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

Consolidated Financial Statements
Mediobanca Group
As At 30 June 2018

CONTENTS

CONSOLIDATED ACCOUNTS

REVIEW OF
GROUP OPERATIONS

REVIEW OF GROUP OPERATIONS

In the twelve months ended 30 June 2018, the Mediobanca Group delivered a net profit of €863.9m, 15.2% higher than the €750.2m posted last year, with record performances in revenues (over €2.4bn) and gross operating profit (€1,057.2m). This result reflects healthy performances by all the divisions, in particular Consumer Banking, and the ongoing consolidation of Wealth Management [1]. Capital solidity was also strengthened further, with the Common Equity Tier 1 (CET1) ratio increasing from 13.3% to 14.2% (and the Total Capital ratio at 18.1%), in part due to the introduction of the AIRB models for calculating RWAs for the CIB large corporate portfolios as from March 2018, which yielded an overall benefit of some 140 bps.

Gross operating profit, net of loan loss provisions, climbed by 23.6% in the twelve months, from €855.2m to €1,057.2m, on 10.2% growth in revenues (from €2,195.6m to €2,419.3m), with the main income items performing as follows:

- Net interest income grew by 5.6%, from €1,287.8m to €1,359.4m, and reflects the increase in Consumer Banking (up 6.2%, from €818.1m to €868.8m), a cut in the loss by the Holding Functions (from €76.3m to €37.5m), and an improved contribution from Wealth Management (up 4.5%, from €244.1m to €255.2m); conversely, net interest income from Corporate and Investment Banking activity declined from €292.6m to €266.1m, reflecting the lower profitability of the loan book;
- Net treasury income increased from €121.3m to €157.4m, with all business lines contributing positively: revenues from client trading were up from €72.7m to €82.3m, while revenues from the proprietary trading portfolio climbed from €31.6m to €53m (with gains on the banking book doubling, from €7.4m to €14.7m); AFS dividends (equities and funds) were up from €17m to €22.1m;
- Net fee and commission income rose by 19.1% (from €522.6m to €622.2m), driven by the 48% increase in fees from Wealth Management (from €175.1m

[1] Compared to last year, the Wealth Management division's results now include Mediobanca Private Banking (which comprises the former Banca Esperia activities), CheBanca! (the results of which were boosted by the inclusion of the former Barclays' volumes for the whole twelve months rather than just ten), and RAM Active Investments (for four months).

to €258.7m), in part due to the expanded area of consolidation (RAM added €15.5m), which now account for more than 40% of the Group total; fee income from Wholesale Banking was unchanged at €207.3m (33% of the total): the excellent performance in M&A advisory services, which delivered a 35.4% increase in fee income (from €47.8m to €64.7m), offset the expected reduction in equity capital market fees following last year's result which was boosted by one particularly lucrative transaction;

– The contribution from the equity-accounted companies, virtually all of which is now attributable to Assicurazioni Generali, rose from €263.9m to €280.3m.

Operating costs rose by 8.9%, from €1,023.7m to €1,114.9m, largely due to the increased area of consolidation (the inclusion of RAM added €8.2m, and the consolidation of Banca Esperia €56m) as well as to the expansion in banking activities (in particular Consumer Banking and Specialty Finance); CheBanca! in fact cut costs by 0.7% (or 7% on a like-for-like basis): with the extra expense incurred to launch the FAs network entirely offset by the efficiencies generated through full integration of the business unit acquired from Barclays.

Loan loss provisions decreased by 21.9%, from €316.7m to €247.2m, reflecting a cost of risk of 62 bps, comfortably below the strategic plan target despite higher provisioning for non-performing items (with the coverage ratio up from 54.6% to 56.7%), due in particular to writebacks in Wholesale Banking (€44m) and a cost of risk in Consumer Banking which is near to its lowest-ever levels (below 200 bps).

Gross operating profit also reflects:

– Net gains on disposals of €98.3m (30/6/17: €168.6m), chiefly in respect of the Atlantia disposal in the first quarter;

– Payments to the resolution funds and deposit guarantee schemes totalling €49.1m (€87.9m), €26.3m of which as the ordinary contribution to the Single Resolution Fund, €5.4m for the ordinary contribution to the DGS, and €17.4m in one-off payments, €7.8m of which to the voluntary interbank deposit scheme [2] FITD (including €2.8m to wipe out the Cassa di Risparmio di Cesena investment and the ABS received in exchange), and a €9.5m payment required by the Italian national resolution fund in May 2018 [3];

[2] In connection with the capital increases implemented by the Rimini, Cesena and San Miniato *casse di risparmio* ahead of their disposal to Crédit Agricole Italy.

[3] Paid in completion of the bail-outs of Banca Marche, Banca Popolare di Etruria, Cassa di Risparmio di Chieti and Cassa di Risparmio di Ferrara.

– Other non-recurring items of €9.3m (net of writebacks on securities), chiefly linked to the reorganization of certain internal Group activities.

The divisional performances for the year were as follows:

– Corporate and Investment Banking delivered a net profit of €264.5m, up 4.2% on last year's result, after revenues of €631m (30/6/17: €635.9m), costs of €255.9m (€247.4m), and net writebacks of €19m (versus €11m in writedowns last year); the net profit earned from Wholesale Banking operations was basically flat at €233.8m, with the writebacks offsetting the 6% reduction in revenues due to the decline in net interest income on the loan book and the proprietary portfolio; Specialty Finance posted an increase in net profit, from €21.6m to €30.7m, with factoring virtually doubling its performance (from €8m to €14.5m), and MBCredit Solutions reporting an increase in bottom line from €13.6m to €16.2m, driven partly by the new acquisitions of NPL portfolios (with a gross book value of approx. €1.65bn);

– Consumer Banking reported a net profit of €315.3m for the twelve months, up 22.1% on the €258.2m reported last year, on higher revenues (up 6.4%), flat costs (up 1.6%) and lower loan loss provisions (down from €276.2m to €241.9m), near the lowest levels ever despite the higher coverage ratios;

– Wealth Management posted a net profit of €69.2m, higher than the €55m posted last year; the expanded area of consolidation (Barclays' business unit, full consolidation of Banca Esperia, the acquisitions by Spafid, plus the recent addition of RAM) translated to higher revenues of €526m (30/6/17: €459.5m) and operating costs of €416.8m (€376.3m). The CheBanca! Affluent & Premier segment contributed a net profit of €27.7m (versus €26.9m last year, including non-recurring income of €15.2m in connection with the Barclays acquisition), on revenues of €292.5m and costs of €235.3m (compared to €274.6m and €237m last year); Private Banking (including the product factories and Spafid) delivered a net profit of €41.5m (€28.1m, including €17.2m in integration expenses last year), on revenues of €233.5m (€15.4m of which from consolidation of RAM's operations for four months), and costs of €181.5m (€8.2m net of RAM); this area reflects lower performance fees of €12.9m (€17m);

– Principal Investing delivered a net profit of €373.8m, lower than the €422.1m reported last year, on lower gains on disposals of AFS shares of €96.3m (€161.6m);

– Holding Functions saw its net loss cut from €241.8m to €158.9m, as a result of net interest expense halving (from €76.3m to €37.5m) and lower contributions to the resolution funds of €49.1m (€87.9m). Leasing delivered a net profit of €4.8m (€3.1m, excluding tax litigation expenses).

Turning to the balance-sheet data, total assets rose from €70.4bn to €72.3bn, due primarily to higher lending volumes offsetting the decrease in banking book bonds and treasury financial assets. Compared to the figures posted at 30 June 2017, the main asset items reflected the following performances:

- Loans and advances to customers rose by 7.7%, from €38.2bn to €41.1bn, with the increase regarding all portfolios: Wholesale Banking (up 9%), Specialty Finance (up 30.2%), Consumer Banking (up 6.5%), and CheBanca! mortgage loans (up 7.9%);
- Banking book bonds and net treasury assets both decreased, from €8.4bn to €7.7bn and from €7.3bn to €4.8bn, as part of the process to manage the Group's liquidity position more efficiently in a negative interest rate scenario;
- Funding decreased slightly, from €49.1bn to €48.9bn, and chiefly reflects the repayment of the first T-LTRO programme (€1.5bn), only in part offset by the increase in CheBanca! retail deposits (up €0.8bn) and Private Banking funding (up €0.4bn);
- Total financial assets in Wealth Management, or TFAs, rose from €59.9bn to €63.9bn, due to the addition of RAM (which brought €4.1bn, concentrated in systematic equity funds) and net new money of €4.7bn, against outflows totalling some €4.5bn, most of which were concentrated in unprofitable assets under custody (€3.7bn of which were Cairn Capital legacy assets). Mediobanca Private Banking and its product factories added €1.3bn in the twelve months) with a stock of €19.1bn as at end-June), CheBanca! Affluent & Premier customers €2.2bn (€22.6bn), Cairn Capital €1,018.7m (€3.5bn), and Compagnie Monégasque de Banque €342m (€10bn).

The Group's capital ratios, calculated by applying the CRR and weighting the Assicurazioni Generali investment at 370% and including the proposed dividend (€0.47 per share), reflect further improvement, helped in part by the first-time adoption of the AIRB models to calculate RWAs for the large corporate loan book (adding 140 bps). The Common Equity Tier 1 ratio rose from 13.31% to 14.24% and the total capital ratio from 16.85% to 18.11% following the effects of the RAM Active Investments SA acquisition (which generated a 30 bps reduction in the CET1 ratio due to a combination of goodwill, seed capital and use of treasury shares owned to pay for part of the consideration). RWAs fell from €52.7bn to €47.4bn as a result of adoption of the AIRB models (which accounted for €5.1bn), covering the increase in the other business lines (up €1.6bn), market risks (up from €2.2bn to €2.4bn), and operational risks (up from €3.6bn to €3.9bn). Virtually one-half of the Assicurazioni Generali investment has been deducted, to comply with the new concentration limit set at 20% as from 31 December 2017, with an impact of approx. 40 bps on the CET1 ratio (conversely, RWAs decreased by €1.4bn). Fully-loaded (i.e. without weighting the Assicurazioni Generali investment at 370%), the ratios stood at 13.1% (CET1 ratio) and 17.3% (total capital ratio). The liquidity requisites remain comfortably above the regulatory limits.

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In accordance with the 2016-19 business plan strategy, one of the priorities of which was growth in wealth management, the following events took place during the twelve months:

– 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. A preliminary valuation of the goodwill [4] generated by the acquisition of RAM Active Investments has been made, quantified at CHF 204.8m, equivalent to €177m based on the exchange rate prevailing at 30 June 2018;

– The asset management platform has been strengthened, in both the traditional and alternative segments, with the hiring of a new CEO for Mediobanca SGR (Emilio Franco), which also includes the fourteen advisors previously employed by Banca Esperia, and the appointment of a new head of Group MAAM (Frank Goasguen);

[4] As provided by IFRS3, the buyer has twelve months from the acquisition date in which to complete the purchase price allocation process.

– 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:

– 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%. These ratios are higher than last year (7% and 10.5% respectively), due solely to the capital conservation buffer being increased for the phase-in period (1.25% in 2017, 1.875% in 2018, and 2.50% in 2019). The requirements are among the best at European level, and reflect the Mediobanca Group's strong risk coverage and capital solidity even in stressed conditions;

– 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;

– 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.

* * *

On 3 August 2018, an agreement was reached between Group company Compass Banca S.p.A. and the Trinugraha consortium to acquire 19.9% [5] of Indonesian company BFI Finance. With this deal the Mediobanca Group is continuing the process of redeploying capital to specialized, high-growth and highly-profitable banking businesses. The deal represents a significant value creation option to complete the already impressive growth story achieved on the Italian domestic market. The deal is expected to close by year-end 2018, subject to authorization by the ECB. The impact on CET1 is expected to be as low as 30bps.

Developments in capital markets

Recourse by companies to the Italian capital market showed a reduction in the twelve months ended 30 June 2018, down €3.1bn to €10.9bn, more than three-quarters of which in relation to a single capital increase reserved to institutional investors which was implemented by a leading banking group. Conversely, the value of public tender offers increased from €2.2bn to €3.1bn, with dividends rising from €17.6bn to €20bn. The net outflow of funds to companies totalled €12.2bn, compared with €5.8bn the previous year, meaning the aggregate balance for the past ten years reflects a net outflow of €67bn, approx. 13% of the stock market capitalization at end-June 2018:

(€m)

	12 mths to 30/6/16		**12 mths to 30/6/17**		**12 mths to 30/6/18**	
Issues and placements of:						
convertible ordinary and savings shares		8,122		14,806		10,893
non-convertible preference and savings shares		—		—		—
convertible and cum warrant bonds		—		—		—
Total		8,122		14,807		10,893
*of which, for rights issues *:*						
par value	*2,823*		*457*		*331*	
share premiums	*1,860*	*4,683*	*13,020*	*13,477*	*1,511*	*1,842*
Dividends distribution		15,722		17,627		19,974
Public tender offers		6,435		2,198		3,096
Balance		(14,035)		(5,018)		(12,177)

* Excluding IPOs and other public offers (none were implemented during the years shown in the table), offers restricted to employees, and offers without option rights.

[5] Without considering treasury shares representing 6.3% of the share capital.

Fund-raising was once again carried out primarily by banks (this has been the case in eight out of the last nine years), which accounted for just under two-thirds of the rights issues, with share premiums still at very high levels at 90% (compared with 97% in FY 2016-17). Public tender offers were up slightly, from €386m to €582m. Issues reserved to employees, generally as part of stock option schemes, totalled €59m, representing a reduction from the €114m reported the previous year, while the number of companies involved increased, from eight to ten this year. The most recent convertible issues for significant amounts date back to 2010-11.

Dividends increased for the fourth year running, up approx. 13%, from €17.6bn to €20bn, the highest amount in the past ten years, with the payout ratio down from 53% the previous year to 46%. The increase was driven in particular by the banks (up €1.5bn), followed by the industrial groups (€0.7bn and the insurance companies (€0.2bn). The banks' share of the total dividends distributed rose from 23.3% to 27.8%, against a reduction in the industrial companies' shares from 63.6% to 59.7%, and in that of the insurances (from 13.1% to 12.5%). Some 44% of listed companies failed to pay dividends, although in the aggregate such companies account for barely 6% of the total market capitalization (versus 14% last year). Public tender offers resulted in seven companies being delisted (compared with two last year).

The net 2017 aggregate results posted by Italian companies listed at end-June 2018 reflect combined earnings of €34.2bn, compared with €1.1bn in 2016. The benefit deriving from the banking groups' return to profit (they posted a bottom line of €13.2bn, at a ROE of 8.6%, compared with a €13.5bn net loss last year) was bolstered by further recovery from the industrial groups' net profit (from €12bn to €19.1bn, at a ROE of 9.9%), while the insurance companies built on the previous twelve months' result with a net profit of €1.9bn (€2.6bn).

The contributing factors to the banks' performance included the growth in net revenues (up €8.3bn) and the reduction in labour costs (down €1bn), overheads (down €1.1bn), and depreciation/amortization charges (down €0.4bn), the lower loan loss provisioning (down €12.1bn) and higher extraordinary gains (up €3.2bn), along with a €0.4bn reduction in tax. In 2017, stronger regulatory capital (which was 19.3% higher), along with a 2.8% reduction in risk-weighted assets, drove an increase in the total capital ratio (from 13.9% to 17%). Leverage, expressed in terms of the ratio between total assets and tangible net equity, decreased from 19.2x to 15.5x (compared with an average for the leading European banking groups of approx. 18.9x (versus 20.2x the previous year).

The insurance companies' profits reduced from €2.6bn to €1.9bn in 2017 (ROE down from 8.7% to 6%). The increase in underwriting income (€3bn) was entirely offset by a combination of the increase in claims-related expenses (up €1.5bn), the reduction in sundry insurance revenues (down €1.3bn), and the deterioration in non-insurance revenues (down €0.9bn).

Industrial groups posted further growth in operating profit, from €12bn to €19.1bn, with ROE up from 6% to 9.9%. The €6.3bn increase in value added, combined with net interest expense of €0.7bn, a €1bn reduction in net writedowns, and higher gains on disposals (up €3.3bn) was offset only in part by the higher cost of labour (up €1.6bn), the higher long-term depreciation/ amortization charges (up €0.4bn), the increase in net non-recurring expenses (€1bn), the higher tax burden (up €0.4bn), and the increase in the share of profit attributable to minority shareholders (up €0.5bn).

Profits earned by companies listed on the STAR segment also rose further, from €1.3bn to €1.5bn (with ROE up from 10.4% to 11.9%). The stability of the industrial companies' net equity levels meant that, with borrowings down 2%, the debt/equity ratio was lower than in 2016, down from 93% to 91%.

The Mediobanca share price index retreated slightly this year, by 1% (but climbed 3% in the total return version); the recoveries by the industrial companies (which were up 5%) and the insurers (which rose by 1%) were offset by the 11% reduction posted by the banks. The average daily value of stocks traded on the MTA in the twelve months ended 30 June 2018 showed an approx. 5% increase on the previous year, up from €2.4bn to €2.6bn per session. The free float remained close to its all-time highs, at 61% (62%), while the turnover ratio fell from 15% to 12%, the lowest levels seen in the past twenty years; volatility too fell from 1.9% to 1.4%, the lowest level reported since 2006-7.

In the twelve months ended 1 April 2018, the changes in share prices which affected all Western markets were generally reflected in the changes recorded in the dividend yield and also in the price/earnings ratios, as follows:

	Dividend/price ratio (%)		Earnings/price ratio (%)	
	2016	2017	2016	2017
Benelux (**)	2.8	3.2	4.6	5.7
France *	2.6	2.7	4.8	5.5
Germany *	2.1	2.4	4.7	5.6
Italy *	3.1	2.9	5.4	6.2
United Kingdom *	2.9	3.7	4.3	6.1
United States *	2.3	2.1	4.9	4.3
Switzerland **	3.2	3.1	4.1	4.0

* Top 50 profitable, dividend-paying companies by market capitalization.
** Top 20 profitable, dividend-paying companies by market capitalization.
NB: Median indicators based on share prices at 1 April 2018. The changes in prices on the principal stock markets between 1 April 2017 and 1 April 2018 were as follows (indexes used are in brackets): Italy up 6.8% (Mediobanca MTA), Switzerland up 1.2% (SMI), Netherlands up 3.1% (AEX), Germany up 0.2% (CDAX), United States up 9.5% (S&P 500), Belgium down 3.5% (BAS), France up 2.9% (SBF 250), United Kingdom down 1.9% (FTSE All-Share).

Assets managed by mutual funds incorporated under Italian law (including funds of funds, closed and hedge funds) continued their increase, rising to €254.8bn in June 2018, compared with €248.3bn at end-June 2017, on net inflows of €10.2bn, despite an operating loss of €3.7bn for the twelve months. Roundtrip funds were boosted by subscriptions outweighing redemptions (by €10.8bn) and a €5.3bn operating profit, but also reflect the change of ownership of one leading fund manager into non-Italian hands (causing an outflow of €67.7bn); as at end-June 2018, total assets managed by such funds had fallen from €367.8bn to €316.2bn in the nine months.

The aggregate market capitalization of listed companies at 30 June 2018 totalled €533bn, compared with €514bn twelve months previously, with the free float increasing from €320bn to €325bn; the €19bn increase, net of rights issues and changes to the stock market composition, is largely due to changes in market prices.

* * *

The Italian consumer credit market continued its upward trend in the first six months of 2018, albeit at a slower pace than in 2017. New loans in the period ended 30 June 2018 totalled €30.5bn, up 6.8% on the equivalent period last year.

Various factors contributed to this result which was due chiefly to the trend in household consumption, buoyed by the increase in disposable income, higher employment levels and increased consumer confidence in general.

During the period under review there was double-digit growth in vehicle credit (up 15.2% on 1H 2017) and other specific purpose loans (up 10.2%), growth of 9.0% in salary-backed finance, and of 6.1% in credit cards, while the trend in personal loans was less impressive, up just 4.6% (this product accounts for the majority of the flows, some 44% of the total new finance).

	2015		2016		2017		1H 2018	
	(€m)	%	(€m)	%	(€m)	%	(€m)	%
Vehicle credit	11,805	22.6	13,687	22.6	8,619	14.7	2,986	9.8
Personal loans	17,570	33.6	20,137	33.2	22,441	38.2	13,338	43.7
Specific purpose loans	3,931	7.5	4,075	6.7	3,782	6.4	2,178	7.1
Credit cards	14,474	27.7	17,472	28.8	18,759	32.0	9,261	30.3
Salary-backed finance	4,484	8.6	5,221	8.6	5,103	8.7	2,782	9.1
	52,264	100.0	60,592	100.0	58,705	100.0	30,545	100.0

The Italian real estate market in 2017 continued its recovery of recent years, with the number of properties sold rising to 542,000, up more than 5% on 2016. This trend was confirmed in 1Q 2018, with an increase of 4.3%. The mortgage lending market reflects the reduction in subrogations, and shows a decrease of approx. €1.5bn versus 2016, from €48.9bn to €47.4bn.

The Italian leasing market in 2017 saw the positive trend recorded in 2016 continue. Overall, 684,000 new leases were executed, an increase of 10.1%, for a total of €26.6bn, up 12.9% on 2016. In the first six months of 2018 the market continued to grow, with more than 413,000 new contracts and approx. €15.7bn financed; this represents year-on-year growth of 8.7% in terms of number and 9% in terms of value.

New loans	2015		2016		2017		1H 2018	
	(€m)	%	(€m)	%	(€m)	%	(€m)	%
Vehicles	9,005	45.3	11,809	50.1	13,371	50.2	8,831	56.4
Core goods	6,741	33.9	7,640	32.4	8,993	33.8	4,468	28.5
Property	3,829	19.2	3,809	16.1	3,742	14.0	2,034	13.0
Yachts	322	1.6	328	1.4	522	2.0	320	2.1
	19,897	100.0	23,586	100.0	26,628	100.0	15,653	100.0

Source: Dataforce data processed by Assilea.

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

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

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(€m)

	12 mths ended 30/06/17	12 mths ended 30/06/18	Chg. (%)
Profit-and-loss data			
Net interest income	1,287.8	1,359.4	5.6
Treasury income	121.3	157.4	29.8
Net fee and commission income	522.6	622.2	19.1
Equity-accounted compsanies	263.9	280.3	6.2
Total income	**2,195.6**	**2,419.3**	**10.2**
Labour costs	(516.0)	(557.8)	8.1
Administrative expenses	(507.7)	(557.1)	9.7
Operating costs	**(1,023.7)**	**(1,114.9)**	**8.9**
Gain (losses) on AFS, HTM and L&R	168.6	98.3	-41.7
Loan loss provisions	(316.7)	(247.2)	-21.9
Provisions for financial assets	(7.9)	(1.3)	-83.5
Other profits (losses)	(101.9)	(58.4)	-42.7
Profit before tax	**914.0**	**1,095.8**	**19.9**
Income tax for the period	(171.7)	(228.1)	32.8
Minority interests	7.9	(3.8)	n.m.
Net profit	**750.2**	**863.9**	**15.2**
Gross operating profit from banking activities	**586.6**	**767.0**	**30.8**

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

RESTATED BALANCE SHEET

(€m)

	30/6/17	30/6/18
Assets		
Financial assets held for trading	7,833.9	8,204.9
Treasury financial assets	9,435.1	8,358.2
AFS equity	786.1	772.3
Banking book securities	8,357.7	7,744.7
Loans and advances to customers	38,190.9	41,127.9
Equity investments	3,036.5	3,210.8
Tangible and intangible assets	857.8	1,027.7
Other assets	1,947.5	1,854.0
Total assets	**70,445.5**	**72,300.5**
Liabilities and net equity		
Funding	49,120.6	48,893.2
Treasury funding	4,037.2	5,290.4
Financial liabilities held for trading	5,920.6	6,462.4
Other liabilities	1,919.9	1,709.3
Provisions	255.6	213.0
Net equity	8,358.7	8,780.4
Minority interests	82.7	87.9
Profit for the period	750.2	863.9
Total liabilities and net equity	**70,445.5**	**72,300.5**
Tier 1 capital	*7,017.3*	*6,746.6*
Regulatory capital	*8,879.0*	*8,575.3*
Risk-weighted assets	*52,708.2*	*47,362.7*
Tier 1 capital/risk-weighted assetts	*13.31%*	*14.24%*
Regulatory capital/risk-weighted assets	*16.85%*	*18.11%*
No. of shares in issue (million)	*881.2*	*886.6*

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

(€m)

30 June 2018	Corporate and Investment Banking	Consumer Banking	Wealth Management	Principal Investing	Holding Functions	Group
Profit-and-loss data						
Net interest income	266.1	868.8	255.2	(7.2)	(37.5)	1,359.4
Treasury income	110.5	—	12.1	21.9	13.1	157.4
Net fee and commission income	254.4	127.4	258.7	—	15.5	622.2
Equity-accounted companies	—	—	—	280.3	—	280.3
Total income	**631.0**	**996.2**	**526.0**	**295.0**	**(8.9)**	**2,419.3**
Labour costs	(137.4)	(96.1)	(201.1)	(3.8)	(118.2)	(557.8)
Administrative expenses	(118.5)	(188.4)	(215.7)	(1.0)	(55.1)	(557.1)
Operating costs	**(255.9)**	**(284.5)**	**(416.8)**	**(4.8)**	**(173.3)**	**(1,114.9)**
Gains (losses) on AFS, HTM and L&R	—	—	2.0	96.3	—	98.3
Net loss provisions	19.0	(241.9)	(16.4)	(1.8)	(7.5)	(248.5)
Other profits (losses)	(2.0)	(6.6)	(0.6)	—	(49.3)	(58.4)
Profit before tax	**392.1**	**463.2**	**94.2**	**384.7**	**(239.0)**	**1,095.8**
Income tax for the period	(127.6)	(147.9)	(24.4)	(10.9)	83.3	(228.1)
Minority interest	—	—	(0.6)	—	(3.2)	(3.8)
Net profit	**264.5**	**315.3**	**69.2**	**373.8**	**(158.9)**	**863.9**
Cost/Income (%)	*40.6*	*28.6*	*79.2*	*n.m.*	*n.m.*	*46.1*
Balance-sheet data						
Loans and advances to customers	16,134.2	12,517.8	10,359.2	—	2,116.7	41,127.9
Risk-weighted assets	19,510.9	11,822.0	5,757.2	6,256.6	4,016.0	47,362.7
No. of staff	587	1,429	1,888	12	801	4,717

Notes:
1) Divisions comprise:
   - Corporate & Investment Banking (CIB): brings together all services provided to corporate clients in the following areas:
     - Wholesale Banking, client business (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca S.p.A., Mediobanca International, Mediobanca Securities and Mediobanca Turkey);
     - Specialty Finance: comprises factoring and credit management (including NPL portfolios) performed by MBFACTA and MBCredit Solutions;
   - Consumer Banking (CheBanca!): provides retail clients with the full range of consumer credit products, ranging from personal loans to salary-backed finance (Compass Banca, Futuro and Compass RE);
   - Wealth Management (WM): new division which brings together all asset management services offered to the following client segments:
     - Affluent & Premier, addressed by CheBanca!;
     - Private & High Net Worth Individuals, addressed in Italy by the new Mediobanca Private Banking division (resulting from the merger of Banca Esperia) and Spafid, and in the Principality of Monaco by Compagnie Monégasque de Banque and CMB Asset Management;
     - Alternative AM, which comprises Cairn Capital, Mediobanca SGR, Mediobanca Management Company, Compagnie Monégasque de Gestion and RAM Active Investments;
   - Principal Investing (PI): division which brings together the Group's portfolio of equity investments and holdings;
   - Holding Functions: division which houses the Group's Treasury and ALM operations (as part of Mediobanca S.p.A.), with the objective of optimizing management of the funding and liquidity processes; it also includes all costs relating to Group staffing and management functions based at Mediobanca S.p.A.; and continues to include the leasing operations (headed up by SelmaBipiemme) and the services and minor companies (MIS).
2) Sum of divisional data differs from Group total due to adjustments/differences arising on consolidation between business areas (equal to minus €0.3m).

(€m)

30 June 2017	Corporate and Investment Banking	Consumer Banking	Wealth Management	Principal Investing	Holding Functions	Group
Profit-and-loss data						
Net interest income	292.6	818.1	244.1	(7.1)	(76.3)	1,287.8
Treasury income	93.4	—	12.3	16.7	3.3	121.3
Net fee and commission income	249.9	118.1	203.1	—	16.5	522.6
Equity-accounted companies	—	—	—	263.6	—	263.9
Total income	**635.9**	**936.2**	**459.5**	**273.2**	**(56.5)**	**2,195.6**
Labour costs	(135.5)	(93.9)	(187.0)	(3.8)	(113.8)	(516.0)
Administrative expenses	(111.9)	(186.0)	(189.3)	(0.8)	(52.4)	(507.7)
Operating costs	**(247.4)**	**(279.9)**	**(376.3)**	**(4.6)**	**(166.2)**	**(1,023.7)**
Gains (losses) on AFS, HTM and L&R	—	—	7.6	161.6	—	168.6
Net loss provisions	(11.0)	(276.2)	(22.0)	(0.9)	(16.0)	(324.6)
Other profits (losses)	—	—	(2.0)	—	(103.0)	(101.9)
Profit before tax	**377.5**	**380.1**	**66.8**	**429.3**	**(341.7)**	**914.0**
Income tax for the period	(123.6)	(121.9)	(11.8)	(7.2)	92.0	(171.7)
Minority interest	—	—	—	—	7.9	7.9
Net profit	**253.9**	**258.2**	**55.0**	**422.1**	**(241.8)**	**750.2**
Cost/Income (%)	*38.9*	*29.9*	*81.9*	*n.m.*	*n.m.*	*46.6*
Balance-sheet data						
Loans and advances to customers	14,481.0	11,750.3	9,686.1	—	2,273.5	38,190.9
Risk-weighted assets	23,104.2	11,782.7	5,790.6	7,714.9	4,315.8	52,708.2
No. of staff	590	1,405	2,023	11	769	4,798

Balance sheet

The Group's total assets increased from €70.4bn to €72.3bn. The main balance-sheet items, of which Mediobanca S.p.A. contributes 54%, showed the following trends for the twelve months under review (comparative data as at 30 June 2017).

Funding – the decrease in funding, from €49.1bn to €48.9bn, chiefly reflects the repayment of the first T-LTRO programme (€1.5bn) and other funding (€600m in deposits and corporate current accounts) only in part offset by higher CheBanca! retail deposits (up from €13.4bn to €14.2bn) and Private Banking deposits (up from €4.5bn to €4.9bn). Debt security issuance was virtually unchanged, at €19.2bn (€19.3bn); more than twenty issues were made for a total amount of some €4bn against redemptions in a similar amount (€4bn), plus market buybacks of just under €100m; institutional issues accounted for 72% (€2.9bn), around half of which secured by Futuro assets (€600m) and a covered bond with CheBanca! mortgage receivables as the underlying instrument (€750m).

	30/6/17		30/6/18		Chg.
	(€m)	%	(€m)	%	
Debt securities (incl. ABS)	19,301.5	39%	19,179.4	39%	-0.6%
CheBanca retail funding	13,353.3	27%	14,163.0	29%	6.1%
Private Banking deposits	4,482.0	9%	4,933.7	10%	10.1%
Interbank funding (+CD/CP)	4,301.0	9%	5,031.5	11%	17.0%
LTRO	5,854.1	12%	4,336.5	9%	-25.9%
Other funding	1,828.7	4%	1,249.1	2%	-31.7%
Total funding	**49,120.6**	**100%**	**48,893.2**	**100%**	**-0.5%**

Loans and advances to customers – the 7.7% increase in this item regarded all the portfolios: Wholesale Banking (up €1.2bn), Consumer Banking (up €0.8bn), CheBanca! mortgage loans (up €0.6bn), and Specialty Finance (up €0.5bn). The twelve months under review saw intense business levels in Consumer Banking activity, with new loans up 5.8% (from €6,638.1bn to €7,025.1m) and mortgage lending up 28.5% (from €1,240.9m to €1,594m), strong growth in factoring business (where turnover rose from €3,730.4m to €5,178m), and some new purchases of NPLs portfolios by MBCredit Solutions (worth a nominal €1.6bn concentrated in the retail and SMEs unsecured segment, and involving an outlay of €174.2m. The corporate loan book showed growth of 61.6% in €7,331.7m, against redemptions totalling €6,284.5m, including €3,104.5m in early redemptions.

	30/6/17		30/6/18		Chg.
	(€m)	%	(€m)	%	
Wholesale Banking	12,840.0	33%	13,996.9	34%	9.0%
Specialty Finance	1,641.0	4%	2,137.3	5%	30.2%
Consumer Banking	11,750.3	31%	12,517.8	30%	6.5%
Retail Banking	7,513.2	20%	8,107.1	20%	7.9%
Private Banking	2,172.9	6%	2,252.1	6%	3.6%
Leasing	2,273.5	6%	2,116.7	5%	-6.9%
Total loans and advances to customers	**38,190.9**	**100%**	**41,127.9**	**100%**	**7.7%**

Gross NPLs declined from €2,072.2m to €1,943.1m, in the Leasing and Wholesale Banking segments in particular (by 19.1% in the case of the former, and by 13.1% in the case of the latter), and now account for just 4.6% of the total loan book (5.2%). Net NPLs similarly reduced, from €940.5m to €842.1m, still near their lowest-ever levels, decreasing also as a percentage of the total loan book, from 2.5% last year to 2.1%, with the coverage ratio rising from 54.6% to 56.7%. Net bad loans decreased to €141.5m (€156.8m), and represent 0.35% (0.41%) of the loan book. The item does not include the NPLs portfolios acquired by MBCredit Solutions in the course of the twelve months, which rose from €134.8m to €287.9m.

	30/6/17		30/6/18		Chg.
	(€m)	Coverage ratio %	(€m)	Coverage ratio %	
Wholesale Banking	372.5	50.0%	341.7	47.3%	-8.3%
Specialty Finance	14.4	67.5%	10.4	72.7%	-27.7%
Consumer Banking	189.6	71.2%	186.0	73.4%	-1.9%
Retail Banking	180.6	47.8%	155.1	53.3%	-14.1%
Private Banking	14.4	35.6%	8.7	56.0%	-39.6%
Leasing	169.0	33.8%	140.2	32.2%	-17.0%
Total net non performing loans	**940.5**	**54.6%**	842.1	**56.7%**	**-10.5%**
– of which: bad loans	*156.8*		*141.5*		*-9.8%*

Equity investments – these increased, from €3,036.5m to €3,210.8m, and reflect the performance of the Assicurazioni Generali investment, the book value of which totalled €3,171.4m (30/6/17: €2,997.5m), after profits of €279.9m, adjusted for the dividend received (€172.3m), and higher valuation reserves (up €66.3m). This figure is higher than the stock market price at end-June 2018 (€2,913m) and the current price (€3,000.2m) but not higher than the net present value established in the impairment test which was passed without the need for any value adjustments. The stake in Istituto Europeo di Oncologia is carried at €39.4m, after profits for the year totalling €0.4m.

(€m)

	% share capital	30/6/17	30/6/18
Assicurazioni Generali	13.0	2,997.5	3,171.4
Burgo	22.1	—	—
Istituto Europeo di Oncologia	25.4	39.0	39.4
Total investments		**3,036.5**	**3,210.8**

Banking book bonds – these reduced from €8.4bn to €7.7bn, after redemptions amounting to €1.3bn and sales totalling €1.6bn (generating gains of €14.7m), only in part offset by new purchases of €2.4bn. The sovereign debt portfolio component grew from 67% to 70%, and reflects greater diversification within the Eurozone area; holdings in Italian sovereign debt totalled €2.7bn (35% of the segment), with an average duration of less than three years.

	30/6/17		30/6/18		Chg.
	(€m)	%	(€m)	%	
AFS securities	5,606.6	67%	4,949.6	64%	-11.7%
Financial assets held to maturity	2,400.2	29%	2,595.8	33%	8.1%
Unlisted debt securities (stated at cost)	350.9	4%	199.3	3%	-43.2%
Total banking book securities	**8,357.7**	**100%**	**7,744.7**	**100%**	**-7.3%**

(€m)

	30/6/17			30/6/18			Chg. %
	Book Value	%	AFS reserve	Book Value	%	AFS reserve	
Italian government bonds	3,319.0	40%	63.3	2,745.0	35%	19.6	-17.3%
Foreign government bonds	2,284.2	27%	16.7	2,670.4	35%	14.5	16.9%
Bonds issued by financial institutions	1,862.1	22%	39.9	1,529.8	20%	14.3	-17.8%
- of which: Italian	*1,053.3*	*13%*	*25.6*	*1,042.1*	*13%*	*11.9*	*-1.1%*
Corporate bonds	892.4	11%	27.7	799.5	10%	16.0	-10.4%
Total debt securities	**8,357.7**	**100%**	**147.6**	**7,744.7**	**100%**	**64.4**	**-7.3%**

The valuation reserve for the portfolio decreased from €147.6m to €64.4m, following disposals totalling €29.4m and a small reduction in the reserve for Italian government securities. The reserve also reflects the reduction in unrealized gains on fixed financial assets, from €86.5m to €19.9m.

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

	30/6/17			30/6/18			Chg. %
	(€m)	%	AFS reserve	(€m)	%	AFS reserve	
Equity shares and UCITS	602.9	77%	234.8	438.1	57%	87.0	-27.3%
Seed capital	183.2	23%	11.9	334.2	43%	7.1	82.4%
Total AFS equity securities	**786.1**	**100%**	**246.7**	**772.3**	**100%**	**94.1**	**-1.8%**

The reduction in this item, from €786.1m to €772.3m, reflects the difference between net sales of shares and direct investment in funds managed by companies forming part of the Mediobanca Group, in the form of seed capital. During the twelve months under review, the rest of the Atlantia investment was sold (discharging €275.6m from this item in the process), as were other equity investments (€11.9m), with more than half of the disposals offset by new investments totalling €143.5m, primarily in listed equities. The heading also includes investments in private equity funds of €71.5m (€70.7m) which reflect new calls on capital totalling €20.8m, against redemptions amounting to €16.6m and downward adjustments of €3.4m. Seed capital activity totalled €334.2m, after five RAM segments were subscribed to a NAV amount as at end-June 2018 of €171.4m, and new net investments in Cairn Capital totalling €12.7m; upward adjustments of €2.4m were also made, to reflect NAV at end-June 2018.

(€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 shares	12.7	—	5.0	141.6	—	(0.9)
Private equity	70.7	—	28.6	71.5	—	23.2
Other unlisted shares	132.9	—	11.1	127.3	—	12.5
Seed capital	183.2	—	11.9	334.2	—	7.1
Equity shares and UCITS	**786.1**		**246.7**	**772.3**		**94.1**

The valuation reserve for equity shares and funds (including seed capital) decreased from €246.7m to €94.1m, after €133.6m was discharged due to disposals and downward adjustments of €17.6m were charged to reflect fair value as at 30 June 2018.

Net treasury assets – the net balance between financial instruments held for trading and treasury assets and liabilities was €4,810.3m, lower than the

€7,311.2m reported last year, due to more effective liquidity management in a negative market interest rate scenario. Net deposits held in the form of repos were drastically reduced for this reason, from €3,030m to €1,098.5m; liquid assets, including those held with the European Central Bank (€1,172.6m), decreased from €2,368m to €1,969.2m, while equities – more than 87% of which are hedged by derivatives with clients – fell from €1,702.5m to €1,658.3m, and debt securities from €579.4m to €312.7m.

(€m)

	30/6/17	30/6/18	Chg.
Financial assets held for trading	7,833.9	8,204.9	5%
Treasury funds	9,435.1	8,358.2	-11%
Financial liabilities held for trading	(5,920.6)	(6,462.4)	9%
Treasury funding	(4,037.2)	(5,290.4)	31%
Net treasury assets	**7,311.2**	**4,810.3**	**-34%**

(€m)

	30/6/17	30/6/18	Chg.
Loan trading	69.6	25.0	-64%
Derivative contract valuations	(438.1)	(253.4)	-42%
Equities	1,702.5	1,658.3	-3%
Bonds securities	579.4	312.7	-46%
Financial instruments held for trading	**1,913.4**	**1,742.6**	**-9%**

(€m)

	30/6/17	30/6/18	Chg.
Cash and banks	2,368.0	1,969.2	-17%
PCT&PT	1,535.5	(605.1)	n.m.
Financial assets deposits	457.0	426.9	-7%
Stock Lending	1,037.3	1,276.7	23%
Net treasury assets	**5,397.8**	**3,067.7**	**-43%**

(€m)

	30/6/17 Book Value	30/6/18 Book Value	Chg.
Italian government bonds	138.1	165.2	20%
German government bonds	(40.6)	(75.6)	86%
Other foreign government bonds	(259.7)	(218.9)	-16%
Bonds issued by financial institutions	624.1	335.4	-46%
- of which: Italian	*392.2*	*313.1*	*-20%*
Corporate bonds	117.5	106.6	-9%
Total debt securities	**579.4**	**312.7**	**-46%**

Tangible and intangible assets – the increase in this item, from €857.8m to €1,027.7m, is principally due to goodwill deriving from the RAM acquisition (€177m); [6] the other movements generated a negative balance of €7.1m, representing the difference between capex for the twelve months of €32.9m (mostly software), depreciation/amortization of €43.9m, the sale of the MIS IT business unit to IBM Italy (for €10.7m), other changes amounting to €0.6m, and a €0.3m downward exchange rate adjustment to the goodwill attributable to Cairn. As part of the purchase price allocation process, a share of the goodwill (€11.1m) has been transferred in respect of two client lists (to CMB for the former Crédit Agricole business unit, and to Mediobanca Private Banking for the former Banca Esperia operations); while €15.5m has been booked in respect of the Mediobanca Private Banking brand (in continuity with amount previously recognized for Esperia).

No items showed any evidence of impairment.

	30/6/17		30/6/18		Chg.
	(€m)	%	(€m)	%	
Land and properties	268.0	31%	262.3	26%	-2.1%
- of which: core	*188.7*	*22%*	*184.9*	*18%*	*-2.0%*
Other tangible assets	37.5	4%	25.5	2%	-32.0%
Goodwill	483.6	57%	649.8	63%	34.4%
Other intangible assets	68.7	8%	90.1	9%	31.1%
Total tangible and intangible assets	**857.8**	**100%**	**1,027.7**	**100%**	**19.8%**

(€ '000)

Operation	30/6/17	30/6/18
Compass-Linea	365,934	365,934
Spafid	12,793	12,793
Cairn Capital	42,225	41,905
Banca Esperia Private Banking	55,981	52,103
CMB-ex Crédit Agricole	6,624	—
RAM	—	177,046
Total goodwill	**483,557**	**649,781**

[6] Given that IFRS3 allows the buyer twelve months in which to complete the purchase price allocation process, this is only a preliminary valuation of the goodwill generated by the RAM Active Investments acquisition. The Group expects to complete the PPA by end-December and provide disclosure in the interim financial statements for the six months ending 31 December 2018.

An updated list of the properties owned by the Group is provided below:

	Squ. M	Book value (€m)	Book value per Squ. M (€ '000)
Milan:			
– Piazzetta Enrico Cuccia n. 1	6,874	15.1	2.2
– Via Filodrammatici n. 3, 5, 7 - Piazzetta Bossi n. 1	11,093	57.8	5.2
– Piazza Paolo Ferrari n. 6	1,967	5.6	2.8
– Foro Buonaparte n. 10	3,918	8.5	2.2
– Via Siusi n. 1-7	22,608	25.7	1.1
Roma *	1,790	8.2	4.6
Vicenza	4,239	5.1	1.2
Luxembourg	442	3.9	8.8
Monaco	4,576	54.3	11.9
Other minor properties	2,736	0.7	0.3
Total properties	**60,243**	**184.9**	

* The Piazza di Spagna property, carried at a book value of €25.2m, is used only in part by Mediobanca and has therefore not been included among the core assets.

Investment properties were worth €77.4m, basically unchanged versus the €79.3m reported last year, despite improvements costing €0.5m and €2.4m in depreciation charges; workout activity on properties collected as part of real estate leasing generated no new acquisitions or sales.

Provisions – these fell from €255.6m to €213m, chiefly due to withdrawals from provisions set aside for restructuring in connection with the former Barclays, Esperia and SelmaBipiemme reorganizations, in an amount of €40.1m, €8.4m and €2.8m respectively. New provisions amounting to €39m for the twelve months were made, mostly to cover the turnover plan in Consumer Banking (€7.7m), the SelmaBipiemme tax dispute (€6.8m) and branch refurbishments by CheBanca! (€11.9m). Other changes are mainly due to the inclusion of Banca Esperia within the Group's consolidation area. The staff severance indemnity provision decreased from €29.8m to €27.5m, on withdrawals for the period totalling €4.9m and higher actuarial reserves of €2.2m (€1.6m).

	30/6/17		30/6/18		Chg.
	(€m)	%	(€m)	%	
Provisions for risks and charges	225.8	88%	185.5	87%	-17.8%
Staff severance indemnity provision	29.8	12%	27.5	13%	-7.7%
of which: staff severance provision discount	*1.6*	—	*2.2*	—	*37.5%*
Total provisions	**255.6**	**100%**	**213.0**	**100%**	**-16.7%**

Net equity – the 5.9% increase in net equity, to €535.4m, reflects the profit for the twelve month (€863.9m), the 2017 dividend (€320.2m), and the €107.1m reduction in the valuation reserve, representing the difference between an approx. €200m decrease in the AFS reserve and increases in the cash flow hedge reserve of approx. €30m and in the Assicurazioni Generali consolidation reserve of €65.7m. The share capital increased from €440.6m to €443.3m, following the exercise of 3,800,000 stock options and the distribution of 1,537,782 shares to staff members worth a total 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	7,046.7	7,572.8	7.5%
Valuation reserves	871.4	764.3	-12.3%
- of which: AFS securities	*319.4*	*121.5*	*-62.0%*
cash flow hedge	*(44.3)*	*(15.7)*	*-64.6%*
equity investments	*598.6*	*663.7*	*10.9%*
Profit for the period	750.2	863.9	15.2%
Total Group net equity	**9,108.9**	**9,644.3**	**5.9%**

Of the AFS reserve, €94.2m involves equities, and €64.3m bonds and other financial instruments (including €19.6m in Italian government securities), net of the €37m tax effect.

(€m)

	30/6/17	30/6/18	Chg.
Equity shares and UCITS	246.7	94.2	-61.8%
Bonds	147.6	64.3	-56.4%
of which: Italian government bonds	*63.3*	*19.6*	*-69.0%*
Tax effect	(74.9)	(37.0)	-50.6%
Total AFS reserve	**319.4**	**121.5**	**-62.0%**

Profit and loss account

Net interest income – the 5.6% increase in net interest income, from €1,287.8m to €1,359.4m, reflects the positive trend in Consumer Banking (up 6.2%), driven by higher volumes with yields resilient, and in treasury management, where the negative contribution improved due to the lower cost of funding (which in the twelve months under review decreased from 100 bps to 90 bps) and more efficient liquidity management. The contributions from Specialty Finance and Wealth Management also increased, by 53.6% and 4.5% respectively, due to the former Barclays and Banca Esperia loan books becoming fully operative. By contrast, net interest income earned by Wholesale Banking was down 20%, despite the higher volumes, reflecting the negative trend in market spreads exacerbated by a shift in loan to customers with higher ratings; the contribution from own securities also decreased.

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg.
Consumer Banking	818.1	868.8	6.2%
Wealth Management	244.1	255.2	4.5%
Wholesale Banking	248.6	198.5	-20.2%
Specialty Finance	44.0	67.6	53.6%
Holding Functions and other (including intercompany)	(67.0)	(30.7)	-54.2%
Net interest income	**1,287.8**	**1,359.4**	**5.6%**

Net treasury income – net treasury income increased from €121.3m to €157.4m, driven by the growing contribution from customer trading by the Capital Market Solutions unit which added €82.3m (€72.7m) and proprietary trading, which added €27.2m (€17.2m). AFS dividends climbed from €17m to €22.1m, on distributions by some of the funds; profit-taking on the banking book bond component increased from €7.4m to €14.7m.

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg.
AFS dividends	17.0	22.1	30.0%
Fixed income trading profit	59.7	79.6	33.3%
of which: banking book	*7.4*	*14.7*	*n.m.*
Equity trading profit	44.6	55.7	24.9%
Net trading income	**121.3**	**157.4**	**29.8%**

Net fee and commission income – net fee and commission income grew from €522.6m to €622.2m, on an increased contribution from Wealth Management (up 27.4%, from €203.1m to €258.7m) helped by the expanded scope of operations

(Banca Esperia, the former Barclays' business unit, the minor Spafid acquisitions and RAM Active Investments); overall this segment now accounts for more than 40% of total fee income, with CheBanca! contributing €79.7m (up 15.7%) and Mediobanca Private Banking and the product factories €77.2m. There was also growth in Specialty Finance, where fees rose from €42.5m to €47.1m, reflecting higher amounts collected on the NPL portfolios totalling €24.3m (€17.6m), and in factoring (from €1.6m to €4.2m). Wholesale Banking fees were stable at €207.3m (€207.4m), despite the expected decrease in capital market fees (from €86.1m to €65.8m) which was offset by a 35.4% rise in M&A advisory fees, from €47.8m to €64.7m.

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg.
Wealth Management	203.1	258.7	27.4%
Wholesale Banking	207.4	207.3	n.m.
Consumer Banking	118.1	127.4	7.9%
Specialty Finance	42.5	47.1	10.8%
Holding Functions and other (including intercompany)	(48.5)	(18.3)	-62.3%
Net fee and commission income	**522.6**	**622.2**	**19.1%**

Equity-accounted companies – the €280.3m profit reported by the equity-accounted companies (€263.9m) reflects the higher contribution by Assicurazioni Generali, which increased from €263.6m to €279.9m.

Operating costs – operating costs rose by 8.9%, from €1,023.7m to €1,114.9m, chiefly due to the expanded area of consolidation, with the increase split equally between labour costs (up 8.1%) and other administrative expenses (up 9.7%). Of the €41.8m increase in labour costs, €32m derives from the Private Banking area (RAM and Esperia), alongside the enhancement of the Consumer Banking and Corporate and Investment Banking divisions and the central co-ordination units. The headcount was cut from 4,798 to 4,717 staff, as a result of the former MIS IT operations being outsourced and rationalization following the Barclays and Banca Esperia mergers.

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg.
Labour costs	516.0	557.8	8.1%
of which: directors	*8.3*	*8.0*	*-3.6%*
stock options and performance share schemes	*12.1*	*7.8*	*-35.5%*
Sundry operating costs and expenses	507.7	557.1	9.7%
of which: depreciations and amortizations	*44.6*	*43.9*	*-1.6%*
administrative expenses	*459.2*	*512.1*	*11.5%*
Operating costs	**1,023.7**	**1,114.9**	**8.9%**

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg.
			(€m)
Corporate & Investment Banking	111.9	118.5	5.9%
Consumer Banking	186.0	188.4	1.3%
Wealth Management	189.3	215.7	13.9%
Holding Functions	52.4	55.1	5.2%
Others (including intercompany)	(31.9)	(20.6)	-35.4%
Other administrative expenses	**507.7**	**557.1**	**9.7%**

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg.
Legal, tax and professional services	15.3	16.8	9.8%
Other consultancy expenses	39.5	45.7	15.6%
Credit recovery activities	43.2	50.4	16.7%
Marketing and communication	49.3	47.7	-3.2%
Rent and property maintenance	47.9	52.6	9.7%
EDP	77.0	107.6	39.8%
Financial information subscriptions	34.2	37.6	9.8%
Bank services, collection and payment commissions	17.3	19.7	13.6%
Operating expenses	75.4	65.6	-13.0%
Other labour costs	20.1	23.5	17.1%
Other costs	18.1	25.0	38.3%
Direct and indirect taxes	21.9	19.9	-9.1%
Total administrative expenses	**459.2**	**512.1**	**11.5%**

Loan loss provisions – these reduced by 21.9%, from €316.7m to €247.2m, due to the continuing high quality of the loan book to corporates and households, and reflecting a cost of risk of 62 bps, substantially lower than the 87 bps reported one year previously, due in part to writebacks as a result of repayments. Wholesale Banking recorded net writebacks of €44m, €34.4m of which due to collections on non-performing items. The increase in provisioning for Specialty Finance (from €22.9m to €25.7m) reflects the amounts set aside on a prudential basis to cover the new portfolios acquired in order to neutralize any extra amounts collected. Consumer Banking saw a reduction in provisioning, from €276.2m to €241.9m, at a cost of risk of 199 bps (versus 243 bps last year); loan loss provisions in Wealth Management decreased from €20m to €16.4m, in part due to application of the new CheBanca! risk parameters with the AIRB model validation activity still in progress. The coverage ratio for non-performing items increased from 54.6% to 56.7% (73.4% for Consumer Banking, 53.3% for mortgage loans, 47.3% for Wholesale Banking, and 32.2% for leasing).

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg.
Wholesale Banking	(15.0)	(44.0)	n.m.
Specialty Finance	22.9	25.7	12.2%
Consumer Banking	276.2	241.9	-12.4%
Wealth Management	20.0	16.4	-18.0%
Holding Functions	12.6	7.2	-42.9%
Loan loss provisions	**316.7**	**247.2**	**-21.9%**
Cost of risk (bps)	**87**	**62**	**-28.4%**

Provisions for other financial assets – these refer chiefly to the holding in Cassa di Risparmio di Cesena allocated to all banks comprised in the Italian banking system being written off (€2.1m) as part of the Crédit Agricole Italia transaction, and to other minor charges in respect of AFS provisions totalling €2.6m. Writebacks were also credited in an amount of €3.9m for bonds held to maturity.

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg.
Equity investments	0.4	—	n.m.
Shares	3.1	4.7	51.6%
Bonds	4.4	(3.4)	n.m.
Total	**7.9**	**1.3**	**-83.5%**

Income tax – income tax for the six months totalled €228.1m, at an effective tax rate of 20.8%, slightly higher than last year's figures of €171.7m and 18.8% respectively. This represents the weighted average between the 31% tax rate on profits from banking activities and the 2.8% tax rate for the PEX regime on dividends and gains on equity investments.

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

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

CORPORATE AND INVESTMENT BANKING

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

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

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

It also includes the gains realized on the Group's proprietary portfolio.

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg. (%)
Profit-and-loss data			
Net interest income	292.6	266.1	-9.1
Treasury income	93.4	110.5	18.3
Net fee and commission income	249.9	254.4	1.8
Total income	**635.9**	**631.0**	**-0.8**
Labour costs	(135.5)	(137.4)	1.4
Administrative expenses	(111.9)	(118.5)	5.9
Operating costs	**(247.4)**	**(255.9)**	**3.4**
Net loss provisions	(11.0)	19.0	n.m.
Other profits (losses)	—	(2.0)	n.m.
Profit before tax	**377.5**	**392.1**	**3.9**
Income tax for the period	(123.6)	(127.6)	3.2
Net profit	**253.9**	**264.5**	**4.2**
Cost/Income (%)	*38.9*	*40.6*	

	30/6/17	30/6/18
Balance-sheet data		
Loans and advances to customers	14,481.0	16,134.2
New loans	8,338.3	12,686.0
No. of staff	590	587
Risk-weighted assets	23,104.2	19,510.9

WHOLESALE BANKING

This division includes the client business (lending, advisory services and capital markets activities) and proprietary trading; the activities are carried out by Mediobanca, Mediobanca International, Mediobanca Securities and Mediobanca Turkey.

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg. (%)
Profit-and-loss data			
Net interest income	248.6	198.5	-20.2
Treasury income	93.5	110.5	18.2
Net fee and commission income	207.4	207.3	n.m.
Total income	**549.5**	**516.3**	**-6.0**
Labour costs	(119.6)	(121.0)	1.2
Administrative expenses	(92.3)	(91.4)	-1.0
Operating costs	**(211.9)**	**(212.4)**	**0.2**
Net provisions	11.9	44.7	n.m.
Other profits (losses)	—	(2.0)	n.m.
Profit before tax	**349.5**	**346.6**	**-0.8**
Income tax for the period	(117.2)	(112.8)	-3.8
Net profit	**232.3**	**233.8**	**0.6**
Cost/Income ratio (%)	*38.6*	*41.1*	

	30/6/17	30/6/18
Balance-sheet data		
Loans and advances to customers	12,840.0	13,996.9
New loans	4,536.9	7,331.7
No. of staff	367	344
Risk-weighted assets	21,499.7	17,362.9

The net profit earned by Wholesale Banking was up slightly, from €232.3m to €233.8m, driven by a healthy performance in investment banking fees, plus writebacks on loans and securities totalling €44.7m (€11.9m), with operating costs flat at €212.4m and revenues down 6%, from €549.5m to €516.3m, due to the reduction in net interest income.

The main items performed as follows:

Net interest income – this item recorded a decrease of 20.2%, from €248.6m to €198.5m, due to lower returns on loans and despite the 61.6% increase in new business, attributable to the widespread tightening of credit spreads and the priority given to safeguarding the quality of the portfolio, which also benefits regulatory capital absorption levels (AIRB models).

(€m)

	12 months ended 30/6/17	12 months ended 30/6/18	Chg.
Interest income	332.6	282.6	-15.0%
Interest expense	(85.9)	(86.0)	n.m.
Others [1]	1.9	1.9	n.m.
Net interest income	**248.6**	**198.5**	**-20.2%**

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

Net treasury income – this item was up 18.2%, from €93.5m to €110.5m, despite the instability in the last few months of the financial year, with positive contributions from both segments: equity trading added €55.7m (€44.6m) and fixed-income trading €54.8m (€48.9m). Client-driven business totalled €82.3m (€72.7m), and proprietary dealing involving the trading book €28.2m (€20.8m).

(€m)

	12 months ended 30/6/17	12 months ended 30/6/18	Chg.
Fixed income trading profit	48.9	54.8	12.1%
Equity trading profit	44.6	55.7	24.9%
Treasury income	**93.5**	**110.5**	**18.2%**

Net fee and commission income – fee income was virtually unchanged at €207.3m (€207.4m), due to a good performance in M&A advisory and DCM (up 35% and 44% respectively), offsetting the anticipated reduction in equity capital market fees which last year included one particularly large deal. The main items performed as follows:

– Corporate finance fees (M&A advisory) were up 35.4%, from €47.8m to €64.7m, despite the downturn which affected the whole European market (down 27%) with the exception of France (up 24%) with Italy the worst performer (down 29%). Some of the main deals completed include: assistance in acquiring investments (mostly in Italy) provided to Atlantia and ICBPI, Amundi, GEA Group, Deutsche Alternative Asset Management, Cerberus Capital Management, Global Infrastructure Management, EDF, Permira, Anima Holding and Quaestio Capital Management, and assistance in selling stakes provided to Clessidra, Maillefer International, F2i SGR, L.F S.p.A., A.L.P.E. Invest, MN Coil GmbH and MPS;

– Equity capital markets (ECM) fees decreased from €68.7m to €40.9m, in respect of some twenty deals, in line with the widespread fall on markets in the leading European countries (down 14%) with Italy the worst performer (down 46%) and growth in Spain (up 48%);

– Debt capital market (DCM) fees increased from €17.4m to €24.9m, generated from around 60 deals, in a weak market scenario where the European market fell by 6% and the Italian market by 14%;

– Lending fees increased from €48.2m to €50.7m, helped by renegotiations and amendments in a weak market scenario (the EMEA debt market was down 13%), driven by growth of 29% in leveraged finance;

– The other segments (i.e. equity sales and other income) delivered fees of €26.1m (€25.3m).

(€m)

	12 months ended 30/6/17	12 months ended 30/6/18	Chg.
Capital Market	86.1	65.8	-23.6%
Lending	48.2	50.7	5.2%
Advisory M&A	47.8	64.7	35.4%
Markets, sales and other gains	25.3	26.1	3.2%
Net fee and commission income	**207.4**	**207.3**	**n.m.**

Operating costs – the slight increase in operating costs, from €211.9m to €212.4m, is attributable solely to staff recruitment and certain restructuring costs. Administrative expenses declined slightly, on lower IT expenses.

			(€m)
	12 months ended 30/6/17	**12 months ended 30/6/18**	**Chg.**
Labour costs	119.6	121.0	1.2%
Operating expenses and sundry costs	92.3	91.4	-1.0%
of which: EDP and IT projects	*13.8*	*12.9*	*-6.7%*
Info provider	*11.4*	*10.5*	*-7.7%*
Legal, fiscal and other professional services	*4.1*	*4.1*	*-0.8%*
Operating costs	**211.9**	**212.4**	**0.2%**

Loan loss provisions – financial assets (loans and banking book securities) recorded net writebacks of €44.7m, €34.4m of which in respect of non-performing items (chiefly Sorgenia Power and Maillefer), plus €10m in net writebacks to loans and performing securities.

Loans and advances to customers – these rose from €12.8bn to €14bn, on new loans of €7.3bn and repayments of €6.3bn, €3.1bn of which were early repayments. The domestic Italian share of the loan book was cut to under half, with loans to French, Spanish and UK clients rising accordingly.

	30/6/17		**30/6/18**		**Chg.**
	(€m)	**%**	**(€m)**	**%**	
Italy	6,444.1	50%	6,629.4	47%	2.9%
France	1,025.5	8%	1,202.8	9%	17.3%
Spain	774.1	6%	1,404.7	10%	81.5%
Germany	818.1	6%	899.7	6%	10.0%
U.K.	846.1	7%	1,171.4	8%	38.4%
Other non resident	2,932.1	23%	2,688.9	20%	-8.3%
Total loans and advances to customers	**12,840.0**	**100%**	**13,996.9**	**100%**	**9.0%**

Gross NPLs, represented solely by unlikely-to-pay items, declined from €745.5m to €648m, or 4.5% (5.6%) of the loan book; net NPLs decreased from €372.5m to €341.7m, or 2.4% of the loan book, with a coverage ratio of 47.3%.

SPECIALTY FINANCE

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg. (%)
Profit-and-loss data			
Net interest income	44.0	67.6	53.6
Treasury income	(0.1)	—	n.m.
Net fee and commission income	42.5	47.1	10.8
Total income	**86.4**	**114.7**	**32.8**
Labour costs	(15.9)	(16.4)	3.1
Administrative expenses	(19.6)	(27.1)	38.3
Operating costs	**(35.5)**	**(43.5)**	**22.5**
Net provisions	(22.9)	(25.7)	12.2
Profit before tax	**28.0**	**45.5**	**62.5**
Income tax for the period	(6.4)	(14.8)	n.m.
Net profit	**21.6**	**30.7**	**42.1**
Cost/Income ratio (%)	*41.1*	*37.9*	

	30/6/17	30/6/18
Balance-sheet data		
Loans and advances to customers	1,641.0	2,137.3
New loans	3,801.4	5,353.9
No. of staff	223	243
Risk-weighted assets	1,604.5	2,148.0

The net profit of €30.7m (€21.6m) was split between factoring, which reported €14.5m (€8m), and credit/NPL portfolio management, which reported €16.2m (€13.6m). Revenues climbed by 32.8%, from €86.4m to €114.7m, reflecting the following performances:

– Net interest income rose steeply by 53.6%, on higher NPL assets (which grew from €10.2m to €28.7m) boosted by the increase in volumes, and a higher contribution from factoring (up from €33.9m to €39m);

– Net fee and commission income rose from €42.5m to €47.1m, and includes €24.3m in revenues from higher amounts collected on the NPL portfolio (€17.6m); factoring contributed €4.2m, up sharply on the €1.6m reported last year.

Operating costs were up 22.5%, from €35.5m to €43.5m, due to the increase in credit recovery costs related to the higher volumes and the performance of the NPL portfolios (which grew from €4.6m to €11.6m). Labour costs were also up slightly, due to the increase in headcount from 223 to 243 members of staff.

Loan loss provisions decreased from €22.9m to €25.7m, €15.2m of which in respect of factoring (€15.8m) and the other €10.5m of the NPL portfolio (€7.2m). The latter consist almost entirely of amounts set aside on a prudential basis in respect of the portfolios of assets most recently acquired, to neutralize the higher collections which are normally recorded during the first months of processing.

The increase in loans and advances to customers, which were up 30.2%, from €1,641m to €2,137.3m, chiefly regards ordinary factoring (€1,449.4m, as against €1,199.4m last year), as well as instalment factoring (€399.6m, as against €306.9m), and acquisitions of NPLs on a non-recourse basis (€288.3m, as against €134.8m), concentrated in the retail unsecured segment (more than 80%).

CONSUMER BANKING

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

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg. (%)
Profit-and-loss data			
Net interest income	818.1	868.8	6.2
Net fee and commission income	118.1	127.4	7.9
Total income	**936.2**	**996.2**	**6.4**
Labour costs	(93.9)	(96.1)	2.3
Administrative expenses	(186.0)	(188.4)	1.3
Operating costs	**(279.9)**	**(284.5)**	**1.6**
Loan loss provisions	(276.2)	(241.9)	-12.4
Other profits (losses)	—	(6.6)	n.m.
Profit before tax	**380.1**	**463.2**	**21.9**
Income tax for the period	(121.9)	(147.9)	21.3
Net profit	**258.2**	**315.3**	**22.1**
Cost/Income ratio (%)	*29.9*	*28.6*	

	30/6/17	30/6/18
Balance-sheet data		
Loans and advances to customers	11,750.3	12,517.8
New loans	6,638.1	7,025.1
No. of branches	166	171
No. of staff	1,405	1,429
Risk-weighted assets	11,782.7	11,822.0

Compass reported a net profit of €315.3m for the twelve months (30/6/17: €258.2m), on higher revenues (up 6.4%, from €936.2m to €996.2m), flat costs (up 1.6%) and lower loan loss provisions (down 12.4%). In particular, revenues benefited from the trend in net interest income (up 6.2%, from €818.1m to €868.8m), due to the combined effect of higher volumes (up 6.5%) and resilient profits; the increase in fee income (up 7.9%) is due to the higher volumes, in particular revenues from insurance products.

Operating costs rose slightly, by 1.6%, from €279.9m to €284.5m, due to new hirings (24 new employees taken on, which translated to a €2m increase in labour costs, certain project activities (AIRB models, Group treasury), and higher credit recovery costs. Loan loss provisions were down 12.4%, from €276.2m to €241.9m, and reflect a cost of risk of 199 bps, representing further improvement since the reporting date last year (243 bps).

The increase in loans and advances to customers also continued, which at end-June totalled €12,517.8m (€11,750.3m), on new loans of €7,025.1m (up 5.8%, from €6,638.1m). Gross NPLs increased from €658.8m to €698.5m, remaining virtually unchanged in relative terms at 5.2% of the gross loan book; whereas net NPLs were at all-time lows, at €186m (or 1.5% of the total loan book), with a coverage ratio of 73.4% (71.2%). Net NPLs totalled €13.6m, unchanged at just 0.1% of the total loan book, reflecting a coverage ratio of 93.9%. The coverage ratio for performing loans was also basically flat versus last year, at 2.7% (2.6%). Sales of NPLs were made external to the Group during the twelve months for a total of €171.5m (€192.5m).

WEALTH MANAGEMENT

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

– *Affluent & Premier* (CheBanca!);

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

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg. (%)
Profit-and-loss data			
Net interest income	244.1	255.2	4.5
Treasury income	12.3	12.1	-1.6
Net fee and commission income	203.1	258.7	27.4
Total income	**459.5**	**526.0**	**14.5**
Labour costs	(187.0)	(201.1)	7.5
Administrative expenses	(189.3)	(215.7)	13.9
Operating costs	**(376.3)**	**(416.8)**	**10.8**
Gains (losses) on AFS, HTM and L&R	7.6	2.0	-73.7
Net loss provisions	(22.0)	(16.4)	-25.5
Other profits (losses)	(2.0)	(0.6)	-70.0
Profit before tax	**66.8**	**94.2**	**41.0**
Income tax for the period	(11.8)	(24.4)	n.m.
Minority interest	—	(0.6)	n.m.
Net profit	**55.0**	**69.2**	**25.8**
Cost/Income ratio (%)	*81.9*	*79.2*	

	30/6/17	30/6/18
Balance-sheet data		
Loans and advances to customers	9,686.1	10,359.2
Loans	1,240.9	1,594.0
No. of staff	2,023	1,888
Risk-weighted assets	5,790.6	5,757.2

	30/6/17	30/6/18
AUM/AUA	30,005.4	37,311.7
AUC	12,106.0	7,583.3
Direct fundng	17,755.6	18,956.2
Total Asseis under management, advice and custody	**59,867.0**	**63,851.2**

CHEBANCA!

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg. (%)
Profit-and-loss data			
Net interest income	205.3	212.0	3.3
Treasury income	0.4	0.8	n.m.
Net fee and commission income	68.9	79.7	15.7
Total income	**274.6**	**292.5**	**6.5**
Labour costs	(101.5)	(102.6)	1.1
Administrative expenses	(135.5)	(132.7)	-2.1
Operating costs	**(237.0)**	**(235.3)**	**-0.7**
Net provisions	(19.4)	(16.5)	-14.9
Other profits (losses)	15.2	—	n.m.
Profit before tax	**33.4**	**40.7**	**21.9**
Income tax for the period	(6.5)	(13.0)	n.m.
Net profit	**26.9**	**27.7**	**3.0**
Cost/Income ratio (%)	*86.3*	*80.4*	

	30/6/17	30/6/18
Balance-sheet data		
Loans and advances to customers	7,513.2	8,107.1
New loans	1,240.9	1,594.0
No. of branches	141	111
No. of staff	1,401	1,321
Risk-weighted assets	3,498.9	3,713.8

	30/6/17	30/6/18
AUM/AUA	7,079.0	8,435.1
Direct funding	13,353.3	14,163.0
Total assets under management	**20,432.3**	**22,598.1**

CheBanca! increased its net profit to €27.7m, higher than the €26.9m posted last year (which also reflected non-recurring income of €15.2m), on higher volumes due to the former Barclays' business unit being consolidated for the full twelve months (rather than ten months last year) and to the launch of the new financial advisors' network, along with the cost base being kept down. Revenues were up 6.5%, from €274.6m to €292.5m, due in particular to fee income which climbed 15.7%, from €68.9m to €79.7m, most of which were recurring (management and banking fees). At the same time, operating costs were down 0.7%, from €237m to €235.3m, but on a like-for-like basis the reduction would be 6.9%, as a result of synergies deriving from the merger and integration of the Barclays' business unit. Loan loss provisions decreased from €19.4m to €16.5m, due to an improvement in the mortgage lending risk and the adjustment of risk parameters to reflect the new internal models.

The growth initiatives were reflected in an increase in business volumes: total financial assets (TFAs) reached €22.6bn, up 10.6% on end-June 2017, with increases in assets under management (AUM, up 19% Y.o.Y. to €6.3bn), assets under administration (AUA up 19.5%, to €2.1bn) and deposits (up 6.1%, to €14.2bn). Net new money totalled €2.2bn (€1bn of which in AUM, €0.4bn in AUA and €0.8bn in direct funding; the latter in particular saw an increase in the highest transactional component (current accounts amounted to €9.5bn), confirming a certain amount of stability. The growth derives from the proprietary network, which delivered an increase of €0.8bn, and the FAs, which generated NNM of €1.4bn. Mortgage loans to households climbed from €7.5bn to €8.1bn, on new loans of €1.6bn (up 28.5% on the €1.2bn reported at end-June 2017). Asset quality remained at excellent levels: gross NPLs declined from €346.1m to €332.1m, and account for 4% (4.5%) of total loans; while net NPLs declined from €180.6m to €155.1m and account for 1.9% of net total loans, with a coverage ratio of 53.3% (47.8%); net bad debts totalled €92.7m (1.1% of net total loans), with a coverage ratio of 60.9% (56.4%).

PRIVATE BANKING

This division comprises Mediobanca Private Banking, Compagnie Monégasque de Banque, Spafid, Cairn Capital (alternative AM), Mediobanca SGR, Mediobanca Management Company and RAM Active Investments.

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg. (%)
Profit-and-loss data			
Net interest income	38.8	43.2	11.3
Treasury income	11.9	11.3	-5.0
Net fee and commission income	134.2	179.0	33.4
Total income	**184.9**	**233.5**	**26.3**
Labour costs	(85.5)	(98.5)	15.2
Administrative expenses	(53.8)	(83.0)	54.3
Operating costs [1]	**(139.3)**	**(181.5)**	**30.3**
Gains (losses) on AFS, HTM and L&R	7.6	2.0	-73.7
Net provisions	(2.6)	0.1	n.m.
Other profits (losses)	(17.2)	(0.6)	n.m.
Profit before tax	**33.4**	**53.5**	**60.2**
Income tax for the period	(5.3)	(11.4)	n.m.
Minority interest	—	(0.6)	n.m.
Net profit	**28.1**	**41.5**	**47.7**
Cost/Income ratio (%)	*75.3*	*77.7*	

	30/6/17	30/6/18
Balance-sheet data		
Loans and advances to customers	2,172.9	2,252.1
No. of staff [1]	622	567
Risk-weighted assets	2,291.7	2,043.4

	30/6/17	30/6/18
AUM/AUA	22,926.4	28,876.6
AUC	12,106.0	7,583.3
Direct funding	4,402.3	4,793.2
Total assets under management	**39,434.7**	**41,253.1**

[1] Since December 2017, the former Banca Esperia central staff functions have been transferred to the Holding Functions division, while the division's service expenses continue to be accounted for as administrative expenses.

The net profit earned in Private Banking rose in the twelve months, from €28.1m to €41.5m, helped by the full consolidation of Banca Esperia (which last year provided 50% of the result for three quarters), the acquisition of RAM AI (four months), and the minor Spafid acquisitions becoming fully operative. Accordingly, GOP rose by 16%, from €44.9m to €52.1m, on revenues up 26.3% (from €184.9m to €233.5m), with the main items performing as follows:

- Net interest income was up 11.3%, from €38.8m to €43.2m, with substantial contributions from CMB of €34.7m (€32.5m), and Mediobanca Private Banking of €8.3m (€6.1m);
- Net treasury income, chiefly attributable to CMB's activities, was virtually unchanged at €11.3m (€11.9m);
- Fee income climbed sharply, up 33.4% (from €134.2m to €179m, more than 70% of which recurring), following excellent performances by all the divisions: Mediobanca Private Banking and its product factories posted an increase in fees from €46.2m to €77.2m, CMB from €46.9m to €49.3m, while RAM Active Investments added €15.5m for the four months for which it was consolidated, and the fees earned by Spafid increased from €13.6m to €18.9m; the only reduction was by Cairn Capital with fees of €18.1m (€27.5m), due to lower performance fees and advisory business levels.

At the same time, operating costs grew by 30.3%, from €139.3m to €181.5m; the increase reduces to 10% net of the Banca Esperia effect, and was concentrated on upgrading the CMB and domestic Private Banking IT system. On a like-for-like basis, labour costs were down 3% due to reorganization post-merger with Banca Esperia.

By individual business unit, CMB reported a net profit of €32.1m, on revenues of €95m (€89.4m), costs of €59.5m (€51.8m), gains on disposals of AFS shares totalling €2m (€7m), and tax of €5.7m (€6.6m); Mediobanca Private Banking and the product factories delivered a net profit of €9.3m (compared with an €11.2m loss at the same time last year), on revenues of €85.7m (€53.7m) and costs of €71.7m (€47.7m); while Cairn Capital posted revenues of €18.2m (€28m) and costs of €19.5m (€24.6m), due to the reduction in performance and advisory fees; Spafid, which provides fiduciary business and corporate services, reported revenues of €19.1m (€14m) and costs of €18.6m (€12.1m).

AUM/AUA for the twelve months totalled €28.9bn (30/6/17: €22.9bn), split as follows: CMB €7bn (€6.7bn), Mediobanca Private Banking and the product factories €14.5bn (€13.7bn), and Cairn €3.3bn (€2.5bn). AUC fell from €12.1bn to €7.6bn, due to the winding up of legacy positions managed by Cairn under long-term advice (now just €0.2bn, compared with €3.9bn last year), and the reduction in assets held by Mediobanca Private Banking and its product factories (€2.7bn, versus €3.6bn); conversely, Spafid posted an increase in volumes, from €4.4bn to €4.5bn.

(€m)

	12 mths ended 30/6/17	Net New Money	12 mths ended 30/6/18	Chg.
Mediobanca Private Banking	17,341.1	603.3	17,157.8	-1.1%
- of which: assets under custody	*3,630.6*	—	*2,702.0*	*-25.6%*
Compagnie Monegasque de Banque	6,855.0	440.7	7,197.0	5.0%
RAM Active Investiments		—	4,071.1	n.m.
Cairn Capital	6,462.3	1,009.7	3,525.9	-45.4%
- of which: on a Long Term Advice basis	*3,949.4*	—	*221.2*	*n.m.*
Spafid	4,374.0	—	4,508.1	3.1%
Total AUM/AUA and AUC	**35,032.4**	**2,053.7**	**36,459.9**	**4.1%**

PRINCIPAL INVESTING

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

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg. (%)
Profit-and-loss data			
Other incomes	9.6	14.7	53.1
Equity-accounted companies	263.6	280.3	6.3
Total income	**273.2**	**295.0**	**8.0**
Labour costs	(3.8)	(3.8)	n.m.
Administrative expenses	(0.8)	(1.0)	25.0
Operating costs	**(4.6)**	**(4.8)**	**4.3**
Gain (losses) on disposal of AFS shares	161.6	96.3	-40.4
Net loss provisions	(0.9)	(1.8)	n.m.
Profit before tax	**429.3**	**384.7**	**-10.4**
Income tax for the period	(7.2)	(10.9)	51.4
Net profit	**422.1**	**373.8**	**-11.4**

	30/6/17	30/6/18
Balance-sheet data		
AFS securities	659.5	746.8
Equity investments	3,036.5	3,210.8
Risk-weighted assets	7,714.9	6,256.6

The reduction in net profit by the Principal Investing division compared to last year (from €422.1m to €373.8m) is chiefly attributable to the lower gains on disposals of AFS shares of €96.3m (€161.6m), only in part offset by the higher contribution from Assicurazioni Generali (up from €263.6m to €280.3m) and in dividends collected (up from €9.6m to €14.7m).

The book value of the Assicurazioni Generali investment increased from €2,997.5m to €3,171.4m, on profit for the period totalling €279.9m, and positive equity adjustments of €66.3m net of the dividend collected (€172.3m).

AFS shares increased from €659.5m to €746.8m, following new investments in equities totalling €143.5m and subscription to seed capital at Cairn and the newly-acquired RAM in an amount of €183.2m, offset by the sale of shares for €251.1m (with a surplus of €96.3m), referring almost entirely to the disposal of the entire shareholding in Atlantia and other listed equities. The twelve months under review include consolidation of the former Banca Esperia funds in an amount of €45.5m, net investments in private equity funds of €5.7m and downward changes to reflect fair value in an amount of €18.3m.

HOLDING FUNCTIONS (CENTRAL, TREASURY AND LEASING FUNCTIONS)

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

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg. (%)
Profit-and-loss data			
Net interest income	(76.3)	(37.5)	50.9
Treasury income	3.3	13.1	n.m.
Net fee and commission income	16.5	15.5	-6.1
Total income	**(56.5)**	**(8.9)**	**84.2**
Operating costs	**(166.2)**	**(173.3)**	**-4.3**
Net loss provisions	(16.0)	(7.5)	53.1
Other profits (losses)	(103.0)	(49.3)	52.1
Profit before tax	**(341.7)**	**(239.0)**	**30.1**
Income tax for the period	92.0	83.3	9.5
Minority interest	7.9	(3.2)	n.m.
Net profit	**(241.8)**	**(158.9)**	**34.3**

	30/6/17	30/6/18
Balance-sheet data		
Loans and advances to customers	2,273.5	2,116.7
Banking book securities	7,624.5	6,487.2
No. of staff [1]	769	801
Risk-weighted assets	4,315.8	4,016.0

[1] Since December 2017, the former Banca Esperia central staff functions have been transferred to the Holding Functions division.

The loss posted by this division was cut from €241.8m to €158.9m, after lower contributions to resolution funds (down from €87.9m to €49.1m), the ongoing improvement in net interest expense from treasury management, which was cut from €123.5m to €82.9m due to the lower cost of funding (which reduced from 100bps to 90bps), and more effective liquidity management, including at intra-Group level. Conversely, operating costs rose by 4.3%, from €166.2m to €173.3m, due to centralization of the control functions (Compliance, IT Governance and Risk Management), and to certain support functions being strengthened (back office and accounts), plus costs linked to non-recurring projects.

The division comprises:

– Group Treasury and ALM, which delivered a €66m loss, much improved on last year's €112m, driven by the performance in net interest expense which was cut from €123.5m to €82.9m. Overall, the unit disbursed funding of €39.4bn (€40.6bn), €33bn (€31.4bn) of which was distributed to the various divisions, €6.5bn (€7.6bn) invested in banking book securities, and €2bn (€2.2bn) in net treasury assets.

– Leasing delivered a higher net profit of €4.8m following the reduction in loan loss provisions (from €12m to €7.3m), on revenues which were basically flat at €48m, and costs up slightly at €26.3m (€25.2m). Leases outstanding decreased from €2,273.5m to €2,116.7m, despite the increase in new business (from €418m to €423m). Gross NPLs totalled €206.6m (€255.3m), accounting for a lower percentage of the total (9.4%, versus 10.8%). Net non-performing exposures also decreased, from €169m to €140.2m, and represent 6.6% (7.4%) of the total, with a coverage ratio of 32.2% (33.8%). Bad debts closed at €33.1m (€35.8m), and represent 1.6% of the total, with a coverage ratio of 47.4% (54.8%).

(€m)

	12 mths ended 30/6/17	12 mths ended 30/6/18	Chg. (%)
Profit-and-loss data			
Net interest income	47.2	45.2	-4.2
Treasury income	0.3	0.2	-33.3
Net fee and commission income	0.3	2.6	n.m.
Total income	**47.8**	**48.0**	**0.4**
Labour costs	(14.2)	(13.8)	-2.8
Administrative expenses	(11.0)	(12.5)	13.6
Operating costs	**(25.2)**	**(26.3)**	**4.4**
Loan loss provisions	(12.0)	(7.3)	-39.2
Other profits (losses)	(27.5)	(2.9)	-89.5
Profit before tax	**(16.9)**	**11.5**	**n.m.**
Income tax for the period	(2.9)	(3.5)	20.7
Minority interest	7.9	(3.2)	n.m.
Net profit	**(11.9)**	**4.8**	**n.m.**
Cost/Income ratio (%)	*52.7*	*54.8*	

	30/6/17	30/6/18
Balance-sheet data		
Loans to customers	2,273.5	2,116.7
New loans	418.0	423.0
No. of staff	144	142
Risk-weighted assets	2,053.6	1,879.0

* * *

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

(€m)

Company	Percentage shareholding	Business Line	Total assets	Loans and advances to customers	Total net equity [1]	No. of employees
Mediobanca Securities (data in USDm)	100%	Wholesale Banking	6.7	—	4.7	4
Mediobanca Turchia (data in TRYm)	100%	Wholesale Banking	5.6	—	9.9	4
Quarzo MB	90%	Wholesale Banking	0.1	—	—	—
Mediobanca Funding Luxembourg	100%	Wholesale Banking	0.5	—	0.4	—
Mediobanca International	100%	Wholesale Banking / Holding Functions	7,021.1	4,699.8	328.6	13
MBFACTA	100%	Specialty Finance	1,873.7	1,849.1	122.6	27
MBCredit Solutions	100%	Specialty Finance	327.3	288.3	117.4	218
Compass Banca	100%	Consumer Banking	12,403.5	10,897.9	1,582.0	1,358
Futuro	100%	Consumer Banking	1,713.0	1,617.8	108.1	76
Quarzo	90%	Consumer Banking	0.5	—	—	—
Quarzo CQS	90%	Consumer Banking	0.3	—	—	—
Compass RE	100%	Consumer Banking	350.5	—	97.4	1
CheBanca!	100%	Affluent & Premier	20,158.4	8,107.1	341.8	1,320
Mediobanca Covered Bond	90%	Affluent & Premier	0.5	—	0.1	—
Compagnie Monégasque de Banque	100%	Private Banking	3,806.7	1,287.1	739.7	211
Spafid	100%	Private Banking	56.5	—	48.9	51
Spafid Connect	100%	Private Banking	30.7	—	18.6	18
Spafid Family Office SIM	100%	Private Banking	1.1	—	0.7	5
Cairn Capital Group Limited (data in GBPm) *	100%	Private Banking	11.7	—	9.7	58
CMB Wealth Management UK (data in GBPm)	100%	Private Banking	1.3	—	1.4	—
RAM Active Investments (data in CHFm) **	89.3%	Private Banking	22.6	—	6.9	37
RAM Active Investments (Luxembourg) (data in CHFm)	100%	Private Banking	7.7	—	1.6	4
Compagnie Monégasque de Gestion	100%	Private Banking	11.5	—	(1.7)	9
Spafid Trust	100%	Private Banking	1.5	—	1.2	3
Mediobanca SGR	100%	Private Banking	31.6	—	19.7	42
Mediobanca Management Company	100%	Private Banking	14.6	—	2.9	6
Mediobanca International Immobilierè	100%	Holding Functions	1.9	—	1.7	—
SelmaBipiemme Leasing	60%	Holding Functions	2,324.5	2,116.9	208.4	141
Prominvestment (under liquidation - under arrangement with creditors)	100%	Holding Functions	0.9	—	(3.0)	—
Mediobanca Innovation Services	100%	Holding Functions	82.7	—	37.5	115
Ricerche e Studi	100%	Holding Functions	1.4	—	0.1	14

[1] Does not include profit for the period.

* Taking into account the put and call option; see Part A1 – Section 3 – Area and methods of consolidation, p. 105.

** Taking into account the put and call option; see Part A1 – Section 3 – Area and methods of consolidation, p. 105.

(€m)

Company	Percentage shareholding	Business Line	Total income	Operating costs	Loss provisions	Gain/(loss) for the period
Mediobanca Securities (data in USDm)	100%	Wholesale Banking	4.2	(2.7)	—	0.9
Mediobanca Turchia (data in TRYm)	100%	Wholesale Banking	1.0	(5.8)	—	(4.8)
Quarzo MB	90%	Wholesale Banking	—	—	—	—
Mediobanca Funding Luxembourg	100%	Wholesale Banking	0.2	(0.2)	—	—
Mediobanca International	100%	Wholesale Banking / Holding Functions	26.1	(8.3)	(0.2)	12.4
MBFACTA	100%	Specialty Finance	43.1	(7.9)	(15.2)	13.5
MBCredit Solutions	100%	Specialty Finance	72.6	(36.6)	(10.8)	17.2
Compass Banca	100%	Consumer Banking	888.9	(265.6)	(237.0)	252.8
Futuro	100%	Consumer Banking	56.6	(18.4)	(4.9)	22.4
Quarzo	90%	Consumer Banking	0.1	(0.1)	—	—
Quarzo CQS	90%	Consumer Banking	—	—	—	—
Compass RE	100%	Consumer Banking	51.0	(0.7)	—	37.0
CheBanca!	100%	Affluent & Premier	292.5	(235.3)	(16.5)	19.0
Mediobanca Covered Bond	90%	Affluent & Premier	0.1	(0.1)	—	—
Compagnie Monégasque de Banque	100%	Private Banking	92.9	(56.2)	0.3	34.9
Spafid	100%	Private Banking	9.9	(9.0)	(0.3)	0.4
Spafid Connect	100%	Private Banking	7.2	(7.8)	—	(0.5)
Spafid Family Office SIM	100%	Private Banking	1.3	(1.4)	—	(0.1)
Cairn Capital Group Limited (data in GBPm) *	100%	Private Banking	17.4	(18.6)	—	(1.0)
CMB Wealth Management UK (data in GBPm)	100%	Private Banking	—	(0.1)	—	(0.1)
RAM Active Investments (data in CHFm) **	89,3%	Private Banking	16.3	(8.8)	—	5.6
RAM Active Investments (Luxembourg) (data in CHFm)	100%	Private Banking	1.8	(0.8)	—	0.7
Compagnie Monégasque de Gestion	100%	Private Banking	8.1	(2.8)	—	3.5
Spafid Trust	100%	Private Banking	0.9	(0.7)	—	0.1
Mediobanca SGR	100%	Private Banking	17.7	(11.2)	—	4.4
Mediobanca Management Company	100%	Private Banking	7.2	(2.7)	—	3.0
Mediobanca International Immobilierè	100%	Holding Functions	0.1	(0.1)	—	0.1
SelmaBipiemme Leasing	60%	Holding Functions	48.0	(26.3)	(7.3)	8.1
Prominvestment (under liquidation - under arrangement with creditors)	100%	Holding Functions	0.2	(1.2)	—	(1.1)
Mediobanca Innovation Services	100%	Holding Functions	78.3	(80.0)	—	—
Ricerche e Studi	100%	Holding Functions	2.2	(2.2)	—	—

* Taking into account the put and call option; see Part A1 – Section 3 – Area and methods of consolidation, p. 105.

** Taking into account the put and call option; see Part A1 – Section 3 – Area and methods of consolidation, p. 105.

Finally, it should be noted that:

– On 26 April 2018, Compagnie Monégasque de Banque approved its consolidated financial statements for 2017, which reflect a net profit of €16.6m (€2m). The significant improvement compared to last year is chiefly due to a single, negative non-recurring item in 2016, consisting of a €22.5m contribution to the general banking risks provision, to cover possible expenses from regulatory changes in the Principality of Monaco (this provision is not recorded in the in IFRS accounts used for the Mediobanca Group's consolidated financial statements). Total income rose from €83.4m to €99.4m, due chiefly to higher net fees (up from €46.5m to €61.2m) and higher net interest income (up from €21.6m to €24.3m). Conversely, operating costs rose from €52m to €58.3m, reflecting the strengthening work done to the IT system. Loans and advances were stable during the twelve months, at €1,201.5m (€1,192.2m), while bank deposits increased, from €1,690.1m to €2,328.5m, mainly represented by Mediobanca S.p.A. where the treasury operations are centralized. Funding from customers was down slightly at €3,350.6m (€3,453.6m). AUM/AUA (including direct funding) rose to €10.1bn (€9.4bn).

Other information

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 terms of transparency pursuant to Consob resolution 17221 issued on 12 March 2010.

All such accounts form part of Group companies' ordinary operations, are maintained on an arm's length basis, and are entered into solely in the interests of the companies concerned. No atypical or irregular transactions have been entered into with such counterparties.

Article 15 of Consob's market regulations

With reference to Article 15 (former Art. 36) of Consob resolution 16191/07 (Market Regulations) on the subject of prerequisites for listing in respect of parent companies which control companies incorporated or regulated by the laws of non-EU member states and relevant to the preparation of the consolidated accounts, Compagnie Monégasque de Banque is the only Group company covered by this regulatory provision, and adequate procedures have been adopted to ensure full compliance with it.

Principal risks facing the Group

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

In particular, this involves concentration risk in the Group's corporate finance activities towards the leading Italian industrial groups, its operations in the Consumer Banking and Affluent & Premier business segments concentrated on the Italian domestic market, and exposure to volatility on financial markets for the securities portfolios held by the Wholesale Banking, Principal Investing and Holding Functions divisions.

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

Consolidated non-financial disclosure

As from this year, the Group is publishing the Consolidated Non-Financial Disclosure, drawn up in accordance with the provisions of Article 4 of Italian Legislative Decree 254/16, which contains information on environmental, social and staff-related issues and on human rights and measures to tackle bribery and corruption. The document, which is published on the Bank's website, in the section entitled "Sustainability", is of use to provide an understanding of the activities performed by the Group, its performance, results and the impact produced by it.

The Consolidated Non-Financial Disclosure will be published annually, and is drawn up in accordance with the provisions of Italian Legislative Decree 254/16 and the core option of the Global Reporting Initiative Sustainability Reporting Standards (the "GRI Standards") published in 2016 by the Global Reporting Initiatives (GRI), which are currently the most widely used and internationally-recognized standards in non-financial reporting.

Research

R&S has continued its analysis of companies and capital markets as in the past. The company produced the forty-second edition of its Annual Directory, which includes analysis of leading Italian listed companies, and published the profiles of around ninety other industrial and financial groups online. The fifth edition of the survey about local utilities owned by local authorities and the twenty-second edition of R&S's survey of the world's leading industrial and service multinationals has been published, as has the sixteenth edition of its survey of the leading international banks and the seventh edition of its review of industrial companies in southern Italy on behalf of the Fondazione Ugo La Malfa.

Credit rating

The long-term rating assigned by Standard & Poor's to Mediobanca is BBB with stable outlook, while the short-term rating is A-2 (both aligned with the Italy sovereign risk). The rating assigned by Fitch to Mediobanca is BBB with stable outlook (short-term rating F2). The long-term rating assigned by Moody's to Mediobanca is Baa1, the deposit rating A3, and the short-term rating P-2.

Outlook

The budget for the next financial year is in line with the Group's current earnings performance, despite continuing to be affected by a low interest rate scenario and uncertainty on domestic and international financial markets. Net interest income should rise moderately, partly as a result of the increase in the cost of funding. Growth by the Wealth Management platform should ensure that fee income increases. The performance in terms of cost will continue to be affected by the need to further strengthen the commercial divisions and for further IT investment, mostly for regulatory reasons. The cost of risk should remain at favourable levels, despite increasing slightly compared to this year.

Reconciliation of shareholders’ equity and net profit

(€'000)

	Shareholders’ equity	Net profit (loss)
Balance at 30/6 as per Mediobanca S.p.A. accounts	4,948,473	337,034
Net surplus over book value for consolidated companies	14,822	427,355
Differences on exchange rates originating from conversion of accounts made up in currencies other than the Euro	(8,063)	—
Other adjustments and restatements on consolidation, including the effects of accounting for companies on an equity basis	3,825,986	99,531
Dividends received during the period	—	—
Total	**8,781,218**	**863,920**

Milan, 20 September 2018

THE BOARD OF DIRECTORS

DECLARATION BY HEAD OF COMPANY FINANCIAL REPORTING

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

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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 consolidated 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 consolidated 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 consolidated 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;
   - corresponds 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*

EXTERNAL AUDITORS' REPORT

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

Mediobanca SpA

Bilancio consolidato al 30 giugno 2018

pwc

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 consolidato

Giudizio

Abbiamo svolto la revisione contabile del bilancio consolidato del gruppo Mediobanca (il Gruppo), costituito dallo Stato Patrimoniale consolidato al 30 giugno 2018, dal Conto Economico consolidato, dal Prospetto della Redditività consolidata complessiva, dal Prospetto delle Variazioni del Patrimonio Netto consolidato, dal Rendiconto Finanziario consolidato 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 consolidato fornisce una rappresentazione veritiera e corretta della situazione patrimoniale e finanziaria del Gruppo 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 consolidato* della presente relazione. Siamo indipendenti rispetto alla società Mediobanca SpA (la 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.

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

www.pwc.com/it

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 consolidato dell'esercizio in esame. Tali aspetti sono stati da noi affrontati nell'ambito della revisione contabile e nella formazione del nostro giudizio sul bilancio consolidato nel suo complesso; pertanto su 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 40,8 miliardi, corrispondente al 56% del totale dell'attivo del bilancio consolidato. Le rettifiche di valore nette dei crediti verso la clientela per finanziamenti rilevate nell'esercizio ammontano a euro 210,6 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, la tipologia della clientela 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.

Aspetti chiave	*Procedure di revisione in risposta agli aspetti chiave*
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 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).	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 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 alle operazioni di aggregazione aziendale (operazione Gruppo Esperia) *Nota integrativa:* *Parte A – Politiche contabili;* *Parte B – Informazioni sullo stato patrimoniale alla sezione 10 e 12 dell'attivo;* *Parte G – Operazioni di aggregazione riguardanti imprese o rami d'azienda.* A seguito dell'acquisizione del controllo del Gruppo Banca Esperia perfezionata nell'aprile 2017, la Società, nel corso dell'esercizio corrente, ha terminato il processo di allocazione del prezzo pagato (*"Purchase Price Allocation"* o *"PPA"*), ai fini dell'identificazione, in via residuale,	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 e delle passività identificate; • comprensione e valutazione dei criteri adottati dalla Società per l'identificazione e la rilevazione del marchio, della lista clienti e dell'avviamento; • analisi della rilevazione contabile dell'operazione nel suo complesso e verifica dell'adeguatezza dell'informativa anche in

Aspetti chiave	*Procedure di revisione in risposta agli aspetti chiave*
dell'avviamento positivo, e proceduto successivamente alla fusione per incorporazione del Gruppo Banca Esperia. A tale aspetto è stata posta particolare attenzione nell'ambito delle nostre attività per effetto della complessità delle metodologie di valutazione adottate, riconosciute nella prassi prevalente, che sono state caratterizzate dal ricorso a processi di stima. Dal processo di PPA, dopo aver determinato il *fair value* delle attività e passività iscritte nel bilancio dell'acquisita sono state identificate e rilevate attività immateriali "marchio" e "lista clienti", rispettivamente pari a euro 15,5 milioni ed euro 4,5 milioni e, in via residuale, un avviamento positivo pari a euro 55,2 milioni allocato alle "Cash Generating Units" identificate.	relazione a quanto previsto dai principi contabili di riferimento.

Responsabilità degli amministratori e del collegio sindacale per il bilancio consolidato

Gli amministratori sono responsabili per la redazione del bilancio consolidato 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 del Gruppo di continuare ad operare come un'entità in funzionamento e, nella redazione del bilancio consolidato, 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 consolidato a meno che abbiano valutato che sussistono le condizioni per la liquidazione della capogruppo Mediobanca SpA 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 del Gruppo.

Responsabilità della società di revisione per la revisione contabile del bilancio consolidato

I nostri obiettivi sono l'acquisizione di una ragionevole sicurezza che il bilancio consolidato 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 consolidato.

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 consolidato, 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 del Gruppo;
- 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 del Gruppo 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 il Gruppo cessi di operare come un'entità in funzionamento;
- abbiamo valutato la presentazione, la struttura e il contenuto del bilancio consolidato nel suo complesso, inclusa l'informativa, e se il bilancio consolidato rappresenti le operazioni e gli eventi sottostanti in modo da fornire una corretta rappresentazione;
- abbiamo acquisito elementi probativi sufficienti e appropriati sulle informazioni finanziarie delle imprese o delle differenti attività economiche svolte all'interno del Gruppo per esprimere un giudizio sul bilancio consolidato. Siamo responsabili della direzione, della supervisione e dello svolgimento dell'incarico di revisione contabile del Gruppo. Siamo gli unici responsabili del giudizio di revisione sul bilancio consolidato.

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 consolidato 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 consolidato 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 del gruppo Mediobanca al 30 giugno 2018, incluse la loro coerenza con il relativo bilancio consolidato e la sua 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 consolidato del gruppo Mediobanca 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 consolidato del gruppo Mediobanca 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.

Dichiarazione ai sensi dell'articolo 4 del Regolamento Consob di attuazione del DLgs 30 dicembre 2016, n. 254

Gli amministratori di Mediobanca SpA sono responsabili per la predisposizione della dichiarazione non finanziaria ai sensi del DLgs 30 dicembre 2016, n.254.
Abbiamo verificato l'avvenuta approvazione da parte degli amministratori della dichiarazione non finanziaria.

Ai sensi dell'articolo 3, comma 10, del DLgs 30 dicembre 2016, n. 254, tale dichiarazione è oggetto di separata attestazione di conformità da parte nostra.

Milano, 1 ottobre 2018

PricewaterhouseCoopers SpA

Marco Palumbo
(Revisore legale)

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet

(€'000)

Assets	30/6/18	30/6/17
10. Cash and cash equivalents	1,238,001	1,330,224
20. Financial assets held for trading	8,204,911	7,833,903
30. Financial assets at fair value through profit or loss	—	—
40. Financial assets available-for-sale	5,721,877	6,392,680
50. Financial assets held-to-maturity	2,595,747	2,400,203
60. Due from banks	7,552,958	7,959,931
70. Due from customers	40,977,889	38,763,124
80. Hedging derivatives	225,814	462,300
90. Adjustment of hedging financial assets (+/-)	—	—
100. Equity investments	3,210,839	3,036,541
110. Reinsured portion of technical reserves	—	—
120. Property, plant and equipment	287,809	305,556
130. Intangible assets	739,864	552,208
of which:		
goodwill	*649,781*	*483,557*
140. Tax assets	816,484	847,361
a) current	*181,771*	*132,002*
b) deferred	*634,713*	*715,359*
of which under L. 214/2011	*548,385*	*609,074*
150. Loans classified as held-for-sale	—	—
160. Other assets	728,329	561,533
Total assets	**72,300,522**	**70,445,564**

(€'000)

Liabilities and net equity	30/6/18	30/6/17
10. Due to banks	12,263,459	12,689,595
20. Due to customers	21,320,043	20,365,999
30. Debt securities in issue	20,608,518	20,108,721
40. Trading liabilities	6,462,404	5,920,583
50. Financial liabilities designated at fair value	—	—
60. Hedging derivativessss	233,086	341,159
70. Changes in fair value of portfolio hedged items (-)	—	—
80. Tax liabilities	531,587	559,982
a) current	*191,999*	*189,736*
b) deferred	*339,588*	*370,246*
90. Liabilities included in disposal groups classified as held for sale	—	—
100. Other liabilities	760,375	846,260
110. Staff severance indemnity provision	27,510	29,779
120. Provisions	185,482	225,850
a) post-employment and similar benefits	—	—
b) other provisions	*185,482*	*225,850*
130. Insurance reserves	175,853	165,974
140. Revaluation reserves	764,255	871,387
150. Redeemable shares repayable on demand	—	—
160. Equity instruments repayable on demand	—	—
170. Reserves	5,490,450	5,056,865
180. Share premium reserve	2,191,743	2,187,580
190 Share capital	443,275	440,606
200. Treasury shares	(109,338)	(197,709)
210 Minority interest	87,900	82,733
220. Profit for the period	863,920	750,200
Total liabilities and net equity	**72,300,522**	**70,445,564**

Consolidated Profit and Loss Account

(€'000)

Item		30/6/18	30/6/17
10.	Interest and similar income	1,896,801	1,916,412
20.	Interest expense and similar charges	(530,760)	(638,884)
30.	**Net interest income**	**1,366,041**	**1,277,528**
40.	Fee and commission income	590,649	482,516
50.	Fee and commission expense	(134,315)	(104,589)
60.	**Net fee and commission income**	**456,334**	**377,927**
70.	Dividends and similar income	84,323	81,381
80.	Net trading income	38,662	34,245
90.	Net hedging income (expense)	2,857	15,782
100.	Gain (loss) on disposal/repurchase of:	105,057	156,410
	a) loans and advances	*(9,363)*	*(11,132)*
	b) AFS securities	*123,066*	*183,338*
	c) financial assets held to maturity	*(919)*	*2,090*
	d) financial liabilities	*(7,727)*	*(17,886)*
120.	**Total income**	**2,053,274**	**1,943,273**
130.	Adjustments for impairment to:	(212,134)	(293,673)
	a) loans and advances	*(209,231)*	*(285,823)*
	b) AFS securities	*(4,658)*	*(3,079)*
	c) financial assets held to maturity	*3,264*	*(2,864)*
	d) other financial assets	*(1,509)*	*(1,907)*
140.	**Net income from financial operation**	**1,841,140**	**1,649,600**
150.	Premiums earned (net)	57,867	52,324
160.	Other income (net) from insurance activities	(8,989)	(14,427)
170.	**Net profit from financial and insurance activities**	**1,890,018**	**1,687,497**
180.	Administrative expenses:	(1,172,200)	(1,218,004)
	a) personnel costs	*(557,824)*	*(531,947)*
	b) other administrative expenses	*(614,376)*	*(686,057)*
190.	Net transfers to provisions	(26,677)	(16,387)
200.	Net adjustments to tangible assets	(15,952)	(17,585)
210.	Net adjustments to intangible assets	(27,928)	(27,035)
220.	Other operating income (expense)	167,819	243,303
230.	**Operating costs**	**(1,074,938)**	**(1,035,708)**
240.	Gain (loss) on equity investments	280,291	263,452
270.	Gain (loss) on disposal of investments	475	(1,254)
280.	**Profit (loss) on ordinary activity before tax**	**1,095,846**	**913,987**
290.	Income tax for the year on ordinary activities	(228,120)	(171,738)
300.	**Profit (loss) on ordinary activities after tax**	**867,726**	**742,249**
310.	**Gain (loss) on disposal of investments after tax**	**—**	**—**
320.	**Net profit (loss) for the period**	**867,726**	**742,249**
330.	Net profit (loss) for the period attributabe to minorities	(3,806)	7,951
340.	**Net profit (loss) for the period attributable to Mediobanca**	**863,920**	**750,200**

Consolidated Comprehensive Profit and Loss Account

(€'000)

		30/6/18	30/6/17
10.	Profit (loss) for the period	867,726	742,249
	Other income items net of tax without passing through profit and loss	**(1,085)**	**3,894**
20.	Property, plant and equipment	—	—
30.	Intangible assets	—	—
40.	Defined benefit schemes	(351)	1,143
50.	Non-current assets being sold	—	—
60.	Share of valuation reserves attributable to equity-accounted companies	(734)	2,751
	Other income items net of tax passing through profit and loss	**(105,407)**	**(276,043)**
70.	Foreign investments hedges	—	—
80.	Exchange rate differences	(2,752)	(2,697)
90.	Cash flow hedges	29,254	(26,458)
100.	AFS financial assets	(197,816)	(63,543)
110.	Non-current assets being sold	—	—
120.	Share of valuation reserves attributable to equity-accounted companies	65,907	(183,345)
130.	**Total other income items, net of tax**	**(106,492)**	**(272,149)**
140.	**Comprehensive income (headings 10 + 130)**	**761,234**	**470,100**
150.	**Minority interests in consolidated comprehensive incomes**	**4,446**	**(6,495)**
160.	**Consolidated comprehensive income attributable to Mediobanca**	**756,788**	**476,595**

Statement of Changes to Consolidated Net Equity

(€'000)

	Previously reported balance at 30/6/17	Allocation of profit for previous period		Changes during the reference period									Total net equity at 30/6/18	Net equity attributable to the group at 30/6/18	Net equity attributable to the minorities at 30/6/18
		Reserves	Dividends and other fund applications	Changes to reserves	Transactions involving net equity							Overall consolidated profit for the 12 mths ended 30/6/18			
					New shares issued	Treasury shares acquired	Extra-ordinary dividend payouts	Changes to equity instruments	Treasury shares derivates	Stock options [1]	Changes to investments				
Share capital:	457,155	—	—	—	2,763	—	—	—	—	—	—	—	459,918	443,275	16,643
a) ordinary shares	457,155	—	—	—	2,763	—	—	—	—	—	—	—	459,918	443,275	16,643
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	2,189,428	—	—	—	4,163 [2]	—	—	—	—	—	—	—	2,193,591	2,191,743	1,848
Reserves:	5,132,771	742,249	(320,226)	(6,308)	(769)	(272)	—	—	—	11,587	—	—	5,559,032	5,490,450	68,582
a) retained earnings	4,998,175	742,249	(320,226)	(6,935)	(769)	—	—	—	—	—	—	—	5,412,494	5,344,539	67,955
b) others	134,596	—	—	627	—	(272)	—	—	—	11,587	—	—	146,538	145,911	627
Valuation reserves	867,768	—	—	—	—	—	—	—	—	—	—	(106,492)	761,276	764,255	(2,979)
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(197,709)	—	—	—	88,099	272	—	—	—	—	—	—	(109,338)	(109,338)	—
Profit (loss) for the period	742,249	(742,249)	—	—	—	—	—	—	—	—	—	867,726	867,726	863,920	3,806
Total net equity	9,191,662	—	(320,226)	(6,308)	94,256	—	—	—	—	11,587	—	761,234	9,732,205	X	X
Net equity attributable to the group	9,108,929	—	(320,226)	(6,935)	94,162	—	—	—	—	11,587	—	756,788	X	9,644,305	X
Net equity attributable to minorities	82,733	—	—	627	94	—	—	—	—	—	—	4,446	X	X	87,900

[1] Represents the effects of 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 Consolidated Net Equity

(€'000)

	Previously reported balance at 30/6/16	Allocation of profit for previous period		Changes during the reference period									Total net equity at 30/6/17	Net equity attributable to the Group at 30/6/17	Net equity attributable to the minorities at 30/6/17
		Reserves	Dividends and other fund application	Changes to reserves	Transactions involving net equity							Overall consolidated profit for the 12 mths ended 30/6/17			
					New shares issued	Treasury shares acquired	Extra-ordinary dividends payout	Changes to equity instruments	Treasury shares derivatives	Stock options [1]	Changes in equity instruments				
Share capital:	452,050	—	—	9	5,096	—	—	—	—	—	—	—	457,155	440,606	16,549
a) ordinary shares	452,050	—	—	9	5,096	—	—	—	—	—	—	—	457,155	440,606	16,549
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	2,154,677	—	—	—	34,751	—	—	—	—	—	—	—	2,189,428	2,187,580	1,848
Reserves:	4,765,569	607,616	(230,915)	(19,235)	(2,234)	(273)	—	—	—	12,243	—	—	5,132,771	5,056,865	75,906
a) retained earnings	4,643,216	607,616	(230,915)	(19,235)	(2,234)	(273)	—	—	—	—	—	—	4,998,175	4,922,269	75,906
b) others	122,353	—	—	—	—	—	—	—	—	12,243	—	—	134,596	134,596	—
Valuation reserves	1,139,917	—	—	—	—	—	—	—	—	—	—	(272,149)	867,768	871,387	(3,619)
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(197,982)	—	—	—	—	273	—	—	—	—	—	—	(197,709)	(197,709)	—
Profit (loss) for the period	607,616	(607,616)	—	—	—	—	—	—	—	—	—	742,249	742,249	750,200	(7,951)
Total net equity	8,921,847	—	(230,915)	(19,226)	37,613	—	—	—	—	12,243	—	470,100	9,191,662	X	X
Net equity attributable to the Group	8,832,630	—	(230,915)	(19,237)	37,613	—	—	—	—	12,243	—	476,595	X	9,108,929	X
Net equity attributable to minorities	89,217	—	—	11	—	—	—	—	—	—	—	(6,495)	X	X	82,733

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

Consolidated Cash Flow Statement Direct Method

(€'000)

	Amount 30/6/18	Amount 30/6/17
A. Cash flow from operating activities		
1. Operating activities	**12,770**	**159,288**
- interest received	3,634,612	2,852,412
- interest paid	(2,526,513)	(1,820,289)
- dividends and similar income	77,882	64,358
- net fees and commission income	185,855	155,607
- cash payments to employees	(401,909)	(378,338)
- net premium income	76,483	67,288
- other premium from insurance activities	(149,360)	(145,388)
- other expenses paid	134,094	(1,145,141)
- other income received	(886,010)	647,130
- income taxes paid	(132,364)	(138,351)
- net expense/income from groups of assets being sold	—	—
2. Cash generated/absorbed by financial assets	**5,259,240**	**(488,385)**
- financial assets held for trading	(267,303)	850,786
- financial assets recognized at fair value	—	—
- AFS securities	562,790	2,025,064
- due from customers	(390,114)	(256,411)
- due from banks: on demand	2,802,167	408,403
- due from banks: other	2,429,318	(3,413,549)
- other assets	122,382	(102,678)
3. Cash generated/absorbed by financial liabilities	**(4,890,687)**	**1,442,505**
- due to banks: on demand	(1,294,766)	1,014,101
- due to banks: other	(232,719)	1,568,389
- due to customers	852,372	743,138
- debt securities	(3,722,089)	(1,696,321)
- trading liabilities	(290,366)	(189,243)
- financial liabilities assets recognized at fair value	—	—
- other liabilities	(203,119)	2,441
Net cash flow (outflow) from operating activities	**381,323**	**1,113,408**
B. Investment activities		
1. Cash generated from	**332,878**	**382,614**
- disposals of shareholdings	—	2,258
- dividends received in respect of equity investments	177,506	162,171
- disposals/redemptions of financial assets held to maturity	128,126	214,682
- disposals of tangible assets	11,479	3,503
- disposals of intangible assets	1,138	—
- disposals of subsidiaries or business units	14,629	—
2. Cash absorbed by	**(511,783)**	**(128,841)**
- acquisitions of shareholdings	(149,682)	(26,950)
- acquisitions of held-to-maturity investments	(332,583)	(652,718)
- acquisitions of tangible assets	(9,149)	(21,683)
- acquisitions of intangible assets	(20,369)	(125,897)
- acquisitions of subsidiaries or business units	—	698,407
- Net cash flow (outflow) from investment/servicing of finance	**(178,905)**	**253,773**
C. Funding activities	**(294,641)**	**(193,301)**
- issuance/acquisition of treasury shares	24,835	37,614
- issuance/acquisitions of equity instruments	(20)	—
- dividends payout and other applications of funds	(319,456)	(230,915)
Net cash flow (outflow) from funding activities	**(294,641)**	**(193,301)**
Net cash flow (outflow) during period	**(92,223)**	**1,173,880**

Reconciliation of Movements in Cash Flow during the Period

(€'000)

	Amounts	
	30/6/18	**30/6/17**
Cash and cash equivalents: balance at start of period	1,330,224	156,342
Total cash flow (ouflow) during period	(92,223)	1,173,880
Cash and cash equivalents: exchange rate effect	—	2
Cash and cash equivalents: balance at end of period	1,238,001	1,330,224

NOTES TO THE ACCOUNTS

NOTES TO THE ACCOUNTS

Part A - Accounting policies

A.1 - General policies

SECTION 1

Statement of conformity with IAS/IFRS

The Mediobanca Group's consolidated financial statements for the period ended 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 consolidated financial statements for the period ended 31 December 2016 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 consolidated financial statements comprise:

– Balance sheet;

– Profit and loss account;

– Comprehensive profit and loss account;

– Statement of changes to net equity;

– Cash flow statement (direct method);

– Notes to the accounts.

All the statements have been drawn up in conformity with the general principles provided for under IAS and the accounting policies illustrated in part A.2, and show data for the period under review compared with that for the previous financial year in the case of balance-sheet figures or the corresponding period of the previous financial year for profit-and-loss data.

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 Group's accounting policies:

Approval regulation	**Group application date**	**Topic**
2017/1989, approved on 6 November 2017	1 July 2017	Changes to IAS12 – *Taxes on income*
2017/1990, approved on 6 November 2017	1 July 2017	Changes to IAS7 – *Cash flow statement*
2018/182 approved on 7 February 2017	1 July 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 Group's accounting policies:

Approval regulation	**Group application date**	**Topic**
2017/1986 approved on 31 October 2017	1 July 2019	IFRS16 Adoption – *Leasing*
2016/1905 approved on 22 September 2016	1 July 2018	IFRS15 Adoption – *Revenue from contracts with customers;*
2017/1987 approved on 31 October 2017		Changes to IFRS15
2016/2067 approved on 22 November 2016	1 July 2018	IFRS9 Adoption – *Financial instruments*
2018/498 approved on 22 March 2018	1 July 2019	Changes to IFRS9 – *Financial instruments*
2018/182 approved on 7 February 2018	1 July 2018	Changes to IAS28 – *Investments in associates and joint ventures*
	1 July 2018	Changes to IFRS1 – *First time adoption of financial reporting*
2018/289 approved on February, 26, 2018	1 July 2018	Changes to IFRS2 – *Share based payment*
2018/400 approved on March, 14, 2018	1 July 2018	Changes to IAS40 – *Investment property*
2018/498 approved on 22 March 2018	1 July 2019	Changes to IFRS9 – *Financial instruments*
2018/519 approved on March, 28, 2018	1 July 2018	Adoption of 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. The Mediobanca Group, 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, this section provides 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 under-performing 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 according 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, apart from certain limited cases in which portfolios have been reclassified from financial assets measured at fair value to Other Comprehensive Income to reflect changes in 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.

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 with only a few exceptions.

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.

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 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.

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 portfolio of financial assets has not revealed any significant impact.

The existing business model basically reflects the new IFRS 9 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 generate an almost null effect on net equity, representing the balance between changes in business model and instruments failing the SPPI test [1].

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, 66% of the overall increase in the expected losses will be attributable to the performing exposures (stage 1 and stage 2) and 34% to the non-performing exposures (stage 3).

The increase in the provisioning for performing exposures is approx. 96%, attributable to the portfolio classified as stage 2, and representing approx. 4% of the performing exposures.

The increase in adjustments for non-performing exposures chiefly involves property mortgages and financial leasing transactions.

This in turn leads to a change in the value of net equity of approx. €120m (approx. €80m net of the tax effect) with an overall impact of some 20 bps on the CET1 ratio.

The impacts recorded represent the best information that the Group had available at the date on which these consolidated financial statements were approved and hence are subject to possible changes as a result of completion

[1] The new category entails a change in the valuation models which impacts on both recognition value and net equity (cf. below).

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 credit 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 [2].

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.

* * *

It should be noted that Assicurazioni Generali will continue to apply IAS39, exercising the deferral approach option as indicated in IFRS9 and regulated by IFRS4; as for the shareholding in Generali itself, in the Mediobanca Group consolidated financial statements, the valuation reserves for investments accounted for using the equity method will be determined according to IAS39.

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

In accordance with this standard, in the Other Comprehensive Income statement these reserves will be reclassified as recycling or non-recycling without any adjustment, to be compliant with the principles adopted by the parent company Mediobanca S.p.A. (IFRS9) and provide the disclosure required by the international accounting standards.

IFRS15: Revenues from contracts with customers

The new accounting standard introduces a new model for the recognition of revenues deriving from contracts with customers. The new standard will replace the current requirements in IFRS for revenues recognition: IAS11 Construction Contracts, IAS18 Revenue, IFRIC13 Customer Loyalty Programmes, IFRIC15 Agreements for the Construction of Real Estate, IFRIC18 Transfers of Assets from Customers and SIC-31 Revenue - Barter Transaction involving Advertising Services.

The standard is effective from 1 January 2018, and for the Mediobanca Group from 1 July 2018. The new IFRS provides for revenues to be recognized based on the following five steps:

– Identification of the contract;
– Identification of individual bonds;
– Determination of the transaction price;
– Allocation of the transaction price to the individual bonds, on a "market prices" basis ("stand-alone selling price");
– Recognition of the revenues allocated to the single performance obligation when it is settled, i.e. when the customer obtains control of the goods and services.

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

The analysis led to the identification of all types of contracts with customers and to the revenues being recognized in order to establish their compliance with the new standard's provisions. No significant impacts arose from the application of the new standard except for the contingent liability which covers early insurance premium inflows subject to writeoff in the event of early repayment.

* * *

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

The new standard mainly affects the lease accounting rules for the lessee, who must take account of the removal of the distinction between financial and operating leases. 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.

For the lessor there will be no changes.

SECTION 3

Area and methods of consolidation

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

Based on the combined provisions of IFRS10 "Consolidated financial statements", IFRS11 "Joint arrangements" and IFRS12 "Disclosure of interests in other entities", the Group has proceeded to consolidate its subsidiaries on a line-by-line basis, and its associates and joint arrangements using the net equity method.

The merger of Banca Esperia S.p.A. into Mediobanca was completed during the twelve months under review; at the same time, the former Banca Esperia subsidiaries Duemme SGR and Duemme International Luxembourg have come under the parent company's direct control and have been renamed Mediobanca SGR and Mediobanca Management Company respectively. The other former Banca Esperia subsidiary, "Esperia Servizi Fiduciari" have been spun off to Spafid in September 2017 and incorporated in Spafid Spa with accounting effect starting from 1 July 2017.

On 28 February 2018, RAM Active Investments was acquired and put & call options entered into (exercisable from year 3 to year 10); Mediobanca S.p.A. now owns 89.3% of the company. RAM AI has its headquarters in Geneva and has 100% ownership of RAM Active Investments Luxembourg.

On 14 November 2017, Prominvestment's liquidation arrangement with creditors was approved under a decree issued by the Milan court. The requisite formalities have not all been completed during the past twelve months, but are at a very advanced stage. The liquidation procedure for Quarzo Leas S.r.l. has now been completed.

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

	Name	Registered office	Type of relationship [1]	Shareholding		% voting rights [2]
				Investor company	% interest	
A.	COMPANIES INCLUDED IN AREA OF CONSOLIDATION					
A.1	Line-by-line					
1.	MEDIOBANCA - Banca di Credito finanziario S.p.A.	Milan	1	—	—	—
2.	PROMINVESTMENT S.P.A. - under liquidation and arrangement with creditors	Milan	1	A.1.1	100.0	100.0
3.	SPAFID S.P.A	Milan	1	A.1.1	100.0	100.0
4.	SPAFID CONNECT S.P.A.	Milan	1	A.1.3	100.0	70.0
5.	MEDIOBANCA INNOVATION SERVICES - S.C.P.A.	Milan	1	A.1.1	100.0	100.0
6.	COMPAGNIE MONEGASQUE DE BANQUE - CMB S.A.M.	Montecarlo	1	A.1.1	100.0	100.0
7.	C.M.G. COMPAGNIE MONEGASQUE DE GESTION S.A.M.	Montecarlo	1	A.1.6	99.92	99.92
8.	SMEF SOCIETE MONEGASQUE DES ETUDES FINANCIERE S.A.M.	Montecarlo	1	A.1.6	99.96	99.96
9.	CMB ASSET MANAGEMENT S.A.M.	Montecarlo	1	A.1.6	99.3	99.3
10.	CMB WEALTH MANAGEMENT LIMITED	London	1	A.1.1	100.0	100.0
11.	MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.	Luxembourg	1	A.1.1	99.0	99.0
			1	A.1.12	1.0	1.0
12.	COMPASS BANCA S.P.A.	Milan	1	A.1.1	100.0	100.0
13.	CHEBANCA! S.P.A.	Milan	1	A.1.1	100.0	100.0
14.	MB CREDIT SOLUTIONS S.P.A.	Milan	1	A.1.12	100.0	100.0
15.	SELMABIPIEMME LEASING S.P.A.	Milan	1	A.1.1	60.0	60.0
16.	MB FUNDING LUXEMBOURG S.A.	Luxembourg	1	A.1.1	100.0	100.0
17.	RICERCHE E STUDI S.P.A.	Milan	1	A.1.1	100.0	100.0
18.	MEDIOBANCA SECURITIES USA LLC	New York	1	A.1.1	100.0	100.0
19.	MB FACTA S.P.A.	Milan	1	A.1.1	100.0	100.0
20.	QUARZO S.R.L.	Milan	1	A.1.12	90.0	90.0
21.	FUTURO S.P.A	Milan	1	A.1.12	100.0	100.0
22.	QUARZO CQS S.R.L.	Milan	1	A.1.21	90.0	90.0
23.	QUARZO MB S.R.L.	Milan	1	A.1.1	90.0	90.0
24.	MEDIOBANCA COVERED BOND S.R.L.	Milan	1	A.1.13	90.0	90.0
25.	COMPASS RE (LUXEMBOURG) S.A.	Luxembourg	1	A.1.12	100.0	100.0
26.	MEDIOBANCA INTERNATIONAL IMMOBILIERE S. A R.L.	Luxembourg	1	A.1.11	100.0	100.0
27.	MB ADVISORY KURUMSAL DANISMANLIK HIZMETLERI ANONIM SIRKETI	Instanbul	1	A.1.1	100.0	100.0
28.	CAIRN CAPITAL GROUP LIMITED	London	1	A.1.1	100.0 *	51.0
29.	CAIRN CAPITAL LIMITED	London	1	A.1.28	100.0	100.0
30.	CAIRN CAPITAL NORTH AMERICA INC.	Stamford (U.S.A.)	1	A.1.28	100.0	100.0
31.	CAIRN CAPITAL GUARANTEE LIMITTED (non operating)	London	1	A.1.28	100.0	100.0
32.	CAIRN CAPITAL INVESTMENTS LIMITED (non operating)	London	1	A.1.28	100.0	100.0
33.	CAIRN INVESTMENT MANAGERS LIMITED (non operating)	London	1	A.1.28	100.0	100.0
34.	AMPLUS FINANCE (non operating)	London	1	A.1.28	100.0	100.0
35.	SPAFID FAMILY OFFICE SIM S.P.A.	Milan	1	A.1.3	100.0	100.0
36.	SPAFID TRUST S.R.L.	Milan	1	A.1.3	100.0	100.0
37.	MEDIOBANCA MANAGEMENT COMPANY S.A.	Luxembourg	1	A.1.1	100.0	100.0
38.	MEDIOBANCA SGR S.P.A.	Milan	1	A.1.1	100.0	100.0
39.	RAM ACTIVE INVESTMENTS S.A.	Geneve	1	A.1.1	89.3 **	69.0
40.	RAM ACTIVE INVESTMENTS (LUXEMBOURG) S.A.	Luxembourg	1	A.1.39	100.0	100.0

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

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

Legend

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

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

2. Considerations and significant assumptions used to determine consolidation area

The area of consolidation is defined on the basis of IFRS10, "Consolidated financial statements", which provides that control occurs when the following three conditions apply:

– When the investor has power over the investee, defined as having substantive rights over the investee's relevant activities;

– When the investor has exposure, or rights, to variable returns from its involvement with the investee;

– When the investor has the ability to exert power over the investee to affect the amount of the variable returns.

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

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

The definition of joint arrangements used is that provided in IFRS11, which involves the twofold requirement of the existence of a contractual arrangement and that such an arrangement must provide joint control to two or more parties.

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

3. Investments in subsidiaries with significant minority interests

Nothing to report.

4. Significant restrictions

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

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

5. Other information

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

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

Associates which have reporting periods ending on different dates compared to the Group prepare a pro forma accounting situation as at the consolidated reporting date, or alternatively send a statement relative to a previous date as long as it is not more than three months previously; such an arrangement is permitted (IAS28, par. 33-34), provided that account is taken of any significant transactions or events which take place between this date and the consolidated reporting date.

SECTION 4

Events subsequent to the reporting date

Since the reporting date, no events have taken place that would cause the results presented in the consolidated report for the period ended 30 June 2018.

During the past month of July, the liquidation process of both MB Advisory Turkey and Quarzo MB has been started.

On 3 August 2018, an agreement was reached between Group company Compass Banca S.p.A. and the Tinugraha Consortium for the acquisition of a 19.9% stake in Indonesian company BFI Finance. With this agreement, the Mediobanca Group has continued the capital reallocation process towards high-yield and high-growth specialized banking activities. The deal should be closed by year-end 2018, subject to clearance from the ECB.

SECTION 5

Other aspects

The consolidated financial statements and the financial statements of the parent company are audited by the auditing company PricewaterhouseCoopers S.p.A., pursuant to Italian Legislative Decree 39/10 and in execution of the resolution adopted by shareholders at the annual general meeting held on 27 October 2012, for the years from 2013 to 2021.

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 [3] 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 Level3 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 [4], which includes transaction costs and income directly attributable to them. Thereafter they continue to be measured at fair value. Changes in fair value are recognized in a separate net equity reserve, which is then eliminated against the corresponding item in the profit and loss account as and when an asset is disposed of or impairment is recognized. Fair value is measured on the same principles as described for trading instruments. For debt securities included in this category the value of amortized cost is also recognized against the corresponding item in the profit and loss account.

Assets are subjected to impairment tests at annual and interim reporting dates. If there is evidence of a long-term reduction in the value of the asset concerned, this is recognized in the profit and loss account on the basis of market prices in the

[3] See Part A – Information on fair value, pp. 122-132, for further details.

[4] See Part A – Information on fair value, pp. 122-132, for further details.

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 [5], 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.

[5] See Part A – Information on fair value, pp. 122-132, 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 [6].

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;

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

– 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:

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

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

Property, plant and equipment

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

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

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

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

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

Intangible assets

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

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

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

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

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

Derecognition of assets

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

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

The main forms of activity currently carried out by the Group which do not require underlying assets to be derecognized are the securitization of receivables, repo trading and securities lending.

Conversely, items received as part of deposit bank activity, the return on which is collected in the form of a commission, are not recorded, as the related risks and benefits continue to accrue entirely to the end-investor.

Provisions for liabilities and charges

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

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

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

As permitted by 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 [7].

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.

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

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

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 portfolios of financial asset

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 (ABS) [1]	Financial assets held for trading	Due from customers	—	—	(1,868)	530	—	530
Debt securities (ABS) [1]	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
Total			134,678	141,221	(6,934)	6,993	—	6,993

[1] Made during FY 08/09.

[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 assests held for trading	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 mutual funds, private equity funds, hedge funds (including funds of funds) and real estate funds, fair value is taken to be the net asset value (NAV) per stock unit published by the funds themselves. Some residual equities for which it is not possible to reliably determine fair value using the methods described above are stated at cost.

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

Fair value is reported according to rankings based on the quality of the input parameters used to determine it [8].

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

[8] 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.

(Level1) is assigned to measurements based on prices quoted (un-adjusted) on an active market for identical assets or liabilities; while the lowest of priority (Level3) 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.

– Level1: quoted prices (single and unadjusted) in active markets for the individual financial instrument being measured.
– Level2: 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.
– Level3: 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 (Level1) or models based on observable inputs (Level2). In cases where Level3 instruments are used, additional price verification procedures are set in place, including: revision of relevant historical data, analysis of profits and losses, individual measurement of each single component in a structured component, and benchmarking. This approach involves the use of subjective parameters and judgements based on experience, and adjustments may therefore be required to valuations to take account of the bid-ask spread, liquidity or counterparty risk, and the type of measurement model adopted. All models in any case, including those developed internally, are verified independently and validated by different Bank units, thus ensuring an independent control structure.

Fair value adjustment

Fair value adjustment is defined as the quantity that has to be added to the price observed on the market or the theoretical price generated by the model, to ensure that the fair value reflects the price that can be realized in a market transaction which is effectively possible. The following adjustments in particular should be noted:

- Credit/debt valuation adjustment;
- Other adjustments.

Credit/debt valuation adjustments (CVA/DVA)

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

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

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

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

- Expected positive exposure (EPE) and expected negative exposure (ENE) of the valuation of the derivatives, deriving from simulation techniques;
- PD (probability of default (PD), derived from historical PD readings or those implied in market prices for credit default swaps or bond securities;

– Loss given default (LGD) based on the estimated value of recovery in the event of the counterparty going bankrupt, as defined in specific analysis conducted by the Bank itself or the default rates conventionally utilized for credit default swap prices.

Other adjustments

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

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 Level1 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 Level2 or Level3 (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 Level2 and Level3 positions.
– Asset-backed securities, CLOs and loans: the measurement process relies on information providers which effectively collect market prices. Basically ABS are categorized as Level3, 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 Level1.

– 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 Level2, whereas those based on non-observable inputs are categorized as Level3.
– Equities: equities are categorized as Level1 when quoted prices are available on an active market considered to be liquid, and Level3 when there are no quoted prices or when quoted prices have been suspended indefinitely and for which an internal model is used in order to determine the fair value.
– Investment funds: Mediobanca owns holdings in investment funds which publish the net asset value (NAV) per stock unit. Such funds include mutual funds, private equity funds, hedge funds (including funds of funds) and real estate funds. Investments in funds are usually classified as Level1 in cases where the NAV is available on a daily basis and considered to be active; otherwise they are categorized as Level3.

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

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

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

For loans to corporates, fair value is measured via the discounted cash flow method, using rates and/or flows adjusted to reflect credit risk in each case. Loans to counterparties with official ratings are categorized as Level2, and in all other cases as Level3. The same applies to retail loans (i.e. mortgage loans and consumer credit).

Bonds issued by Mediobanca are categorized as fair value Level1 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 Level2 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 Level3 instruments is provided below.

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

Input **non osservabile**	**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 swap	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

Transfer among fair value ranking levels

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

An instrument is transferred from fair value Level1 to Level2 or vice versa mainly as a result of changes in the significance of a price expressed by the reference active market for the instrument concerned.

Conversely, transfers from Level2 to Level3 (or vice versa) are decided on the basis of the significance of the input data, in particular the weight which non-observable data have in the inputs compared to observable data.

During the twelve months under review, Mediobanca Group reclassified a UCITs instrument from Level2 to Level3 due to the absence of a recent NAV value. Prudentially the instrument has been written off with no impact on the profit and loss account, as it is linked to a certificate (Delta One structure, also transferred to Level3) which represents the structure and its performance perfectly.

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.

QUANTITATIVE INFORMATION

A.4.5 Fair value ranking

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis by fair value levels

(€'000)

	30/6/18			30/6/17		
	Level1	Level2	Level3	Level1	Level2	Level3
1. Financial assets held for trading	4,805,779	3,214,454	184,678	4,302,012	3,352,940	178,951
2. Financial assets recognized at fair value	—	—	—	—	—	—
3. AFS securities	5,107,728	303,178	310,971	5,675,439	431,611	285,630
4. Hedge derivatives	—	225,814	—	—	462,300	—
5. Tangible assets	—	—	—	—	—	—
6. Intangible assets	—	—	—	—	—	—
Total	9,913,507	3,743,446	495,649	9,977,451	4,246,851	464,581
1. Financial liabilities held for trading	(3,206,919)	(3,168,354)	(87,131)	(2,730,204)	(3,107,364)	(83,015)
2. Financial liabilities recognized at fair value	—	—	—	—	—	—
3. Hedge derivatives	—	(233,086)	—	—	(341,159)	—
Total	(3,206,919)	(3,401,440)	(87,131)	(2,730,204)	(3,448,523)	(83,015)

The Level3 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 Level3 assets decreased from €106.1m to €110.2m, including new deals worth €16.2m, disposals and redemptions totalling €5.9m, and other changes, including movements in fair value, amounting to minus €6.2m.

AFS assets consist of investments in unlisted companies (valued on the basis of internal models) and private equity funds and increased to €311m (€285.6m), following purchases of €110.6m, sales totalling €82m, and other additions amounting to €3.2m (gains, valuations and transfers between levels).

A.4.5.2 Annual changes in financial assets measured 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. Opening balance	106,139	—	285,630	—
2. Increases	19,394	—	122,187	—
2.1 Purchases	16,232	—	110,628	—
2.2 Profits recognized in:	2,845	—	11,000	—
2.2.1 profit and loss	2,845	—	4,199	—
- of which, gains	*871*	—	—	—
2.2.2 net equity	—	—	6,801	—
2.3 Transfers from other levels	—	—	559	—
2.4 Other increases	317	—	—	—
3. Decreases	15,332	—	96,846	—
3.1 Disposals	2,237	—	82,078	—
3.2 Redemptions	3,667	—	—	—
3.3 Losses recognized in:	6,666	—	14,768	—
3.3.1 profit and loss	6,666	—	7,861	—
- of which, losses	*6,666*	—	*3,943*	—
3.3.2 net equity	—	—	6,907	—
3.4 Transfers to other levels	—	—	—	—
3.5 Other decreases	2,762	—	—	—
4. Closing balance	110,201	—	310,971	—

[1] Includes market value of options covering those attached to bond (€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 (Level3 liabilities)

(€'000)

	FINANCIAL LIABILITIES		
	Held for trading [1]	**Recognized at fair value**	**Hedges**
1. Opening balance	10,205	—	—
2. Increases	11,754	—	—
2.1 Issuance	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	127	—	—
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 decreass	—	—	—
4. Closing balance	12,651	—	—

[1] Includes market value of options covering those attached to bond (€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	2,595,747	2,586,499	28,086	—	2,400,203	2,433,680	50,933	—
2. Due from banks	7,552,958	—	5,934,247	1,637,891	7,959,932	—	6,696,414	1,269,332
3. Due from customers	40,977,889	—	8,334,617	33,696,913	38,763,124	—	8,824,394	32,102,043
4. Tangible assets held for investment purposes	77,388	—	—	154,516	79,328	—	—	158,300
5. Non-current assets and groups of assets being sold	—	—	—	—	—	—	—	—
Total	51,203,982	2,586,499	14,296,950	35,489,320	49,202,587	2,433,680	15,571,741	33,529,675
1. Due to banks	12,263,459	—	12,263,459	—	12,689,595	—	12,689,595	—
2. Due to customers	21,320,043	—	21,317,138	—	20,365,999	—	20,383,215	—
3. Debt securities in issue	20,608,518	704,927	20,118,202	49,719	20,108,721	1,526,064	18,855,280	31,583
4. Liabilities in respect of non-current assets being sold	—	—	—	—	—	—	—	—
Total	54,192,020	704,927	53,698,799	49,719	53,164,315	1,526,064	51,928,090	31,583

A.5 - Information on "day one profit/loss"

For Level3 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. €12m surplus generated on an arbitrage transaction between the acquisition of a financial instrument convertible into listed equities (starting from year 5) and the sale of the corresponding listed equities. This difference was generated from the use of an internal model to value the unlisted instrument which, under IAS39 paragraphs AG76 and AG76A, 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 the profit and loss account during the period amounted to approx. €2.5m, while the portion that remains suspended amounts to approx. €8.4m.

Part B - Notes to consolidated 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	65,410	70,734
b) Demand deposits with Central Banks	1,172,591	1,259,490
Total	1,238,001	1,330,224

* 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	2,538,652	254,051	14,128	2,281,662	450,897	2,321
1.1 Structured securities	109	11,526	—	10,711	16,345	—
1.2 Others	2,538,543	242,525	14,128	2,270,951	434,552	2,321
2. Equity instruments [1]	1,616,416	—	81,402	1,453,540	—	88,071
3. Units in investment funds	101,499	—	10,504	93,736	133,017	11,691
4. Loans	24,966	—	—	9,960	59,639	—
4.1 Repos	—	—	—	—	—	—
4.2 Others	24,966	—	—	9,960	59,639	—
Total A	4,281,533	254,051	106,034	3,838,898	643,553	102,083
B. Derivative instruments						
1. Financial derivatives	524,246	2,754,834	78,644	463,114	2,532,927	76,862
1.1 Trading	524,246	2,685,191	77,072 [2]	463,114	2,229,591	69,444 [2]
1.2 Related to fair value option	—	—	—	—	—	—
1.3 Others	—	69,643	1,572 [3]	—	303,336	7,418 [3]
2. Credit derivatives	—	205,569	—	—	176,460	6
2.1 Trading	—	205,569	—	—	176,460	6
2.2 Related to fair value option	—	—	—	—	—	—
2.3 Others	—	—	—	—	—	—
Total B	524,246	2,960,403	78,644	463,114	2,709,387	76,868
Total (A+B)	4,805,779	3,214,454	184,678	4,302,012	3,352,940	178,951

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

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

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

[3] Includes the market value of options (€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.

During the financial year under review, the Group has reclassified one of its financial instruments accounted for under "UCITS units" from fair value level 2 to level 3, due to the lack of a recent NAV reading. The instrument has been written off on prudential grounds but with no impact taken through profit and loss as the instrument is linked to a certificate (a Delta One structure, which too has been reclassified as level 3) which replicates both the structure itself and its performance perfectly.

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	2,806,831	2,734,880
a) Governments and Central Banks	2,333,021	1,977,075
b) Other public-sector entities	20,680	15,160
c) Banks	120,732	330,239
d) Other issuers	332,398	412,406
2. Equity instruments	1,697,818	1,541,611
a) Banks	118,343	81,293
b) Other issuers:	1,579,475	1,460,318
- Insurance companies	16,939	54,142
- Financial companies	16,942	55,014
- Non-financial companies	1,545,594	1,351,162
- Other	—	—
3. Units in investment funds	112,003	238,444
4. Loans	24,966	69,599
a) Goverments and Central Banks	—	—
b) Other public-sector entities	—	—
c) Banks	—	59,639
d) Other issuers	24,966	9,960
Total A	4,641,618	4,584,534
B. DERIVATIVE INSTRUMENTS		
a) Banks	2,400,466	2,077,748
- Fair Value	2,400,466	2,077,748
b) Customers	1,162,827	1,171,621
- Fair Value	1,162,827	1,171,621
Total B	3,563,293	3,249,369
Total (A+B)	8,204,911	7,833,903

Heading 40: Available for sale (AFS) securities

4.1 AFS securities: composition*

Items/Values	30/6/18			30/6/17		
	Level1	Level2	Level3 [1]	Level1	Level2	Level3 [1]
1. Debt securities	4,646,431	303,178	—	5,222,852	383,630	70
1.1 Structured securities	—	—	—	—	—	—
1.2 Other	4,646,431	303,178	—	5,222,852	383,630	70
2. Equity instruments	240,994	—	24,704	400,572	—	33,745
2.1 Designated at fair value	240,994	—	24,704	400,572	—	33,745
2.2 Recognised at cost	—	—	—	—	—	—
3. Units in investment funds	220,303	—	286,267	52,015	47,981	251,815
4. Loans	—	—	—	—	—	—
Total	5,107,728	303,178	310,971	5,675,439	431,611	285,630

* For the criteria used to determine fair value and classification of financial instruments within the three fair value ranking levels, see Part A – "Accounting Policies".
[1] Includes shares in non-listed companies based on internal rating models.

4.2 AFS securities: by borrower/issuer

Items/Values	30/6/18	30/6/17
1. Debt securities	4,949,609	5,606,552
a) Governments and Central Banks	3,157,194	3,641,240
b) Other public-sector entities	386,845	214,203
c) Banks	861,526	1,005,114
d) Other entities	544,044	745,995
2. Equity instruments	265,698	434,317
a) Banks	471	2,423
b) Other issuers:	265,227	431,894
- Insurance companies	—	—
- Financial companies	26,080	22,873
- Non-financial companies	236,280	404,369
- Other	2,867	4,652
3. Units in investment funds (including Private Equity funds)	506,570	351,811
4. Loans	—	—
a) Governments and Central banks	—	—
b) Other public-sector entities	—	—
c) Banks	—	—
d) Other entities	—	—
Total	5,721,877	6,392,680

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	2,595,747	2,586,499	28,086	—	2,400,203	2,433,680	50,933	—
- structured	—	—	—	—	—	—	—	—
- other	2,595,747	2,586,499	28,086	—	2,400,203	2,433,680	50,933	—
2. Loans	—	—	—	—	—	—	—	—

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

5.2 Financial assets held to maturity: by borrower/issuer

Type of transaction/Values	30/6/18	30/6/17
1. Debt securqqqities	2,595,747	2,400,203
a) Government and Central Banks	1,839,373	1,747,751
b) Other public-sector entities	—	—
c) Banks	176,968	256,405
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	2,595,747	2,400,203
Total Fair Value	2,614,585	2,484,613

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	212,418	—	212,421	—	208,806	—	208,809	—
1. Time deposits	—	X	X	X	—	X	X	X
2. Compulsory reserves	212,418	X	X	X	208,806	X	X	X
3. Repos	—	X	X	X	—	X	X	X
4. Other	—	X	X	X	—	X	X	X
B. Loans to banks	7,340,540	—	5,721,826	1,637,891	7,751,125	—	6,487,605	1,269,332
1. Loans	7,340,540	—	5,721,826	1,637,891	7,751,125	—	6,487,605	1,269,332
1.1 Current accounts and demand deposits	849,094	X	X	X	1,276,888	X	X	X
1.2 Time deposits	25	X	X	X	51,223	X	X	X
1.3 Other loans	6,491,421	X	X	X	6,423,014	X	X	X
- Repos	4,902,337	X	X	X	5,315,656	X	X	X
- Finance leases	3,636	X	X	X	4,703	X	X	X
- Other	1,585,448	X	X	X	1,102,655	X	X	X
2. Debt securities	—	—	—	—	—	—	—	—
2.1 Structured	—	X	X	X	—	X	X	X
2.2 Other	—	X	X	X	—	X	X	X
Total	7,552,958	—	5,934,247	1,637,891	7,959,931	—	6,696,414	1,269,332

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

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	—	—
b) Exchange rate	—	—
c) Expected transactions	—	—
d) Other hedged operations	—	—
Total	629	1,921

*6.3 Financial leasing **

	30/6/18				
	Non performing exposures	Minmum Payments		Gross investments	
		Principal	Interest share		of which outstanding amount unguaranteed
Up to 3 months	—	243	38	281	—
Between 3 months and 1 year	—	639	99	738	2
Between 1 year and 5 years	—	1,990	208	2,198	—
Over 5 years	—	768	89	857	18
Unspecified	—	—	—	—	—
Total	—	3,640	434	4,074	20

* The table, based on the "Instructions for preparing annual reports for banks registered in the special register of electronic money institutions, fund management companies and brokers" published by the Bank of Italy, provides a breakdown of the book value of non-performing items, the current value of minimum payments (net of value adjustments, if any), and gross investments, by amount of time overdue.

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	39,648,585	287,927	842,061	—	8,300,289	33,532,861	37,336,867	134,768	940,536	—	8,748,122	31,825,394
1. Current accounts	1,250,480	137,715	345	X	X	X	1,101,170	—	3,095	X	X	X
2. Repos	446,410	—	—	X	X	X	677,543	—	—	X	X	X
3. Mortgages	20,904,933	—	498,750	X	X	X	19,286,249	—	558,796	X	X	X
4. Credit cards, personal loans and salary-backed finance	9,595,332	123,658	156,048	X	X	X	9,158,017	118,129	159,801	X	X	X
5. Financial leases	1,970,491	22,638	138,321	X	X	X	2,098,886	16,639	167,023	X	X	X
6. Factoring	1,830,548	—	10,194	X	X	X	1,481,940	—	14,385	X	X	X
7. Other loans	3,650,391	3,916	38,403	X	X	X	3,533,062	—	37,436	X	X	X
Debt securities	199,316	—	—	—	34,328	164,052	350,953	—	—	—	76,272	276,649
8. Structured securities	—	—	—	X	X	X	—	—	—	X	X	X
9. Other debt securities	199,316	—	—	X	X	X	350,953	—	—	X	X	X
Total	39,847,901	287,927	842,061	—	8,334,617	33,696,913	37,687,820	134,768	940,536	—	8,824,394	32,102,043

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

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:	199,300	—	—	350,954	—	—
a) Governments	—	—	—	—	—	—
b) Other public-sector entities	—	—	—	—	—	—
c) Other issuers	199,300	—	—	350,954	—	—
- Non-financial companies	38,536	—	—	74,064	—	—
- Financial companies	127,945	—	—	276,890	—	—
- Insurance companies	32,819	—	—	—	—	—
- Other	—	—	—	—	—	—
2. Loans to:	39,648,601	287,927	842,061	37,336,866	134,768	940,536
a) Governments	90,027	—	—	154,762	—	—
b) Other public-sector entities	175,342	—	14,140	14,152	—	13,421
c) Other entities	39,383,232	287,927	827,921	37,167,952	134,768	927,114
- Non-financial companies	12,482,850	53,541	474,224	12,480,296	21,823	528,739
- Financial companies	3,798,935	4,209	14,909	3,554,535	179	26,370
- Insurance companies	667,657	—	1	978,121	—	1
- Other	22,433,790	230,177	338,787	20,155,000	112,766	372,005
Total	39,847,901	287,927	842,061	37,687,820	134,768	940,536

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	2,488,406	2,240,767
a) Interest rate risk	2,488,406	2,240,767
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) Expected transaction	—	—
d) Other hedged activities	—	—
Total	2,488,406	2,240,767

*7.4 Financial leasing **

	30/6/18				
	Non performing exposures	Minimum Payments		Gross investments	
		Principal	Interest share		of which outstanding amount unguaranteed
Up to 3 months	17,747	114,194	15,736	168,389	8,289
Between 3 months and 1 year	1,531	288,811	41,202	331,544	13,566
Between 1 year and 5 years	119,043	960,098	124,362	1,203,503	107,231
Over 5 years	—	597,543	63,554	661,097	173,645
Unspecified	—	—	—	—	—
Total	138,321	1,960,646	244,854	2,364,533	302,731

* The table, based on the “Instructions for preparing annual reports for banks registered in the special register of electronic money institutions, fund management companies and brokers” published by the Bank of Italy, provides a breakdown of the book value of non-performing items, the current value of minimum payments (net of value adjustments, if any), and gross investments, by amount of time overdue.

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	—	225,814	—	9,590,262	—	462,300	—	7,803,389
1) Fair value	—	225,814	—	9,590,262	—	462,300	—	7,803,389
2) Cash flow	—	—	—	—	—	—	—	—
3) Net investments in foreign subsidiaries	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	—	225,814	—	9,590,262	—	462,300	—	7,803,389

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	225,565	—	—	X	—	X	—	X	X
2. Portfolio	X	X	X	X	X	—	X	—	X
Total liabilities	225,565	—	—	X	—	—	—	—	X
1. Estimated transactions	X	X	X	X	X	X	—	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	—	X	—	—

SECTION 10

Heading 100: Equity investments

10.1 Equity investments: disclosure on relationships

Company name	Legal office	Operating office	Control type	Ownership		Voting rights %
				Controlling entity	% shareholding	
A. Entities under signficant influence						
1. Assicurazioni Generali S.p.A.	Trieste	Trieste	2	Mediobanca S.p.A.	13.0	13.0
2. Istituto Europeo di Oncologia S.r.l.	Milan	Milan	2	Mediobanca S.p.A.	25.4	25.4
3. Burgo Group S.p.A.	Altavilla Vicentina (VI)	Altavilla Vicentina (VI)	2	Mediobanca S.p.A.	22.1	22.1

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

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

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

Company name	Book value	Fair Value *	Dividends received **
A. Entities under signficant influence			
1. Assicurazioni Generali S.p.A.	3,171,418	2,912,993	172,306
2. Istituto Europeo di Oncologia S.r.l.	39,373	n.a.	—
3. Burgo Group S.p.A.	—	n.a.	—
4. Others	48	n.a.	—
Total	3,210,839	—	—

* Available only for listed companies.
** Dividends collected in the course of the financial year have been deducted from the book value of the investment (as described in Part A – Accounting Policies" of the Notes to the Accounts.

As at 30 June 2018, the book value carried under the "Equity investments" heading totalled €3,210.8m.

The equity investments subject to significant influence are valued using the equity method, and the calculation of their value includes treasury shares owned, dividends collected, and any Mediobanca shares owned by the investee companies.

Impairment testing of equity investments

The value of the equity investments has been subjected to impairment testing, as required by IAS28, IAS36, IFRS10 and IFRS11, in order to ascertain whether or not there is objective evidence to suggest that the full book value at which the assets were recognized might not be able to be recovered.

For investments in associates and jointly-controlled enterprises, the process of recording impairment charges involves checking whether there are indicators of impairment and then proceeding to write the investment down if appropriate. Indicators of impairment may be subdivided into two main categories:

- Qualitative indicators: manifest financial difficulties, negative earnings results, falling by a significant margin of targets set in budgets or long-term business plans disclosed to the market, announcing/launching composition procedures or restructuring plans, or downgrade of credit rating by more than two notches;
- Quantitative indicators: market capitalization below the company's net asset value, in cases where the securities are listed on active markets.

Where there are indicators of impairment, the recoverable value is calculated from the higher between fair value (net of sales costs) and net present value, and if the recoverable value is lower than the book value, impairment charges are recorded.

IAS28, paragraph 41A states that:

- Impairment charges must be taken in respect of an asset if the book value is higher than the recoverable value defined by IAS36 as the higher between the fair value (net of sales costs) and the net present value;
- To calculate fair value (as governed by IFRS13), the methodologies that may be used are as follows:
  - Stock market prices, in cases where the investee company is listed on an active market;
  - Valuation models generally recognized by the market, including market multiples, for significant transactions in particular;

– To calculate net present value (as governed by IAS28 paragraph 42) one or other of the following methodologies may be used:
  – The discounted value of the cash flows generated by the investee company, deriving from the cash flows generated by the investments owned by the company and proceeds deriving from the sale of those investments (unlevered discounted cash flow); or alternatively
  – The discounted value of the cash flows assumed to derive from the dividends receivable and the eventual sale of the investment.

For details on the parameters taken into consideration for purposes of the impairment testing, please refer to the comments on impairment testing of goodwill in the relevant section of these Notes to the Consolidated Accounts.

It should be noted that prudential factors have been used to value the equity investments, in the estimate of cash flows and the discount rates.

* * *

Accounting data for the investee companies accounted for using the equity method is provided below, as taken from the most recent official financial statements of these companies, up to 31 December 2017.

10.3 Significant investments: accounting data (€m)

Company name	Entities under significant influence
	Assicurazioni Generali S.p.A.
Cash and cash-convertible assets	X
Financial assets	482,909
Non-financial assets	47,323
Financial liabilities	52,810
Non-financial liabilities	458,092
Total revenues	89,204
Interest margin	X
Adjustments and reversals on tangible and intangible assets	X
Profit/(Loss) on ordinary activities before tax	3,686
Profit/(Loss) on ordinary activities after tax	2,513
Profit/(Loss) on held-for-sale assets after tax	—
Profir/(Loss) for the period (1)	2,295
Other profit/(loss) components after tax (2)	(189)
Total profit/(loss) for the period (3) = (1) + (2)	2,106

The table below shows the difference between the book value of each significant investment and the data used to value it.

(€'000)

Company name	Aggregate net equity	Pro rata net equity	Differences arising upon consolidation [1]	Consolidated book value [2]
Companies under significant influence				
Assicurazioni Generali S.p.A.	24,403,363	3,168,312	3,105	3,171,418

[1] The differences arising on consolidation refer to the Mediobanca shares owned by the company (worth €23.9m; pro rata €3.1m).
[2] The book value of the Assicurazioni Generali investment also reflects the dividend received in May 2018 (€172.3m).

As at 30 June 2018, the market value of the Assicurazioni Generali investment was €2,912.9m, i.e. lower than the book value of €3,171.4m. As required by IAS28, then, and in accordance with the internal policy, an impairment test was carried out which involved establishing the investment's net present value, bearing in mind inter alia the following issues:

– Mediobanca has historically been the leading shareholder of the Assicurazioni Generali group with a share of 13% of the ordinary share capital;
– The book value of the investment is aligned with the Assicurazioni Generali group's net asset value (pro rata) and does therefore does not factor in any goodwill.

The excess capital version of the dividend discount model was used to determine the net present value. For purpose of the analysis, leading financial analysts' estimates for the 2018-20 period have been used, along with a cost of capital and growth rate considered to be consistent with the macroeconomic scenario prevailing as at 30 June 2018.

The flows used are also consistent with the 2018 targets disclosed by the company and confirmed in the presentation of the 2017 results. A new business plan should be unveiled in November 2018. A sensitivity analysis has also been carried out on the results obtained to reflect changes in the valuation parameters.

The impairment testing process has confirmed that the recoverable value of the investment is higher than its book value; hence under the terms of IAS28 paragraph 41A, the investment has passed the impairment test.

This assessment is confirmed by the financial analysts' target prices (€16.8 per share) which on average are higher than the book value recorded.

10.4 Non-significant investments: accounting data

(€m)

Company name	B. Entities under significant influence	
	Istituto Europeo di Oncologia S.r.l.	Burgo Group S.p.A.
Book value of equity interests	39	—
Total assets	265	1,642
Total liabilities	150	1,342
Total revenues	333	2,008
Profit/(Loss) on ordinary activities after tax	6	9
Profit/(Loss) for held-for-sale assets after tax	—	–
Profit/(Loss) for the period (1)	6	9
Other profit/(loss) components after tax (2)	—	(2)
Total profit/(loss) (3)=(1)+(2)	6	7

For details on the nature of the relationship, please see Section 10.1.

10.5 Equity investments: movements during the period

	30/6/18	30/6/17
A. Opening balance	3,036,541	3,193,345
B. Increases	346,604	51,671
B.1 Purchases	—	38,995
B.2 Writebacks	—	—
B.3 Revaluations	—	—
B.4 Other changes	346,604	12,676
C. Decreases	172,306	208,475
C.1 Sales		95,179
C.2 Adjustments		—
C.3 Other changes	172,306	113,296
D. Closing balance	3,210,839	3,036,541
E. Total revaluations	—	—
F. Total adjustments	733,478	733,478

SECTION 12

Heading 120: Property, plant and equipment

12.1 Tangible assets stated at cost

Assets/Values	30/6/18	30/6/17
1. Assets owned by the Group	210,421	226,228
a) land	84,883	84,883
b) buildings	100,044	103,836
c) furniture	10,630	10,105
d) electronic equipment	10,440	11,293
e) other assets	4,424	16,111
2. Assets acquired under finance leases	—	—
a) land	—	—
b) buildings	—	—
c) furniture	—	—
d) electronic equipment	—	—
e) other assets	—	—
Total	210,421	226,228

On 1 January 2018, the Mediobanca Group outsourced its IT infrastructure services previously performed for the most part by Group company Mediobanca Innovation Services to IBM Italia, driving a reduction in other assets owned by the Group.

12.2 Properties held for investment purposes stated at cost

Assets/Values	30/6/18				30/6/17			
	Book Value	Fair value			Book Value	Fair value		
		Level1	Level2	Level3		Level1	Level2	Level3
1. Assets owned by the Group	77,388	—	—	154,516	79,328	—	—	158,300
a) land	30,224	—	—	85,092	30,224	—	—	85,205
b) buildings	47,164	—	—	69,424	49,104	—	—	73,095
2. Assets acquired under finance lease	—	—	—	—	—	—	—	—
a) land	—	—	—	—	—	—	—	—
b) buildings	—	—	—	—	—	—	—	—
Total	77,388	—	—	154,516	79,328	—	—	158,300

12.5 Core properties: movements during the period

	Land	Buildings	Furniture	Electronic system	Other	Total
A. Gross opening balance	84,883	144,441	43,239	32,020	73,384	377,967
A.1 Total net reduction value	—	(40,605)	(33,134)	(20,727)	(57,272)	(151,738)
A.2 Net opening balance	84,883	103,836	10,105	11,293	16,111	226,228
B. Increases	—	464	3,753	2,031	3,820	10,068
B.1 Purchases	—	—	3,739	1,973	3,366	9,078
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	—	—	—	—	2	2
B.6 Transfer from investment properties	—	—	—	—	—	—
B.7 Other adjustments	—	4	14	58	453	529
C. Decreases	—	4,256	3,228	2,884	15,508	25,876
C.1 Sales	—	—	155	337	10,987	11,479
C.2 Depreciations	—	4,256	2,936	2,228	4,521	13,941
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	—	—	3	2	—	5
C.6 Transfers to:	—	—	—	—	—	—
a) tangible assets held for investment purpose	—	—	—	—	—	—
b) assets classified as held-for-sale	—	—	—	—	—	—
C.7 Other adjustments	—	—	134	317	—	451
D. Net closing balance	84,883	100,044	10,630	10,440	4,424	210,421
D.1 Total net write-downs	—	(43,509)	(48,694)	(31,832)	(48,724)	(172,759)
D.2 Final gross balance	84,883	143,553	59,324	42,272	53,148	383,180
E. Carried at cost	—	—	—	—	—	—

12.6 Properties held for investment purposes: movements during the period

	Total	
	Land	**Building**
A. Opening balance	30,224	49,104
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	—	2,011
C.1 Disposals	—	—
C.2 Depreciations	—	2,011
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	30,224	47,164
E. Measured at fair value	85,092	69,424

These consist of the following properties:

Properties	**SQU. m.**	**Book value (€'000)**	**Book value per SQU.m. (€'000)**
Rome	8,228	25,163	3.1
Lecce	21,024	18,816	0.9
Verona *	30,502	9,909	0.3
Bologna *	9,571	6,818	0.7
Brescia	3,848	2,003	0.5
Pavia	2,250	1,230	0.5
Other *	83,666	13,449	0.2
Total	159,089	77,388	

* Figures include both warehouses and buildings used as offices.

SECTION 13

Heading 130: Intangible assets

13.1 Intangible assets: composition

Assets/Values	30/6/18		30/6/17	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X	649,781	X	483,557
A.1.1 Attributable to the Group	X	649,781	X	483,557
A.1.2 Attributable to minorities	X	—	X	—
A.2 Other intangible assets	74,593	15,490	68,651	—
A.2.1 Assets valued at cost	58,140	15,490	47,002	—
a) Intangible assets generated internally	—	—	—	—
b) Other assets	58,140	15,490	47,002	—
A.2.2 Assets valued at fair value	16,453	—	21,649	—
a) Intangible assets generated internally	—	—	—	—
b) Other assets [1]	16,453	—	21,649	—
Total	74,593	665,271	68,651	483,557

[1] This heading refers to the client list acquired in conjunction with the Barclays Italy business unit.

As a result of the purchase price allocation process for the Banca Esperia merger (acquired in April 2017 and subsequently merged into Mediobanca S.p.A. with effect from 1 December 2017) and the former Crédit Agricole business unit acquired by CMB, two new client lists have been booked to the accounts for a combined value of €11.1m, along with the Mediobanca Private Banking brand for Italy, booked at €15.5m and with an indefinite life.

13.2 Intangible assets: movements during the period

	Goodwill	Other intangible assets generated internally		Other intangible assets		Total
		Finite	Indefinite	Finite	Indefinite	
A. Gross opening balance	483,557	—	—	207,292	—	690,849
A.1 Total net reduction in value	—	—	—	(138,641)	—	(138,641)
A.2 Net opening balance	483,557	—	—	68,651	—	552,208
B. Increases	172,848	—	—	35,009	15,490	223,347
B.1 Purchases [1]	172,848	—	—	34,990	15,490	223,328
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	—	—	—	19	—	19
C. Decreases	6,624	—	—	29,067	—	35,691
C.1 Disposals	—	—	—	1,138	—	1,138
C.2 Write-downs	—	—	—	27,928	—	27,928
- Amortization	X	—	—	27,928	—	27,928
- Write-downs	—	—	—	—	—	—
+ in equity	X	—	—	—	—	—
+ in profit and loss	—	—	—	—	—	—
C.3 Decrease 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	6,624	—	—	1	—	6,625
D. Net closing balance	649,781	—	—	74,593	15,490	739,864
D.1 Total net reduction in value	—	—	—	(153,420)	—	(153,420)
E. Gross Closing balance	649,781	—	—	228,013	15,490	893,284
F. Carried at cost	—	—	—	—	—	—

[1] The heading “Purchases of intangible assets with time-limited life” includes €6.6m in customer relationships emerging from the purchase price allocation process in connection with the former Crédit Agricole acquisition by CMB, and €4.5m from the former Banca Esperia client list.

Information on intangible assets and goodwill

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

During the first half of the financial year under review, the purchase price allocation process (PPA) was completed for the acquisitions of Banca Esperia by Mediobanca and of the former Crédit Agricole business unit by Compagnie Monégasque de Banque made in the twelve months.

As required by IFRS3, the buyer must recognize the assets and liabilities acquired (including intangible assets and contingent liabilities not recorded in the acquired entities' accounts) in its own financial statements by performing a purchase price allocation process.

With reference to the Banca Esperia PPA process, it should be noted that no contingent liabilities emerged, but the following items were identified and have been estimated accordingly:

- Negative fair value adjustments of €11.2m to receivables (either impaired or closely monitored) and to fund stock units held as part of the AFS portfolio;
- A client list recognized as an intangible asset at a value of €4.5m (asset management and administration, direct funding and loans);
- A brand recognized at €15.5m reflecting the strength and reach of the Banca Esperia brand consolidated further as a result of the merger and subsequent renaming as Mediobanca Private Banking; a solid brand guaranteeing enhanced control over AUM and dampening revenue volatility, reducing the loss rate for private bankers and so rendering customer relations more stable and persistent over time. The brand's significant useful life is tantamount to being indefinite, and the value assigned to the brand has been calculated 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. The merger of Banca Esperia into Mediobanca, from an ongoing concern perspective, has resulted in the Mediobanca Private Banking division being established, which enjoys higher recognition and visibility than the Esperia brand due to the presence of history and name of Mediobanca. In other words, the private banking

brand has been replaced by a stronger one benefiting from its association with the Mediobanca brand. The data for FY 2017-18 in terms of inflows/outflows and average AUM per banker show that the results achieved are in line with these assumptions.

The other assets and liabilities are booked at their fair value, either because their book value is negative based on this criterion or because they are short-term items.

Net equity this increases from €176.6m to €178.7m, which, compared with an acquisition cost of €233.9m, generates goodwill of €55.2m reflecting the value which the acquisition is expected to create the achievement of synergies (by the buyer). The overall goodwill is split between the various cash-generating units involved in the transaction, i.e. fiduciary activities (transferred to Spafid), the Private Banking division, and Mid Cap Corporate activities.

The purchase price allocation process for the former Crédit Agricole business unit acquired by Compagnie Monégasque de Banque resulted in intangible assets being identified with a defined useful life in an amount of €6.6m, exclusively in respect of a client with a ten-year useful life.

In 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.

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

A preliminary calculation of the goodwill arising in connection with the transaction as at 30 June 2018 came to CHF 204.8m, or €177m based on current exchange rates bearing in mind that the liability in respect of the put-and-call option has been valued at CHF 46.8m (or €40.5m); the exchange rate effect has resulted in a negative net equity reserve being recorded, of €0.9m.

According to IFRS3 the purchase price allocation process must be completed within twelve months of the acquisition date.

Table 1: Other intangible assets acquired through extraordinary transactions

Type	Deal	30/6/18	30/6/17
Customer relationship		30,495	25,884
	IFID	*308*	*408*
	Spafid	*588*	*699*
	ISPS	*2,915*	*3,129*
	Barclays	*16,454*	*21,648*
	Banca Esperia	*3,606*	—
	CMB	*6,624*	—
Brand		16,422	983
	ISPS	*933*	*983*
	MB Private Banking	*15,489*	—
Commercial agreements	Linea	—	1,370
Acquired software	Spafid Connect	5,033	5,077
Total		**51,950**	**33,314**

Table 2: Goodwill

Deal	30/6/18	30/6/17
Compass-Linea	365,934	365,934
Spafid-IFID	3,540	3,540
Spafid Connect	2,342	2,342
Spafid-ISPS	3,831	3,831
Spafid- Fiduciaria	3,080	—
Cairn Capital	41,905	42,225
Banca Esperia	52,103	59,061
CMB-ramo *ex* Crédit Agricole	—	6,624
RAM	177,046	—
Total	**649,781**	**483,557**

For all the transactions referred to above, an overview of the main effects of the PPA process are set out below (table 3), with an indication of how the residual goodwill has been allocated between the individual cash-generating units (CGUs) (table 4).

Table 3: Summary of PPA effects on goodwill

	Linea	IFID	Spafid Connect	Cairn	ISPS	Esperia	RAM [1]
Acquisition date	27/6/2008	1/8/2014	18/6/2015	31/12/2015	28/2/2017	6/4/2017	28/2/2018
Price paid	406.938	3.600	5.124	28.046	10.360	233.920	143.381
of which: ancillary charges	*2,000*	*200*	—	—	—	—	—
Liabilities	—	—	—	23,669	—	—	40,494
Adjustment for exchange rate effect	—	—	—	—	—	—	(903)
Intangible assets, defined life	(44,200)	(700)	(3,250)	—	(4,319)	(4,508)	—
no. of years amortization	*8*	*7*	*10*	—	—	*5*	—
Brands	(6,300)	—	—	—	—	(15,489)	—
Fair value adjustments	—	—	—	—	—	11,232	—
Balance of other assets (liabilities)	(2,659)	420	(466)	(9,490)	(2,210)	(176,559)	(5,926)
Tax effects	12,155	220	934	—	—	6,613	—
Goodwill	**365,934**	**3,540**	**2,342**	**42,225**	**3,831**	**55,209**	**177,046**

[1] PPA still in progress.

Table 4: Overview of cash-generating units

CGU	Deal	30/6/18	30/6/17
Consumer credit	Linea	280,634	280,634
Credit cards	Linea	73,400	73,400
Salary-backed finance	Linea	11,900	11,900
Fiduciary services	IFID	3,540	3,540
Fiduciary services	Fiduciaria	3,080	—
Corporate services	Spafid Connect	2,342	2,342
Information services	ISPS	3,831	3,831
Cairn Capital		41,905	42,225
CMB	*ex* CA operations	—	6,624 [1]
Private banking	*ex* Esperia	29,453	59,061
Mid corporate	*ex* Esperia	22,650	—
RAM		177,046	—
Total goodwill		**649,781**	**483,557**

[1] As at 30 June 2017, the PPA process in respect of the acquisition of the other 50% of Banca Esperia not already owned by Mediobanca was still in progress, and the goodwill had not yet between split between the various CGUs; the PPA process for CMB's acquisition of Crédit Agricole was also still ongoing, but the goodwill arising from which has been allocated in full to a single list of clients.

The Linea acquisition (€407m) generated goodwill of €365.9m, which is now the only amount still recorded in the books following the writeoff of the brands and the useful life of the intangible assets now having ended. The goodwill is split between three different CGUs: consumer credit, credit cards and salary-backed finance.

The IFID acquisition (€3.6m) generated goodwill of €3.5m and intangible assets with time-limited life for a total of €0.7m (€0.3m outstanding at the reporting date). The deal has been allocated to the "Fiduciary Services" CGU.

The Spafid Connect acquisition (€5.1m) generated goodwill of €2.3m and intangible assets with time-limited life of €3.3m (amount outstanding at the reporting date: €2.4m). The deal has been allocated to the "Corporate Services" CGU.

The deal to acquire the Barclays' Italian business unit required Barclays to pay badwill of €240m, generating, in application of the purchase price allocation process, intangible assets with time-limited life of €26m related to a list of clients with AUM and AUA with a useful life of five years (amount outstanding at 30 June 2018: €16.5m).

The Cairn Capital acquisition (£23m for a 51% stake, along with put-and-call options over the other 49% valued at £20.8m) generated goodwill of £37.1m (calculated based on 100%). This goodwill was confirmed at the end of the purchase price allocation processed and has been valued is at the current exchange rate (€41.9m at the reporting date). Cairn Capital Group has been treated as a single CGU.

The acquisition of the ISPS business unit (€10.4m) generated goodwill of €3.8m and intangible assets with time-limited life for an overall value of €4.3m and an average useful life of fifteen years (€3.9m outstanding at the reporting date). The unit acquired has been allocated to the "Information Services" CGU.

Information on impairment testing

As stated in the Accounting Policies section, IAS36 requires any loss of value, or impairment, of individual tangible and intangible assets to be tested at least once a year, in preparing the annual financial statements, or more frequently if events or circumstances occur which suggest that there may have been a reduction in value.

If it is not realistically possible to establish the recoverable value of the individual asset directly, the standard allows the calculation to be made based on the recoverable value of the cash-generating unit, or CGU, to which the asset belongs. The CGU is defined as the smallest identifiable group of assets able to generate cash flows that do not present synergies with the other parts of the company, may be considered separately and sold individually.

In order to establish the recoverable value versus the book value at which the asset has been recognized in the accounts, reference is made to the higher between the fair value (net of any sales costs) and the net present value of an asset. The net present value in particular is calculated by discounting the future cash flows expected from an asset or cash-generating unit; the cash flow projections must reflect reasonable assumptions and must therefore be based on recent budget or estimates approved by the company's governing bodies. The cash flows must also be discounted at a rate which factors in the current cost of money and risks associated with the specific activity.

The Group has adopted a policy, the most recent update of which was submitted to the approval of the Board of Directors in July 2016, governing the impairment testing process which incorporates the guidance issued jointly by the Bank of Italy, Consob, IVASS (document no. 4 dated 3 March 2010) and the *Organismo Italiano di Valutazione* (discussion paper no. 1/2012), as well as the recommendations made by Consob in its communication no. 3907 issued on 19 January 2015.

The recoverable value for goodwill has been estimated using the excess capital version of the dividend discount model methodology, which is commonly used for this purpose by financial institutions.

The cash flows have been projected over a time horizon of three-four years and reflect the assumptions on which the Group's strategic plan is based, as well as the most recent market scenarios.

To estimate the cost of capital, certain parameters common to all CGUs have been used, namely:

– The risk-free rate, identified as the 12-month average on ten-year BTPs in order to ensure the Italy country risk is factored in;
– The market risk premium, which reflects the average risk premium commonly accepted by valuation practice for Italy country risk, taking into consideration a variety of sources, including research carried out by companies and leading academics, with the contribution of various

university professors in order to estimate the long-term payout ratio and the spread of returns on equities and the spot levels of government securities [1];

– The growth rate (g), to calculate the terminal value, using the so-called "perpetuity" methodology, established taking into account the inflation rate expected over the long term.

Table 5: Cost of equity parameters common to all CGUs [1]

	30/6/18	30/6/17
Risk-free rate	2.05%	1.82%
Risk premium	6.40%	6.40%
Estimated growth rate	1.50%	1.50%

[1] For the Cairn Capital group the parameters used were as follows: 1.37% (1.08%); 5.50% (unchanged) and 2% (unchanged).

However, all the individual CGUs show a different cost of equity, based on the difference in the systemic risk indicator (Beta) considered over a two-year time horizon based on market peers for each individual activity. The different costs of capital based on the Beta used are shown in the table below.

Table 6: Beta 2y e cost of equity per CGU

CGU	Beta 2Y 2018	Ke 2018	Ke 2017
Consumer credit	0.79	7.09%	7.12%
Credit cards	0.79	7.09%	7.12%
Salary-backed finance	0.79	7.09%	7.12%
Fiduciary services	1.06	8.81%	8.56%
Corporate services to issuers	1.06	8.81%	9.02%
Private banking	1.18	9.59%	
Mid corporate	1.18	9.59%	
Cairn Capital	1.09	7.34%	7.63%

All segments passed the impairment test, as the net present value was higher than the book value. A sensitivity analysis exercise was also performed, to ascertain the results in various scenarios, such as 0.25% increase or decrease in the cost of equity and/or a 0.50% increase or decrease in the growth rate, and again, all results were positive.

* * *

The value of the Mediobanca Private Banking brand has been tested to confirm there are no indicators of impairment, using the royalty relief method which is based on discounting the royalty flows allocated to the Private Banking brand at a discount rate reflecting the risk of the flows themselves and corresponding to a cost of equity estimated at 9.59%. The testing has not shown the need for any adjustments.

SECTION 14

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

14.1 Advance tax assets: composition

	30/6/18	30/6/17
Balancing to the Profit and Loss	614,153	700,672
Balancing to the Net Equity	20,560	14,687
Total	634,713	715,359

14.2 Deferred tax liabilities: composition

	30/6/18	30/6/17
Balancing to the Profit and Loss	284,242	290,368
Balancing to the Net Equity	55,346	79,878
Total	339,588	370,246

14.3 Changes in advance tax during the period

	30/6/18	30/6/17
1. Opening balance	700,672	728,782
2. Increases	51,140	41,108
2.1 Deferred tax assets of the year	50,518	28,417
a) Relating to previous years	39,447	2,589
b) Due to change in accounting policies	—	—
c) Write-backs	—	—
d) Other (creation of temporary differences, use of TLCF)	11,071	25,828
2.2 New taxes or increase in tax rates	—	—
2.3 Other increases	622	12,691
3. Decreases	137,659	69,218
3.1 Deferred tax assets derecognised during the year	95,353	59,422
a) Reversals of temporary differences	92,789	59,164
b) Write-downs of non-recoverable items	—	—
c) Change in accounting policies	—	—
d) Other	2,564	258
3.2 Reduction in tax rates	—	173
3.3 Other decreases	42,306	9,623
a) Conversion into tax credit under L. 214/2011	—	99
b) Other	42,306	9,524
4. Final amount	614,153	700,672

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

	30/6/18	30/6/17
1. Opening balance	609,074	647,526
2. Increases	71	3,415
3. Decreases	60,760	41,867
3.1 Reversals of temporary differences	57,536	40,243
3.2 Conversion on tax credit deriving from	—	—
a) year losses	—	—
b) tax losses	—	—
3.3 Other decreases	3,224	1,624
4. Final amount	548,385	609,074

* 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.

14.4 Changes in deferred tax during the period

	30/6/18	30/6/17
1. Opening balance	290,368	279,641
2. Increases	8,217	20,704
2.1 Deferred tax liabilities of the year	4,392	18,810
a) Relating to previous years	—	—
b) Due to change in accounting policies	—	—
c) Other	4,392	18,810
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	3,825	1,894
3. Decreases	14,343	9,977
3.1 Deferred tax liabilities derecognised during the year	12,849	6,637
a) Reversals of temporary differences	9,910	310
b) Due to change in accounting policies	—	—
c) Other	2,939	6,327
3.2 Reductions in tax rates	—	35
3.3 Other decreases	1,494	3,305
4. Final amount	284,242	290,368

14.5 Changes in advance tax during the period [1]

	30/6/18	30/6/17
1. Opening balance	14,687	22,545
2. Increases	16,281	28,039
2.1 Deferred tax assets of the year	16,175	25,091
a) Relating to previous years	—	—
b) Due to change in accounting policies	—	—
c) Other (creation of temporary differences)	16,175	25,091
2.2 New taxes or increases in tax rates	1	—
2.3 Other increases	105	2,948
3. Decreases	10,408	35,897
3.1 Deferred tax assets derecognised during the year	10,174	34,618
a) Reversals of temporary differences	9,344	31,221
b) Writedowns of non-recoverable items	—	—
c) Due to change in accounting policies	—	—
d) Other	830	3,397
3.2 Reduction in tax rates	—	1,261
3.3 Other decreases	234	18
4. Final amount	20,560	14,687

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

14.6 Changes in deferred tax during the period [1]

	30/6/18	30/6/17
1. Opening balance	79,878	85,433
2. Increases	254,221	313,559
2.1 Deferred tax liabilities of the year	254,220	310,367
a) Relating to previous years	—	—
b) Due to change in accounting policies	—	—
c) Other (creation of temporary differences)	254,220	310,367
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	1	3,192
3. Decreases	278,753	319,114
3.1 Deferred tax liabilities derecognised in the year	278,753	317,724
a) Reversals of temporary differences	277,861	316,824
b) Due to change in accounting policies	—	—
c) Other	892	900
3.2 Reduction in tax rates	—	—
3.3 Other decreases	—	1,390
4. Final amount	55,346	79,878

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

SECTION 16

Heading 160: Other assets

16.1 Other assets: composition

	30/6/18	30/6/17
1. Gold, silver and precious metals	695	695
2. Accrued income other than capitalized income from financial assets	26,765	15,370
3. Trade receivables or invoices to be issued	175,290	209,129
4. Amounts due from tax revenue authorities (not recorded under Heading 140)	213,004	205,527
5. Other items	312,575	130,812
- bills for collection	138,305	30,246
- amounts due in respect of premiums, grants, indemnities and other items in respect of lending transactions	20,845	23,827
- advance payments on deposit commissions	3,178	3,205
- other items in transit [1]	119,170	40,225
- amounts due from staff	348	369
- sundry other items	28,880	30,286
- improvements on third parties' assets	1,849	2,654
Total	728,329	561,533

[1] This includes items in transit attributable chiefly to the effects relating to the SDD portfolio subject to collection which were credited before the respective value date had accrued and to receivables used in securitizations which have been temporarily suspended prior to reallocation with the deposit bank.

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	4,384,592	5,898,813
2. Deposits from banks	7,878,867	6,790,782
2.1 Other current accounts and demand deposits	495,301	484,662
2.2 Time deposits	—	13,172
2.3 Loans	7,242,932	6,118,109
2.3.1 Repos	3,821,874	2,797,931
2.3.2 Other	3,421,058	3,320,178
2.4 Liabilities in respect of commitments to repurchase treasury shares	—	—
2.5 Other debt	140,634	174,839
Total	12,263,459	12,689,595
Fair Value - Level1	—	—
Fair Value - Level2	*12,263,459*	*12,689,595*
Fair Value - Level3	—	—
Total Fair Value	12,263,459	12,689,595

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;	1,525,000	1,525,000
a) Interest rate risk	1,525,000	1,525,000
b) Currency risk	—	—
c) Other	—	—
Total	2,258,462	2,640,469

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	14,573,523	13,976,774
2. Time deposits including saving deposits with maturity	4,966,008	4,591,746
3. Loans	1,646,122	1,660,672
3.1 Repos	806,937	577,708
3.2 Other	839,185	1,082,964
4. Liabilities in respect of commitments to repurchase treasury shares	—	—
5. Other liabilities	134,390	136,807
Total	21,320,043	20,365,999
Fair Value - Level1	—	—
Fair Value - Level2	*21,317,138*	*20,383,215*
Fair Value - Level3	—	—
Total Fair Value	21,317,138	20,383,215

2.4 Due to customers: items subject to specific hedges

	30/6/18	30/6/17
1. Liability items subject to micro-hedging of fair value:	—	129,724
a) Interest rate risk	—	129,724
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	—	129,724

SECTION 3

Heading 30: Debt securities in issue

3.1 Debt securities in issue: composition

Type of transaction/ 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	19,187,164	704,927	18,746,567	—	19,345,948	1,526,064	18,124,091	—
1.1 structured	5,089,072	—	5,212,649	—	6,366,798	—	6,600,518	—
1.2 other	14,098,092	704,927	13,533,918	—	12,979,150	1,526,064	11,523,573	—
2. Other structured securities	1,421,354	—	1,371,635	49,719	762,773	—	731,189	31,583
2.1 structured	—	—	—	—	—	—	—	—
2.2 other	1,421,354	—	1,371,635	49,719	762,773	—	731,189	31,583
Total	20,608,518	704,927	20,118,202	49,719	20,108,721	1,526,064	18,855,280	31,583

* The fair values are shown net of Mediobanca issuer risk; if this item is included, the fair value at 30 June 2018 would show a gain of €260.3m (€216.4m).

Debt securities in issue declined from €19,345,948,000 to €19,187,164,000, on new issuance of €4bn, redemptions and buybacks of €4.1bn (generating losses of €9.9m), and other upward adjustments (exchange rates, amortized cost and hedging effects) amounting to €3.2m.

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 (Not included in calculation of regulatory 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:	12,591,476	12,440,986
a) Interest rate risk	12,591,476	12,440,986
b) Currency risk	—	—
c) Multiple risks	—	—
2. Securities subject to micro-hedging of cash flows:	4,986,064	4,622,065
a) Interest rate risk	4,986,064	4,622,065
b) Currency risk	—	—
c) Other	—	—
Total	17,577,540	17,063,051

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	1,936,667	87,131	X	—	497,352	2,679,520	83,015	X
1.1 Trading	X	561,257	1,849,508	83,713 [1]	X	X	497,352	2,362,770	74,114 [1]	X
1.2 Related with fair value option	X	—	—	—	X	X	—	—	—	X
1.3 Other	X	—	87,159	3,418 [2]	X	X	—	316,750	8,901 [2]	X
2. Credit derivatives	—	—	1,231,687	—	X	—	—	427,607	—	X
2.1 Trading	X	—	1,231,687	—	X	X	—	427,607	—	X
2.2 Related with fair value option	X	—	—	—	X	X	—	—	—	X
2.3 Other	X	—	—	—	X	X	—	—	—	X
Total B	X	561,257	3,168,354	87,131	X	X	497,352	3,107,127	83,015	X
Total (A + B)	X	3,206,919	3,168,354	87,131	X	X	2,730,204	3,107,364	83,015	X

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

[1] Respectively €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	—	233,086	—	9,135,810	—	341,159	—	10,189,130
1) Fair value	—	227,445	—	9,095,810	—	298,764	—	9,259,111
2) Cash flow	—	5,641	—	40,000	—	42,395	—	930,019
3) Net investment in foreign subsidiaries	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	—	233,086	—	9,135,810	—	341,159	—	10,189,130

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	48,430	—	—	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	100,733	—	—	—	—	—	—	—	—
1. Financial liabilities	126,712	—	—	X	—	X	5,641	X	X
2. Portfolio	X	X	X	X	X	—	X	—	X
Total liabilities	126,712	—	—		—	—	5,641	—	—
1. Expected transactions	X	X	X	X	X	X	—	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	—	X	—	—

SECTION 8

Heading 80 – Deferred liabilities

Please see asset section 14.

SECTION 10

Heading 100: Other liabilities

10.1 Other liabilities: composition

	30/6/18	30/6/17
1. Payment agreements (IFRS2)	—	—
2. Impaired endorsements	15,404	14,089
3. Working capital payables and invoices pending receipt	308,165	409,300
4. Amounts due to revenue authorities	67,468	63,924
5. Amounts due to staff	194,054	178,861
6. Other items:	175,284	180,086
- bills for collection	25,895	25,583
- coupons and dividends pending collection	2,326	2,289
- available sums payable to third parties	41,927	24,506
- premiums, grants and other items in respect of lending transactions	24,493	31,767
- credit notes to be issued	—	—
- other [1]	80,643	95,941
7. Adjustments upon consolidation	—	—
Total	760,375	846,260

[1] Includes the liability in respect of the potential outlay to acquire the other 49% of Cairn Capital and 20.3% of RAM AI under the terms of the put-and-call agreements entered into.

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	29,779	28,975
B. Increases	10,038	15,064
B.1 Provision of the year	8,622	10,658
B.2 Other increases	1,416	4,406
C. Reductions	12,307	14,260
C.1 Severance payments	4,914	2,502
C.2 Other decreases [1]	7,393	11,758
D. Closing balance	27,510	29,779
Total	27,510	29,779

[1] Includes €4,287,000 in transfers to external, defined contribution pension schemes (30/6/17: €6,764,000).

SECTION 12

Heading 120: Provisions

12.1 Provisions: composition

Items	30/6/18	30/6/17
1. Provision to retirement payments and similar	—	—
2. Other provisions	185,482	225,850
2.1 Staff expenses	12,421	5,611
2.2 Other [1]	173,061	220,239
Total	185,482	225,850

[1] The item "Other provisions: Other" includes €63.8m to cover the restructuring of CheBanca! following the Barclays acquisition and €4.1m to cover the Banca Esperia restructuring.

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 €185.5m , and includes €12.4m in staff-related costs (including incentives to leave the company already agreed, €3.8m in respect of the Mediobanca staff reorganization, €6.7m for Compass and €1.9m for MBCredit Solutions), plus €173.1m for litigation and other contingent liabilities. The provisions chiefly involve Mediobanca (€94m), CheBanca! (€59m deriving chiefly from the Barclays acquisition), SelmaBipiemme (€9.4m) and Compagnie Monégasque de Banque (€4.6m).

The most significant litigation still pending against the Mediobanca Group 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 the disputes outstanding with the Italian revenue authorities as at 2018, it should be noted that two new cases arouse in the course of the year in connection with the alleged failure of CheBanca! to pay registration tax on the deed of purchase for its acquisition of Barclays' Italian operations in 2016, involving higher tax worth a notified amount of €11.1m, as follows:

– The first dispute (involving an amount of €3.9m) arose as a result of notice of payment of the tax, in which the Italian tax authority had recalculated the value of the business unit sold for €1 as €131m. The company successfully challenged the notice at the Milan province tax commission, although notification of its success was received only after the financial year had ended. The terms for the Italian tax authority to submit an appeal are still pending;

– The second dispute (involving an amount of €7.2m) arose as a result of notice of payment of the tax, in which the Italian tax authority stated that the clause providing for the €240m adjustment payable to CheBanca! was a deed with separate capital content versus the actual deed of disposal, and alleging that the company had failed to pay registration tax on the adjustment deed. The company challenged the notice at the Milan province tax commission, and the date for the hearing is still to be set.

Further disputes have also arisen regarding the wrong application of VAT in inter-company accounts between the former Banca Esperia and Mediobanca SGR, involving higher tax worth a notified amount of €79,000. In practice there are a total of three such disputes, all at different stages of ruling process, and involving higher tax worth a notified amount of €178,000;

A total of twenty-one disputes were thus outstanding as at 30 June 2018. In addition to the two cases described above, the others were as follows:

– Nine claims in respect of allegedly non-existent leasing transactions, involving higher tax worth a notified amount of €16.6m, €14.9m of which by way of VAT and €1.7m of direct or minor taxation; as mentioned previously, the cases refer chiefly to property leasing and brands (€11.3m). All nine refer to cases in which the company has been successful at both stages of the ruling process but in respect of which appeals have been submitted by the Italian tax authority and are still pending at the Court of Cassation;

– One claim regarding the failure by the former Banca Esperia to report a money transfer outside Italy as part of the tax monitoring communications, for which fines of €5.9m were handed down. The company was found guilty at both ruling stages and an appeal has been submitted to the Court of Cassation;

– One claim, regarding the failure by Mediobanca 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;

– One claim regarding the failure by SelmaBipiemme to pay registration tax on an injunction, involving higher tax worth a notified amount of €97,000;

– One claim regarding the alleged failure to pay IRES tax (as part of the tax consolidation process) on an economic growth subsidy received by CheBanca!, involving higher tax worth a notified amount of €87,000;

– Three claims at varying stages of the ruling process regarding the wrong application of VAT in inter-company accounts between the former Banca Esperia and Duemme SGR (now Mediobanca SGR) involving higher tax worth a notified amount of €178,000;

– Three claims regarding the alleged misuse of VAT credits by real estate funds operated by Duemme SGR (now Mediobanca SGR), later sold, involving higher tax worth a notified amount of around €1m. The company was found guilty at the first ruling stage but has adhered to the settlement of litigation pending provided for under Article 11 of Italian Decree Law 50/97.

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

Items	Charges relating to staff *	Other provisions	Total
A. Opening balance	5,611	220,239	225,850
B. Increases	13,065	31,458	44,523
B.1 Provision for the year	8,660	30,304	38,964
B.2 Changes due to the passage of time	—	—	—
B.3 Difference due to discount rate changes	—	—	—
B.4 Other increases	4,405	1,154	5,569
C. Decreases	6,255	78,637	84,892
C.1 Use during the year [1]	6,255	55,217	61,472
C.2 Difference due to discount rate changes	—	—	—
C.3 Other decreases	—	23,420	23,420
D. Closing balance	12,421	173,061	185,482

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

[1] This item includes withdrawals totalling €26.6m to cover restructuring charges at CheBanca! in connection with the Barclays acquisition.

SECTION 13

Heading 130: Technical reserves

13.1 Technical reserves: composition

	Direct business	Indirect business	30/6/18	30/6/17
A. Non-life business:	—	175,853	175,853	165,974
A.1 Provision for unearned premiums	—	165,752	165,752	150,806
A.2 Provision for outstanding claims	—	10,101	10,101	15,168
A.3 Other provisions	—	—	—	—
B. Life business	—	—	—	—
B.1 Mathematical provisions	—	—	—	—
B.2 Provisions for amounts payable	—	—	—	—
B.3 Other insurance provisions	—	—	—	—
C. Insurance provisions when investments risk is borne by the insured party	—	—	—	—
C.1 Provision for policies where the performance is connected to investment funds and market indices	—	—	—	—
C.2 Provision for pension funds	—	—	—	—
D. Total insurance provisions	—	175,853	175,853	165,974

13.2 Technical reserves: movements during the year

	30/6/18	30/6/17
A. Non-life business		
Balance at start of period	165,974	147,861
Combinations involving group companies	—	—
Changes to reserves (+/-)	9,879	18,113
Other additions	—	—
Balance at end of period	175,853	165,974
B. Life business and other reserves		
Balance at start of period	—	—
Combinations involving group companies	—	—
Changes due to premiums	—	—
Changes due to sums to be paid out	—	—
Changes due to payments	—	—
Changes due to incomes and other bonuses recognized to insured parties (+/-)	—	—
Changes to other technical reserves (+/-)	—	—
Other reductions	—	—
Balance at end of period	—	—
C. Total technical reserves	175,853	165,974

SECTION 15

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

15.1 "Capital" and "treasury shares": composition

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

15.2 Share capital: changes in no. of 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	—
- bonds conversion	—
- 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	—

15.3 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.

15.4 Profit reserves: other information

Item	30/6/18	30/6/17
Legal reserve	88,124	87,102
Statutory reserve	1,284,471	1,288,162
Treasury shares	109,338	197,709
Others	4,008,517	3,483,892
Total	5,490,450	5,056,865

SECTION 16

Heading 210: Net equity attributable to minorities

16.1 Heading 210: Net equity attributable to minorities: composition

Company name	30/6/18	30/6/17
1. SelmaBipiemme S.p.A.	86,603	82,722
2. RAM Active Investments	1,290	—
3. Other minors	7	11
Total	87,900	82,733

Other information

1. Guarantees and commitments

Operations	30/6/18	30/6/17
1) Financial guarantees given to	295,211	890,885
a) Banks	17,256	198,636
b) Customers	277,955	692,249
2) Commercial guarantees given to	68,942	32,532
a) Banks	5	392
b) Customers	68,937	32,140
3) Irrevocable commitments to disburse funds	10,619,616	6,948,659
a) Banks	398,799	144,384
i) usage certain	398,709	136,496
ii) usage uncertain	90	7,888
b) Customers	10,220,817	6,804,275
i) usage certain	9,086,995	6,369,612
ii) usage uncertain	1,133,822	434,663
4) Commitments underlying credit derivatives protection sales [1]	19,893,957	11,782,148
5) Assets formed as collateral for third-party obligations	—	—
6) Other commitments	4,081,688	3,468,325
Total	34,959,414	23,122,549

[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	2,465,649
2. Financial instruments designated at fair value	—	—
3. Financial instruments available for sale	1,333,617	2,182,786
4. Financial instruments held to maturity	823,976	1,053,482
5. Loans and receivables with banks	335,086	422,844
6. Loans and receivables with customers	8,992,820	12,867,975
7. Property, plant and equipment	—	—

5. Assets managed and traded on behalf of customers

Type of service	30/6/18	30/6/17
1. Orders execution on behalf of customers	33,181,962	29,743,503
a) purchases	16,781,417	14,901,757
1. settled	16,633,525	14,756,642
2. unsettled	147,892	145,115
b) sales	16,400,545	14,841,746
1. settled	16,252,653	14,696,631
2. unsettled	147,892	145,115
2. Portfolio management	29,967,839	15,668,947
a) Individual	13,010,988	6,010,445
b) Collective	16,956,851	9,658,502
3. Custody and administration of securities	51,095,550	50,162,636
a) Third-party securities on deposits; relating to depositary banks activities (excluding segregating accounts)	8,894,582	9,682,059
1. securities issued by companies included in area of consolidation	194,759	297,405
2. other securities	8,699,823	9,384,654
b) Third-party securities held in deposits (excluding segregating accounts): other	15,604,059	13,947,083
1. securities issued by companies included in area of consolidation	34	151,496
2. other securities	15,604,025	13,795,587
c) securities of third deposited to third	18,026,801	16,453,997
d) property securities deposited to third	8,570,108	10,079,497
4. Other operations	1,934,851	572,029

6. 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	3,135,135	—	3,135,135	2,360,839	355,597	418,699	465,076
2. Repos	5,348,747	—	5,348,747	5,348,747	—	—	—
3. Securities lending	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—
Total 30/6/18	8,483,882	—	8,483,882	7,709,586	355,597	418,699	X
Total 30/6/17	8,946,241	—	8,946,241	8,144,127	337,038	X	465,076

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

Instrument type	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	3,077,978	49,050	3,028,928	2,360,839	450,886	217,203	378,365
2. Repos	4,628,811	—	4,628,811	4,628,811	—	—	—
3. Securities lending	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—
Total 30/6/18	7,706,789	49,050	7,657,739	6,989,650	450,886	217,203	X
Total 30/6/17	6,387,397	38,687	6,348,710	5,520,449	449,896	X	378,365

Part C – Notes to consolidated 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 hedl for trading - Cash instruments	13,442	1,840	—	15,282	38,899
2. Financial assets designated at fair value through profit or loss	—	—	—	—	—
3. Available for sale financial assets	64,338	—	—	64,338	84,451
4. Held to maturity investments	41,844	—	—	41,844	44,656
5. Loans and receivables with banks	—	27,873	1	27,874	25,112
6. Loans and receivables with customers	7,100	1,623,211	—	1,630,311	1,578,093
7. Hedging derivatives	X	X	97,999	97,999	134,371
8. Other assets	X	X	19,154	19,154	10,830
Total	126,724	1,652,924	117,153	1,896,801	1,916,412

For the year ending on 30 June 2017, Banca Esperia contribute referred only to the quarter from March to June; the contribute for the nine months ending in March would have been equal to 12,759,000.

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	1,533,193	332,915
B. Negative differentials related to hedging operations	(1,435,194)	(198,544)
C. Net differentials (A-B)	97,999	134,371

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	170,929	215,149
Interest income from leasing	85,985	61,144
Interest income on receivables involving customers' funds held on a discretionary basis	—	—
Total	256,914	276,293

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)	(1,773)
2. Deposits from banks	(21,160)	X	—	(21,160)	(19,554)
3. Deposits from customers	(60,318)	X	—	(60,318)	(96,525)
4. Debt securities in issue	X	(444,459)	—	(444,459)	(513,917)
5. Financial liabilities held for trading	—	—	—	—	—
6. Financial liabilities at fair value through profit or loss	—	—	—	—	—
7. Other liabilities and found	X	X	(4,109)	(4,109)	(7,115)
8. Hedging derivatives	X	X	—	—	—
Total	(82,192)	(444,459)	(4,109)	(530,760)	(638,884)

For the year ending on 30 June 2017, Banca Esperia contribute referred only to the quarter from March to June; the contribute for the nine months ending in March would have been equal to €4.4m.

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	(71,992)	(71,369)
Interest expense on finance lease transactions	—	—
Interest payable on customers' funds held on a non-discretionary basis	—	—
Total	(71,992)	(71,369)

SECTION 2

Headings 40 and 50: Net fee and commission income

2.1 Fee and commission income: breakdown

Total	12 mths ended 30/6/18	12 mths ended 30/6/17
a) guarantees given	2,076	306
b) credit derivatives	—	—
c) management, brokerage and consultancy incomes:	353,706	294,997
1. securities trading	12,993	13,435
2. currency trading	—	90
3. portfolio management	100,565	43,306
3.1 individual	32,377	20,189
3.2 collective	68,188	23,117
4. custody and administration of securities	9,879	13,440
5. custodian bank	7,458	7,458
6. placement of securities	102,897	113,652
7. reception and transmission of orders	15,047	13,598
8. advisory services	8,976	8,229
8.1 related to investments	8,976	8,229
8.2 related to financial structure	—	—
9. distribution of third parties services	95,891	81,789
9.1 portfolio management	32,188	24,126
9.1.1 individual	31,887	24,126
9.1.2 collective	301	—
9.2 insurance products	59,761	53,287
9.3 other products	3,942	4,376
d) collection and payment services	21,238	20,315
e) securitization servicing	61	—
f) factoring services	5,786	4,115
g) tax collection services	—	—
h) manaement of multilateral trading facilities	—	—
i) management of current accounts	5,042	5,113
j) other services	202,740	157,670
Total	590,649	482,516

For the year ending on 30 June 2017, Banca Esperia contribute referred only to the quarter from March to June; the contribute for the nine months ending in March would have been equal to €65.5m.

Figures for the year ending in June 2018 include also €19.9m deriving from the consolidation of RAM AI (only for the last four months), linked to asset management of funds on a collective basis.

2.2 Fees and commissions expenses: breakdown

Services/Amounts	12 mths ended 30/6/18	12 mths ended 30/6/17
a) guarantees received	—	(13)
b) credit derivatives	—	—
c) management, brokerage and consultancy services:	(24,845)	(14,074)
1. trading in financial instruments	(8,544)	(7,303)
2. currency trading	—	—
3. portfolio management	(9,839)	(2,197)
3.1 own portfolio	(345)	(94)
3.2 third parties portfolio	(9,494)	(2,103)
4. custody and administration securities	(3,577)	(3,111)
5. financial instruments placement	(2,885)	(1,463)
6. off-site distribution of financial instruments, products and services	—	—
d) collection and payment services	(13,027)	(10,846)
e) other services	(96,443)	(79,656)
Total	(134,315)	(104,589)

For the year ending on 30 June 2017, Banca Esperia contribute referred only to the quarter from March to June; the contribute for the nine months ending in March would have been equal to €10m.

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	3,029	19,110	14,086	2,916
c) Financial assets through profit or loss - other	—	—	—	—
d) Investments	—	X	—	X
Total	64,484	19,839	77,688	3,693

SECTION 4

Heading 80: Net trading income

4.1 Net trading income: breakdown

Transaction/Income	Unrealized profit (A)	Realized profit (B)	Unrealized losses (C)	Realized losses (D)	Net Profit (A+B)-(C+D)
1. Financial assets held for trading	122,466	245,073	(269,943)	(277,837)	(180,241)
1.1 Debt securities	85,791	44,259	(91,056)	(37,673)	1,321
1.2 Equity	33,626	197,586	(149,419)	(212,377)	(130,584)
1.3 Units in investment funds	3,039	1,749	(29,159)	(27,742)	(52,113)
1.4 Loans	10	1,479	(309)	(45)	1,135
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	(13,393)
4. Derivatives	2,442,420	1,734,552	(2,351,672)	(1,642,277)	232,295
4.1 Financial derivatives	2,152,903	1,248,678	(1,383,426)	(1,179,506)	887,921
- on debt securities and interest rates [1]	1,460,648	249,921	(803,251)	(227,678)	679,640
- on equity securities and shares' indexes	692,255	960,111	(578,628)	(951,828)	121,910
- on currencies and gold	X	X	X	X	49,273
- other	—	38,646	(1,547)	—	37,098
4.2 Credit derivatives	289,517	485,874	(968,246)	(462,771)	(655,626)
Total	2,564,886	1,979,625	(2,621,615)	(1,920,114)	38,662

[1] Of which minus €1,811,000 in positive margins on interest rate derivatives (30/6/17: €1,927,000).

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	289,223	171,976
A.2 Hedged asset items (in fair value hedge relationships)	51,784	22,995
A.3 Hedged liability items (in fair value hedge relationship)	269,236	473,221
A.4 Cash-flows hedging derivatives (including ineffectiveness of net investment hedge)	—	5
A.5 Assets and liabilities denominated in currency (not derivative hedging instruments)	—	—
Total gains on hedging activities (A)	610,243	668,197
B. Losses on:		
B.1 Fair value hedging instruments	(479,797)	(480,864)
B.2 Hedged asset items (in fair value hedge relationships)	(63,163)	(62,531)
B.3 Hedged liability items (in fair value hedge relationship)	(64,425)	(109,019)
B.4 Cash-flows hedging derivatives (including ineffectiveness of net investment hedge)	(1)	(1)
B.5 Assets and liabilities denominated in currency (not derivative hedging instruments)	—	—
Total losses on hedging activities (B)	(607,386)	(652,415)
C. Net profit from hedging activities (A-B)	2,857	15,782

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 2016/17		
	Gains	Losses	Net profit	Gains	Losses	Net profit
Financial assets						
1. Loans and receivables with banks	5,502	(7,350)	(1,848)	—	(469)	(469)
2. Loans and receivables with customers	11,502	(19,017)	(7,515)	1,681	(12,344)	(10,663)
3. Financial assets available for sale	133,371	(10,305)	123,066	203,826	(20,488)	183,338
3.1 Debt securities	34,836	(10,189)	24,647	27,981	(20,452)	7,529
3.2 Equity instruments	96,205	—	96,205	175,083	(21)	175,062
3.3 Units in investment funds	2,330	(116)	2,214	762	(15)	747
3.4 Loans	—	—	—	—	—	—
4. Financial assets held to maturity	462	(1,381)	(919)	3,522	(1,432)	2,090
Total assets	150,837	(38,053)	112,784	209,029	(34,733)	174,296
Financial liabilities						
1. Deposits with banks	2,183	—	2,183	—	—	—
2. Deposits with customers	—	—	—	—	—	—
3. Debt securities in issue	—	(9,910)	(9,910)	—	(17,886)	(17,886)
Total liabilities	2,183	(9,910)	(7,727)	—	(17,886)	(17,886)

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			
	Writeoffs	Other		A	B	A	B		
A. Loans and receivables with banks									
- Loans	—	—	(12)	—	—	—	771	759	(477)
- Debt receivables	—	—	—	—	—	—	—	—	—
B. Loans and receivables with customers									
Deteriorated purchased loans									
- Loans	(27,810)	—	X	—	41,808 [1]	X	X	13,998	2,383
- Debt securities	—	—	X	—	—	X	X	—	—
Other receivables									
- Loans	(23,657)	(281,000)	(226,697)	3,914	125,326	—	177,462	(224,652)	(286,546)
- Debt receivables	—	—	(2)	—	—	—	666	664	(1,183)
C. Total	(51,467)	(281,000)	(226,711)	3,914	167,134	—	178,899	(209,231)	(285,823)

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

Legend

A = interest

B = other amounts recovered.

8.2 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	Other	A	B		
A. Debt securities [1]	—	(713)	—	—	(713)	—
B. Equity instruments [2]	—	(2,165)	X	X	(2,165)	(3,026)
C. Units in investment funds	—	(1,780)	X	—	(1,780)	(53)
D. Loans to banks	—	—	—	—	—	—
E. Loans to customers	—	—	—	—	—	—
Total	—	(4,658)	—	—	(4,658)	(3,079)

[1] It relates to the write-off of ABS securities, underwritten in respect of the operation involving Cassa di Risparmio di Cesena.

[2] Related to the operation involving Cassa di Risparmio di Cesena.

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	Other		A	B	A	B		
A. Debt securities	—	—	—	—	—	—	3,264	3,264	(2,864)
B. Loans to banks	—	—	—	—	—	—	—	—	—
C. Loans to customers	—	—	—	—	—	—	—	—	—
D. Total	—	—	—	—	—	—	3,264	3,264	(2,864)

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	Other		A	B	A	B		
A. Guarantees given	—	(73)	(3)	—	—	—	259	183	(215)
B. Credit derivatives	—	—	—	—	—	—	—	—	—
C. Commitments to disburse funds	—	(336)	(6,076)	—	1,796	—	3,174	(1,442)	3,489
D. Other transactions	(720)	(286)	—	—	756	—	—	(250)	(5,181)
E. Total	(720)	(695)	(6,079)	—	2,552	—	3,433	(1,509)	(1,907)

Legend

A = interest

B = other amounts recovered.

SECTION 9

Heading 150: Net premium

9.1 Net premium income: breakdown

Premium for insurance	Direct business	Indirect business	12 mths ended 30/6/18	12 mths ended 30/6/17
A. Life business				
A.1 Gross premiums written (+)	—	—	—	—
A.2 Reinsurance premiums paid (-)	—	X	—	—
A.3 Total	—	—	—	—
B. Non-life business				
B.1 Gross premiums written (+)	—	72,812	72,812	69,709
B.2 Reinsurance premiums paid (-)	—	X	—	—
B.3 Change in gross value of premium reserve (+/-)	—	(14,945)	(14,945)	(17,385)
B.4 Change in provision for unearned premiums ceded to reinsurers (+/-)	—	—	—	—
B.5 Total	—	57,867	57,867	52,324
C. Total net premiums	—	57,867	57,867	52,324

SECTION 10

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

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

	12 mths ended 30/6/18	12 mths ended 30/6/17
1. Net change in insurance provisions	—	—
2. Claims paid pertaining to the year [1]	(3,028)	(7,753)
3. Other income and expense (net) from insurance business	(5,961)	(6,674)
Total	(8,989)	(14,427)

[1] The item "Claims paid pertaining to the year" includes write-backs of €6.4m, accounted during the first half of the fiscal year and related to the evaluation reserve of risks on claims estimated but not yet incurred.

10.3 Breakdown of sub-heading "Claims paid out during the year"

Changes for claims	12 mths ended 30/6/18	12 mths ended 30/6/17
Life-business: expense related to claims, net of reinsurers' portion		
A. Amounts paid out	—	—
A.1 Gross annual amount	—	—
A.2 Amount attributable to reinsurers	—	—
B. Change in reserve for amount payable	—	—
B.1 Gross annual amount	—	—
B.2 Amount attributable to reinsurers	—	—
Total life-business claims	—	—
Non-life business: expense related to claims, net of amounts recovered from reinsurers		
C. Claims paid	(8,094)	(7,026)
C.1 Gross annual amount	(8,094)	(7,026)
C.2 Amount attributable to reinsurers	—	—
D. Change in recoveries net of reinsurers portion	—	—
E. Change in claims reserves	5,066	(727)
E.1 Gross annual amount	5,066	(727)
E.2 Amount attributable to reinsurers	—	—
Total non-life business claims	(3,028)	(7,753)

SECTION 11

Heading 180: Administrative expenses

11.1 Personnel costs: breakdown

Type of expense/Amounts	12 mths ended 30/6/18	12 mths ended 30/6/17
1) Employees	(538,753)	(512,385)
a) wages and salaries	(390,024)	(360,464)
b) social security contributions	(86,670)	(82,350)
c) Severance pay (only for Italian legal entities)	(1,901)	(1,892)
d) social security costs	—	—
e) allocation to employees severance pay provision	(11,368)	(10,438)
f) provision for retirement and similar provisions	—	—
- defined contribution	—	—
- defined benefits	—	—
g) payments to external pension funds	(15,517)	(14,257)
- defined contribution	(15,517)	(14,257)
- defined benefits	—	—
h) expenses resulting from share-based payments	(10,980)	(12,081)
i) other employees' benefits	(22,293)	(30,903)
2) Other staff	(5,192)	(4,773)
3) Directors and Statutory Auditors	(8,047)	(8,282)
4) Early retirement costs	(5,832)	(6,507)
Total	(557,824)	(531,947)

For the year ending on 30 June 2017, Banca Esperia contribute referred only to the quarter from March to June; the contribute for the nine months ending in March would have been equal to €37.4m.

11.2 Average number of staff by category

	12 mths ended 30/6/18	12 mths ended 30/6/17
Employees:		
a) Senior executives	395	330
b) Executives	1,818	1,608
c) Other employees	2,482	2,433
Other staff	231	205
Total	4,925	4,576

11.5 Other administrative expenses: breakdown

	12 mths ended 30/6/18	12 mths ended 30/6/17
OTHER ADMINISTRATIVE EXPENSES		
– legal, tax and professional services	(65,384)	(91,525)
– loan recovery activity	(62,695)	(52,623)
– marketing and communications	(47,683)	(51,390)
– property	(52,618)	(54,616)
– EDP	(107,616)	(79,926)
– info-provider	(37,627)	(34,633)
– bank charges, collection and payment fees	(19,747)	(17,455)
– operating expenses	(65,647)	(79,389)
– other staff expenses	(24,422)	(21,977)
– other costs [1]	(61,366)	(131,500)
– indirect and other taxes	(69,571)	(71,023)
Total other administrative expenses	(614,376)	(686,057)

[1] Includes €46,300,000 (30/6/17: €88,000,000) transfer to various resolution funds.

For the year ending on 30 June 2017, Banca Esperia contribute referred only to the quarter from March to June; the contribute for the nine months ending in March would have been equal to €20.8m.

SECTION 12

Heading 190: Net transfers to provisions

12.1 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	(1,111)	(300)
Net transfers to provisions for risks and charges - promotional commitment	—	—
Net transfers to provisions for risks and charges - certain or probable exposures or commitments [1]	(25,566)	(16,087)
Total transfers to provisions for risks and charges	(26,677)	(16,387)

[1] Includes the effect of discounting such items.

SECTION 13

Heading 200: Net adjustments to tangible assets

13.1 Net adjustments to tangible assets: breakdown

Assets/Income	Depreciation (a)	Impairment losses (b)	Write - backs (c)	Net result (a+b+c)
A. Property, equipment and investment properties				
A.1 Owned	(15,952)	—	—	(15,952)
- For operational use	(13,941)	—	—	(13,941)
- For investment	(2,011)	—	—	(2,011)
A.2 Acquired through finance lease	—	—	—	—
- For operational use	—	—	—	—
- For investment	—	—	—	—
Total	(15,952)	—	—	(15,952)

SECTION 14

Heading 210: Net adjustments to intangible assets

14.1 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	(27,928)	—	—	(27,928)
- Software	(4,247)	—	—	(4,247)
- Other	(23,681)	—	—	(23,681)
A.2 Acquired through finance lease	—	—	—	—
Total	(27,928)	—	—	(27,928)

SECTION 15

Heading 220: Other operating income (expense)

15.1 Other operating expense: breakdown

Income-based components/Values	12 mths ended 30/6/18	12 mths ended 30/6/17
a) Leasing activity	(11,490)	(14,861)
b) Sundry costs and expenses [1]	(9,823)	(149,324)
Total	(21,313)	(164,185)

[1] For the ending on 30 June 2017, the item includes €141,690,000 in relation to the purchase price allocation process for the Barclays business unit.

15.2 Other operating income: breakdown

Tipologia servizi/Valori	12 mths ended 30/6/18	12 mths ended 30/6/17
a) Amounts recovered from customers	79,674	60,883
b) Leasing activity	10,296	11,363
c) Other income [1]	99,162	335,242
Total	189,132	407,488

[1] For the ending on 30 June 2017, the item includes €240,000,000 in badwill collected as part of the Barclays' acquisition.

SECTION 16

Heading 240: Gains (losses) on equity investments

16.1 Gains (losses) on equity investments: breakdown

Income/Value	12 mths ended 30/6/18	12 mths ended 30/6/17
1) Joint venture		
A. Incomes	—	238
1. Revaluation	—	238
2. Gains on disposal	—	—
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	—	—
1. Writedowns	—	—
2. Impairment losses	—	—
3. Losses on disposal	—	—
4. Other expenses	—	—
Net profit	—	238
2) Companies subject to significant influence		
A. Incomes	280,291	263,636
1. Revaluation	280,291	263,636
2. Gains on disposal	—	—
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	—	(422)
1. Writedowns	—	—
2. Impairment losses	—	(422)
3. Losses on disposal	—	—
4. Other expenses	—	—
Net profit	280,291	263,214
Total	280,291	263,452

SECTION 19

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

19.1 Net gains (losses) upon disposal of investments: breakdown

Income/Value	12 mths ended 30/6/18	12 mths ended 30/6/17
A. Assets	—	—
- Gains on disposal	—	—
- Losses on disposal	—	—
B. Other assets	475	(1,254)
- Gains on disposal	487	1
- Losses on disposal	(12)	(1,255)
Net result	475	(1,254)

SECTION 20

Heading 290: Income tax on ordinary activities

20.1 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 (-)	(150,497)	(132,899)
2. Changes of current tax expense of previous years (+/-) [1]	2,782	765
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 (+-)	(86,902)	(28,488)
5. Changes of deferred tax liabilities (+/-)	6,497	(11,116)
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(228,120)	(171,738)

[1] The item "Changes of current tax expense of previous years" mainly refers to CheBanca!, whose variation derives from: the different tax treatment for items arising from the PPA process (following an explanation provided by the Italian revenue authority); elimination of the one-off increase; and the tax wedge being defined correctly.

20.2 Reconciliation between theoretical and effective tax burden

Income/Value	12 mths ended 30/6/18	
	Amounts %	Absolute value
Total profit or loss before tax from current operations	100.00%	1,095,846
Theoretical tax rate	27.50%	301,358
Dividends (-)	-3.97%	(43,498)
Gains on disposals of equity investments (PEX) (-)	-2.14%	(23,502)
Gains on equity-accounted investments (-)	-6.94%	(76,033)
Changes in deferred tax for previous years (-)	-0.09%	(1,026)
Other taxes (non-Italian companies) (+/-)	-0.01%	(64)
Non-taxable income 10% IRAP (-)	-0.05%	(501)
Interest on exempt securities (-)	—	—
Tax losses (-)	—	—
Tax sparing credit (-)	-0.02%	(233)
Non-deductible interest expense 4% (+)	—	—
Benefit from tax consolidation (-)	0.00%	(1)
Impairment (+/–)	0.01%	104
Extraordinary items (IRES surtax)	-0.07%	(797)
Other differences (+/-)	2.98%	32,693
TOTAL IRES	17.20%	188,499
IRAP	3.62%	39,621
TOTAL HEADING [1]	20.82%	228,120

[1] Compared with a tax rate of 18.63% last year.

SECTION 22

Heading 330: Net profit (loss) attributable to minorities

22.1 Breakdown of Heading 330, "Net profit (loss) for the year attributable to minorities"

Company name	12 mths ended 30/6/18	12 mths ended 30/6/17
1. SelmaBipiemme S.p.A.	3,237	(7,935)
2. RAM Active Investments	579	—
3. Others	(10)	(16)
Total	3,806	(7,951)

SECTION 24

Earnings per share

24.1Average number of ordinary shares on a diluted basis

	12 mths ended 30/6/18	12 mths ended 30/6/17
Net profit	863,920	750,200
Avg. no. of shares in issue	859,633,153	854,445,929
Avg. no. if potentially diluted shares	5,738,709	9,508,213
Avg. no. of diluted shares	865,371,862	863,954,142
Earnings per share	1.0	0.88
Earnings per share, diluted	1.0	0.87

Part D - Comprehensive consolidated profit and loss account

Breakdown of Comprehensive Profit and Loss Constituents

	Items	Before tax effect	Tax effect	After tax effect
10.	**Net profit (loss)**	**X**	**X**	**867,726**
	Other income items not passing through P&L			
20.	Property, plant and equipment	—	—	—
30.	Intangible assets	—	—	—
40.	Defined benefits plans	(457)	106	(351)
50.	Non-current assets classified as held for sale	—	—	—
60.	Valuation reserves from equity-accounted investments:	(734)	—	(734)
	Other income items passing through P&L			
70.	**Hedges of non-Italian investments:**	**—**	**—**	**—**
	a) changes in fair value:	—	—	—
	b) reclassifications through profit or loss account	—	—	—
	c) other variations	—	—	—
80.	**Exchange differences:**	**(2,752)**	**—**	**(2,752)**
	a) changes in fair value:	—	—	—
	b) reclassifications through profit or loss account	—	—	—
	c) other variations	(2,752)	—	(2,752)
90.	**Cash flow hedges:**	**31,302**	**(2,048)**	**29,254**
	a) changes in fair value:	31,302	(2,048)	29,254
	b) reclassifications through profit or loss account	—	—	—
	c) other variations	—	—	—
100.	**AFS securities:**	**(234,876)**	**37,060**	**(197,816)**
	a) changes in fair value:	(74,250)	17,268	(56,982)
	b) reclassifications through profit or loss account	(160,626)	19,792	(140,834)
	- due to impairment	—	—	—
	- gain/losses on disposals	(160,626)	19,792	(140,834)
	c) other variations	—	—	—
110.	**Non-current assets classified as held for sale:**	**—**	**—**	**—**
	a) changes in fair value:	—	—	—
	b) reclassifications through profit or loss account	—	—	—
	c) other variations	—	—	—
120.	**Valuation reserves from equity-accounted investments:**	**65,907**	**—**	**65,907**
130.	**Total other comprehensive income**	**(141,610)**	**35,118**	**(106,492)**
140.	**Comprehensive income after tax (10 + 130)**	**X**	**X**	**761,234**
150.	Consolidated comprehensive income attributable to minorities	X	X	4,446
160.	**Consolidated comprehensive income attributable to parent company**	**X**	**X**	**756,788**

Part E - Information on risks and related hedging policies

SECTION 1

Banking Group Risks

1.1 CREDIT RISK

QUALITATIVE INFORMATION

Description of risk governance organization

The Mediobanca Group has equipped itself with a risk governance and control system which is structured across a variety of organizational units involved in the process, with a view to ensuring that all relevant risks to which the Group is or might be exposed are managed effectively, and at the same time guaranteeing that all forms of operations are consistent with their own propensity to risk.

The Board of Directors, in view in particular of its role of strategic supervision, is responsible for approving strategic guidelines and directions of the risk appetite framework (RAF), the Internal Rating Systems (IRB) at the parent company level and the Roll-Out Scheme for gradually extending the IRB approach across the whole Group, business and financial plans, budgets, 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.

Risk Management is organized around local teams based at the various Group companies, in accordance with the principle of proportionality, under the co-ordination of the Risk Management unit at parent company Mediobanca (the Group Risk Management unit), which also performs specific activities for the Mediobanca S.p.A. scope of risk, in the same way that the local teams do for their own companies. The Group Risk Management unit, which reports directly to the Chief Executive Officer under the Group Chief Risk Officer's 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 Mediobanca Group has identified the relevant risks to be submitted to specific assessment in the course of the reporting for the ICAAP (Internal Capital Adequacy Assessment Process), in accordance with the Bank of Italy instructions contained in circular no. 285 issued on 17 December 2013, "Supervisory instructions for banks" as amended, appraising its own capital adequacy from both a present and future perspective which takes into account the strategies and development of the reference scenario.

Credit risk

With reference to the authorization process to use AIRB models to calculate the regulatory capital requirements for credit risk, the Group has been authorized by the supervisory authorities to calculate its capital requirements using its own internal rating system (based on the Probability of Default and Loss Given Default indicators) for the Mediobanca and Mediobanca International corporate loan books.

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 Group has also instituted internal rating models for credit risk in the following customer segments (in addition to the Corporates segment referred to above): Banks (customers mostly targeted by Mediobanca S.p.A.), Mid-corporate and Small businesses (customers targeted mostly by the leasing companies), and Private individuals (targeted by Compass for consumer credit, CheBanca! for mortgage lending, and MBFacta for instalment factoring). The validation process for the AIRB models to be adopted for mortgage lending by CheBanca! is currently in progress.

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 carried out as part of corporate banking and leasing business, or alternatively, on certain predefined conditions being recorded in consumer credit activities (e.g. the number of times overdue instalments have had to be queued) and mortgage lending (e.g. whether the borrower has been made unemployed, cases of serious illness and/or divorce and separation).

Corporate lending (Mediobanca)

The Group's internal system for managing, evaluating and controlling credit risk reflects its traditional policy based on a prudent and highly selective approach. Lending decisions are based on individual analysis, which builds on adequate and often extensive knowledge of the borrower's business, assets and management, as well as the macro-economic framework in which it operates. At the analysis stage, all relevant documentation is obtained to be order to appraise the borrower's credit standing and define the appropriate remuneration for the risk being assumed. The analysis also includes an assessment of the duration and amount of the loans being applied for, the provision of appropriate guarantees, and the use of covenants in order to prevent deteriorations in the counterparty's credit rating.

With reference to the correct application of credit risk mitigation techniques, specific activities are implemented to define and meet all the requirements to ensure that the real and personal guarantees have the maximum mitigating effects on the exposures, inter alia to obtain a positive impact on the Bank's capital ratios.

For the assumption of credit risk, all counterparties 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.

Leasing

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

Applications for smaller amounts are approved using a credit scoring system developed on the basis of historical series of data, tailored to both asset type and the counterparty's legal status (type of company).

The activities of analysis, disbursement, monitoring and credit risk control are significantly supported by the company's information system; and the assets being leased are also subject to a technical assessment.

With a view to aligning risk management with the current complex financial and market scenario, the approval rights have also been revised and the measurement and control processes enhanced through the institution of regular valuations of performing loans, including from an early warning (i.e. watch list) perspective. Sub-standard accounts are managed in a variety of ways which prioritize either recovery of the amount owed or the asset under lease, according to the specific risk profile of the account concerned.

Provisions for non-performing accounts are tested analytically to establish the relative estimated loss against the value of the security provided taken from the results of valuations updated regularly and revised downwards on a prudential basis, and/or any other form of real guarantees issued. Other performing accounts are measured individually on a collective basis according to internal PD ratings and LGD parameters distinguished by product type (vehicle leasing, core goods – including yachts – and property). Accounts which are classified as forborne (performing and non-performing) and entered in the watchlist are subject to regular monitoring by the relevant company units.

Consumer credit (Compass)

Applications for finance are approved on the basis of a credit scoring system tailored to individual products. The scoring grids have been developed from internal historical series, enhanced by data provided by central credit *bureaux*. Points of sale are linked electronically to the company's headquarters, in order to ensure that applications and credit scoring results are processed and transmitted swiftly. Under the system of powers for approval assigned by the company's Board of Directors, for increasing combinations of amount and expected loss, approval is required from by the relevant bodies at headquarters, in accordance with the authorization levels established by the companies' Boards of Directors.

From the first instance of non-payment, accounts are managed using the entire range of recovery procedures, including postal and telephone reminders, external recovery agents, or legal recovery action). After six unpaid instalments (or four unpaid instalments in particular cases, such as credit cards), accounts are held to be officially in default, and the client is deemed to have lapsed from the time benefit allowed under Article 1186 of the Italian Civil Code. As from the six months after such lapse has been ascertained, accounts for which legal action has been ruled out on the grounds of being uneconomic are sold via competitive procedures to factoring companies (in which Group company MBCredit Solutions may also participate), for a percentage of the value of the principal outstanding, which reflects their estimated realizable value.

Provisioning is determined collectively on the basis of PD and LGD metrics which are estimated using internal models. The PD class is assigned on the basis of the acquisition data and subsequent repayment data (including forbearance measures, if any), and the model is fine-tuned based on the default rates observed in each rating class in the last three years. The LGD parameters are based on data for amounts recovered and written off in the last five years. To calculate the provisions for the performing portfolio, losses defined as "incurred but not reported" are quantified by using loss confirmation period of twelve months which is increased to two years for forborne accounts and positions in arrears.

Factoring (MBFACTA)

Factoring includes both traditional factoring (i.e. acquisition of short-term trade receivables, often backed by insurance cover) and non-recourse factoring (acquiring loans from the seller to be repaid via monthly instalments by borrower whose account has been sold, who in virtually all cases is a retail customer).

For traditional factoring, the internal units appraise the solvency of the sellers and the original borrowers via individual analysis using methodologies similar to those adopted for corporate lending, whereas for non-recourse factoring the acquisition price is calculated following due statistical analysis of the accounts being sold, and takes into consideration the projected recoveries, changes and margins.

Provisioning for instalment-based factoring is determined collectively on the basis of historical PD and LGD values distinguished according to the ageing of the receivables. Probability of default in particular is calculated over a time horizon of twelve months and calibrated based on the trend of the last fifteen months, beyond which the indicator loses significance. The LGD values are based on data for amounts collected in the last three years.

NPL business (MBCredit Solutions)

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

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

Private banking (Mediobanca and CMB)

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.

Mortgage lending (CheBanca!)

Mortgage applications are processed and approved centrally at head office. The applications are approved, using an internal rating model, based on individual appraisal of the applicant's income and maximum borrowing levels, as well as the value of the property itself. Risks are monitored on a monthly basis, ensuring the company's loan book is regularly assessed.

Properties established as collateral are subject to a statistical revaluation process which is carried out once a quarter. If the review shows a significant reduction in the value of the property, a new valuation is carried out by an independent expert. A new valuation is generally requested for properties established as security for positions which have become non-performing.

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

Non-performing accounts are managed, for out-of-court credit recovery procedures, by a dedicated organizational structure with the help of external collectors. In cases where a borrower becomes in solvent (or in fundamentally similar situations), the property enforcement procedures are initiated through external lawyer. Procedurally mortgage loans with four or more unpaid instalments (not necessarily consecutive) or cases with persistent irregularities or interest suspended at the legal rate are designated as probable default accounts, and generally become non-performing once the ineffectiveness of the recovery actions has been certified.

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

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

QUANTITATIVE INFORMATION

A. Credit quality

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

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

Asset portfolio/quality	Bad loans *	Unlikely to pay	Overdue exposures (NPLs)	Overdue exposures (performing) [1]	Other performing exposures	Total
1. AFS securities	—	—	—	—	4,770,807	4,770,807
2. Financial assets held to maturity	—	—	—	—	2,595,747	2,595,747
3. Due from banks	—	—	—	28	7,488,601	7,488,629
4. Due from customers	423,290	644,559	62,139	351,375	39,484,168	40,965,531
5. Financial assets recognized at fair value	—	—	—	—	—	—
6. Financial assets being sold	—	—	—	—	—	—
Total 30/6/18	423,290	644,559	62,139	351,403	54,339,323	55,820,714
Total 30/6/17	291,596	727,685	56,033	465,898	52,978,439	54,519,651

[1] Regarding the net exposure in overdue performing loans, the gross value of the unpaid instalments is €21.5m, of which €117.1m is attributable to CheBanca! mortgage loans (0.29% of the performing loans in this segment), €83.5m to consumer credit (0.21%), and €43.9m to leasing (0.11%). The item also includes net exposures being renegotiated under the terms of collective agreements in Consumer Banking (€19.6m) and in mortgage loans granted by CheBanca! (€21.5m).

* Includes the NPLs held by MBCredit Solutions (see p. 214 below).

*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	—	—	—	4,770,807	—	4,770,807	4,770,807
2. Financial assets held to maturity	—	—	—	2,602,239	(6,492)	2,595,747	2,595,747
3. Due from banks	—	—	—	7,490,297	(1,668)	7,488,629	7,488,629
4. Due from customers	2,231,047	(1,101,059)	1,129,988	40,253,437	(417,893)	39,835,543	40,965,531
5. Financial assets recognized at fair value	—	—	—	X	X	—	—
6. Financial assets being sold	—	—	—	—	—	—	—
Total 30/6/18	2,231,047	(1,101,059)	1,129,988	55,116,780	(426,053)	54,690,726	55,820,714
Total 30/6/17	2,207,014	(1,131,700)	1,075,314	53,866,758	(422,421)	53,444,337	54,519,651

* Includes the NPLs held by MBCredit Solutions (see p. 214 below).

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	6,387,209
2. Hedge derivatives	—	—	225,814
Total 30/6/18	—	7,881	6,613,023
Total 30/6/17	—	9,268	6,291,890

Information on sovereign debt exposures

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

Portfolio/quality	Non performing loans				Performing			Total net exposure [1]
	Gross exposure	Individual adjustments	Collective adjustments	Net exposure	Gross exposure	Collective adjustments	Net exposure	
1. Financial assets held for trading	—	—	—	—	X	X	(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	—	—	—	—	3,543,504	—	3,543,504	3,543,504
Italy	—	—	—	—	1,612,855	—	1,612,855	1,612,855
Germany	—	—	—	—	1,081,683	—	1,081,683	1,081,683
United States	—	—	—	—	468,407	—	468,407	468,407
France	—	—	—	—	218,626	—	218,626	218,626
Spain	—	—	—	—	161,933	—	161,933	161,933
3. Financial assets held to maturity	—	—	—	—	1,871,380	—	1,871,380	1,871,380
Italy	—	—	—	—	1,132,125	—	1,132,125	1,132,125
France	—	—	—	—	353,013	—	353,013	353,013
Spain	—	—	—	—	202,626	—	202,626	202,626
Germany	—	—	—	—	151,006	—	151,006	151,006
Others	—	—	—	—	32,610	—	32,610	32,610
Total 30/6/18	—	—	—	—	5,414,884	—	5,285,635	5,285,635

* 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 €6.7m.

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	2,696,552	2,744,980	2,735,130	2.69
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	360,000	364,559	367,056	3.51
United States	—	—	—	467,490	468,407	468,407	1.94
France	(199,440)	(223,950)	2.71	565,400	571,639	574,882	2.75
Others	(212,827)	(214,833)	—	39,467	32,610	41,966	—
Total 30/6/18	(125,614)	(129,249)		5,303,909	5,414,884	5,421,626	

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

Type of exposure/asset	Gross exposure					Individual adjustments	Collective adjustments	Net exposure
	Non-performing loans				Performing loans			
	Up to three months	From three to six months	From six months to one year	More than one year				
A. CASH EXPOSURES								
a) Bad loans *	—	—	—	—	X	—	X	—
- *of which: forborne exposures*	—	—	—	—	*X*	—	*X*	—
b) Unlikely to pay	—	—	—	—	X	—	X	—
- *of which: forborne exposures*	—	—	—	—	*X*	—	*X*	—
c) Overdue exposures (NPLs)	—	—	—	—	X	—	X	—
- *of which: forborne exposures*	—	—	—	—	*X*	—	*X*	—
d) Overdue exposures (performing)	X	X	X	X	28	X	—	28
- *of which: forborne exposures*	*X*	*X*	*X*	*X*	—	*X*	—	—
e) Other exposures (performing)	X	X	X	X	8,507,849	X	(1,842)	8,506,007
- *of which: forborne exposures*	*X*	*X*	*X*	*X*	—	*X*	—	—
Total A	—	—	—	—	8,507,877	—	(1,842)	8,506,035
B. OFF-BALANCE-SHEET EXPOSURES								
a) Non-performing	—	—	—	—	X	—	X	—
b) Performing [1]	X	X	X	X	45,261,808	X	—	45,261,808
Total B	—	—	—	—	45,261,808	—	—	45,261,808
Total (A+B)	—	—	—	—	53,769,685	—	(1,842)	53,767,843

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

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

Type of exposure/asset	Gross exposure					Individual adjustments	Collective adjustments	Net exposure
	Non-performing loans				Performing loans			
	Up to three months	From three to six months	From six months to one year	More than one year				
A. CASH EXPOSURES								
a) Bad loans *	38,291	499	10,357	763,191	X	(389,048)	X	423,290
- of which: forborne exposures	*10,429*	*220*	*2,873*	*82,122*	*X*	*(79,264)*	*X*	*16,380*
b) Unlikely to pay	813,376	59,762	184,707	194,718	X	(608,004)	X	644,559
- of which: forborne exposures	*759,467*	*31,725*	*64,500*	*114,380*	*X*	*(444,436)*	*X*	*525,636*
c) Overdue exposures (NPLs)	29,624	105,550	13,933	17,039	X	(104,007)	X	62,139
- of which: forborne exposures	*7,210*	*28,810*	*104*	*105*	*X*	*(27,409)*	*X*	*8,820*
d) Overdue exposures (performing)	X	X	X	X	429,991	X	(78,616)	351,375
- of which: forborne exposures	*X*	*X*	*X*	*X*	*65,709*	*X*	*(22,173)*	*43,536*
e) Other exposures (performing)	X	X	X	X	49,010,708	X	(345,595)	48,665,113
- of which: forborne exposures	*X*	*X*	*X*	*X*	*704,418*	*X*	*(44,618)*	*659,800*
Total A	881,291	165,811	208,997	974,948	49,440,699	(1,101,059)	(424,211)	50,146,476
B. OFF-BALANCE-SHEET EXPOSURES								
a) Non-performing	12,266	—	—	—	X	(2,402)	X	9,864
b) Performing	X	X	X	X	31,788,473	X	(13,002)	31,775,471
Total B	12,266	—	—	—	31,788,473	(2,402)	(13,002)	31,785,335
Total (A+B)	893,557	165,811	208,997	974,948	81,229,172	(1,103,461)	(437,213)	81,931,811

* Includes the NPLs held by MBCredit Solutions (see below).

The non-performing items include €287.9m attributable to MBCredit Solutions, i.e. acquisitions of non-performing loans with a nominal value of €4.3bn. Of these items, €11.1m (with a nominal book value of €609.5m) involve assets acquired from other Group companies, mostly those involved in consumer credit activities.

A.1.7 Banking Group - Cash exposures to customers: trends in gross impaired positions

Descriptions/categories	Bad loans *	Unlikely to pay	Overdue exposures (NPLs)
A. Gross exposure at beginning of the period	661,673	1,394,037	151,304
- of which: exposures sold but not derecognized	*23,640*	*93,584*	*48,959*
B. Additions	369,566	564,325	482,873
B.1 transferred from performing exposures	2,109	152,593	417,161
B.2 transferred from other categories of non-performing exposure	164,138	335,644	49,119
B.3 other additions	203,319	76,088	16,593
C. Reductions	218,901	705,799	468,031
C.1 transferred to performing exposures	3,949	100,207	52,086
C.2 writeoffs	120,067	138,945	4,025
C.3 collections	71,774	172,061	59,090
C.4 amounts realized on disposals	7,084	40,788	63
C.5 losses incurred on disposals	688	16,690	1,257
C.6 transferred to other categories of non-performing exposure	2,530	198,426	347,945
C.7 other reductions	12,809	38,682	3,565
D. Gross exposure at end of period	812,338	1,252,563	166,146
- of which: exposures sold but not derecognized	*48,122*	*148,994*	*62,744*

* Includes the NPLs held by MBCredit Solutions (see p. 214 below).

The heading "Other additions" primarily includes the portfolios of assets acquired by MBCredit Solutions.

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

Descriptions/categories	Overdue exposures for which concessions have been made (NPLs)	Overdue exposures for which concessions have been made (performing)
A. Gross exposure at beginning of the period	1,194,263	707,498
- of which: exposures sold but not derecognized	*36,646*	*84,315*
B. Additions	318,201	497,511
B.1 transferred from performing exposures for which no concessions have been made	17,737	382,954
B.2 transferred from performing exposures for which concessions have been made	111,302	X
B.3 transferred from non-performing exposures for which concessions have been made	X	57,189
B.4 other additions	189,162	57,368
C. Reductions	410,519	434,882
C.1 transferred to performing exposures for which no concessions have been made	X	170,406
C.2 transferred to performing exposures for which concessions have been made	57,189	X
C.3 transferred to non-performing exposures for which concessions have been made	X	111,302
C.4 writeoffs	88,840	173
C.5 collections	135,639	142,475
C.6 amounts realized on disposals	14,683	—
C.7 losses incurred on disposals	4,481	67
C.8 other reductions	109,687	10,459
D. Gross exposure at end of period	1,101,945	770,127
- of which: exposures sold but not derecognized	*78,620*	*112,951*

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

Descriptions/categories	Bad loans *		Unlikely to pay		Overdue exposures (NPLs)	
	Total	Of which: forborne	Total	Of which: forborne	Total	Of which: forborne
A. Overall adjustments at start of period	370,076	69,124	666,352	500,089	95,272	26,695
- of which: exposures sold but not derecognized	*22,447*	*2,774*	*65,996*	*15,672*	*37,359*	*8,240*
B. Additions	177,544	42,905	297,219	118,704	171,433	65,856
B.1 value adjustments	85,392	9,683	150,426	49,221	77,941	14,977
B.2 losses incurred on disposals	689	61	15,271	2,586	1,257	415
B.3 transferred from other categories of non-performing exposure	70,444	23,644	86,578	29,580	20,929	5,748
B.4 other additions	21,019	9,517	44,944	37,317	71,306	44,716
C. Reductions	158,572	32,765	355,567	174,357	162,698	65,142
C.1 amounts reversed following changes in valuation	9,076	3,540	38,228	19,710	6,087	1,560
C.2 amounts reversed following collections	13,493	3,081	55,917	42,945	2,611	1,516
C.3 gains realized on disposals	3,940	1,300	2,180	455	17	—
C.4 writeoffs	120,067	20,671	138,945	62,502	4,025	1,988
C.5 transferred to other categories of non-performing exposure	993	557	81,454	31,995	95,504	30,019
C.6 other reductions	11,003	3,616	38,843	16,750	54,454	30,059
D. Overall adjustments at end of period	389,048	79,264	608,004	444,436	104,007	27,409
- of which: exposures sold but not derecognized	*45,559*	*9,150*	*101,752*	*32,326*	*46,316*	*13,385*

* Includes the NPLs held by MBCredit Solutions (see p. 214 below).

As at 30 June 2018 non-performing loans net of forborne exposures amounted to €551.1m, with a coverage ratio of 50%, while performing loans qualifying as forborne amounted to €703m with a coverage ratio of 9%. Overall the non-performing forborne positions represent 1.34% of the total customer loan book, and the performing forborne exposures 1.72%.

A.2 Classification of credit exposures by internal and external ratings

A.2.1 Banking Group - Cash and off-balance-sheet exposures by external rating category

Exposures	External rating classes						Without rating	Total
	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	Lower than B-		
A. Cash credit exposures	3,275,406	4,223,585	9,332,444	1,869,244	637,566	6,090	39,308,176	58,652,511
B. Derivative contracts	1,603,343	34,503,354	8,946,559	822,073	2,251,715	168,537	16,789,086	65,084,667
B.1 Financial derivative contracts	1,603,343	25,145,046	3,618,875	822,073	2,251,715	168,537	14,841,882	48,451,471
B.2 Credit derivatives [1]	—	9,358,308	5,327,684	—	—	—	1,947,204	16,633,196
C. Guarantees given	—	—	27,594	30,954	2,856	—	737,381	798,785
D. Other commitments to disburse funds	859,688	94,983	4,203,651	840,327	99,574	—	4,078,494	10,176,717
E. Others	—	—	—	—	—	—	986,974	986,974
Total	5,738,437	38,821,922	22,510,248	3,562,598	2,991,711	174,627	61,900,111	135,699,654

[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 Banking Group - Cash and off-balance-sheet exposures by internal rating categories

Exposures	Internal rating classes						NPLs	Without rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6			
A. Cash exposures	3,120,766	6,095,811	17,916,877	15,457,894	6,550,851	721,796	1,129,988	7,658,528	58,652,511
B. Derivative contracts	3,203,270	33,000,392	14,926,848	3,859,501	3,628,135	—	—	6,466,521	65,084,667
B.1 Financial derivative contracts	2,858,476	24,012,878	9,507,264	3,859,501	3,628,135	—	—	4,585,217	48,451,471
B.2 Credit derivatives	344,794	8,987,514	5,419,584	—	—	—	—	1,881,304	16,633,196
C. Guarantees given	—	—	100,548	581,972	15,262	—	203	100,800	798,785
D. Other commitments to disburse funds	935,835	162,698	6,014,855	2,206,542	337,036	2,459	9,180	508,112	10,176,717
E. Others	2,153	115,028	323,316	364,533	174,124	5,549	188	2,083	986,974
Total	7,262,024	39,373,929	39,282,444	22,470,442	10,705,408	729,804	1,139,559	14,736,044	135,699,654

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.

The companies within the Group which use the internal ratings and contribute to the various rating classes indicated apart from Mediobanca S.p.A. are: SelmaBipiemme, Compass/Futuro, CheBanca! and MBFACTA.

A.3 Distribution of secured exposures by type of security

A.3.1 Banking Group - Secured cash exposures to banks

	Net exposures	Collaterals (1)				Guarantees (2)									Total (1)+(2)
						Credit derivatives					Signature loans				
		Property, Mortgages	Financial leasing property	Securities	Other guarantees	CLN	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	683,776	—	1,158	244,992	2,479	—	—	—	—	—	640	—	—	—	249,269
1.1 totally secured	224,254	—	1,158	219,978	2,479	—	—	—	—	—	640	—	—	—	224,255
- 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 Banking Group - Secured cash exposures to customers

	Net exposures	Collaterals (1)				Guarantees (2)									Total (1)+(2)
						Credit derivatives					Signature loans				
		Property, Mortgages	Financial leasing property	Securities	Other guarantees	CLN	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	20,839,645	9,022,769	1,312,362	5,019,590	1,611,001	—	—	—	—	—	38,694	205,541	1,907	945,954	18,157,818
1.1 totally secured	14,781,294	8,604,840	1,312,362	2,539,855	1,310,857	—	—	—	—	—	38,694	53,899	1,907	918,879	14,781,293
- of which impaired	*374,811*	*211,331*	*125,809*	*389*	*17,163*	—	—	—	—	—	—	—	—	*20,119*	*374,811*
1.2 partially secured	6,058,351	417,929	—	2,479,735	300,144	—	—	—	—	—	—	151,642	—	27,075	3,376,525
- of which impaired	*260,249*	*8,634*	—	*6,948*	*24,818*	—	—	—	—	—	—	—	—	*107*	*40,507*
2. Secured off-balance sheet credit exposures	1,577,547	68,023	—	237,707	123,098	—	—	—	—	—	—	—	—	923,682	1,352,510
2.1 totally secured	1,336,323	63,894	—	233,794	122,536	—	—	—	—	—	—	—	—	916,099	1,336,323
- of which impaired	*4,591*	*221*	—	—	—	—	—	—	—	—	—	—	—	*4,370*	*4,591*
2.2 partially secured	241,224	4,129	—	3,913	562	—	—	—	—	—	—	—	—	7,583	16,187
- of which impaired	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

B. Exposures distribution and concentration

B.1 Banking Group - Cash and off-balance-sheet exposures 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	289	(2,037)	X	—	—	X	88,023	(35,569)	X	334,978	(351,442)	X
- of which forborne exposures	—	—	*X*	—	—	*X*	—	—	*X*	—	—	*X*	*11,445*	*(10,559)*	*X*	*4,935*	*(68,705)*	*X*
A.2 Unlikely to pay	—	—	X	12,640	(2,854)	X	18,693	(7,455)	X	—	—	X	427,763	(339,529)	X	185,463	(258,166)	X
- of which forborne exposures	—	—	*X*	—	—	*X*	*14,075*	*(5,043)*	*X*	—	—	*X*	*405,635*	*(322,716)*	*X*	*105,924*	*(115,229)*	*X*
A.3 Past due exposures	—	—	X	1,500	(42)	X	139	(83)	X	—	(2)	X	11,976	(2,681)	X	48,524	(101,199)	X
- of which forborne exposures	—	—	*X*	—	—	*X*	—	—	*X*	—	—	*X*	*93*	*(118)*	*X*	*8,722*	*(27,291)*	*X*
A.4 Performing exposures	7,246,968	X	(2,845)	758,721	X	(179)	4,515,144	X	(12,224)	853,836	X	(1,561)	13,223,367	X	(41,232)	22,418,452	X	(366,170)
- of which forborne exposures	—	*X*	—	—	*X*	—	*214,705*	*X*	*(5,332)*	—	*X*	—	*73,559*	*X*	*(2,085)*	*255,487*	*X*	*(59,335)*
Total A	7,246,968	—	(2,845)	772,861	(2,896)	(179)	4,534,265	(9,575)	(12,224)	853,836	(2)	(1,561)	13,751,129	(377,779)	(41,232)	22,987,417	(710,807)	(366,170)
B. Off-balance-sheet exposures																		
B.1 Bad loans	—	—	X	—	—	X	—	—	X	—	—	X	87	—	X	6	—	X
B.2 Unlikely to pay	—	—	X	—	—	X	5,000	819	X	—	—	X	4,293	(3,200)	X	326	(20)	X
B.3 Past due exposures	—	—	X	—	—	X	—	—	X	—	—	X	102	—	X	50	(1)	X
B.4 Performing exposures	1,844,556	X	—	3,895	X	—	14,591,981	X	(2,377)	717,391	X	—	13,069,475	X	(7,549)	1,548,173	X	(3,076)
Total B	1,844,556	—	—	3,895	—	—	14,596,981	819	(2,377)	717,391	—	—	13,073,957	(3,200)	(7,549)	1,548,555	(21)	(3,076)
Total (A+B) 30/6/18	9,091,524	—	(2,845)	776,756	(2,896)	(179)	19,131,246	(8,756)	(14,601)	1,571,227	(2)	(1,561)	26,825,086	(380,979)	(48,781)	24,535,972	(710,828)	(369,246)
Total (A+B) 30/6/17	8,184,323	—	(3,179)	417,820	(2,264)	(38)	12,172,799	(20,040)	(17,978)	2,051,359	(1)	(2,446)	24,875,336	(450,547)	(60,351)	21,495,231	(662,591)	(343,016)

B.2 Banking Group - 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	413,738	(377,088)	9,236	(11,859)	300	(101)	15	—	1	—
A.2 Unlikely to pay	639,195	(603,559)	4,915	(4,210)	256	(135)	193	(100)	—	—
A.3 Past due exposures	56,908	(103,743)	2,191	(19)	3,025	(244)	—	(1)	15	—
A.4 Performing exposures	35,885,093	(396,631)	10,985,293	(20,539)	1,825,541	(6,714)	55,685	(190)	264,876	(137)
Total A	36,994,934	(1,481,021)	11,001,635	(36,627)	1,829,122	(7,194)	55,893	(291)	264,892	(137)
B. Off-balance-sheet exposures										
B.1 Bad loans	93	—	—	—	—	—	—	—	—	—
B.2 Unlikely to pay	9,619	(2,401)	—	—	—	—	—	—	—	—
B.3 Past due exposures	152	(1)	—	—	—	—	—	—	—	—
B.4 Performing exposures	10,563,886	(7,186)	19,518,631	(5,096)	1,297,324	(176)	153,915	(464)	241,715	(80)
Total B	10,573,750	(9,588)	19,518,631	(5,096)	1,297,324	(176)	153,915	(464)	241,715	(80)
Total (A+B) 30/6/18	47,568,684	(1,490,609)	30,520,266	(41,723)	3,126,446	(7,370)	209,808	(755)	506,607	(217)
Total (A+B) 30/6/17	44,859,953	(1,459,994)	22,439,164	(97,359)	1,589,649	(3,911)	36,967	(189)	271,135	(998)

B.3 Banking Group - 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	—	—	—	—	—	—	—	—	—	—
A.4 Performing exposures	2,508,976	(610)	5,940,528	(1,213)	50,281	(19)	6,017	—	233	—
Total A	2,508,976	(610)	5,940,528	(1,213)	50,281	(19)	6,017	—	233	—
B. Off-balance-sheet exposures										
B.1 Bad loans	—	—	—	—	—	—	—	—	—	—
B.2 Unlikely to pay	—	—	—	—	—	—	—	—	—	—
B.3 Past due exposures	—	—	—	—	—	—	—	—	—	—
B.4 Performing exposures	9,217,180	—	36,044,112	—	516	—	—	—	—	—
Total B	9,217,180	—	36,044,112	—	516	—	—	—	—	—
Total (A+B) 30/6/18	11,726,156	(610)	41,984,640	(1,213)	50,797	(19)	6,017	—	131	—
Total (A+B) 30/6/17	11,094,435	(3,035)	28,288,379	(1,049)	109,291	(13)	1,755	—	3,143	(2)

B.4a Credit risk indicators

	30/6/18	30/6/17
a) Gross bad loans/total loans	1.67%	1.42%
b) NPLs/cash exposures	4.0%	4.05%
c) Net bad loans/regulatory capital [1]	4.94%	3.28%

[1] This item includes the NPL portfolios acquired and held by MBCredit Solutions.

B.4b Large risks

	30/6/18	30/6/17
a) Book value	10,964,196	10,647,251
b) Weighted value	7,773,030	7,421,973
c) No. of exposures	7	7

At the reporting date, aggregate exposures (including market risks and equity investments) to a total of seven groups of clients (unchanged from last year) were in excess of 10% of the regulatory capital, for a gross exposure of €11bn (€7.8bn, taking into account guarantees and weightings), also basically stable versus the figures at end-June 2017 (which were €10.6bn and €7.4bn respectively). In detail the seven exposures are to two industrial groups, one insurance company and four banking groups.

C. Securitizations and asset disposals

QUALITATIVE INFORMATION

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), lower than 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 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.

[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).

QUANTITATIVE INFORMATION

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

Type of securitized assets/ Exposure	Cash exposure					
	Senior		Mezzanine		Junior	
	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks
A. Italy NPLs	138,908	(52)	—	—	3,166	—
B. Spain NPLs (residential mortgages and real estates)	32,819	—	—	—	—	—
C. Other receivables	—	—	6,911	(73)	—	—
Total 30/6/18	171,727	(52)	6,911	(73)	3,166	—
Total 30/6/17	284,916	59	24,796	442	4,586	26

C.3 Banking Group – Interests in vehicle companies

Name	Head office	Type of consolidation	Assets			Liabilities		
			Receivables	Debt securities	Other items	Senior	Mezzanine	Junior
Quarzo 5 - Quarzo S.r.l.	Milan	Accounting	2,037,840	—	174,411	1,694,000	—	517,000
Quarzo 6 - Quarzo S.r.l.	Milan	Accounting	3,063,428	—	250,167	2,640,000	—	672,012
Quarzo 7 - Quarzo S.r.l.	Milan	Accounting	1,397,261	—	109,280	1,215,000	—	290,900
Quarzo CQS S.r.l. (2015)	Milan	Accounting	240,000	—	56,000	181,000	—	82,000
Quarzo CQS S.r.l. (2018)	Milan	Accounting	622,000	—	23,000	576,000	—	52,000
MB Funding Lux S.A.	Luxembourg	Accounting	310,000	—	—	310,000	—	—

C.4 Securitization SPVs not consolidated

As at 30 June 2018 there was no disclosure to be made as no instances of this type of interest apply in the case of Mediobanca.

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

Servicer	Vehicle company	Securitized assets (30/06/18)		Receivables collected during the year		Percentage share of securities repaid (30/06/18)					
						Senior		Mezzanine		Junior	
		Non performing	Performing	Non performing	Performing	Non performing	Performing	Non performing	Performing	Non performing	Performing
Futuro	Quarzo CQS	11,539	926,200	9,267	244,552	—	79.50	—	—	—	—
Compass	Quarzo Srl	245,914	6,624,297	18,775	4,105,107	—	—	—	—	—	—

Quarzo MB S.r.l. (Mediobanca)

This SPV was incorporated in June 2016 and is not operative.

Quarzo S.r.l. (Compass)

This SPV currently has three securitizations outstanding, subscribed for directly by Group companies with the aim of broadening the sources of funding by taking advantage of the possibility to refinance the senior bonds with the European Central Bank. The deals were all completed in previous years, and under the terms of the securitizations Compass Banca may cede further portfolios of receivables on a revolving basis for a period of up to 42 months, following which the repayment phase can commence:

– The first securitization, completed on 22 July 2015 with the issue of €1,694m in senior notes and €506m in junior notes against performing receivables in a total amount of €2,200m; in the twelve months ended 30 June 2018, receivables worth a further €1,118m were ceded;

– The second, completed on 25 February 2016 with the issue of €2.64bn in senior notes and €660m in junior notes against performing receivables in a total amount of €3,300m; in the twelve months receivables worth a further €1,763m were ceded;

– The third, completed on 15 February 2017 with the issue of €1.215bn in senior notes and €285m in junior notes against performing receivables in a total amount of €1,500m; in the twelve months receivables worth a further €661m were ceded.

Quarzo CQS S.r.l. (Futuro)

In April 2015 the first Quarzo CQS 2015 securitization was completed with Futuro receivables as the underlying instrument through SPV Quarzo CQS S.r.l. Under the terms of the securitization, performing receivables were ceded in a single, non-revolving tranche in an amount of €820m, against which senior notes of €738m were issued and listed on the Dublin stock market, plus €82m in junior notes subscribed to by the same company. The majority of the senior notes have been sold on the market, with a €200m share having been subscribed to by the Mediobanca Treasury department.

As at 30 June 2018 there were senior notes in issue worth €180.6m (including accruals). The share held by Mediobanca S.p.A. totalled €49.1m (including accruals). The share of the junior notes held by the originator was unchanged at €82m.

In March 2018 the second securitization was completed through the sale of performing receivables in a single, non-revolving tranche worth €650m, against which senior notes were issued in an amount of €598m, listed on the Dublin stock market, and junior notes subscribed to by the same company in an amount of €52m. The senior notes have all been sold on the market.

As at 30 June 2018, senior notes worth €575.9m were in issue (including accruals). The share of the junior notes held by the originator totalled €52m.

MB Funding Lux S.A.

This vehicle company was set up by Mediobanca S.p.A. in 2016, with the purpose of:

– Broadening the sources of funding by taking advantage of the possibility to refinance bonds on the interbank market through repos (or other money market transactions); and
– Employ any surplus liquidity present within the Group over the medium/long term.

Currently there are three Euro deals outstanding, all subscribed for entirely by Group companies and guaranteed by Mediobanca as part of the €5bn Medium Term Notes Programme:

– Secured issue in an amount of €200m, with a duration of 5 years and maturing on 25 June 2022 and guaranteed by a pool of corporate loans originated by Group company Mediobanca International (Luxembourg) S.A. (which retains the underlying credit risk on its books);
– Secured issue in an amount of €100m, with a duration of 7 years and maturing on 20 December 2024, and guaranteed by a pool of corporate loans

originated by Group company Mediobanca International (Luxembourg) S.A. (which retains the underlying credit risk on its books);

– Unsecured issue in an amount of €10m, with a duration of 5 years and maturing on 20 June 2023.

Accounts between the originator and the SPV during the year under review were as follows:

SPV	Receivables ceded	Amounts collected	Servicing fees	Interest on junior amounts	Additional return accrued
Quarzo CQS S.r.l.	—	255.0	0.7	1.8	42.4
Quarzo S.r.l.	3,542.0	4,124.0	13.0	47.2	459.1
MB Funding Lux	344.4	83.1	—	—	1.1

D. Disclosure on structured entities

In accordance with the provisions of IFRS12, the Group treats the companies it sets up in order to achieve a limited or well-defined objective, which are regulated by contractual agreements often imposing close restrictions on the decision-making powers of its governing bodies, as structured entities (special purpose vehicles or entities). Such entities are therefore structured to ensure that the voting rights (o similar) are not the main factor in establishing who controls them (the activities are often governed by contractual agreements provisions agreed when the entity itself is structured and are therefore difficult to change).

D.1 Consolidated structured entities

The four securitization SPVs are included in the Group's area of consolidation, as described in Part A – Section 3 of the Notes to the Accounts pursuant to Italian law 130/99: Quarzo S.r.l., Quarzo Lease S.r.l. (in liquidation), Quarzo CQS S.r.l. and Quarzo MB S.r.l. (90%-owned by Mediobanca S.p.A., with the other 10% owned by SPV Holding), plus MB Funding Lux S.A., a company incorporated under Luxembourg law (and 100%-owned by Mediobanca S.p.A.).

D.2 Structured entities not consolidated in accounting terms

The Group has no other interests in structured entities to report, apart from the stock units held in UCITs (stated in Part B, Assets, tables 2.1 – Financial assets held for trading: composition and 4.1 – AFS securities) in connection with its activity as sponsor (CheBanca!, Compagnie Monégasque de Banque, Cairn Capital and RAM Active Investments) and as investor in Mediobanca S.p.A. funds including seed capital activity for funds managed by Group companies (Cairn Capital, Mediobanca SGR, Compagnie Monégasque de Gestion and RAM Active Investments).

D.2.1. Structured entities consolidated for regulatory purposes

As at 30 June 2018 there was no disclosure to be made as no instances of this type of interest apply in the case of Mediobanca.

D.2.2. Other structured entities

QUALITATIVE INFORMATION

The Group's operations in this area are mainly carried out through vehicle companies, in particular as follows:

UCITS

As part of its asset management business, CheBanca! follows the sale, exclusive to its clients, of five different segments of its Yellow Funds SICAV, an authorized company incorporated under Luxembourg law. Of the five segments, one involves debt securities, one equities, and the other three target volatility funds of funds. The SICAV is managed by fund management company Mediobanca Management Company (owned directly by Mediobanca), whereas the three funds of funds are managed by BlackRock and the other two funds are managed by Mediobanca SGR (also owned directly by Mediobanca). As part of its activity as sponsor, CheBanca! has subscribed for the initial shares in the individual segments which were still outstanding at 30 June 2018; these total 86,341, and have a NAV of approx. €8.3m; commissions of €0.2m were collected during the twelve months under review.

Compagnie Monégasque de Banque has sold to its clients the four fund segments operated by CMB Global Lux, a company authorized under Luxembourg law, two of which are bond funds (CMB Global Lux Expansion and CMB Global Lux Corporate) and two equity funds (CMB Global Lux High Yield Equity and CMB Global Lux Emerging Markets). The SICAV itself is managed directly by Compagnie Monégasque de Banque, whereas the fund management and custody activities are performed by its subsidiary Compagnie Monégasque de Gestione and by CACEIS Luxembourg respectively. As at 30 June 2018 the bond segment CMB Global Lux Expansion (€4.9m) and the equity segment CMB Global Lux High Yield Equity (€3.6m) were still featured in the portfolio. Commissions from management of the funds subscribed to totalled €2.4m.

During the fourth quarter the acquisition of RAM Active Investments SA was completed. RAM is one of the leading European systematic fund managers, offering a wide range of alternative funds (systematic equity management and discretionary fixed-income management). Mediobanca S.p.A., as a part of a broader seed capital agreement, has subscribed to a total NAV of €171.4m in five funds promoted by the company, in particular two tactical funds – RAM Convertibles Europe (€17.2m) and RAM Asia Bond Total Return (€16.8m) – and three systematic funds – RAM Systematic I/O (€42.8m), RAM Global Shareholder Yield Equities (€59.6m) and RAM Global Multi-Asset (€35m).

As part of its alternative funds activity, Cairn Capital Ltd manages seven funds which it has launched: a balanced absolute return fund (Cairn Special Opportunities Credit Fund), a subordinated bond fund (Cairn Subordinated Financials Fund II), two multi-asset funds (Cairn S Multi Asset Credit Fund and Cairn Strata Credit Fund), the Cairn European Loan Fund credit fund, and the recently incorporated Cairn Strata Secured Finance Fund and Cairn Pathfinder Fund I. Cairn itself has subscribed to Cairn Special Opportunities Credit Fund, Cairn Strata Credit Fund and the Cairn Loan Investment SPE for a total amount of €2m, plus Mediobanca's share of the seed capital amounting to €131.3m invested in Cairn European Loan Fund (€51.4m), Cairn Strata Secured Fund (€50.2m) and the SPE Cairn Loan Investments LLP (€29.6m).

Mediobanca SGR sells philanthropic funds to its clients. These are funds which ensure that the charitable institution receives a recurring flow of income over time at low risk (balanced bond funds) and daily liquidity (Mediobanca Social Impact), open-end investment funds (Mediobanca Diversified Income, Mediobanca Global Financial, Mediobanca HY Credit Portfolio 2022, Mediobanca Mid & Small Cap Italy, Mediobanca Defensive Portfolio, Mediobanca Global Multi Asset and Mediobanca Long Short Sector Rotation), funds for which investment is concentrated in contingent convertible capital bonds and UCITS (Mediobanca CoCo Credit Fund), closed-end investment funds aimed at financing companies through investments in minibonds (Mediobanca Fondo per le imprese 1 and 2). Mediobanca Management Company sells medium-/long-term return funds to its clients. These are funds which feature investments in equities, convertible bonds and derivatives (Mediobanca Alkimis Absolute, Alkimis Special Values and C-Quadrat Efficient). Direct investments in these funds total €29.7m.

The process of delegating and sub-delegating investment activity, along with the broad powers of discretion afforded to delegates, mean that the ability to impact on returns stipulated by IFRS10 as a precondition for establishing control, does not apply in this case; hence Mediobanca does not have direct control.

Asset-backed SPEs

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

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

The lending transactions, recorded under asset heading 70 – Due from customers: composition, in which the Group is the sole lender involve an amount of €471.4m, plus €55.2m in notes held as available for sale.

QUANTITATIVE INFORMATION

Accounted for under asset heading	Balance-sheet item/SPE type	Total assets (A)	Accounted for under liability heading	Total liabilities (B)	Net asset value (NAV) (C=A-B)	Maximum exposure to risk of loss (D)	Difference between exposure to risk of loss and NAV (E=D-C)
AFS financial assets	Yellow Fund Sicav	8,309	—	—	8,309	8,309	—
AFS financial assets	CMB Global Lux	8,483	—	—	8,483	8,483	—
AFS financial assets	CMG Funds	42	—	—	42	42	—
AFS financial assets	Cairn Strata Secured	50,226	—	—	50,226	50,226	—
AFS financial assets	Cairn European Loan Fund	51,427	—	—	51,427	51,427	—
AFS financial assets	Cairn Loan Investments	30,473	—	—	30,473	30,473	—
AFS financial assets	RAM - Systematic I/O	42,809	—	—	42,809	42,809	—
AFS financial assets	RAM - Convertibles Europe	17,176	—	—	17,176	17,176	—
AFS financial assets	RAM - Asia Bond Total Return	16,781	—	—	16,781	16,781	—
AFS financial assets	RAM - Global Shareholder Yield Equities	59,590	—	—	59,590	59,590	—
AFS financial assets	RAM - Global Multi-Asset	35,005	—	—	35,005	35,005	—
HFT financial assets	Mediobanca Funds	16,926	—	—	16,926	16,926	—
AFS financial assets	Mediobanca Funds	12,762	—	—	12,762	12,762	—
AFS financial assets	Other funds	1,139	—	—	1,139	1,139	—
Loans and receivables	Asset Backed	471,395	—	—	471,395	471,395	—
AFS financial assets	Asset Backed	55,175	—	—	55,175	55,175	—

D.3 Leveraged finance transactions

The definition of leveraged finance transactions is aligned with that provided in the Guidance on leveraged transactions issued by the ECB in May 2017, and has been shared with and reviewed by the regulator. The definition comprises deals with at least one of the following characteristics:

– Credit exposures to parties for which the total gross debt (on balance sheet and committed off balance sheet) to Ebitda ratio is more than 4x;

– Credit exposures to Group companies (with more than 50% of the share capital owned or possessed) by a financial sponsor (i.e. an investment company which carries out acquisitions of companies, inter alia financed by debt, with a medium-term time horizon).

As at 30 June 2018, the Group's exposure to this type of transaction amounted to €4,529.8m [2] – virtually unchanged from the €4,519.2m reported last year – and accounting for just under 30% of the corporate loan book. Of this total, 40.6% relates to domestic transactions, six deals with non-EU clients (worth approx. €669m), and the rest within the confines of the EU itself. There were repayments totalling €1,527m during the twelve months (with seventeen deals being closed), against investments of €1,538m (including twenty-five new deals).

[2] Plus off-balance-sheet exposures (commitments and derivatives) totalling €1,120m (30/6/17: €847m).

E. Assets disposal

A. Financial assets sold but not derecognized

QUANTITATIVE INFORMATION

*E.1 Banking Group - 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	2,714,110	—	753,675	329,349	—	1,702,774	5,499,908	4,249,470
1. Debt securities	2,030,562	—	753,675	329,349	—	—	3,113,586	2,645,407
2. Equity securities	683,548	—	—	X	X	X	683,548	289,841
3. UCITS	—	—	—	X	X	X	—	—
4. Loans	—	—	—	—	—	1,702,774	1,702,774	1,314,222
B. Derivatives	—	X	X	X	X	X	—	—
Total 30/6/18	2,714,110	—	753,675	329,349	—	1,702,774	5,499,908	X
of which: impaired	—	—	—	—	—	*66,233*	*66,233*	*X*
Total 30/6/17	1,840,174	—	699,906	395,168	—	1,314,222	X	4,249,470
of which: impaired	—	—	—	—	—	*40,382*	*X*	*40,382*

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

E.2 Banking Group - 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	2,458,703	—	332,540	21,358	—	118,357	2,930,958
a) Related to fully recognized assets	2,458,703	—	332,540	21,358	—	118,357	2,930,958
b) Related to partially recognized assets	—	—	—	—	—	—	—
3. Debt securities in issue	—	—	—	—	—	705,935	705,935
a) Related to fully recognized assets	—	—	—	—	—	705,935	705,935
b) Related to partially recognized assets	—	—	—	—	—	—	—
Total 30/6/18	2,623,961	—	735,452	326,889	—	824,292	4,510,594
Total 30/6/17	2,077,764	—	698,939	399,078	—	484,394	3,660,175

E.3 Banking Group - 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	2,714,110	—	753,675	329,349	—	1,197,842	4,994,976	4,317,379
1. Debt securities	2,030,562	—	753,675	329,349	—	—	3,113,586	2,652,658
2. Equity securities	683,548	—	—	X	X	X	683,548	289,841
3. UCITS	—	—	—	X	X	X	—	—
4. Loans	—	—	—	—	—	1,197,842	1,197,842	1,374,880
B. Derivative instruments	—	X	X	X	X	X	—	—
Total assets	2,714,110	—	753,675	329,349	—	1,197,842	4,994,976	4,317,379
C. Associated liabilities	2,623,961	—	735,452	326,889	—	823,284	X	X
1. Due from customers	165,258	—	402,912	305,531	—	—	X	X
2. Due from banks	2,458,703	—	332,540	21,358	—	118,357	X	X
3. Debt securities in issue	—	—	—	—	—	704,927	X	X
Total liabilities	2,623,961	—	735,452	326,889	—	823,284	4,509,586	4,368,477
Net value 30/6/18	90,149	—	18,223	2,460	—	374,558	485,390	X
Net value 30/6/17	(242,262)	—	3,710	1,281	—	186,173	X	(51,098)

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

E.4 Banking Group – covered bond issues

The Group has a programme of covered bond issuance in progress, secured by residential mortgages and involving an amount of up to €5bn. The programme, implemented in accordance with the provisions of Italian law 130/99, has a ten-year duration (falling due in December 2021), and involves the following parties:

– Mediobanca, as the issuer of the covered bonds;

– CheBanca!, as the seller (including on a revolving basis) and servicer on the transaction;

– Mediobanca Covered Bond S.r.l., incorporated pursuant to Article 7-bis of Italian law 130/99, as the non-recourse recipient of the assets and guarantor of the covered bonds.

Four deals are outstanding under the current programme as at 30 June 2018, involving a total notional amount of €3bn, against €5,192.3m in receivables sold. All the issues are addressed to institutional investors rated "AA" by Fitch, and involve:

– €750m issued in October 2013 at a fixed rate of 3.625% and expiring in October 2023;

– €750m issued in June 2014 at a fixed rate of 1.125% and expiring in June 2019;

– €750m issued in November and December 2015 at a fixed rate of 1.375% and expiring in November 2025.

– €750m issued in November at a fixed rate of 1.25% and expiring in November 2029.

1.2 BANKING GROUP – MARKET RISKS

1.2.1 INTEREST RATE RISK AND PRICE RISK – TRADING BOOK

QUALITATIVE INFORMATION

Exposure to financial risks on the trading book (faced entirely within the Group by Mediobanca S.p.A., since on 1 January 2018, CMB wound up its trading book versus the parent company as part of the project to centralize Group treasury operations) 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 ranged from a low of €1.1m (in October 2017) and a high of approx. €7.1m (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, 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 €7.1m, 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 to the widespread reduction in the trading positions.

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, in conjunction with the Italian market crisis, and the other in the month of June (in connection with the single equity position referred to above which was then sold).

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

Risk factors (€ '000)	**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***

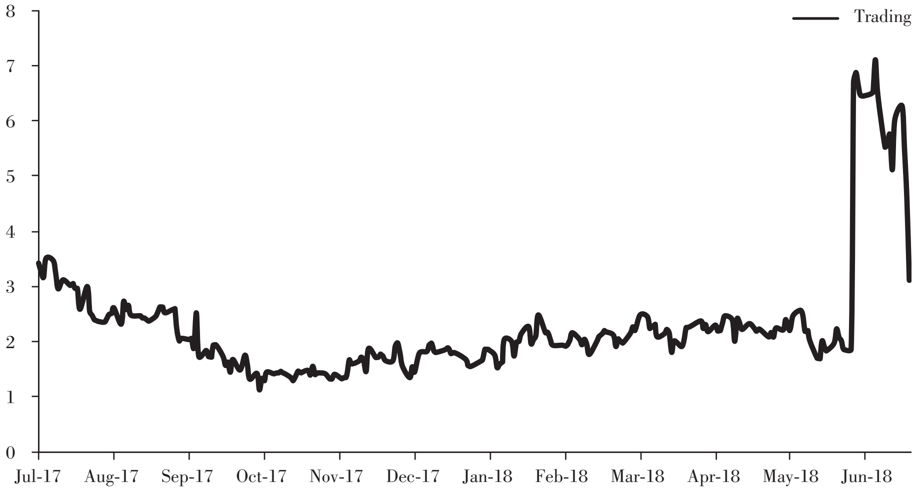
* Due to mismatch between risk factors.

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.

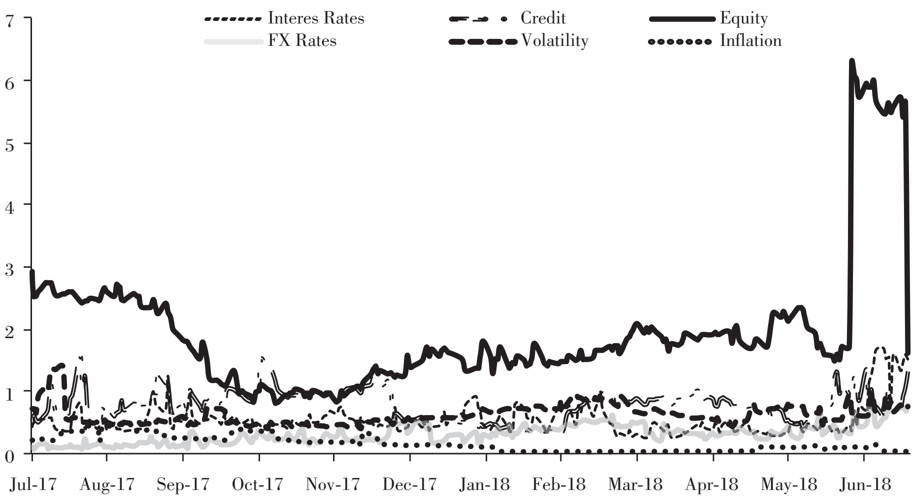
Table 2: Overview of trends in main sensitivities for trading book

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	331	49,281	918,609	56,504	1,221,495	404,254	156,689	—
1.1 Debt securities	—	49,281	918,609	56,504	1,221,495	404,254	156,689	—
– with early redemption option	—	—	—	—	—	—	—	—
– others	—	49,281	918,609	56,504	1,221,495	404,254	156,689	—
1.2 Other assets	331	—	—	—	—	—	—	—
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	—	—	—	—	—
+ short positions	—	—	265,000	—	—	—	—	—
– 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	29,253,794	874,686	5,730,839	2,013,135	1,518,252	—
+ short positions	—	18,855,483	29,253,794	874,686	5,730,839	2,013,135	1,518,252	—
– Others	—	—	—	—	—	—	—	—
+ long positions	—	26,760,948	16,489,453	3,514,099	24,156,155	9,876,445	4,592,514	—
+ short positions	—	23,946,171	20,262,109	2,730,592	23,209,305	10,081,255	5,160,182	—

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	—	81,402
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	—	831
- harmonized	69,085	—	—
- non-harmonized open	—	—	831
- non-harmonized closed	31,081	—	—
B.3 Non-EU states	—	—	—
- open	—	—	—
- closed	—	—	—
Total	1,566,404	—	91,576

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

1.2.2 INTEREST RATE AND PRICE RISK – BANKING BOOK

QUALITATIVE INFORMATION

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

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

All the scenarios present a floor set by the Basel Committee guidelines (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, apart from current account deposits for retail clients, which have been treated on the basis of behavioural models, and Compass consumer credit items (which reflect the possibility of early repayment).

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

With reference to the Group's banking book positions at 30 June 2018, in the event of a parallel and simultaneous 200 basis point reduction in interest rates ("parallel down"), estimated net interest income would reduce by some €3m.

With reference to analysis of the discounted value of estimated cash flows on the Group's banking book, the shock which produces the worst change occurs if the interest rate curve steepens as a result of the short-term rates falling and the long-term rates increasing ("steepener"). The reduction in net interest income in this case would be €32m, which is chiefly due to the decreases attributable to CheBanca! (€30m) and Compass (€32m), against an increase of (€23m for Mediobanca.

The data described above are summarized in the table below:

Data at 30/6/18	Banking Book					
	Maximum level scenario	**Group**	**Mediobanca S.p.A.**	**CheBanca!**	**Compass**	**Others**
Net interest income sensitivity	Parallel Down	(3)	15	(7)	(7)	(4)
Discounted value of cash flows senstivity	Steepener	(32)	23	(30)	(32)	7

At Group level, the values obtained in both scenarios continue to remain within the limits set by the Group policy on managing interest rate si on the banking book, 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 Group seeks to minimize the financial risk on interest rates by bringing the entire interest-bearing exposure in line with Euribor (generally Euribor 3 months) [3].

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

B. Fair value hedges

Fair value hedges are used to neutralize exposure to interest rate, price or credit risk for particular asset or liability positions, via derivative contracts entered into with leading counterparties with high credit standings. It is principally the fixed-rate, zero coupon and structured bond issues that are fair-value hedged. If structured bonds in particular do not show risks related to the main risk, the interest-rate component (hedge) is stripped out from the other risks represented in the trading book, and usually hedged by trades of the opposite sign.

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

C. Cash flow hedges

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

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

Counterparty risk

Counterparty 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	5,112,581	20,850,950	6,052,400	3,000,830	13,828,644	3,376,296	1,601,134	22,490
1.1 Debt securities	—	553,968	458,854	707,672	3,719,632	1,060,175	3,287	—
– with early repayment option	—	—	—	—	—	—	—	—
– others	—	553,968	458,854	707,672	3,719,632	1,060,175	3,287	—
1.2 Loans to banks	3,427,152	1,891,098	1,119,986	177,691	496,448	4,064	389,740	1,242
1.3 Loans to customers	1,685,429	18,405,884	4,473,560	2,115,467	9,612,564	2,312,057	1,208,107	21,248
– current accounts	155,998	238,926	—	—	—	—	—	—
– other loans	1,529,431	18,166,958	4,473,560	2,115,467	9,612,564	2,312,057	1,208,107	21,248
– with early repayment option	110,089	6,590,972	888,507	1,638,471	7,910,861	2,105,693	1,188,971	—
– others	1,419,342	11,575,986	3,585,053	476,996	1,701,703	206,364	19,136	21,248
2. Cash liabilities	16,893,991	14,454,770	3,894,328	5,280,247	10,185,316	2,152,554	1,187,886	494
2.1 Due to customers	14,648,100	3,476,799	2,159,574	1,000,914	6,674	39	—	494
– current accounts	12,019,038	313,628	—	—	—	—	—	—
– other amounts due	2,629,062	3,163,171	2,159,574	1,000,914	6,674	39	—	494
– with early repayment option	—	—	—	—	—	—	—	—
– others	2,629,062	3,163,171	2,159,574	1,000,914	6,674	39	—	494
2.2 Due to banks	1,968,374	3,687,566	946,240	177,253	5,041,053	104	391,850	—
– current accounts	495,111	56	—	—	—	—	—	—
– other amounts due	1,473,263	3,687,510	946,240	177,253	5,041,053	104	391,850	
2.3 Debt securities	277,517	7,290,405	788,514	4,102,080	5,137,589	2,152,411	796,036	—
– with early repayment option	—	—	—	—	—	—	—	—
– others	277,517	7,290,405	788,514	4,102,080	5,137,589	2,152,411	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		12,409,173	1,832,500	540,238	5,538,544	2,968,788	860,649	—
+ short positions		11,446,614	1,215,000	1,055,000	7,462,843	1,922,935	1,047,500	—
4. Other OTC trades	—	—	—	—	—	—	—	—
+ long positions	3,161	2,915,121	636,864	392,332	8,457,808	310,737	57,688	87
+ short positions	1,788,634	953,390	655,413	417,541	8,742,322	40,388	176,110	—

2. Banking book: cash exposures in equities and UCITS units.

Type of exposure/Amounts	Book value		
	Level1	Level2	Level3
A. Equities [1]			
A.1 Shares	240,994	—	26,219
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	188,196	—	149,506
- harmonized	8,309	—	—
- non-harmonized open	8,526	—	—
- non-harmonized closed	171,361	—	149,506
B.3 Non-EU states	—	—	3,318
- open	—	—	—
- closed	—	—	3,318
Total	461,340	—	310,928

[1] Of which 39% Italian and 61% other EU countries.

1.2.3 EXCHANGE RATE RISK

QUALITATIVE INFORMATION

A. General aspects, operating processes and measurement techniques

B. Exchange rate risk hedging

The trend in the exchange rate component of VaR shown on p. 238 is an effective representation of changes in the risks taken on the forex market, in view of the fact that exposures to foreign exchange rates are managed globally within the Finance area of Mediobanca S.p.A.

During the twelve months, the exchange rate effect of the CHF 165m investment acquired in RAM was hedged in accordance with the accounting standards in force on net investment of foreign operation, in order to neutralize volatility in the net equity reserve due to exchange rate differences arising on consolidation compared to the historical rate used for first-time recognition of the investment and the related goodwill.

In particular, the hedge was made through the issue of a bond in Swiss francs used as a hedge instrument for which the changes in value due to the exchange rate effect are suspended in a net equity reserve, to offset the impact of consolidating the company and the goodwill. The reserve will remain suspended in net equity until such a time as the investment is sold.

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	3,510,881	2,388,408	42,364	8,998	252,245	142,349
A.1 Debt securities	622,070	617,283	—	—	1,447	—
A.2 Equities	119,258	441,292	—	—	2,426	—
A.3 Loans and advances to banks	1,159,850	805,026	41,511	2,021	147,410	18,551
A.4 Loans and advances to customers	1,609,679	523,673	853	6,977	100,680	123,749
A.5 Other financial assets	24	1,134	—	—	282	49
B. Other assets	78,871	228	—	—	3	7
C. Financial liabilities	(4,016,667)	(1,908,156)	(35,154)	(33,495)	(188,924)	(49,063)
C.1 Due to banks	(1,075,546)	(1,059,726)	(30,459)	(420)	(4,414)	(3,689)
C.2 Due to customers	(1,059,759)	(123,691)	(4,695)	(33,075)	(55,468)	(44,933)
C.3 Debt securities	(1,881,291)	(724,570)	—	—	(129,042)	(441)
C.4 Other financial liabilities	(71)	(169)	—	—	—	—
D. Other liabilities	(133)	(80)	—	—	(2)	(9)
E. Financial derivative products	407,686	(447,271)	(7,804)	25,908	(66,430)	(6,782)
- Options	—	—	—	—	—	—
+ Long positions	—	—	—	—	—	—
+ Short positions	—	—	—	—	—	—
- Other derivatives	407,686	(447,271)	(7,804)	25,908	(66,430)	(6,782)
+ Long positions	3,890,885	469,555	67,010	47,005	260,443	186,555
+ Short positionsw	(3,483,199)	(916,826)	(74,814)	(21,097)	(326,873)	(193,337)
Total assets	7,480,637	2,858,191	109,374	56,003	512,691	328,911
Total liabilities	(7,499,999)	(2,825,062)	(109,968)	(54,592)	(515,799)	(242,409)
Difference (+/-)	(19,362)	33,129	(594)	1,411	(3,108)	86,502

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 €13.2m.

1.2.4 DERIVATIVE FINANCIAL INSTRUMNTS

A. FINANCIAL DERIVATIVES

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

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	88,266,541	41,323,280	89,599,408	31,570,511
a) Options	9,259,836	40,445,401	—	30,721,864
b) Swap	76,216,325	—	86,903,408	—
c) Forward	654,380	—	—	—
d) Futures	—	877,879	—	848,647
e) Others	2,136,000	—	2,696,000	—
2. Equity instruments and stock indexes	17,670,798	14,505,823	14,537,682	11,250,774
a) Options	16,625,425	14,108,938	13,586,813	11,011,994
b) Swap	928,224	—	833,720	—
c) Forward	117,149	—	117,149	—
d) Futures	—	396,885	—	238,780
e) Others	—	—	—	—
3. Gold and currencies	15,664,893	—	8,843,295	—
a) Options	6,669,954	—	277,521	—
b) Swap	3,702,656	—	3,578,982	—
c) Forward	5,292,283	—	4,986,792	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other underlyings	—	—	—	—
Total	121,602,232	55,829,103	112,980,385	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	24,379,892	—	17,147,090	—
a) Options	130,000	—	—	—
b) Swap	24,149,892	—	17,007,090	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	100,000	—	140,000	—
2. Equity instruments and stock indexes	—	—	240,048	—
a) Options	—	—	29	—
b) Swap	—	—	—	—
c) Forward	—	—	240,019	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Gold and currencies	—	—	—	—
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other underlyings	—	—	—	—
Total	24,379,892	—	17,387,138	—

A.2.2 Other derivatives

Uunderlying 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	1,196,939	—	1,172,835	—
a) Options	—	—	—	—
b) Swap	1,196,939	—	1,132,835	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	40,000	—
2. Equity instruments and stock indexes	1,435,116	—	1,825,557	—
a) Options	1,419,844	—	1,825,557	—
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	2,632,055	—	2,998,392	—

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

Portfolios/Type 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	2,723,795	520,282	2,291,303	462,562
a) Options	464,713	518,256	311,962	455,566
b) Interest rate swaps	1,973,377	—	1,645,465	—
c) Cross currency swap	194,614	—	197,256	—
d) Equity swaps	26,405	—	30,542	—
e) Forward	64,686	—	106,078	—
f) Futures	—	2,026	—	6,996
g) Others	—	—	—	—
B. Banking book - Hedging derivatives	260,958	—	461,972	—
a) Options	4,134	—	—	—
b) Interest rate swaps	256,824	—	461,972	—
c) Cross currency swap	—	—	—	—
d) Equity swaps	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
C. Banking book - Other derivatives	78,285	—	319,041	—
a) Options	71,215	—	122,862	—
b) Interest rate swaps	7,070	—	8,286	—
c) Cross currency swap	—	—	—	—
d) Equity swaps	—	—	—	—
e) Forward	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	187,893	—
Total	3,063,038	520,282	3,072,316	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	(1,900,692)	(560,550)	(2,332,027)	(496,834)
a) Options	(447,724)	(543,781)	(313,647)	(492,721)
b) Interest rate swaps	(1,169,165)	—	(1,563,214)	—
c) Cross currency swap	(130,261)	—	(209,128)	—
d) Equity swaps	(1,489)	—	(21,032)	—
e) Forward	(152,053)	—	(225,006)	—
f) Futures	—	(16,769)	—	(4,113)
g) Others	—	—	—	—
B. Banking book - Hedging derivatives	(266,079)	—	(313,183)	—
a) Options	(1,897)	—	(2,452)	—
b) Interest rate swaps	(264,182)	—	(275,160)	—
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	(2,257,348)	(560,550)	(2,970,860)	(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

Contract not included in netting agreements	Governments and central banks	Other public sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rate indexes							
- notional amount	—	—	400,000	300,000	—	179,204	—
- positive fair value	—	—	—	—	—	172	—
- negative fair value	—	—	—	(66)	—	—	—
- 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	—	—	3,883	2,946	—	102,934	—
- positive fair value	—	—	—	—	—	8,502	—
- negative fair value	—	—	(13)	(35)	—	—	—
- 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 – notional values, gross positive and negative fair values by counterparty, contracts forming part of netting arrangements

Contracts included in netting agreements	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rate indexes							
- notional amount	—	—	29,072,614	50,643,205	736,534	7,234,983	—
- positive fair value	—	—	1,620,614	228,801	77,333	210,469	—
- negative fair value	—	—	(921,447)	(403,871)	(41,181)	(30,143)	—
2. Equity instruments and stock indexes							
- notional amount	—	—	9,527,386	4,921,733	1,486,885	1,584,303	—
- positive fair value	—	—	107,398	74,806	2,928	115,093	—
- negative fair value	—	—	(225,512)	(60,663)	(6,333)	(7,500)	—
3. Gold and currencies							
- notional amount	—	—	10,080,521	2,787,435	284,039	2,403,134	—
- positive fair value	—	—	107,176	79,216	7,056	84,156	—
- negative fair value	—	—	(114,448)	(14,410)	(931)	(74,069)	—
4. Other instruments							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—

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

Contracts not included in netting agreements	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rate indexes							
- notional amount	—	—	45,850	—	—	—	—
- positive fair value	—	—	1,030	—	—	—	—
- negative fair value	—	—	(5,641)	—	—	—	—
- future exposure	—	—	333	—	—	—	—
2. Equity instruments and stock indexes							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
3. Gold and currencies							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
4. Other instruments							
- notional amount	—	—	—	—	—	—	—
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—

A.8 OTC financial derivatives: banking book – notional 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	—	—	7,777,656	16,206,386	—	350,000	—
- positive fair value	—	—	176,107	83,821	—	—	—
- negative fair value	—	—	(179,827)	(57,172)	—	(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

Underlying/residual	Up to 1 year	Over 1 year up to 5 year	Over 5 year	Total
A. Regulatory trading book	35,317,267	61,285,075	30,648,890	127,251,232
A.1 Financial derivative contracts on debt securities and interest rates	15,051,546	49,456,790	29,407,205	93,915,541
A.2 Financial derivative contracts on equity securities and stock indexes	7,557,966	9,900,493	212,339	17,670,798
A.3 Financial derivative contracts on exchange rates and gold	12,707,755	1,927,792	1,029,346	15,664,893
A.4 Financial derivative contracts on other values	—	—	—	—
B. Banking book	2,653,015	14,109,346	4,600,586	21,362,947
B.1 Financial derivative contracts on debt securities and interest rates	2,615,319	12,711,926	4,600,586	19,927,831
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	37,970,282	75,394,421	35,249,476	148,614,179
Total 30/6/17	30,562,807	73,664,499	29,138,610	133,365,916

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	1,045,584	9,985,535	837,181	428,890
b) Credit spread products	—	—	—	—
c) Total rate of return swaps	—	—	—	—
d) Others	—	—	—	—
Total 30/6/18	1,045,584	9,985,535	837,181	428,890
Total 30/6/17	1,718,403	6,407,880	350,980	12,906
2. Protection seller's contracts				
a) Credit default products	2,083,457	9,685,235	2,020,445	6,104,821
b) Credit spread products	—	—	—	—
c) Total rate of return swaps	—	—	—	—
d) Others	—	—	—	—
Total 30/6/18	2,083,457	9,685,235	2,020,445	6,104,821
Total 30/6/17	1,402,802	5,816,219	28,849	4,529,278

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

Portfolio/Type of derivatives	Positive fair value	
	30/6/18	30/6/17
A. Regulatory trading book	183,313	161,621
a) Credit default products	183,313	161,621
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
B. Banking book	22,256	14,840
a) Credit default products	22,256	14,840
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
Total	205,569	176,461

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	(1,224,966)	(543,791)
a) Credit default products [1]	(1,224,966)	(543,791)
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
B. Banking book	(6,721)	(16,805)
a) Credit default products	(6,721)	(16,805)
b) Credit spread products	—	—
c) Total rate of return swaps	—	—
d) Others	—	—
Total	(1,231,687)	(560,596)

[1] Of which certificates in an amount of €288,997,000 and €352,793,000 respectively.

B.4 OTC credit derivatives: gross positive and negative fair values by counterparty – contracts not forming part of netting 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	—	—	4,824,039	5,494,829	200,000	—	—
- positive fair value	—	—	791	100	2,779	—	—
- negative fair value	—	—	(804,857)	(129,176)	—	—	—
2. Protection sale							
- notional amount	—	—	6,338,405	5,430,286	—	—	—
- positive fair value	—	—	41,655	117,654	—	—	—
- negative fair value	—	—	(1,701)	(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 portfolio	1,400,201	10,374,146	11,025,464	22,799,811
A.1 Credit derivatives with "qualified" "reference obligation"	193,845	894,244	1,214,445	2,302,534
A.2 Credit derivatives with "not qualified" "reference obligation"	1,206,356	9,479,902	9,811,019	20,497,277
B. Banking portfolio	271,746	4,070,595	5,048,996	9,391,337
B.1 Credit derivatives with "qualified" "reference obligation"	85,190	2,056,836	2,722,534	4,864,560
B.2 Credit derivatives with "not qualified" "reference obligation"	186,556	2,013,759	2,326,462	4,526,777
Total 30/6/18	1,671,947	14,444,741	16,074,460	32,191,148
Total 30/6/17	3,866,656	10,044,489	6,356,172	20,267,317

C. CREDIT AND FINANCIAL DERIVATIVES

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

	Governments and central banks	Other public-sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1) Netting agreements related to Financial Derivatives							
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
- net counterparty risk	—	—	—	—	—	—	—
2) Netting agreements related to Credit Derivatives							
- positive fair value	—	—	—	—	—	—	—
- negative fair value	—	—	—	—	—	—	—
- future exposure	—	—	—	—	—	—	—
- net counterparty risk	—	—	—	—	—	—	—
3) Cross products netting agreements							
- positive fair value	—	—	214,735	80,241	84,255	395,177	—
- negative fair value	—	—	(363,466)	(364,823)	(42,828)	(97,300)	—
- future exposure	—	—	626,580	411,169	53,703	191,217	—
- net counterparty risk	—	—	626,028	422,927	71,292	541,736	—

* Representing the sum of the positive fair value and future exposure, net of cash collateral received amounting to €395,093,000, €215,287,000 of which in respect of banks, €68,482,000 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 €461,896,000 was paid in, €281,185,000 of which in respect of banks, €139,170,000 of financial companies, and €41,541,000 of insurances.

1.3 BANKING GROUP – 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.

The metric adopted is the ratio between counterbalancing capacity (defined principally as the availability post-haircut of bonds and receivables eligible for refinancing with the ECB and marketable securities) and the cumulative net cash outflows.

The system of limits is structured on the basis of the normal course of business up to a time horizon of three months, with an early warning system if the limit is approached.

The short-term liquidity monitoring is supplemented by stress testing which assumes three scenarios:

– Italy downgrade: a crisis scenario is assumed similar to the one witnessed in 2011-13, impacting negatively on the Group's ability to raise funds on the bond and interbank markets. A reduction in cash inflows is also assumed, due to a default flows scenario, along with a drawdown on uncommitted credit lines. The counterbalancing capacity is impacted by the adverse changes to Italian government securities observed during the crisis period referred to;
– Name crisis: a crisis scenario is assumed similar to the one witnessed in 2011-13, impacting negatively on the Group's ability to raise funds on the bond, retail and interbank markets. Major outflows from demand deposits are also assumed. The counterbalancing capacity is impacted by the adverse change to the securities issued by Mediobanca (ABS and covered bonds) during the crisis period;
– Combined: combined name crisis-Italy downgrade scenario.

In addition to the above, the Group also prepares the weekly liquidity position update required by the Bank of Italy. The maturity ladder report, prepared in accordance with the authority's guidelines, lists the principal maturities falling due in the months following the reference date, and contains a summary of the movements in both directions on the interbank market and a table showing the Group's funding balances by individual form.

Monitoring structural liquidity, on the other hand, is intended to ensure that the structure has an adequate financial balance for maturities of more than twelve months. Maintaining an appropriate ratio between assets and liabilities in the medium/long term also serves the purpose of avoiding future pressures in the short term as well. The operating methods adopted involve analysing the maturity profiles for both assets and liabilities over the medium and long term checking that inflows cover at least 90% of outflows for maturities of more than one and three years.

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

In accordance with the Regulations, the Group monitors and records the LCR (Liquidity Coverage Ratio), ALMM (Additional Liquidity Monitoring Metrics) and NSFR (Net Stable Funding Ratio) regulatory indicators. Throughout the twelve months under review, these indicators, including those which form part of the Group Risk Appetite Framework, were well above the set limits at all times. In particular, the LCR as at 30 June 2018 stood at 186%, compared to a minimum regulatory threshold of 100%.

As the above indicators are included in Group Risk Appetite Framework, their sustainability is also analysed in preparing the Group Funding Plan, through future analysis over a three-year time horizon, with monitoring and half-yearly updates.

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

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

In order to identify a "contingency" state in timely manner, a system of early warning indicators (EWIs) has been prepared, to monitor situations that could lead to deterioration in the Group's liquidity position deriving from external factors 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 to offset any mismatches, extended or otherwise;
- Precise short-term and long-term liquidity planning, alongside careful estimating and monitoring activity;
- A robust stress testing framework which is updated regularly;
- An efficient contingency funding plan to identify crisis states and the actions to be taken in such circumstances, through a reliable early warning indicator system.

In a market scenario characterized by the announcement of a gradual reduction in quantitative easing by the European Central Bank and the need to refinance the T-LTRO facilities expiring, the Group has continued to focus attention on diversifying its sources of funding and optimizing its costs, consistent with the durations of the applications in a management scenario marked by increasingly integrated asset and liability management.

In the year under review, against redemptions of securities totalling €4bn, over twenty issues placed in an amount of some €4bn, with institutional issues of approx. €2.9bn roughly half of which secured, plus a €750m covered bond issue with a twelve-year duration. Funding raised by refinancing assets with the European Central Bank reduced to €4.3bn as a result of full repayment of the T-LTRO I tranche (in an amount of €1.5bn).

As at 30 June 2018, the counterbalancing capacity stood at €10.1bn, €8.7bn of which in the form of bonds deliverable in exchange for cash from the ECB (30/6/17: €8.6bn, €8.2bn of which deliverable bonds); while the balance of liquidity reserves established at the European Central bank amounted to approx. €5.6bn (€7.2bn), approx. €1.2bn of which in the form of cash not used and hence qualifying as part of the counterbalancing capacity.

QUANTITATIVE INFORMATION

1 Financial assets and liabilities by outstanding life

Items/maturities	On demand	From 1 days to 7 days	From 7 days to 15 days	From 15 days to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Not specified
Cash assets	4,565,686	568,394	594,874	995,628	2,725,328	4,077,173	4,426,173	28,615,927	12,384,781	209,188
A.1 Government securities	—	788	—	6,123	112,469	502,732	44,255	5,008,510	1,174,736	—
A.2 Other debt securities	1,165	2,971	3,296	19,794	92,354	111,818	188,912	2,456,829	809,114	—
A.3 UCITS units	21,629	—	—	—	—	—	—	1	—	—
A.4 Loans and advances	4,542,892	564,635	591,578	969,711	2,520,505	3,462,623	4,193,006	21,150,587	10,400,931	209,188
– to banks	3,460,466	260,250	126,853	30,517	228,777	864,113	282,391	1,071,337	898,440	183,749
– to customers	1,082,426	304,385	464,725	939,194	2,291,728	2,598,510	3,910,615	20,079,250	9,502,491	25,439
Cash liabilities	16,593,542	1,316,079	348,576	1,660,875	3,270,804	3,625,617	4,758,121	19,988,246	5,683,044	494
B.1 Deposits and currentaccounts	14,854,758	473,432	146,444	1,027,373	1,106,910	2,067,989	1,079,590	30,399	—	—
– to banks	495,245	56	—	—	—	—	—	—	—	—
– to customers	14,359,513	473,376	146,444	1,027,373	1,106,910	2,067,989	1,079,590	30,399	—	—
B.2 Debt securities	929	228	21,124	24,688	1,580,479	534,328	3,245,727	10,972,943	4,866,357	—
B.3 Other liabilities	1,737,855	842,419	181,008	608,814	583,415	1,023,300	432,804	8,984,904	816,687	494
Off-balance-sheet transactions	—	—	—	—	—	—	—	—	—	—
C.1 Financial derivatives with exchange of principal	—	—	—	—	—	—	—	—	—	—
– long positions	3,736	835,704	82,189	2,696,127	3,410,639	1,696,897	1,078,168	1,676,408	550,887	—
– short positions	3,736	254,116	438,418	2,294,087	2,805,782	717,931	963,612	1,948,348	478,459	—
C.2 Financial derivatives without principal exchange of	—	—	—	—	—	—	—	—	—	—
– long positions	4,186,764	4,621	2,558	7,250	69,297	43,960	79,321	40,104	—	—
– short positions	3,435,699	5,972	2,424	9,419	65,918	72,794	70,778			
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	524	723	45	60,596	221,376	38,037	158,468	4,007,710	228,108	87
– short positions	1,725,903	1,233,731	45	479,306	220,400	414,788	186,321	410,448	44,645	87
C.5 Financed guarantees issued	—	—	—	—	—	—	—	—	—	—
C.6 Financial guarantees received	—	—	—	—	—	—	—	—	—	—
C.7 Credit derivatives with exchange of principal	—	—	—	—	—	—	—	—	—	—
- 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	848,055	—	—	—	—	—	—	—	—	—
- short positions	1,592,978	—	—	—	—	—	—	—	—	—

* The item includes hedge sales perfectly matched by buys for the same amount.

1.4 BANKING GROUP – OPERATIONAL RISKS

QUALITATIVE INFORMATION

Definition

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

Capital requirements for operational risk

Mediobanca has adopted the Basic Indicator Approach (BIA) in order to calculate the capital requirement for covering operating risk, applying a margin of 15% to the three-year average for the relevant indicator. Based on this method of calculation, the capital requirement 30 June 2018 was €311.8m, higher than the €284.1m recorded last year, in part due to expansion of the Group's scope of consolidation.

Risk mitigation

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

The processes of identifying, assessing, collecting and analysing loss data and mitigating operational risks are defined and implemented on the basis of the Operational risk management policy adopted at Group level and applied in accordance with the principle of proportionality in Mediobanca S.p.A. and the individual Group companies.

Based on the evidence obtained, action to mitigate the most relevant operational risks has been proposed, implemented and monitored on a constant basis.

The operating losses recorded in the course of the financial year have been low and account for less than 1% of the Group's total revenues.

The merger of Banca Esperia into Mediobanca S.p.A. did not generate any particular loss events. For the different classes of operational risk, the percentage composition of the Group's Basel II event types is shown below:

Event Type	**% on Total Loss**
Clients, products and business practices	61.3%
Execution, delivery and process management	21.6%
External fraud	13.1%
Employment practices and workplace safety	3.9%
Other	0.1%

During the twelve months under review, more than half of the operating losses due to the "Clients, products and business practices" event type, which includes losses deriving form complaints or litigation by retail clients in connection with financial terms or interest rates applied to financing products. These were followed by process risks ("Execution, delivery and process management") and external fraud on retail financing products (fake documentation and/or cards), for which mitigation action has been taken.

In terms of potential effects, or estimates, operational risks will be higher than in the past due to the growth in the Wealth Management and Consumer Banking businesses, the commercial networks and the higher number of potential instances of risk, such as cyber risk, the potential risk of low frequency/high severity events inherent in businesses which feature non-standard transactions of large size, such as CIB and in part Wealth Management in particular. All operational risks are mitigated by stronger governance and enhanced first-level controls, and by stepping up monitoring activity and valuation capability.

With reference to IT risk in particular, the Group has instituted an IT Governance unit which, in accordance with Operational Risk Management, guarantees the assessment and mitigation of IT risks, manages the security of the systems and governs changes in the business continuity and disaster recovery plans.

Legal risk: risks deriving from litigation pending

For a description of the claims currently pending against Mediobanca S.p.A., please see Section B – Liabilities on pp. 171, 172, 173 and 174.

Other risks

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

- Concentration risk, i.e. risk deriving from a concentration of exposures to individual counterparties or groups of counterparties ("single name concentration risk") or to counterparties operating in the same economic sector or which operate in the same business or belong to the same geographical area (geographical/sector concentration risk);
- Expected shortfall on credit portfolio risk – with reference to credit risk, the risk deriving from the failure to cover the positive difference between the total amount of the expected loss calculated with reference to credit exposures with performing counterparties, via the use of risk parameters (PD and LGD) estimated using internal models (not yet ratified for supervisory purposes) and the respective balance-sheet adjustments calculated according to the accounting standards in force;
- Strategic risk, both in the sense of risk deriving from current and future changes in profits/margins compared to estimated data, due to volatility in volumes or changes in customer behaviour (business risk), and of current and future risk of reductions in profits or capital deriving from disruption to business as a result of adopting new strategic choices, wrong management decisions or inadequate execution of decisions taken (pure strategic risk);
- Basis risk: in the context of market risk, this is the risk of losses caused by unaligned price changes in opposite directions from each other, which are similar but not identical;

– Compliance risk, i.e. the risk of incurring legal or administrative penalties, significant financial losses or damages to the Bank's reputation as a result of breaches of external laws and regulations or self-imposed regulations;
– Reputational risk, i.e. the current and future risk of reductions in profits or capital deriving from a negative perception of the Bank's image by customers, counterparties, shareholders, investors or regulatory authorities;
– Residual risk, i.e. the risk that the recognized techniques used by the Bank to mitigate credit risk should prove to be less effective than anticipated;
– Country and transfer risk – the risk of losses being caused by events in a country other than Italy, including losses due to the borrower's difficulties in converting its currency into the currency in which the exposure is denominated.

Risks are monitored and managed via the respective internal units (risk management, planning and control, compliance and Group audit units) and by specific management Committees.

* * *

The Mediobanca Group continues to operate as normal in the United Kingdom through the London branch office of Mediobanca S.p.A. (investment banking services) and Group company Cairn Capital (alternative fund management). The potential impact of the Brexit vote for the Group is limited and may be quantified at 1.2% of total revenues). Mediobanca continues to monitor the progress of the negotiations and the potential impact in regulatory terms via an internal working group set up for this purpose, which is co-operating with the JST to understand the implications for offsetting derivatives contracts and to agree on the draft business plan for the Financial Conduct Authority which will describe the new legal status decided for the branch office.

Part F - Information on consolidated capital

SECTION 1

Consolidated capital

QUANTITATIVE INFORMATION

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

	Banking Group	Insurance companies	Other companies	Consolidation adjustments and eliminations	Total	*Of which: minorities*
Share capital	459,918	—	—	—	459,918	16,643
Share premium reserve	2,193,591	—	—	—	2,193,591	1,848
Reserves	5,559,032	—	—	—	5,559,032	68,582
Equity instruments	—	—	—	—	—	—
Treasury shares	(109,338)	—	—	—	(109,338)	—
Revaluation reserves:	761,276	—	—	—	761,276	(2,979)
- Financial assets available-for-sale	121,844	(304)	—	—	121,540	—
- Property, plant and equipment	—	—	—	—	—	—
- Intangible assets	—	—	—	—	—	—
- Foreign investment hedges	—	—	—	—	—	—
- Cash flow hedges	(18,569)	—	—	—	(18,569)	(2,869)
- Exchange differences	(8,899)	—	—	—	(8,899)	(3)
- Non-current assets and disposal group held-for-sale	—	—	—	—	—	—
- Actuarial gains (losses) on defined-benefit pension schemes	(6,163)	—	—	—	(6,163)	(107)
- Portion of measurement reserves relating to investments carried at equity method	663,431	304	—	—	663,735	—
- Special revaluation laws	9,632	—	—	—	9,632	—
Net profit (loss) for the period (+/-) of Group and minorities	867,726	—	—	—	867,726	3,806
Total	9,732,205	—	—	—	9,732,205	87,900

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

B.2 AFS valuation reserves: composition

Assets/Values	Banking Group		Insurance companies		Other companies		Consolidation adjustments and eliminations		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	64,164	(22,148)	1,239	(1,543)	—	—	—	—	65,403	(23,691)
2. Equities	60,499	(5,506)	—	—	—	—	—	—	60,499	(5,506)
3. UCITS units	29,267	(4,432)	—	—	—	—	—	—	29,267	(4,432)
4. Loans and advances	—	—	—	—	—	—	—	—	—	—
Total at 30/6/18	153,930	(32,086)	1,239	(1,543)	—	—	—	—	155,169	(33,629)
Total at 30/6/17	324,347	(7,266)	2,443	(168)	—	—	—	—	326,790	(7,434)

B.3 AFS valuation reserves: movements during the period

	Debt securities	Equity securities	UCITS units	Loans
1. Opening balance	98,834	192,574	27,947	—
2. Positive changes	14,599	1,413	10,060	—
2.1 Increases in fair value	14,108	1,412	9,350	—
2.2 Negative reserves charged back to profit and loss as result of	486	—	154	—
– impairment	—	—	—	—
– disposals	486	—	154	—
2.3 Other additions	5	1	556	—
3. Negative changes	71,726	138,989	13,172	—
3.1 Reductions in fair value	51,781	21,456	8,615	—
3.2 Adjustments for impairment	—	—	—	—
3.3 Positive reserves credited back to profit and loss as result of: disposals	19,945	117,533	3,996	—
3.4 Other reductions	—	—	561	—
4. Closing balance	41,707	54,998	24,835	—

SECTION 2

Regulatory and supervisory capital requirements for banks

Since its inception one of the distinguishing features of the Mediobanca Group has been the solidity of its financial structure, with capital ratios that have been consistently higher than those required by the regulatory guidelines, as shown by the comfortable margin emerging from the Internal Capital Adequacy Assessment Process (ICAAP) and the process performed by the regulator as part of the SREP 2017, which set the limit for CET1 at 7.652% and the total capital level at 11.152%, the lowest levels among Italian banks. These values reflect the new phase-regime for the capital conservation buffer (1.875%, as against 2.5% fully-phased as from 2019). Further details are available in the information disclosed to the public as required under Pillar III of Basel II, published on the Bank's website at www.mediobanca.com.

2.1 Scope of application of regulations

Based on the new body of supervisory and corporate governance rules for banks, which consists of a directive ("Capital Requirements Directive IV – CRD IV") and a regulation ("Capital Requirements Regulation - CRR") issued by the European Parliament in 2013 and incorporated into the Italian regulatory framework under Bank of Italy circular no. 285, the Group has applied the phase-in regime, and in particular, after receiving the relevant clearances, has weighted the investment Assicurazioni Generali at 370%, as permitted by Article 471 of the CRR (up to the book value as at end-December 2012 and in compliance with the concentration limit for the insurance group, which in December 2017 was reduced to 20% from its previous level of 25% to comply with the limit on related parties).

2.2 Bank equity

QUALITATIVE INFORMATION

Common Equity Tier 1 (CET1) capital consists of the share attributable to the Group and to minority shareholders of capital paid up, reserves (including €937m of the positive AFS equity reserves, €18.1m of which in government securities and €827.9m deriving from Assicurazioni Generali being equity-consolidated), and the profit for the period (€455m) net of the dividend for the year (€412.8m) corresponding to a payout ratio of 48% calculated based on a dividend of €0.47 per share. From this amount the following items are deducted: treasury shares (€109.3m after the partial usage in the RAM acquisition), intangible assets (€102.8m), goodwill (€649.8m, €177m in respect of newly-acquired company RAM), and other prudential adjustments (€41.2m) in connection with the values of financial instruments (AVAs and DVAs). Interests in financial companies (banking and insurance) worth €1,773.4m were deducted, €1,515.7m of which in respect of the Assicurazioni Generali investment.

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

Tier 2 capital includes the liabilities issued (€1,819.4m) and the surplus arising on value adjustments relative to expected losses (€9.2m).

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**

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

The subordinated liabilities fell from €2,036.4m to €1,819.4m, due to movements from the period plus the repayment share (€266.5m), there having been no new issues during the year under review. 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	9,285,623	8,843,333
of which: CET1 instruments subject to phase-in regime	—	—
B. CET1 prudential filters (+/-)	(12,852)	(4,460)
C. CET1 gross of items to be deducted and effects of phase-in regime (A +/- B)	9,272,771	8,838,873
D. Items to be deducted from CET1	(3,518,758)	(1,779,520)
E. Phase-in regime - impact on CET1 (+/-), including minority interests subject to phase-in regime	992,586	(42,072)
F. Total common equity tieer 1 (CET1) (C-D+/-E)	6,746,599	7,017,281
G. Additional tier 1 (AT1) gross of items to be deducted and effects of phase-in regime	—	—
of which: AT1 instruments subject to temporary provisions	—	—
H. Items to be deducted from AT1	—	—
I. Phase-in regime - impact on AT1 (+/-), including instruments issued by branches and included in AT1 as a result of phase-in provisions	—	—
L. Total additional tier 1 (AT1) (G-H+/-I)	—	—
M. Tier 2 (T2) gross of items to be deducted and effects of phase-in regime	1,819,428	2,036,402
of which: T2 instruments subject to phase-in regime	—	—
N. Items to be deducted from T2	—	(149,070)
O. Phase-in regime - Impact on T2 (+/-), including instruments issued by branches and included in T2 as a result of phase-in provisions	9,238	(25,599)
P. Total T2 (M-N+/-O)	1,828,666	1,861,733
Q. Total own funds (F+L+P)	8,575,265	8,879,014

2.3 Capital adequacy

QUALITATIVE INFORMATION

As at 30 June 2018, the Group's Common Equity Ratio, calculated as tier 1 capital as a percentage of total risk-weighted assets, amounted to 14.24%, higher than last year (13.31%). The improvement in the ratios was helped by application of the AIRB models to calculate RWAs for the Large Corporate portfolio (adding 140bps, which translates to a reduction of some €5bn in RWAs), only in part offset by the RAM Active Investments SA acquisition which absorbed 30bps of capital representing the balance between goodwill (minus 40bps), seed capital (minus 5bps) and delivery of treasury shares by way of partial consideration (adding 15bps). Prudential treatment of the Assicurazioni Generali investment, in accordance with the new, 20% concentration limit, drove a €1.4bn reduction in RWAs, against a €0.5bn increase in deductions. There was also an equivalent rise in the total capital ratio, from 16.85% to 18.11%.

During the twelve months under review:

– The Liquidity Coverage ratio (LCR) decreased from 245% to 186%, comfortably above the regulatory limit of 100% introduced on 1 January 2018;

– The Leverage Ratio decreased from 9.5% to 8.8%, but remains well above the regulatory limit of 3% in force only since 1 January 2018, the definitive requirements for which are expected to be made known by year-end 2018 for application starting from 2019.

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	65,110,914	62,865,854	40,479,850	46,158,581
1. Standard methodology	49,338,183	62,553,175	31,415,612	45,873,175
2. Internal rating methodology	15,611,090	—	8,936,201	—
2.1 Basic	—	—	—	—
2.2 Advanced	15,611,090	—	8,936,201	—
3. Securitization	161,641	312,679	128,037	285,406
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			3,238,388	3,692,686
B.2 Credit valuation risk			49,724	60,699
B.3 Settlement risk			—	—
B.4 Market risk			189,093	179,130
1. Standard methodology			189,093	179,130
2. Internal models			—	—
3. Concentration risk			—	—
B.5 Other prudential requirements			311,808	284,144
1. Basic Indicator Approach (BIA)			311,808	284,144
2. Standard methodology			—	—
3. Advanced methodology			—	—
B.6 Other calculation elements			—	—
B.7 Total prudential requirements			3,789,013	4,216,660
C. RISK ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets			47,362,665	52,708,249
C.2 CET1 capital/risk-weighted assets (CET1 capital ratio)			14.24%	13.31%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 capital ratio)			14.24%	13.31%
C.4 Regulatory capital/risk-weighted assets (Total capital ratio)			18.11%	16.85%

Part G - Combinations involving Group companies or business units

SECTION 1

Transactions completed during the period

Mediobanca S.p.A. completed the acquisition of a 69% stake in RAM Active Investments SA on 28 February 2018. The acquisition of 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%.

A preliminary calculation of the goodwill arising from the transaction came to €177m (bearing in mind the liability in respect of the put-and-call option which was valued at €40.5m), which under the requirements of IFRS13 must be subject to a Purchase Price Allocation process within twelve months of the date of acquisition.

The contribution of RAM AI to the Group's performance may be quantified as follows on annual basis:

– Approx. €57.1m in net fee and commission income;

– AUM of €4.3bn;

– Net profit of €19.6m.

During the year some extraordinary intragroup operations were also carried out; these transactions are excluded from the scope of application of IFRS3 and involved the transfer of branches or legal entities within the Mediobanca Group scope of consolidation or business combinations between the companies themselves (known as "under common control").

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, a client list worth €4.5m, and residual goodwill outstanding of €55.2m 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 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.

The other subsidiary owned by Banca Esperia, Esperia Servizi Fiduciari, was spun off to Spafid S.p.A. in September 2017 and subsequently merged into the latter with effect in accounting terms again from 1 July 2017.

For further details on all transactions which have generated goodwill, please see Part B of the Notes to the Consolidated Balance Sheet, Section 13 (Intangible Assets).

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

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.

2.1 Regular financial disclosure: most significant transactions

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

2.2 Quantitative information

The exposure (representing the sum of assets plus guarantees and commitments) remained substantially unchanged during the twelve months under review (€1.1bn) and now represents 1.5% of total assets (30/6/17: 1.6%). At the same time. interest income from such items accounts for 1.1% of this item.

Situation as at 30 June 2018

(€m)

	Directors, statutory auditors and strategic management	**Associates**	**Other related parties**	**Total**
Assets	1.2	409.3	647.4	1,057.9
of which: other assets	—	*212.1*	*393.6*	*605.7*
loans and advances	*1.2*	*197.2*	*253.8*	*452.2*
Liabilities	17.5	0.1	188.4	206.0
Guarantees and commitments	—	—	43.0	43.0
Interest income	—	9.1	12.5	22.0
Interest expense	(0.1)	—	(1.6)	(1.7)
Net fee income	—	2.8	60.9	63.7
Other income (costs)	(39.3) [1]	(1.1)	(26.2)	(66.6)

[1] Of which: short-term benefits amounting to €30.4m and performance shares worth €3.7m. The figure refers to the staff included in the definition of management with strategic responsibilities during the year

Situation at 30 June 2017

(€m)

	Directors, statutory auditors and strategic management	**Associates**	**Other related parties**	**Total**
Assets	1.5	501.3	572.5	1,075.3
of which: other assets	—	*297.1*	*340.0*	*637.1*
loans and advances	*1.5*	*204.2*	*232.5*	*438.2*
Liabilities	19.4	—	225.3	244.7
Guarantees and commitments	—	—	63.3	63.3
Interest income	—	21.9	17.4	39.3
Interest expense	(0.1)	—	(2.5)	(2.6)
Net fee income	—	6.2	94.3	100.5
Other income (costs)	(29.4) [1]	(3.7)	9.7	(23.4)

[1] Of which: short-term benefits amounting to €26m and performance shares worth €3.1m. The figure refers to the staff included in the definition of management with strategic responsibilities during the year.

Part I - Share-based payment schemes

A. QUALITATIVE INFORMATION

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

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

Extraordinary general meeting	No. of shares approved	Awards expire on	Deadline for exercising options	No. of options and performance shares awarded
For use in connection with stock option and performance stock option schemes				
28 October 2004	15,000,000	28 October 2009	1 July 2020	12,765,000
Of which directors [1]	*4,000,000*	*28 October 2009*	*1 July 2020*	*3,375,000* [2]
27 October 2007	40,000,000	27 June 2012	1 July 2022	15,536,000
For use in connection with performance share schemes				
28 October 2015	20,000,000	X	28 October 2020	5,096,209 [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 1,725,837 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 792,471 in FY 2019-20, up to 475,932 in FY 2020-21, up to 349,146 in FY 2021-22, and up to 108,288 n in FY 2022-23).

Beneficiaries were also awarded a total of 1,559,507 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 1,744,669 performance shares were awarded, at a notional cost of €11.7m 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 817,307), November 2021 (up to 477,879), November 2022 (up to 347,193) and November 2023 (up to 102,290).

QUANTITATIVE INFORMATION

1. Changes in stock option scheme during the year

	30/6/18			30/6/17		
	No. of performance shares	**Avg. price**	**Avg. expiry**	**No. of performance shares**	**Avg. price**	**Avg. expiry**
A. Opening balance	4,442,500	6.53	August 18	10,167,500	6.55	August 18
B. Increases						
B.1 New issues	—	—	X	—	—	X
B.2 Other additions	—	—	X	—	—	X
C. Decreases						
C.1 Performance shares cancelled	—	—	X	—	—	X
C.2 Performance shares made available	3,800,000	6.54	X	5,725,000	6.57	X
C.3 Performance shares expired	—	—	X	—	—	X
C.4 Other reductions	—	—	X	—	—	X
D. Closing balance	642,500	6.51	October 18	4,442,500	6.53	August 18
E. Performance shares exercisable as at reporting date	642,500	6.51	X	4,442,500	6.53	X

2. Changes in performance share scheme during the year

	30/6/18		30/6/17	
	No. of performance shares	**Avg. price**	**No. of performance shares**	**Avg. price**
A. Opening balance	5,065,713	6.37	7,377,896	5.27
B. Increases				
B.1 New issues	1,834,484	7.93	2,229,665	5.07
B.2 Other additions	—	—	—	—
C. Decreases				
C.1 Performance shares cancelled	—	—	—	—
C.2 Performance shares made available	1,559,507	7.09	4,489,290	3.92
C.3 Performance shares expired	—	—	—	—
C.4 Other reductions	244,481	6.99	52,558	5.10
D. Closing balance	5,096,209	6.69	5,065,713	6.37

Part L - Segmental reporting

A. PRIMARY SEGMENTAL REPORTING

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

(€m)

Profit-and-loss figures	Corporate & Investment Banking	Consumer Banking	Wealth Management	Principal Investing	Holding Functions	Writeoffs	Group
Net interest income	266.1	868.8	255.2	(7.2)	(37.5)	14.0	1,359.4
Net trading income	110.5	—	12.1	21.9	13.1	(0.2)	157.4
Net fee and commission income	254.4	127.4	258.7	—	15.5	(33.8)	622.2
Share in profits earned by equity-accounted companies	—	—	—	280.3	—	—	280.3
Total income	**631.0**	**996.2**	**526.0**	**295.0**	**(8.9)**	**(20.0)**	**2,419.3**
Personnel costs	(137.4)	(96.1)	(201.1)	(3.8)	(118.2)	(1.2)	(557.8)
Administrative expenses	(118.5)	(188.4)	(215.7)	(1.0)	(55.1)	21.6	(557.1)
Operating costs	**(255.9)**	**(284.5)**	**(416.8)**	**(4.8)**	**(173.3)**	**20.4**	**(1,114.9)**
Gain (losses) on AFS	—	—	2.0	96.3	—	—	98.3
Net loss provisions	19.0	(241.9)	(16.4)	(1.8)	(7.5)	0.1	(248.5)
Others	(2.0)	(6.6)	(0.6)	—	(49.3)	0.1	(58.4)
Profit before tax	**392.1**	**463.2**	**94.2**	**384.7**	**(239.0)**	**0.6**	**1,095.8**
Income tax for the period	(127.6)	(147.9)	(24.4)	(10.9)	83.0	(0.6)	(228.1)
Minority interest	—	—	(0.6)	—	(3.2)	—	(3.8)
Net profit	**264.5**	**315.3**	**69.2**	**373.8**	**(158.9)**	**—**	**863.9**
Cost/income ratio (%)	*40.6*	*28.6*	*79.2*	*1.6*	*n.m.*	*n.m.*	*46.1*

Notes:

[1] Divisions comprise:

- Corporate & Investment Banking (CIB): brings together all services provided to corporate clients in the following areas:
  - Wholesale Banking, client business (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca S.p.A., Mediobanca International, Mediobanca Securities and Mediobanca Turkey);
  - Specialty Finance: comprises factoring and credit management (including NPL portfolios) performed by MBFACTA and MBCredit Solutions;
- Consumer Banking (CheBanca!): provides retail clients with the full range of consumer credit products, ranging from personal loans to salary-backed finance (Compass Banca, Futuro and Compass RE);
- Wealth Management (WM): new division which brings together all asset management services offered to the following client segments:
  - Affluent & Premier, addressed by CheBanca!;
  - Private & High Net Worth Individuals, addressed in Italy by the new Mediobanca Private Banking division (resulting from the merger of Banca Esperia) and Spafid, and in the Principality of Monaco by Compagnie Monégasque de Banque and CMB Asset Management;
  - Alternative AM, which comprises Cairn Capital, Mediobanca SGR, Mediobanca Management Company, Compagnie Monégasque de Gestion and RAM Active Investments;
- Principal Investing (PI): division which brings together the Group's portfolio of equity investments and holdings;
- Holding Functions: division which houses the Group's Treasury and ALM operations (as part of Mediobanca S.p.A.), with the objective of optimizing management of the funding and liquidity processes; it also includes all costs relating to Group staffing and management functions based at Mediobanca S.p.A.; and continues to include the leasing operations (headed up by SelmaBipiemme) and the services and minor companies (MIS).

[2] Sum of divisional data differs from Group total due to adjustments/differences arising on consolidation between business areas (equal to minus €0.3m).

A.2 Balance-sheet data by business segment

(€m)

Balance-sheet data	Corporate & Investment Banking	Consumer	Wealth Management	Principal Investing	Holding Functions	Group
Financial assets held for trading	8,170.7	—	34.1	—	—	8,204.9
Treasury funds	4,567.3	127.2	—	—	3,663.6	8,358.2
AFS securities	—	1.7	23.7	746.8	—	772.3
Banking book securities	727.4	178.8	351.3	—	6,487.2	7,744.7
Loans and advances to customers	16,134.2	12,517.8	10,359.2	—	2,116.7	41,127.9
Equity investments	—	—	—	3,210.8	—	3,210.8
Tangible and intangible assets	0.7	380.0	115.0	—	532.0	1,027.7
Other assets	24.6	645.8	337.3	—	846.3	1,854.0
Total assets	**29,631.2**	**13,937.4**	**11,319.5**	**3,957.7**	**13,658.5**	**72,300.5**
Funding	29.6	2.783.6	19,116.3	—	26,961.7	48,893.2
Treasury funding	3,617.3	—	—	—	1,673.1	5,290.4
Financial liabilities held for trading	6,462.4	—	—	—	—	6,462.4

B. SECONDARY SEGMENTAL REPORTING

B.1 Profit-and-loss data: geographical breakdown

(€m)

Profit-and-loss figures	Italy	Foreign countries [1]	Group
Net interest income	1,300.9	58.5	1,359.4
Net trading income	144.3	13.1	157.4
Net fee and commission income	447.3	174.9	622.2
Share in profits earned by equity-accounted companies	280.3	—	280.3
Total income	**2,172.8**	**246.5**	**2,419.3**
Personnel costs	(432.6)	(125.2)	(557.8)
Administrative expensives	(492.9)	(64.2)	(557.1)
Operating costs	**(925.5)**	**(189.4)**	**(1,114.9)**
Gain (losses) on AFS	96.3	2.0	98.3
Net loss provisions	(247.2)	(1.3)	(248.5)
Others	(57.0)	(1.4)	(58.4)
Profit before tax	**1,039.4**	**56.4**	**1,095.8**
Income tax for the period	(201.1)	(27.0)	(228.1)
Minority interest	(3.8)	—	(3.8)
Net profit	**834.5**	**29.4**	**863.9**
Cost/income ratio (%)	*42.6%*	*76.8%*	*46.1%*

[1] This heading includes Mediobanca International, Compagnie Monégasque de Banque, Compass RE, MB USA, MB Turkey, CMB Wealth Management, Cairn Capital, Mediobanca Management Company and RAM Active Investments, plus the various Mediobanca international branches (Paris, Frankfurt, Madrid and London).

B.2 Balance-sheet data: geographical breakdown

(€m)

Profit-and-loss figures	Italy	Foreign countries [1]	Group
Financial assets held for trading	8,140.6	64.3	8,204.9
Treasury funds	4,063.7	4,294.5	8,358.2
AFS securities	757.1	15.2	772.3
Banking book securities	7,070.0	674.7	7,744.7
Loans and advances to customers	35,141.0	5,986.9	41,127.9
Equity investments	3,205.2	5.6	3,210.8
Tangible and intangible assets	997.7	30.0	1,027.7
Other assets	1,526.2	327.8	1,854.0
Total assets	**60,901.5**	**11,399.0**	**72,300.5**
Funding	(39,220.3)	(9,672.9)	(48,893.2)

[1] This heading includes Mediobanca International, Compagnie Monégasque de Banque, Compass RE, MB USA, MB Turkey, CMB Wealth Management, Cairn Capital, Mediobanca Management Company and RAM Active Investments, plus the various Mediobanca international branches (Paris, Frankfurt, Madrid and London); in particular, the heading "Funding" includes €2.9bn of intercompany amounts.

Information required under letters a), b) and c) of Annex A, First Part, Title III, Section 2 of Bank of Italy circular 285/13.
Situation at 30 June 2018

(€m)

Business Line	**Composition**	**Heading 120 Total income***			**Full-time employees** [1]		
		Italy	**International**	**Group**	**Italy**	**International**	**Group**
Wholesale Banking	Includes Client Business (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca S.p.A., Mediobanca International, MB USA and MB Turkey)	476	38	514	185	156	341
Specialty Finance	Comprises factoring and credit management activities (including the NPLs portfolio) headed up by MBCredit Solutions (formerly Creditech)	90	—	90	243	—	243
Consumer Banking	Provides retail clients with the full range of consumer credit products, ranging from personal loans to salary-backed finance (Compass, Futuro and Compass RE, a reinsurance company)	853	2	855	1,363	1	1,364
Affluent & Premier	Comprises deposit-taking, mortgage lending and retail banking services addressed by CheBanca!	292	—	292	1,271	5	1,276
Private & High Net Worth Individual	Includes asset management activities, addressed in Italy by Banca Esperia and Spafid and in Monaco by Compagnie Monegasque de Banque; this division also includes the Alternative AM product factory and in particular Cairn Capital	90	142	232	112	325	437
Principal Investing	Brings together the Group's portfolio of equity investments and holdings	111	—	111	12	—	12
Holding Functions	Houses the Group's Treasury and ALM activities (as part of Mediobanca S.p.A.); ; and continues to include the leasing operations (headed up by SelmaBipiemme) and the services and minor companies (MIS and Prominvestment)	(26)	—	(26)	880	24	904
Adjustments [2]		(20)	5	(15)	—	—	—
Group total		1,866	187	2,053	4,066	511	4,577

* As per P&L heading Voce 120 according to Bank of Italy circular 262/05, which differs from "Total income" (Margine di Intermediazione) of P&L scheme in pagg. 289 and 290 of the Notes to the accounts (which better reflects the Group operating activity). Heading Voce 120 according to Bank of Italy circular 262/05 does not include net premiums, the result of the insurance activity and other operating income.

[1] Full-time employees at Group level.

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

Situation at 30 June 2017

(€m)

Business Line	Composition	Heading 120 Total income*			Full-time employees[1]		
		Italy	International	Group	Italy	International	Group
Wholesale Banking	Includes Client Business (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca S.p.A., Mediobanca International, MB USA and MB Turkey)	496	52	548	177	157	334
Specialty Finance	Comprises factoring and credit management activities (including the NPLs portfolio) headed up by MBCredit Solutions (formerly Creditech)	67	—	67	222	—	222
Consumer Banking	Provides retail clients with the full range of consumer credit products, ranging from personal loans to salary-backed finance (Compass, Futuro and Compass RE, a reinsurance company)	809	2	811	1.366	1	1.367
Affluent & Premier	Comprises deposit-taking, mortgage lending and retail banking services addressed by CheBanca!	274	—	274	1.354	5	1.359
Private & High Net Worth Individual	Includes asset management activities, addressed in Italy by Banca Esperia and Spafid and in Monaco by Compagnie Monegasque de Banque; this division also includes the Alternative AM product factory and in particular Cairn Capital	68	122	190	336	271	607
Principal Investing	Brings together the Group's portfolio of equity investments and holdings	171	—	171	11	—	11
Holding Functions	Houses the Group's Treasury and ALM activities (as part of Mediobanca S.p.A.); ; and continues to include the leasing operations (headed up by SelmaBipiemme) and the services and minor companies (MIS and Prominvestment)	(70)	1	(69)	757	29	786
Adjustments[2]		(46)	(3)	(49)	—	—	—
Group total		1,769	174	1,943	4,223	463	4,686

* As per P&L heading Voce 120 according to Bank of Italy circular 262/05, which differs from "Total income" (Margine di Intermediazione) of P&L scheme in pagg. 289 and 290 of the Notes to the accounts (which better reflects the Group operating activity). Heading Voce 120 according to Bank of Italy circular 262/05 does not include net premiums, the result of the insurance activity and other operating income.

[1] Full-time employees at Group level.

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

ANNEXES

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

The Balance Sheet provided on p. 21 reflects the following restatements:

for which regards Assets:

- *Treasury funds* comprises asset headings 10 “Cash and cash equivalents”; current account and demand deposits, repos, as well as other time deposits and other hedging under heading 60 “Due from banks” and 70 “Due from customers”; and also other items under heading 160 “Other assets”;
- *Banking book securities* comprises debt securities under heading 40 “Financial assets available-for-sale”, heading 50 “Financial assets held-to-maturity”, heading 60 “Due from banks” and heading 70 “Due from customers”;
- *Loans and advances to customers* comprises heading 60 “Due from banks” and 70 “Due from customers”, except for amounts directly reclassified in other headings;
- *Other assets* comprises the entire heading 160 “Other assets”, heading 140 “Tax assets”, heading 80 “Hedging derivatives” and other debtors under heading 60 “Due from banks” and 70 “Due from customers”;

for which regards Liabilities:

- *Funding* comprises heading 10 “Due to banks” and 20 “Due to customers”, except from items that are comprised into *Treasury funding* and other creditors which are comprised into *Other liabilities*;
- *Treasury funding* comprises current account and demand deposits, repos, as well as other time deposits and other hedging under heading 10 “Due to banks” and 20 “Due to customers”;
- *Other liabilities* comprises other creditors under heading 10 “Due to banks” and 20 “Due to customers”, heading 60 “Hedging derivatives”, heading 80 “Tax liabilities” and heading 130 “Insurance reserves”.

Consolidated Balance Sheet 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	—	1,238.0	—	—	—	—	—	—	**1,238.0**
20. Financials assets held for trading	8,204.9	—	—	—	—	—	—	—	**8,204.9**
30. Financials assets recognized at fair value through profit or loss	—	—	—	—	—	—	—	—	**—**
40. Financial assets available-for-sale	—	—	772.3	4,949.6	—	—	—	—	**5,721.9**
50. Financial assets held-to-maturity	—	—	—	2,595.8	—	—	—	—	**2,595.8**
60. Due from banks	—	6,226.0	—	—	1,321.8	—	—	5.2	**7,553.0**
70. Due from customers	—	880.0	—	199.3	39,806.1	—	—	92.5	**40,977.9**
80. Hedging derivatives	—	—	—	—	—	—	—	225.8	**225.8**
90. Adjustment of hedging financial assets (+/-)	—	—	—	—	—	—	—	—	—
100. Equity investments	—	—	—	—	—	3,210.8	—	—	**3,210.8**
110. Reinsured portion of technical reserves	—	—	—	—	—	—	—	—	**—**
120. Property, plant and equipment	—	—	—	—	—	—	287.8	—	**287.8**
130. Intangible assets	—	—	—	—	—	—	739.9	—	**739.9**
140. Tax assets	—	—	—	—	—	—	—	816.5	**816.5**
150. Loans classified as held-for-sale	—	—	—	—	—	—	—	—	—
160. Other assets	—	14.2	—	—	—	—	—	714.0	**728.2**
Total assets	**8,204.9**	**8,358.2**	**772.3**	**7,744.7**	**41,127.9**	**3,210.8**	**1,027.7**	**1,854.0**	**72,300.5**

Consolidated 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 and minority interests	Total liabilities and net equity
10. Due to banks	7,996.4	4,261.5	—	5.6	—	—	**12,263.5**
20. Due to customers	20,288.3	1,028.9	—	2.8	—	—	**21,320.0**
30. Debt securities in issue	20,608.5	—	—	—	—	—	**20,608.5**
40. Trading liabilities	—	—	6,462.4	—	—	—	**6,462.4**
50. Financial liabilities designated at fair value	—	—	—	—	—	—	**—**
60. Hedging derivatives	—	—	—	233.1	—	—	**233.1**
70. Changes in fair value of portfolio hedged items (-)	—	—	—	—	—	—	**—**
80. Tax liabilities	—	—	—	531.6	—	—	**531.6**
90. Liabilities included in disposal groups classified as held for sale	—	—	—	—	—	—	**—**
100. Other liabilities	—	—	—	760.4	—	—	**760.4**
110. Staff severance indemnity provision	—	—	—	—	27.5	—	**27.5**
120. Provisions	—	—	—	—	185.5	—	**185.5**
130. Insurance reserves	—	—	—	175.8	—	—	**175.8**
140. Revaluation reserves	—	—	—	—	—	764.3	**764.3**
150. Redeemable shares repayable on demand	—	—	—	—	—	—	**—**
160. Equity instruments repayable on demand	—	—	—	—	—	—	**—**
170. Reserves	—	—	—	—	—	5,490.4	**5,490.4**
180. Share premium reserve	—	—	—	—	—	2,191.7	**2,191.7**
190. Share capital	—	—	—	—	—	443.3	**443.3**
200. Treasury shares	—	—	—	—	—	(109.3)	**(109.3)**
210. Minority interest	—	—	—	—	—	87.9	**87.9**
220. Profit for the period	—	—	—	—	—	863.9	**863.9**
Total liabilities and net equity	**48,893.2**	**5,290.4**	**6,462.4**	**1,709.3**	**213.0**	**9,732.2**	**72,300.5**

Consolidated 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	Tangiible and intangible assets	Other assets	Total assets
10. Cash and cash equivalents	—	1,330.2	—	—	—	—	—	—	**1,330.2**
20. Financials assets held for trading	7,833.9	—	—	—	—	—	—	—	**7,833.9**
30. Financials assets recognized at fair value through profit or loss	—	—	—	—	—	—	—	—	**—**
40. Financial assets available-for-sale	—	—	786.1	5,606.6	—	—	—	—	**6,392.7**
50. Financial assets held-to-maturity	—	—	—	2,400.2	—	—	—	—	**2,400.2**
60. Due from banks	—	6,883.0	—	—	1,066.6	—	—	10.3	**7,959.9**
70. Due from customers	—	1,207.6	—	350.9	37,124.3	—	—	80.3	**38,763.1**
80. Hedging derivatives	—	—	—	—	—	—	—	462.3	**462.3**
90. Adjustment of hedging financial assets (+/-)	—	—	—	—	—	—	—	—	—
100. Equity investments	—	—	—	—	—	3,036.5	—	—	**3,036.5**
110. Reinsured portion of technical reserves	—	—	—	—	—	—	—	—	**—**
120. Property, plant and equipment	—	—	—	—	—	—	305.6	—	**305.6**
130. Intangible assets	—	—	—	—	—	—	552.2	—	**552.2**
140. Tax assets	—	—	—	—	—	—	—	847.4	**847.4**
150. Loans classified as held-for-sale	—	—	—	—	—	—	—	—	—
160. Other assets	—	14.3	—	—	—	—	—	547.2	**561.5**
Total assets	**7,833.9**	**9,435.1**	**786.1**	**8,357.7**	**38,190.9**	**3,036.5**	**857.8**	**1,947.5**	**70,445.5**

Consolidated 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 and minority interests	Total liabilities and net equity
10. Due to banks	9,423.9	3,263.4	—	2.3	—	—	**12,689.6**
20. Due to customers	19,588.0	773.8	—	4.2	—	—	**20,366.0**
30. Debt securities in issue	20,108.7	—	—	—	—	—	**20,108.7**
40. Trading liabilities	—	—	5,920.6	—	—	—	**5,920.6**
50. Financial liabilities designated at fair value	—	—	—	—	—	—	**—**
60. Hedging derivatives	—	—	—	341.2	—	—	**341.2**
70. Changes in fair value of portfolio hedged items (-)	—	—	—	—	—	—	**—**
80. Tax liabilities	—	—	—	560.0	—	—	**560.0**
90. Liabilities included in disposal groups classified as held for sale	—	—	—	—	—	—	**—**
100. Other liabilities	—	—	—	846.2	—	—	**846.2**
110. Staff severance indemnity provision	—	—	—	—	29.8	—	**29.8**
120. Provisions	—	—	—	—	225.8	—	**225.8**
130. Insurance reserves	—	—	—	166.0	—	—	**166.0**
140. Revaluation reserves	—	—	—	—	—	871.4	**871.4**
150. Redeemable shares repayable on demand	—	—	—	—	—	—	**—**
160. Equity instruments repayable on demand	—	—	—	—	—	—	**—**
170. Reserves	—	—	—	—	—	5,056.8	**5,056.8**
180. Share premium reserve	—	—	—	—	—	2,187.6	**2,187.6**
190. Share capital	—	—	—	—	—	440.6	**440.6**
200. Treasury shares	—	—	—	—	—	(197.7)	**(197.7)**
210. Minority interest	—	—	—	—	—	82.7	**82.7**
220. Profit for the period	—	—	—	—	—	750.2	**750.2**
Total liabilities and net equity	**49,120.6**	**4,037.2**	**5,920.6**	**1,919.9**	**255.6**	**9,191.6**	**70,445.5**

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

The Profit and Loss provided on p. 20 reflects the following restatements:

- *Net interest margin* comprises heading 10 "Interest and similar income", heading 20 "Interest expenses and similar charges", hedging derivatives differentials related to held-for-trading securities of heading 80 "Net trading income" and the net result from hedging activities of loans to customers and of funding of heading 90 "Net hedging income (expense)";
- *Treasury income* comprises heading 70 "Dividends and similar income", heading 80 "Net trading income" (except for the amount under the *net margin interest*), the result of the *banking book securities* included in heading 100 "Gain (loss) on disposal/repurchase" and the share of repos in headings 40 "Fee and commission income" and 50 "Fee and commission expense";
- *Net fee and commission income* comprises heading 60 "Net fee and commission income", the operating incomes of heading 220 "Other operating income (expenses)" and the reversal on purchased NPL exposures of heading 130 "Adjustments for impairment";
- *Loan loss provisions* comprise heading 130 "Adjustments for impairment" (apart from NPL write-backs) and the losses on credit disposal included in the heading 100 "Gain (loss) on disposal/repurchase ";
- *Other profits (losses)* comprise the non-recurring costs of heading 180 "Administrative costs", especially the contributes to the SRF and the DGS, the provisions for restructuring and impairment of tangible and intangible assets.

Consolidated Profit and Loss for the 12 mths ended 30 June 2018

(€m)

Profit and loss account	Net interest income	Treasury income	Net fee and commission income	Equity-accounted companies	Operating costs	Gain (losses) on AFS, HTM and L&R	Loan loss provisions	Provisions for financial assets	Other profits (losses)	Income tax for the period	Minority interests	Net profit
10. Interest and similar income	1,896.8	—	—	—	—	—	—	—	—	—	—	1,896.8
20. Interest expense and similar charges	(530.8)	—	—	—	—	—	—	—	—	—	—	(530.8)
30. Net interest income	**1,366.0**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,366.0**
40. Fee and commission income	—	10.0	580.6	—	—	—	—	—	—	—	—	590.6
50. Fee and commission expense	—	(4.4)	(129.9)	—	—	—	—	—	—	—	—	(134.3)
60. Net fee and commission income	**—**	**5.6**	**450.7**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**456.3**
70. Dividends and similar income	—	84.3	—	—	—	—	—	—	—	—	—	84.3
80. Net trading income	(9.5)	48.2	—	—	—	—	—	—	—	—	—	38.7
90. Net hedging income (expense)	2.9	—	—	—	—	—	—	—	—	—	—	2.9
100. Gain (loss) on disposal/repurchase	—	19.3	—	—	—	98.3	(12.6)	—	—	—	—	105.0
120. Total income	**1,359.4**	**157.4**	**450.7**	**—**	**—**	**98.3**	**(12.6)**	**—**	**—**	**—**	**—**	**2,053.2**
130. Adjustments for impairment	—	—	24.2	—	—	—	(234.6)	(1.7)	—	—	—	(212.1)
140. Net income from financial operations	**1,359.4**	**157.4**	**474.9**	**—**	**—**	**98.3**	**(247.2)**	**(1.7)**	**—**	**—**	**—**	**1,841.1**
150. Net premium earned (net)	—	—	57.9	—	—	—	—	—	—	—	—	57.9
160. Other income (net) from insurance activities	—	—	(9.0)	—	—	—	—	—	—	—	—	(9.0)
170. Net profit from financial and insurance activities	**1,359.4**	**157.4**	**523.8**	**—**	**—**	**98.3**	**(247.2)**	**(1.7)**	**—**	**—**	**—**	**1,890.0**
180. Administrative expenses	—	—	—	—	(1,125.9)	—	—	—	(46.3)	—	—	(1,172.2)
190. Net transfers to provisions	—	—	—	—	(14.6)	—	—	—	(12.1)	—	—	(26.7)
200. Net adjustment to tangible assets	—	—	—	—	(16.0)	—	—	—	—	—	—	(16.0)
210. Net adjustment to intangible assets	—	—	—	—	(27.9)	—	—	—	—	—	—	(27.9)
220. Other operating income (expenses)	—	—	98.4	—	69.5	—	—	—	—	—	—	167.9
230. Operating costs	**—**	**—**	**98.4**	**—**	**(1,114.9)**	**—**	**—**	**—**	**(58.4)**	**—**	**—**	**(1,074.9)**
240. Gain (loss) on equity investments	—	—	—	280.3	—	—	—	—	—	—	—	280.3
270. gain (loss) on disposal of investments	—	—	—	—	—	—	—	0.4	—	—	—	0.4
280. Profit (loss) on ordinary activity before tax	**1,359.4**	**157.4**	**622.2**	**280.3**	**(1,114.9)**	**98.3**	**(247.2)**	**(1.3)**	**(58.4)**	**—**	**—**	**1,095.8**
290. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—	—	(228.1)	—	(228.1)
300. Profit (loss) on ordinary activities after tax	**1,359.4**	**157.4**	**622.2**	**280.3**	**(1,114.9)**	**98.3**	**(247.2)**	**(1.3)**	**(58.4)**	**(228.1)**	**—**	**867.7**
310. Gain (loss) on disposal of investments after tax	—	—	—	—	—	—	—	—	—	—	—	—
320. Net profit (loss) for the period	**1,359.4**	**157.4**	**622.2**	**280.3**	**(1,114.9)**	**98.3**	**(247.2)**	**(1.3)**	**(58.4)**	**(228.1)**	**—**	**867.7**
330. Net profit (loss) for the period attributable to minorities	—	—	—	—	—	—	—	—	—	—	(3.8)	(3.8)
340. Net profit (loss) for the period attributable to Mediobanca	**1,359.4**	**157.4**	**622.2**	**280.3**	**(1,114.9)**	**98.3**	**(247.2)**	**(1.3)**	**(58.4)**	**(228.1)**	**(3.8)**	**863.9**

Consolidated 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	Equity-accounted companies	Operating costs	Gain (losses) on AFS, HTM and L&R	Loan loss provisions	Provisions for financial assets	Other profits (losses)	Income tax for the period	Minority interests	Net profit
10. Interest and similar income	1,916.4	—	—	—	—	—	—	—	—	—	—	1,916.4
20. Interest expense and similar charges	(638.9)	—	—	—	—	—	—	—	—	—	—	(638.9)
30. Net interest income	**1,277.5**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,277.5**
40. Fee and commission income	—	4.6	477.9	—	—	—	—	—	—	—	—	482.5
50. Fee and commission expense	—	(3.9)	(100.7)	—	—	—	—	—	—	—	—	(104.6)
60. Net fee and commission income	**—**	**0.7**	**377.2**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**377.9**
70. Dividends and similar income	—	81.4	—	—	—	—	—	—	—	—	—	81.4
80. Net trading income	(5.5)	39.7	—	—	—	—	—	—	—	—	—	34.2
90. Net hedging income (expense)	15.8	—	—	—	—	—	—	—	—	—	—	15.8
100. Gain (loss) on disposal/repurchase	—	(0.5)	—	—	—	168.6	(11.7)	—	—	—	—	156.4
120. Total income	**1,287.8**	**121.3**	**377.2**	**—**	**—**	**168.6**	**(11.7)**	**—**	**—**	**—**	**—**	**1,943.2**
130. Adjustments for impairment	—	—	—	—	—	—	(287.5)	(6.2)	—	—	—	(293.7)
140. Net income from financial operations	**1,287.8**	**121.3**	**377.2**	**—**	**—**	**168.6**	**(299.1)**	**(6.2)**	**—**	**—**	**—**	**1,649.6**
150. Net premium earned (net)	—	—	52.3	—	—	—	—	—	—	—	—	52.3
160. Other income (net) from insurance activities	—	—	(14.4)	—	—	—	—	—	—	—	—	(14.4)
170. Net profit from financial and insurance activities	**1,287.8**	**121.3**	**415.1**	**—**	**—**	**168.6**	**(299.1)**	**(6.2)**	**—**	**—**	**—**	**1,687.5**
180. Administrative expenses	—	—	—	—	(1,028.2)	—	—	—	(189.8)	—	—	(1,218.0)
190. Net transfers to provisions	—	—	—	—	(3.9)	—	—	—	(12.5)	—	—	(16.4)
200. Net adjustment to tangible assets	—	—	—	—	(17.6)	—	—	—	—	—	—	(17.6)
210. Net adjustment to intangible assets	—	—	—	—	(27.0)	—	—	—	—	—	—	(27.0)
220. Other operating income (expenses)	—	—	107.5	—	53.0	—	(17.6)	—	100.4	—	—	243.3
230. Operating costs	**—**	**—**	**107.5**	**—**	**(1,023.7)**	**—**	**(17.6)**	**—**	**(101.9)**	**—**	**—**	**(1,035.7)**
240. Gain (loss) on equity investments	—	—	—	263.9	—	—	—	(0.4)	—	—	—	263.5
270. Gain (loss) on disposal of investments	—	—	—	—	—	—	—	(1.3)	—	—	—	(1.3)
280. Profit (loss) on ordinary activity before tax	**1,287.8**	**121.3**	**522.6**	**263.9**	**(1,023.7)**	**168.6**	**(316.7)**	**(7.9)**	**(101.9)**	**—**	**—**	**914.0**
290. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—	—	(171.7)	—	(171.7)
300. Profit (loss) on ordinary activities after tax	**1,287.8**	**121.3**	**522.6**	**263.9**	**(1,023.7)**	**168.6**	**(316.7)**	**(7.9)**	**(101.9)**	**(171.7)**	**—**	**742.3**
310. Gain (loss) on disposal of investments after tax	—	—	—	—	—	—	—	—	—	—	—	—
320. Net profit (loss) for the period	**1,287.8**	**121.3**	**522.6**	**263.9**	**(1,023.7)**	**168.6**	**(316.7)**	**(7.9)**	**(101.9)**	**(171.7)**	**—**	**742.3**
330. Net profit (loss) for the period attributable to minorities	—	—	—	—	—	—	—	—	—	—	7.9	7.9
340. Net profit (loss) for the period attributable to Mediobanca	**1,287.8**	**121.3**	**522.6**	**263.9**	**(1,023.7)**	**168.6**	**(316.7)**	**(7.9)**	**(101.9)**	**(171.7)**	**7.9**	**750.2**

GLOSSARY

GLOSSARY

The definitions of some of the technical terminology and translations used in the Review of Operations and Notes to the Accounts are provided below.

Additional Tier 1 (AT1): Additional Tier 1 capital consists of capital instruments apart from ordinary shares (which are included in common equity (see definition) which meet the regulatory requirements for inclusion in this level of own funds.

Advisory: Activity performed by a financial intermediary assisting a client in corporate finance transactions, the duties covered by which may range from preparing valuations to drawing up documents and providing general consultancy services regarding the specific transaction.

AIRB Models (Advanced Internal Rating Based): The Basel II Accord stipulates three different methodologies for calculating credit risk: the standard method, the "foundation" internal ratings-based method (FIRB), and the "advanced" internal ratings-based method (AIRB). Using the AIRB method, a bank develops its own internal models with which to estimate the indicators PD (Probability of Default), LGD (Loss-Given Default) and EAD (Exposure At Default) indicators necessary in order to calculate the capital requirement.

ALM – Asset and Liability Management: Integrated management of assets and liabilities to optimize allocation of resources on a risk/return basis.

Alternative Fund, Private Equity and Hedge Fund: Alternative investments comprise a vast range of different forms of investment, including those in private equity and hedge funds:

– Private equity investments: investments in the venture capital of companies, generally unlisted but with high growth potential and the capability to generate cash flows which are constant and stable over time;

– Hedge funds: generic term to refer to funds which use complex and sophisticated strategies to deliver returns which are higher on average than other funds.

Amortized cost (financial assets measured at amortized cost): this is one of the new categories for financial assets and liabilities provided for in IFRS9 (paragraph 4.1.2). A financial asset is measured at amortized cost when both the following conditions are met:

– The instrument is held according to a business model consisting of collection of the contractual cash flows (Held to collect, see definition); and
– The contractual terms of the instrument are such that the contractual cash flows represent solely payments of principal and interest.

Assets Under Management (AUM): Assets under management constitute the total market value of all funds managed by a financial institution on behalf of its clients or investors, including mutual funds, asset management in funds or securities, insurance products and funds under administration.

Asset Under Administration (AUA): Assets under administration represent the market value of the aggregate of securities held by a financial institution received on deposit from its clients and managed on behalf of them. Management of such securities involves their custody, collection of interest/dividends, verifying draws for the attribution of premiums or for capital repayment, arranging repayments on behalf of the clients, and generally checking that all rights pertaining to the securities have been respected. Sums collected must then be credited to the client.

Assets Under Custody (AUC): Assets under custody represent the market value of financial instruments and securities in general (equities, bonds, government securities, shares held in mutual investment funds, etc.) in paper or dematerialized from, held by a financial institution on behalf of clients.

Backstop: Indicators used to understand whether the financial instrument has experienced a significant increase in credit risk since the date of initial recognition. For the Mediobanca Group, backstop indicators include the 30-days past due period and the existence of forbearance measures.

Bail-In: Procedure to resolve banking crises via the exclusive and direct involvement of the shareholders, bond holders and current account holders of the bank itself with deposits of over €100,000. Since 2016 and the introduction of the Bank Recovery and Resolution Directive (Directive 2014/59/EU), the bail-in procedure has replaced the bail-out procedure whereby banks were rescued solely through use of public funds. The basic principle underpinning the bail-in procedure is that of "no creditor worse off" (NCWO), i.e. no shareholder, current account holder or creditor should incur greater losses than they would have incurred if the institution had been would up under normal insolvency proceedings.

Bank Recovery and Resolution Directive (Directive 2014/59/EU; BRRD): This directive introduces harmonized rules in all EU Countries to prevent and manage crises at credit institutions and investment firms. The BRRD confers on the authorities powers and instruments in order for them to be able to: plan management of the crisis; intervene in good time before the crisis fully occurs; and manage the "resolution" stages in optimal fashion.

Banking book: The banking book consists of proprietary financial assets held for purposes other than short-term trading.

Basel Accords: Guidelines on capital requirements for banks, compiled by the Basel Committee with a view to establishing standard, harmonized regulation of banking supervision at supranational level. The first accord published by the Basel Committee was in 1988, and introduced a set of minimum capital requirements for banks to reduce credit and market risk deriving from the possibility of assets losing their value excessively.

a) *Basel II:* The short name given to the document entitled *International Convergence of Capital Measurement and Capital Standards* signed in Basel in 2004 which came into force in 2008. It is based on three so-called Pillars: Pillar I (minimum capital requirements addressing risk); Pillar II (supervisory review); and Pillar III (market discipline).

b) *Basel III:* This name refers to the new prudential requirements introduced at European level by the CRD IV/CRR package (see definition).

c) *Basel IV:* Proposed standard on capital reserves for banks to update the Basel III standards, not due for ratification before March 2019.

Beta: Indicator representing the correlation between the expected return on an equity instrument and the overall return on the benchmark market. Beta can show readings which are above zero (positive correlation) or below zero (negative correlation). It is used in the Capital Asset Pricing Model (see definition).

Bid-Ask Spread: Margin between the price at which an intermediary commits to sell stocks ("ask"; letter) and the price at which it commits to buy them ("bid"; cash). On the interbank market this takes the form of the margin between the interest rate at which funds are offered on a given maturity (letter) and the rate at which the funds are requested on the same maturity (cash).

Business Combination: A business combination comprises a set of assets or accounts which jointly may serve for the performance of an economic activity.

Business Model: The business model regards the way in which an entity manages its financial assets in order to generate cash flows (that is, it determines whether the cash flows derive from collection of cash flows stipulated contractually, from the sale of financial assets, or from both). The business model is not defined for individual assets but on the basis of like-for-like portfolios of assets. The classification of financial assets is based on the business model concept. Three types of business model are contemplated: *Held to collect, Held to collect and sell*, and *Other*.

Capital Absorption: Absorbed capital is the amount of capital which the Group has to hold in order to cover potential losses and which is needed to support its business activities and the positions held. It consists of regulatory capital plus internal capital. Regulatory capital is obtained by multiplying risk-weighted assets by the target Common Equity Tier 1 ratio. Internal capital is obtained from the sum of economic capital estimated internally to cover the Pillar I and Pillar II (see Basel Accords) risks to which the Bank is exposed.

Capital Asset Pricing Model (CAPM): Mathematical model used to determine the price of a financial asset in view of the relationship between return and risk (as expressed by a single risk factor, namely beta; see definition.

Capital Requirement Directive (CRD): Directives 2006/48/EU and 2006/49/EU, transposed by the Bank of Italy in its circular no. 263/06 as amended, which introduced the decisions taken as part of the Basel III agreements to the European regulatory framework. The CRD IV package in particular supersedes the foregoing Directives, and consists of Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, and Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms, transposed by the Bank of Italy in its circular no. 285 of 17 December 2013 as amended.

Capital Requirement Regulation (CRR): Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms. The regulation was adopted in response to the financial crisis which broke out in 2007, and is intended to reduce the likelihood of financial institutions failing by increasing their equity, reducing their exposure to risk and reducing the financial leverage used by them.

Cash Flow Hedge: One of the types of contract permitted under IAS39 to neutralize the exposure to changes in future cash flows attributable to particular risks associated with given balance-sheet items.

Cash-Generating Unit (CGU): According to the definition provided in IAS36, paragraph 6, a cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The notion of CGU is used in the impairment test procedure (see definition).

Certificates: Certificates are financial instruments which in contractual terms are equivalent to derivatives with an option component, and which replicate the performance of an underlying asset. In acquiring a certificate the investor obtains the right to receive a sum linked to the value of the underlying instrument at a given date.

Collateralized Debt Obligation (CDO): CDOs are fixed-income securities which have a portfolio of bonds, loans and other debt instruments as their collateral.

Commercial Paper: Short-term financing instrument with duration generally of one year or less.

Common Equity: Common equity consists of the highest-quality components of a Bank's capital, such as: ordinary shares in issue, every share premium (for ordinary shares), retained earnings, and every adjustment or prudential filter (see definition) applied to the foregoing categories for regulatory or supervisory purposes.

Common Equity Tier 1 ratio (CET1 Ratio: The CET1 ratio is the ratio of a bank's core equity capital to its total risk-weighted assets or RWAs (see definition).

Compound Annual Growth Rate (CAGR): annual compound growth rate of an investment over a given period of time.

Contingency Funding Plan: Set of operating procedures developed internally by a bank in order to manage liquidity crisis (short-term and/or medium-/long-term).

Corporate Exposures: Class of credit exposures to companies which include also the following categories:

– Exposures to SMEs;
– Leveraged finance (see definition);
– Specialized lending.

Cost/Income Ratio: Operating costs (i.e. labour costs, overheads, administrative expenses and depreciation/amortization) as a percentage of total revenues.

Cost of Risk: Ratio between loan loss provisions (net of any writebacks) and average loans to customers (net of provisions). The ratio constitutes one of the indicators of the risk inherent in the Bank's assets.

Covenants: Covenants are contractual clauses which entitle the lender to renegotiate or revoke credit upon the occurrence of certain events defined in said clauses, the purpose of which being to formalize the undertakings entered into by the lender in terms of management and earnings/financial performance, and at the same time provide an instrument with which to record any differences relative to expectations to be noted.

Covered Bonds: Covered bonds are debt securities covered by assets that, in the event of failure by the issuer, serve to meet the claims of the bond-holders on a priority basis.

Credit Conversion Factor (CCF): Percentage applied to convert an off-balance-sheet exposure (e.g. a guarantee) into its equivalent balance-sheet amount. This factor is applied in the procedure used to calculate the EAD (see definition).

Credit Default Swap (CDS): Derivative contract whereby one party (the protection seller) undertakes, in return for payment of an amount of money, to pay another party (the protection buyer) an agreed amount if a given event occurs in relation to the deterioration in the credit of a third counterparty or reference entity.

Credit Risk Mitigation (CRM): Set of techniques, ancillary contracts to credit or other instruments (such as financial assets and guarantees) which enable a reduction in the capital requirements to cover credit risk.

Credit risk stage: Credit risk stage refers to the classification of financial assets valued at FVOCI or at amortized cost, commitments to disburse funds and financial guarantees issued subject to the impairment rules of IFRS 9 according to changes in their credit risk (paragraph 5.5). There are three risk stages:

a) Stage 1 comprises:
   a. Credit exposures originated or acquired;
   b. Exposures with no significant increase in credit risk compared to their initial recognition;
   c. Exposures subject to the low credit risk exemption.

b) Stage 2: significant increase in credit risk compared to initial recognition;

c) Stage 3: impaired exposures.

Crossover Fund: Investment fund holding investments in listed and unlisted companies on regulated markets.

CVA – Credit Value Adjustment: The adjustment of a portfolio's value to incorporate the counterparty credit risk into transaction prices. CVA has been explicitly introduced by the Basel III framework, and is mainly applied to over-the-counter (OTC) derivatives, i.e. derivatives not subject to specific regulations.

Default: The condition, either expected or already occurred, of failing to repay a debt.

Deposit Guarantee Scheme (DGS) – Deposit Insurance Fund (DIF): The DGS (Directive 2014/49/EU) operate at national level, financed by the national credit institutions, and their principal aim is to ensure repayment of a share of bank deposits. Currently two such schemes operate in Italy: the FITD (see definition) and the FGD (*Fondo di garanzia dei Depositanti del Credito Cooperativo*). At EU level the process of implementing the third pillar of the European banking union by introducing a European Deposit Insurance Scheme (EDIS), to which the funds of the various national DGS will be transferred.

Direct Funding (retail): Cash amounts due to customers, resident or otherwise, in respect of sight or term deposits or with notice, current accounts, bonds, certificates of deposits, repos and subordinated liabilities. The definition does not include amounts due to other banks, third-party funds held under administration (received from governments, regions or public institutions), liabilities in respect of bankers' drafts and other securities.

Dividend Discount Model, Excess Capital version: This model is used in order to estimate the intrinsic value of a share based on the sum of its future dividends discounted back to their present value: in this version the dividend flows, taking into account the minimum capital limits set by the regulatory authorities, are discounted back using the cost of own capital *Ke* (calculated according to the *CAPM* method (see definition)) as the discount rate, while the period of time consists of the first years of explicit estimates and the terminal value (calculated via the capitalization at constant perpetual growth rate g).

Duration: Duration is a synthetic indicator of the interest rate risk of a bond, as bond prices have an inverse relation to interest rates. It is defined as the average maturity of expected cash flows, weighted by the contribution which the present value of each cash flow makes to the price. Duration is expressed in years.

ECAI: External Credit Assessment Institution.

Effective Interest Rate: 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 amount disbursed, including costs/income attributable to the loan. This method of accounting enables the effect of the costs/income to be distributed over the expected outstanding life of the loan.

Embedded Derivative: An embedded derivative is a component of a hybrid security that is embedded in a non-derivative instrument (or "host"), and cannot be stripped out from its host. For an embedded derivative to be defined as such, a portion of the cash flows from the host contract must vary in relation to changes in an external variable (such as an interest rate, credit rating, the price of a commodity, or some other).

European Banking Authority (EBA): the EBA is an independent regulatory agency of the European Union set up in 2011 and forming part of the European System of Financial Supervisors (ESFS, a group of authorities and supervisors which since 2008 has constituted the new European micro- and macro-prudential supervisory framework). The EBA has the objective of ensuring an effective and uniform level of regulation and prudential supervision in the European banking sector, thereby ensuring financial stability within the EU and guaranteeing the integrity, efficiency and proper functioning of the banking.

European Central Bank (ECB): The ECB is the central bank for the European monetary union. Its primary objective is to preserve the purchasing power of the single currency, and so to maintain price stability within the Eurozone. The Single Supervisory Mechanism (SSM, the first pillar in the process of creating European banking union) has also granted the ECB powers of supervision over the largest banks in the Eurozone.

Euro OverNight Index Average (EONIA): Interest rate applied to interbank loans denominated in Euros with a duration of one day (overnight), calculated daily as the weighted average of overnight unsecured lending transactions undertaken by a sample of banks with high credit standing selected on a regular basis by the European Banking Federation.

European Securities and Markets Authority (ESMA): ESMA is a European Union institution which is responsible for supervising the functioning of financial markets in Europe, ensuring the stability of the EU financial system and safeguarding its integrity, transparency and proper functioning, and strengthening investor protection.

European Systemic Risk Board (ESRB): European committee for systemic risk which is part of the European System of Financial Supervision. It is tasked with the macro-prudential oversight of the financial system within the European Union and is responsible for preventing and mitigating systemic risks that could originate within the European financial system.

Expected Loss: The expected loss is an estimate of the loss which a bank expects to incur in respect of a position or of a portfolio of assets. This amount, which by definition is predictable, in practice does not constitute a concrete risk for the Bank, and is already considered to be a component of the cost to be debited to the client when the interest rate is finalized in the loan contract.

Expected Shortfall: The expected shortfall represents the expected amount of losses over and above the VaR limit (see definition).

Exposure At Default (EAD): The amount to which the bank is exposed at the point in time upon the default of an obligor.

External Rating: Valuation formulated by a specialist private agency of the credit standing of a given counterparty, distinguished by type of issuer and by financial instrument.

Fair Value: Fair value is the price at which an asset (or liability) can be traded (or paid off) in a free transaction between conscious and willing parties.

Fair Value Hedge: Type of hedge provided for by IAS39 to neutralize exposure to changes in a balance-sheet item's fair value.

FTA – First Time Adoption: Governed by IFRS1, FTA refers to entities applying IAS/IFRS for the first time and also in the event of material changes in standards already adopted. With reference to IFRS9 coming into force, first adopters must provide adequate disclosure of the effects of applying the standard to allow users of financial statements to understand the impact on the entity's financial situation and net equity. First adopters are exempted from providing comparative information.

FVOCI - Fair Value Through Other Comprehensive Income: FVOCI is one of the methods used for classifying financial assets contemplated by IFRS9 (paragraph 4.1.2A). A financial asset must be recognized at FVOCI when all the following conditions are met:

- The asset is held according to a business model, the objective of which involves both collecting contractual cash flows and selling the financial asset (Held to collect and sell; see definition); and
- The contractual terms of the asset are such that at given dates, the cash flows consist solely of payments of principal and interest on the principal amount for repayment.

FVTPL - Fair Value Through Profit and Loss: FVTPL is one of the methods used for classifying financial assets contemplated by IFRS9 (paragraph 4.1.4). It is a residual category, given that assets are measured as FVTPL only if they do not meet the criteria for being recognized at amortized cost: it is not an instrument which pays only principal and interest and which is held for purposes other than the collection of contractual cash flows (e.g. for trading purposes). This category includes instruments for which the entity has chosen to apply the fair value option (see definition), derivative instruments and those which fail the SPPI test.

Fair Value Option (FVO): A FVO is an option for classifying a financial instrument. By exercising this option a non-derivative instrument or an asset not held for trading purposes may also be recognized at fair value through being recorded in the profit and loss account.

Financial Stability Board (FSB): An international body set up following the G20 London summit in April 2009) to monitor and supervise the global financial system. Its mission is to promote international financial stability through extended co-ordination of national financial authorities and other global standard-setters.

Fondo Interbancario di Tutela dei Depositi (FITD): This is the fund to which Italian banks contribute to guarantee depositors up to the limits provided (€100,000). The Fund intervenes on the Bank of Italy's authorization in cases of insolvency or extraordinary administration; participant banks pay funds in after the crisis has occurred, at the Fund's request.

Forborne Exposures: 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"). This situation may apply to both performing and non-performing contracts.

Foundation Internal Rating Based (FIRB) Models: This is one of the three methods used to calculate credit risk under Basel II. Unlike the AIRB model (see definition), with the FIRB model the Bank only estimates PD internally, and uses regulatory values for the other parameters (LGD and EAD) needed to calculate the capital requirement.

Forward looking information: According to the new impairment model introduced by IFRS9, writedowns must be recorded on the basis of expected future losses in value which have not occurred yet. These expectations must incorporate forward-looking information, to anticipate the effects of possible future loss events. The expected loss calculation model applied for the Mediobanca Group considers three possible macroeconomic scenarios (baseline, mild-positive and mild-negative) which impact on PD (see definition) and LGD (see definition), including any sale scenarios where the Group's NPL strategy (see definition) envisages the possibility of recovering the loss through sale on the market.

Funding: Sourcing in various forms of the funds required to perform a corporate activity or particular financial transactions.

Futures: Standardized contracts with which the parties undertake to exchange currencies, securities or assets at an agreed price on a future date. Future contracts are traded on regulated markets, where their execution is guaranteed.

Global Systemically Important Banks (G-SIBs): These are larger banks which as such are subject to stricter or additional requisites and specific methods of supervision.

Global Systemically Important Institutions (G-SIIs): These are the largest financial institutions, of global systemic importance, which as such are subject to stricter or additional requisites and specific methods of supervision.

Goodwill: Goodwill is defined as the surplus in the purchase price over and above the target company's book value at the acquisition date. Goodwill is thus the premium which a buyer pays in view of future economic benefits deriving from synergies or intangible assets which cannot be recorded separately.

Governance: Governance is the set of instruments and regulations by which a company is directed and controlled, with an emphasis in particular on the transparency of company documents and deeds and the exhaustiveness of disclosure to investors.

Grand-fathering: In general terms, grand-fathering refers to any clause in a new regulation that exempts facts or behaviour put in place prior to the said regulation coming into force from application of the new provisions.

Harmonized Mutual Funds: Mutual funds covered by the provisions of Directive 1985/611/EEC as amended, which are open-ended, allow stock units to be offered to the public and have certain limits on investments, one of which is the obligation to invest primarily in listed financial instruments.

Hold to collect: a business model, the objective of which is to hold the financial assets for the purpose of collecting its contractual cash flows. Assets treated according to this model must undergo an SPPI test (see definition), and if they pass it, are recognized at amortized cost (see definition).

Hold to collect and sell: a business model, the objective of which is both to collect contractual cash flows and to sell the instrument. This business model should not be confused with the held for trading model, whereby assets are acquired chiefly for the purpose of selling them in a short period of time. Assets treated according to this model must undergo an SPPI test (see definition), and if they pass it, are recognized at FVOCI (see definition).

Impairment: Impairment refers to the loss in value of an asset, recorded when its carrying value exceeds its recoverable amount (i.e. the value that can be obtained by selling or using the asset). IFRS 9 has introduced a forward-looking impairment model (see definition) based on the expected loss in value, as opposed to the current, incurred loss model. The expected losses are estimated at 12 months (stage 1 exposures) or at the end of the instrument's life (stages 2 and 3). The impairment losses booked must therefore reflect not only the objective losses in value recorded at the reporting date, but also the expected losses in value which have not yet been incurred. For exposures belonging to stage 1, the total value adjustments are equal to the expected loss calculated over a time horizon of up to one year. For exposures belonging to stages 2 or 3, the total value adjustments are equal to the expected loss calculated over a time horizon equal to the entire duration of the related exposure.

Indirect Funding: Equities and other value items not issued by the deposit bank but received by it to hold as a deposit under custody, administration or in connection with asset management activity. For purposes of financial reporting, the category consists of: Assets Under Management (see definition); Assets Under Custody; and Assets Under Advice: i.e. the sum of funds under administration (shares, bonds, mutual funds and government securities) and funds under management (policies, insurances and pension schemes).

Interest Rate Swap (IRS): A contract which falls within the category of derivative contracts, and in particular that of swaps, in which counterparties exchange streams of payments which may or may not be indexed to interest rates calculated based on a notional benchmark capital

Internal Capital Adequacy Assessment Process (ICAAP): Pillar II of the Basel Accord requires all intermediaries to put in place a process for ongoing assessment of the adequacy of their internal capital (ICAAP). The process must be formalized, documented and approved by the relevant bodies and submitted to internal review on a regular basis.

Internal Dealing: Trades involving the shares of issuers listed in Italy or elsewhere which are executed by "relevant parties" of the issuer itself or by persons closely related to them. The subject is governed by the Italian Banking Act and by CONSOB, with the parties involved being obliged to make disclosure to the market in timely fashion of any purchase or sale of securities in their company.

Internal Liquidity Adequacy Assessment Process (ILAAP): Directive 2013/36/EU stipulates that all intermediaries must put in place sound strategies, policies, processes and systems to identify, measure, manage and monitor liquidity risk, to ensure that adequate liquidity reserves are maintained.

Investment Grade: Term used to refer to counterparties and/or bonds which are highly reliable and have received a medium/high rating (see definition), e.g. not lower than BBB- on the Standard & Poor's scale.

Joint Venture (JV): Agreement pursuant to which two or more parties, usually companies, undertake to work together to pursue a joint project (industrial or commercial) or decide to jointly leverage their synergies, expertise or capital.

Junior: In a securitization, the junior tranche is the lowest-ranking of all securities issued, and is the first to incur the losses which may crystallize the course of recovering the underlying assets.

Leveraged Finance: Type of financing which comprises transactions aimed at:

- Acquisitions of unlisted companies sponsored by private equity funds on a no-recourse basis with debt commensurate with future cash flows;
- Acquisitions of companies sponsored by corporates or financial holding companies on a no-recourse basis with a very high risk profile;
- Supporting equity distributions (including in the form of share buybacks) by very high risk borrowers.

Loan Loss Provisions: Provisioning is the setting aside of funds to cover possible future losses on loans. Within this category a distinction must be drawn between:

- Individual adjustments, which are made in respect of a single item; and
- Collective adjustments, which are made in respect of unrealized losses whose existence is known but which cannot be assigned to individual positions.

Loss-Given Default (LGD): The loss that the lender incurs if the borrower defaults. In order to calculate capital requirements using the internal ratings-based method, the LGD value may be calculated using the approach set by the regulator (the FIRB method) or determined internally by the Bank using its own model (the AIRB model).

Markets In Financial Instruments Directive (MiFID): Directive 2004/39/EC (transposed into Italian law under Legislative Decree 164/07) which has the objective of creating a single market for investment services and activities across the EU. It has recently been amended by Directive 2014/65/EU ("MiFID II").

Mark to Market: Valuation used in the futures and options markets, whereby the value of the net position for each operator is established daily on the basis of the most recent market prices.

Mezzanine: In a securitization (see definition), the mezzanine tranche is the one with intermediate ranking between the junior and senior tranches.

Minimum Requirement for own funds and Eligible Liabilities (MREL): MREL is a requirement introduced by the BRRD Directive (see definition), the purpose of which is to ensure that the bail-in mechanism (see definition) works smoothly by increasing the Bank's capacity to absorb losses. The MREL indicator is calculated as follows:
MREL = (own funds + eligible liabilities) / total liabilities + own funds).

Net Asset Value (NAV): NAV is the value assigned to a fund's net equity: it is calculated by dividing the value of all assets, securities and liquidity held in the portfolio by the number of stock units in issue. For mutual investment NAV is calculated and disclosed at different intervals: daily for open-ended funds, monthly for closed-end funds.

Non-Performing Loans: Loans for which collection is uncertain both in terms of expiries and amount of the exposure.

NSFR – Net Stable Funding Ratio: The NSFR is defined as the amount of available stable funding (ASF) relative to the amount of required stable funding (RSF). The ASF is defined as the portion of equity and liabilities considered to be reliable over the time horizon considered by the NSFR, i.e. one year. The amount of RSF required for a specific bank depends on its liquidity characteristics and the outstanding maturities of the various on- and off-balance-sheet assets held by it. The ratio must remain at a level of at least 100% on an ongoing basis.

Options: Derivative contracts which include the right, but not the obligation, for the option holder by paying a premium to acquire (call option) or sell (put option) a financial instrument at a given price (strike price) by (US-type option) or at (European-type option) a future date.

Outsourcing: Outsourcing is when a given company process and/or corporate function held to be non-core is contracted to a supplier external to the company.

Over-The-Counter (OTC): OTC refers to markets with no contracts or standardized trading methods which are not linked to a series of regulations (admission, controls, disclosure obligations, etc.) such as those regulating official markets.

Overtime (OVT) and Point in Time (PIT): According to IFRS15, OVT and PIT are the two possible methods by which a performance obligation (see definition) can be realized. In particular, OVT is when one of these conditions is met:

- The client simultaneously receives and uses the benefits deriving from the entity's performance in the process of its being made;
- The entity's performance creates or enhances the activity (e.g. work in progress) which the client is able to monitor in the process of its being created or enhanced;
- The activity created by the entity's performance does not have an alternative use, and the entity has the enforceable right to receive payment for the performance completed to date.

If none of these conditions is met, then the PIT method is applicable.

Past due: This definition includes exposures, other than those classified as non-performing or unlikely to pay, which at the reference date have expired and/or are more than 90 days past due and which exceed a given materiality threshold. This limit is established with reference either to each individual borrower, or for retail exposures only, for each individual transaction.

Payout Ratio: The payout ratio is the percentage of net profit distributed to shareholders in the form of a dividend. This share depends chiefly on the company's need to retain earnings in order to finance its own activities and the returns expected by the shareholders on their investment.

Performance obligation: This is a definition introduced by IFRS15 which refers to "each promise to transfer to the client:

– A distinct good or service (or a combination of both); or
– A series of distinct goods/services which are substantially similar and which follow the same transfer method to the client".

Performance Shares: In share-based payment schemes, performance shares are shares in the company itself (or the same Group) which are granted to certain categories of staff contingent upon previously defined performance objectives being met.

Plain Vanilla (derivatives): Plain villa derivatives are the simplest and least complex form of derivative instrument. The prices of such products depend on the price of their underlying instrument which is listed on regulated markets.

PPA – Purchase Price Allocation: PPA refers to the process of allocating the purchase price of the assets and liabilities of an acquired entity, which must be performed by the acquiring company, within the scope of application for IFRS 3 (Business combinations).

POCI – "Purchased or Originated Credit Impaired": POCI refers to financial assets that were already credit-impaired when they were purchased or originated. POCI are usually recognized as stage 3 exposures.

Pricing: In the broad sense, the term refers to the means by which the returns on and/or costs of products or services offered by the Bank are determined;

in a narrower sense, it refers to the process of establishing the price of a financial asset.

Probability of Default (PD): PD expresses the likelihood of a counterparty being unable to fully repay a loan at its expiry. The probability of the borrower defaulting within one year is estimated and a rating assigned to the counterparty accordingly.

Prudential filters: These are adjustments made to accounting items in calculating regulatory capital, with a view to safeguarding the quality of the capital and reducing the potential volatility brought about by application of IAS/IFRS.

Return On Allocated Capital (ROAC): Ratio between net profit and average capital allocated/absorbed for the period under review. In percentage form it expresses earnings capacity per unit of capital allocated/absorbed.

Return On Equity (ROE): The return on equity is a measure of the profitability of a company's own equity, as expressed through the formula of net profit divided by average net equity for the period (excluding minority interest and dividends proposed and/or paid).

Return on Tangible Equity (ROTE): ROTE is calculated by dividing net profit by average "tangible" net equity (excluding minority interest and dividends proposed and/or paid as well as goodwill and other intangible assets).

Royalty Relief Method: This is a valuation method used for an intangible asset (such as brands or patents), which is based on the assumption that the company that owns the asset does not have to license it from a third party and therefore does not have to pay any royalties. The value of the intangible asset is equal to the net present value of all potentially payable royalties.

Risk-Weighted Assets (RWAs): Summary of principal risk factors attributable to a given financial asset. The asset's nominal value is "adjusted" in order to express a more accurate measurement of its value. The more risky the asset is, the higher the risk weighting assigned to it (i.e. as the risk increases, so too do RWAs).

Sale with Recourse: Transfer of a receivable where the selling party guarantees payment for the third party. The selling party thus guarantees both the existence of the receivable and the borrower's solvency to the recipient.

Sale without Recourse: Transfer of a receivable without the selling party offering any guarantee in the event of the borrower not meeting its obligations. Only the existence of the receivable being sold is guaranteed by the selling party to the recipient, and nothing else, not even the borrower's solvency.

Senior: In a securitization, the senior tranche is the one which ranks highest in terms of priority of remuneration and repayment.

Sensitivity Analysis: Analysis carried out in order to estimate the changes in a given indicator according to the changes in one or more of the parameters which determine it (interest rates, exchange rates, market prices etc.), in order to establish the relations between the two.

Servicer: Intermediary regulated by the Bank of Italy (included in the special register instituted pursuant to Article 107 of the Italian Banking Act; see definition), responsible, under the provisions of Italian Law 130/99, for checking that securitizations are compliant with the provisions of the law and the contents of the information prospectus, and for collecting receivables sold and the related cash and payment services.

Single Resolution Board (SRB): The SRB is an authority which has been operational since January 2015 with the aim of bringing resolution to banking crises as part of the SRM (see definition) and the European Banking Union. The authority's objective is the effective resolution of banks in difficulty, with minimal impact on the real economy and public finances in countries which are member states of the European Union.

Single Resolution Mechanism (SRM): The SRM is the second pillar in the process of European Banking Union. It was established pursuant to Regulation (EU) 806/2014 of 15 July 2014, and consists of two related entities: the Single Resolution Board (SRB, see definition), which is the central authority, and the Single Resolution Fund (or SRF), the supranational fund.

Società di Gestione del Risparmio (SGR): SGRs are limited companies which are authorized to provide collective and individual asset management services jointly. In particular they are authorized to set up mutual investment funds, manage mutual funds (on a proprietary basis or other parties' instructions) and assets held as part of SICAVs, and to provide investment portfolio management services on an individual basis.

Società di Intermediazione Mobiliare (SIM): SIMs are entities which are not banks or regulated financial intermediaries which are authorized to provide investment services as defined in the Italian Finance Act (see definition). SIMs are subject to supervision by the Bank of Italy as far as regards risk management and capital solidity and to regulation by CONSOB on issues of transparency and proper conduct.

Speculative grade: Term used to refer to counterparties and/or bonds with a low rating (see definition), e.g. lower than BBB- on the Standard & Poor's scale; bonds of this type are often referred to as high-yield bonds.

Sponsor: The sponsor of a securitization, unlike the deal's originator, institutes and manages the SPV used to acquire the assets to be securitized from third parties.

Special Purpose Vehicles (SPVs): These are companies set up to pursue specific objectives, such as to ring-fence financial risk or obtain special regulatory or tax treatment for different portfolios of financial assets. SPVs do not normally have operating or management structures of their own, but use those of the other stakeholders involved in the transaction.

SPPI (Solely Payments of Principal and Interest) test: The SPPI test is the test required by the new IFRS 9 in order to classify financial instruments according to the business model (see definition) in which they have been categorized by the bank. The test is carried out at the initial recognition stage, and for it to be passed, the contractual cash flows provided for must involve only the regular interest payments and repayment of the principal amount. If the test is failed, the instrument is recognized at FVTPL (see definition).

Spread: The spread is the difference in return, expressed in basis points, between two debt securities: such difference is usually due to the fact that the bonds belong to different rating classes, but also to considerations regarding the risk inherent in the bonds themselves. The comparison may be between debt securities of different sovereign states or issued by the same state but with different maturities, or between bonds issued by companies operating in different sectors.

SREP – Supervisory Review and Evaluation Process: SREP is the regular assessment and measurement of risks at the individual bank level. In SREP decisions, the supervisory authority can require each bank to hold additional capital and/or set qualitative requisites (known as Pillar II).

SREP is performed by the Single Supervisory Mechanism, on the basis of the regulations contained in the Capital Requirement Directive (see definition).

Steepener: With reference to interest rates, a Steepener is a phenomenon in which the interest rate curve becomes steeper through a simultaneous decrease in short-term rates and an increase in long-term interest rates.

Stock Option: The term “stock option” refers to options offered to the employees of a company which entitles them to buy shares in the same company based on a strike price.

Stress Test: A stress test is a simulation procedure used to measure the impact of market scenarios on the Bank’s total exposure to risk, to allow the Bank’s capital adequacy and liquidity profile to be assessed accordingly.

Swap: Transaction in which cash flows are exchanged between market operators in accordance with specific contractual provisions. Such contracts may have different underlying instruments, including interest rates (the parties to such interest rates undertake to pay cash flows calculated according to different interest rates, typically one party fixed and the other floating interest rates), exchange rates, inflation and so forth.

Tax Rate: This refers to the effective tax rate, as expressed by the ratio between income tax and profit before tax.

Testo Unico Bancario (TUB): The Italian Banking Act, i.e. Italian Legislative Decree 385/93 as amended.

Testo Unico dell’Intermediazione Finanziaria (TUF): The Italian Finance Act, i.e. Italian Legislative Decree 58/98 (also known as the “Draghi” law) as amended.

Tier 2: Tier 2 capital is the secondary component of bank capital and consists mainly of subordinated liabilities which in turn may be split between Upper Tier 2 (bonds with an original duration of more than ten years which may be used to cover losses deriving from the entity’s operations which would make it unable to continue its activities), and Lower Tier 2 (bonds with an original duration of more than five years).

T-LTRO – Targeted Long Term Refinancing Operation: The T-LTRO is a non-conventional monetary policy actions implemented by the ECB (see definition) in order to tackle the financial crisis. Through this action, long-term liquidity is provided to banks.

Total Capital Ratio: A capitalization ratio referring to the aggregate of constituent elements which go to make up Own Funds (Tier 1 and Tier 2). It is expressed by the ratio between total regulatory capital (i.e. Tier 1 + Tier 2 capital consisting of equity instruments other than ordinary shares meeting the regulatory requirements) and the value of RWAs (see definition).

Total Loss Absorbing Capacity (TLAC): TLAC represents the prudential standard defined by the Financial Stability Board (see definition) in 2015. It serves the same purpose as MREL (see definition), namely, to ensure that the banks involved (G-SIBs) have sufficient securities in issue to be able to absorb losses. The new requirements set the TLAC at 16 percent of RWAs and at 6 percent of leverage exposure by 1 January 2019.

Trading Book: The term "trading book" usually refers to securities or financial instruments in general which go to make up a portfolio of assets for use in trading activities.

Transaction price: Under IFRS 15, the transaction price is "the amount to which the entity deems itself to be entitled in exchange for the transfer of the promised goods or services to the customer, excluding amounts collected on behalf of third parties". IFRS 15 stipulates four elements that can create difficulties in its valuation: variable fees (and limits on them), contractual provision for a significant financial component, non-monetary fees, and fees to be paid to the customer.

Undertakings for Collective Investment in Transferable Securities (UCITS): As defined by the Italian Banking Act, there are two types of UCITS:

- Mutual investment funds, i.e. vehicles which group the financial resources of numerous investors to form a single, indistinguishable equity for investment in financial assets; and
- SICAVs (Società d'Investimento a Capitale Variabile; or investment companies with variable capital), i.e. companies whose sole purpose is to invest their own equity, which is raised by selling their shares to the general public.

UTP, Unlikely to Pay: UTP is one of the categories of impaired or non-performing loans (see definition). These are exposures for which the bank thinks the borrower will be unlikely ti be able to fully comply with its contractual obligations without recourse to actions such as the enforcement of collateral.

Value at Risk (VaR): The Value at Risk is the maximum loss possible on a portfolio as a result of market performance, measured with a given confidence level and over a given time horizon, based on the assumption that the positions require a certain period of time to be sold.

Warrant: A warrant is a tradable instrument that entitles the holder to buy or sell fixed-income securities or shares from or to the instrument's issuer.

Writeoff: A writeoff is an event that entails an item being deleted from the accounts when there is no longer any reasonable expectation of being able to recover the amount receivable. It may refer to the entire amount or only a portion of the receivable. An item may be written off before legal action to recover the amount has been completed, and does not necessarily imply that the company has waived its legal right to recover it.

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