	4,834,282	6.38

ANNEXES

Mediobanca S.p.A.: reconciliation of Financial Statements

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

Mediobanca S.p.A. Balance Sheet as at 30 June 2018 (€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	—	1,173.2	—	—	—	—	—	—	**1,173.2**
20. Financial assets held for trading	8,211.9	—	—	—	—	—	—	—	**8,211.9**
40. Financial assets available-for-sale	—	—	746.8	4,419.6	—	—	—	—	**5,166.4**
50. Financial assets held-to-maturity	—	—	—	2,595.1	—	—	—	—	**2,595.1**
60. Due from banks	—	5,981.7	—	386.0	13,176.8	—	—	8.9	**19,553.4**
70. Due from customers	—	2,081.1	—	4,054.2	12,568.3	—	—	22.4	**18,726.0**
80. Hedging derivatives	—	—	—	—	—	—	—	235.6	**235.6**
100. Equity investments	—	—	—	—	—	3,084.2	—	—	**3,084.2**
120. Property, plant and equipment	—	—	—	—	—	—	116.8	—	**116.8**
130. Intangible assets	—	—	—	—	—	—	38.6	—	**38.6**
140. Tax assets	—	—	—	—	—	—	—	236.3	**236.3**
150. Other assets	—	—	—	—	—	—	—	96.9	**96.9**
Total assets	**8,211.9**	**9,236.0**	**746.8**	**11,454.9**	**25,745.1**	**3,084.2**	**155.4**	**600.1**	**59,234.4**

Mediobanca S.p.A. Balance Sheet as at 30 June 2018 (€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	19,252.3	6,258.4	—	8.5	—	—	**25,519.2**
20. Due to customers	3,093.7	1,029.0	—	1.5	—	—	**4,124.2**
30. Debt securities in issue	16,827.0	—	—	—	—	—	**16,827.0**
40. Trading liabilities	—	—	6,510.5	—	—	—	**6,510.5**
60. Hedging derivatives	—	—	—	220.7	—	—	**220.7**
80. Tax liabilities	—	—	—	363.9	—	—	**363.9**
100. Other liabilities	—	—	—	277.9	—	—	**277.9**
110. Staff severance indemnity provision	—	—	—	—	7.7	—	**7.7**
120. Provisions	—	—	—	—	97.8	—	**97.8**
130. Revaluation reserves	—	—	—	—	—	130.0	**130.0**
140. Redeemable shares repayable on demand	—	—	—	—	—	—	**—**
150. Equity instruments repayable on demand	—	—	—	—	—	—	**—**
160. Reserves	—	—	—	—	—	2,292.8	**2,292.8**
170. Share premium reserve	—	—	—	—	—	2,191.7	**2,191.7**
180. Share capital	—	—	—	—	—	443.3	**443.3**
190. Treasury shares (-)	—	—	—	—	—	(109.3)	**(109.3)**
200. Profit for the period (+/-)	—	—	—	—	—	337.0	**337.0**
Total liabilities and net equity	**39,173.0**	**7,287.4**	**6,510.5**	**872.5**	**105.5**	**5,285.5**	**59,234.4**

* Reported at p. 17.

Mediobanca S.p.A. Balance Sheet as at 30 June 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	—	1,255.6	—	—	—	—	—	—	**1,255.6**
20. Financial assets held for trading	7,271.3	—	—	—	—	—	—	—	**7,271.3**
40. Financial assets available-for-sale	—	—	659.5	5,004.9	—	—	—	—	**5,664.4**
50. Financial assets held-to-maturity	—	—	—	2,394.9	—	—	—	—	**2,394.9**
60. Due from banks	—	6,272.6	—	287.8	13,832.1	—	—	16.2	**20,408.7**
70. Due from customers	—	2,503.6	—	3,076.7	11,394.6	—	—	16.4	**16,991.3**
80. Hedging derivatives	—	—	—	—	—	—	—	462.6	**462.6**
100. Equity investments	—	—	—	—	—	3,057.0	—	—	**3,057.0**
120. Property, plant and equipment	—	—	—	—	—	—	118.1	—	**118.1**
130. Intangible assets	—	—	—	—	—	—	14.2	—	**14.2**
140. Tax assets	—	—	—	—	—	—	—	207.5	**207.5**
150. Other assets	—	—	—	—	—	—	—	63.3	**63.3**
Total assets	**7,271.3**	**10,031.8**	**659.5**	**10,764.3**	**25,226.7**	**3,057.0**	**132.3**	**766.0**	**57,908.9**

Mediobanca S.p.A. Balance Sheet as at 30 June 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	20,562.2	3,676.8	—	3.9	—	—	**24,242.9**
20. Due to customers	1,573.4	774.4	—	2.5	—	—	**2,350.3**
30. Debt securities in issue	18,902.6	—	—	—	—	—	**18,902.6**
40. Trading liabilities	—	—	5,859.2	—	—	—	**5,859.2**
60. Hedging derivatives	—	—	—	498.7	—	—	**498.7**
80. Tax liabilities	—	—	—	412.8	—	—	**412.8**
100. Other liabilities	—	—	—	218.5	—	—	**218.5**
110. Staff severance indemnity provision	—	—	—	—	8.9	—	**8.9**
120. Provisions	—	—	—	—	96.8	—	**96.8**
130. Revaluation reserves	—	—	—	—	—	285.2	**285.2**
140. Redeemable shares repayable on demand	—	—	—	—	—	—	**—**
150. Equity instruments repayable on demand	—	—	—	—	—	—	**—**
160. Reserves	—	—	—	—	—	2,284.2	**2,284.2**
170. Share premium reserve	—	—	—	—	—	2,187.6	**2,187.6**
180. Share capital	—	—	—	—	—	440.6	**440.6**
190. Treasury shares (-)	—	—	—	—	—	(197.7)	**(197.7)**
200. Profit for the period (+/-)	—	—	—	—	—	318.3	**318.3**
Total liabilities and net equity	**41,038.2**	**4,451.2**	**5,859.2**	**1,136.4**	**105.7**	**5,318.2**	**57,908.9**

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

Mediobanca S.p.A.: Profit and Loss for the 12 mths ended 30 June 2018

(€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	762.7	—	—	—	—	—	—	—	—	—	—	762.7
20. Interest expense and similar cherges	(667.6)	—	—	—	—	—	—	—	—	—	—	(667.6)
30. Net interest income	**95.1**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**95.1**
40. Fee and commission income	2.6	10.1	272.0	—	—	—	—	—	—	—	—	284.7
50. Fee and commission expense	—	(5.6)	(20.5)	—	—	—	—	—	—	—	—	(26.1)
60. Net fee and commission income	**2.6**	**4.5**	**251.5**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**258.6**
70. Dividend and similar income	—	84.1	—	177.5	—	—	—	—	—	—	—	261.6
80. Net trading income	(3.4)	40.3	—	—	—	—	—	—	—	—	—	37.0
90. Net hedging income (expense)	0.8	—	—	—	—	—	—	—	—	—	—	0.8
100. Gain (loss) on disposal/repurchase	—	17.9	—	—	—	96.3	(1.4)	—	—	—	—	112.8
120. Total income	**95.1**	**146.8**	**251.5**	**177.5**	**—**	**96.3**	**(1.4)**	**—**	**—**	**—**	**—**	**765.9**
130. Adjustment for impairment	—	—	—	—	—	—	45.7	1.1		—	—	46.8
140. Net income from financial operations	**95.1**	**146.8**	**251.5**	**177.5**	**—**	**96.3**	**44.3**	**1.1**	**—**	**—**	**—**	**812.7**
150. Administrative expenses	—	—	—	—	(399.5)	—	—	—	—	(30.7)	—	(430.2)
160. Net transfers to provisions	—	—	—	—	3.0	—	—	—	—	(2.0)	—	1.0
170. Net adjustments to tangible assets	—	—	—	—	(3.5)	—	—	—	—	—	—	(3.5)
180. Net adjustments to intangible assets	—	—	—	—	(8.3)	—	—	—	—	—	—	(8.3)
190. Other operating income (expenses)	—	—	19.2	—	(6.5)		—	—	—	—	—	12.7
200. Operating costs	**—**	**—**	**19.2**	**—**	**(414.8)**	**—**	**—**	**—**	**—**	**(32.7)**	**—**	**(428.3)**
210. Gain (loss) on equity investments	—	—	—	—	—	—	—	—	(0.3)	—	—	(0.3)
240. Gain (loss) on disposal of investments	—	—	—	—	—	—	—	—	—	—	—	—
250. Profit (loss) on ordinary activities before tax	**95.1**	**146.8**	**270.7**	**177.5**	**(414.8)**	**96.3**	**44.3**	**1.1**	**(0.3)**	**(32.7)**	**—**	**384.0**
260. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—	—	—	(47.0)	(47.0)
270. Profit (loss) on ordinary activities after tax	**95.1**	**146.8**	**270.7**	**177.5**	**(414.8)**	**96.3**	**44.3**	**1.1**	**(0.3)**	**(32.7)**	**(47.0)**	**337.0**
290 Net profit (loss) for the period	**95.1**	**146.8**	**270.7**	**177.5**	**(414.8)**	**96.3**	**44.3**	**1.1**	**(0.3)**	**(32.7)**	**(47.0)**	**337.0**

* Reported at p. 17.

Mediobanca S.p.A.: Profit and Loss for the 12 mths ended 30 June 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	813.1	—	—	—	—	—	—	—	—	—	—	813.1
20. Interest expense and similar cherges	(742.0)	—	—	—	—	—	—	—	—	—	—	(742.0)
30. Net interest income	**71.1**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**71.1**
40. Fee and commission income	5.4	4.8	208.9	—	—	—	—	—	—	—	—	219.1
50. Fee and commission expense	—	(4.3)	(12.6)	—	—	—	—	—	—	—	—	(16.9)
60. Net fee and commission income	**5.4**	**0.5**	**196.3**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**202.2**
70. Dividend and similar income	—	81.0	—	162.2	—	—	—	—	—	—	—	243.2
80. Net trading income	(2.6)	44.0	—	—	—	—	—	—	—	—	—	41.4
90. Net hedging income (expense)	10.7	—	—	—	—	—	—	—	—	—	—	10.7
100. Gain (loss) on disposal/repurchase	—	(9.2)	—	—	—	161.6	—	—	—	—	—	152.4
120. Total income	**84.6**	**116.3**	**196.3**	**162.2**	**—**	**161.6**	**—**	**—**	**—**	**—**	**—**	**721.0**
130. Adjustment for impairment	—	—	—	—	—	—	13.1	(4.1)		—	—	9.0
140. Net income from financial operations	**84.6**	**116.3**	**196.3**	**162.2**	**—**	**161.6**	**13.1**	**(4.1)**	**—**	**—**	**—**	**730.0**
150. Administrative expenses	—	—	—	—	(334.0)	—	—	—	—	(62.8)	—	(396.8)
160. Net transfers to provisions	—	—	—	—	—	—	—	—	—	15.0	—	15.0
170. Net adjustments to tangible assets	—	—	—	—	(3.5)	—	—	—	—	—	—	(3.5)
180. Net adjustments to intangible assets	—	—	—	—	(8.7)	—	—	—	—	—	—	(8.7)
190. Other operating income (expenses)	—		15.4	—	(2.2)		—	—	—	—	—	13.2
200. Operating costs	**—**	**—**	**15.4**	**—**	**(348.4)**	**—**	**—**	**—**	**—**	**(47.8)**	**—**	**(380.8)**
210. Gain (loss) on equity investments	—	—	—	—	—	—	—	—	(0.9)	—	—	(0.9)
240. Gain (loss) on disposal of investments	—	—	—	—	—	—	—	—	—	—	—	—
250. Profit (loss) on ordinary activities before tax	**84.6**	**116.3**	**211.7**	**162.2**	**(348.4)**	**161.6**	**13.1**	**(4.1)**	**(0.9)**	**(47.8)**	**—**	**348.3**
260. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—	—	—	(30.0)	(30.0)
270. Profit (loss) on ordinary activities after tax	**84.6**	**116.3**	**211.7**	**162.2**	**(348.4)**	**161.6**	**13.1**	**(4.1)**	**(0.9)**	**(47.8)**	**(30.0)**	**318.3**
290 Net profit (loss) for the period	**84.6**	**116.3**	**211.7**	**162.2**	**(348.4)**	**161.6**	**13.1**	**(4.1)**	**(0.9)**	**(47.8)**	**(30.0)**	**318.3**

Table A

Asset Revaluation Statement

(€)

Revalued assets	Original revaluation	Decrease due to disposal or writedown	Current revaluation
– property in Piazzetta Enrico Cuccia 1 (formerly Via Filodrammatici 6-8-10)			
revaluation effected under Law no. 576 of 2 december 1975	2,609,651.24	—	2,609,651.24
revaluation effected under Law no. 72 of 19 march 1983	11,620,280.23	—	11,620,280.23
revaluation effected under Law no. 413 of 30 december 1991	4,174,707.04	—	4,174,707.04
			18,404,638.51
– property in Piazza Paolo Ferrari 6			
revaluation effected under Law no. 72 of 19 march 1983	815,743.67	—	815,743.67
			815,743.67

Balance sheets and profit and loss accounts of investments in Group undertakings (including indirect investments)

Banks (IAS/IFRS)

Table B

BALANCE SHEETS

		COMPAGNIE MONEGASQUE DE BANQUE * (€/000)	CHEBANCA! (€/000)	COMPASS BANCA (€/000)
	ASSETS			
10.	Cash and cash equivalents	2,597	60,798	1,430
20.	Financial assets held for trading	41,292	—	—
40.	AFS securities	469,719	103,273	1,728
60.	Due from banks	1,955,260	11,199,490	43,304
70.	Due from customers	1,287,103	8,424,473	11,274,655
80.	Hedging derivatives	1,030	27,542	—
100.	Equity investments	648	68	103,681
110.	Property, plant and equipment	16,936	5,528	13,739
120.	Intangible assets	10,615	18,457	354,198
	of which: goodwill	—	—	354,033
130.	Tax assets	—	37,554	463,896
	- Current	—	*4,720*	*16,100*
	- Advance	—	*32,834*	*447,796*
	- of which pursuant to Italian Law 214/11	—	*20,719*	436,917
150.	*Other assets*	21,530	281,199	146,834
	TOTAL ASSETS	**3,806,730**	**20,158,382**	**12,403,465**
	LIABILITIES			
10.	**Due to banks**	19,505	5,340,387	10,310,635
20.	Due to customers	2,983,543	14,162,996	22,979
40.	Financial liabilities	3,919	—	—
60.	Hedging derivatives	—	13,370	12,647
80.	Tax liabilities	—	7,765	32,908
	- Current	—	*2,180*	*30,182*
	- Deferred	—	*5,585*	*2,726*
100.	*Other liabilities*	20,556	211,987	171,317
110.	Staff severance indemnity provision	—	2,074	8,440
120.	Provisions	4,568	58,973	*9,741*
	- post-employment and similar benefits	—	—	—
	- other provisions	*4,568*	*58,973*	*9,741*
130.	*Valuation reserves*	(3,131)	(2,691)	(14,566)
140.	Redeemable shares	—	—	—
150.	Equity instruments (-)	—	—	—
160.	Reserves	627,146	(115,478)	1,009,034
170.	Share premium reserve	4,573	233,750	—
180.	Share capital	111,110	226,250	587,500
190.	Treasury shares (-)	—	—	—
200.	Profit (loss) for the period	34,941	18,999	252,830
	TOTAL LIABILITIES AND NET EQUITY	**3,806,730**	**20,158,382**	**12,403,465**

* Table compiled in accordante with the regulation provided under the Article 15 of CONSOB Market Regulation and Article 2, 6, 2 Italian stock exchange regulation (pro-forma, as at 30 June 2018, drawn up for the Group financial statements purpose).

PROFIT AND LOSS ACCOUNTS

	COMPAGNIE MONEGASQUE DE BANQUE * (€/000)	CHEBANCA! (€/000)	COMPASS BANCA (€/000)
10. Interest and similar income	41,924	324,762	969,756
20. Interest and similar expense	(6,896)	(115,582)	(163,583)
30. Net interest income	**35,028**	**209,180**	**806,173**
40. Fee and commission income	46,385	99,917	51,296
50. Fee and commission expense	(7,645)	(21,066)	(49,807)
60. Net fee and commission income	**38,740**	**78,851**	**1,489**
70. Dividends and similar income	5,014	55	7
80. Net trading income (expense)	9,559	578	—
90. Net hedging income (expense)	—	2,796	—
100. Gain (loss) on repurchase (disposal) of:	3,116	163	(11,080)
a) loans and advances	—	—	*(11,080)*
b) AFS securities	*3,116*	*163*	—
c) financial assets held to maturity	—	—	—
d) financial liabilities	—	—	—
110. Net income from financial assets and liabilities recognized at fair value	—	—	—
120. Total income	**91,457**	**291,623**	**796,589**
130. Value adjustments for impairment of:	288	(19,329)	(225,925)
a) loans and advances	*288*	*(16,521)*	*(225,924)*
b) AFS securities	—	*(2,808)*	—
c) financial assets held to maturity	—	—	—
d) other financial assets	—	—	*(1)*
140. Net income from financial operations	**91,745**	**272,294**	**570,664**
150. Administrative expenses	(53,309)	(268,999)	(294,871)
- labour costs	*(33,640)*	*(102,592)*	*(90,904)*
- other administrative expenses	*(19,669)*	*(166,407)*	*(203,967)*
160. Net transfers to provisions	101	(11,923)	(7,651)
170. Net adjustments on tangible assets	(2,052)	(989)	(2,044)
180. Net adjustments on intangible assets	(2,597)	(6,231)	(1,650)
190. Other operating incomes (expenses)	5,044	43,578	110,641
200. Operating costs	**(52,813)**	**(244,564)**	**(195,575)**
210. Gairn (loss) on equity investments	—	—	—
220. Net result of fair value recognition of tangible and intangible assets	—	—	—
230. Goodwill write-offs	—	—	—
240. Gain (loss) on disposal of investments	4	—	—
250. Profit (loss) on ordinary activity before tax	**38,936**	**27,730**	**375,089**
260. Income tax on ordinary activity	(3,995)	(8,731)	(122,259)
270. Profit (loss) on ordinary activity after tax	**34,941**	**18,999**	**252,830**
280. Gain (loss) on groups of assets being sold	—	—	—
290. Net profit (loss) for the period	**34,941**	**18,999**	**252,830**

* Table compiled in accordante with the regulation provided under the Article 15 of CONSOB Market Regulation and Article 2, 6, 2 Italian stock exchange regulation (pro-forma, as at 30 June 2018, drawn up for the Group financial statements purpose).

Banks (IAS/IFRS)

continued **Table B**

BALANCE SHEETS

		MEDIOBANCA INTERNATIONAL (LUXEMBOURG) (€/000)
	ASSETS	
10.	Cash and cash equivalents	18,992
20.	Financial assets held for trading	22,426
50.	Financial assets held to maturity	10,001
60.	Due from banks	2,774,877
70.	Due from customers	4,090,381
80.	Hedging derivatives	1,689
100.	Equity investments	4,150
110.	Property, plant and equipment	11
120.	Intangible assets	—
130.	Tax assets	—
	- Current	—
	- Advance	—
	- of which pursuant to Italian Law 214/11	—
150.	Other assets	91,808
	TOTAL ASSETS	**7,014,335**
	LIABILITIES	
10.	Due to banks	2,180,326
20.	Due to customers	792,710
30.	Debt securities in issue	3,652,741
40.	Financial liabilities	19,050
60.	Hedging derivatives	11,122
80.	Tax liabilities	11,167
	- Current	*10,387*
	- Deferred	*780*
100.	Other liabilities	6,292
110.	Staff severance indemnity provision	—
120.	Provisions	—
	- post-employment and similar benefits	—
	- other provisions	—
130.	Valuation reserves	—
160.	Reserves	318,553
170.	Share premium reserve	—
190.	Treasury shares (-)	10,000
200.	Profit (loss) for the period	12,374
	TOTAL LIABILITIES AND NET EQUITY	**7,014,335**

PROFIT AND LOSS ACCOUNTS

		MEDIOBANCA INTERNATIONAL (LUXEMBOURG) (€/000)
10.	**Interest and similar income**	**92,596**
20.	Interest and similar expense	(69,322)
30.	**Net interest income**	**23,274**
40.	Fee and commission income	19,376
50.	Fee and commission expense	(14,135)
60.	**Net fee and commission income**	**5,241**
70.	Dividends and similar income	—
80.	Net trading income (expense)	(2,060)
90.	Net hedging income (expense)	(120)
100.	Gain (loss) on repurchase (disposal) of:	(495)
	a) loans and advances	*133*
	b) AFS securities	—
	c) financial assets held to maturity	—
	d) financial liabilities	*(628)*
110.	Net income from financial assets and liabilities recognized at fair value	—
120.	**Total income**	**25,840**
130.	Value adjustments for impairment of:	(170)
	a) loans and advances	*(121)*
	b) AFS securities	—
	c) financial assets held to maturity	—
	d) other financial assets	*(49)*
140.	**Net income from financial operations**	**25,670**
150.	Administrative expenses	(9,079)
	- labour costs	*(1,576)*
	- other administrative expenses	*(7,503)*
160.	Net transfers to provisions	—
170.	Net adjustments on tangible assets	(6)
180.	Net adjustments on intangible assets	—
190.	Other operating incomes (expenses)	196
200.	**Operating costs**	**(8,889)**
210.	Gairn (loss) on equity investments	—
240.	Gain (loss) on disposal of investments	—
250.	**Profit (loss) on ordinary activity before tax**	**16,781**
260.	Income tax on ordinary activity	(4,407)
270.	**Profit (loss) on ordinary activity after tax**	**12,374**
280.	Gain (loss) on groups of assets being sold	—
290.	**Net profit (loss) for the period**	**12,374**

Financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEETS

		FUTURO (€/000)	MBCREDIT SOLUTIONS (€/000)
	ASSETS		
10.	Cash and cash equivalents	1	1
20.	Financial assets held for trading	—	—
30.	*Financial assets recognized at fair value*	—	—
40.	AFS securities	—	—
50.	Financial assets held to maturity	—	603
60.	Amounts receivables	1,699,424	294,947
70.	Hedging derivatives	750	—
90.	Equity investments	9	—
100.	Property, plant and equipment	25	171
110.	Intangible assets	97	547
120.	Tax assets	5,543	14,720
	- Current	*2,312*	*2,280*
	- Advance	*3,231*	*12,440*
	- of which pursuant to Italian Law 214/11	*1,752*	*11,578*
140.	Other assets	7,153	16,347
	TOTAL ASSETS	**1,713,002**	**327,336**
	LIABILITIES		
10.	Amounts payable	1,551,251	173,711
20.	Debt securities in issue	—	—
30.	Trading liabilities	—	—
40.	*Financial liabilities designated at fair value*	—	—
50.	Hedging derivatives	3,814	—
70.	Tax liabilities	3,880	2,423
	- Current	*3,690*	*2,423*
	- Deferred	*190*	—
90.	Other liabilities	22,162	10,323
100.	Staff severance indemnity provision	144	3,918
110.	Provisions	1,268	2,352
	- post-employment and similar benefits	—	—
	- other provisions	*1,268*	*2,352*
120.	Share capital	14,800	32,500
130.	Treasury shares (-)	—	—
140.	Equity instruments (-)	—	—
150.	Share premium reserve	—	—
160.	Reserves	95,072	85,370
170.	Valuation reserves	(1,799)	(446)
180.	Profit (loss) for the period	22,410	17,185
	TOTAL LIABILITIES AND NET EQUITY	**1,713,002**	**327,336**

Financial companies (IAS/IFRS)

PROFIT AND LOSS ACCOUNTS

		FUTURO (€/000)	MBCREDIT SOLUTIONS (€/000)
10.	Interest and similar income	87,852	30,131
20.	Interest and similar expense	(27,721)	(1,470)
	Net interest income	**60,131**	**28,661**
30.	Fee and commission income	1,956	26,769
40.	Fee and commission expense	(5,833)	(7,644)
	Net fee and commission income	**(3,877)**	**19,125**
50.	Dividends and similar income	—	—
60.	Net trading income (expense)	—	(24)
70.	Net hedging income (expense)	—	—
80.	Net income from financial assets and liabilities recognized at fair value	—	—
90.	Gain (loss) on repurchase (disposal) of:	—	—
	a) financial assets	—	—
	b) financial liabilities	—	—
	Total income	**56,254**	**47,762**
100.	Value adjustments for impairment of:	(4,877)	13,800
	a) financial assets	*(4,835)*	*13,800*
	b) other financial operations	*(42)*	—
110.	Administrative expenses	(15,808)	(35,920)
	- labour costs	*(4,907)*	*(13,682)*
	- other administrative expenses	*(10,901)*	*(22,238)*
120.	Net adjustments on tangible assets	(17)	(55)
130.	Net adjustments on intangible assets	(134)	(628)
140.	Net result of fair value recognition of tangible and intangible assets	—	—
150.	Net transfers to provisions	(335)	(181)
160.	Other operating incomes (expenses)	(1,751)	692
	Operating profit (loss)	**33,332**	**25,470**
170.	Gairn (loss) on equity investments	—	—
180.	Gain (loss) on disposal of investments	—	—
	Profit (loss) on ordinary activity before tax	**33,332**	**25,470**
190.	Income tax on ordinary activity	(10,922)	(8,285)
	Profit (loss) on ordinary activity after tax	**22,410**	**17,185**
200.	Gain (loss) on groups of assets being sold	—	—
	Net profit (loss) for the period	**22,410**	**17,185**

Financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEETS

		SELMABIPIEMME LEASING (€/000)
	ASSETS	
10.	Cash and cash equivalents	6
20.	Financial assets held for trading	—
30.	Financial assets recognized at fair value	—
40.	AFS securities	—
50.	Financial assets held to maturity	—
60.	Amounts receivables	2,174,386
70.	Hedging derivatives	—
90.	Equity investments	3
100.	Property, plant and equipment	57,682
110.	Intangible assets	689
120.	Tax assets	37,055
	- Current	*1,360*
	- Advance	*35,695*
	- of which pursuant to Italian Law 214/11	*27,034*
140.	Other assets	54,713
	TOTAL ASSETS	**2,324,534**
	LIABILITIES	
10.	Amounts payable	2,051,693
20.	Debt securities in issue	—
30.	Trading liabilities	426
40.	Financial liabilities designated at fair value	—
50.	Hedging derivatives	11,707
70.	Tax liabilities	10,796
	- Current	*2,411*
	- Deferred	*8,385*
90.	Other liabilities	21,941
100.	Staff severance indemnity provision	2,048
110.	Provisions	9,400
	- post-employment and similar benefits	—
	- other provisions	*9,400*
120.	Share capital	41,305
130.	Treasury shares (-)	—
140.	Equity instruments (-)	—
150.	Share premium reserve	4,620
160.	Reserves	169,944
170.	Valuation reserves	(7,438)
180.	Profit (loss) for the period	8,092
	TOTAL LIABILITIES AND NET EQUITY	**2,324,534**

Financial companies (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS ACCOUNTS

		SELMABIPIEMME LEASING (€/000)
10.	Interest and similar income	57,723
20.	Interest and similar expense	(12,342)
	Net interest income	**45,381**
30.	Fee and commission income	1,400
40.	Fee and commission expense	(1,276)
	Net fee and commission income	**124**
50.	Dividends and similar income	—
60.	Net trading income (expense)	68
70.	Net hedging income (expense)	(84)
80.	Net income from financial assets and liabilities recognized at fair value	—
90.	Gain (loss) on repurchase (disposal) of:	—
	a) financial assets	—
	b) financial liabilities	—
	Total income	**45,489**
100.	Value adjustments for impairment of:	(7,282)
	a) financial assets	*(7,282)*
	b) other financial operations	—
110.	Administrative expenses	(22,752)
	a) labour costs	*(13,799)*
	b) other administrative expenses	*(8,953)*
120.	Net adjustments on tangible assets	(1,820)
130.	Net adjustments on intangible assets	(3)
140.	Net result of fair value recognition of tangible and intangible assets	—
150.	Net transfers to provisions	(7,119)
160.	Other operating incomes (expenses)	5,063
	Operating profit (loss)	**11,576**
170.	Gairn (loss) on equity investments	(10)
180.	Gain (loss) on disposal of investments	—
	Profit (loss) on ordinary activity before tax	**11,566**
190.	Income tax on ordinary activity	(3,474)
	Profit (loss) on ordinary activity after tax	**8,092**
200.	Gain (loss) on groups of assets being sold	—
	Net profit (loss) for the period	**8,092**

Financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEETS

	PROMINVESTMENT (in liquidation)	MEDIOBANCA INTERNATIONAL IMMOBILIERE	MB FUNDING LUX	CAIRN CAPITAL LIMITED GROUP *	CMB WEALTH MANAGEMENT LTD. *
	(€/000)	**(€/000)**	**(€/000)**	**(£/000)**	**(£/000)**
ASSETS					
10. Cash and cash equivalents	—	—	208	—	-
20. Financial assets held for trading	—	—	—	—	—
30. Financial assets recognized at fair value	—	—	—	—	—
40. AFS securities	—	—	—	1,761	—
50. Financial assets held to maturity	—	—	—	—	—
60. Amounts receivables	771	131	310,062	1,532	1,342
70. Hedging derivatives	—	—	—	—	—
90. Equity investments	—	—	—	—	—
100. Property, plant and equipment	—	1,776	—	189	1
110. Intangible assets	—	—	—	—	—
120. Tax assets	72	8	1	203	—
- Current	*72*	*8*	—	*203*	—
- Advance	—	—	*1*	—	—
- of which pursuant to Italian Law 214/11	—	—	—	—	—
140. Other assets	30	12	283	8,009	—
TOTAL ASSETS	**873**	**1,927**	**310,554**	**11,694**	**1,343**
LIABILITIES					
10. Amounts payable	2,802	173	—	1,000	—
20. Debt securities in issue	—	—	310,062	—	—
30. Trading liabilities	—	—	—	40	—
40. Financial liabilities designated at fair value	—	—	—	—	—
50. Hedging derivatives	—	—	—	—	—
70. Tax liabilities	1	3	5	1,143	—
- Current	*1*	*3*	*5*	*979*	—
- Deferred	—	—	—	*164*	—
80. Passività associate ad attività in via di dismissione	—	—	—	—	—
90. Other liabilities	2,129	6	56	740	105
100. Staff severance indemnity provision	—	—	—	—	—
110. Provisions	—	—	—	—	—
- post-employment and similar benefits	—	—	—	—	—
- other provisions	—	—	—	—	—
120. Share capital	743	40	431	—	3,000
130. Treasury shares (-)	—	—	—	—	—
140. Equity instruments (-)	—	—	—	—	—
150. Share premium reserve	—	—	—	5,000	—
160. Reserves	(3,741)	1,650	—	4,596	(1,648)
170. Valuation reserves	—	—	—	144	—
180. Profit (loss) for the period	(1,061)	55	—	(969)	(114)
TOTAL LIABILITIES AND NET EQUITY	**873**	**1,927**	**310,554**	**11,694**	**1,343**

* Pro-forma scheme as at 30 June 2018, used for the Consolidated Financial Statements preparation.

Financial companies (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS ACCOUNTS

	PROMINVESTMENT (in liquidation)	MEDIOBANCA INTERNATIONAL IMMOBILIERE	MB FUNDING LUX	CAIRN CAPITAL LIMITED GROUP *	CMB WEALTH MANAGEMENT LTD. *
	(€/000)	**(€/000)**	**(€/000)**	**(£/000)**	**(£/000)**
10. Interest and similar income	—	—	2,627	7	—
20. Interest and similar expense	(16)	(11)	(2,627)	—	—
Net interest income	**(16)**	**(11)**	**—**	**7**	**—**
30. Fee and commission income	151	—	—	17,328	—
40. Fee and commission expense	(82)	(5)	—	—	—
Net fee and commission income	**69**	**(5)**	**—**	**17,328**	**—**
50. Dividends and similar income	—	—	—	145	—
60. Net trading income (expense)	—	—	—	(53)	—
70. Net hedging income (expense)	—	—	—	—	—
80. Net income from financial assets and liabilities recognized at fair value	—	—	—	—	—
90. Gain (loss) on repurchase (disposal) of:	—	—	—	—	—
a) financial assets	—	—	—	—	—
b) financial liabilities	—	—	—	—	—
Total income	**53**	**(16)**	**—**	**17,427**	**—**
100. Value adjustments for impairment of:	—	—	—	(2)	—
a) financial assets	—	—	—	—	—
b) other financial operations	—	—	—	*(2)*	—
110. Administrative expenses	(1,189)	(12)	(206)	(18,415)	(95)
a) labour costs	*(649)*	—	—	*(11,434)*	—
b) other administrative expenses	*(540)*	*(12)*	*(206)*	*(6,981)*	*(95)*
120. Net adjustments on tangible assets	—	(79)	—	(130)	(11)
130. Net adjustments on intangible assets	—	—	—	—	(16)
140. Net result of fair value recognition of tangible and intangible assets	—	—		—	—
150. Net transfers to provisions	—	—		—	—
160. Other operating incomes (expenses)	75	164	211	(13)	8
Operating profit (loss)	**(1,061)**	**57**	**5**	**(1,133)**	**(114)**
170. Gairn (loss) on equity investments	—	—	—	—	—
180. Gain (loss) on disposal of investments	—	—	—	—	—
Profit (loss) on ordinary activity before tax	**(1,061)**	**57**	**5**	**(1,133)**	**(114)**
190. Income tax on ordinary activity	—	(2)	(5)	164	—
Profit (loss) on ordinary activity after tax	**(1,061)**	**55**	**—**	**(969)**	**(114)**
200. Gain (loss) on groups of assets being sold	—	—	—	—	—
Net profit (loss) for the period	**(1,061)**	**55**	**—**	**(969)**	**(114)**

* Pro-forma scheme as at 30 June 2018, used for the Consolidated Financial Statements preparation.

Financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEETS

		COMPAGNIE MONEGASQUE DE GESTION *	RAM ACTIVE INVESTMENTS S.A. *	RAM ACTIVE INVESTMENTS (LUXEMBOURG) S.A. *
		(€/000)	(CHF/000)	(CHF/000)
	ASSETS			
10.	Cash and cash equivalents	—	—	—
20.	Financial assets held for trading	—	326	—
30.	Financial assets recognized at fair value	—	—	—
40.	AFS securities	405	—	—
50.	Financial assets held to maturity	—	—	—
60.	Amounts receivables	7,764	2,478	2,487
70.	Hedging derivatives	—	—	—
90.	Equity investments	—	793	—
100.	Property, plant and equipment	—	136	—
110.	Intangible assets	—	42	—
120.	Tax assets	—	1,739	—
	- Current	—	*1,545*	—
	- Advance	—	*194*	—
	- of which pursuant to Italian Law 214/11	—	—	—
140.	Other assets	3,372	17,117	5,205
	TOTAL ASSETS	**11,541**	**22,631**	**7,692**
	LIABILITIES			
10.	Amounts payable	—	—	—
20.	Debt securities in issue	—	—	—
30.	Trading liabilities	—	—	—
40.	*Financial liabilities designated at fair value*	—	—	—
50.	Hedging derivatives	—	—	—
70.	Tax liabilities	—	194	*1,407*
	- Current	—	*194*	1,407
	- Deferred	—	—	—
80.	Passività associate ad attività in via di dismissione	—	—	—
90.	Other liabilities	9,712	9,950	3,957
100.	Staff severance indemnity provision	—	—	—
110.	Provisions	—	—	—
	- post-employment and similar benefits	—	—	—
	- other provisions	—	—	—
120.	Share capital	600	1,000	782
130.	Treasury shares (-)	—	(4,198)	—
140.	Equity instruments (-)	—	500	—
150.	Share premium reserve	—	—	—
160.	Reserves	(2,293)	9,567	853
170.	Valuation reserves	5	—	(34)
180.	Profit (loss) for the period	3,517	5,618	727
	TOTAL LIABILITIES AND NET EQUITY	**11,541**	**22,631**	**7,692**

* Pro-forma scheme as at 30 June 2018, used for the Consolidated Financial Statements preparation.

Financial companies (IAS/IFRS)

PROFIT AND LOSS ACCOUNTS

		COMPAGNIE MONEGASQUE DE GESTION (*)	RAM ACTIVE INVESTMENTS S.A. (*)	RAM ACTIVE INVESTMENTS (LUXEMBOURG) S.A. (*)
		(€/000)	(CHF/000)	(CHF/000)
10.	Interest and similar income	—	—	—
20.	Interest and similar expense	(2)	(7)	(7)
	Net interest income	**(2)**	**(7)**	**(7)**
30.	Fee and commission income	15,166	19,878	5,022
40.	Fee and commission expense	(7,110)	(3,528)	(3,195)
	Net fee and commission income	**8,056**	**16,350**	**1,827**
50.	Dividends and similar income	—	—	—
60.	Net trading income (expense)	—	(76)	8
70.	Net hedging income (expense)	—	—	—
80.	Net income from financial assets and liabilities recognized at fair value	—	—	—
90.	Gain (loss) on repurchase (disposal) of:	—	—	—
	a) financial assets	—	—	—
	b) financial liabilities	—	—	—
	Total income	**8,054**	**16,267**	**1,828**
100.	Value adjustments for impairment of:	—	—	—
	a) financial assets	—	—	—
	b) other financial operations	—	—	—
110.	Administrative expenses	(2,779)	(8,777)	(809)
	a) labour costs	*(2,026)*	*(6,952)*	*(542)*
	b) other administrative expenses	*(753)*	*(1,825)*	*(267)*
120.	Net adjustments on tangible assets	—	(13)	(2)
130.	Net adjustments on intangible assets	—	—	—
140.	Net result of fair value recognition of tangible and intangible assets	—	—	—
150.	Net transfers to provisions	—	—	—
160.	Other operating incomes (expenses)	—	13	—
	Operating profit (loss)	**5,275**	**7,490**	**1,017**
170.	Gairn (loss) on equity investments	—	—	—
180.	Gain (loss) on disposal of investments	—	—	—
	Profit (loss) on ordinary activity before tax	**5,275**	**7,490**	**1,017**
190.	Income tax on ordinary activity	(1,758)	(1,872)	(290)
	Profit (loss) on ordinary activity after tax	**3,517**	**5,618**	**727**
200.	Gain (loss) on groups of assets being sold	—	—	—
	Net profit (loss) for the period	**3,517**	**5,618**	**727**

* Pro-forma scheme as at 30 June 2018, used for the Consolidated Financial Statements preparation.

Other financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEETS

		MBFACTA	SPAFID	SPAFID FAMILY OFFICE SIM
		(€/000)	(€/000)	(€/000)
	ASSETS			
10.	Cash and cash equivalents	1	4	1
20.	Financial assets held for trading	—	—	—
40.	AFS securities	—	—	—
50.	Financial assets held to maturity	—	2	—
60.	Amounts receivables	1,872,692	22,099	871
70.	Hedging derivatives	—	—	—
90.	Equity investments	—	20,973	—
100.	Property, plant and equipment	20	22	—
110.	Intangible assets	—	7,657	74
120.	Tax assets	772	1,576	99
	- Current	*767*	*508*	—
	- Advance	*5*	*1,068*	*99*
	- of which pursuant to Italian Law 214/11	—	—	—
140.	Other assets	263	4,138	34
	TOTAL ASSETS	**1,873,748**	**56,471**	**1,079**
	LIABILITIES			
10.	Amounts payable	1,728,886	7	—
20.	Debt securities in issue	—	—	—
30.	Trading liabilities	—	—	—
40.	Financial liabilities designated at fair value	—	—	—
70.	Tax liabilities	4,219	—	22
	- Current	*4,207*	—	*22*
	- Deferred	*12*	—	—
90.	Other liabilities	4,317	6,204	344
100.	Staff severance indemnity provision	163	913	42
110.	Provisions	50	—	—
	- post-employment and similar benefits	—	—	
	- other provisions	*50*	—	
120.	Share capital	120,000	6,100	1,000
150.	Share premium reserve	—	3,500	—
160.	Reserves	2,627	39,382	(271)
170.	Valuation reserves	(14)	(74)	—
180.	Profit (loss) for the period	13,500	439	(58)
	TOTAL LIABILITIES AND NET EQUITY	**1,873,748**	**56,471**	**1,079**

Other financial companies (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS ACCOUNTS

		MBFACTA	SPAFID	SPAFID FAMILY OFFICE SIM
		(€/000)	**(€/000)**	**(€/000)**
10.	Interest and similar income	41,384	122	—
20.	Interest and similar expense	(2,406)	—	—
	Net interest income	**38,978**	**122**	**—**
30.	Fee and commission income	5,786	9,935	1,324
40.	Fee and commission expense	(1,824)	(1,276)	—
	Net fee and commission income	**3,962**	**8,659**	**1324**
50.	Dividends and similar income	—	—	—
60.	Net trading income (expense)	(16)	—	—
70.	Net hedging income (expense)	—	—	—
80.	Net income from financial assets and liabilities recognized at fair value	—	—	—
90.	Gain (loss) on repurchase (disposal) of:	—	(9)	—
	a) financial assets	—	*(9)*	—
	b) financial liabilities	—	—	—
	Total income	**42,924**	**8,772**	**1324**
100.	Value adjustments for impairment of:	(15,177)	(293)	—
	a) financial assets	*(15,177)*	*(293)*	—
	b) other financial operations	—	—	—
	Net income from financial operations	**27,747**	**8,479**	**1324**
110.	Administrative expenses	(7,942)	(8,748)	(1,337)
	a) labour costs	*(2,672)*	*(5,563)*	*(978)*
	b) other administrative expenses	*(5,270)*	*(3,185)*	*(359)*
120.	Net adjustments on tangible assets	(7)	(9)	—
130.	Net adjustments on intangible assets	—	(263)	(18)
150.	Net transfers to provisions	34	—	—
160.	Other operating incomes (expenses)	**200**	**1,170**	**—**
	Operating profit (loss)	**20,032**	**629**	**(31)**
170.	Gairn (loss) on equity investments	**—**	**—**	**—**
	Profit (loss) on ordinary activity before tax	**20,032**	**629**	**(31)**
190.	Income tax on ordinary activity	**(6,532)**	**(190)**	**(27)**
	Profit (loss) on ordinary activity after tax	**13,500**	**439**	**(58)**
200.	Gain (loss) on groups of assets being sold	—	—	—
	Net profit (loss) for the period	**13,500**	**439**	**(58)**

BALANCE SHEETS

		MEDIOBANCA SGR S.p.A. (€/000)
	ASSETS	
10.	Cash and cash equivalents	2
20.	Financial assets held for trading	—
40.	AFS securities	—
50.	Financial assets held to maturity	—
60.	Amounts receivables	22,778
	a) for asset management	*7,564*
	b) other receivables	*15,214*
70.	Hedging derivatives	—
90.	Equity investments	—
100.	Property, plant and equipment	4
110.	Intangible assets	—
120.	Tax assets	70
	- Current	—
	- Advance	*70*
	- of which pursuant to Italian Law 214/11	*62*
140.	Other assets	8,751
	TOTAL ASSETS	**31,605**
	LIABILITIES	
10.	Amounts payable	1,632
20.	Debt securities in issue	—
30.	Trading liabilities	—
40.	Financial liabilities designated at fair value	—
70.	Tax liabilities	1,062
	- Current	*1,036*
	- Deferred	*26*
90.	Other liabilities	4,093
100.	Staff severance indemnity provision	408
110.	Provisions	297
	- post-employment and similar benefits	—
	- other provisions	*297*
120.	Share capital	10,330
160.	Reserves	9,348
170.	Valuation reserves	2
180.	Profit (loss) for the period	4,433
	TOTAL LIABILITIES AND NET EQUITY	**31,605**

Other financial companies (IAS/IFRS)

continued **Table B**

PROFIT AND LOSS ACCOUNTS

		MEDIOBANCA SGR S.p.A.
		(€/000)
10.	Fee and commission income	19,304
20.	Fee and commission expense	(1,744)
	Net fee and commission income	**17,560**
40.	Interest and similar income	—
50.	Interest and similar expense	—
	Total income	**17,560**
100.	Value adjustments for impairment of:	—
	a) financial assets	—
	b) other financial operations	—
110.	Administrative expenses	(11,132)
	- *labour costs*	*(6,561)*
	- *other administrative expenses*	*(4,571)*
120.	Net adjustments on tangible assets	(14)
130.	Net adjustments on intangible assets	(13)
160.	Other operating incomes (expenses)	105
	Risultato della gestione operativa	**6,506**
170.	Gairn (loss) on equity investments	—
180.	Gain (loss) on disposal of investments	—
	Profit (loss) on ordinary activity before tax	**6,506**
190.	Income tax on ordinary activity	(2,073)
	Profit (loss) on ordinary activity after tax	**4,433**
200.	Gain (loss) on groups of assets being sold	—
	Net profit (loss) for the period	**4,433**

Other financial companies (IAS/IFRS)

continued **Table B**

BALANCE SHEETS

	MEDIOBANCA COVERED BOND	QUARZO	QUARZO CQS	QUARZO MB
	(€/000)	(€/000)	(€/000)	(€/000)
ASSETS				
10. Cash and cash equivalents	—	—	—	—
20. Financial assets held for trading	—	—	—	—
40. AFS securities	—	—	—	—
50. Financial assets held to maturity	—	—	—	—
60. Amounts receivables	100	10	10	52
70. Hedging derivatives	—	—	—	—
90. Equity investments	—	—	—	—
100. Property, plant and equipment	—	—	—	—
110. Intangible assets	—	—	—	—
120. Tax assets	—	—	—	—
- *Current*	—	—	—	—
- *Advance*	—	—	—	—
- *of which pursuant to Italian Law 214/11*	—	—	—	—
140. Other assets	375	466	328	—
TOTAL ASSETS	**475**	**476**	**338**	**52**
LIABILITIES				
10. Amounts payable	—	—	—	—
20. Debt securities in issue	—	—	—	—
30. Trading liabilities	—	—	—	—
40. *Financial liabilities designated at fair value*	—	—	—	—
50. Hedging derivatives	—	—	—	—
70. Tax liabilities	—	—	—	—
- *Current*	—	—	—	—
- *Deferred*	—	—	—	—
90. Other liabilities	399	463	328	48
100. Staff severance indemnity provision	—	—	—	—
110. Provisions	—	—	—	—
120. Share capital	100	10	10	30
160. Reserves	(24)	3	—	—
170. Valuation reserves	—	—	—	—
180. Profit (loss) for the period	—	—	—	(26)
TOTAL LIABILITIES AND NET EQUITY	**475**	**476**	**338**	**52**

Other financial companies (IAS/IFRS)

PROFIT AND LOSS ACCOUNTS

	MEDIOBANCA COVERED BOND (€/000)	QUARZO (€/000)	QUARZO CQS (€/000)	QUARZO MB (€/000)
10. Interest and similar income	—	—	—	—
20. Interest and similar expense	—	—	—	—
Net interest income	**—**	**—**	**—**	**—**
30. Fee and commission income	—	—	—	—
40. Fee and commission expense	—	—	—	—
Net fee and commission income	**—**	**—**	**—**	**—**
50. Dividends and similar income	—	—	—	—
60. Net trading income (expense)	—	—	—	—
70. Net hedging income (expense)	—	—	—	—
80. Net income from financial assets and liabilities recognized at fair value	—	—	—	—
90. Gain (loss) on repurchase (disposal) of:	—	—	—	—
a) financial assets	—	—	—	—
b) financial liabilities	—	—	—	—
Total income	**—**	**—**	**—**	**—**
100. Value adjustments for impairment of:	—	—	—	—
a) financial assets	—	—	—	—
b) other financial operations	—	—	—	—
110. Administrative expenses	(75)	(148)	(85)	(25)
a) labour costs	—	*(13)*	*(10)*	*(9)*
b) other administrative expenses	*(75)*	*(135)*	*(75)*	*(16)*
120. Net adjustments on tangible assets	—	—	—	—
130. Net adjustments on intangible assets	—	—	—	—
150. Net transfers to provisions	—	—	—	—
160. Other operating incomes (expenses)	75	148	85	(1)
Operating profit (loss)	**—**	**—**	**—**	**(26)**
Profit (loss) on ordinary activity before tax	**—**	**—**	**—**	**(26)**
190. Income tax on ordinary activity	—	—	—	—
Profit (loss) on ordinary activity after tax	**—**	**—**	**—**	**(26)**
200. Gain (loss) on groups of assets being sold	—	—	—	—
Net profit (loss) for the period	**—**	**—**	**—**	**(26)**

BALANCE SHEETS

		COMPAGNIE MONÉGASQUE DE BANQUE 31.12.2017 (€/000)
	ASSETS	
10.	Cash and cash equivalents	32,423
20.	Financial assets held for trading	35,682
30.	Financial assets recognized at fair value	—
40.	AFS securities	525,166
50.	Financial assets held to maturity	—
60.	Due from banks	2,328,515
70.	Due from customers	1,201,489
80.	Hedging derivatives	—
100.	Equity investments	7,921
110.	Property, plant and equipment	226,209
120.	Intangible assets	8,122
130.	Tax assets	—
	- Current	—
	- Advance	—
140.	Non current assets and groups of assets being sold	—
150.	Other assets	17,382
	TOTAL ASSETS	**4,382,909**
	LIABILITIES	
10.	Due to banks	9,450
20.	Due to customers	3,358,875
30.	Debt securities in issue	—
40.	Financial liabilities	—
50.	Financial liabilities designated at fair value	—
60.	Hedging derivatives	—
80.	Tax liabilities	—
	- Current	—
	- Deferred	—
90.	Liabilities associated with assets being sold	—
100.	Other liabilities	47,809
110.	Staff severance indemnity provision	—
120.	Provisions	25,936
	- post-employment and similar benefits	—
	- other provisions	*25,936*
130.	Valuation reserves	—
140.	Redeemable shares	—
150.	Equity instruments (-)	—
160.	Reserves	811,523
170.	Share premium reserve	4,573
180.	Share capital	111,110
190.	Treasury shares (-)	—
200.	Profit (loss) for the period	13,633
	TOTAL LIABILITIES AND NET EQUITY	**4,382,909**

PROFIT AND LOSS ACCOUNTS

	COMPAGNIE MONÉGASQUE DE BANQUE 31.12.2017 (€/000)
10. Interest and similar income	33,599
20. Interest and similar expense	(9,341)
30. Net interest income	**24,258**
40. Fee and commission income	51,809
50. Fee and commission expense	(3,687)
60. Net fee and commission income	**48,122**
70. Dividends and similar income	1,014
80. Net trading income (expense)	14,043
90. Net hedging income (expense)	—
100. Gain (loss) on repurchase (disposal) of:	5,629
a) loans and advances	*5,629*
b) AFS securities	—
c) financial assets held to maturity	—
d) financial liabilities	—
110. Net income from financial assets and liabilities recognized at fair value	—
120. Total income	**93,066**
130. Value adjustments for impairment of:	(207)
a) loans and advances	*(207)*
b) AFS securities	—
c) financial assets held to maturity	—
d) other financial assets	—
140. Net income from financial operations	**93,273**
150. Administrative expenses	(46,371)
- labour costs	*(29,698)*
- other administrative expenses	*(16,673)*
160. Net transfers to provisions	2,250
170. Net adjustments on tangible assets	(6,163)
180. Net adjustments on intangible assets	(19,052)
190. Other operating incomes (expenses)	(3,866)
200. Operating costs	**(73,202)**
210. Gairn (loss) on equity investments	(548)
220. Net result of fair value recognition of tangible and intangible assets	—
230. Goodwill write-offs	—
240. Gain (loss) on disposal of investments	—
250. Profit (loss) on ordinary activity before tax	**19,523**
260. Income tax on ordinary activity	(5,890)
270. Profit (loss) on ordinary activity after tax	**13,633**
280. Gain (loss) on groups of assets being sold	—
290. Net profit (loss) for the period	**13,633**

BALANCE SHEETS

		MB ADVISORY TURKEY (TRY/000)	MEDIOBANCA SECURITIES LLC ($/000)
	ASSETS		
10.	Cash and cash equivalents	1	6,069
20.	Financial assets held for trading	260	—
30.	Financial assets recognized at fair value	—	—
40.	AFS securities	—	—
50.	Financial assets held to maturity	—	—
60.	Amounts receivables	4,272	273
70.	Hedging derivatives	—	—
90.	Equity investments	—	—
100.	Property, plant and equipment	23	56
110.	Intangible assets	—	—
120.	Tax assets	880	262
140.	Other assets	148	49
	TOTAL ASSETS	**5,584**	**6,709**
	LIABILITIES		
10.	Amounts payable	134	—
20.	Debt securities in issue	14	—
30.	Trading liabilities	—	—
40.	Financial liabilities designated at fair value	—	—
50.	Hedging derivatives	—	—
70.	Tax liabilities	327	—
90.	Other liabilities	30	1,205
100.	Staff severance indemnity provision	—	—
110.	Provisions	—	—
120.	Share capital	22,040	2,250
160.	Reserves	(12,156)	2,401
180.	Profit (loss) for the period	(4,805)	853
	TOTAL LIABILITIES AND NET EQUITY	**5,584**	**6,709**

Financial companies

continued **Table B**

PROFIT AND LOSS ACCOUNTS

		MB ADVISORY TURKEY (TRY/000)	MEDIOBANCA SECURITIES LLC ($/000)
10.	Interest and similar income	684	—
20.	Interest and similar expense	—	—
	Net interest income	**684**	**—**
30.	Fee and commission income	216	4,229
40.	Fee and commission expense	—	—
	Net fee and commission income	**216**	**4,229**
50.	Dividends and similar income	—	—
60.	Net trading income (expense)	—	—
70.	Net hedging income (expense)	—	—
80.	Net income from financial assets and liabilities recognized at fair value	—	—
90.	Gain (loss) on repurchase (disposal) of:	—	—
	a) financial assets	—	—
	b) financial liabilities	—	—
	Total income	**900**	**4,229**
100.	Value adjustments for impairment of:	—	—
	a) financial assets	—	—
	b) other financial operations	—	—
110.	Administrative expenses	(5,754)	(2,706)
	a) labour costs	*(4,095)*	*(1,657)*
	b) other administrative expenses	*(1,659)*	*(1,049)*
120.	Net adjustments on tangible assets	(11)	—
130.	Net adjustments on intangible assets	—	—
140.	Net result of fair value recognition of tangible and intangible assets	—	—
150.	Net transfers to provisions	—	—
160.	Other operating incomes (expenses)	60	—
	Operating profit (loss)	**(4,805)**	**1,523**
170.	Gairn (loss) on equity investments	—	—
180.	Gain (loss) on disposal of investments	—	—
	Profit (loss) on ordinary activity before tax	**(4,805)**	**1,523**
190.	Income tax on ordinary activity	—	(670)
	Profit (loss) on ordinary activity after tax	**(4,805)**	**853**
200.	Gain (loss) on groups of assets being sold	—	—
	Net profit (loss) for the period	**(4,805)**	**853**

Financial companies

BALANCE SHEETS

	SOCIÉTÉ MONÉGASQUE D'ETUDES FINANCIÈRES 31.12.2017	CMB ASSET MANAGEMENT S.A.M. 31.12.2017	COMPAGNIE MONÉGASQUE DE GESTION 31.12.2017
	(€/000)	**(€/000)**	**(€/000)**
ASSETS			
10. Cash and cash equivalents	493	728	7,072
20. Financial assets held for trading	—	—	—
30. Financial assets recognized at fair value	—	—	—
40. AFS securities	—	—	399
50. Financial assets held to maturity	—	—	—
60. Amounts receivables	—	—	—
70. Hedging derivatives	—	—	—
90. Equity investments	—	—	—
100. Property, plant and equipment	—	—	—
110. Intangible assets	—	—	—
120. Tax assets	437	193	—
- Current	*437*	*193*	—
- Advance	—	—	—
140. Other assets	15	—	5,781
TOTAL ASSETS	**945**	**921**	**13,252**
LIABILITIES			
10. Amounts payable	—	—	—
20. Debt securities in issue	—	—	—
30. Trading liabilities	—	—	—
40. Financial liabilities designated at fair value	—	—	—
50. Hedging derivatives	—	—	—
70. Tax liabilities	—	96	1,554
- Current	—	*96*	*1,554*
- Deferred	—	—	—
80. Passività associate ad attività in via di dismissione	—	—	—
90. Other liabilities	42	602	6,739
100. Staff severance indemnity provision	—	—	—
110. Provisions	—	—	—
- post-employment and similar benefits	—	—	—
- other provisions	—	—	—
120. Share capital	775	150	600
130. Treasury shares (-)	—	—	—
140. Equity instruments (-)	—	—	—
150. Share premium reserve	—	—	—
160. Reserves	(276)	66	283
170. Valuation reserves	—	—	—
180. Profit (loss) for the period	404	7	4,076
TOTAL LIABILITIES AND NET EQUITY	**945**	**921**	**13,252**

Financial companies

continued **Table B**

PROFIT AND LOSS ACCOUNTS

	SOCIÉTÉ MONÉGASQUE D'ETUDES FINANCIÈRES 31.12.2017	CMB ASSET MANAGEMENT S.A.M. 31.12.2017	COMPAGNIE MONÉGASQUE DE GESTION 31.12.2017
	(€/000)	(€/000)	(€/000)
10. Interest and similar income	—	—	4
20. Interest and similar expense	—	—	(3)
Net interest income	**—**	**—**	**1**
30. Fee and commission income	—	2,984	15,381
40. Fee and commission expense	—	—	—
Net fee and commission income	**—**	**2,984**	**15,381**
50. Dividends and similar income	—	—	—
60. Net trading income (expense)	—	—	
70. Net hedging income (expense)	—	—	—
80. Net income from financial assets and liabilities recognized at fair value	—	—	—
90. Gain (loss) on repurchase (disposal) of:	—	—	—
a) financial assets	—	—	—
b) financial liabilities	—	—	—
Total income	**—**	**2,984**	**15,382**
100. Value adjustments for impairment of:	—	—	—
a) financial assets	—	—	—
b) other financial operations	—	—	—
110. Administrative expenses	(1,040)	(2,972)	(9,271)
a) labour costs	—	*(2,723)*	*(1,528)*
b) other administrative expenses	*(1,040)*	*(249)*	*(7,743)*
120. Net adjustments on tangible assets	—	—	—
130. Net adjustments on intangible assets	—	—	—
140. Net result of fair value recognition of tangible and intangible assets	—	—	—
150. Net transfers to provisions	—	—	—
160. Other operating incomes (expenses)	1,444	(1)	3
Operating profit (loss)	**404**	**11**	**6,114**
170. Gairn (loss) on equity investments	—	—	—
180. Gain (loss) on disposal of investments	—	—	—
Profit (loss) on ordinary activity before tax	**404**	**11**	**6,114**
190. Income tax on ordinary activity	—	(4)	(2,038)
Profit (loss) on ordinary activity after tax	**404**	**7**	**4,076**
200. Gain (loss) on groups of assets being sold	—	—	—
Net profit (loss) for the period	**404**	**7**	**4,076**

Financial companies

BALANCE SHEETS

	CAIRN CAPITAL GROUP LTD 31.12.2017 (£/000)	CAIRN CAPITAL LTD 31.12.2017 (£/000)
ASSETS		
Non-current assets		
Intangible assets	—	—
Tangible assets	200	—
Equity interests	3,651	—
Total non-current assets	**3,851**	**—**
Current assets		
Trade receivables	5,498	8,852
Cash and liquid assets	3,056	3,120
Financial assets/liabilities	—	—
Total current assets	8,554	11,972
TOTAL ASSETS	**12,405**	**11,972**
LIABILITIES		
Share capital	—	1,200
Share premium reserve	5,000	—
Legal reserve	—	—
Other reserves	—	—
Gains (losses) carried forward	236	2,926
Gain (loss) for the period	(83)	1,010
Total net equity	**5,153**	**5,136**
Trade payable	7,084	5,836
Financial liabilities	—	1,000
Provisions	168	—
Total current liabilities	**7,252**	**6,836**
TOTAL LIABILITIES AND NET EQUITY	**12,405**	**11,972**

PROFIT AND LOSS ACCOUNTS

	CAIRN CAPITAL GROUP LTD 31.12.2017 (£/000)	CAIRN CAPITAL LTD 31.12.2017 (£/000)
Commission income	1,723	19,116
Dividends and similar income	146	—
Revenues	**1,869**	**19,116**
Administrative expenses	(1,981)	(17,918)
a) personnel costs	*(1,526)*	—
b) other administrative expenses	*(447)*	*(17,847)*
Other operating gains and losses	(72)	142
Net adjustments to tangible assets	(7)	(71)
Operating result	**(184)**	**1,340**
Interest and similar income	117	3
Interest expense and similar charges	—	(100)
Gain (loss) for the period before tax	**(67)**	**1,243**
Income tax	(16)	(233)
Gain (loss) for the period after tax	**(83)**	**1,010**

Financial companies

continued **Table B**

BALANCE SHEETS

	RAM ACTIVE INVESTMENTS S.A. 31.12.2017 (CHF/000)	RAM ACTIVE INVESTMENTS (LUXEMBOURG) S.A. 31.12.2017 (CHF/000)
ASSETS		
Non-current assets		
Intangible assets	—	—
Tangible assets	68	3
Equity interests	16,373	—
Total non-current assets	**16,441**	**3**
Current assets		
Trade receivables	23,104	3,775
Cash and liquid assets	21,109	—
Financial assets/liabilities	1,947	5,338
Total current assets	**46,160**	**9,113**
TOTAL ASSETS	**62,601**	**9,116**
LIABILITIES		
Share capital	1,000	782
Share premium reserve	500	—
Treasury shares	(4,448)	—
Revaluation reserve	—	(34)
Legal reserve	—	120
Other reserves	—	420
Gains (losses) carried forward	12,930	9
Gain (loss) for the period	24,950	1,023
Total net equity	**34,932**	**2,320**
Trade payable	3,116	1,903
Financial liabilities	—	3,317
Provisions	3,560	—
Other liabilities	20,993	1,576
Total current liabilities	**27,669**	**6,796**
TOTAL LIABILITIES AND NET EQUITY	**62,601**	**9,116**

Financial companies

continued **Table B**

PROFIT AND LOSS ACCOUNTS

	RAM ACTIVE INVESTMENTS S.A. 31.12.2017 (CHF/000)	RAM ACTIVE INVESTMENTS (LUXEMBOURG) S.A. 31.12.2017 (CHF/000)
Revenues	60,393	14,116
Personnel costs	(27,306)	(1,243)
Other administrative expenses	(5,925)	(11,546)
Operating result	**27,162**	**1,327**
Net adjustments to tangible assets	(39)	(48)
Interest and similar income	4,905	179
Interest expense and similar charges	(467)	(10)
Non-operational income	122	7
Extraordinary costs	—	(27)
Gain (loss) for the period before tax	**31,683**	**1,428**
Income tax	(6,733)	(405)
Gain (loss) for the period after tax	**24,950**	**1,023**

Financial companies

BALANCE SHEETS

		CMB WEALTH MANAGEMENT LTD. 31.12.2017 (£/000)
	ASSETS	
10.	Cash and cash equivalents	1,358
20.	Financial assets held for trading	—
30.	Financial assets recognized at fair value	—
40.	AFS securities	—
50.	Financial assets held to maturity	—
60.	Amounts receivables	—
70.	Hedging derivatives	—
90.	Equity investments	—
100.	Property, plant and equipment	14
110.	Intangible assets	—
120.	Tax assets	—
	- *Current*	—
	- *Advance*	—
140.	Other assets	7
	TOTAL ASSETS	**1,379**
	LIABILITIES	
10.	Amounts payable	1
20.	Debt securities in issue	—
30.	Trading liabilities	—
40.	*Financial liabilities designated at fair value*	—
50.	Hedging derivatives	—
70.	Tax liabilities	—
	- *Current*	—
	- *Deferred*	—
80.	Passività associate ad attività in via di dismissione	—
90.	Other liabilities	83
100.	Staff severance indemnity provision	—
110.	Provisions	—
	- *post-employment and similar benefits*	—
	- *other provisions*	—
120.	Share capital	3,000
130.	Treasury shares (-)	—
140.	Equity instruments (-)	—
150.	Share premium reserve	—
160.	Reserves	(1,605)
170.	Valuation reserves	—
180.	Profit (loss) for the period	(100)
	TOTAL LIABILITIES AND NET EQUITY	**1,379**

Financial companies

continued **Table B**

PROFIT AND LOSS ACCOUNTS

		CMB WEALTH MANAGEMENT LTD. 31.12.2017 (£/000)
10.	Interest and similar income	8
20.	Interest and similar expense	—
	Net interest income	**8**
30.	Fee and commission income	21
40.	Fee and commission expense	—
	Net fee and commission income	**21**
50.	Dividends and similar income	—
60.	Net trading income (expense)	—
70.	Net hedging income (expense)	—
80.	Net income from financial assets and liabilities recognized at fair value	
90.	Gain (loss) on repurchase (disposal) of:	—
	a) financial assets	—
	b) financial liabilities	—
	Total income	**29**
100.	Value adjustments for impairment of:	—
	a) financial assets	—
	b) other financial operations	—
110.	Administrative expenses	(129)
	- labour costs	—
	- other administrative expenses	*(129)*
120.	Net adjustments on tangible assets	—
130.	Net adjustments on intangible assets	—
140.	Net result of fair value recognition of tangible and intangible assets	—
150.	Net transfers to provisions	—
160.	Other operating incomes (expenses)	—
	Operating profit (loss)	**(100)**
170.	Gairn (loss) on equity investments	—
180.	Gain (loss) on disposal of investments	—
	Profit (loss) on ordinary activity before tax	**(100)**
190.	Income tax on ordinary activity	—
	Profit (loss) on ordinary activity after tax	**(100)**
200.	Gain (loss) on groups of assets being sold	—
	Net profit (loss) for the period	**(100)**

Non-financial undertakings

continued **Table B**

BALANCE SHEETS

	RICERCHE E STUDI S.p.A.	MEDIOBANCA INNOVATION SERVICES S.C.p.A.	SPAFID CONNECT	SPAFID TRUST S.r.l.	MEDIOBANCA MANAGEMENT COMPANY S.A.
	(€/000)	(€/000)	(€/000)	(€/000)	(€/000)
ASSETS					
Non-current assets					
Intangible assets	—	19,390	12,714	—	5
Tangible assets	—	33,755	65	—	6
Other non-current financial assets	—	—	—	—	—
Advance tax assets	—	250	—	—	—
Total non-current assets	**—**	**53,395**	**12,779**	**—**	**11**
Current assets					
Trade receivables	14	—	—	—	—
Other receivables	8	5,875	11,324	557	7,563
Sundry receivables and other current assets	490	22,846	726	8	29
Curret tax assets	—	573	—	100	—
Other current financial assets	—	—	—	—	—
Cash and liquid assets	845	39	4,335	864	7,909
Total current assets	**1,357**	**29,333**	**16,385**	**1,529**	**15,501**
TOTAL ASSETS	**1,357**	**82,728**	**29,164**	**1,529**	**15,512**
LIABILITIES					
Shareholders' equity					
Share capital	100	35,000	14,500	500	500
Reserves	—	—	—	—	1,235
Share premium reserve	—	—	4,495	—	—
Gains (losses) carried forward	—	2,531	(213)	672	1,065
Legal reserve	3	—	33	44	50
Gain (loss) for the period	—	2	(1,708)	110	2,996
Total shareholders' equity	**103**	**37,533**	**17,107**	**1,326**	**5,846**
Non-current liabilities					
Provisions	—	450	—	—	599
Staff severance	364	1,188	387	39	—
Deferred tax liabilities	—	—	—	—	3,494
Other non-current liabilities	—	—	—	—	—
Total non-current liabilities	**364**	**1,638**	**387**	**39**	**4,093**
Current liabilities					
Due to banks	—	—	—	—	—
Trade payables	16	6,019	8,363	39	2,126
Trattamento di fine rapporto	—	2,221	—	5	—
Current tax liabilities	38	219	—	58	—
Current financial liabilities	84	34,443	—	—	—
Other current liabilities	752	655	3,307	62	3,447
Total current liabilities	**890**	**43,557**	**11,670**	**164**	**5,573**
TOTAL LIABILITIES AND NET EQUITY	**1,357**	**82,728**	**29,164**	**1,529**	**15,512**

Non-financial undertakings

continued **Table B**

PROFIT AND LOSS ACCOUNTS

	RICERCHE E STUDI S.p.A.	MEDIOBANCA INNOVATION SERVICES S.C.p.A.	SPAFID CONNECT	SPAFID TRUST S.r.l.	MEDIOBANCA MANAGEMENT COMPANY S.A.
	(€/000)	**(€/000)**	**(€/000)**	**(€/000)**	**(€/000)**
Revenues	2,217	78,553	18,155	*865*	25,522
Costi della produzione	(372)	(47,329)	(15,700)	(477)	(18,304)
Employees' costs	(1,814)	(13,425)	(2,374)	(232)	(942)
Other operating costs	—	(9,243)	—	—	(6)
Sundry costs	(18)	—	—	—	(2,410)
Amortizations of intangible assets	—	(6,136)	(2,408)	—	—
Depreciations of tangible assets	(1)	(3,869)	(14)	—	—
Operating result	**12**	**(1,449)**	**(2,341)**	**156**	**3,860**
Financial gains	—	—	—	5	—
Financial expenses	—	(2)	—	—	—
Other gains	—	279	—	—	29
Other expenses	—	—	(1)	(3)	—
Profit (loss) before taxes	**12**	**(1,172)**	**(2,342)**	**158**	**3,889**
Fiscal gain (expense)	(12)	1,174	634	(48)	(893)
Taxes for the period	(12)	510	634	(46)	(893)
Deffered and advance taxes	—	664	—	(2)	—
Net profit (loss) for the period	**—**	**2**	**(1,708)**	**110**	**2,996**

BALANCE SHEETS

	COMPASS RE S.A. (€/000)
ASSETS	
A) Amounts due from shareholderes by way of unpaid amounts on capital call	**—**
B) Intangible assets	**—**
C) Fixed assets	**304,619**
I) Lands and PPEs	—
II) Investments in affiliated undertakings and partecipating interests	
3) Loans to enterprises	256,369
a) parent company	*80,000*
e) others	*176,369*
III) Other financial investments	48,250
6) Banks deposits	*48,250*
D) Investments for the benefit of insured parties (life)	**—**
E) Receivables	**12,451**
II Receivables arising out of reinsurance operations	12,407
III Other receivables	44
F) Other assets	**15,676**
II Cash at bank and in hand	15,676
G) Accrued income and deferred expenses	**17,726**
1. Due to interests	2,888
3. Others	14,838
TOTAL ASSETS	**350,472**
LIABILITIES	
A) Shareholders' equity	**47,364**
I Share capital	15,000
IV Legal reserve	1,500
VIII Gains (losses) carried forward	5,298
IX Net gain (loss) for the period	25,566
B) Subordinated liabilities	**—**
C) Technical reserves	**294,334**
I Non-life business	
1. Premiums reserve	*165,751*
2. Claims reserve	*10,102*
3. Equalization reserve	*118,481*
D) Tchnical reserves where risk is borne by insured party	**—**
E) Provisions	**35**
2) Taxation-related provisions	35
F) Deposits received from reinsurers	**—**
G) Payables and other liabilities	**8,413**
VII Other payables	
3. Due to social agencies	*8,413*
H) Accrued income and deferred expenses	**326**
3. Others accruals and deferrals	326
TOTAL LIABILITIES AND NET EQUITY	**350,472**

Insurance companies

continued **Table B**

PROFIT AND LOSS ACCOUNTS

	COMPASS RE S.A. (€/000)
I) TECHNICAL ACCOUNT	
Gross premiums written	72,812
Change in the gross provision for unearned premiums	(14,945)
Total net premiums written	**57,867**
Gains arising from non-technical accounts investments	—
1) TOTAL REVENUES	**57,867**
Claims incurred, net of reinsurance (Gross amount)	(8,094)
Change in the provision for claims (Gross amount)	5,066
Acquisition costs	(5,563)
Change in deferred acquisition costs	(398)
Administrative expenses	(718)
2) TOTAL COSTS	**(9,707)**
Change in deferred acquisition costs	(12,928)
Technical-account profit (loss)	**35,232**
II) NON-TECHNICAL ACCOUNT	
Income form other investments	4,399
Gains on the realisation of investments	—
Investment management charges, including interest	(342)
Value adjustments on investments	(3,930)
Losses on the realisation of investments	(531)
Underwriting profit (loss)	**(404)**
PROFIT (LOSS) FOR THE PERIOD BEFORE TAX	**34,828**
Income taxes for the period	(9,102)
Other taxes not shown under the preceding items	(160)
NET PROFIT (LOSS) FOR THE PERIOD	**25,566**

Associate companies

Table C

BALANCE SHEETS

	ASSICURAZIONI GENERALI S.P.A. 31.12.2017 (€/000)
ASSETS	
A) Subscribed capital unpaid	—
B) Total intangible assets	30,127
C) Investments	
I) Land and buildings (total)	106,613
II) Investments in Group and other undertakings (total)	31,395,352
III) Other financial investments	
1) Shares and stock units	33,670
2) Mutual fund units	40,314
3) Bonds and other fixed-income securities	1,999,312
4) Loans	2,905
6) Deposits with banks	128,800
7) Other financial investments	9,990
Total other financial investments	2,214,991
IV) Deposits with reinsurers	6,927,863
Total investments (C)	40,644,819
D) Investments for the benefit of life policyholders who carry the risk and deriving from pension fund management (total)	3,268,077
Dbis) Reinsurers' share of technical reserves	
I) General business (total)	857,954
II) Life business (total)	420,541
Total reinsurers' share of technical reserves (Dbis)	1,278,495
E) Accounts receivable	
I) Amounts due in respect of primary insurances (total)	220,986
II) Amount due in respect of reinsurances (total)	494,997
III) Other accounts receivable	1,133,568
Total accounts receivable (E)	1,849,551
F) Other assets	
I) Tangible assets and inventories (total)	4,343
II) Cash (total)	744,169
IV) Other assets (total)	253,501
Total other assets (F)	1,002,013
G) Accruals and prepayments (total)	181,912
TOTAL ASSETS (B+C+D+Dbis+E+F+G)	**48,254,994**

Associate companies

continued **Table C**

BALANCE SHEETS

	ASSICURAZIONI GENERALI S.P.A. 31.12.2017 (€/000)
LIABILITIES AND SHAREHOLDERS' EQUITY	
A) Shareholders' equity	
I) Share capital or equivalent fund	1,561,808
II-VII) Reserves (total)	11,862,256
IX) Profit (loss) for year	1,404,459
X) Riserva negativa per azioni proprie in portafoglio	(3,040)
Total shareholders' equity (A)	**14,825,483**
B) Subordinated liabilities	7,051,952
C) Technical reserves	
I) General business (total)	2,297,906
II) Life business (total)	8,391,312
Total technical reserves (C)	**10,689,218**
D) Technical reserves where investment risk is carried by policyholders and reserves arising from pension fund management (total)	3,265,804
E) Provisions for risks and charges (total)	102,421
F) Deposits received from reinsurers	331,210
G) Accounts payable and other liabilities	
I) Amounts payable in respect of primary insurances	19,048
II) Amounts payable in respect of reinsurance	268,727
III) Bond issues	3,191,654
IV) Amounts payable to banks and financial institutions	1,188,706
VI) Loans and other debt	3,811,359
VII) Staff termination indemnity provision	4,746
VIII) Other accounts payable	2,648,529
IX) Other liabilities	552,029
Total accounts payable and other liabilities (G)	**11,684,798**
H) Accruals and deferrals (total)	304,108
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (A+B+C+D+E+F+G+H)	**48,254,994**

Associate companies

continued **Table C**

PROFIT AND LOSS ACCOUNTS (non-technical account)

	ASSICURAZIONI GENERALI S.P.A. 31.12.2017
	(€/000)
1) Underwriting profit (loss) from general business	222,924
2) Underwriting profit (loss) from life business	448,130
3) Investment income in general business	
a) Dividends	980,537
b) Other investment income (total)	96,034
c) Writebacks in book value of investments	6,905
d) Gain on disposal of investments	36,869
Total investment income in general business	1,120,345
4) (+) Portion of investment income transferred from technical accounts of life business	729,570
5) Operating and financial expenses in general business (3)	
a) Investment management expenses and interest paid	31,656
b) Writedowns to investments	36,893
c) Loss on disposal of investments	10,099
Total operating and financial expenses in general business (5)	78,648
6) Portion of investment income transferred from technical accounts of general business	137,629
7) Other income	398,403
8) Other expenditure	1,631,104
9) Profit (loss) on ordinary operations	1,071,991
10) Extraordinary income	254,534
11) Extraordinary expenditure	43,557
12) Net extraordinary income (expenditure) (10-11)	210,977
13) Earnings before tax	1,282,968
14) Taxation for the year	(121,491)
15) Profit (loss) for the year (13-14)	**1,404,459**

Associate companies

continued **Table C**

BALANCE SHEETS

	BURGO GROUP S.P.A. 31.12.2017 (€/000)
ASSETS	
Non-current assets	**1,014,272**
Tangible assets	**500,392**
Property, plant and equipment	499,988
Real-estate investments	404
Intangible assets	**22,176**
Goodwill and other long-term intangible assets	20,691
Other intangible assets with defined life	1,485
Investments in subsidiaries, associates and other non-current	**422,105**
Investments in subsidiaries	412,443
Investments in associates	—
Other investments	9,662
Other non-current financial assets	**5,162**
Financial receivables from subsidiaries	2,968
Non-current financial receivables	2,194
Anticipated-taxes assets	**64,437**
Current assets	**448,368**
Inventories	104,099
Trade receivables	207,035
Sundry receivables and other current assets	32,470
Available-for-sale financial assets	994
Other current financial assets	33,321
Cash and liquid assets	70,449
TOTAL ASSETS	**1,462,640**
LIABILITIES	
Shareholders' equity	**389,054**
Share capital	20,000
Reserves	349,635
Gains (losses) carried forward	16,729
Gain (loss) for the period	2,690
Non-current liabilities	**629,012**
Non-current financial liabilities	563,749
Severance provision and other employees-related provisions	31,205
Provisions	28,527
Non-current trade payable	5,531
Current liabilities	**444,574**
Financial current liabilities	71,367
Trade payables	342,114
Current-taxes liabilities	3,980
Other payables and other current liabilities	27,113
TOTAL LIABILITIES AND NET EQUITY	**1,462,640**

Associate companies

continued **Table C**

PROFIT AND LOSS ACCOUNTS

	BURGO GROUP S.P.A. 31.12.2017 (€/000)
Revenues	1,201,050
Other gains	50,491
Total revenues and operating gains	**1,251,541**
Raw-materials and services-related costs	1,076,251
Employees costs	99,969
Other operating costs	13,920
Variation in inventories (±)	(773)
Costs for improvements, capitalized	(865)
Total operating costs	**1,188,502**
Earnings before depreciations, amortizations and non-recurring restructuring expenses	**63,039**
Depreciations	61,033
Amortizations of intangible assets with defined life	16,000
Write-offs (write-backs) on tangible assets	33
Proceeds from sale of plants and equipments	6,291
Net non-recurring expenses	2,342
Operating result before financial items	**(10,012)**
Financial expenses	26,311
Proceeds from investments	33,744
Gain (loss) before taxes	**(2,579)**
Taxes	5,269
Gain (loss) for the period	**2,690**

Associate companies

continued **Table C**

BALANCE SHEETS

	GB HOLDING S.R.L. 31.12.2017 (€/000)
ASSETS	
B) Fixed assets:	
I) Intangible	—
II) Tangible	—
III) Financial	6,269
Total B	**6,269**
C) Current assets:	
II) Receivables:	
Due w/i 12 months	3
Total receivables	3
IV) Cash and liquid assets	1
Total C	**4**
TOTAL ASSETS	**6,273**
LIABILITIES	
A) Shareholders' equity:	
I) Share capital	97
II) Share-premium reserve	8,684
IV) Legal reserve	20
VII) Other reserves	—
IX) Gain (loss) for the period	(2,530)
Total A	**6,271**
D) Payables:	
Due w/i 12 months	2
Total D	**2**
TOTAL LIABILITIES AND NET EQUITY	**6,273**

Associate companies

continued **Table C**

PROFIT AND LOSS ACCOUNTS

	GB HOLDING S.R.L. 31.12.2017 (€/000)
A) Revenues:	
Other gains	—
Total revenues and other gains (A)	**—**
B) Production costs:	
7) Services-related	8
Total production costs (B)	**8**
Operating result (A-B)	**8**
C) Financial gains (expenses)	
15) Proceeds from investments	—
16) Interest and similar income	—
17) Interest expense and similar charges	1
Total financial gains (expenses) (C)	**(1)**
D) Writedowns on financial assets	
19) Writedowns	
on investments	2,521
Total writedowns on financial assets (D)	**2,521**
Gain (loss) before taxes (A - B ± C ± D)	**(2,530)**
Gain (loss) for the period	**(2,530)**

Associate companies

continued **Table C**

BALANCE SHEETS

	ISTITUTO EUROPEO DI ONCOLOGIA 31.12.2017 (€/000)
ASSETS	
A) SUBSCRIBED CAPITAL UNPAID	—
B) FIXED ASSETS	
I - INTANGIBLE ASSETS	
3) Industrial patents right-of-use	—
4) Concessions, licences, brands and similar rights	1,730
6) Work-in-progress investments and advances	1,755
7) Others	348
TOTAL INTANGIBLE ASSETS	**3,833**
II - TANGIBLE ASSETS	
1) Lands and buildings	21,285
2) Plants and equipments	5,956
3) Industrial and commercial machineries	22,032
4) Other goods	4,522
5) Work-in-progress investments and advances	2,040
TOTAL TANGIBLE ASSETS	**55,835**
III - FINANCIAL ASSETS	
1) Investments in:	
a) Subsidiaries	48,159
d-bis) Others	347
Total investments	48,506
2) Receivables	
d-bis) Others	951
Total receivables	951
TOTAL FINANCIAL ASSETS	**49,457**
TOTAL INVESTMENTS (B)	**109,125**
C) CURRENT ASSETS	
I - INVENTORIES	
1) Raw-materials and consumable goods	7,221
TOTAL INVENTORIES	**7,221**
II - RECEIVABLES	
1) From customers	46,817
2) From subsidiaries	237
3) From associates	156
5-bis) Tax-related receivables	2,219
5-quater) From others	5,123
TOTAL RECEIVABLES	**54,552**
III - NON-FIXED FINANCIAL ASSETS	
6) Other securities	**5,704**
TOTAL NON-FIXED FINANCIAL ASSETS	**5,704**
IV - CASH AND LIQUID ASSETS	
1) Bank and postal deposits	35,398
3) Cash in hands	115
TOTAL CASH AND LIQUID ASSETS	**35,513**
TOTAL CURRENT ASSETS (C)	**102,990**
D) Prepaid income and deferred expenses	
Prepaid income	1,557
Deferred expenses	2,093
TOTAL PREPAID INCOME AND DEFERRED EXPENSES (D)	**3,650**
TOTAL ASSETS (B + C + D)	**215,765**

Associate companies

continued **Table C**

BALANCE SHEETS

	ISTITUTO EUROPEO DI ONCOLOGIA 31.12.2017 (€/000)
LIABILITIES	
A) SHAREHOLDERS' EQUITY	
I - Share capital	80,579
IV - Legal reserve	5,124
V - Statutory reserve	
- Research and development allowance	24,922
IX - Gain (loss) for the period	5,975
TOTAL SHAREHOLDERS' EQUITY (A)	**116,600**
B) PROVISIONS	
- Insurance-risks provision	4,640
- SSN-receivable provision	4,956
- Provision for other risks	202
TOTAL PROVISIONS (B)	**9,798**
EMPLOYEES SEVERANCE PROVISION (C)	**5,947**
D PAYABLES	
7) To suppliers	42,711
9) To subsidiaries	95
10) To associates	59
12) Fiscal liabilities	3,012
13) To social-securities entities and other social entities	4,745
14) Other payables	16,179
TOTAL PAYABLES (D)	**66,801**
E) DEFERRED INCOME AND ACCRUED EXPENSES	
Deferred income	59
Accrued expenses	16,560
TOTAL DEFERRED INCOME AND ACCRUED EXPENSES (E)	**16,619**
TOTAL LIABILITIES AND NET EQUITY (A + B + C + D + E)	**215,765**

Associate companies

PROFIT AND LOSS ACCOUNTS

	ISTITUTO EUROPEO DI ONCOLOGIA 31.12.2017 (€/000)
A) REVENUES	
1) Revenues from sales and services	195,860
5) Other gains:	
- Sums received for research programmes	22,210
- Other proceeds	13,054
TOTAL REVENUES (A)	**231,124**
B) PRODUCTION COSTS	
6) Raw-materials and other goods	49,111
7) Services-related	52,730
8) Third-parties goods and services	9,045
9) Employees costs:	
a) Remunerations	66,389
b) Social costs	14,361
c) Staff-severance	3,480
e) Other costs	502
10) Depreciations, amortizations and writedowns:	
a) Amortizations	784
b) Depreciations	9,153
d) Writedowns of current financial assets and other liquid assets	995
11) Variations of inventory for raw-materials, consumables and other goods (±)	(305)
12) Contributions to provisions	4,947
14) Other operating expenses	16,647
TOTAL OPERATING COSTS (B)	**227,839**
OPERATING RESULT (A - B)	**3,285**
C) FINANCIAL GAINS (EXPENSES)	
16) Other financial gains	
d) gains other than preceding	
- interests on current accounts and other deposits	76
17) Interests and other financial expenses	
- others	117
17-bis) Gains and expenses on foreign exchange rates (±)	(13)
TOTAL FINANCIAL GAINS (EXPENSES) (C)	**(54)**
D) WRITEDOWNS ON FINANCIAL ASSETS	
18) Writebacks:	
a) on investments	3,599
19) Writedowns:	
a) on investments	172
TOTAL WRITEDOWNS (D)	**3,427**
GAIN (LOSS) BEFORE TAXES (A - B +/- C +/- D +/- E)	**6,658**
22) Taxes for the period (current, deferred and advance)	
- Current taxes	683
GAIN (LOSS) FOR THE PERIOD	**5,975**

Table D

FEES PAID FOR AUDITING AND SUNDRY OTHER SERVICES
(pursuant to Article 149-*duodecies* of Consob resolution 11971/99)

(€/000)

Type of service	Mediobanca		Group companies *	
	Pricewaterhouse Coopers S.p.A.	Pricewaterhouse Coopers S.p.A. network	Pricewaterhouse Coopers S.p.A.	Pricewaterhouse Coopers S.p.A. network
Auditing	585			
Statements	218	—	38	119
Other services	—	33	—	—
-Observation and analysis of the administrative/accounting internal control system	—	—	—	—
– Other	—	*33*	—	—
Total	803	33	570	498

* Group companies and other companies consolidated line-by-line.

Figures shown above do not include VAT, expenses and the supervisory contribution paid to Consob.

MEASURES REQUIRED UNDER ARTICLE 15 OF THE COMPANY'S ARTICLES OF ASSOCIATION: APPOINTMENT OF TWO NEW DIRECTORS

Dear shareholders,

As you are aware, on 8 March and on 25 July 2018 respectively, César Alierta and Massimo Tononi, who had been appointed to the Board of Directors from the majority list submitted ahead of the annual general meeting held on 28 October 2017, resigned from their positions as Directors of Mediobanca.

At a Board meeting held on 20 September 2018, the Directors of Mediobanca, as permitted under Article 15 of the Bank's Articles of Association, to co-opt, pursuant to Article 2386 of the Italian Civil Code, at the Appointments Committee's proposal and with the approval of the Statutory Audit Committee, to appoint Maximo Ibarra and Vittorio Pignatti-Morano to replace César Alierta and Massimo Tononi respectively. The new Directors have profiles which are similar to those of the Directors who have left office, as the Board has set itself the objective *inter alia* of retaining the composition considered to be optimal in qualitative and quantitative terms.

Maximo Ibarra, 49 years of age, is currently Chief Executive Officer or Royal KPN, the leading telecommunications company in the Netherlands. Between 2004 and 2017 he took on roles of increasing responsibility in the Wind group, eventually becoming Chief Executive Officer.

Vittorio Pignatti-Morano, 61 years of age, has around thirty years' experience in the investment banking industry, working mostly for the Paribas and Lehman Brothers groups. Since 2008 he has been co-founder and Executive Chairman of Trilantic Europe, a leading private equity player.

The Board of Directors has checked that the co-opted Directors possess the requisite professional and personal qualifications, are fit and proper to hold such office and qualify also as independent (cf. below) under Italian and European regulations, and subsequently its own overall adequacy, inter alia with reference to the Report on the qualitative and quantitative composition of the Board of Directors approved last year. The Board continues to reflect an adequate combination of skills and professional expertise, having consolidated its international dimension and capabilities in the IT area.

By law, the co-opted Directors remain in office until the annual general meeting held subsequent to their having been co-opted. Accordingly, you are invited to restore the Board of Directors to its full complement, bearing in mind that at the annual general meeting held on 28 October 2017, the shareholders of Mediobanca established that the Board should consist of 15 (fifteen) Directors, and also that, pursuant to Article 15 of the Articles of Association, such appointment shall be made without application of the voting list mechanism, but rather on a relative majority basis for the proposals submitted.

The Board of Directors, having received a favourable opinion from the Appointments Committee, resolved accordingly to propose to the shareholders in general meeting that Maximo Ibarra and Vittorio Pignatti-Morano be confirmed in their positions as Directors of Mediobanca.

The documentation for the candidates includes the following:

– CV;
– ECB "Fit & Proper" questionnaire;
– Declaration stating that the candidates accept their respective posts, under their own responsibility, that no grounds exist that would render them ineligible or otherwise incompatible to hold office, and that they are duly in possession of the requisites stipulated by the law and regulations in force and by the company's Articles of Association, as well as whether or not they qualify as independent according to the definitions provided in Article 148, para. 3, of Italian Legislative Decree 58/98 and Article 19 of the Articles of Association.

The above documentation is available for consultation on the Bank's website at www.mediobanca.com in the section entitled Corporate Governance/AGM 2018.

In order to facilitate the proceedings at the annual general meeting and to ensure that the candidacies are adequately publicized, having regard in particular to market practice, shareholders are invited to file any alternative proposals they may have for appointments at the company's head offices in good time, i.e. around twenty days prior to the date set for the meeting itself. Candidacies must be accompanied by a declaration from the candidates themselves stating that they accept the position, and under their own responsibility, that no grounds exist that would render them ineligible or otherwise incompatible to hold office, and that they are duly in possession of the requisites stipulated by the law and regulations in force, and whether or not they qualify as independent according to the definitions provided in Article 148, para. 3, of Italian Legislative Decree 58/98 and Article 19 of the Articles of Association, in addition to a CV containing exhaustive information on the candidates' personal and professional qualifications, highlighting in particular the experience they have acquired in sectors of relevance to banking services, plus a list of the management and supervisory positions held by them in other companies. Candidates must also complete the ECB "Fit & Proper" questionnaire provided in Annex 2 of the "Report on the qualitative and quantitative composition of the Board of Directors". A facsimile of the declaration for candidates accepting their position and their CV, along with the ECB "Fit & Proper" questionnaire, are attached to the "Report on the qualitative and quantitative composition of the Board of Directors: recommendations to shareholders and the new Board of Directors", which is available for consultation on the Bank's website at www.mediobanca.com in the section entitled Corporate Governance/AGM 2018.

In this connection, shareholders are invited to consider the considerations illustrated in the "Report on the qualitative and quantitative composition of the Board of Directors: recommendations to shareholders and the new Board of Directors" published in June 2017 which among other things defines the qualitative and quantitative profile which the Directors are required to reflect collegiately and the requisites stipulated by the applicable regulatory provisions in force. The need for the candidates to qualify as independent under the definition provided in Article 19 of the Articles of Association in particular should be emphasized, in order to maintain the number of independent Directors stipulated in the Report referred to above. It should also be remembered that the Articles of Association establish that persons of more than seventy-five years of age may not be appointed as Board members.

Without prejudice to the need to read the entire document with due care and attention, we would draw attention to the following points in particular:

i) Professional qualifications in terms of:
   - Basic knowledge of the banking sector in the following areas: financial markets; regulatory framework and legal requirements; strategic planning, and an understanding of a credit institution's business strategy or business plan and implementation thereof; risk management and monitoring (identifying, assessing, monitoring, controlling and mitigating the main types of risk of a credit institution); accounting and auditing; assessing the effectiveness of a credit institution's arrangements, ensuring effective governance, oversight and controls; and Interpreting a credit institution's financial information, identifying key issues based on this information and appropriate controls and measures;
   - Knowledge and experience in at least one of the following areas of expertise: businesses in which the Mediobanca Group operates (Corporate Investment Banking, Wealth Management, Consumer Banking); financial accounting and reporting; macroeconomics/international economics; risk management, compliance

and internal audit; information technology and security; Legal and regulatory frameworks; and managerial capabilities and entrepreneurial experience;

ii) Need to ensure that the candidates have the appropriate amount of time available to be able to perform the duties required of them properly, taking into consideration the possibility of taking part in Board committees as well as the Board itself. In FY 2017-18, the following were held:
   – Eleven meetings of the Board of Directors;
   – Twelve meetings of the Executive Committee;
   – Twelve meetings of the Risks Committee;
   – Eight meetings of the Remunerations Committee;
   – Nine meetings of the Appointments Committee;
   – Twelve meetings of the Related Parties Committee;
   – Fourteen induction/training sessions for Directors and Statutory Auditors, including those newly-appointed;

iii) The personal characteristics and qualifications, along with the Fit and Proper Assessment questionnaire, described in more detail in the Report on the qualitative and quantitative composition of the Board of Directors;

iv) Careful assessment of the potential conflicts of interest which could compromise the Directors' independence.

Proposals received will be published on the Bank's website at mediobanca.com, in the section entitled Corporate Governance/AGM2018.

In view of the foregoing, the Board of Directors invites shareholders to adopt the following resolution:

"The shareholders of Mediobanca, gathered in ordinary general meeting, having reviewed the report and proposal presented by the Board of Directors,

Hereby resolve to

appoint Maximo Ibarra and Vittorio Pignatti-Morano as Directors, to remain in office throughout the mandate of the current Board of Directors, whose term of office is due to expire with the annual general meeting to be held to approve the financial statements for the financial year ending 30 June 2020."

Milan, 20 September 2018

THE BOARD OF DIRECTORS

REPORT ON REMUNERATION SUBMITTED TO APPROVAL OF SHAREHOLDERS IN ANNUAL GENERAL MEETING ON 27 OCTOBER 2018

Dear Shareholders,

We have called you together in general meeting to:

A) Report on the remuneration policies adopted for the twelve months ended 30 June 2018 and;

B) Submit the Mediobanca Group's new remuneration and incentivization policies, approved by the Board of Directors on 20 September 2018, to your approval.

This report incorporates the disclosure requirements established by both the Bank of Italy and Consob.

SECTION 1

Staff remuneration and incentivization policies for FY 2017-18

Introduction

The Mediobanca Group delivered record results in the twelve months ended 30 June 2018, measured by revenues, GOP and profit. The main highlights were as follows:

- Total revenues up 10%, to €2.4bn, with net interest income up 6% and fee income up 19%
- Net profit up 15%, to €864m
- ROTE 10%
- GOP up 24%, to €1,057m (meaning the 2019 strategic plan target has already been reached)
- CET1 ratio 14.2%, total capital ratio 18.1%
- Dividend per share: up 27%, to €0.47 (payout ratio 48%).

The results reflect a healthy performance by all business divisions:

- Wealth management, with AUM/AUA rising to €37.3bn and revenues up 14.5% to reach €526m, driven by fee income (up 27.4%) which at end-June accounted for over 40% of the Group total; ROAC 13%;
- Consumer Banking delivered record results: revenues up 6% to €996.2m, net profit up 22% to €315m, ROAC 30%;
- Corporate & Investment Banking enhanced its positioning and diversified its revenues, with lower capital absorption and ROAC at 14%.

The decisions regarding staff remuneration have been taken in view of a business scenario which increasingly requires the contribution of high-quality professional skills.

Governance

The governing bodies and company units have governed the entire process of applying the remunerations policies.

In particular, as described *inter alia* in the Annual statement on corporate governance and ownership structure, the Remunerations committee has met on eight occasions, and the meetings on average lasted around 1 hour and 45 minutes. The Committee is made up of four non-executive members, a majority of whom qualify as independent under Article 19 of the Bank's Articles of Association. The Statutory Audit Committee also participated in the Committee meetings, as did (apart from in the case of two meetings) the Chief Executive Officer and the General Manager as guests. The Chief Risk Officer and the head of Human Resources also took part as guests, along with other members of the Group's staff.

The main items discussed in Committee meetings, in addition to this report, are as follows: formulation of proposals to the Board of Directors regarding the variable remuneration of the Chief Executive Officer and General Manager (defining and marking their scorecards); decisions made by the Chief Executive Officer regarding the variable remuneration of the other staff; review of the internal processes and procedures adopted in connection with the remuneration system; review of developments in the regulatory framework, with a particular focus on the remuneration of financial advisors and of staff working in the Asset Management area; analysis of the Bank of Italy consultation document on changes to the supervisory instructions regarding remuneration and incentivization policies and practices, in view of the Italian regulations' imminent alignment with the EBA Guidance issued in December 2015 and in force since January 2017; and analysis of market benchmark compensation and guidance from institutional investors and proxy advisors; application of the severance policy. Specific training and induction sessions were also held on these issues.

Group HR has provided full support for all activities, co-ordinating the process of formulating the proposals and resolutions, and executing them. The services of leading external consultants have also been used in the course of various activities, in particular market benchmark analysis and finalizing the remunerations new policies.

The Compliance unit has issued the report stating that the remunerations policies conform to the Bank of Italy and internal regulations, and the Group Audit Unit checked that they were implemented correctly. The Risk Management unit, too, has been involved in the activity of ascertaining that the gateways have been met. The Planning, Accounting and Financial Reporting areas also provided the data for determining the business areas' performances and gateways.

Incentivization system: determination of variable remuneration and allocation using risk-adjusted metrics based on sustainable results over time

Variable remuneration is paid to "identified staff" at each of the Group's organizational divisions only if the following conditions, by shareholders at the last general meeting are met:

a) Capital adequacy and liquidity requirements [1] adopted in the Risk Appetite Framework [2] approved by the Board of Directors;

b) Positive operating profit delivered at Group level [3].

For the Wholesale Banking division [4] (the area in which the highest number staff with the potential to impact on Mediobanca's risk profile are employed), the Mediobanca S.p.A. Chief Executive Officer identifies the share of the Economic Profit earned by the division to be earmarked for variable remuneration. For the individual business areas, it is calculated on the basis of scorecards which generally use Economic Profit as their primary metric as well as other secondary quantitative and qualitative metrics, whereas individual awards are made on the basis of overall assessment of personal performance, with particular attention being paid to reputational and compliance issues as well. For the new Mediobanca Private Banking division, following the merger of Banca Esperia into Mediobanca S.p.A., the variable remuneration is determined on the basis of gross profit. The variable component for staff employed by the control units and staff and support areas is established based on qualitative criteria, to limit the correlation with the Bank's results and so guarantee the role's independence. The Chief Executive Officer's decisions are illustrated to the Remunerations Committee and the Board of Directors. The remuneration paid to the head of company financial reporting and the heads of the control units is approved by

[1] CET 1 ratio > 8,75% (SREP), Leverage ratio, AFR/ECAP, Liquidity Coverage Ratio ≥ 100%, Net Stable Funding Ratio ≥ 100%, Retail funding ratio

[2] The Risk Appetite Framework identifies the risks which the Bank is willing to take, and for each risk defines the objectives and limits in normal and stressed conditions, identifying the management actions necessary to bring the risk back within the set limit. It is based on assessment of the principal risk drivers to which the Bank is exposed, both macroeconomic and specific. The RAF is subject to ongoing fine-tuning and update, in line with the continual changes in the risk metrics and analysis methodologies adopted, not to mention to the regulatory framework and the corporate processes with which it is integrated.

[3] Operating profit is defined as total income less operating costs and loan loss provisions, as shown in the restated financial statements.

[4] Economic Profit (EP) is defined as the pre-tax profit earned by the Wholesale Banking division, net of variable labour costs and the cost of regulatory capital (not represented in the accounts) required to perform such activities. It therefore measures the additional profit generated after the return on capital, the cost of which is calculated based on a risk-free rate in the medium/long term, the risk premium and taking into account the Division's cost of funding. As required by the supervisory authorities, the EP metric reflects both present and future risks and the sustainability of results over time.

the Board. For the other divisions and/or business lines (Consumer, and Wealth Management Affluent/Premier, CMB and the other entities which perform asset management activities, and Specialty Finance), the amounts are decided by the CEOs of the relevant legal entities, after consulting with the General Manager and Group HR of Mediobanca S.p.A.

The Group's results for the year ended 30 June 2018 were as follows:

- Stronger capital solidity indicators (CET1 >14%) despite the RAM acquisition;
- Growth in gross operating profit to €1.6bn, up 247% on last year and 17% over budget. Revenues were up 10% to €2.4bn, with net interest income rising despite the market interest rates continuing to be negative. Fee income also performed well, up 19%, as did trading (up 30% year-on-year), with the cost of risk declining (from €317m to €247m) for the fourth year running;
- Profit before tax up 20%.

The Wholesale Banking division's results in the twelve months ended 30 June 2018 reflect a gross operating profit of €347m, substantially unchanged and confirming its position of market leadership. CIB Client in particular delivered the following results:

- Economic Profit up 7%, from €233m to €253m;
- Investment banking revenues showed strong growth in Corporate Finance and Debt Capital Markets (the former up 37%, the latter up 47%), low capital-absorption products with higher pay-outs consistent with market practice, and growth in Capital Market Solutions business. The overall figure was penalized by the downturn in lending activity, where revenues were down 13% in a difficult market scenario, driving a 6% reduction in total revenues overall;
- Administrative expenses and fixed labour costs were down slightly, due to improvements in efficiency made in certain teams and the favourable GBP/EUR exchange rate;
- Loan loss provision figures positive following writebacks credited to profit and loss account.

For Mediobanca Private Banking, the results were as follows:

- GOP of €14.1m, up 19%;
- Significant improvement in the quality of revenues, with recurrent fees (management and banking) up from 81% to 85%. AUM/AUA stood at €14.5bn, versus €13.7bn last year, on net new money of approx. €0.6bn.

For the Consumer Banking division (Compass and Futuro):

- Revenues up 6%, and above budget, on resilient returns and volumes, with the cost/income ratio stable;
- Further improvement in asset quality drove a reduction in loan loss provisions, from €276m to €242m, on the back of effective risk-taking policies and recovery action;
- Non-recurring items include the €6.7m contribution to a solidarity fund.

With regard to the Wealth Management – Affluent / Premier division (CheBanca!):

- Growth of 22% in gross profit (from €33m to €41m), which soars to 223% net of the PPA process release;
- Positive, 6.5% growth in revenues, translating to 96% of the budget due primarily to a delay in asset management fees; AUM rose from €20.4bn to €22.6bn, on indirect funding up from €7bn to €8.4bn.

Principal Investing delivered a high net profit of €374m with a ROAC at 15%.

All the Group's gateways for the year ended 30 June 2018 were thus met: consolidated gross operating profit €1,057m; CET 1 ratio 14.2%; leverage ratio 8.8%; AFR/ECAP 181.37%; liquidity coverage ratio 186%; retail funding ratio 62.9%; net stable funding ratio 108%. For the individual Group companies which adopt their own RAF on an individual basis (Compass, CB! and Mediobanca International), in the course of the twelve months their risk profile remained consistent with the objectives and limits set, with no breaches of the thresholds recorded.

The Economic Profit earned by the Wholesale Banking division as stated in the accounts, which is not one of the gateways but is used as a risk-adjusted indicator in assessing the variable WB component, totalled €261m, some 7% higher than in 2017 due to the positive trend in investment banking fees, the cost of risk and to lower capital absorption attributable to use of the AIRB models. From a qualitative standpoint, Mediobanca confirmed its position of leadership in M&A and ECM, with a growing role in DCM as well. Economic Profit on the proprietary trading portfolio was also positive.

The other quantitative and qualitative metrics were also met, in the sense that the Group's results reflected the required risk/return balance, in compliance with all the objectives set in the Risk Appetite Framework. From a qualitative perspective, Mediobanca confirmed its positioning and market share in a difficult market scenario.

Having therefore ascertained that all the conditions precedent to the distribution of the variable component had been met, and in application of the criteria provided for in the remuneration policies, the Chief Executive Officer, after consulting with the General Manager, Group HR and the control units, thus established the overall amount for distribution to the Mediobanca S.p.A. divisions at €74.4m (30/6/17: €67.3m). The increase is chiefly due to the addition of the former Banca Esperia employees plus the centralization of certain staffing functions. Variable remuneration for the WB division was set at €47.7m (€48.8m), of which €7.2m (€46m) for CIB Client, corresponding to a payout ratio of 19% (21%) and 18% (21%) of the Economic Profit respectively. The variable remuneration for Private Banking totalled €6.6m, for a payout ratio of 30%.

These amounts include the variable remuneration reserved to the Chief Executive Officer and the General Manager. The variable/fixed remuneration ratio for WB division staff was 101%, compared with 99% in 2017, and 44% in Private Banking. The ratio rises to 135% (compared 124% for WB and 174% for PB in 2017), if only identified staff members are considered. Considering the headcount as a whole for Mediobanca, the ratio is 67%, compared to 75% in 2017.

One of the main objectives in making the award of the variable remuneration was to maintain a competitive compensation package for younger and business staff from a talent retention perspective. Group HR and the Compliance unit reviewed potentially relevant instances in connection with application of the compliance breach mechanism.

The amount of the variable remuneration for the Consumer division and CheBanca! reflect excellent earnings results, including on a risk-adjusted basis. The total variable remuneration awarded to the Consumer division was approx. €7.5m, compared with €6.8m in 2017, with Compass's commercial network, like in the previous two years, reaching the cap instituted as part of the incentivization system. For CheBanca! the increase from €10.2m to €11.5m reflects the new business and organizational structure, featuring attractive incentivization forms for specialist figures in the Wealth Management segment. The cost/income and compensation/income ratios were stable for Compass and improved for CheBanca!

The variable/fixed ratio for identified staff in the Consumer division was around 54% of the fixed remuneration, compared with 57% in 2017, and around 51% (53%) for CheBanca! identified staff. Considering for the headcount as a whole for the Consumer division, the ratio was stable at 10%, as in 2017, and 15% for CheBanca! (19%).

As at 30 June 2018 management with strategic responsibilities other than the executive directors and referred to in the Consob resolution issued in 2011, consisted of eight persons: the three heads of the control units, the head of company financial reporting, the head of Group HR & Organization, the head of the Consumer Banking division and the Wealth Management/Affluent-Premier business line, plus the two co-heads of the Corporate and Investment Banking division. Their remuneration package reflects the provisions of the Remuneration policies, based on the individual category of identified staff to which they belong.

Variable remuneration of the Chief Executive Officer and General Manager of Mediobanca S.p.A.

This reflects the achievement of the quantitative and qualitative targets assigned in the individual scorecards approved by the Board of Directors. In general terms, if the quantitative objectives are met, the amount of the variable remuneration payable to the CEO and the General Manager may be between 50% and 180% of their gross annual salary. This amount may be adjusted by the BoD according to whether or not qualitative objectives have also been met (without prejudice to the 2:1 cap).

The quantitative performance indicators assigned for the financial year ended 30 June 2018 were for the CEO as follows:

Objective	Weighting	Reached
i) Profit Before Taxes (PBT) Group banking activities/capital absorbed (to optimize return on and capital absorbed by "core" businesses)	30%	Comfortably exceeded
ii) Revenues posted by Wealth Management division (with focus on growing the division)	30%	Partially achieved
iii) Group Return on Assets (ROA) (to maximize asset profitability)	25%	Comfortably exceeded
iv) CET 1 Ratio (to preserve capital adequacy)	15%	Comfortably exceeded

For the General Manager, the following objectives were assigned:

Objective	Weighting	Reached
i) Profit Before Taxes (PBT) Group banking activities/capital absorbed (to optimize return on and capital absorbed by "core" businesses)	30%	Comfortably exceeded
ii) Revenues posted by the Private Banking business line (with focus on growing Private Banking)	30%	Partially achieved
iii) Result before tax posted by Holding Functions (to optimize management of holding functions)	20%	Comfortably exceeded
iv) Group cost/income ratio (to ensure that growth in costs is proportionate to trend in revenues)	20%	Comfortably exceeded

For the CEO the qualitative objectives involved management of initiatives related to organizational climate analysis in progress at the Group and those in the area of Corporate Social Responsibility; and for the General Manager, reorganization of the former Banca Esperia scope of operations, and implementation of organizational projects to improve the Group's efficiency, with particular attention to the Operations & IT area. In both cases the objectives were held to have been achieved.

Based on the results of the scorecards, the Board of Directors, at the Remunerations Committee's proposal, resolved to award variable remuneration of €2,484,000 to the CEO (€2,700,000 in 2017) and of €2,070,000 to the General Manager (the same as last year), equal in both cases to 138% of their fixed salaries, compared with 150% and 1380% awarded last year. Contributions to the complementary pension scheme are also paid on the upfront cash component only. Of the variable remuneration awarded, half in cash and half shares, 60% will be deferred over a five-year time horizon and is subject to performance conditions being met. The upfront equity component is subject to a two-year holding period.

Means of distributing the variable component

The means of distribution are as provided in the remuneration policies.

The equity component ("performance shares") to be paid to identified staff are equal to approx. €15m which in part will be booked to the accounts over the next five financial years under the accounting standards currently in force. Accordingly, the Board of Directors adopted a resolution to award Group staff a total of 1,871,084 performance shares [5] (at the average stock market value of Mediobanca shares in the month prior to the award, i.e. €8.22 per share) including those awarded to identified staff employed at Group companies. For identified staff employed in the asset management area (Mediobanca SGR), the financial instruments component was awarded in cash linked to an index representative of the SGR funds' stock units, as permitted by the sector regulations in force.

[5] Of these, 150,981 were awarded to the CEO and 125,818 to the General Manager. The total also includes 126,415 performance shares already awarded to the Group's identified staff under recruitment/severance agreements in the period from October 2017 – April 2018 and CMB for the year ended 31 December 2017.

SECTION 2

New staff remuneration and incentivization policies

Introduction

As in the past, the new policies:

– Comply with all the applicable regulations;
– Allow areas of the Bank which create value to be incentivized, using objective measurement criteria;
– Enable the Group to attract and retain staff with the professional skills and capabilities required to meet its needs;
– Are in line with the policies adopted by leading national and international operators.

The cap of 200% of fixed remuneration has been adopted on the variable component continues to be adopted.

Governance

The governance process for the Group remuneration and incentivization policy is structured across two levels: corporate and organizational.

a) Corporate governance

Under the current Articles of Association:

– Shareholders in general meeting establish the annual fixed fee payable to members of the Board of Directors when they are appointed, and for the entire duration of their term of office, to be allocated among the individual members based on the Board's own decision. Directors who are not members of the Group's senior management are entitled to refunds on expenses incurred by them in the performance of their duties.
– Shareholders in general meeting, within the terms set by the regulations in force at the time, approve the remuneration and incentivization policies and compensation schemes based on financial instruments for Group directors,

staff and collaborators, and set the criteria for establishing compensation to be agreed in the event of a beneficiary leaving the company or office.

- At the Board of Directors' proposal, shareholders in general meeting may, with the requisite majorities, establish the variable remuneration of Group staff and collaborators up to the limit of 200% of their fixed salaries or any other limit set by the regulations in force at the time.
- The Board of Directors institutes the committees envisaged by the regulations in force from among its own number, including the Remunerations Committee, establishing their composition and powers.

Under the regulations in force:

- The Remunerations Committee consists of between three and five members, all non-executive directors, the majority of whom qualify as independent and from among whose number a chairman is appointed. The Committee's duties include proposing compensation for staff whose remuneration and incentivization systems are decided by the Board of Directors; it serves in an advisory capacity for decisions regarding the criteria to be used for compensation payable to all identified staff; it monitors application of the rules governing the remuneration of the heads of the company's control units, working closely with the Statutory Audit Committee in this area. It also prepares the documentation to be submitted to the Board of Directors for the relevant decisions; works together with the other internal committees, in particular the Risks Committee; and ensures the involvement of all relevant company units in compiling and checking the remuneration and incentivization policies and practices. It also gives its opinion, based inter alia on the information received from the relevant company units, on whether the performance objectives to which the incentivization schemes are linked have been reached and ascertains whether or not the other conditions precedent to payment of compensation have been met; it provides feedback on the activities performed to the governing bodies. To be able to perform its activities effectively and responsibly, the Remunerations Committee has access to company information relevant to such ends, is endowed with sufficient funds to guarantee it is independent in operational terms, and may call on the services of experts, including from outside the company, on matters for which it is responsible. The Committee is regularly constituted at meetings where a majority of the directors in office are in attendance, and adopts resolutions on the basis of the majority of those present voting in favour. Minutes of Committee meetings are taken and kept in separate registers.

– The Risks Committee ascertains whether the incentives provided by the remuneration system take adequate account of the Group's risks and comply with the minimum capital and liquidity requisites at consolidated level, liaising with the Remunerations Committee.

– The Chief Executive Officer presents the proposed Group staff remuneration and incentivization policies to the governing bodies, is responsible for staff management, and after consulting with the General Manager, determines the variable remuneration based on the criteria established by the Board of Directors and then distributes it.

b) Organizational governance

– Group HR directs and governs the entire remuneration and incentivization process, involving the governing bodies, control units and other teams responsible for verifying the Group's earnings and financial data.

– The Planning, Accounting and Financial Reporting area provides the data for ascertaining that the gateways have been met and for determining the business areas' and divisions' performances based on the results achieved.

– The Group Risk Management unit helps in defining the metrics to be used to calculate the risk-adjusted company performance, in validating the results and the gateways, and in checking that these are consistent with the provisions of the Risk Appetite Framework.

– The Compliance unit carries out an annual assessment of the remuneration policies' compliance with the sector regulatory framework. It is also responsible, after consulting with the other control units, for checking whether or not any compliance breaches have been committed with relevance for purposes of assessing the performance and award of the variable remuneration component. The Compliance unit is involved in the processes of revising, adapting and managing the remuneration systems to ensure these are in line with the regulations in force at the time, including in terms of establishing the identified staff, analysing the metrics adopted, and the practice in cases where the beneficiary has left the company.

– The Group Audit unit makes a statement declaring that the staff remuneration and incentivization policy adopted by the Bank complies with the Instructions. It also carries out annual controls on the data and process, and brings any irregularities to the attention of the relevant bodies for the appropriate corrective action to be taken.

All activities are documented appropriately to ensure that they may be fully tracked over time.

Definition of "identified staff"

The criteria adopted to identify relevant staff with a substantial impact on the Mediobanca Group's risk profile and the processes adopted in order to assess them are as provided under the regulations in force. The assessments are:

– Qualitative, linked to the role covered within the company organization (including non-executive directors), relevant business units, control and staff units;

– Quantitative, based on total overall remuneration received in the previous financial year[6].

Mediobanca regularly carries out analysis of the Group's organizational structure via a documented process. At 30 June 2018 the Group's "identified staff" (including non-executive directors) broke down as follows:

[6] Mediobanca may also decide that individual staff members do not impact on the Group's risk profile despite receiving total remuneration ≥ €500,000, as permitted by the regulations in force. For the twelve months ended 30 June 2018, a total of four such staff members were identified, employed in asset management in the United Kingdom, with overall remuneration in the previous year in excess of €500,000, for who the notification process for exclusion from the definition of identified staff has been launched.

<table>
<tr><th>Cluster</th><th colspan="3">Definition</th><th>EBA regulations</th><th>PPR # 2017</th></tr>
<tr><td>1) Non-executive directors</td><td colspan="3">• Non-executive members of BoD, including Chairman</td><td>Art. 3. 2</td><td>1 (+11)</td></tr>
<tr><td>2) Directors with executive duties</td><td colspan="3">• Management who are members of Executive Committee</td><td>Art. 3. 1</td><td>2</td></tr>
<tr><td>3) Senior management and heads of relevant BUs (principal business lines, geographical areas and other senior business figures)</td><td>• Co Head CIB Client/Head Madrid
• Co Head CIB/ Head Corporate Finance
• AD Compass/ CB!
• Head Principal Investing
• Head MB Private Banking
• Head Governance & Treasury</td><td>• Head Equity Capital Markets
• Head Debt Capital Markets
• Head Lending and Structured Finance
• Head Capital Markets Solutions</td><td>• Head Equity Markets
• Head Global Coverage
• Head Frankfurt
• Head MB Turkey
• CEO CMB</td><td>Art. 3. 3
Art. 3.5
Art. 3.6</td><td>15</td></tr>
<tr><td>4) Heads and senior staff of internal control units</td><td colspan="3">• Compliance & Group AML
• Group Risk Management
• Group Audit</td><td>Art. 3. 4
Art.3.7
Art. 3.15</td><td>16</td></tr>
<tr><td>5) Staff with managerial responsibilities in relevant business units</td><td colspan="3">• Heads of trading desks, liquidity and trading origination
• Staff with significant responsibility in the business areas and other heads of product areas (Equity Research)
• General and Commercial Managers, Compass and CB!
• CEOs of SelmaBPM, Spafid, MB SGR and MBFacta</td><td>Art. 3.8
Art. 3.15</td><td>23</td></tr>
<tr><td>6) Heads and senior staff in Staff and support units</td><td>• Group HR
• Head of company financial reporting
• Planning and control</td><td>• Legal counsel
• Macroeconomic strategist</td><td>• COO
• CIO</td><td>Art. 3. 9
Art. 3.15</td><td>8</td></tr>
<tr><td>7) Quantitative criteria</td><td colspan="3">Roles with total compensation ≥ €500,000 or same remuneration bracket in previous financial year not included in categories listed above</td><td>Art. 4</td><td>23</td></tr>
<tr><td></td><td colspan="3">TOTAL as at 30/6/18 [7]</td><td colspan="2">88 (99)</td></tr>
<tr><td></td><td colspan="3">% of total Mediobanca S.p.A. staff</td><td colspan="2">9%</td></tr>
<tr><td></td><td colspan="3">% of total Mediobanca Group staff</td><td colspan="2">1.86%</td></tr>
</table>

Management with strategic responsibilities as defined in the Consob resolution issued in 2011 other than directors (i.e. the three heads of the control units, the head of company financial reporting, the head of Group HR & Organization, the head of the Consumer Banking division and Wealth Management/Affluent-Premier business line, and the two co-heads of the Corporate and Investment Banking division) are all included in the definition of identified staff.

[7] As at 30 June 2017 the Mediobanca Group had a total of 79 (92) identified staff, representing 1.65% of the total Group headcount and 10.4% of that of Mediobanca S.p.A.

Pay mix

The Mediobanca Group Remuneration and incentivization policy is intended to attract and retain highly qualified professional and ethical staff members, who are suited to the complexity, increasing internationalization and specialization of its businesses, based on a rationale of prudent management and sustainability of costs and results over time. The structure of the Group's staff remuneration is based on various components, with the objective of: balancing the fixed and variable parts over time (pay mix), implementing a flexible approach to remuneration, and helping to gear compensation towards performance in view of the significance of role within the company without encouraging risky and/or short-term behaviour. Each year the staff compensation package's positioning is assessed relative to its reference market, including with the assistance of outside advisors.

a) Remuneration structure for non-executive directors

The non-executive directors' emolument is fixed by the shareholders in general meeting, and no provision is made for incentives linked to the Bank's performance.

The directors are covered by a D&O insurance policy which has also been extended to cover the directors of all Group companies.

b) Remuneration structure for the CEO and General Manager

The remuneration of the CEO and the General Manager is regulated by individual agreements approved by the Board of Directors. Their remuneration structure comprises:

1) A fixed salary;
2) A variable annual component (or short-term incentive) which only accrues if the gateways stipulated in these policies are met (see below the section entitled "Determination of variable remuneration and correlation between risks and performance"), commensurate with the quantitative/financial and qualitative/non-financial performance indicators contained in an individual scorecard approved annually by the Board of Directors at the Remunerations Committee's proposal being reached.

The scorecards provide for performance objectives for each individual manager's sphere of responsibility. For example, these may regard: risk-adjusted profitability; revenues, Group-wide or for particular divisions; profitability, or Economic Profit of individual areas for which they are responsible; and/or other objectives consistent with the guidelines of the strategic plan with respect to capitalization, liquidity or new business initiatives. Each objective is weighted according to the relevance assigned to them by the Board of Directors and the actual margin of autonomy in terms of decision-making. If the quantitative/financial objectives are met, this triggers the payment of a variable bonus ranging from 50% (or 40% if the minimum target is only partially met, i.e. at least 85%) of the gross annual salary on certain minimum objectives being reached (usually related to the budget objectives) to a maximum of 180% in the event of particularly positive performances. Regarding the qualitative objectives, the variable component deriving from the quantitative objectives may be adjusted by the Board of Directors based on the degree to which the non-financial objectives have been reached, in a range from -10% to +15%. The qualitative objectives are considered as having equal weighting, and are to be assessed individually. The 200% cap applies in all cases.

Of the variable component, 50% is paid in cash and 50% in equity, and 60% is deferred over a five-year time horizon. All the deferred items are subject to the performance and malus conditions stipulated in these Policies (see below the section entitled "Performance conditions, malus condition and clawback").

For the financial year ending 30 June 2019, the Chief Executive Officer has been assigned the following quantitative objectives:

Objective	**Weighting**
i) RWA density: RWA/total assets (to focus on asset quality)	25%
ii) Profit Before Taxes (PBT) Group banking activities (to grow banking activities)	25%
iii) Group ROTE (to ensure optimal use of overall capital)	25%
iv) Growth in Total Financial Assets - AUM/AUA/direct funding (with focus in growth in assets in WM division)	25%

The General Manager has been assigned the following objectives

Objective	Weighting
i) Loans/funding ratio (to ensure effective balance between deposits and applications of funds)	20%
ii) Profit Before Taxes (PBT) Group banking activities (to grow banking activities)	30%
iii) Banking activities cost/income ratio (to ensure that growth in costs is proportionate to trend in revenues)	20%
iv) Net New Money in Private Banking business line (focus on growth in Private Banking)	30%

With reference to the non-financial objectives for the financial year ending on 30 June 2019, the following have been assigned: for the CEO, management of Corporate Social Responsibility initiatives, and activities geared towards growing the Group's management, in relation to the succession planning; and for the General Manager, the Data Quality project and implementation of the new governance/organizational structure for the Wealth Management division.

3) Upon the approval of a long-term Group strategic plan, the Board of Directors may choose to adopt a long-term incentivization scheme conditional upon the objectives set out in the plan itself being reached (long-term incentives). In such cases, the short-term scheme described under the previous point will be linked to the provisions of the long-term scheme, without prejudice to the 200% cap on variable remuneration, which must be complied with in each financial year. Like the short-term incentive scheme, the long-term incentive scheme will have specific quantitative/financial and qualitative/non-financial objectives linked to the scheme's time horizon, and will be subject to gateways. Payment will be made in accordance with the terms, conditions and methods provided for the variable remuneration component referred to above, unless provided otherwise by the Board of Directors, having consulted with the Remunerations Committee, in accordance with the regulations in force for long-term incentivization schemes, including any specific resolutions to be adopted in general meetings. In addition to the executive directors, other Group senior representatives may be included in the long-term incentivization scheme, with a specific pay mix identified for them between short- and long-term variable components. At present no such long-term incentivization scheme is in force.

The Chairman receives only a fixed salary. However, the Board of Directors may assess, having consulted with the Remunerations Committee and within the limits set by the regulations, the possibility of also paying him a variable component, on an exceptional basis, to be distributed in accordance with the regulations set forth in this policy.

The Chief Executive Officer and General Manager also receive their emoluments as directors, but not those due in respect of participation in committees. An insurance policy is available to cover them for third-party liability, and they also benefit from participation in the complementary pension and welfare schemes operated for Mediobanca Group management staff.

The Chief Executive Officer is required to hold a number of Mediobanca shares equal in value to twice the amount of his fixed remuneration, and the General Manager one time, even after the shares deriving from the award of the variable component have actually been assigned, until the respective vesting/holding periods expire. The equivalent amount of shares, to be delivered in a timespan of five years from the date of their first award, must be held throughout the duration of their terms of office, to ensure their actions are aligned with the interests of creating value over the medium/long term[8].

c) Compensation structure for staff employed in control units and staff and support areas

The remuneration package for the Group's identified staff in the control units (Group Audit, Compliance and Risk Management), Human Resources and the Head of Company Financial Reporting is structured so that the fixed component represents the majority, with a smaller variable component assigned annually based on qualitative and efficiency criteria. The variable component has a maximum limit of 33% of the fixed component, while that of the heads of unit is set annually by the Board of Directors with the Remunerations Committee in favour.

The remuneration of staff employed in the staff and support areas is normally determined on the basis of positioning vis-à-vis the reference market, which varies according to the value of the individual employee, their role, the quality of their performance and the retention strategies in place. For such staff the variable component, usually limited, is not related to the Group's earnings results but to the quality of the individual's performance.

[8] At 30 June 2018, the Chief Executive Officer held 2,724,500 Mediobanca shares and the General Manager 1,028,500 Mediobanca shares, equal to approx. 12x and approx. 5.5x their fixed remuneration.

d) Remuneration structure for other "identified staff"

- Fixed salary: this reflects technical, professional and managerial capabilities, and the related responsibilities. Mediobanca devotes continuous attention to the value of the fixed salaries it pays, which are monitored in relation to its competitors and adapted to changes in the market scenario from time to time, avoiding excessive reliance on the variable component while at the same time being careful not to make the overall package unduly inflexible.
- Variable remuneration: this is the incentivizing component which functions as recognition and reward for the results achieved and objectives met, and is calculated based on risk-adjusted indicators. It constitutes an important motivational factor, and for some business figures (in the Wholesale Banking, Private Banking and Wealth Management divisions in particular) may form a significant portion of their annual pay, in line with reference market practice, without prejudice to the cap and to the other conditions established by the regulations in force.
  The variable remuneration is paid in cash and equity instruments, in part upfront and in part in subsequent years, subject to performance conditions being met. Any shares awarded are subject, after the respective rights have vested, to an additional holding period for retention purposes. The section entitled "Variable component structure" describes the criteria and means of deferral in more detail.
- Benefits: in line with the market, compensation package is completed by a series of fringe benefits which are evidence of the ongoing attention paid by Mediobanca to the personal needs and welfare of its own staff, even after retirement. The benefits chiefly consist of pension, insurance and healthcare schemes. The benefit schemes can be distinguished by families of professionals and geographical areas, but do not make provision for individual discretionary systems. The Bank's supplementary pension scheme was established in December 1998 for all staff, with contribution rates distinguished by category and length of time employed by the company. Company cars are provided only for the most senior figures.

e) Other information on remuneration structure

Under the terms of tax legislation and other relevant applicable regulations, company welfare systems may be implemented for all staff or like-for-like staff clusters. Such systems consist of the provision of non-cash services and instruments (such as training activities, education and study programmes, or care services), which the Group companies make available to employees and their families. Productivity and/or performance bonuses linked to complementary company contracts may be used to this end, or other amounts earmarked for welfare purposes for like-for-like categories of staff.

Buyout, sign-on and entry bonuses may be awarded to staff with particularly important profiles but only at the recruitment stage, and for the first year of their employment by the company, as per the regulations in force. They also include bonuses awarded upon recruitment to compensate for any loss in earnings from previous jobs, in accordance with sector practice. Such bonuses are decided and paid in accordance with the policies and regulations in force.

For specific categories of staff and/or on an individual basis, in cases which involve ongoing employment or its termination, contracts may be signed with minimum guaranteed duration clauses (sometimes referred to as stability pacts), or non-competition agreements or other arrangements as permitted under the applicable employment law and other regulations.

Any compensation paid to Group management for positions held on behalf of Mediobanca in Group or investee companies is paid to Mediobanca itself.

Staff members are not allowed to use personal hedging or insurance strategies involving the variable component of their remuneration or other aspects which could alter or otherwise distort the fundamental alignment of the compensation mechanisms with the company's risk. The control units carry out checks to this end.

Remuneration cannot under any circumstances be paid in forms, instruments or means that seek to avoid the regulatory provisions.

Limit on variable remuneration

Subject to approval by shareholders in general meeting, and in accordance with the national and supranational regulations, the upper limit on the variable remuneration for all staff belonging to the Mediobanca Group [9] and hence for all identified staff has been set at 200% the amount of their fixed remuneration (without prejudice to the provisions in place for staff employed in the control units, Human Resources and the Head of company financial reporting) [10].

The reasons justifying this proposed limit are primarily:

- The need to attract and retain the most talented staff, in investment banking especially, by aligning the Bank's practice with that of its competitors;
- The need to maintain the appropriate operating flexibility, minimizing the risks that would be associated with increasing the fixed labour cost component excessively;
- To ensure that the remuneration policy is consistent with incentives which seek to promote virtuous conduct in the pursuit of business objectives and value creation;
- To align the Bank with the policies adopted by the leading Italian and international banks;
- The increasing presence of competitors in sectors (financial institutions which are not banks, private equity, hedge funds) or geographies (United States, Far East) with a liberalized regulatory framework;
- The possibility of ensuring that funds are distributed appropriately between the most deserving candidates.

The sustainability of this limit is guaranteed by the provisions of the remunerations policies regarding the determination of the variable component, the correlation between risk and performance, and the performance conditions, malus conditions and clawback provisions.

[9] With the exception of staff not included in the definition of identified staff employed in business areas governed by sector regulations where there is no cap on variable remuneration under the present regulatory framework and in the absence of specific guidance from the supervisory authorities in this area.

[10] As at 30 June 2018, the Group's headcount comprised 4,717 staff made up as follows: 587 in Corporate & Investment Banking (with 41 qualifying as identified staff), 1,888 in Wealth Management (11 identified staff), 1,429 in Consumer Banking (3 identified staff), 801 in Holding Functions (32 identified staff), and 12 in Principal Investing (1 identified staff)..

Incentivization system: determination of variable remuneration and correlation between risks and performance

Determination of the variable remuneration and the correlation between risks and performance is achieved via a process which has the objective of rewarding staff based on the Bank's and the Group's risk-adjusted performances, in accordance with the risk profile defined in the Risk Appetite Framework (RAF), from the perspective of business continuity and sustainable results over the long term.

In more detail:

a) Gateways

Distribution of the variable remuneration earmarked for the remuneration of the "identified staff" in each Group organizational division only takes place if the following indicators or "gateways" are met:

a) Capital adequacy and liquidity requirements [11] indicated by the risk metrics adopted in the Risk Appetite Framework [12] approved by the Board of Directors, which are the primary indicators taken into consideration in the ICAAP;

b) Positive operating profit delivered at Group level [13].

b) Budgeting phase

Under the process for defining the incentivization system and subsequently determining the divisional variable remuneration, in preparing the budget approved by the Board of Directors, the cost of labour is calculated for the financial year to come, including the amount of variable component, determined on the basis of the all the Mediobanca Group divisions' expected earnings performance targets, the market scenario and historical pay trends.

11 CET 1 ratio, Leverage ratio, AFR/ECAP, liquidity coverage ratio, net stable funding ratio.

12 The Risk Appetite Framework identifies the risks which the Bank is willing to take, and for each risk defines the objectives and limits in normal and stressed conditions, identifying the management actions necessary to bring the risk back within the set limit. It is based on assessment of the principal risk drivers to which the Bank is exposed, both macroeconomic and specific. The RAF is subject to ongoing fine-tuning and update, in line with the continual changes in the risk metrics and analysis methodologies adopted, not to mention to the regulatory framework and the corporate processes with which it is integrated.

13 Total income less operating costs and loan loss provisions, as shown in the consolidated restated financial statements.

c) Determination of divisional variable remuneration

Once the final results have been closed, the variable remuneration payable to the Group's business divisions, including the share attributable to identified staff, is calculated based on the risk-adjusted earnings performances of the respective divisional areas (Economic Profit and/or ROAC and/or other risk-adjusted metrics) and on other secondary quantitative and qualitative objectives.

For the Wholesale Banking division[14], (the area in which the highest number of staff with a substantial impact on Mediobanca's risk profile are employed), the Chief Executive Officer of Mediobanca identifies the share of the share of the division's Economic Profit to be used for the variable remuneration. The amount determined is related to the results of the scorecards for the individual business units, which may be fine-tuned to ensure that overall sustainability is maintained. The aggregate amount also reflects assessment of other quantitative parameters (Group results, Risk Appetite Framework indicators other than those already included among the gateways, comparison of performances delivered versus annual budget objectives and the three-year business plan, comparison versus historical performances, and cost/income and compensation/income ratios) and qualitative parameters (market positioning and market share, retention of key staff, need to recruit new professional talent).

For the Private Banking division, the Chief Executive Officer of Mediobanca identifies the share of ordinary gross operating profit, net of the cost of risk, to be set aside as variable remuneration. To determine this amount, other secondary quantitative metrics, such as inter-company cross-selling, cash/AUA transformation to AUM, and operational risk assessment) and qualitative metrics (management of resources, compliance with regulations) are also used.

For the other divisions and business lines (Consumer, Wealth Management Affluent/Premier, CMB and the entities performing asset management activities, Specialty Finance), the amounts are determined by the Chief Executive Officers of the relevant related legal entities, who to this end liaise with the General Manager and Human Resources department of Mediobanca S.p.A. (see section entitled "Remuneration policies for staff employed at Group companies").

[14] Economic Profit (EP) is defined as the pre-tax profit earned by the Wholesale Banking division, net of variable labour costs and the cost of regulatory capital (not represented in the accounts) required to perform such activities. It therefore measures the additional profit generated after the return on capital, the cost of which is calculated based on a risk-free rate in the medium/long term, the risk premium and taking into account the Division's cost of funding. As required by the supervisory authorities, the EP metric reflects both present and future risks and the sustainability of results over time.

The variable remuneration to be allocated to staff employed in the Holding Functions and the Principal Investing division is established by the Chief Executive Officer of Mediobanca, on the basis – for the former – of general earnings sustainability with limited correlation to the Group's results, and – for the latter – of qualitative criteria and specific qualitative and quantitative performance indicators.

d) Distribution and allocation of variable remuneration

The variable remuneration for the individual business units of the Wholesale Banking division and the Group Treasury and Strategic Portfolio units included in the Holding Functions are calculated on the basis of scorecards which use Economic Profit or other risk-adjusted metrics depending on the nature of the business and activity, and other secondary quantitative metrics (such as reference to budget objectives and historical results performances) and qualitative metrics with the institution of a cap.

For the other divisions (see section entitled "Remuneration policies for staff employed at Group companies"), the variable remuneration is allocated based on internal organizational structure: for senior management, on the basis inter alia of individual scorecards; for the commercial branch network and credit management, based on reaching specific business indicators applicable individually or collectively by organizational unit. For the staff, support and control units, allocation is based primarily on qualitative criteria.

e) Exceptions (variable remuneration for retention purposes and floors)

The Board of Directors, at the Chief Executive Officer's proposal and with the Remunerations Committee in favour, may authorize payment of variable remuneration for identified staff for retention purposes even if the gateways have not been met. The possibility of paying variable remuneration for retention purposes is assessed in the light of the causes for the individual gateways not being met, and the impact of the individual indicator on the Group's capital adequacy, liquidity and profitability, including through assessment of the causal link with the Group's various divisions. The scope of the staff and the amount involved is based mainly on the following criteria: the contribution of the individual beneficiary to the overall results of the division and the Group, the importance of the profile to the sustainability of future results, benchmark analysis of the market and competitive scenario, the need to ensure business continuity, and consistency with the succession planning policy.

Furthermore, if the gateways are met but an Economic Profit or other divisional indicator is delivered which is negative or small, the Chief Executive Officer may also propose a variable remuneration floor pool for identified staff, agreeing the rationale for distributing the proceeds with the governing bodies based on the individual contributions of the business activities to the company's results.

f) Assessment of individual quantitative and qualitative performance in the award of the variable remuneration

The individual incentivization system and assignment of variable remuneration to individual beneficiaries are established via an annual performance assessment process based on merit and professional quality, with particular attention to reputational issues: indeed, the variable remuneration may either not be paid or may be reduced for staff guilty of committing compliance breaches of either internal or external regulations in the course of the year. The entitlement to receive variable remuneration is subject to the beneficiary fully maintaining their status as an employees of the Mediobanca Group throughout the assessment period and still being in the company's employment at the actual date of distribution and/or not serving a period of notice for resignation or dismissal. The remuneration may not be split over fractions of years, hence if the employment relationship begins or ceases in the course of the relevant financial year, the staff member concerned is not entitled to any variable remuneration, even pro rata. For identified staff, the performance assessments are ratified individually by the Chief Executive Officer and General Manager of Mediobanca with the support of Group HR.

Mediobanca valorizes its staff on a meritocratic basis, developing their professional capabilities and career opportunities in accordance with the

[15] The other contractual forms provided for by the regulations apart from full employment contracts (e.g. collaboration or employment agency contracts) are considered equivalent

principle of equal opportunities and in line with the Bank's own strategic, organizational and business choices. Professional development is facilitated through the provision of the appropriate training, practical work experience under the leadership of line managers, mobility across different positions, assessment of performance, and ultimately the career advancement and promotion process.

At the start of the year the professional, personal and company objectives for each staff member are assigned and discussed with the respective line manager. Such objectives are meant to be achievable, challenging and weighted according to the priority assigned to each staff member. Particular attention is paid to proper individual conduct in accordance with the provisions of the Code of ethics, Organizational model and Business conduct policy, and in general terms with the principles established by the laws, regulations, operational rules and internal procedures, with reference in particular to those considered to be most relevant in terms of reputational risk.

At the end of each year, the line managers make their assessment of the individual staff members based on these objectives. Interim feedback throughout the year also allows the line managers and staff to agree on the extent to which the objectives have been met, as part of objective discussion of individual performances. In this way the organization is able to reach its objectives while respecting its corporate values, and transparency is assured in the area of training opportunities, professional development and assessment criteria.

For staff belonging to the business units, the assessment reflects:

– Earnings results achieved, e.g. reaching or not reaching budget targets and objectives in terms of improvement from the previous year, with reference to the risk/return and cost/income ratios;
– Qualitative criteria: development of product offering, professional conduct and reliability, quality in terms of customer relationships, technical and analytical skills in the field of finance, ability to control costs, importance placed on achieving operating efficiency, and co-operation with other areas of the Bank, reputational and compliance issues, and adherence to the Bank's values.

For all the other units, the main aspects of assessment are based on qualitative objectives and a broader appraisal regarding compliance with regulations, control of costs and efficient management of resources. In particular, for staff employed in the accounting, planning and control areas the following aspects are considered: all obligatory, supervisory and market disclosure requirements being complied with, all the accounting processes, related electronic procedures and tax requirements being managed efficiently and accurately. For staff employed in the internal control units, i.e. Group Audit, Compliance and Risk Management, continuous monitoring and control of the Bank's processes and operations, carried out independently and autonomously to prevent risk situations developing and ensure irregular behaviour or events is picked up swiftly; continuous assessment of compliance with the regulations in the form of appropriate audit plans, updates to internal guidance, training of internal units; correct development of models, methodologies and metrics with which to measure market, credit and operational risks, producing adequate reporting for monitoring processes and accurate analysis of new products and their risk profiles.

In close relation to the valuation process, staff may also be involved in a career advancement pathway, which may involve covering new organizational roles, promotion to a new contractual level or being assigned a new corporate title based on the experience acquired and results achieved. Promotions are proposed by the head of the business unit concerned, agreed with Human Resources and approved by the General Manager and/or the Chief Executive Officer (for middle management). For higher levels (senior management or equivalent), the process involves specific appraisal of the candidate concerned, including by other senior Bank staff from a variety of different professional backgrounds, experience and roles. The process is closely linked to that of succession planning which involves researching, identifying and managing individual candidates for senior positions (specifically executive directors, including in cases where such figures have to be replaced ahead of the scheduled expiry of their term of office, in view of the fact that under Mediobanca's current Articles of Association, some of the directors must be chosen from among staff with at least three years' experience as senior management employed by Mediobanca Banking Group companies). The process also requires a pool of possible high-potential replacements to be identified (the "senior talent pool") for key positions, including the business areas, control units, and staff and support roles, in view of likely future requirements in terms of strategic leadership and/or professional and managerial capabilities based on a global organizational approach, without neglecting to monitor the market on an ongoing basis. Growth and career development pathways are devised for such staff, including involvement in specific strategic projects, exposure to Board/committee meetings, and international and intra-Group rotation. Selection is based on assessment of professional and technical skills, as shown by CV and company record as well as performance over time, possession and development of key leadership capabilities.

The remunerations policies are therefore co-ordinated with the selection, appointment, succession and assessment of the adequacy of company representatives and Key Function Holders and the Staff management policies.

Variable component structure: timescale for distribution and instruments

A substantial proportion of the variable component is deferred in time and distributed in the form of equity instruments, in order to link incentives to the objective of value creation in the long term, and to allow the continuity of the company's positive results to be ascertained.

The variable component payable to directors with executive duties, to senior management (i.e. groups 2 and 3 of the table shown in the section entitled "Identified staff") and to staff employed in areas operating on financial markets, included in groups 5 and 7 of the same table, is deferred as to 60%.
For the remaining identified staff the deferred share is 40%.

The time horizon for deferral is three years, save for directors with executive duties and for senior management (i.e. groups 2 and 3 in the table shown in the section entitled "Definition of identified staff"), for whom it is five years, with annual distributions made pro rata. Deferral applies to any amount of variable remuneration.

For line managers and senior staff in the control units and staff and support areas (groups 4 and 6), deferral is applied to variable remuneration which is equal to or exceeds €80,000.

The upfront component (i.e. paid in the same year as the award is made) and the deferred variable remuneration are distributed as to 50% in cash and as to 50% in equity instruments (ordinary shares).

After the vesting period, the shares are subject to a further retention holding period, of two years for the upfront component and one year for the deferred component.

Given the full time horizon over which the variable remuneration is distributed, in cash and shares, the economic benefit for recipients is spread across six financial years for management staff and over five years for the other identified staff.

Mediobanca also applies a 30% deferral over a three-year time horizon, all in cash and subject to malus conditions, to all staff not included in the definition of identified staff who receive variable remuneration equal to or higher than €100,000[16].

Performance conditions, malus condition and clawback

The deferred variable remuneration component is paid, provided that:

- The beneficiary is still a Group employee[17] and not serving a period of notice for resignation or dismissal;
- In each of the financial years, the performance conditions equating to the gateways described in the section entitled "Incentivization system: determination of variable remuneration and correlation between risks and performance" are met;
- The beneficiaries' business units post a positive risk-adjusted result net of extraordinary items and the effects of strategic decisions, as ratified by the Risk Management unit;
- The beneficiary has not committed any compliance breaches (i.e. has not been subject to disciplinary measures under the terms, inter alia, of Mediobanca's Code of ethics, Organizational model, Business conduct

[16] The same deferral structure also applies in those Group companies which do not have a specific policy of their own and which therefore adopt the Group policy directly.

[17] Equivalent provisions are made for other forms of employment relationships (e.g. collaboration or agency contracts). For Directors of Group companies who are not tied to the Group by employment contracts, when their terms of office come to an end as a result of expiring naturally or failing to be renewed, the rights are maintained subject to the provisions of the specific individual agreements and provided that the person concerned has not left office due to compliance breaches or other deeds attributable to them

policy and other internal regulations [18]) and no losses have been incurred which were attributable to their actions.

This method is consistent with the requirement for staff, in accordance with their role and business activity, to conduct themselves at all times in such a way as to ensure that Mediobanca retains a solid capital base, a strong liquidity position and close control of all risks as well as positive earnings results, thus guaranteeing that the remuneration systems remain sustainable over the long term.

For staff employed at other Group companies, the Chief Executive Officer may choose to identify one or more specific economic indicators to replace those referred to above.

The Board of Directors, with the favourable opinion of the Remunerations Committee, may, at the Chief Executive Officer's proposal, authorize payment of the deferred component, including in part, even if the gateways are not achieved, either to business divisions or individuals who during the year have delivered particularly outstanding performances or who are expected to be decisive with regard to the sustainability of results over time, for retention purposes.

Mediobanca reserves the right to take all measures necessary to claim back variable remuneration already paid (the "clawback" mechanism) in the event of damages emerging to the integrity of its capital, profitability and earnings/financial or reputational situation, which are attributable to the conduct of individual staff members even without fraud and/or wilful misconduct being established.

[18] The remuneration and incentivization system must not only discourage inappropriate behaviour but must also contribute to promoting good conduct. For this reason conduct is an important issue of the remuneration polices, which must take due account of individual and collective responsibilities in the event of misconduct and establish their impact on remuneration. To this end Mediobanca has drawn up a Group directive which lays down the rules for identifying and assessing compliance breaches and their impact on the variable remuneration component, whether already awarded or still to be awarded. In more detail, in the event of compliance breaches being committed malus mechanisms can be activated to reduce or wipe out the value of: (i) the variable remuneration to be assigned for each year in connection with the annual performance assessment of the individual concerned or a specific unit; and/or (ii) deferred component for previous years as yet unpaid; or clawback mechanisms, which require an amount of the variable remuneration already distributed to be repaid. For the purposes of identifying a compliance breach, account is principally taken of violations noted by the control units (Compliance & Group AML, Group Audit and Group Risk Management) and the authorities (e.g. Bank of Italy, Consob). To ensure greater effectiveness, and in accordance with the principle of proportionality, under the terms of the Directive only relevant violations constitute compliance breaches, i.e. incidents which have exposed Mediobanca to a significant risk of non-compliance with the regulations. In general terms, this involves violations which give rise to criminal or administrative liability as a result of a crime being committed (e.g. those contemplated in Italian Legislative Decree 231/01) and violations specific to the banking and financial sector (e.g. market abuse, provision of banking or investment services, anti-money-laundering, business conduct). Any more minor breaches noted by the control units and/or behavioural violations detected by Group HR, despite not constituting compliance breaches, may in any case be taken into consideration in connection with payment of variable remuneration as part of the performance assessment process, which always includes assessment of general conduct among the objectives, along with the individual operating targets. The relevance of the violation is assessed on the basis of the following issues: seriousness of the violation, extent of the violation, and external relevance. Each compliance breach is assessed on the basis of each of the foregoing criteria, assigning a value of nil, low, medium or high and establishing an overall score. For each score the variable component is reduced by a certain amount affecting the remuneration for the current financial year (in-year adjustment) and/or the deferred component assigned in previous years but not yet distributed. In the event of enquiries or disciplinary proceedings being launched by the authorities which have not resulted in procedural violations being clearly established, it may be decided to suspend payment of the variable remuneration, either the upfront and/or deferred component as yet unpaid depending on the results of the enquiries. The outcome of the assessment and the impact on the variable remuneration, individual or unit scorecard, is formalized and stored by the Compliance unit, with regular reporting to the governing bodies.

In particular, provision for such measures is made in cases involving breach of the obligations imposed under Article 26 of the Italian banking act (company representatives – personal and professional qualifications and independence) or, where relevant to the party involved, Article 53, paras. 4ff (regulatory supervision), of the obligations in respect of remuneration and incentivization.

Performance share schemes

In order to have ordinary shares for use as components of staff remuneration, Mediobanca has adopted a performance share scheme, approved by shareholders at the annual general meeting to be held on 28 October 2015, to which reference is made for all further details.

The scheme involves the award of Mediobanca shares to beneficiaries as the equity component of the variable remuneration granted to them as a result of the annual or long-term performance assessment process. The shares awarded are actually assigned to the beneficiaries at the end of a vesting period of at least three years – two years for the upfront component – provided that the beneficiaries are still employed by the Group and that the performance conditions stipulated in the remuneration policies in force at the time under the section entitled "Performance conditions, malus condition and clawback" regarding the sustainability of the results achieved have been met, without prejudice to the company's capital solidity and liquidity and/or proper individual conduct.

The performance shares awarded as deferred equity component, after the performance conditions for the reference year have been checked, are subject to a further holding period of at least one year prior to the their actual assignation, which remains conditional upon the beneficiary continuing to work for Mediobanca. The performance shares awarded as upfront equity component are subject to a holding period of two years prior to their actual assignation, which remains conditional upon the beneficiary continuing to work for the Group.

The Chief Executive Officer may also use ordinary shares as an instrument outside the annual award cycle, to define remuneration packages upon the occasion of recruiting new key staff. The governing bodies may also award quantities of performance shares as part of compensation agreed in respect of early termination of the working relationship, to link it to the performance delivered and the risks taken by the individual and the Bank, as required by the regulations in force and consistent with the provisions of the remunerations policies in force at the time.

The shares received are personal, without prejudice to inheritance rights. The right to receive shares is retained in the event of retirement or the beneficiary being permanently disabled and/or suffering from an illness which makes them unable to continue working. Conversely, the right to receive shares is forfeited in cases where the beneficiary tenders their resignation or is dismissed. Exceptions to the foregoing are handled by the governing bodies within their respective areas of authority, namely the Board of Directors, Remunerations Committee and the Chief Executive Officer, based on the powers vested in them, particularly in cases which involve departures by mutual consent within the limits defined by the remunerations policies in force at the time. The foregoing is without prejudice to any decisions that may be taken by a third party authorized for such purpose, namely judicial authorities and/or arbitration and/or conciliation bodies, and without prejudice to any regulations providing for more favourable treatment instituted by the applicable local legislations.

Performance shares are awarded from capital increases approved by the shareholders in general meeting or from any treasury shares the Bank may possess (once again subject to a resolution being passed in general meeting). The maximum number of shares that may be awarded under the terms of the existing scheme is 20 million, from the capital increase reserved for award to Mediobanca Group staff members before 28 October 2020, pursuant to Article 2349 of the Italian Civil Code, which was approved by shareholders on 28 October 2015. A total of 6,856,737 shares remain, and at present there is a total of 6,840,878 performance shares assigned against the resolution adopted by shareholders but not yet allocated on account of their being subject to vesting and/or holding periods. Alternatively and/or in addition, those of the 8,714,833 treasury shares currently held by the Bank and not reserved for other purposes may be used to this end [19]. The fully-diluted percentage of the share capital accounted for by the equity instruments assigned to Group staff amounts to 0.78%. The impact on the stock's value and the possible dilution of the share capital is negligible, given that there are several schemes in operation over different years and with different vesting and holding periods over a medium-/long-term time horizon [20].

[19] Any other treasury shares acquired in accordance with the provisions of the resolution adopted by shareholders in the annual general meeting held on 27 October 2018 may be used for the same purposes.

[20] At the extraordinary annual general meeting held on 27 June 2007, the shareholders of Mediobanca adopted a stock option, which was then revised by the Board of Directors at a meeting held on 24 June 2011 to become a performance stock option scheme. A total of 150,000 options assigned in 2011 at €6.430 under the terms of this scheme remain outstanding, and may be exercised by 30 June 2019. The 24,464,000 shares remaining from the capital increase (to be implemented by 1 July 2022) can no longer be used

Remuneration policies for staff employed at Group companies

Mediobanca liaises constantly with its Group companies to ensure that the remuneration and incentivization systems operating within the Banking Group are consistent, while respecting the specific nature of their sectors of operation, organizational structures, regulations applicable according to type of business and geographical location. In particular the parent company manages the process of defining identified staff, issues guidance to be adopted and takes part in drafting documents relating to the remunerations policies to be compiled by the subsidiaries.

Mediobanca approves the amount of the variable remuneration, including that for identified staff in the different companies and their allocation; establishes the objectives for the CEOs and/or General Managers of the Group companies, and ascertains whether they have been met; and defines the basic principles of the guidelines of the incentives mechanism for the other staff at the companies, leaving the specific decisions up to their respective Boards of Directors.

The incentivization system is reserved specifically to senior staff who, on account of their professional specialization, organizational role and importance to the business, have an impact on their companies' performance and value creation. The beneficiaries are identified by the Chief Executive Officer and/or General Managers of the companies themselves, after consulting with the General Manager and the Human Resources department of Mediobanca. Each beneficiary is notified of their inclusion in the incentives scheme, with a defined annual bonus target and calculation method. The bonus is determined annually on an individual basis in view of the risk-adjusted earnings performance delivered by the company (the indicator used for the Group companies is usually the economic profit earned by the business area and/or the ROAC delivered by the business division in which they work or by other specific risk-adjusted metrics based on the type of activity, as is the case with asset management activity) and other secondary, quantitative objectives. For the commercial branch network and credit management, establishment of the variable component is based on specific quantitative indicators which can be applied individually or collectively by organizational unit. Valuation indicators are also adopted to incentivize proper relations with clients, including (but not limited to): customer satisfaction analysis, commodity checks, absence of complaints attributable to specific responsibilities for improper conduct versus clients, assessment of other quality indicators (e.g. correct MiFID profiling, absence of contractual irregularities, observance of internal processes in the area of powers, proxies and guidelines). Due consideration is also taken of the results of checks made by the control units. The assessment is completed by consideration of whether or not individual and project objectives have been achieved. The completed assessment is validated by Mediobanca S.p.A. For the staff, support and control units, allocation is based primarily on qualitative criteria.

Below given limits, the bonus is paid entirely in cash in the year in which it accrues. Above such limits provision is made for forms of deferral, on a three-year basis. In the event of losses related to provisions which prove to be insufficient, contingent liabilities or other items which might prejudice the integrity of the accounts (such instances not to be construed restrictively; the "malus conditions"), all or part of the deferred share may not be paid.

In line with the provisions in place for Mediobanca, the incentivization schemes in operation at the Group companies too place particular emphasis on the issue of proper individual conduct (i.e. compliance with regulations and internal procedures, and transparency versus clients) by adopting the concept of compliance breaches, both at the stage of award of the variable component, and in assessment of whether or not to pay any deferred components.

External networks and financial advisors

To achieve its strategic objectives and provide services to its clients, the Group, via the Wealth Management division, also uses financial advisors retained on the basis of agency contracts. This allows them to promote and sell financial products and services without representation, on an independent and exclusive basis.

In view inter alia of the independent nature of their employment relationship, their remuneration is entirely variable but split between recurring and non-recurring components.

The recurring component chiefly consists of direct commissions (on various products, such as Asset Management, Individual Asset Management, Insurance, Asset Administration, Direct Funding, Bank Services, bank products offered by the Mediobanca Group), and indirect commissions ("oven" fees if a management mandate is issued, calculated based on the business promoted by the advisors co-ordinated and concluded by the Bank).

These are credited back on various grounds (e.g. sales, maintenance, management, negotiation and distribution fees) based on the commission table in force from time to time and attached as an annex to the agency contract. They constitute the more stable, ordinary component of their remuneration and in themselves do not serve for incentivization purposes (comparable to the fixed remuneration component for employees).

The non-recurring component does serve for incentivization purposes (and is therefore comparable to the variable remuneration component for employees) and is linked, for example, to beating certain targets in terms of funding (bonus for developing portfolios or growing the Bank's customers), launch of new products, long-term incentivization schemes operative over several years, etc.

As required by the regulations in force, the Group includes staff members belonging to this category in the process of defining identified staff. The qualitative identification criteria adopted refer to the possible liability on the part of the relevant organizational units for the earnings, financial or reputational risk to which they could expose the Group. The quantitative criteria provided for by the regulations are also adopted for employees to be included in the definition of identified staff; these regulations also govern exclusion mechanisms and procedures, if any.

In accordance with the provisions for employees, for financial advisors too, particular attention is paid to the issue of assessment of proper individual conduct and control of operational and reputational risks (such as compliance with the regulations and internal procedures, and transparency versus clients) through adoption of the mechanism known as compliance breach. Specific events or behaviours are monitored ex post, including (without limitation): sanctions or precautionary measures taken by the supervisory authorities against the financial advisor, complaints made by clients for facts attributable to the financial advisor, fraudulent behaviour or wilful misconduct by the financial advisor, failure to comply with the sector regulations, internal procedures and conduct obligations versus clients, with reference in particular to the duty to act in accordance with the principles of professionalism and proper conduct in relations with clients. Appropriate organizational procedures to prevent such situations from occurring are put in place ex ante.

The same rules apply to non-recurring remuneration received by financial advisors included in the definition of Group identified staff as apply to the payment of variable remuneration for the other identified staff (i.e. gateways, cap, deferral, malus clause and clawback).

Asset management companies

The Group includes companies in the asset management sector (UCITS and AIFs) which operate in different jurisdictions (Italy, United Kingdom, Switzerland, Luxembourg, Principality of Monaco). They are subject to the sector regulations instituted by the local regulators (for the European companies this means the national regulations transposing the UCITS V and AIFMD directives) based inter alia on the criteria of proportionality and within the broader framework of the consolidated banking regulations on subjects including:

– Role of shareholders in general meeting, governing bodies, Remunerations Committee, and governance processes in general where applicable;
– Definition of identified staff at individual and consolidated levels;
– Remuneration and incentivization system structures correlated to performance indicators for the manager and the UCITS and AIFs managed and measured net of the risk concerning their operations, and which take account of the level of the capital and liquidity resources necessary to cover the activities and investments made;
– Application of specific means of deferral between different categories of risk-takers, including the assignment of variable remuneration in the form of financial instruments linked to shares in funds or equivalent non-cash instruments;
– Caps on variable remuneration, if any, as a result of forming part of the banking group and the regulations applicable to it from time to time and/or the relevant jurisdiction;
– Specific malus clauses and clawback mechanisms;
– Dismissal or resignation;
– Disclosure requirements.

Policies in the event of employment being terminated or otherwise ending

As provided by the regulations and the Articles of Association, the shareholders in ordinary general meeting are responsible for determining the compensation to be awarded in cases of early termination, including the limits

[21] In Italy this refers to the joint Bank of Italy/Consob regulations issued on 28 April 2017 which transposes and combines the UCITS V and AIFMD guidelines.

set on such compensation in terms of the annual fixed salary and the maximum amount deriving from applying them.

a) Treatment for directors leaving office early

Mediobanca does not make payments other than the ordinary component to directors who leave office for any reason.

b) Treatment for employees

Treatment for individuals linked to Mediobanca Group companies under the terms of employment contracts (i.e. including directors who are members of the Group's senior management and all identified staff, including the aggregate of management with strategic responsibilities) requires payment of:

- The amount established and due in accordance with the provisions of law and the locally applicable contractual regulations in respect of the cost of the failure to provide notice [22] and other entitlements payable upon termination (severance provision, holiday leave etc.);
- A possible additional amount by way of severance: severance pay is the main instrument recognized in the various jurisdictions for cases where the employment relationship is terminated by mutual consent, with a view to minimizing the earnings and reputational risks, present and future, which the Bank might face as a result of possible disputes;
- Other types of arrangement, e.g. to cover non-competition agreements or settlements paid in respect of potential moral or material damages.

c) Severance pay amount

The amount of severance pay is determined by taking into account the various factors normally stipulated in the applicable provisions of employment law and jurisprudence and in employment contracts (collective or individual),

[22] In Italy the period of notice required is established on the basis of the national collective labour contracts in force at the time. Usually the notice period will be from six to twelve months, depending on the number of years' service the employee concerned has accrued

as well as the practice adopted on the respective reference markets. Although it is difficult to provide an exhaustive definition of the concrete situation given the variety of individual cases, the following factors in particular are taken into account: number of years' service within the Group, age and personal and social conditions, role and organizational position held, the historical performance in qualitative/quantitative terms delivered by the individual concerned, the reasons underlying the termination of the employment relationship (which in some cases may be organizational and strategic rather than related to the question of individual performance), the performance of activities which have generated criticalities for the risk profile established by the Group, the adoption of personal conduct which does not conform to company values, and the existence of risks for the Bank linked to possible disputes. The approach adopted reflects the effective and long-term results of the individual and company performance.

The basis for calculating the additional monthly salaries to be paid by way of severance is usually the most recent fixed salary, the average variable remuneration paid over a given time horizon (generally the last three years), and in some cases the value of fringe benefits.

Mediobanca defines the total maximum amount payable by way of severance as 24 monthly salaries, as previously defined and in any case no more than €5m, unless provided otherwise by shareholders in general meeting. This amount includes any non-competition agreements. The amount does not include any amounts paid as indemnity for failure to give notice and the other amounts due in connection with termination of the employment relationship (severance provision, holiday leave etc.) referred to under the first bullet point of the foregoing point b) [23]. Severance payments may not under any circumstances exceed the limits set by the applicable laws, regulations and collective contracts.

Severance may not be paid in cases where the conduct of individual staff members has resulted in damages to the integrity of the Bank's capital, profitability and earnings/financial or reputational situation, whether or not fraud and/or wilful misconduct is established.

[23] In terms of the number of years' fixed remuneration, if an employee has received variable remuneration throughout the time horizon considered equal to twice their annual fixed salary (cf. 2:1 cap), a total of six years' annual salary would be considered. This provision, which is entirely theoretical, is balanced by the maximum amount payable in absolute terms established by the remuneration policies.

d) Timescales for payment and instruments used

For identified staff included in clusters 2 and 3 in the table shown in the section entitled "Definition of identified staff", the methods and timescales provided for in making severance payments and any compensation for non-competition agreements entered into upon terminating an employment relationship include payment of a deferred share of at least 40% over a time horizon of at least three years, use of shares or instruments related to them, payment being made subject to malus conditions in the event of liability being established in cases of fraud and/or wilful misconduct and/or attributed in a court of law to the individual staff member's own responsibility during the period in which they worked for the company which emerge after the employment relationship has been terminated. For other identified staff, forms of deferral and risk adjustment may be applied, with the appropriate methods to be identified based on the amount to be paid by way of severance, in addition to the considerations described under point c) above. The Bank also reserves the right to use the claw back mechanism in the cases provided for in the applicable employment law regulations.

e) Treatment of any variable remuneration deferred component awarded but not yet paid and fringe benefits

Entitlement to receive deferred variable remuneration components, in cash and/or equity, awarded in previous years but not yet paid, is forfeited in cases where staff members tender their resignations or are dismissed, as the entitlement to any company benefits.

In cases where termination of the employment relationship is by mutual consent, and for treatment in cases of "good leavers", exceptions providing for more favourable treatment in individual cases and the possibility of applying more favourable local legislations, are handled by the governing bodies within their respective areas of responsibility, namely the Board of Directors, Remunerations Committee and Chief Executive Officer, based on the powers vested in them.

f) Decisions by third parties

The foregoing is without prejudice to any decisions that may be taken by a third party authorized for such purpose, namely judicial authorities and/or arbitration and/or conciliation bodies.

g) Involvement of governing bodies

Regular reporting is made to the Remunerations Committee on any decisions taken vis-à-vis employees qualifying as identified staff, and the Committee itself is involved promptly in deciding on the treatment of the most significant individual cases.

h) Arrangements for the Chairman, the Chief Executive Officer and General Manager

In cases where the Chairman (if a member of the Group's management), Chief Executive Officer and/or General Manager leave the Bank's employment for any reason, the provisions of the Group's remuneration policies for identified staff and the sector regulations in force from time to time shall apply. Any amounts paid in cash, in addition to notice, shall be subject to contributions to the company's complementary pension scheme, and save in cases of dismissal for just cause, the said persons will be allowed to retain any financial instruments assigned to them up to the time when the employment relationship is terminated.

Dear Shareholders,

In view of the foregoing, we invite you to adopt the following proposed resolution for which, as in previous years, three separate votes will be held:

"At an ordinary general meeting, the shareholders of Mediobanca

in view of the Staff remunerations policies for FY 2017-18 as illustrated in the Board of Directors' report,

HEREBY RESOLVE

Resolution 1: to approve the new staff remuneration policies as illustrated in the Board of Directors' report;

Resolution 2: to adopt the provision instituted in the section entitled "Limit on variable remuneration" which establishes the ratio between variable and fixed remuneration at a maximum of 2:1, without prejudice to the fact that such ratio may not in any case exceed the maximum amount permitted by the law and regulations in force;

Resolution 3: to adopt the provision instituted in the section entitled "Policies in the event of employment being terminated or otherwise ended", establishing the criteria for determining the compensation to be agreed in cases where directors or staff leave office or cease working for Mediobanca early, including the limits on such compensation in terms of the number of annual fixed salary payments to be made and the maximum amount deriving from their application;;

and to confer on the Board of Directors and the Chief Executive Officer and/or the General Manager on its behalf, the broadest powers to execute all deeds and perform all measures and formalities necessary in order to implement each of the three foregoing resolutions including the power to make all amendments to the new staff remunerations policies that prove necessary to bring them into line with the law and regulations in force from time to time".

Milan, 20 September 2018

The Board of Directors

SECTION 3

Table 1: Compensation paid to members of the Bank's governing and control bodies, general managers and other managerial staff with strategic responsibilities

(A)	(B)	(C)			(1)			(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name and surname	Post	Period for which post has been held		Term of office expires	Fixed compensation			Fees payable for participation in committees	Variable compensation (non-equity)		Non-cash benefits	Other forms of compensation	Total	Fair value of equity compensation	Indemnity payable on leaving office/ severance
					Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Renato Pagliaro	Chairman	01/07/17	30/06/18	30/06/20	100,000	1,800,000					350,396				
	Member of Appointments committee										of which complementary pension scheme 346,411				
	(I) Compensation in company preparing the accounts				**100,000**	**1,800,000**	**1,900,000**				**350,396**		**2,250,396**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**100,000**	**1,800,000**	**1,900,000**				**350,396**		**2,250,396**		
Maurizia Angelo Comneno	Deputy Chairman of Board of Directors	01/07/17	30/06/18	30/06/20	135,000		135,000						135,000		
	Member of Remunerations committee	01/07/17	30/06/18	30/06/20	90,000		90,000						90,000		
	(I) Compensation in company preparing the accounts				**225,000**		**225,000**						**225,000**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**225,000**		**225,000**						**225,000**		
Alberto Pecci	Deputy Chairman of Board of Directors	01/07/17	30/06/18	30/06/20	123,589		123,589						123,589		
	Member of Remunerations committee	01/07/17	30/06/18	30/06/20	30,000		30,000						30,000		
	(I) Compensation in company preparing the accounts				**153,589**		**153,589**						**153,589**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**153,589**		**153,589**						**153,589**		
Alberto Nagel	CEO	01/07/17	30/06/18	30/06/20	100,000	1,800,000	1,900,000		748,800		448,356		3,097,156	951,375	
											of which complementary pension scheme 443,463				
	(I) Compensation in company preparing the accounts				**100,000**	**1,800,000**	**1,900,000**		**748,800**		**448,356**		**3,097,156**	**951,375**	
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**100,000**	**1,800,000**	**1,900,000**		**748,800**		**448,356**		**3,097,156**	**951,375**	

(Continued) Table 1: Compensation paid to members of the Bank's governing and control bodies, general managers and other managerial staff with strategic responsibilitiese

(A)	(B)	(C)			(1)			(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name and surname	Post	Period for which post has been held		Term of office expires	Fixed compensation			Fees payable for participation in committees	Variable compensation (non-equity)		Non-cash benefits	Other forms of compensation	Total	Fair value of equity compensation	Indemnity payable on leaving office/ severance
					Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Francesco Saverio Vinci	General Manager	01/07/17	30/06/18	30/06/20	100,000	1,500,000	1,600,000		539,520		375,660		2,515,180	694,220	
											of which complementary pension scheme 369,136				
	(I) Compensation in company preparing the accounts (5)				**100,000**	**1,500,000**	**1,600,000**		**539,520**		**375,660**		**2,515,180**	**694,220**	
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**100,000**	**1,500,000**	**1,600,000**		**539,520**		**375,660**		**2,515,180**	**694,220**	
Marie Bolloré	Director	01/07/17	30/06/18	30/06/20	100,000		100,000						100,000		
	Member of Appointments committee	01/07/17	30/06/18	30/06/20	20,000		20,000						20,000		
	(I) Compensation in company preparing the accounts				**120,000**		**120,000**						**120,000**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**120,000**		**120,000**						**120,000**		
Cesar Alierta	Director	28/10/17	08/03/18	08/03/18	36,164		36,164						36,164		
	Member of Remunerations committee	28/10/17	08/03/18	08/03/18	10,849		10,849						10,849		
	(I) Compensation in company preparing the accounts				**47,013**		**47,013**						**47,013**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**47,013**		**47,013**						**47,013**		
Maurizio Carfagna	Director	01/07/17	30/06/18	30/06/20	100,000		100,000						100,000		
	Member of Risks committee and Related parties committee	01/07/17	30/06/18	30/06/20	80,000		80,000						80,000		
	Member of Remunerations committee	01/07/17	30/06/18	30/06/20	30,000		30,000						30,000		
	(I) Compensation in company preparing the accounts				**210,000**		**210,000**						**210,000**		
	(II) Compensation from subsidiaries/associates at 30/06/2018 (2)				**22,699**		**22,699**						**22,699**		
	(III) Total				**232,699**		**232,699**						**232,699**		
Maurizio Costa	Director	01/07/17	30/06/18	30/06/20	100,000		100,000						100,000		
	Member of Remunerations committee	01/07/17	27/10/17	30/06/17	9,780		9,780						9,780		
	Chairman of Appointments committee	01/07/17	30/06/18	30/06/20	20,000		20,000						20,000		
	(I) Compensation in company preparing the accounts				**129,780**		**129,780**						**129,780**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**129,780**		**129,780**						**129,780**		

(Continued) Table 1: Compensation paid to members of the Bank's governing and control bodies, general managers and other managerial staff with strategic responsibilitiese

(A)	(B)	(C)			(1)			(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name and surname	Post	Period for which post has been held		Term of office expires	Fixed compensation			Fees payable for participation in committees	Variable compensation (non-equity)		Non-cash benefits	Other forms of compensation	Total	Fair value of equity compensation	Indemnity payable on leaving office/ severance
					Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Angela Gamba	Director	28/10/17	30/06/18	30/06/20	67,397		67,397						67,397		
	Member of Risks committee and Related parties committee	28/10/17	30/06/18	30/06/20	53,918		53,918						53,918		
	(I) Compensation in company preparing the accounts				**121,315**		**121,315**						**121,315**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**121,315**		**121,315**						**121,315**		
Valérie Hortefeux	Director	28/10/17	30/06/18	30/06/20	67,397		67,397						67,397		
	Member of Remunerations committee	28/10/17	30/06/18	30/06/20	20,219		20,219						20,219		
	Member of Risks committee and Related parties committee	28/10/17	30/06/18	30/06/20	53,918		53,918						53,918		
	(I) Compensation in company preparing the accounts				**141,534**		**141,534**						**141,534**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**141,534**		**141,534**						**141,534**		
Alberto Lupoi	Director	28/10/17	30/06/18	30/06/20	67,397		67,397						67,397		
	Member of Remunerations committee	28/10/17	30/06/18	30/06/20	20,219		20,219						20,219		
	Member of Appointments committee	28/10/17	30/06/18	30/06/20	13,479		13,479						20,219		
	(I) Compensation in company preparing the accounts				**101,096**		**101,096**						**101,096**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**101,096**		**101,096**						**101,096**		
Elisabetta Magistretti	Director	01/07/17	30/06/18	30/06/20	100,000		100,000						100,000		
	Chairman of Risks committee and Related parties committee	01/07/17	30/06/18	30/06/20	80,000		80,000						80,000		
	Member of Appointments committee	01/07/17	30/06/18	30/06/20	20,000		20,000						20,000		
	Member of Remunerations committee	01/07/17	27/10/17	30/06/17	9,781		9,781						9,781		
	(I) Compensation in company preparing the accounts				**209,781**		**209,781**						**209,781**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**209,781**		**209,781**						**209,781**		
Massimo Tononi	Director	28/10/17	30/06/18	30/06/20	67,397		67,397						67,397		
	Member of Risks committee and Related parties committee	28/10/17	30/06/18	30/06/20	53,918		53,918						53,918		
	(I) Compensation in company preparing the accounts				**121,315**		**121,315**						**121,315**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**121,315**		**121,315**						**121,315**		

(Continued) Table 1: Compensation paid to members of the Bank's governing and control bodies, general managers and other managerial staff with strategic responsibilitiese

(A)	(B)	(C)			(1)			(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name and surname	Post	Period for which post has been held		Term of office expires	Fixed compensation			Fees payable for participation in committees	Variable compensation (non-equity)		Non-cash benefits	Other forms of compensation	Total	Fair value of equity compensation	Indemnity payable on leaving office/ severance
					Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Gabriele Villa	Director	28/10/17	30/06/18	30/06/20	67,397		67,397						67,397		
	Member of Executive Committee	28/10/17	30/06/18	30/06/20	60,658		60,658						60,658		
	(I) Compensation in company preparing the accounts				**128,055**		**128,055**						**128,055**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**128,055**		**128,055**						**128,055**		
Marco Tronchetti Provera	Deputy Chairman of Board of Directors	01/07/17	27/10/17	30/06/17	44,014		44,014						44,014		
	(I) Compensation in company preparing the accounts (1)				**44,014**		**44,014**						**44,014**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**44,014**		**44,014**						**44,014**		
Tarak Ben Ammar	Director	01/07/17	27/10/17	30/06/17	32,603		32,603						32,603		
	(I) Compensation in company preparing the accounts				**32,603**		**32,603**						**32,603**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**32,603**		**32,603**						**32,603**		
Gilberto Benetton	Director	01/07/17	27/10/17	30/06/17	32,603		32,603						32,603		
	(I) Compensation in company preparing the accounts				**32,603**		**32,603**						**32,603**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**32,603**		**32,603**						**32,603**		
Mauro Bini	Director	01/07/17	27/10/17	30/06/17	32,603		32,603						32,603		
	Member of Risks committee and Related parties committee	01/07/17	27/10/17	30/06/17	26,082		26,082						26,082		
	Chairman of Appointments committee	01/07/17	27/10/17	30/06/17	6,521		6,521						6,521		
	(I) Compensation in company preparing the accounts				**65,206**		**65,206**						**65,206**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**65,206**		**65,206**						**65,206**		
Angelo Casò	Director	01/07/17	27/10/17	30/06/17	32,603		32,603						32,603		
	Member of Executive Committee	01/07/17	27/10/17	30/06/17	29,342		29,342						29,342		
	(I) Compensation in company preparing the accounts				**61,945**		**61,945**						**61,945**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**61,945**		**61,945**						**61,945**		

(Continued) Table 1: Compensation paid to members of the Bank's governing and control bodies, general managers and other managerial staff with strategic responsibilitiese

(A)	(B)	(C)			(1)			(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name and surname	Post	Period for which post has been held		Term of office expires	Fixed compensation			Fees payable for participation in committees	Variable compensation (non-equity)		Non-cash benefits	Other forms of compensation	Total	Fair value of equity compensation	Indemnity payable on leaving office/ severance
					Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Marina Natale	Director	01/07/17	27/10/17	30/06/17	32,603		32,603						32,603		
	(I) Compensation in company preparing the accounts				**32,603**		**32,603**						**32,603**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**32,603**		**32,603**						**32,603**		
Vanessa Labérenne	Director	01/07/17	27/10/17	30/06/17	32,603		32,603						32,603		
	Chairman of Remunerations committee	01/07/17	27/10/17	30/06/17	9,781		9,781						9,781		
	Member of Risks committee and Related parties committee	01/07/17	27/10/17	30/06/17	26,082		26,082						26,082		
	(I) Compensation in company preparing the accounts				**68,466**		**68,466**						**68,466**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**68,466**		**68,466**						**68,466**		
Gian Luca Sichel	Director	01/07/17	27/10/17	30/06/17	32,603		32,603						32,603		
	(I) Compensation in company preparing the accounts				**32,603**		**32,603**						**32,603**		
	(II) Compensation from subsidiaries/associates at 30/06/2018					**200,000**	**200,000**				**2,420**		**202,420**		
	(III) Total				**32,603**	**200,000**	**232,603**				**2,420**		**235,023**		
Alexandra Young	Director	01/07/17	27/10/17	30/06/17	32,603	113,333	145,936				13,957		159,893		
											of which complementary pension scheme 12,322				
	(I) Compensation in company preparing the accounts				**32,603**	**113,333**	**145,936**				**13,957**		**159,893**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**32,603**	**113,333**	**145,936**				**13,957**		**159,893**		

(Continued) Table 1: Compensation paid to members of the Bank's governing and control bodies, general managers and other managerial staff with strategic responsibilitiese

(A)	(B)	(C)			(1)			(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name and surname	Post	Period for which post has been held		Term of office expires	Fixed compensation			Fees payable for participation in committees	Variable compensation (non-equity)		Non-cash benefits	Other forms of compensation	Total	Fair value of equity compensation	Indemnity payable on leaving office/ severance
					Emoluments	Fixed salary	Total		Bonus and other incentives	Interest in earnings					
Management with strategic responsibilities						3,565,523	3,565,523		1,577,785		287,059 of which complementary pension scheme 253,592	39,595	5,469,962	1,635,881	470,000
	(I) Compensation in company preparing the accounts (3)					**3,565,523**	**3,565,523**		**1,577,785**		**287,059**	**39,595**	**5,469,962**	**1,635,881**	**470,000**
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total					**3,565,523**	**3,565,523**		**1,577,785**		**287,059**	**39,595**	**5,469,962**	**1,635,881**	**470,000**
Natale Freddi	Chairman of Statutory Audit Committee	01/07/17	30/06/18	30/06/20	166,959		166,959						166,959		
	(I) Compensation in company preparing the accounts				**166,959**		**166,959**						**166,959**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**166,959**		**166,959**						**166,959**		
Laura Gualtieri	Member of Statutory Audit Committee	01/07/17	30/06/18	30/06/20	128,589		128,589						128,589		
	(I) Compensation in company preparing the accounts				**128,589**		**128,589**						**128,589**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**128,589**		**128,589**						**128,589**		
Francesco Di Carlo	Member of Statutory Audit Committee	28/10/17	30/06/18	30/06/20	94,356		94,356						94,356		
	(I) Compensation in company preparing the accounts				**94,356**		**94,356**						**94,356**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**94,356**		**94,356**						**94,356**		
Gabriele Villa	Member of Statutory Audit Committee	01/07/17	27/10/17	30/06/17	34,233		34,233						34,233		
	(I) Compensation in company preparing the accounts				**34,233**		**34,233**						**34,233**		
	(II) Compensation from subsidiaries/associates at 30/06/2018														
	(III) Total				**34,233**		**34,233**						**34,233**		

1) Fees are paid directly to the company of origin

2) Fees due in respect of position held in Mediobanca SGR

3) Other forms of compensation: fixed amount awarded for length of service (XX years) as established by Company Supplementary contract.

Table 2: Stock options granted to members of the governing bodies, general managers and managerial staff with strategic responsibilities

			Options held at start of financial year			Options awarded during the year						Options exercised during the year			Options expired during the year	Options held at year-end	Options attributable to the year
A	**B**	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15) = (2)+(5)-(11)-(14)	(16)
Name and surname	**Post**	**Scheme**	**No. of options**	**Strike price**	**Possible exercise period (from-to)**	**No. of options**	**Strike price**	**Possible exercise period (from-to)**	***Fair value at award date***	**Award date**	**Market price of shares underlying award**	**No. of options**	**Strike price**	**Market price of underlying shares at exercise date**	**No. of options**	**No. of options**	***Fair value***
Renato Pagliaro	Chairman	27/10/07	150,000	6.537	From 2 August 2013 to 1 August 2018							150,000	6.537	9.822			
Alberto Nagel	CEO	27/10/07	350,000	6.537	From 2 August 2013 to 1 August 2018							350,000	6.537	9.822			
Francesco Saverio Vinci	GM	27/10/07	250,000	6.537	From 2 August 2013 to 1 August 2018							250,000	6.537	9.822			
Managerial staff with strategic responsibilities		27/10/07	25,000	6.537	From 2 August 2013 to 1 August 2018							25,000	6.537	9.822			
(III) Total			**775,000**									**775,000**					

Managerial staff with strategic responsibilities at 30 June 2018.

Table 3A: Incentivization schemes based on financial instruments other than stock options in favour of members of the governing bodies, general managers and managerial staff with strategic responsibilities

			Financial instruments awarded in previous years which have not vested during the course of the year		Financial instruments awarded during the year					Financial instruments vested during the year and not allocated	Financial instruments vested during the year and allocated		Financial instruments attributable to the year
A	B	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Name and surname	Post	Scheme	No. and type of instrument	Vesting period	No. and type of financial instrument	Fair value at award date	Vesting period	Award date	Market price at award	No. and type	No. and type	Value upon vesting	Fair value
Alberto Nagel	CEO	28-Oct-10	73.563 *Performance shares*	Nov. 2018 – Nov. 2019							49,042	461,976	128,658
		28-Oct-15	183.956 *Performance shares*	Nov. 2018 – Nov. 2021									242,787
		28-Oct-15	152.387 *Performance shares*	Nov. 2019 – Nov. 2022									314,329
		28-Oct-15			150,981 *Performance shares*	1,005,871	Nov. 2020 – Nov. 2023	27 September 2018	9.122				265,601
Francesco Saverio Vinci	GM	28-Oct-10	61.140 *Performance shares*	Nov. 2018 – Nov. 2019							40,758	375,789	110,971
		28-Oct-15	91.627 *Performance shares*	Nov. 2018 – Nov. 2021									120,929
		28-Oct-15	116.830 *Performance shares*	Nov. 2019 – Nov. 2022									240,985
		28-Oct-15			125,818 *Performance shares*	838,229	Nov. 2020 – Nov. 2023	27 September 2018	9.122				221,335
Managerial staff with strategic responsibilities		28-Oct-10	20.646 *Performance shares*	Nov. 2018							41,291	388,961	24,638
		28-Oct-10	101.883 *Performance shares*	Nov. 2018 – Nov. 2019							69,955	658,976	191,079
		28-Oct-15	323.752 *Performance shares*	Nov. 2018 – Nov. 2021									432,107
		28-Oct-15	256.802 *Performance shares*	Nov. 2019 – Nov. 2022									534,885
		28-Oct-15			254,309 *Performance shares*	1,697,921	Nov. 2020 – Nov. 2023	27 September 2018	9.122				453,172
Total			**1,382,586**		**531,108**	**3,542,021**					**201,046**	**1,885,702**	**3,281,476**

Managerial staff with strategic responsibilities at 30 June 2018

Table 3B: Cash incentivization schemes based on financial instruments other than stock options in favour of members of the governing bodies, general managers and managerial staff with strategic responsibilities

A	B	(1)	(2)			(3)			(4)
Name and surname	Post	Scheme	Bonus for the year			Previous years' bonuses			Other bonuses
			(A)	(B)	(C)	(A)	(B)	(C)	
			Payable/paid	Deferred	Deferral period	No longer payable	Payable/ paid	Still deferred	
Alberto Nagel	CEO	FY 2017/2018	496,800	745,200	Nov. 2019 - Nov. 2023				
		FY 2016/2017						810,000	
		FY 2015/2016					252,000	378,000	
		FY 2014/2015						337,500	
Francesco Saverio Vinci	GM	FY 2017/2018	414,000	621,000	Nov. 2019 - Nov. 2023				
		FY 2016/2017						621,000	
		FY 2015/2016					125,520	188,280	
		FY 2014/2015						280,500	
Management with strategic responsibilities		FY 2017/2018	991,200	1,216,800	Nov. 2019 -Nov. 2023				
		FY 2016/2017						1,331,500	
		FY 2015/2016					446,585	631,377.5	
		FY 2014/2015						344,065	
		FY 2013/2014					140,000		
Management with strategic responsibilities			**1,902,000**	**2,583,000**			**964,105**	**4,922,222.5**	

Managerial staff with strategic responsibilities at 30 June 2018.

Investments held by members of the governing and control bodies and by general managers

Name and surname	Post	Investee company	No. of shares held at end of previous year	No. of shares acquired	No. of shares sold	No. of shares owned at end of present year
Pagliaro Renato	Presidente	MEDIOBANCA	2,500,000	150,000 [1]	450,000	**2,200,000**
Nagel Alberto	CEO	MEDIOBANCA	2,626,050	397,992 [1]	299,542	**2,724,500**
Vinci Francesco Saverio	GM	MEDIOBANCA	945,000	290,758 [1]	207,258	**1,028,500**
Maurizio Carfagna	Director	MEDIOBANCA	40,000 [2]	11,000 [3]	==	**51,000** [4]
Pecci Alberto	Director	MEDIOBANCA	4,707,500 [5]	==	30,000	**4,677,500** [5]

NB - for directors appointed or whose positions ended in the course of the year, the initial/final holding refer to the dates of appointment or resignation/disposal accordingly.

[1] Shares awarded in execution of stock option/performance shares scheme.

[2] of which n. 20,000 shares owned through subsidiaries.

[3] of which n. 1,000 shares inherited.

[4] of which n. 30,000 shares owned through subsidiaries and n. 1.000 through marriage.

[5] Investment owned through subsidiaries.

Investments held by other managerial staff with strategic responsibilities

No. of managerial staff with strategic responsibilities	Investee company	No. of shares owned at end of previous year	No. of shares acquired	No. of shares sold	No. of shares owned at end of present year
8 *	MEDIOBANCA	167,708 **	243,601	229,599	181,710

NB - for directors appointed or whose positions ended in the course of the year, the initial/final holding refer to the dates of appointment or resignation/disposal accordingly.

* Managerial staff with strategic responsibilities as at 30.6.2018

** Shares awarded in execution of performance share scheme.

Aggregate quantitative information by division as required by Bank of Italy instructions

Mediobanca area of activity	Fixed Salary	Variable Remuneration	% Variable maximum	% Variable on fixed salary	Cash Upfront	Equity Upfront	Deferred Cash	Deferred equity
1 Management body Supervisory function - Mediobanca	3,968,616		-	-				
2 Management body Management function (CEO/GM) - Mediobanca	3,500,000	4,554,000	200%	130.1%	910,800	910,800	1,366,200	1,366,200
3 Staff, Support, holding units	97,810,962	20,162,574	200%	20.6%	17,070,855	235,000	594,113	207,500
4 Control functions (Risk Management, Compliance, Audit)	17,968,621	3,406,612	33%	19.0%	3,298,499	37,200	46,113	24,800
5 Investment Banking - business	53,596,849	50,122,226	200%	93.5%	31,194,292	5,116,500	10,335,540	5,531,000
6 Retail e Consumer - business	72,408,156	8,682,214	200%	12.0%	7,230,954	404,800	643,260	403,200
7 Private Banking / Asset Management - business	32,685,007	17,513,539	200%	53.6%	14,324,894	505,000	2,193,645	490,000
	281,938,211	**104,441,165**	**-**	**37.0%**	**74,030,294**	**7,209,300**	**15,178,871**	**8,022,700**

EBA classification
Gross amounts included for Group Directors emoluments payable in respect of their office.
Includes Group companies which ended FY on 31 December 2017. RAM not included.

Aggregate quantitative information by the various categories of "identified staff" as required by the Bank of Italy instructions

	Mediobanca Group - Material Risk Takers	#	Fixed Salary	Variable Remuneration	% Variable maximum	% Variable on fixed salary	*Cash Upfront*	*Equity Upfront*	*Deferred Cash*	*"Deferred equity"*
1)	Non-executive directors (non-executive members of BoD, including Chairman)	1	1,800	-	-	-	-	-	-	-
2)	CEO	1	1,800	2,484	200%	138%	496.8	496.8	745.2	745.2
	GM	1	1,500	2,070	200%	138%	414	414	621	621
3)	Senior management and heads of relevant BUs (principle business lines, geographical areas and other senior business figures)	15	9,342.1	9,890	200%	106%	1,978	1,978	2,967	2,967
4)	Heads and senior staff of Internal control units (Compliance, Risk Management, Group Audit)	16	2,470.6	739,5	33%	30%	652.7	37.2	24.8	24.8
5)	Staff with managerial responsibilities in relevant business units	23	6,187.7	7,361	200%	119%	1,823.8	1,823.8	1,856.7	1,856.7
6)	Heads and senior staff in Staff and support units (Head of company finacial reporting, HR, Operations and IT, Legal)	8	1,897.9	663	200%	35%	397	114	76	76
7)	Quantitative criteria	20	6,129.1	7,245	200%	118%	2,072.5	2,072.5	1,550	1,550
		85	**31,127.4**	**30,452.5**	**-**	**98%**	**7,834.80**	**6,936.30**	**7,840.70**	**7,840.70**

Gross amounts in €'000 – Performance variable FY ending 30 June 2018

For Group Directors does not include emoluments payable in respect of their office.

Includes relevant staff employed at Group company which financial year ended 31 December 17. RAM not included

Mediobanca Group - Material Risk Takers	#	Deferred from previous years and paid during the year in cash	#	Deferred from previous years and paid during the year in number of MB shares[1]
1) Non-executive directors (non-executive members of BoD, including Chairman))	-	-	-	-
2) CEO - GM	2	377,520	2	89,800
3) Senior management and heads of relevant BUs (principle business lines, geographical areas and other senior business figures)	13	1,582,029	11	370,305
4) Heads and senior staff of Internal control units (Compliance, Risk Management, Group Audit)	2	90,740		
5) Staff with managerial responsibilities in relevant business units	23	1,497,701.7	11	193,183
6) Heads and senior staff in Staff and support units (Head of company finacial reporting, HR, Operations and IT, Legal)	2	45,516	1	5,656
7) Quantitative criteria	16	1,533,178.6	6	138,962
	58	**5,126,685.3**	**31**	**797,906**

[1] Number of Mediobanca shares.

Mediobanca Group - Material Risk Takers	#	Treatment at start of relationship	#	Treatment at end of relationship [1]
1) Non-executive directors (non-executive members of BoD, including Chairman)	-	-	-	-
2) CEO - GM	-	-	-	-
3) Senior management and heads of relevant BUs (principle business lines, geographical areas and other senior business figures)	-	-	3	3,175,562
4) Heads and senior staff of Internal control units (Compliance, Risk Management, Group Audit)	1	121,705	1	470,000
5) Staff with managerial responsibilities in relevant business units	2	655,000	-	-
6) Heads and senior staff in Staff and support units (Head of company finacial reporting, HR, Operations and IT, Legal)	-	-	1	600,000
7) Quantitative criteria	1	230,000	2	923,743
	4	**1,006,705**	**7**	**5,169,305 (*)**

[1] With reference to the identified staff identified as of 30 June 2017.
* Of which € 1.635.415 by way of incentive, deferred between 40% - 60% over the three/five-year horizon, cash/equity. The highest amount paid to an individual person was € 2.185.562 included notice and complementary pension scheme contributions.

Total remuneration awarded over € 1 mln.	#
€ 1 milion - 1,5 millions	12
€ 1,5 - 2 millions	1
€ 2 - 2,5 millions	3
€ 2,5 - 3 millions	
€ 3 - 3,5 millions	1
€ 3,5 - 4 millions	1
€ 4 - 4,5 millions	1

PROPOSAL FOR AUTHORIZATION TO BUY BACK AND SELL TREASURY SHARES

Dear shareholders,

You have been called together in general meeting inter alia to adopt a resolution regarding the proposal to authorize the Board pursuant to Articles 2357 and 2357-ter of the Italian Civil Code and to Article 132 of Italian Legislative Decree 58/98 to buy back and carry out disposals of treasury shares in the company.

Such authorization is being requested for the purpose, in accordance with the regulations in force and with market practice permitted by Consob under Article 180, paragraph 1, letter c) of the Italian Finance Act, of equipping the Bank with an instrument to provide flexibility in strategic and operational terms, to allow it to sell treasury shares for use in connection with possible acquisitions or to implement compensation schemes, current or future, based on financial instruments for the benefit of Group staff.

No provision has been made for the buyback of shares in order to reduce the share capital by cancelling the treasury shares thus bought back.

The buyback may involve a maximum of 3% of the share capital – the limit set by Article 29 of Commission Delegated Resolution (EU) no. 241/2014 – which at present translates to a maximum of 26,611,288 par value €0.50 ordinary shares, less the treasury shares already owned (currently 8,714,833, or approximately 0.98% of the company's share capital), in accordance with the provisions and limits set forth in Article 2357 of the Italian Civil Code, and subject to clearance being released by the European Central Bank. The shares may be bought back in one or more tranches, within the limits of the distributable earnings and available reserves stated in the most recently-approved financial statements.

The buyback will entail an equivalent reduction in net equity, through a specific item being recorded in the liabilities.

The regulations also stipulate that the market value of the shares, calculated on the basis of the closing price recorded for them on the market day prior to the date on which the authorization is issued by the European

Central Bank, shall be deducted from regulatory capital starting from the date of such authorization, regardless of the shares actually bought.

The 8.7 million shares already owned by the Bank were acquired in FY 2007-08, under a resolution adopted by shareholders at the annual general meeting held on 27 October 2007; their book value is already deducted from net equity and regulatory capital.

The authorization to buy back treasury shares is being requested for a period of eighteen months from the date on which the resolution is adopted in general meeting, while the authorization to sell said shares is being requested without time limits.

Under Article 3 of Commission Delegated Resolution (UE) 2016/1052, the volume of shares acquired in each trading day may not exceed 25% of the average daily volume of shares traded at the trading venue where the acquisition was made, and no acquisition may take place at a price above the higher of the price of the most recent independent trade and the current highest bid offer submitted at the trading venue where the purchase is made. Furthermore, the minimum purchase price shall not be lower than the nominal value of the share itself (i.e. €0.50), whereas the maximum price shall not be more than 5% higher than the closing price on the market day prior to the execution of each individual acquisition.

Treasury shares may also not be traded in the thirty days prior to announcement of the approval of the Bank's annual results or the interim report on operations which Mediobanca discloses to the public.

The buybacks of treasury shares shall be made, as required by Article 132 of Italian Legislative Decree 58/98 and Article 144-bis, para. 1, letter b) of the Regulations for Issuers released by CONSOB under resolution no. 11971/ as amended, in accordance with the operating methods stipulated in the regulations governing the organization and operation of the markets themselves, in order to ensure equal treatment for shareholders.

Accordingly, the purchases will be made exclusively and in various tranches on regulated markets, as required by the operating methods stipulated in the regulations governing the organization and operation of the markets themselves, which do not allow buy bids to be matched directly with given sell proposals.

The shares may be disposed of, in one or more tranches, even before all the purchases have been completed, through sales on the market, whether in bulk or by way of consideration for the purchase of equity investments, or possibly through being allocated to Mediobanca Group staff as part of compensation schemes, existing and prospective, based on financial instruments approved by the Board of Directors. Such disposals will be accounted for in accordance with the provisions of the law and the applicable accounting standards.

Within the limits set forth above, subsequent purchases and disposals of treasury shares may also be made.

Accordingly, you are invited to adopt the following resolution:

The shareholders of Mediobanca, gathered in ordinary general meeting, in view of the Board of Directors' report and in view in particular of Articles 2357 and 2357-ter of the Italian Civil Code, Article 132 of Italian Legislative Decree 58/98 and Article 144-bis of CONSOB regulation 11971/99,

Hereby resolves to

1) Authorize, on the terms illustrated above, the buyback of ordinary shares issued by the company, with a nominal value of €0.50 per share, subject to receipt of authorization from the supervisory authority in accordance with Articles 77-78 of Regulation (EU) no. 575/2013 (the "CRR") of 26 June 2013, and the execution of disposals of said shares, without limits or restrictions in terms of time, in bulk or by way of consideration for the purchase of equity investments, or possibly through being allocated to Mediobanca Group staff as part of compensation schemes, existing and prospective, based on financial instruments approved by the Board of Directors;

2) Vest the Board of Directors, and on its behalf the Chief Executive Officer and General Manager, jointly and severally, with powers in order to execute the acquisitions and disposals as authorized above, including for example to:
   - Establish the means, timescales and all executive and ancillary terms for the purchases and disposals of treasury shares;
   - Execute all deeds, measures and formalities required in order to implement this resolution;
3) Vest the Chief Executive Officer and the General Manager, jointly and severally, with the broadest powers to make any changes, amendments or additions to this resolution that should prove necessary to bring it in line with any changes made to the regulations in force or reflect recommendations made by the regulatory and/or supervisory authorities.

Milan, 20 September 2018

THE BOARD OF DIRECTORS

STATEMENT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

Statement on Corporate Governance and ownership structure 2018 [1]

This statement has been prepared in accordance with the provisions of Article 123-bis of Italian legislative decree 58/98 and the Code of Conduct for listed companies (available at www.borsaitaliana.it), to which Mediobanca adheres, on the terms set forth below.

The statement is also intended to meet the public disclosure requirements for banks instituted by the Bank of Italy's supervisory instructions on the issue of corporate governance.

Parent company

Mediobanca was set up in 1946 and has been listed on the Italian stock market since 1956. It provides its clients with medium- and long-term financing solutions and with highly specialized and innovative financial services in financial advice and asset management. It has branch offices in London, Paris, Frankfurt and Madrid, and subsidiaries based in New York, Luxembourg, Istanbul [2] and London. It also holds a 12.98% interest in Assicurazioni Generali.

As a listed company, Mediobanca qualifies among the largest and most complex banks, and as such is subject to prudential supervision by the ECB.

Mediobanca adopts a traditional model of corporate governance based on the presence of Board of Directors (body with responsibility for strategic supervision), an Executive Committee (body with responsibility for management) and a Statutory Audit Committee (body with responsibility for control). This corporate governance system combines maximum efficiency in terms of operations with effective control. The Articles of Association also provide for three executives to be represented on the Banking Group's Board of Directors, as part of a system of corporate governance based on wide-ranging powers being granted to the Executive Committee and the Chief Executive Officer.

[1] Unless specified otherwise, the information refers to the situation at 30 June 2018.

[2] The subsidiary company based in Instanbul has been winding up as from July, 2018.

Mediobanca Group

Mediobanca is the parent company of the Mediobanca Banking Group. Various components contribute in balanced fashion to the company's performances: investment banking, consumer banking and wealth management.

Mediobanca is the leading Italian investment bank, and over time has strengthened its footprint in complementary, highly specialized and growing bank activities which ensure sustainable revenues over the long term. These range from consumer credit with Compass Banca, to the retail banking market with CheBanca!, the Group's multi-channel bank, which is now becoming the growth driver at Group level in wealth management.

With the approval of the 2016-19 strategic plan, priority has been given to asset management and investment activities for householders, which has led to the establishment of a Wealth Management division combining CheBanca!, which collects households' deposits and savings, Compagnie Monégasque de Banque, Spafid and Mediobanca Private Banking which collects AUM for Private & HNWI clients. As part of the organization of a full, integrated product offering the new Mediobanca Alternative Asset Management product factory brings together the activities of Cairn Capital, Compagnie Monégasque de Gestion, Mediobanca SGR and RAM Active Investments.

Mediobanca, in its capacity as parent company of the Mediobanca Group, directs and co-ordinates the companies forming part of the Banking Group (activities which are regulated by the Group Regulations) by governing the process of planning at the Group level, issuing Group-wide Policies, Regulations and Directives, providing centralized risk management, and issuing guidance on how to implement instructions received from the Bank of Italy.

Share capital and ownership

The Bank's share capital at 30 June 2018 totalled €443,126,470, made up of 886,252,940 par value €0.50 shares. The shares are registered shares, and entitle shareholders to one vote per share in the general meeting.

At the annual general meeting held on 28 October 2015, the shareholders of Mediobanca renewed the Board of Directors' authorization:

- Under Article 2443 of the Italian Civil Code, to increase the Company's share capital, by means of rights issues and/or bonus issues in one or more tranches on or prior to the fifth anniversary of the date of this resolution, in a nominal amount of up to €100m, including via warrants, through the issue of up to 200 million ordinary par value €0.50 shares to be offered as an option or assigned to shareholders, and accordingly, to establish from time to time the issue price of the new shares, including the share premium, if any, the date from which they shall rank for dividends, and whether or not any of the shares shall be used for exercising the warrants attached to the shares to be issued;
- Under Article 2420-ter of the Italian Civil Code, to issue bonds convertible into ordinary shares and/or shares cum warrants, in one or more tranches on or prior to the fifth anniversary of the date of this resolution, in a nominal amount of up to €2bn, to be offered as an option to shareholders, and accordingly, to establish from time to time the conversion ratio of the bonds to be issued and any other features thereof, and to authorize the corresponding increase in the Bank's share capital for use in the conversion of the bonds.

The two mandates above shall not lead to the issue of a total number of shares in excess of 200 million;

- Under Article 2443 of the Italian Civil Code, to increase the company's share capital by means of rights issues, in one or more tranches, on or prior to the fifth anniversary of the date of this resolution in a nominal amount of up to €40m, including via warrants, through the issue of up to 80 million par value €0.50 ordinary shares, to be set aside for subscription by Italian and non-Italian professional investors with option rights excluded, under and pursuant to the provisions of 2441, paragraph four, second sentence of the Italian Civil Code, in accordance with the procedure and conditions set forth therein, with the right to establish the issue price of the shares from time to time (again in accordance with the provisions of Article 2441, paragraph four, second sentence of the Italian Civil Code);
- Under Article 2349 of the Italian Civil Code, to increase the Company's share capital by and no later than 28 October 2020, in an amount of up to €10m through the award of no more than 20 million par value €0.50 ordinary shares, to be reserved to Mediobanca Group staff members by way of performance shares.

The performance share schemes approved by shareholders at the 2010 and 2015 general meetings, and the press release regarding the awards made since 2010, are published on the Bank's website at www.mediobanca.com.

Mediobanca owns a total of 8,714,833 treasury shares (average book value €13.17 per share) acquired following a resolution adopted in a general meeting held on 27 October 2007.

The company's shareholding structure as of 30 June 2018 is as follows (showing shares over 3%):

Shareholder	No. of shares	% of share capital
UniCredit group	74,651,753	8.42
Bolloré group	69,681,608	7.86
BlackRock group*	44,362,188	5.01
Banca Mediolanum group	29,095,110	3.29
INVESCO	27,707,271	3.12

* BlackRock Inc. (NY), via fifteen asset management subsidiaries, 0.12% of which by way of potential investment and 0.39% as contracts of differences.

Mediobanca has approximately 52,500 shareholders. Mediobanca shareholders representing approximately 28.5% of the Bank's shares have entered into a block shareholders' agreement with the purpose of ensuring that the Bank has a stable shareholder structure with representative management bodies. The Agreement expires on 31 December 2019, with the possibility of early withdrawal with effect from 31 December 2018. The agreement is filed with the Milan companies' register, and an excerpt from it may be found on the Bank's institutional website (www.mediobanca.com/CorporateGovernance).

Governing Bodies

– Shareholders in general meeting

– Board of Directors

– Chairman of the Board of Directors

– Board committees

– Chief Executive Officer

– General Manager

– Head of Company Financial Reporting

– Statutory Audit Committee.

General meetings

The general meeting gives expression to the wishes of the body of the company's shareholders, and decisions taken in such meetings, which are adopted in conformity with the provisions of both the law and the company's Articles of Association, are binding on all shareholders.

Issues which fall within the jurisdiction of shareholders in general meeting include the following:

1) Approval of financial statements and allocation of profits;
2) Appointment and/or dismissal of the Board of Directors and Statutory Audit Committee;
3) Engagement of, and termination of agreements with, external legal auditors;
4) Transactions required by law to be approved by shareholders in extraordinary general meeting;
5) Remuneration policies and compensation schemes based on financial instruments adopted for directors, Group employees and collaborators.

The right to attend and vote at General Meetings is governed by the Articles of Association (Section III, Articles 5ff), and the notice of meeting for the AGM explains the means and conditions for attendance.

The Bank has not adopted a specific set of regulations for holding general meetings, as its Articles of Association ensure that proceedings are conducted in an orderly manner, providing for the Chairman of the meeting, who under the Articles is the Chairman of the Board of Directors, has the duty of establishing that a quorum has been reached, ascertaining the identity of those in attendance, and assessing their entitlement to be so present, chairing and conducting the proceedings, and checking and announcing the results of any votes taken.

As provided under Article 127-ter of the Italian consolidated finance act, shareholders may table questions on items on the agenda even prior to the meeting itself. Questions received prior to the meeting will be answered during the meeting itself at the latest, including by means of a single answer if other questions with substantially the same content have been received.

The Board of Directors reports on the activities performed to shareholders at the general meeting, in its Review of Operations; and prepares reports on the various items of agenda within the timeframe set by the regulations in force.

Board of Directors: Composition and Role

The Board of Directors consists of between nine and fifteen members, with two places reserved for the list submitted by minority shareholders. Of the Directors thus appointed, three are managers with at least three years' experience working for the Mediobanca Banking Group, and at least one-third qualify as independent in accordance with the definition provided in Article 19 of the Articles of Association, which is basically aligned with that in the Code of conduct for listed companies [3]. At least one-third of the Directors must be of the less-represented gender. No person may be appointed director if they are aged seventy-five or over.

The Board of Directors of the parent company of a banking group has overall responsibility for management of the group as a whole and for the rules and mechanisms of governance to ensure such management is prudent and effective. In particular, the Board of a bank which, like Mediobanca, adopts the so-called "traditional" governance model has responsibilities of both management and supervision/control.

Management responsibilities may include the following, illustrative examples chosen to highlight their importance: strategy, risk taking policy, internal controls, optimal capital allocation, remuneration policies, selection of management, etc. Supervision and control responsibilities require the ability to fully understand the risks taken, supervise the executive bodies, monitor analysis and decisions on an ongoing and continuing basis, and ensure that the heads of the control units are fit to perform their own duties.

[3] According to this definition, persons who hold an investment of more than 2% or are significant representatives of a group which holds such an investment are not independent, regardless of whether or not they are parties to shareholders' agreements.

Against such a backdrop, the composition of the Board of Directors is of fundamental importance.

The current Board of Directors of Mediobanca was appointed by shareholders in a general meeting held on 28 October 2017 for the 2018-20 three-year period, on the basis of lists of candidates in possession of the requisites stipulated by law, the applicable regulations and the Articles of Association (Article 15). Such lists are submitted by shareholders representing in the aggregate at least 1% of the company's share capital.

In submitting their lists of candidates, the shareholders have taken account of the guidance issued by the Board of Directors in its "Report on the qualitative-quantitative composition of the Board of Directors" dated 14 June 2017.

As at 30 June 2018, the Board of Directors consisted of 14 members [4]. On 23 November 2017, the Board found that the following directors qualify as independent pursuant to Article 148, para. 3 of Italian Legislative Decree 58/98: Maurizia Angelo Comneno, Marie Bollorè, Maurizio Carfagna, Maurizio Costa, Angela Gamba, Valérie Hortefeux, Alberto Lupoi, Elisabetta Magistretti, Massimo Tononi (who resigned on 25 July 2018) [5] and Gabriele Villa (in addition to César Alierta, who resigned in March 2018) [6]; and the following directors qualify as independent under the definition provided in Article 19 of the Articles of Association: Maurizio Carfagna, Maurizio Costa, Angela Gamba, Valérie Hortefeux, Alberto Lupoi, Elisabetta Magistretti and Massimo Tononi (plus César Alierta).

Following the appointment of the Board of Directors, the Board, with the Appointments Committee's support, reviewed the qualifications of each individual director and of the Board as a whole and assessed the degree to which the composition defined as optimal in qualitative and quantitative terms corresponds to the actual composition which ensued from the appointment process, including with reference to issues of gender representation.

[4] Massimo Tononi resigned as director on 25 July 2018. On 20 September 2018 Maximo Ibarra was co-opted to replace César Alierta and Vittorio Pignatti-Morano was co-opted to replace Massimo Tononi.
Thus at 20 September 2018 the Board of Directors consists of 15 members, ten of whom qualify as independent under the definition provided in Article 148, para. 3 of the Italian Finance Act, of which ten seven also qualify as independent under the definition provided in Article 19 of the new Articles of Association.

[5] after accepting a new position which will make increasing demands on his professional activities. On 20 September 2018, the Board of Directors found that Maximo Ibarra and Vittorio Pignatti-Morano, who were co-opted to the Board on the same date, qualified as independent under the definition provided in Article 19 of the Articles of Association.

[6] He resigned as he is increasingly devoted to social initiatives which require growing energies and time commitment.

In this connection, the Board's composition does comply with the legal requirements on gender representation. The Board's composition is as follows:

Member (as at 30/6/18)	**Post held**	**Date of birth**	**Indep.***	**Indep.****	**Manage-ment**	**In office since*****
Renato Pagliaro ♦	Chairman	20/02/1957			X	02/07/2007
Maurizia Angelo Comneno ♦	Deputy Chairman	18/06/1948		X		28/10/2014
Alberto Pecci ♦	Deputy Chairman	18/09/1943				27/10/2012
Alberto Nagel ♦	CEO	07/06/1965			X	02/07/2007
Francesco Saverio Vinci ♦	General Manager	10/11/1962			X	02/07/2007
Marie Bolloré ♦	Director	08/05/1988		X		28/10/2014
Maurizio Carfagna ♦	Director	13/11/1947	X	X		28/10/2014
Maurizio Costa ♦	Director	29/10/1948	X	X		28/10/2014
Angela Gamba ■	Director	15/08/1970	X	X		28/10/2017
Valérie Hortefeux ♦	Director	14/12/1967	X	X		28/10/2017
Alberto Lupoi ■	Director	29/03/1970	X	X		28/10/2017
Elisabetta Magistretti ♦	Director	21/07/1947	X	X		28/10/2011
Massimo Tononi ♦ •	Director	22/08/1964	X	X		28/10/2017
Gabriele Villa ♦	Director	18/06/1964		X		28/10/2017

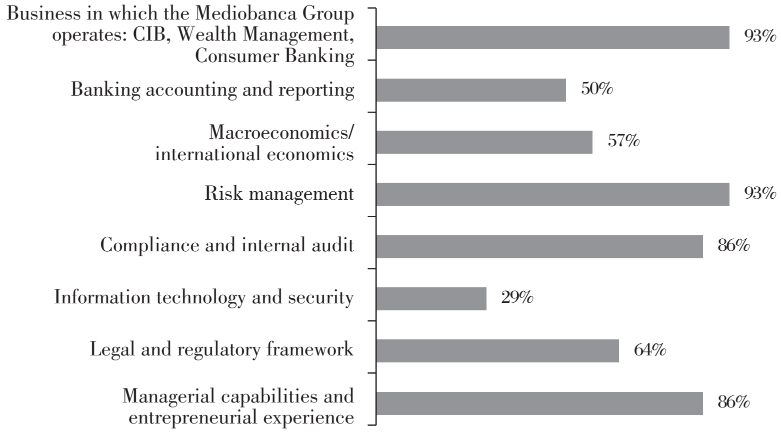
* Independent in accordance with the definition provided in Article 19 of the Articles of Association.
** Independent as required by Article 148, para. 3 of Italian Legislative Decree 58/98.
*** Period also comprises post held in governing bodies under dualistic governance system adopted by Mediobanca from 27/6/07 to 28/10/08.
♦ Taken from the list submitted by shareholder Unicredit S.p.A., owner of 8.46% of the company's share capital.
■ Taken from the list submitted by a group of investors holding 3.889% of the share capital.
• In office until 25 July 2018.

Since 30 June 2018, Massimo Tononi has also tendered his resignation from his post as director and on 20 September 2018 Maximo Ibarra and Vittorio Pignatti-Morano were co-opted to the Board.

A breakdown of the Board of Directors by years of seniority is shown below.

0-2 years	**3-5years**	**≥6 years**
40%	33%	27%

The composition of the Board of Directors reflects the appropriate combination of capabilities and professional expertise, in line with the recommendations made in the "Report on the qualitative-quantitative composition of the Board of Directors" (2017).



The Board of Directors is comprised of 9 men (64,3%) and 5 women (35,7%); a breakdown of the Board members by age bracket is shown below:

<40	41/45	46/50	51/55	56/60	61/65	66/70	71/75
1	0	3	4	0	1	4	1

The documentation submitted by the Directors for appointment to the Board of Directors, including their CVs, is available on the Bank's website at www.mediobanca.com/Corporate Governance.

The Articles of Association require that along with, and at the same time as, each list is submitted, in addition to the information and statements required by the regulations in force at the time, each candidate also submit their own CV to illustrate their professional qualifications to hold office, plus a declaration in which the candidate states, under their own responsibility, that no grounds exist which would render them incompatible with or ineligible to hold office, and that they are in in possession of the requisite qualifications under the law and the Articles of Association, plus also a list of the management and supervisory positions held by them at other companies.

In accordance with the supervisory instructions for banks in the area of corporate governance and with the provisions of the Articles of Association, non-management directors who are members of the Executive Committee qualify as executive and are therefore not included in the Remunerations, Appointments and Risks Committees.

The Statutory Audit Committee then checked that the criteria and procedures adopted by the Board of Directors had been applied correctly with respect to the ascertaining of its members' independence. The Committee's activities were principally aimed at ensuring that the Board expressed its opinion on the basis of adequate information and material, that the proper procedural process was followed for decisions made by the Board, and that the criteria stipulated by the regulations (Article 19 of the Articles of Association and Article 148 of the Italian consolidated finance act) regarding the requirements for independence were correctly applied.

The independent Directors meet regularly on their own without the other Directors present.

Under the Articles of Association currently in force, the following matters are the sole jurisdiction of the Board of Directors:

1. Definition and approval of strategic guidelines and directions, business and financial plans, budgets, and risk management and internal control policies;
2. Approval of quarterly and interim accounts and of draft individual and consolidated financial statements;
3. Decisions concerning the acquisition or disposal of equity investments which are equal to 10% of the investee company's share capital and also involve an amount which is above 5% of the Group's consolidated regulatory capital;
4. Appointment and dismissal of the Executive Committee, Chief Executive Officer, General Manager, head of company financial reporting and the heads of the Group Audit, Compliance and Risk Management units;
5. Definition of the overall governance arrangements and approval of the Bank's organizational structure, ensuring clear distinction of duties and function and preventing conflicts of interest.

Under the regulations currently in force, and the resolution in respect of powers, the following matters are also under the sole jurisdiction of the Board of Directors:

- Proposals to be submitted to shareholders in ordinary and extraordinary general meetings, including staff remuneration policies;
- Ascertaining that Directors and members of the Statutory Audit Committee upon their appointment, or without prejudice to the foregoing on at least an

annual basis, are in possession of the requisite credentials stipulated by regulations in force and the Articles of Association;

- Approval of "most significant" transactions involving related parties of relevance to the Bank of Italy's prudential regulations, and, if they do not qualify as ordinary transactions, transactions with related parties for purposes of the transparency regulations;
- Approval of the Risk Appetite Framework and the general guidelines for the ICAAP process;
- Approval of the Recovery Plan (required under EU Directive 2014/59);
- Approval of annual plans and review of reports by the internal control units.

Twice a year the Board of Directors also assesses the adequacy of the Bank's administrative and accounting structure, with particular attention paid to the internal control system and risk management based on the enquiries made by the Control and risks committee and the report presented by the head of company financial reporting on the adequacy and application of administrative and accounting procedures required by Italian law 262/05.

The delegated bodies report to the Board of Directors on the Bank's general performance, outlook, and the principal transactions in terms of size or characteristics that have been executed either by Mediobanca itself or by Mediobanca Group companies.

The Board normally adopts resolutions on proposals from the Executive Committee or Chief Executive Officer, with a majority of those in attendance voting in favour.

The means by which Board meetings are called are established by Article 17 of the Articles of Association.

The Chairman is responsible for ensuring that the Directors receive adequate information on the various items on the agenda in good time for the meeting (the documentation on the items on the agenda is normally sent at the same time as the notice of meeting, i.e. five days before the meeting itself is held, and after the Board committee responsible for processing the documentation has assessed it), and ensures that sufficient room is given for discussing the individual items, giving priority to issues of strategic relevance and guaranteeing that the debate is effective. The Chairman regularly invites Board members to indicate issues of interest to them which require further analysis or explanation. The secretary to the Board is available to arrange induction sessions or further analysis for the individual directors.

The Secretary to the Board, the Chief Risk Officer and other Group staff and representatives invited on the basis of the items on the agenda also take part in Board meetings.

The Board of Directors' meetings held during the financial year (1 July 2017/30 June 2018) were duly attended by people in charge of and working for the relevant company units for discussion of the items on the agenda.

A total of eleven Board meetings took place in the period from 1 July 2017 to 30 June 2018. The average duration of Board meetings was around four hours and twenty minutes.

The following induction and training meetings were arranged during the year outside of the Board meetings themselves, for the benefit of directors and statutory auditors:

- Six "general" induction meetings (to provide preparation for deliberations at Board meetings) on the following issues: European regulations: recovery and resolution plans; updates to regulations: market abuse and MiFID II regulations; corporate engagement, state of progress in adoption of AIRB models; Corporate Social Responsibility; Risk Appetite Framework; statutory issues requiring further analysis and internal governance;
- Five "specific" induction meetings addressed chiefly to newly-appointed members on the following issues: financial statements for the year ended 30 June 2017 and accounting standards; RAF and risk monitoring (dashboard); 2017-19 strategic plan and state of progress in implementing it; European regulations (SREP, ICAAP, ILAAP); principal activities with ECB; meeting with heads of control units; compliance: main issues, current and prospective;
- Two training sessions on more general issues (open also to Board members of other Group companies): staff remuneration and incentivization of commercial networks; cross-selling practices; cyber-security; Research Department/R&S activities.

The average duration of the induction meetings was about two hours, and that of the training sessions around two and a half hours.

Self assessment of the Board of Directors

The process of self-assessment of the size, composition and functioning of the Board of Directors and its committees required by the Supervisory Instructions for banks in the area of corporate governance and by the relevant EU regulations, was conducted in the months between February and July 2018, with the assistance of an external specialist advisor.

The process was structured in three different phases:

– Obtaining each Director's recommendations, on the basis of a standardized questionnaire which was the same for all recipients, structured in three sections: the first on individual suitability, the second on collective suitability, and the third on the Board's functioning. The questionnaire also sought to identify new topics of discussion for next year's induction sessions;
– The Appointments Committee's analysis of the data collected in aggregate form;
– The Board of Directors' approval of the Summary Report, including the principal results at the Appointments Committee's proposal.

The self-assessment process, in which all of the directors participated and also, in line with the supervisory instructions for banks, the three standing auditors plus four members of the Bank's management external to the Board, revealed a positive situation which confirms the effectiveness of the work carried out by the Board.

The following points in particular emerged:

- The individual and collective composition (in terms of size, capabilities, diversity and number of independent members) and functioning of the Board itself and the committees set up by it were considered to be adequate;
- The flow of information ahead of the meetings, the documentation on risks facing the company and risk controls, and segmentation of budget and closing data by business line, were all held to be satisfactory;
- The debate within the Board itself and the accuracy of the minutes for the meetings were all judged to be effective;

- The Board members were unanimous in their appreciation of the Chairman's role in terms of leadership, effectiveness in running meetings and stimulating critical and independent discussion within the Board itself;
- There was general satisfaction with the induction sessions arranged and the supporting documentation provided;
- The judgement on the work done by the Board as a whole and by each of its members was also generally satisfactory.

The Executive, Appointments, Remunerations and Risks Committees were felt to be excellent in terms of role, functioning, composition and size.

Areas for improvement included in particular the density of the Board meetings' agenda in terms of the number of items for discussion. At a Board meeting held on 31 July 2018, the directors upheld the proposals made in this respect by the Appointments Committee, identifying the following corrective measures:

– Alter the organization of the proceedings at Board meetings, to prevent presentations which have already been made to Board committees being repeated (save in special cases);
– Reporting flow for activities performed by delegated bodies to be correlated to the Board but giving priority to the timing compared to the most recent meeting;
– Send all directors the agendas for meetings of the Board committees, to increase awareness of the issues which will subsequently require approval at the level of the Board itself.

The Board self-assessment process, which in FY 2015-16 was extended to the other banks in the Group in order to obtain an overall picture of the functioning of Group governance, revealed a largely positive assessment of the role of the Board.

Chairman of Board of Directors

The Chairman of the Board of Directors calls, chairs and directs proceedings at general meetings and Board meetings, and ensures that the other Directors are provided with adequate information regarding the items on the agenda. No person aged seventy or over may be elected as Chairman.

The Chairman is responsible for ensuring that the corporate governance system runs smoothly in practice, guaranteeing due balance between the powers of the Chief Executive Officer and the other executive Directors; he is the counterparty for dialogue with the internal control bodies and internal committees.

He ensures that the self-assessment process is completed effectively, and that the corrective measures devised in order to meet any shortcomings detected are implemented in practice; he ensures that the directors are able to take part in meetings to analyse strategic issues in greater depth, with a view to providing adequate knowledge of the company itself, principles of proper risk management and the regulatory framework.

The Board of Directors has not tasked the Chairman with specific duties or vested him with powers of proposal save for that of controlling the internal audit activities, to be performed on the basis of reports on the results of the audits carried out and via monitoring of the remediation measures identified.

In addition to the duties associated with his role, the Chairman of Mediobanca, Renato Pagliaro is a member of the Appointments Committee and is invited to take part in certain committee meetings but without voting rights.

Board Committees

In accordance with Article 20 of the Articles of Association, the Board of Directors, at the Appointments Committee's proposal, confirmed the institution of the Executive Committee and the three Board Committees (Risks, Remuneration and Appointments), consisting exclusively of non-executive directors, the majority of whom are independent, from whom the Chairman is selected.

The Board committees reach a quorum when the majority of directors in office participate and resolutions are adopted on the basis of the majority of those participating voting in favour.

Minutes are taken of meetings by each Committee which are kept in specific registers.

The Chairman of each Committee reports to the first Board of Directors' meeting on its activities and the Committee's proposals to be submitted for examination by the Board.

Composition and role of Executive Committee

Without prejudice to situations of incompatibility and the restrictions set under the regulations in force, the directors who are members of the management of Mediobanca Group companies are members of the Executive Committee de jure. Members of the Executive Committee who are part of the Mediobanca Group's management are bound to devote themselves exclusively to the performance of activities relating to their post, and without prejudice to the provisions of the law and unless permitted otherwise by the Board of Directors, may not carry out duties of management, direction, control or of any other nature for companies or entities other than those owned by Mediobanca. The other Executive Committee members, again without prejudice to the provisions of the law and unless permitted otherwise by the Board of Directors, may not carry out duties of management, direction, control or of any other nature for other banking or insurance groups.

The Committee remains in office for the entire duration of the office of the Board of Directors which appointed it.

The Committee is chaired by the Chief Executive Officer. The Chairman of the Board of Directors is also invited to take part in Executive Committee meetings, to ensure adequate information and reporting flows to the full Board of Directors. The Statutory Audit Committee also participates, as do the Secretary, the Chief Risk Officer and the Head of Company Financial Reporting.

Members (as at 30/6/18)	Post held	Executive
Alberto Nagel (Chair)	CEO and Chairman	X
Maurizia Angelo Comneno *	Deputy Chair	
Francesco Saverio Vinci	General Manager	X
Gabriele Villa *	Director	

* Independent as defined under Article 148, para. 3 of the Italian Finance Act.

The Executive Committee comprises three men (75%) and one woman (25%). A breakdown of the committee members by age is provided below:

<40	41/45	46/50	51/55	56/60	61/65	66/70	71/76
0	0	0	3	0	0	1	0

Under the Articles of Association, the Executive Committee is responsible for managing the ordinary activities of the Bank, vested with every power, including the power to disburse credit, without prejudice to those issues for which the Board of Directors has sole jurisdiction or which the Board has otherwise delegated to the Chief Executive Officer. In particular, the Executive Committee:

– Approves resolutions, in accordance with the guidelines and general directives adopted by the Board of Directors, to grant loans, including pursuant to Article 136 of the Italian banking act, and trading involving shareholdings considered relevant under the terms of the Articles and for percentage values not to exceed those over which the Board of Directors has decision-making powers;

– Draws up and implements internal regulations, to be submitted to the approval of the Board of Directors, and establishes the principles for co-ordination and management of Group companies in execution of the strategic guidelines approved by the Board of Directors;

– Establishes operating limits on the taking of various types of risk, in accordance with the Risk Appetite Framework. The Executive Committee may delegate some of their powers to internal managerial committees or to individual management staff, while giving priority to the principle of collegiality in decision-making. In accordance with the provisions of the Articles of Association, and in order to facilitate the smooth running of the company's operations, the Executive Committee has assigned the following powers to the following committees:

  - Group Risk Management, powers of consultation on matters of credit, issuer, operational and conduct risk, and executive powers on market risks;
  - Lending and Underwriting, with executive powers for matters of credit, issuer and conduct risk;
  - Group ALM and Operating ALM, for monitoring the Group's ALM risk-taking and management policy (treasury and funding) and approving the methodologies for measuring exposure to liquidity and interest rate risk and the internal fund transfer rate;
  - Investments, for the equity investments referred to in Article 18 of the Bank's Articles of Association and other equities and banking book investments (excluding those in Banking Group companies);
  - New Operations, for prior analysis of new operations and the possibility of entering new sectors, new products and the related pricing models;
  - Operational Risks, for management of operational risks in terms of monitoring risk profiles and defining mitigation actions;

- Private Investments, with the duty of proposing the investment strategy to the Executive Committee and approving the asset classes which make up the investible universe, its composition, the top recommendations and model portfolio.

Reports on these committees' activities are presented at each Executive Committee meeting.

The Committee regularly assesses the general operating performance, including on the basis of information received from the Chief Executive Officer and from the internal management committees.

Resolutions are approved by the Executive Committee with the majority of its members in attendance and voting in favour.

Meetings are called on the initiative of the Chairman based on the requirements of the business, as a rule meeting once a month.

A total of twelve meetings were held in the period from 1 July 2017 to 30 June 2018, with an average duration of roughly 1 hour and 40 minutes.

Risks Committee

Members (as at 30/6/18)	Independent (Article 19)*	Independent (Finance Act)**
Elisabetta Magistretti (C)◊	X	X
Maurizio Carfagna	X	X
Angela Gamba	X	X
Valérie Hortefeux	X	X
Massimo Tononi°	X	X

◊ Registered auditor.

* Independent as defined in Article 19 of the Articles of Association.

** Independent as defined in Article 148, para. 3 of the Italian Finance Act.

° In office until 25 July 2018..

As at 30 June 2018, the Committee consisted of five non-executive Directors [7] who qualify as independent as defined in Article 19 of the Articles of Association, supports the Board of Directors on matters pertaining to risk and the internal controls system, with a focus in particular on all related and necessary activities to ensure that the Board is able to arrive at an accurate and

[7] On 20 September 2018, Vittorio Pignatti-Morano was co-opted to the Board of Directors to replace Massimo Tononi and was also appointed as a member of the Risks Committee.

effective Risk Appetite Framework and risk governance policies. The person chairing the Committee is an independent director in possession of the requisite experience in accounting and financial matters, on account of their being a registered auditor. The Committee consists of three women (60%) and one man (40%). A breakdown of the Committee members by age is shown below:

<40	41/45	46/50	51/55	56/60	61/65	66/70	71/76
0	0	2	1	0	0	2	0

In particular, the committee:

– Performs duties of monitoring, instruction and support to the Board of Directors in respect of:

  • Defining the Risk Appetite Framework, monitoring its thoroughness, adequacy, functioning and reliability and those of the risk governance policies;

  • Defining the guidelines for the internal control and risk management system, to ensure that the principal risks facing the Bank and its Group companies are properly identified and adequately measured, managed and monitored;

  • Dealing with risk resulting from any prejudicial events of which the Board of Directors may become aware;

  • Reviewing, at least once a year, the adequacy of the internal control and risk management system vis-à-vis the Bank's characteristics and the risk profile assumed;

– Expresses non-binding opinions, with the assistance of the Appointments Committee, on the appointment and dismissal of the heads of the internal control units (Group Audit, Compliance and Risk Management), their salaries and powers, and the means guaranteed for them to exercise their functions;

– Examines the regular reports and work plans of the Group Audit, Compliance and Risk Management units, and supervises the internal auditing system;

– Reports to the Board, at least once every six months, on the activities performed and the adequacy of the internal control and risk management system;

– Reviews plans for calculating the adequacy of the Bank's aggregate capital, current and estimated, at the consolidated level in view of the large risks to which the Bank and Group are exposed (ICAAP), reporting back to the Board on this issue;

– Checks that the Bank’s remuneration and incentivization system is consistent with the Risk Appetite Framework.

With reference to the structure of the Bank’s financial reporting organization, the Committee assesses the compliance of decisions taken by the Head of Company Financial Reporting, the external auditors and the Board of Directors in respect of the correct application of accounting standards with primary and secondary regulations, their consistency for purposes of drawing up individual and consolidated financial statements, and generally serves in an advisory capacity to assist the Board of Directors in taking the decisions for which it has responsibility on matters of financial documents.

The Secretary and the Statutory Audit Committee take part in Committee meetings, and the Chief Executive Officer and General Manager are also invited to take part. The head of company financial reporting, the heads of the control units and other Group staff also attend if considered necessary.

The Risks Committee currently also acts as the Related Parties Committee instituted pursuant to the Regulations for transactions with related parties approved on 20 June 2012 and most recently revised on 10 May 2018 (www.mediobanca.com/Corporate Governance), with the following duties:

1) Expressing opinions in advance on the adoption of, and possible amendments to, the Regulations;
2) Participating in negotiating and processing the most significant transactions with related parties, by receiving thorough and prompt reporting on them with the right to request further information and make comments;
3) Expressing reasoned opinions (binding only in respect of the largest transactions) on the Bank’s interest in executing the transaction with related parties and the convenience and substantial correctness of the financial terms, including with the help of independent experts.

The Committee met on a total of twelve occasions in the period from 1 July 2017 to 30 June 2018 and on nine occasions as the Related Parties Committee.

The average duration of Risk Committee meetings was roughly three hours and 20 minutes, and that of Related Parties Committee meetings around 30 minutes.

Remunerations committee

Members (as at 30/6/18)***	Independent (Article 19)*	Independent (Finance Act)**
Maurizio Carfagna (C)	X	X
Valérie Hortefeux	X	X
Alberto Lupoi	X	X
Alberto Pecci		

* Independent as defined in Article 19 of the Articles of Association.

** Independent as defined in Article 148, para. 3 of the Italian Finance Act.

*** César Alierta resigned from his position as Director with effect from 8 March 2018.

As at 30 June 2018[8], the Committee consisted of four non-executive members, the majority of whom qualify as independent under the terms of Article 19 of the Articles of Association, including the Committee Chair. The Committee has duties of consultation and enquiry to determine the remuneration of Directors vested with particular duties and the General Manager, as well as on the proposals formulated by the Chief Executive Officer regarding the guidelines for the remuneration system for senior management and Group staff remuneration, loyalty retention and incentivization schemes. The Committee currently consists of three men (75%) and one woman (25%). A breakdown of the Committee members by age is shown below:

<40	41/45	46/50	51/55	56/60	61/65	66/70	71/76
0	0	2	0	0	0	1	1

In particular the Committee:

1) Regularly assesses the adequacy, overall consistency and practical application of the remuneration policy for directors and relevant staff;
2) Formulates proposals and/or opinions regarding the remuneration of the Chief Executive Officer and the General Manager.
3) Monitors application of the rules on the remuneration of the heads of the company's control units, liaising closely with the body with responsibility for control;
4) Gives its opinion on the Remunerations Policies to be submitted to the approval of the Board of Directors and shareholders in annual general meeting, with reference in particular to the issue of whether or not the performance objectives on which the incentivization schemes are based

[8] Until 8 March 2018, the Remunerations Committee consisted of five non-executive members, the majority of whom qualify as independent under the definition stipulated in Article 19 of the Articles of Association, including César Alierta (who ceased to be a member of the Committee with effect from 8 March 2018).

have been reached, and to ascertaining whether or not the further conditions set to payment of bonuses have been met;

5) Proposes the allocation of the aggregate fixed compensation to the Board of Directors established by shareholders in annual general meeting to the Board itself for approval.

The Chairman of the Board of Directors, the Secretary, the Statutory Audit Committee, the Chief Risk Officer and Head of Human Resources take part in Committee meetings, along with (in an advisory capacity) the Chief Executive Officer, the General Manager, and any other Group staff considered necessary.

The Committee met eight times in the period from 1 July 2017 to 30 June 2018, including two meetings which were not attended by the Executive Committee, to review changes in the regulatory framework and formulate proposals to the Board of Directors regarding staff remuneration policies. For further information on the issue of remuneration, please see the Report on Remuneration available on the Bank's website under www.mediobanca.it/Corporate Governance.

The average duration of Committee meetings was roughly one hour and 45 minutes.

Appointments committee

Members (as at 30/6/18)	Independent (Article 19)*	Independent (Finance Act)**
Maurizio Costa (C)	X	X
Marie Bolloré		X
Alberto Lupoi	X	X
Elisabetta Magistretti	X	X
Renato Pagliaro		

* Independent as defined in Article 19 of the Articles of Association.

** Independent as defined in Article 148, para. 3 of the Italian Finance Act.

As at 30 June 2018, the Appointments Committee consisted of five non-executive directors, the majority of whom qualify as independent under Article 19 of the Articles of Association, including the Chairman.

The Committee consists of three men (60%) and two women (40%). A breakdown of the Committee members by age is provided below:

<40	41/45	46/50	51/55	56/60	61/65	66/70	71/76
1	0	1	0	0	1	2	0

The Appointments Committee:

- Performs administrative activities in connection with the Board of Directors' annual self-assessment exercise;
- Performs advisory duties to identify the optimal qualitative/quantitative composition of the Board of Directors, and subsequently checks that this corresponds to the actual composition which results from the appointment process;
- Has duties of enquiry in respect of proposals of submission of lists for the Board of Directors, co-opting of new directors to replace those who have left their post, and for the appointment of the Executive Committee, Chief Executive Officer and, at the CEO's proposal, the General Manager;
- Performs administrative duties in connection with succession planning for directors who are members of the Bank's management;
- Provides administrative assistance to the Board of Directors on governance issues;
- Supports the Risk Committee in identifying the heads of the company control units.

The Secretary, Chief Executive Officer, General Manager and Head of Company Financial Reporting take part in Committee meetings, along with any other Group staff considered necessary.

The Committee met ten times in the period from 1 July 2017 to 30 June 2018 to adopt resolutions regarding the Board of Directors' self-assessment process, to verify the requirements and on succession planning issues, plus the "Policies for the selection, appointment, succession and performance assessment of company representatives and Group Key Function Holders".

The average duration of committee meetings was roughly 1 hour and 40 minutes.

Committee instituted pursuant to Article 18, para. 4 of the articles of Association

In addition to the Committees provided for in the regulations and codes of conduct, the Board of Directors has also set up a committee pursuant to Article 18, para. 4 of the Articles of Association which adopts resolutions in respect of decisions to be taking regarding appointments to be made to the governing bodies of particular investee companies at their annual general meetings, companies, that is, in which the Bank holds a stake of at least 10% of the share capital and for which the value of such stakes represents more than 5% of the Group's consolidated regulatory capital.

Members (as at 30/6/18)	Independent (Article 19)*	Independent (Finance Act)**
Alberto Nagel (C)		
Marie Bolloré		X
Elisabetta Magistretti	X	X
Francesco Saverio Vinci		

* Independent as defined in Article 19 of the Articles of Association.
** Independent as defined in Article 148, para. 3 of the Italian Finance Act.

The Committee consists of two men (50%) and two women (50%). A breakdown of the Committee members by age is provided below:

<40	41/45	46/50	51/55	56/60	61/65	66/70	71/76
1	0	0	2	0	0	1	0

As at 30 June 2018, the Committee consisted of the Chief Executive Officer, General Manager and two Directors, one of whom qualifies as independent.

The Committee did not meet at all during the last financial year.

Chief Executive Officer

The Board of Directors appoints a Chief Executive Officer from among the Directors who have been members of the Banking Group's management for at least three years, who must not be more than sixty-five years old.

The Board of Directors, without prejudice to the provisions of the Articles of Association, establishes the duties and powers of the Chief Executive Officer. In particular, the Chief Executive Officer has executive powers and is responsible for implementing resolutions adopted by the Board of Directors and the Executive Committee, which he chairs, and also:

1) Within the limits of his powers, implements the plans and strategic guidelines set by the Board of Directors and Executive Committee;

2) Is empowered to make proposals to the Board of Directors and Executive Committee, with reference in particular to management direction, proposed strategic plans and budgets, draft financial statements and interim accounts, and the principal internal regulations;

3) Is empowered to make proposals to the Committee instituted pursuant to Article 18, para. 4 of the Articles of Association concerning the decisions to be taken regarding appointments to the governing bodies of the investee companies, if listed;

4) Is responsible for staff management, and, having sought the opinions of the General Manager, if appointed, appointment of managerial staff;

5) Ensures that the organizational, administrative and accounting systems of the bank are adequate for the operations and size of the Company;

6) Reports, with the General Manager, if appointed, to the Board of Directors and Executive Committee each quarter on the Bank's operating performance and prospects, and on the most significant transactions carried out by the Company and its subsidiaries;

7) Is responsible for supervising activities in the area of sustainability, including preparing the Consolidated Non-Financial Statement to be published annually. In performing these duties, the Chief Executive Officer is assisted by the Corporate Social Responsibility management committee.

The Chief Executive Officers is Alberto Nagel.

General Manager

The Board of Directors may, if proposed by the Chief Executive Officer's proposal with an indication of powers and duties, appoint a General Manager from among the Directors who have been members of the Banking Group's management for at least three years and are not more than sixty-five years old.

The Board of Directors vests the General Manager, who is the head of the internal organization and as such is responsible for its management, with powers to carry out the day-to-day business of the company, which specifically involves supervision of the other Group companies, and to implement resolutions passed by the Board of Directors and Executive Committee in accordance with the directions issued by, and based on the individual remit of, the Board of Directors, Executive Committee and Chief Executive Officer. The General Manager is responsible for approving the guidelines to ensure that the risk mitigation techniques implemented are effective and that suitable training programmes are instituted to embed the requisite risk culture.

The General Manager is Mr Francesco Saverio Vinci, who heads the Operations division and the Banking Group's principal investments; he is also responsible for the Financial Markets area which is part of the Corporate and Investment Banking division.

Head of Company Financial Reporting

On the proposal of the Chief Executive Officer, and with the Statutory Audit Committee's favourable opinion, the Board of Directors appoints one person to act as head of financial reporting, who shall be chosen from among the Bank's management and must have held management positions for a period of at least three years in the field of accounting administration at the Bank itself or at another leading bank. The post is currently held by Emanuele Flappini.

The Head of Company Financial Reporting is responsible for putting in place adequate administrative and accounting procedures for the preparation of the individual and consolidated accounts, plus all other reporting of a financial nature. The appointed bodies and the Head of Company Financial Reporting issue statements on the company's capital, earnings and finances as required by law.

The Board of Directors exercises supervision to ensure that the Head of Company Financial Reporting is vested with suitable powers and means to carry out the duties entrusted to him, and to ensure that the administrative and accounting procedures are complied with in practice.

At the annual general meeting held on 27 October 2012, the shareholders of Mediobanca appointed PricewaterhouseCoopers to audit the company's full-year financial statements and interim accounts, and to perform other activities provided for under Article 155 of the Italian Consolidated Finance Act for the 2013/2021 period.

Risk management and internal control system for financial reporting process

Mediobanca has equipped itself with an internal control system for accounting and financial reporting requirements based on benchmark standards which are widely accepted at international levels (COSO and COBIT framework) [9]. The system provides for:

– Company Level Controls: controls to ensure that general and supervisory regulations are complied with in the running of the business, which are the norms, regulations and control mechanisms in force in the Group. Company Level Controls regard the organization of the company and impact on the methods by which the financial reporting and disclosure objectives are reached.

– Administrative/accounting model: organizational processes (operators, activities, risks and controls) which generate the most significant earnings and asset figures included in the financial statements and information disclosed to the market.

– General IT controls: general rules governing technologies and applications developments which are common to the architectures and IT applications used to generate financial reporting.

The system has been constructed and is applied according to the relevance of Group companies, accounts or processes.

Checks are carried out according to two distinct methods based on the reference process:

– Test of controls, for non-accounting processes (chiefly relating to the support areas) IT processes, which are carried out by the process-owners using a self-assessment methodology and checked by the heads of their respective organizational areas;

– Test of controls for accounting processes, carried out in part using a self-assessment methodology and in part by the Group Audit Unit.

[9] The CoSO Framework has been compiled by the Committee of Sponsoring Organizations of the Treadway Commission, a US body with the objective of improving the quality of corporate information through defining ethical standards and an effective corporate governance and organizational system. The CobIT Framework-Control Objectives for IT and related technology, meanwhile, is a set of rules prepared by the IT Governance Institute, another US body whose objective is to set and improve corporate standards in the IT sector.

The Group Audit unit ascertains annually that the tests carried out on a self-assessment basis have been performed in accordance with the relevant methodologies.

Any gaps that emerge from the testing activity are analysed in conjunction with the heads of the organizational units responsible for the process, and possibly also with the areas that will be involved in solving the problems. With the Head of company financial reporting, a plan of corrective action is drawn up which assigns responsibilities and defines timescales.

Based on this model, the relevant administrative bodies and the Head of Company Financial Reporting attest, by means of a declaration attached to the annual report, the condensed interim report and the consolidated financial statements, that the procedures in force are adequate and have been effectively applied during the period to which the documents apply, and that the documents correspond to the data recorded in the company's books and accounts ledgers and are adequate for the purpose of providing a truthful and adequate representation of the capital, earnings and financial situation of the issuer and the group of companies included within its area of consolidation.

Statutory Audit Committee

The Statutory Audit Committee consists of three standing auditors and three alternate auditors. Appointment to the Statutory Audit Committee is made on the basis of lists deposited at least twenty-five calendar days prior to the date scheduled for the general meeting to be held in the first or only instance along with professional CVs for the individual candidates and statements by them agreeing to stand as candidates and confirming that they are in possession of the qualifications required under law, the applicable regulations and the Articles of Association. The Articles in particular provide that, without prejudice to the provisions of the law, members of the Statutory Audit Committee may not hold posts in governing bodies other than those with responsibility for control of other Group companies or in companies in which Mediobanca holds, including indirectly, an investment which is deemed to be strategic under supervisory requirements laid down by the Bank of Italy, hold the post of Chief Executive Officer, manager or officer in companies or entities, or who otherwise work with the management of companies operating directly or indirectly (including through subsidiaries) in the same sectors as Mediobanca. The Articles of Association further state that lists may only be submitted by shareholders representing in the aggregate at least the percentage of the company's share capital established under regulations in force at the date of the general meeting (currently 1%).

The mechanism for appointments provides that the Chairman of the Statutory Audit Committee shall be chosen from the minority list.

Its composition also ensures the gender balance stipulated in Italian law 120/11.

The Statutory Audit Committee, appointed on 28 October 2017 for the 2018, 2019 and 2020 financial years, is currently made up as follows:

Members (as at 30 June 2018)	**Position**	**In office since ****
Natale Freddi *	Chairman	28.10.2011
Laura Gualtieri ♦	Standing Auditor	28.10.2014
Francesco Di Carlo ♦	Standing Auditor	28.10.2017
Alessandro Trotter ♦	Alternate Auditor Supplente	28.10.2014 **
Barbara Negri ♦	Alternate Auditor Supplente	28.10.2014
Stefano Sarubbi *	Alternate Auditor Supplente	28.10.2017

♦ Appointed from the list submitted by shareholder UniCredit S.p.A., which holds 8.46% of the company's share capital.

* Appointed from the list submitted by a group of investors owning 3.889% of the share capital.

** Alternate audit until 2 July 2007; member of Management Board from 2 July 2007 to 28 October 2008; and alternate auditor from 28 October 2014.

The members of the Statutory Audit Committee all qualify as independent under Article 148 of Italian legislative decree 58/98 and the Code of Conduct.

The CVs of the Statutory Auditors deposited along with the lists for appointments to the Statutory Audit Committee may be found on the Bank's website at www.mediobanca.it/Corporate Governance.

The Statutory Audit Committee performs the duties and functions required of it under the regulations in force. In particular it monitors:

– Compliance with the provisions of the law, regulations and the Company's memorandum of incorporation, as well as with the principles of proper management;
– Adequacy of the organizational, administrative and accounting arrangements set in place by the company and the financial reporting process;
– The thoroughness, adequacy, functioning and reliability of the internal control system and Risk Appetite Framework;
– The process of auditing the annual and consolidated financial statements;

- The independence of the external auditors, in particular regarding the provision of non-audit-related services;
- The thoroughness, adequacy, functioning and reliability of the business continuity plan.

The Statutory Audit Committee is also responsible for:

- Reviewing the plans of activity for the company's control units, along with the reports prepared by them on the work carried out;
- Expressing its opinion on the appointment and/or dismissal of the heads of the control units and the Head of company financial reporting;
- Monitoring the process of calculating the adequacy of the Bank's aggregate capital, current and estimated, at the consolidated level in view of the large risks to which the Bank and Group are exposed (ICAAP);
- Informing the Board of Directors of the results of the auditing process, and sending the additional report required under Article 11 of European regulation no. 537/2014, along with any comments it might have;
- Proposing the audit company for approval by shareholders in annual general meeting to act as the Bank's legal external auditors;
- Reviewing the working plan prepared by the external auditors to audit the Bank's accounts, and the results as described in their report and their letter containing suggestions;
- Assessing the adequacy of the procedures adopted to regulate transactions involving related parties and compliance with them;
- Checking that the criteria and procedures adopted by the Board of Directors to assess the independence of its members are applied correctly;
- Monitoring compliance with the requirements provided for in Italian Legislative Decree 254/16 on sustainability;
- Reporting any irregularities in operations or breaches of the regulations noted to the supervisory authorities.

The statutory auditors are vested with the broadest powers provided for by the legal and regulatory provisions in force.

The committee takes part in all meetings of the Board of Directors, the Executive Committee and the other committees set up by the Board for which their participation is required under the Board's regulations. In this way the Committee is kept informed of the activities carried out and the most significant transactions in earnings, financial and capital terms, executed by the Company or its subsidiaries, transactions with related parties, and transactions in which the Directors have an interest either in their own right or by means of third parties.

The Statutory Audit Committee receives information flows organized and channelled via the company's control units, i.e. Group Audit, Risk Management and Compliance, deals with issues in conjunction with the Risks Committee, and maintains regular relations, with a view to reciprocal exchanges of information, with the external legal auditors, and with other Group companies' Statutory Audit Committees. The heads of the various areas of the company hold regular meetings with the Statutory Audit Committee to provide further analysis or training on issues that are of interest to them.

Any Statutory Auditor who has an interest in a particular transaction in which Mediobanca is involved, either in his/her own right or via third parties, informs the other Statutory Auditors and the Chairman of the Board of Directors promptly and exhaustively regarding the nature, terms, origin and scope of such interest.

A total of twenty-nine meetings of the Statutory Audit Committee were held in the last financial year, twelve of which were held jointly with the Risks Committee, and the Committee met on several occasions with representatives of the external auditors retained to audit the company's financial statements pursuant to the Italian Finance Act.

The average duration of committee meetings was roughly three hours.

Group Audit Unit

Mediobanca maintains a Group Audit Unit, centralized at Mediobanca S.p.A. but covering the Group as a whole, which is organized so as to assess the thoroughness, adequacy, functioning and reliability of the company's internal control system. The activities regard all companies in the Banking Group and are performed by the unit itself and via its co-ordination of the corresponding subsidiaries' units (where applicable; e.g. in the case of Compagnie Monégasque de Banque).

Centralizing internal audit activities in this way allows Mediobanca's role of co-ordination of the internal controls system to be strengthened and makes the whole control structure more efficient by:

– Centralizing co-ordination responsibilities at, and providing for direct coverage, by the Group audit unit for all subsidiaries;
– Defining a Banking Group audit plan, to be submitted to the approval of Mediobanca's Board of Directors and thereafter of the individual companies' Boards for what concerns them;
– Sharing specialized skills (e.g. IT auditing, AIRB, regulations) and audit methodologies, inspection methods reporting standards vis-à-vis governing bodies and senior management.

The head of the Group Audit Unit is Giorgio Paleari, who reports to the Board of Directors.

The unit operates independently and has direct access to all information useful to it, and adequate means are made available for it to be able to perform its mandate.

The head of the Group Audit Unit takes part in meetings of the Risks Committee, providing support in its own control activities. The unit submits a report to the Risks Committee and the Board of Directors once every six months on the activities performed and remediation of any critical issues noted.

The plan of activities is executed in accordance with the provisions contained in the unit's own Regulations and the Audit Plan approved each year by the Board of Directors.

Compliance Unit

The Compliance unit manages the regulatory and reputational risks of the Group, and to monitor in particular that the internal procedures set in place are consistent with the objective of preventing breaches of regulations applicable to the Bank and the Group. For the Bank, the unit proposes and monitors the adoption of procedures intended to manage risks of non-compliance linked to the provision of banking services and MiFID investment and ancillary services, ensuring staff are fully updated on developments in the domestic and European regulatory scenario. The unit manages compliance risks at the Group level as well, with the assistance of representatives and officers of the various Group companies, who in functional terms report to the head of the Compliance unit on such matters.

The head of Compliance takes part in Risks Committee meetings, providing support to the committee in its control activities. The Compliance unit reports to the Control and risks committee, the Board of Directors and the Statutory Audit Committee twice a year. The Compliance unit is headed up by Massimiliano Carnevali, who reports directly to the Chief Executive Officer.

Anti-money-laundering Unit

The Anti-money-laundering unit was established in 2011, and as required by the instructions issued by the Bank of Italy on 10 March 2011 as amended, is responsible for ongoing monitoring of the Bank's and Group's procedures to ensure they are adequate to prevent and tackle breach of the regulations on money-laundering and terrorist financing. In 2018, the unit was centralized at Mediobanca for the Italian Group companies, while at the non-Italian companies the unit manages these risks with the assistance of the respective representatives and officers, who in functional terms report to the head of the AML unit on such matters.

The head of the Group AML unit is Andrea Verger, who reports to the head of the Compliance unit.

Group Risk Management Unit

The Group Risk Management unit reports directly to the Chief Executive Officer under the leadership of the Group Chief Risk Officer, Pierpaolo Montana.

The unit co-operates in the definition and execution of the Risk Appetite Framework and the related risk governance policies, through an adequate risk management process. It plays an important role in strategy and risk-taking decisions, in the appraisal of extraordinary transactions, and in identifying, measuring, valuing, managing, mitigating, monitoring and reporting risks in the event of unauthorized exposures being noted.

In particular it is responsible for identifying and implementing an efficient risk management process and for ensuring this is embedded across the Group. To this end it presides over the functioning of the Bank's and the Group's risk management systems, defining the appropriate methodologies for measuring the current and future set of risks faced by them. The unit ensures ongoing control of the aggregate exposure, at Group and individual unit level, to credit, financial, operational and other relevant risks, within the limits set by the internal and supervisory regulations. The unit also issues guidance to the Group companies, to ensure that the entire Group's exposure to the above risks is governed appropriately.

In the exercise of his duties of control, the Group Chief Risk Officer is the person responsible for identifying and implementing an efficient risk management process through developing risk management policies which include defining and quantifying risk appetite and risk limits at both the individual operating unit and Group-wide level, calling on the assistance also of the other Risk Management teams of the various Group companies which to this end report in functional terms to the Group Chief Risk Officer.

The Head of the unit attends meetings of the Risks Committee, assisting it in its control tasks. Every six months the unit submits a report to the Risks Committee and the Board of Directors on the activities performed, and once a year it submits an assessment of the Group's risk profile and the adequacy of the Group's risk management measures.

As part of the Risk Appetite Framework, the Risk Management unit performs a set of regular internal controls with the aim of measuring the current level of the metrics relative to the limits set in the framework. It also gives prior opinions on whether Most Significant Transactions are consistent with the Risk Appetite Framework and identifies any needs in terms of decision-making escalation. If needs be, and depending on the nature of the transaction, it also seeks the opinion of other units involved in the risk management process.

In the area of strategic planning, Risk Management participates in the definition of the Group's strategic guidelines, ensuring the strategic goals and risk limits defined in the RAF are consistent with reference specifically to the adequacy of the company's assets and liquidity.

The unit is also responsible for the process and performance of Group-wide stress tests.

The Risk Management unit is involved in making decisions regarding the Bank's entry into new markets, introduction of new products, and extraordinary operations, in order to assess the impact of these changes and operations on the Bank's and the Group's overall risk level.

Organizational model instituted pursuant to Italian Legislative Decree 231/01

At a Board meeting held on 31 July 2018, the Directors of Mediobanca approved the revised version of the new organizational model following changes to the regulatory framework.

The organizational model consists of:

1. A **General Part**, which provides an overview of the set of principles on which the model is based and functions, containing references to the primary regulations and with them a list of the crimes pursuant to Italian Legislative Decree 231/01, the cases of possible exemption from liability, an indication of the requisites for the supervisory body and its members, references to the staff remuneration and incentivization.
2. **Special Parts**:
   - **Map of crimes and activities at risk:** for each category of crime and organizational unit, the sensitive activities, control measures and organizational units involved are identified.
   - **Protocols**, summarizing the principles of conduct and operating procedures for each sensitive area.
   - Group Code of Ethics, which has been adopted by all Group companies, constitutes an integral part of the model, and contains references and principles which are complementary to the legal obligations and self-regulation requirements for directors, advisors, outside staff and suppliers, and are continuous and consistent with the Group's mission and its basic values. The document is available on the Bank's website at www.mediobanca.it/Corporate Governance.

- **Reporting flows** from/to the supervisory body, containing the data and information which each organizational unit is required to transmit to the supervisory body. Obtaining such data allows the supervisory body to monitor the model's functioning and compliance with it, and to propose revisions where these may be necessary in order to render the company's organizational and internal control measures more effective.
- **Form for reporting** suspected breaches of the model to the supervisory body.
- List of crimes: document describing the crimes assumed to be applicable to the Bank.

The Statutory Audit Unit also performs the functions assigned to the supervisory unit instituted pursuant to Italian legislative decree 231/01. In this connection, the Statutory Audit Committee is responsible for monitoring the functioning of and compliance with the model and the functioning of the disciplinary system. It maintains and ensures flows of information to the Board of Directors, including:

- Presenting an annual report on the activity carried out;
- Serious breaches of the model, also informing the Chairman of the Control and Risks Committee.

Code of Ethics and Code of Conduct

Since 2010 Mediobanca has adopted a Code of Ethics summarizing the ethical principles on which the Bank bases its activity and describing the values which underpin its daily operations.

These principles have also been set out in a Code of Conduct, which represents the benchmark for governing, in cases not expressly covered by the regulations, the Banks's internal and external relations in ethical terms, describing the standard of conduct required from all staff and collaborators.

Whistle-blowing

Mediobanca has also adopted a policy on whistle-blowing to enable staff to report, including on a confidential basis, any issues with the functioning of the Bank's organizational structure or internal control systems, or any other irregularity in the Bank's operations or breaches of the regulations on banking activity. The policy provides for liaison with the supervisory body, to which such reports are addressed. The policy, adopted by all Group companies, defines the the principles, methods and measures to ensure that such instances of whistle-blowing are managed correctly, respecting the confidentiality of the parties involved.

The head of the internal reporting systems is Massimiliano Carnevali, who is also responsible for the Compliance unit.

Personal transactions

In accordance with the provisions of regulations in this area, Mediobanca has adopted a procedure to ban and/or identify personal transactions made (or transactions recommended, solicited or divulged to third parties) by relevant persons which may give rise to conflicts of interest or otherwise be in breach of the regulations on insider or confidential information.

Under the procedure, relevant persons must be made aware of and comply with the restrictions and reporting requirements on personal transactions.

Internal Dealing

The Board of Directors has adopted Regulations on Internal Dealing to govern reporting requirements for transactions involving equity instruments issued by Mediobanca (shares, convertible bonds, warrants, equity derivatives, etc.) carried out by persons defined as "relevant". Such relevant persons (chiefly Directors, statutory auditors and key management) have all subscribed to the code, and notify Mediobanca of each such transaction involving said equity instruments within two days of its completion. Transactions involving sums of less than €5,000 (or a higher figure set by the relevant authority, if any) are not considered. Mediobanca then discloses all such information to the market and Consob by the next successive day, using the methods set down by the regulations in force. Relevant persons may not effect such transactions in the thirty days prior to the date on which the Board of Directors' approval of the Bank's annual, interim and quarterly accounts is made public (black-out period). A more restrictive regime has also been introduced for certain management figures, limiting the restrictions on them trading to certain “window” periods only, i.e. the 15 open market days subsequent to the results for the period being published.

Related Party Transactions

At a Board meeting held on 10 May 2018, following the unanimous favourable opinion of the Related Parties Committee and the Statutory Audit Committee, the Directors of Mediobanca approved a revised version of the Regulations in respect of transactions with related parties and their associates adopted in pursuance of Consob resolution 17221/10 and the Bank of Italy’s 2011 provisions on this subject, which set out the provisions with which the Bank must comply to ensure that transactions with related parties carried out directly or via Group companies are executed transparently, fairly in terms of both substance and form, objectively and impartially, whether directly or via subsidiaries, and also that the prudential limits on risk assets vs related parties are complied with.

The Regulations use a definition of “related party” which combines the areas of application provided under the Consob regulations with Bank of Italy instructions in respect of procedural and approval obligations. The scope of the definition of related parties to which the prudential limits set by the Bank of Italy and the transparency regulations set by Consob apply remains distinct.

The Regulations are activated every time the Bank intends to implement a transaction with a related party (as defined in Annex 1 of the regulations). They involve an initial classification between “Most significant transactions” and “Transactions of minor significance”, which determines the respective responsibilities and approval procedures. The Regulations do not apply to transactions which qualify as “Exemptions” (which include “Ordinary transactions of minor significance carried out on market terms” and “Transactions involving negligible amounts”).

The Regulations also prescribe a specific “transparency regime” which defines the reporting requirements and deadlines versus both the public and the company’s governing bodies. These Regulations are published on the Bank’s website at www.mediobanca.com/Corporate Governance.

Conflict of Interest Policy

Consistent with the requirements of the regulations in this area, Mediobanca has adopted a conflict of interest management policy for the identification, monitoring and management of conflicts which may arise in the provision of investment or ancillary services. Taking into account the provisions of the ECB Guide for the requirements of directors' integrity and professionalism, it also regulates the measures to be taken in the event that one of them or a Statutory Auditor should become involved in a conflict of interest.

The Policy describes the methods of identification and management of real and potential conflicts of interest which affect Mediobanca's ability to act independently and could thereby harm the interests of the Bank or of one or more of its clients.

Mediobanca believes prompt, correct identification and management of conflicts of interest to be not only necessary in order to comply with the provisions of the laws and regulations but of essential importance for protecting clients' rights and safeguarding Mediobanca's assets and reputation before its clients, the market, other institutions and the authorities.

Directors' and strategic management's remuneration

The Chief Executive Officer's and the General Manager's remuneration are structured in such a way as to ensure their interests are aligned with the main objective of value creation for shareholders over the medium and long term, as part of a framework of regulations directed towards achieving proper management of the current and future risks facing the company, and maintaining appropriate liquidity and capitalization levels. The compensation package is structured into three components so that the economic benefits accruing to executive Directors are diversified over time:

1) Fixed salary;
2) A variable annual component (or short-term incentive) which accrues only if the gateways established in the remuneration policies are met, which is defined in the sense of reaching certain specific quantitative and qualitative performance criteria, contained in an individual scorecard approved annually by the Board of Directors at the Remunerations Committee's proposal.

The scorecards contain performance objectives for the business areas under the individual manager's responsibility. For example these may regard: risk-adjusted profitability; revenues, for the Group as a whole or specific divisions; profitability or Economic Profit of the individual areas under their responsibility; and/or other objectives consistent with the strategic plan guidelines in terms of capitalization, liquidity or new business initiatives. Each objective is weighted based on the importance attributed to it by the Board and the actual degree of autonomy which the manager concerned has in terms of decision-making regarding it. Achievement of these objectives results in variable remuneration being paid which varies from 50% (or a lower percentage) of annual gross salary when minimum targets (usually those set by the budget) are reached to up to of 200% for particularly outstanding performances (indicatively between 115% and 150% of the minimum).

Payment of the variable component (50% in cash and 50% in shares) is deferred as to 60% over a five-year time horizon. All the deferred components are subject to the performance and malus conditions provided for in the remuneration policies.

3) When the Group's strategic plan is approved, the Board of Directors may adopt a long-term incentivization scheme linked to achievement of the plan's targets. In this case the short-term incentive scheme described in the previous point will be adapted with reference to the long-term scheme, without prejudice to the 200% cap on variable remuneration for each financial year. Like the short-term scheme, the long-term incentivization scheme will have specific quantitative and qualitative objectives linked to the time horizon of the plan and will be subject to gateways. Payment will be made in accordance with the terms, conditions and means provided for the variable remuneration component referred to in the previous point, unless the Board of Directors decides otherwise having first consulted with the Remunerations Committee, as required by the regulations on long-term incentivization schemes currently in force, including any specific resolutions requiring to be adopted by shareholders gathered in annual general meeting. At present there is no long-term incentivization scheme in force.

The Chairman is entitled to fixed remuneration only.

Directors who are also members of the Group's senior management receive a fee for their position as directors, but do not receive any remuneration in respect of their participation in committees, and in cases where such directors hold posts on Mediobanca's behalf in Group or investee companies, any emoluments due are paid to Mediobanca itself as the persons concerned are members of the Bank's staff.

Non-executive Directors' remuneration is set by shareholders in their annual general meeting, and does not include incentives linked to the Bank's performance.

The policy on the remuneration of directors and management with strategic responsibilities is illustrated in the "Remuneration Policy", which at the Remuneration Committee's proposal is approved by the Board of Directors and submitted to shareholders in annual general meeting. The policy for FY 2017-18 as approved by the shareholders is available on the Bank's website at www.mediobanca.com/Corporate Governance.

Other information required under Article 123-bis of the Italian Consolidated Finance Act on Severance Pay Agreements

In the event of the directors employed by Mediobanca ceasing to work for the company for any reason, the provisions of the Group's remuneration policies for identified staff and the sector regulations in force at the time shall apply, as approved by the shareholders in their annual general meeting and published on the Bank's website at www.mediobanca.com.

Succession Planning

At a Board meeting held on 12 July 2018, the Directors approved the "Policies for the selection, appointment, succession and performance assessment of company representatives and Group Key Function Holders" governing inter alia the succession of executive directors (including the Chief Executive Officer and the General Manager) and non-executive directors, the Statutory Auditors and the Key Function Holders and include the emergency plan for renewal of appointments to senior management positions in the event that this should suddenly become necessary. The company representatives include members of the Board of Directors and Statutory Audit Committee; while the Key Function Holders are persons who are not Board members but have a significant influence on the Bank's management (the heads of the control units, the head of company financial reporting, the heads of the Mediobanca Group business areas (CIB, Retail/Consumer, Private Banking, Principal Investing, CMB, MAAM), and the Group HR Director).

Regarding succession planning for the executive Directors, the Chief Executive Officer and General Manager, the Appointments Committee is tasked with selecting a limited number of persons who have been members of the Group's management for at least three years and who are considered able to succeed to those positions. The selection is made with the support of the Chief Executive Officer and General Manager in office, Group HR, and specialized consultants if considered appropriate. This select number of management is kept informed at all times, so that, if need be, the Appointments Committee can make swift proposals to the Board of Directors or to shareholders in general meetings. In emergency situations, the Chairman swiftly calls a meeting of the Board of Directors to assign interim powers in order to ensure continuity of business, and to launch ordinary succession procedures with the Appointments Committee's involvement.

If an executive director other than the Chief Executive Officer or the General Manager, i.e. a member of the Executive Committee, should leave office during the course of a financial year, the responsibility for proposing a replacement falls to the Appointments Committee. In general terms, an executive director must possess all requisites stipulated in general for directors, plus specific experience in banking, professional or corporate areas which highlights their capability to take decisions quickly and on an informed basis. The Appointments Committee will commence its selection from among the other non-executive directors currently in office; if it fails to identify a suitable candidate, the new director will be co-opted from outside. To this end the Appointments Committee assesses the profiles represented on the Board to gauge who which might be suitable for inclusion in the Executive Committee.

Regarding the succession of non-executive directors, those appointed from the minority list are replaced, where possible, by unappointed directors from the same list, in accordance with the provisions in force on equal gender representation.

For directors appointed from the majority list, in line with best practice, the selection of candidates will reflect the guidance issued by the Board in its Report on the qualitative-quantitative composition of the Board of Directors.

In particular, the Board, with the assistance of the Appointment Committee which performs the administrative duties, will take steps immediately to identify a candidate in possession of the same characteristics as the director leaving office (in terms of gender, independence, international experience and specialization), and if this is not possible, a candidate who nonetheless possesses characteristics which are functional to the Board's optimal composition in qualitative and quantitative terms.

The regulations in force at the time in respect of the balance of directors in terms of gender and independence will of course be observed.

As for the limitations on the number of posts which representatives of banks may hold under the new CRD IV directive, the relevant decree law remains to be enacted by the Italian Ministry for the Economy and Finance, which, after consulting with the Bank of Italy, will set the limits pursuant to Article 26 of the Italian Banking Act, as amended by Italian legislative decree 72/15. These provisions will apply to appointments subsequent to its coming into force, as provided by Article 2 of Italian legislative decree 72/15.

As for the Key Function Holders, a total of ten key positions have been identified (currently covered by eleven individuals), for which the capabilities required for such roles have been defined and formalized.

The Chief Executive Officer and the General Manager, with the support of Group HR, identify internal staff who are able to guarantee succession in the short and medium term (known as the senior talent pool), without ceasing to monitor the market. Growth and career development pathways are identified for senior talent pool members, including in terms of involvement in specific strategic projects, exposure to Board/Committee meetings, and international/intra-Group rotation.

Relations with shareholders and investors

Mediobanca maintains an ongoing dialogue with its shareholders, institutional investors and individual holders of shares and bonds and with all other stakeholders within the national and international financial community.

Transparency and prompt disclosure are the hallmarks of the relationship between Mediobanca and its interlocutors, in compliance with the regulations and the internal procedures governing the circulation of inside information.

To enable all shareholders to exercise their rights knowingly, information concerning the Group's business model, corporate governance structure, earnings/financial data, products and services, and social and cultural initiatives is available on the Bank's website; to promote the greatest possible participation in annual general meetings, the relevant documentation is sent beforehand to the addresses of who requested it.

Furthermore, to promote dialogue via its institutional website at www.mediobanca.com (content in English and Italian), Mediobanca offers interested parties an opportunity to be kept up-to-date with the Group's earnings results and strategic objectives. As well as making available the full documentation produced by the Bank (again in both languages), the website also offers an opportunity to follow the conference calls organized for publication of the Bank's quarterly, half-yearly and annual results via a web streaming service.

Relations with institutional investors, financial analysts and journalists are handled by the relevant units (Paola Schneider – Group Corporate Affairs, Jessica Spina - Investor Relations and Lorenza Pigozzi – Media Relations).

Milan, 20 September 2018

Table 1: Structure of Board of Directors and Committees as at 30 June 2018

Board of Directors													Executive Committee		Risks Committee		Remuneration Committee		Appointments Committee	
Office	Member*	Year of birth	Date first appointed **	In office since	In office until	List	Non-exec.	Exec.	Indep. (Article 19)	Indep. (Finance Act)	No. of other posts held (***)	B (%)	A (Office)	B (%)	A (Office)	B (%)	A (Office)	B (%)	A (Office)	B (%)
Chairman	Renato Pagliaro	1957	28/10/08 [1]	28/10/17	28/10/20	(a)	X				0	100%								100%
Deputy Chair ♦	Maurizia Angelo Comneno	1948	28/10/14	28/10/17	28/10/20	(a)		X		X	0	100%		100%						
Deputy Chair	Alberto Pecci	1943	27/10/12	28/10/17	28/10/20	(a)	X				3	90.90%						100%		
CEO ◊ ♦	Alberto Nagel	1965	28/10/08 [1]	28/10/17	28/10/20	(a)		X			0	100%	P	100%						
Director and General Manager ♦	Francesco Saverio Vinci	1962	28/10/08 [1]	28/10/17	28/10/20	(a)		X			0	90.90%		100%						
Director	Marie Bolloré	1988	28/10/14	28/10/17	28/10/20	(a)	X			X	10	81.81%								80%
Director	Maurizio Carfagna	1947	28/10/14	28/10/17	28/10/20	(a)	X		X	X	3	100%				91.66%	P	100%		
Director	Maurizio Costa	1948	28/10/14	28/10/17	28/10/20	(a)	X		X	X	1	90.90%						100% *	P	90%
Director	Angela Gamba	1970	28/10/17	28/10/17	28/10/20	(b)	X		X	X	1	100%				100%				
Director	Valérie Hortefeux	1967	28/10/17	28/10/17	28/10/20	(a)	X		X	X	2	100%				100%		100%		
Director	Alberto Lupoi	1970	28/10/17	28/10/17	28/10/20	(b)	X		X	X	0	100%						100%		100%
Director	Elisabetta Magistretti	1947	28/10/11	28/10/14	28/10/20	(a)	X		X	X	2	100%			P	100%		100% *		100%
Director	Massimo Tononi	1964	28/10/17	28/10/17	25/07/18	(a)	X		X	X	3	90.90%				100%				
Director ♦	Gabriele Villa	1964	28/10/17	28/10/17	28/10/20	(a)		X		X	1	100%		100%						

Maximo Ibarra and Vittorio Pignatti-Morano were co-opted on 20 September 2018.

* Left office on 28 October 2017.

Directors who left office during fy 2017-18

												Executive Committee		Risks Committee		Remunerations Committee		Appointments Committee	
Board of Directors																			
Office	Member*	Year of birth	Date first appointed **	In office since	In office until	List ***	Non-exec.	Exec.	Indep. (Code)	Indep. (Finance Act)	B (%)	A (Office)	B (%)	A (Office)	B (%)	A (Office)	B (%)	A (Office)	B (%)
Deputy Chair	Marco Tronchetti Provera	1948	23/05/07	28/10/14	28/10/17	(c)	X			X	75%								
Director	Tarak Ben Ammar	1949	15/09/03	28/10/14	28/10/17	(c)	X		X	X	75%								
Director	Gilberto Benetton	1941	28/10/02	28/10/14	28/10/17	(c)	X				50%								
Director	Mauro Bini	1957	28/10/14	28/10/14	28/10/17	(d)	X		X	X	100%							P	100%
Director ♦	Angelo Casò	1940	28/10/08	28/10/14	28/10/17	(c)	X		X	X	100%				100%				
Director	Vanessa Labérenne	1978	09/05/12	28/10/14	28/10/17	(c)	X		X	X	100%						100%		
Director	Marina Natale	1962	28//10/16	28/10/16	21/07/17	(e)	X			X	100%								
Director ♦	Gian Luca Sichel	1968	28/10/14	28/10/14	28/10/17	(c)		X			100%				100%				
Director ♦	Alexandra Young	1968	28/10/14	28/10/14	28/10/17	(c)		X			90,9%				100%				
Director °	César Alierta	1945	28/10/17	28/10/17	08/03/18	(a)	X		X	X	25%						0%		

* The CVs submitted by the directors in conjunction with the lists for appointment to the Board of Directors are available on the Bank's website at www.mediobanca.com/Corporate Governance.

** The "date first appointed" for each Director refers to the date on which they were appointed for the first time (ever) to the issuer's Board of Directors.

*** Data refers to posts held in other listed companies in regulated markets, including outside Italy, in financial companies, banks and/or insurances of significant size.

♦ Members of the Executive Committee.

(a) Taken from the majority list submitted by Unicredit S.p.A. which holds 8.46% of the Bank's share capital.

(b) Taken from a minority list submitted by a group of investors representing an aggregate 3.889% of the Bank's share capital.

(c) Taken from the majority list submitted by Unicredit S.p.A. which held 8.65% of the Bank's share capital.

(d) Taken from a minority list submitted by a group of investors representing an aggregate 1.699% of the Bank's share capital.

(e) Proposal submitted by Unicredit S.p.A. which held 8.46% of the Bank's share capital.

A. Indicates the director's role within the committee: "C": Chairman.

B. Indicates the directors' attendance records in percentage terms at meetings of the Board of Directors and Committees (no. of meetings which each director attended out the total no. of meetings which they could have attended).

◊ Main person responsible for managing the issuer (Chief Executive Officer or CEO).

[1] Member of the Management Board from 2 July 2007 to 28 October 2008.

No. of meetings held during year ended 30 June 2018:

Board of Directors: 11	**Executive Committee: 12**	**Risks Committee: 12**	**Related Parties Committee: 9**	**Remunerations Committee: 8**	**Appointments Committee: 10**
Quorum required for minority shareholders to submit lists for the appointment of one or more directors:			at least 1% of the share capital		

• In the year ended 30 June 2018, the Board of Directors also held one meeting of independent directors, eleven induction meetings and two training sessions.

Table 2: Structure of Statutory Audit Committee as at 30 June 2018

Office	Member	Year of birth	Date first appointed*	In office since	In office until	List	Indep., Code of conduct	Percentage of Committee meetings attended	No. of other posts held**
Chairman	Natale FREDDI	1952	28/10/11	28/10/17	28/10/20	(b)	X	100%	-
Standing Auditor	Francesco DI CARLO	1964	28/10/17	28/10/17	28/10/20	(a)	X	94.7%	1
Standing Auditor	Laura GUALTIERI	1968	28/10/14	28/10/17	28/10/20	(a)	X	96.5%	1
Alternate Auditor	Alessandro TROTTER	1940	28/10/00	28/10/17	28/10/20	(a)			
Alternate Auditor	Barbara NEGRI	1973	28/10/14	28/10/17	28/10/20	(a)			
Alternate Auditor	Stefano SARUBBI	1965	28/10/17	28/10/17	28/10/20	(b)			

Statutory Auditors who left office during FY 2017-18

Office	Member	Year of birth	Date first appointed*	In office since	In office until	List	Indep., Code of conduct	Percentage of Committee meetings attended	No. of other posts held **
Standing Auditor	Gabriele VILLA	1964	28/10/11	28/10/14	28/10/17	(c)		90%	2
Alternate Auditor	Silvia OLIVOTTO	1950	28/10/14	28/10/14	28/10/17	(d)			

No. of meetings held during the year ended 30 June 2018§: 29

Quorum required for minority shareholders to submit lists for the appointment of one or more Statutory Auditors:	at least 1% of the share capital

§ 12 of which in conjunction with the Risks Committee.

* The "date first appointed" for each Statutory Auditor refers to the date on which they were appointed for the first time (ever) to the issuer's Statutory Audit Committee.

** Indicates the no. of posts as director or Statutory Auditor held by the person concerned in other companies listed on regulated Italian markets.

a Taken from the majority list submitted by Unicredit S.p.A. which holds 8.46% of the Bank's share capital.

b Taken from a minority list submitted by a group of investors representing an aggregate 3.889% of the Bank's share capital.

c Taken from the majority list submitted by Unicredit S.p.A. which held 8.65% of the Bank's share capital.

d Taken from a minority list submitted by a group of investors representing an aggregate 1.699% of the Bank's share capital.

Table 3: Other requirements under code of conduct for listed companies

	YES	NO	Reasons for any departures from recommendations made in the Code
Power to represent the Bank and related party disclosure			
Has the Board of Directors authorized parties to represent the Bank and established:			
a) limits	X		
b) methods for exercising such powers	X		
c) regular reporting requirements?	X		
Has the Board of Directors reserved for itself the right to inspect and approve all significant transactions in terms of earnings, capital and finances (including transactions with related parties)?	X		
Has the Board of Directors set guidelines and established criteria for identifying "significant" transactions?	X		
If so, have such guidelines/criteria been set out in the statement on corporate governance?	X		
Has the Board of Directors implemented procedures for reviewing and approving transactions with related parties?	X		
If so, have such procedures been set out in the statement on corporate governance?	X		
Procedures for most recent appointments to Board of Directors/Statutory Audit Committee			
Were candidates' applications for the post of director lodged at least twenty-five days in advance?	X		
Were they accompanied by appropriately detailed documentation?	X		
Were they accompanied by statements regarding the candidates' eligibility to stand as independent Board members?	X		
Were candidates' applications for the post of statutory auditor lodged at least twenty-five days in advance?	X		
Were they accompanied by appropriately detailed documentation?	X		
General meetings			
Has the Bank adopted specific regulations in respect of the holding of general meetings?		X	Orderly proceedings are ensured by the powers vested in the Chairman under law and the company's Articles of Association.
If so, are such regulations attached as an annex hereto, or is indication provided in the annual report as to where they may be obtained or downloaded?		X	
Internal controls			
Has the company designated staff to take charge of internal control?	X		
If so, are such staff independent in operational terms from the various heads of the individual operating units?	X		
Organizational unit responsible for internal control	X		Group Audit Unit
Investor relations			
Has the company appointed a head of investor relations?	X		
If so, what are the head of the IR unit's contact details?	Jessica Spina Tel. no.: (0039) 02-8829.860 - Fax no.: (0039) 02-8829.819 Email: investor.relations@mediobanca.it		

Annex

Posts held in other financial companies, banks, insurances or other companies of significant size by members of the Board of Directors of Mediobanca [1]

Name	**Post held in Mediobanca**	**Posts held in other companies**
PAGLIARO Renato	Chairman	
ANGELO COMNENO Maurizia	Deputy Chair and Executive Committee member	=
PECCI Alberto	Director	Chairman, Pecci Filati Chairman, Tosco-Fin Director, El.EN.
NAGEL Alberto	CEO and Chairman of Executive Committee	=
VINCI Francesco Saverio	General Manager, Director and Executive Committee member	=
BOLLORE Marie	Director	Director, Bolloré S.A. Director, Financiere de l'Odet Director, Bolloré Participations Director, Financiere V Director, Omnium Bolloré Director, Blue Solutions Director, Societé Industrielle et Financiere de l'Artois Supervisory Board member, Sofibol Chair of Supervisory Board, Compagnie du Cambodge CEO Elettric Mobility Application Division of Bolloré Group
CARFAGNA Maurizio	Director	CEO, H-Invest Director, Futura Invest Director, FingProg Italia S.p.A.
COSTA Maurizio	Director	Director, Amplifon
GAMBA Angela	Director	Director, Parmalat
HORTEFEUX Valérie	Director	Director, Blue Solutions Director, Ramsay – Générale de Santé
LUPOI Alberto	Director	=
MAGISTRETTI Elisabetta	Director	Director, Luxottica Group Director, Smeg
TONONI Massimo	Director	Chairman, Prysmian S.p.A. Director, Italmobiliare S.p.A. Chairman, ISA Istituto Atesino di Sviluppo S.p.A.
VILLA Gabriele	Director	Statutory Auditor, Edison S.p.A.

[1] The full list of positions is available at www.mediobanca.com.

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