

# MEDIOBANCA



## *Interim Report*

for the six months ended 31 December 2018

# MEDIOBANCA

LIMITED COMPANY  
SHARE CAPITAL € 443,528,910.50  
HEAD OFFICE: PIAZZETTA ENRICO CUCCIA 1, MILAN, ITALY

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



## *Interim Report*

for the six months ended 31 December 2018

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

[www.mediobanca.com](http://www.mediobanca.com)

*translation from the Italian original which remains the definitive version*

## BOARD OF DIRECTORS

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

\* Member of Executive Committee

## STATUTORY AUDIT COMMITTEE

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

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Massimo Bertolini

Secretary of the Board of Directors

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# REVIEW OF OPERATIONS



## REVIEW OF GROUP OPERATIONS

The macroeconomic scenario deteriorated again in the fourth quarter of 2018, due to increased uncertainties over global growth, along with an abrupt price correction in all the main asset classes. Despite the challenging operating environment Mediobanca has continued to grow, delivering a 9% increase in revenues in the first six months, and a 16% increase in gross operating profit net of loan loss provisions. Net profit for the period totalled €450.5m, lower than the €476.3m reported at the same point last year due solely to the lack of AFS equity stake disposals, which in the six months to end-December 2017 generated €94.4m. In the half-year under review, all the banking divisions posted improving or stable year-on-year results, helped by a buoyant trend in lending (up 4.4%) and funding (NNM of €3.4bn). The Group's capital situation remains solid, with the Common Equity Tier 1 ratio at 13.9% (including the full effect of the share buyback), as does the liquidity position (funding up to €50.8bn).

The main income items performed as follows:

- Net interest income rose by 4.2% to €700.6m, due to positive performances in Consumer Banking (up 4.1%) and Corporate and Investment Banking (up 2.1%), plus a reduction in the cost of funding (from 90 bps to 80 bps) despite the worsening market conditions;
- Net treasury income increased from €85.4m to €97.6m, despite the fall in share prices at the year-end which affected the proprietary trading book's results, but was more than offset by client trading business;
- Net fee and commission income rose by 7.5%, from €291.2m to €312.9m, on the back of the 15.5% increase in fees from Wealth Management, from €121.7m to €140.6m, helped by the consolidation of RAM (which added €19.7m); fee income from CIB business also grew, from €116.5m to €122.5m, due to an excellent performance in M&A advisory (up 63.5%), offsetting the reduction in capital market fees;

- The contribution from the equity-accounted companies totalled €165.5m (€121.2m), reflecting the higher Q1 contribution from Assicurazioni Generali of €96.9m (versus €68.2m in Q2).

Operating costs rose by 5.2%, from €533.6m to €561.6m, chiefly due to the addition of RAM (costs of €10.6m, €7.7m of which in labour costs); the cost/income ratio remains low nonetheless, at 44%.

Loan loss provisions were down in all segments, by 3.3% overall (from €113.2m to €109.5m), with a cost of risk which now stands at 52 bps (180 bps in Consumer Banking and 17 bps in CheBanca! retail mortgage lending). Indeed, there were further writebacks in Wholesale Banking, of €30.6m, reflecting the ongoing improvements in the valuation of certain unlikely-to-pay (UTP) positions.

The results for the six months reflect a €11.2m payment to the Deposit Guarantee Scheme (compared with €10.4m last year); a voluntary contribution was also made to Banca Carige by subscribing for subordinated tier 2 bonds in an amount of €6.4m, the redemption of which is conditional upon the planned capital increase actually taking place (the bonds have been adjusted to reflect the fair value recorded at the reporting date, namely €6.1m).

\* \* \*

The divisional six-month performances were as follows:

- Wealth Management posted a net profit of €35.7m, following a 6.5% increase in revenues to €272.2m (21% of the Group's total) which reflects the consolidation of RAM (€19.7m) offsetting the lack of performance fees (€8.5m); operating costs totalled €215.1m, some 7.2% higher than last year (or 1.9%, net of the €10.6m attributable to RAM). CheBanca! contributed a net profit of €15.9m (unchanged versus last year), while the contribution from Private Banking activities declined from €20.3m to €19.8m due to lower non-recurring fees (performance and advisory);
- Consumer Banking reported a net profit of €174.4m, up 9.3%, on higher revenues (up 4.1%), operating costs (up 3.6%) and lower loan loss provisions (from €121.6m to €113.9m);
- Corporate and Investment Banking delivered a stable net profit of €146.1m, on revenues of €333.3m (€317m), costs of €130m (€121.4m), and writebacks of €14.3m (€21.9m). The net profit earned from Wholesale Banking operations



remained flat at €126.4m, while the bottom line posted by Specialty Finance rose from €15m to €19.7m;

- Principal Investing delivered a net profit of €158.7m, lower than the €205m reported last year, due to the absence of gains on disposals of AFS equity stakes (which last year contributed €93.8m, chiefly the Atlantia investment), against higher profits generated by the Assicurazioni Generali investment of €165.1m (€120.6m);
- Holding Functions posted a loss of €65.8m, representing an improvement on the €70.2m loss posted last year, due to the reduction in liabilities held as part of treasury operations, with central costs stable.

The new IFRS 9 on “Financial Instruments” came into force during the six months under review.<sup>1</sup> Transition to the new reporting standard has caused a reduction in net equity of approx. €81m, mainly due to the introduction of the new model of accounting for impairment, which for regulatory capital will be implemented gradually in the course of the next five years. Introduction of the reporting standard has led to some changes in the financial statements proposed by the Bank of Italy, which in turn have generate some minor alterations to the restated versions used by the Group.<sup>2</sup>

Total assets grew from €72.3bn to €76.5bn, on higher lending and treasury volumes (including liquidity management). The main balance-sheet items performed as follows:

- Loans and advances to customers rose from €41.1bn to €42.9bn, with all segments contributing positively, especially Wholesale Banking and Specialty Finance;
- Funding increased, from €48.9bn to €50.8bn, due to higher deposits at CheBanca! and in Private Banking (€14.4bn and €6.8bn respectively) and increased use of the banking channel (including through secured funding operations); debt security funding was also stable, despite €1.6bn in redemptions;
- Banking book securities (i.e. bonds accounted for as Hold to collect and Hold to collect and sell) were stable at €7.7bn, as were treasury assets which totalled €4.9bn, albeit with higher volumes (the sum of trading and treasury assets rose from €16.6bn to €19.5bn);

<sup>1</sup> For details and information on the effects of first-time adoption of the new IFRS 9, which replaces IAS 39, reference is made to Part A of the Notes to the Accounts and to the “Report on transition to IFRS 9” published on the Group’s website at [www.mediobanca.com](http://www.mediobanca.com).

<sup>2</sup> Tables showing the old and new classifications (post-FTA) are attached as an annex.

- Total financial assets in Wealth Management, or TFAs, rose from €63.9bn to €64.6bn, with €3.4bn in net new money (NNM), some of which was offset by the final valuation based on market prices (resulting in a €2.6bn reduction). In particular, AUM and AUA declined from €37.3bn to €37bn, on NNM of €1.3bn entirely wiped out by the market effect (€1.7bn). The uncertain macroeconomic environment increased clients' propensity to remain liquid, slowing the process of converting direct funding which increased during the six months by €2bn. Assets held under custody declined to €924m, as a result of certain unprofitable fiduciary mandates being closed and the market effect (which accounted for €350m). In detail: CheBanca! Affluent & Premier TFAs totalled €23.3bn (NNM of €1bn); Mediobanca Private Banking and the product factories reported TFAs of €19.7bn (€1.7bn); Compagnie Monégasque de Banque, stable at €10bn; the RAM and Cairn alternative product factories at €3.8bn and €3.9bn, with NNM of approx. €500m.

The Group's capital ratios at 31 December 2018 reflect the results for the six months net of the estimated payout, and also the launch of the share buyback scheme (taken in full, with an impact of approx. 38 bps, taking into account the withdrawals in connection with the performance share scheme).

The Common Equity Tier 1 ratio therefore stood at 13.87% (30/6/18: 14.24%), and the total capital ratio at 17.41% (18.11%). The 37bps reduction chiefly regards the buyback scheme; whereas the introduction of IFRS 9 accounts for one basis point, after the Group chose the phase-in option (with an overall impact of approx. 20 bps). It should also be noted, following public clarification by EBA, that the weighting assigned to NPLs acquired by MBCredit Solutions increased from 100% to 150%, with an additional impact of 5 bps. Fully-loaded ratios, without Danish Compromise (i.e. with the Assicurazioni Generali investment deducted in full), stood at 12.52% (CET1 ratio) and 16.36% (total capital ratio), including 19 bps due to the IFRS 9 effect.

On 4 December, Ecofin approved the proposal<sup>3</sup> of the Parliament and of the European Commission for the revision of the Capital Requirement Regulation (CRR), in which the Article 471 has been amended, on one site, extending its transitional effectiveness to 31 December 2024 and, on the other, providing for the right not to deduct the investment in insurance entities, based on the adequacy of monitoring investment risk. For effect of this change, it is reasonable

<sup>3</sup> The amended Regulation will be published in the Official Journal after the formal approval by the Council and Parliament.

to believe that Mediobanca can continue to not deduct the full participation in Assicurazioni Generali<sup>4</sup> by opting for the weighting at 370%.

\* \* \*

Other significant events that took place during the six months under review were as follows:

- On 3 August 2018, Compass reached an agreement with Trinugraha (the consortium which currently owns 45.7% of the share capital) to acquire 19.9% of PT BFI Finance Indonesia Tbk (“BFI Finance”). BFI Finance, set up in 1982 and listed on the Jakarta stock market since 1990 with a market capitalization of approx. €625m, is one of the leading independent Indonesian consumer credit companies, with an extensive distribution network (over 350 outlets, major partnership agreements in force with car dealers and independent agents, and telemarketing systems). The stake, once closing has been finalized with the counterparty and authorization received<sup>5</sup>, will be booked to the accounts as a significant investment using the equity method, and the impact on the Group capital ratios will be approx. 30bps;
- Two new Directors, Maximo Ibarra and Vittorio Pignati Morano, were appointed to the Board of Mediobanca by shareholders gathered in annual general meeting, to replace César Alierta and Massimo Tononi who resigned during the year;
- On 8 November 2018, the share buyback programme authorized by shareholders at the annual general meeting held on 27 October 2018 and by the European Central Bank pursuant to Articles 77-78 of Regulation (EU) 575/2013 (the “CRR”) on 23 October 2018. The buyback, which is in the process of being completed, involves a maximum of 3% of the share capital (or some 26.6 million shares), for use in connection with possible acquisitions or to implement share-based compensation schemes, current or future. As at 31 December 2018, Mediobanca had a total of 17.1 million treasury shares (or 1.9% of its share capital), following purchases of 10.2 million and uses of 1.8m in connection with the performance share schemes in force;
- On 5 February 2019, Mediobanca received the results of the supervisory review and evaluation process from the supervisory authority (the “SREP 2018 Decision”). The authority has asked Mediobanca to maintain, as

<sup>4</sup> Subject to compliance with the concentration limits.

<sup>5</sup> ECB authorization under Article 53, para. 1, letter c. of the Italian Banking Act and Bank of Italy circular 285/13, Part III, Chapter 1, Section V.

from March 2019, a CET 1 ratio of 8.25% on a consolidated basis (Total SREP Capital Requirement – TSCR – 11.75%), which includes the Pillar 2 (“P2R”) requirement of 1.25%, unchanged from last year, bearing out the Group’s asset quality and the adequacy of its risk management. The decision reflects the results of the Group’s stress test, which confirmed our solidity even in negative scenarios (the impact on CET1 fully loaded is 182 bps, one of the lowest levels among EU banks);

- In the summer months of 2018, the principal ratings agencies revised their ratings downwards for the republic of Italy, with implications for the banking system as a whole. In line with other banks with the same rating, in September Fitch revised its outlook for Mediobanca from “stable” to “negative”, maintaining its long-term rating unchanged at BBB, following the revision of Italy’s outlook to negative; in October Standard & Poor’s downgraded the Bank’s outlook from “stable” to “negative”, affirming its issuer credit rating at “BBB”, after revising its outlook on the republic of Italy; while at end-October Moody’s, despite downgrading Italy’s sovereign rating from baa2 to baa3, kept its long-term rating for Mediobanca unchanged at baa1, i.e. now two notches higher than the sovereign rating, with stable outlook;
- With reference to the roll-out scheme to gradually extend the use of AIRB models, on 12 December 2018 CheBanca! received authorization to use internal PD and LGD models to calculate the credit risk deriving from its mortgage lending business; use of the models is conditional upon the PD metrics being fine-tuned for certain sub-portfolios. Actual use of the models will begin in 1Q 2019; the saving in terms of RWAs is estimated in the region of €1.4bn (average weighting of mortgage loans below 20%), with a corresponding increase in the Group’s CET1 of around 40 bps;
- On 20 December 2018, Spafid Connect sold its Market Connect business unit, the IT services platform, to listed Norwegian group Infront;
- Among the Group’s CSR initiatives: the CheBanca! Academy of Woodworking has been opened, in conjunction with the Fondazione Cometa. The initiative aims to offer work opportunities to young people who are unemployed and/or have personal difficulties; and the INSIEME/TOGETHER project has continued, which promotes sport for young people in the most vulnerable categories of society who are at risk of social exclusion, in certain disadvantaged suburban areas of Milan.

## Consolidated profit-and-loss/balance-sheet data <sup>o</sup>

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. Please see the annex for a comparison between the restatements and the format recommended by the Bank of Italy in circular 262/05. <sup>6</sup>

### CONSOLIDATED PROFIT AND LOSS ACCOUNT

	(€m)			
	6 mths ended 31/12/2017 *	12 mths ended 30/06/2018 *	6 mths ended 31/12/2018	Chg. (%)
<b>Profit-and-loss data</b>	<i>IAS39</i>	<i>IAS39</i>	<i>IFRS9</i>	
Net interest income	672.1	1,359.4	700.6	4.2
Net treasury income	85.4	157.4	97.6	14.3
Net fee and commission income	291.2	622.2	312.9	7.5
Equity-accounted companies	121.2	280.3	165.5	36.6
<b>Total income</b>	<b>1,169.9</b>	<b>2,419.3</b>	<b>1,276.6</b>	<b>9.1</b>
Labour costs	(271.0)	(557.8)	(282.2)	4.1
Administrative expenses	(262.6)	(557.1)	(279.4)	6.4
<b>Operating costs</b>	<b>(533.6)</b>	<b>(1,114.9)</b>	<b>(561.6)</b>	<b>5.2</b>
Gains (losses) on disposal of equity holdings	94.4	98.3	(9.8)	n.m.
Loan loss provisions	(113.2)	(247.2)	(109.5)	-3.3
Provisions for other financial assets	(0.4)	(1.3)	(1.1)	n.m.
Other income (losses)	(10.4)	(58.4)	(11.1)	6.7
<b>Profit before tax</b>	<b>606.7</b>	<b>1,095.8</b>	<b>583.5</b>	<b>-3.8</b>
Income tax for the period	(128.6)	(228.1)	(129.6)	0.8
Minority interest	(1.8)	(3.8)	(3.4)	n.m.
<b>Net profit</b>	<b>476.3</b>	<b>863.9</b>	<b>450.5</b>	<b>-5.4</b>
<b>Gross operating profit from banking activities</b>	<b>401.3</b>	<b>767.0</b>	<b>437.1</b>	<b>8.9</b>

<sup>o</sup> For a description of the method by which the data have been restated, see also the section entitled “Significant accounting policies”.

\* The Group has availed itself of the right not to restate the comparative data for the first year of IFRS 9 adoption on a like-for-like basis. Accordingly, the figures for FY 2017-18, stated in accordance with IAS 39, are not fully comparable.

<sup>6</sup> The Bank of Italy published the fifth amendment of circular 262/05 when IFRS 9 came into force on 1 July 2018.

## RESTATED BALANCE SHEET

(€m)

	<b>IAS39 30/6/18</b>	<b>IFRS9 1/7/18</b>	<b>31/12/2018</b>
<b>Assets</b>			
Financial assets held for trading	8,204.9	8,008.5	9,315.4
Treasury financial assets	8,358.2	8,358.1	10,220.8
Banking book securities	7,744.7	7,943.7	7,697.5
Customer loans	41,127.9	41,019.1	42,936.2
Equity Investments	3,983.1	3,983.0	3,737.1
Tangible and intangible assets	1,027.7	1,027.7	1,024.8
Other assets	1,854.0	1,892.2	1,599.3
<b>Total assets</b>	<b>72,300.5</b>	<b>72,232.3</b>	<b>76,531.1</b>
<b>Liabilities and net equity</b>			
Funding	48,893.2	48,855.7	50,752.4
Treasury financial liabilities	5,290.4	5,290.3	6,541.3
Financial liabilities held for trading	6,462.4	6,462.4	8,087.7
Other liabilities	1,709.3	1,749.5	1,643.0
Provisions	213.0	227.1	212.6
Net equity	8,780.4	8,700.6	8,754.4
Minority interests	87.9	82.8	89.2
Profit for the period	863.9	863.9	450.5
<b>Total liabilities and net equity</b>	<b>72,300.5</b>	<b>72,232.3</b>	<b>76,531.1</b>
<i>Tier 1 capital</i>	<i>6,746.6</i>	<i>6,743.6</i>	<i>6,586.6</i>
<i>Regulatory capital</i>	<i>8,575.3</i>	<i>8,572.3</i>	<i>8,268.8</i>
<i>Risk-weighted assets</i>	<i>47,362.7</i>	<i>47,362.4</i>	<i>47,487.6</i>
<i>Tier 1 capital/risk-weighted assets</i>	<i>14.24%</i>	<i>14.24%</i>	<i>13.87%</i>
<i>Regulatory capital/risk-weighted assets</i>	<i>18.11%</i>	<i>18.10%</i>	<i>17.41%</i>
<i>No. Of shares in issue (million)</i>	<i>886.6</i>	<i>886.6</i>	<i>887.0</i>

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

(€m)

31 December 2018	Wealth Management	Consumer Banking	Corporate and Investment Banking	Principal Investing	Holding Functions	Group
<b>Profit-and-loss</b>						
Net interest income	127.8	450.2	138.9	(3.6)	(23.5)	700.6
Net treasury income	3.8	—	71.9	9.0	12.3	97.6
Net fee and commission income	140.6	63.2	122.5	—	4.6	312.9
Equity-accounted companies	—	—	—	165.5	—	165.5
<b>Total income</b>	<b>272.2</b>	<b>513.4</b>	<b>333.3</b>	<b>170.9</b>	<b>(6.6)</b>	<b>1,276.6</b>
Labour costs	(109.2)	(48.6)	(66.7)	(2.0)	(55.7)	(282.2)
Administrative expenses	(105.9)	(93.3)	(63.3)	(0.5)	(25.6)	(279.4)
<b>Operating costs</b>	<b>(215.1)</b>	<b>(141.9)</b>	<b>(130.0)</b>	<b>(2.5)</b>	<b>(81.3)</b>	<b>(561.6)</b>
Gains (losses) on disposal of equity holdings	—	—	0.9	(10.8)	0.2	(9.8)
Loan loss provisions	(6.6)	(113.9)	14.3	—	(3.3)	(109.5)
Provisions for other financial assets	—	—	(0.1)	—	(0.8)	(1.1)
Other income (losses)	0.2	—	—	—	(11.3)	(11.1)
<b>Profit before tax</b>	<b>50.7</b>	<b>257.6</b>	<b>218.4</b>	<b>157.6</b>	<b>(103.1)</b>	<b>583.5</b>
Income tax for the period	(13.4)	(83.2)	(72.3)	1.1	39.1	(129.6)
Minority interests	(1.6)	—	—	—	(1.8)	(3.4)
<b>Net profit</b>	<b>35.7</b>	<b>174.4</b>	<b>146.1</b>	<b>158.7</b>	<b>(65.8)</b>	<b>450.5</b>
<i>Cost/Income (%)</i>	79.0	27.6	39.0	1.5	n.m.	44.0
<b>Balance-sheet data</b>						
Loans and advances to customers	10,725.7	12,766.2	17,400.6	—	2,043.7	42,936.2
Risk-weighted assets	5,696.5	12,041.1	19,819.2	6,004.1	3,926.7	47,487.6
No. of staff	1,897	1,432	571	10	798	4,708

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 and Mediobanca International, Mediobanca Securities and Mediobanca Turkey);
  - Specialty Finance: comprises factoring and credit management (including NPL portfolio acquisitions and management) performed by MBFACTA and MBCredit Solutions;
- Consumer Banking (CB): 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): recently set up division, bringing 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 and Spafid, and in the Principality of Monaco by Compagnie Monégasque de Banque;
  - Alternative AM, which comprises Cairn Capital, Mediobanca SGR, Mediobanca Management Company, Compagnie Monégasque de Gestion, CMB Asset Management and RAM Active Investment;
- Principal Investing (PI): division which brings together the Group's portfolio of equity investments and holdings;
- Holding Functions: division which houses the Group's Treasury and ALM operations (as part of Mediobanca S.p.A.) with the objective of optimizing management of the funding and liquidity processes; it also includes all costs relating to Group staffing and management functions based at Mediobanca S.p.A.; and continues to include the leasing operations (headed up by SelmaBipiemme) and the services and minor companies (MIS and Prominvestment).

2) Sum of divisional data differs from Group total due to adjustments/differences arising on consolidation between business areas (equal to €1.4m).

(€m)

31 December 2017 IAS39	Wealth Management	Consumer Banking	Corporate and Investment Banking	Principal Investing	Holding Functions	Group
<b>Profit-and-loss</b>						
Net interest income	126.7	432.3	136.0	(3.6)	(24.6)	672.1
Net treasury income	7.1	—	64.5	6.5	4.9	85.4
Net fee and commission income	121.7	60.8	116.5	—	8.6	291.2
Equity-accounted companies	—	—	—	121.2	—	121.2
<b>Total income</b>	<b>255.5</b>	<b>493.1</b>	<b>317.0</b>	<b>124.1</b>	<b>(11.1)</b>	<b>1,169.9</b>
Labour costs	(95.0)	(47.4)	(66.7)	(1.8)	(60.1)	(271.0)
Administrative expenses	(105.6)	(89.6)	(54.7)	(0.5)	(20.8)	(262.6)
<b>Operating costs</b>	<b>(200.6)</b>	<b>(137.0)</b>	<b>(121.4)</b>	<b>(2.3)</b>	<b>(80.9)</b>	<b>(533.6)</b>
Gains (losses) on disposal of equity holdings	0.6	—	—	93.8	—	94.4
Loan loss provisions	(8.5)	(121.6)	22.8	(0.5)	(5.7)	(113.6)
Other income (losses)	—	—	—	—	(10.5)	(10.4)
<b>Profit before tax</b>	<b>47.0</b>	<b>234.5</b>	<b>218.4</b>	<b>215.1</b>	<b>(108.2)</b>	<b>606.7</b>
Income tax for the period	(10.8)	(75.0)	(72.3)	(10.1)	39.8	(128.6)
Minority interests	—	—	—	—	(1.8)	(1.8)
<b>Net profit</b>	<b>36.2</b>	<b>159.5</b>	<b>146.1</b>	<b>205.0</b>	<b>(70.2)</b>	<b>476.3</b>
<i>Cost/Income (%)</i>	78.5	27.8	38.3	1.9	n.m.	45.6
<b>Balance-sheet data</b>						
Loans and advances to customers	9,871.8	12,097.5	15,467.0	—	2,176.1	39,612.4
Risk-weighted assets	5,668.2	11,668.5	24,863.5	5,976.1	3,932.9	52,109.2
No. of staff	1,821	1,417	577	12	862	4,689



## Balance sheet

The Group's total assets rose by 5.8% in the six months, from €72.3bn to €76.5bn. The main balance-sheet items, of which Mediobanca S.p.A. contributes 56%, showed the following trends (comparative data as at 30 June 2018).

**Funding** – the increase in funding, from €48.9bn to €50.8bn, chiefly reflects the rise in both Private Banking deposits (from €4.9bn to €6.8bn) and CheBanca! retail deposits (from €14.2bn to €14.4bn), with all the other forms basically flat despite the challenging market scenario. During the six months under review a total of six bonds were issued for a total amount of €1.6bn (including a €600m securitization of consumer credit receivables, and a €750m covered bond issue), covering redemptions and buybacks for basically the same amount. There was also an increase in the use of the banking channel, featuring transactions with maturities of over 24 months, in some cases guaranteed by receivables from lending: secured financing transactions during the six months totalled €400m, partially replacing those which fell due (€700m).

	30/6/18 IAS 39		01/7/18 IFRS 9		31/12/18 IFRS 9		Chg.
	(€m)	%	(€m)	%	(€m)	%	
Debt securities (incl. ABS)	19,179.4	39%	19,185.3	39%	19,240.0	38%	0.3%
CheBanca! retail funding	14,163.0	29%	14,163.0	29%	14,414.3	28%	1.8%
Private Banking deposits	4,933.7	10%	4,933.4	10%	6,785.9	13%	37.5%
Interbank funding (+CD/CP)	5,031.5	11%	5,031.2	11%	5,441.3	11%	8.1%
<i>LTRO</i>	4,336.5	9%	4,336.5	9%	4,328.8	9%	-0.2%
Other funding	1,249.1	2%	1,206.3	2%	542.1	1%	-56.6%
<b>Total funding</b>	<b>48,893.2</b>	<b>100%</b>	<b>48,855.7</b>	<b>100%</b>	<b>50,752.4</b>	<b>100%</b>	<b>3.8%</b>

**Loans and advances to customers** - the 4.4% increase in this item, from €41.1bn to €42.9bn, reflects positive contributions in all segments, in particular as follows: Wholesale Banking (up 5.8%, from €14bn to €14.8bn) and Specialty Finance (up 21.2% from €2.1bn to €2.6bn). The six months under review saw strong activity in Consumer Banking (new loans up 4.4%, from €3.3bn to €3.5bn), which translated to 2% growth in the loan stock to €12.8bn (€2bn of which in relation to salary-backed finance). New loans in mortgage lending climbed by almost 20%, from €694.5m to €829m, with the loan book increasing from €8.1bn to €8.4bn. The factoring turnover increased from €2.5bn to €3.3bn, while MBCredit Solutions made purchases of NPLs in the retail and SME

unsecured segments for a nominal amount of €1.3bn with an outlay of €75m. New loans in Wholesale Banking totalled €3.6bn, (slightly lower than in the most recent half-year periods), on repayments of €2.8bn (down 16% and 11% respectively on the previous half-year periods), €1.2bn of which were early repayments. Lending exposure to Private Banking clients was unchanged at €2.3bn, reflecting the upturn in client-driven business, while the leasing stock declined from €2.1bn to €2bn.

	30/6/18 IAS 39		01/7/18 IFRS 9		31/12/18 IFRS 9		Chg.
	(€m)	%	(€m)	%	(€m)	%	
Wholesale Banking	13,996.9	34%	14,002.0	34%	14,809.3	34%	5.8%
Specialty Finance	2,137.3	5%	2,128.5	5%	2,590.8	6%	21.2%
Consumer Banking	12,517.8	30%	12,469.3	30%	12,766.2	30%	2.0%
Retail Banking	8,107.1	20%	8,067.5	20%	8,381.5	20%	3.4%
Private Banking	2,252.1	6%	2,251.8	6%	2,344.2	5%	4.1%
Leasing	2,116.7	5%	2,099.5	5%	2,043.7	5%	-3.4%
<b>Total loans and advances to customers</b>	<b>41,127.9</b>	<b>100%</b>	<b>41,019.1</b>	<b>100%</b>	<b>42,936.2</b>	<b>100%</b>	<b>4.4%</b>

Net NPLs decreased in absolute terms, from €842.1m to €825.6m, and in relative terms, from 2.1% of total loans to 1.9%, with the coverage ratio virtually unchanged at 57% (56.7%). Net bad loans totalled €114m (€141.5m), and account for just 0.27% of total loans (30/6/18: 0.35%). The item does not include the NPL portfolios acquired by MBCredit Solutions, which total €345.1m (30/6/18: €287.9m), or the legacy non-performing mortgage loans generated by the French branch office (this activity was discontinued in December 2009).<sup>7</sup>

<sup>7</sup> In the six months under review, bad debts of €3.3m (corresponding to a gross value of €14.3m) were reclassified as financial assets held for sale under IFRS 5; a buyer has already been identified and a consideration agreed for these assets.

	30/6/18 IAS 39		01/7/18 IFRS 9		31/12/18 IFRS 9	
	(€m)	Coverage ratio %	(€m)	Coverage ratio %	(€m)	Coverage ratio %
Wholesale Banking	341.7	47.3%	345.3	47.-%	360.9	42.8%
Specialty Finance	10.4	72.7%	10.2	72.8%	11.0	76.6%
Consumer Banking	186.0	73.4%	184.8	73.5%	185.8	73.3%
Retail Banking	155.1	53.3%	136.1	59.-%	129.8	58.8%
Private Banking	8.7	56.0%	9.0	56.-%	11.2	51.6%
Leasing	140.2	32.2%	124.7	39.7%	126.9	39.-%
<b>Total net non-performing loans</b>	<b>842.1</b>	<b>56.7%</b>	<b>810.1</b>	<b>58.5%</b>	<b>825.6</b>	<b>57.-%</b>
- of which: bad loans	141.5		115.4		114.0	
<b>% incidence on loans and advances to customers</b>	<b>2.1%</b>		<b>2.0%</b>		<b>1.9%</b>	
<b>% incidence on gross loans and advances to customers</b>	<b>4.6%</b>		<b>4.4%</b>		<b>4.3%</b>	

	31/12/18			
	Stage 1	Stage 2	Stage 3	Total
Wholesale Banking	13,944.9	504.0	360.9	14,809.8
Specialty Finance	2,138.9	95.8	356.1	2,590.8
Consumer Banking	11,498.4	1,082.0	185.8	12,766.2
Retail Banking	7,711.1	540.6	129.8	8,381.5
Private Banking	2,269.0	64.0	11.2	2,344.2
Leasing	1,783.9	132.9	126.9	2,043.7
<b>Total loans and advances to customers</b>	<b>39,346.2</b>	<b>2,419.3</b>	<b>1,170.7</b>	<b>42,936.2</b>
<b>% incidence</b>	<b>91.7%</b>	<b>5.6%</b>	<b>2.7%</b>	<b>100%</b>

**Investment holdings** - as from this financial year, this heading brings together investments covered by IAS 28, investments measured at fair value through other comprehensive income (formerly AFS), and funds (including seed capital) that must be recognized at fair value through profit and loss. Investments in associates declined from €3,210.8m to €3,056.5m, after profits of €165.5m and lower valuation reserves of €319.8m. Equities (listed and unlisted) reduced from €260.9m to €129.2m, following sales of listed equities totalling €134.5m (yielding gains of €1.2m, taken directly through other comprehensive income) and downward adjustments to reflect fair value at the period-end totalling €5.4m. Movements in seed capital reflect net investments of €51m, and net losses of €10.8m (taken through profit and loss), while other funds were virtually stable.

(€m)

	30/6/18		1/7/18		31/12/18	
	Book value	AFS reserve	Book value	HTC&S reserve	Book value	HTC&S reserve
IAS28 investments	3,210.8	—	3,210.8	—	3,056.5	—
Listed shares	239.3	51.3	239.3	51.3	106.2	51.5
Other unlisted shares	21.6	5.8	21.6	5.8	23.0	7.6
Seed capital	334.2	7.1	334.2	—	378.6	—
Private equity	71.5	23.2	71.5	—	68.2	—
Other funds	105.7	6.8	105.7	—	104.6	—
<b>Total equity holdings</b>	<b>3,983.1</b>	<b>94.2</b>	<b>3,983.1</b>	<b>57.1</b>	<b>3,737.1</b>	<b>59.1</b>

The Group's stake in Assicurazioni Generali (representing 12.96% of the company's share capital) was booked at €3,016.7m, compared with a slightly lower market value at the reporting date of €2,959.6m (rising to €3,105m based on current prices).

(€m)

	% share capital	30/6/18	31/12/18
Assicurazioni Generali	12.96	3,171.4	3,016.7
Burgo	22.13	—	—
Istituto Europeo di Oncologia	25.37	39.4	39.8
<b>Total IAS28 investments</b>		<b>3,210.8</b>	<b>3,056.5</b>

**Banking book bonds** – this heading comprises both debt securities recognized at cost and those measured at fair value through other comprehensive income (OCI), plus those bonds which under IFRS 9 must be measured at fair value through profit and loss.

(€m)

	30/6/18		1/7/18		31/12/18	
	(€m)	%	(€m)	%	(€m)	%
Hold to Collect	4,949.7	64%	3,443.2	43%	3,193.9	41%
Hold to Collect & Sell	2,795.0	36%	4,442.7	56%	4,443.1	58%
Other (mandatorily measured at FV)	—	—	57.8	1%	60.5	1%
<b>Total banking book securities</b>	<b>7,744.7</b>	<b>100%</b>	<b>7,943.7</b>	<b>100%</b>	<b>7,697.5</b>	<b>100%</b>

For the six months under review, this portfolio reflects a value of €7.7bn, following purchases of €1.9bn, redemptions totalling €1.5bn, sales of €0.6bn (generating gains of €11.7m), and downward adjustments at the period-end totalling €2m; the OCI reserve was positive, at €43.6m (30/6/18: €64.4m).

Government securities total €5.5bn (or 72% of the total portfolio), €2.7bn of which Italian sovereign debt with a duration of less than three years, and an OCI reserve which remains in positive territory at €19.7m.

Hold-to-collect securities recognized at cost reflect unrealized losses of €4m (compared with €20m gains at 30 June 2018), chiefly due to reductions in the domestic portfolio (government securities and bonds).

	30/6/18			1/7/18			31/12/18		
	Book value		AFS reserve	Book value		OCI reserve	Book value		OCI reserve
	AFS	HTM - LR		HTC	HTC&S		HTC	HTC&S	
Italian government bonds	1,132.1	1,612.9	19.6	1,296.5	1,456.9	25.2	1,141.7	1,520.1	19.7
Foreign government bonds	739.3	1,931.2	14.5	848.3	1,821.6	13.5	847.3	1,955.0	8.5
Bond issued by financial institutions	580.1	949.7	14.3	800.0	849.3	12.5	824.8	751.0	8.8
Corporate bonds	343.5	455.9	16.-	498.4	314.9	11.6	378.1	217.0	6.6
<b>Total banking book securities</b>	<b>2,795.0</b>	<b>4,949.7</b>	<b>64.4</b>	<b>3,443.2</b>	<b>4,442.7</b>	<b>62.8</b>	<b>3,191.9</b>	<b>4,443.1</b>	<b>43.6</b>

**Net treasury assets** – these increased from €4,810.3m to €4,907.2m. The heading comprises equity holdings worth €1,643.7m (€1,658.3m), cash and liquid assets of €877.2m (€1,969.2m), and other net deposits (including repos) totalling €2,802.3m (€1,098.5m).

	30/6/18 IAS 39 (€m)	1/7/18 IFRS 9 (€m)	31/12/18 IFRS 9 (€m)	Chg.
Financial assets held for trading	8,204.9	8,008.5	9,315.4	13.5%
Treasury financial assets	8,358.2	8,358.0	10,220.8	22.3%
Financial liabilities held for trading	(6,462.4)	(6,462.4)	(8,087.7)	25.2%
Treasury financial liabilities	(5,290.4)	(5,290.4)	(6,541.3)	23.6%
<b>Net treasury assets</b>	<b>4,810.3</b>	<b>4,613.7</b>	<b>4,907.2</b>	<b>2.0%</b>

	30/6/18 IAS 39 (€m)	1/7/18 IFRS 9 (€m)	31/12/18 IFRS 9 (€m)	Chg.
Loan trading	25.0	25.0	25.0	n.m.
Derivative contract valuations	(253.4)	(253.4)	(403.9)	59.4%
Equities	1,658.3	1,658.3	1,643.7	-1%
Bond securities	312.7	116.1	(37.1)	n.m.
<b>Financial instruments held for trading</b>	<b>1,742.6</b>	<b>1,546.0</b>	<b>1,227.7</b>	<b>-29.5%</b>

	30/6/18 IAS 39 (€m)	1/7/18 IFRS 9 (€m)	31/12/18 IFRS 9 (€m)	Chg.
Cash and banks	1,969.2	1,969.2	877.2	-55.5%
PCT&PT	(605.1)	(605.1)	3,127.4	n.m.
Financial assets deposits	426.9	426.9	(73.1)	n.m.
Stock Lending	1,276.7	1,276.7	(252.0)	n.m.
<b>Net treasury assets</b>	<b>3,067.7</b>	<b>3,067.7</b>	<b>3,679.5</b>	<b>19.9%</b>

**Tangible and intangible assets** – this item was virtually unchanged at €1,024.8m, after depreciations and amortizations of €21.4m and new investments of €13.4m (mainly software). During the six months under review, the purchase price allocation process for the RAM acquisition made in February 2018 was completed, resulting in the identification of a brand (considered as having an indefinite lifetime with an estimated fair value of €36.4m) and an AUM management contract (with a fair value of €2.3m, to be amortized over five years), which, net of the deferred tax, is balanced by the lower goodwill attributable. It should also be noted that the sale of Spafid’s Market Connect business generated a reduction in the goodwill.

No items showed any evidence of impairment.

	30/6/18		31/12/18		Chg.
	(€m)	%	(€m)	%	
Land and properties	262.3	26%	259.1	25%	-1.2%
- of which: core	184.9	18%	182.9	18%	-1.1%
Other tangible assets	25.5	2%	26.0	3%	2.0%
Goodwill	649.8	63%	621.2	61%	-4.4%
Other intangible assets	90.1	9%	118.5	11%	31.5%
<b>Total tangible and intangible assets</b>	<b>1,027.7</b>	<b>100%</b>	<b>1,024.8</b>	<b>100%</b>	<b>-0.3%</b>

(€ '000)

Operation	30/6/18	31/12/18
Compass-Linea	365,934	365,934
Spafid	12,793	8,959
Cairn Capital	41,905	41,508
Banca Esperia Private Banking	52,103	52,103
RAM	177,046	152,719
<b>Total goodwill</b>	<b>649,781</b>	<b>621,223</b>

**Provisions** – as from this year, this heading includes provisions set aside to meet commitments to disburse funds and financial guarantees issued, in a total amount of €11.3m. Provisions for risks and charges decreased from €185.5m to €175m, after withdrawals of €13.9m (mainly linked to refurbishment of the CheBanca! branch network) and transfers of €3.6m, €2m of which in connection with leasing contracts. The staff severance indemnity provision declined from €27.5m to €26.3m.

	30/6/18		31/12/18		Chg.
	(€m)	%	(€m)	%	
Commitments and financial guarantees given *	n.a.	n.a.	11.3	5%	n.a.
Provisions for risks and charges	185.5	87%	175.0	83%	-5.7%
Staff severance indemnity provision	27.5	13%	26.3	12%	-4.4%
<i>of which: staff severance provision discount</i>	2.2	—	1.9	—	-13.6%
<b>Total provision</b>	<b>213.0</b>	<b>100%</b>	<b>212.6</b>	<b>100%</b>	<b>-0.2%</b>

\* Following the fifth update to Bank of Italy circular 262/2005, total amounts set aside in respect of commitments to disburse funds and guarantees issued, which previously were accounted for as “Other liabilities”, are now treated as “Provisions for risks and charges”.

**Net equity** – net equity reduced from €9,644.3m to €9,204.9m, due to the lower valuation reserves of €418.2m (€764.3m) reflecting the reduction in stock market prices. Movements in the main net equity constituents for the six months were as follows:

- Distribution of the dividend for FY 2017-18 (€411.2m), more than offset by the profits for the six months (€450.5m);
- First-time adoption (FTA) of the new reporting standards on financial instruments (IFRS 9) and revenue from contracts with customers (IFRS 15),<sup>8</sup> impacting negatively on net equity by €80.9m and €4m respectively;
- Launch of the share buyback scheme approved by shareholders at the annual general meeting held on 27 October 2018, with 10.2 million shares acquired for an outlay of €77.9m;<sup>9</sup>
- The lower valuation reserves reflect the reduction in financial assets measured at FVOCI (€16.2m losses, including sales of €7.4m) totalling €37m (following sales of €7.6m), and from application of the equity method to the Assicurazioni Generali investment, which virtually halved, from €663.7m to €352.4m.

<sup>8</sup> Please see Part A of the Notes to the Accounts for further details.

<sup>9</sup> A further 0.7 million shares have been purchased since the reporting date (for €4.9m).

The Group's share capital increased from €443.3m to €443.5m, following the exercise of 492,500 stock options with a total value of €3m, including the share premium; a total of 1,827,063 performance shares were also awarded during the period under review, from the treasury shares already owned by the Bank.

	(€m)			
	30/6/18 IAS 39	01/7/18 IFRS 9	31/12/18 IFRS 9	Chg.
Share capital	443.3	443.3	443.5	n.m.
Other reserves	7,572.8	7,510.8	7,892.7	4.2%
Valuation reserves	764.3	746.5	418.2	-45.3%
- of which: OCI	121.5	100.5	84.3	-30.6%
cash flow hedge	(15.7)	(12.5)	(15.4)	-1.9%
equity investments	663.7	663.7	352.4	-46.9%
Profit for the period	863.9	863.9	450.5	-47.9%
<b>Total Group net equity</b>	<b>9,644.3</b>	<b>9,564.5</b>	<b>9,204.9</b>	<b>-4.6%</b>

The OCI reserve involves equities as to €59m, and bonds and other securities as to €43.6m (€19.7m of which Italian government securities), net of the tax effect of €18.3m.

	(€m)			
	30/6/18 IAS 39	01/7/18 IFRS 9	31/12/18 IFRS 9	Chg.
Equity shares	94.2	56.3	59.0	-37.3%
Bonds	64.3	70.7	43.6	-32.3%
of which: Italian government bonds	19.6	25.2	19.7	0.4%
Tax effect	(37.0)	(26.5)	(18.3)	-50.6%
<b>Total OCI reserve</b>	<b>121.5</b>	<b>100.5</b>	<b>84.3</b>	<b>-30.6%</b>



## Profit and loss account

**Net interest income** – the 4.2% increase in net interest income, from €672.1m to €700.6m, reflects the positive trends in Consumer Banking (up 4.1%) and Specialty Finance (up 35.7%), driven by higher volumes with yields resilient. Treasury management also reflected an improved performance, with net interest expense decreasing from €47.4m to €43m, due to efficient funding management (the cost of funding in fact declined from 90 bps to 80 bps), despite the market difficulties, through increased use of private and retail deposits, plus secured issues and financing. The 7.4% fall in net interest income generated from Wholesale Banking reflects the sharp reduction in credit spreads, despite increasing volumes concentrated primarily on clients with high ratings.

	6 mths ended 31/12/2017	6 mths ended 31/12/2018	Chg.
Consumer Banking	432.3	450.2	4.1%
Wealth Management	126.7	127.8	0.9%
Wholesale Banking	106.0	98.2	-7.4%
Specialty Finance	30.0	40.7	35.7%
Holding Functions and other (including intercompany)	(22.9)	(16.3)	-28.8%
<b>Net interest income</b>	<b>672.1</b>	<b>700.6</b>	<b>4.2%</b>

**Net treasury income** – net treasury income increased from €85.4m to €97.6m, driven by the growing contribution from client trading in Capital Market Solutions, which added €63m (€38.9m). The market instability affected the proprietary trading book's results, which earned €8.8m (€25.8m), mostly offset by the banking book: higher dividends and other income from funds rose from €6.6m to €9m), as did profit-taking on bonds (from €4.8m to €12.2m).

	6 mths ended 31/12/2017	6 mths ended 31/12/2018	Chg.
Dividends	6.6	9.0	36.4%
Fixed income trading profit	49.3	69.1	40.2%
<i>of which: banking book</i>	6.5	13.1	<i>n.m.</i>
Equity trading profit	29.5	19.5	-33.9%
<b>Net trading income</b>	<b>85.4</b>	<b>97.6</b>	<b>14.3%</b>

**Net fee and commission income** – net fee and commission income grew from €291.2m to €312.9m, due to the higher contribution from Wealth Management (up 15.5%, from €121.7m to €140.6m) which was helped by the consolidation of RAM (€19.7m), and now accounts for 45% of the Group's total fees, with

CheBanca! contributing €41.6m (up 13%), and Mediobanca Private Banking and the product factories €36.7m. Wholesale Banking fees rose from €90m to €95m, driven by M&A advisory business (up 63.5%, from €29.3m to €47.9m) which offset the less impressive performance in capital markets (where fees fell from €29.1m to €14.8m). Fees from Consumer Banking and Specialty Finance also increased slightly.

	(€m)		
	6 mths ended 31/12/2017	6 mths ended 31/12/2018	Chg.
Wealth Management	121.7	140.6	15.5%
Wholesale Banking	90.0	95.0	5.6%
Consumer Banking	60.8	63.2	3.9%
Specialty Finance	26.5	27.5	3.8%
Holding Functions and other (including intercompany)	(7.8)	(13.4)	71.8%
<b>Net fee and commission income</b>	<b>291.2</b>	<b>312.9</b>	<b>7.5%</b>

**Equity-accounted companies** – the €165.5m profit reported by the equity-accounted companies (€121.2m) reflects the higher contribution by Assicurazioni Generali, which increased from €120.6m to €165.1m, plus the marginal contribution from the IEO, of €0.4m (€0.6m).

**Operating costs** – operating costs rose by 5.2%, from €533.6m to €561.6m, chiefly due to the addition of RAM which increased costs by €10.6m<sup>10</sup>, net of which the increase would have been just over 3%. The growth was concentrated in Consumer Banking, where fifteen new staff were added and recovery costs were higher due to the increase in volumes, and Wealth Management (where there were 33 new staff members net of RAM, and higher costs due to the development of the FAs network). The increase in overheads reflects the gradual renewal of the IT platforms, in part offset by the benefits derived from outsourcing the IT business unit.

	(€m)		
	6 mths ended 31/12/2017	6 mths ended 31/12/2018	Chg.
Labour costs	271.0	282.2	4.1%
<i>of which: directors</i>	4.3	4.3	<i>n.m.</i>
<i>stock option and performance share schemes</i>	3.9	4.5	15.4%
Sundry operating costs and expenses	262.6	279.4	6.4%
<i>of which: depreciations and amortizations</i>	23.3	21.4	-8.2%
<i>administrative expenses</i>	238.7	257.5	7.9%
<b>Operating costs</b>	<b>533.6</b>	<b>561.6</b>	<b>5.2%</b>

<sup>10</sup> Of which €7.7m in labour costs payable to the company's 43 staff.

	(€m)		
	6 mths ended 31/12/2017	6 mths ended 31/12/2018	Chg.
Legal, tax and professional services	6.4	9.7	51.6%
Other consultancy expenses	16.1	21.7	34.8%
Credit recovery activities	22.8	26.5	16.2%
<i>Marketing and communication</i>	21.7	19.6	-9.7%
Rent and property maintenance	27.1	25.7	-5.2%
EDP	50.6	59.9	18.4%
Financial information subscriptions	18.4	20.0	8.7%
Bank services, collection and payment commissions	9.5	10.2	7.4%
Operating expenses	33.7	31.6	-6.2%
Other labour costs	11.3	11.6	2.7%
Other costs	13.8	12.9	-6.5%
Direct and indirect taxes	7.3	8.1	11.0%
<b>Total administrative expenses</b>	<b>238.7</b>	<b>257.5</b>	<b>7.9%</b>

**Gains (losses) on investment holdings** – this item consists of the gains and losses recorded following the sale of AFS equities (31/12/17: €94.4m), which as from this year, must be taken through profit and loss; it also reflects the effects on earnings of recognizing funds held as part of the banking book at fair value (reduction of €10.8m).

**Loan loss provisions** – these reduced by 3.3%, from €113.2m to €109.5m, reflecting a cost of risk of 52 bps (30/6/18: 62 bps; 31/12/17: 58 bps). Provisioning for Consumer Banking decreased from €121.6m to €113.9m, at a cost of risk of 180 bps (204 bps), and from €8.6m to €6.6m for Wealth Management, corresponding to 13 bps (18 bps). Wholesale Banking recorded net writebacks of €30.6m (€36.5m) due to the reduction in provisioning for certain UTP positions showing major signs of improvement. Conversely, loan loss provisions were higher for Specialty Finance, up from €14.6m to €16.3m, reflecting the increase in instalment factoring volumes.

	(€m)		
	6 mths ended 31/12/2017	6 mths ended 31/12/2018	Chg.
Wholesale Banking	(36.5)	(30.6)	-16.2%
Specialty Finance	14.6	16.3	11.6%
Consumer Banking	121.6	113.9	-6.3%
Wealth Management	8.6	6.6	-23.3%
Holding Functions	4.9	3.3	-32.7%
<b>Loan loss provisions</b>	<b>113.2</b>	<b>109.5</b>	<b>-3.3%</b>
<b>Cost of risk (bps)</b>	<b>58</b>	<b>52</b>	<b>-10.3%</b>

**Provisions for other financial assets** – IFRS 9 applies to all financial assets (securities, repos, deposits and current accounts) recognized at cost (the “Hold to collect” model) and to all bonds recognized at fair value through Other Comprehensive Income (the “Hold to collect and sell” model). The impact on earnings for the six months under review was approx. €1,1m.

	(€m)		
	6 mths ended 31/12/2017	6 mths ended 31/12/2018	Chg.
Hold-to-Collect securities	2.6	(0.4)	n.m.
Hold-to-Collect & Sell securities	(2.2)	(0.7)	-68.2%
<b>Total</b>	<b>0.4</b>	<b>(1.1)</b>	<b>n.m.</b>

**Income tax** – income tax for the six months totalled €129.6m, at an effective tax rate of 22.2%, slightly higher than last year’s figures of €128.6m and 21.2% respectively.

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

### WEALTH MANAGEMENT

This division brings together all asset administration and 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)			
	6 mths ended 31/12/17	12 mths ended 30/6/18	6 mths ended 31/12/18	Chg. (%)
<b>Profit-and-loss</b>	<i>IAS39</i>	<i>IAS 39</i>	<i>IFRS 9</i>	
Net interest income	126.7	255.2	127.8	0.9
Net trading income	7.1	12.1	3.8	-46.5
Net fee and commission income	121.7	258.7	140.6	15.5
<b>Total income</b>	<b>255.5</b>	<b>526.0</b>	<b>272.2</b>	<b>6.5</b>
Labour costs	(95.0)	(201.1)	(109.2)	14.9
Administrative expenses	(105.6)	(215.7)	(105.9)	0.3
<b>Operating costs</b>	<b>(200.6)</b>	<b>(416.8)</b>	<b>(215.1)</b>	<b>7.2</b>
Gains (losses) on disposal of equity holdings	0.6	2.0	—	n.m.
Loan loss provisions	(8.5)	(16.4)	(6.6)	-22.4
Other income (losses)	—	(0.6)	0.2	n.m.
<b>Profit before tax</b>	<b>47.0</b>	<b>94.2</b>	<b>50.7</b>	<b>7.9</b>
Income tax for the period	(10.8)	(24.4)	(13.4)	24.1
Minority interest	—	(0.6)	(1.6)	n.m.
<b>Net profit</b>	<b>36.2</b>	<b>69.2</b>	<b>35.7</b>	<b>-1.4</b>
<i>Cost/Income (%)</i>	78.5	79.2	79.0	
	<b>31/12/17</b>	<b>30/6/18</b>	<b>31/12/18</b>	
<b>Balance-sheet data</b>				
Loans and advances to customers	9,871.8	10,359.2	10,725.7	
Loans	694.5	1,594.0	829.0	
No. of staff	1,821	1,888	1,897	
Risk-weighted assets	5,668.2	5,757.2	5,696.5	
	<b>31/12/17</b>	<b>30/6/18</b>	<b>31/12/18</b>	
AUM/AUA	31,499.0	37,311.7	36,959.4	
AUC	8,935.5	7,583.3	6,659.2	
Direct funding	17,969.4	18,956.2	20,977.2	
<b>Total assets under management, advice and custody</b>	<b>58,403.9</b>	<b>63,851.2</b>	<b>64,595.8</b>	

## CHEBANCA!

	(€m)			
	6 mths ended 31/12/17	12 mths ended 30/6/18	6 mths ended 31/12/18	Chg. (%)
<b>Profit-and-loss</b>	<i>IAS39</i>	<i>IAS 39</i>	<i>IFRS 9</i>	
Net interest income	106.6	212.0	104.2	-2.3
Net treasury income	0.3	0.8	0.4	33.3
Net fee and commission income	36.8	79.7	41.6	13.0
<b>Total income</b>	<b>143.7</b>	<b>292.5</b>	<b>146.2</b>	<b>1.7</b>
Labour costs	(49.5)	(102.6)	(52.6)	6.3
Administrative expenses	(65.0)	(132.7)	(62.9)	-3.2
<b>Operating costs</b>	<b>(114.5)</b>	<b>(235.3)</b>	<b>(115.5)</b>	<b>0.9</b>
Gains (losses) on disposal of equity holdings	—	—	(0.3)	n.m.
Loan loss provisions	(8.3)	(16.5)	(7.2)	-13.3
<b>Profit before tax</b>	<b>20.9</b>	<b>40.7</b>	<b>23.2</b>	<b>11.0</b>
Income tax for the period	(5.0)	(13.0)	(7.3)	46.0
<b>Net profit</b>	<b>15.9</b>	<b>27.7</b>	<b>15.9</b>	<b>n.m.</b>
<i>Cost/Income (%)</i>	79.7	80.4	79.0	

	31/12/17	30/6/18	31/12/18
<b>Balance-sheet data</b>			
Loans and advances to customers	7,710.0	8,107.1	8,381.5
New loans	694.5	1,594.0	829.0
No. of branches	109	111	110
No. of staff	1,295	1,321	1,330
Risk-weighted assets	3,684.2	3,713.8	3,858.2
	31/12/17	30/6/18	31/12/18
AUM/AUA	7,566.0	8,435.1	8,911.3
Direct funding	13,078.4	14,163.0	14,414.3
<b>Total assets under management</b>	<b>20,644.4</b>	<b>22,598.1</b>	<b>23,325.6</b>

CheBanca! reported a gross operating profit for the six months up 11%, to €23.2m, on 1.7% growth in revenues (from €143.7m to €146.2m), operating costs basically flat (up just 0.9%), and loan loss provisions down from €8.3m to €7.2m. Net profit came in at €15.9m (unchanged), after higher tax of €7.3m (€5m), due to certain non-recurring effects in the last year.

Looking at the individual revenue items, net interest income declined from €106.6m to €104.2m, despite higher volumes, reflecting the decrease in the profitability of mortgage loans and the slight increase in the cost of funding (from 0.38% to 0.42%). Net fee and commission income rose from €36.8m to €41.6m, with the asset management component (net of the amounts credited

back to FAs) up 10%, from €24.7m to €28.7m. The 13.3% reduction in loan loss provisioning is due to the risk parameters being adjusted to the new internal models, and reflects a cost of risk of 17 bps (30/6/18: 21 bps).

Total financial assets (“TFAs”) rose by 3.2% during the six months to €23.3bn, €14.4bn of which deposits (up 1.8%) and €8.9bn AUM/AUA (up 5.6%). The growth in indirect funding was boosted by deposit conversion activity and net new money of approx. €750m, €460m of which generated by the affluent-premier relationship managers network and €290m by the FAs; overall the market effect was negative by €276m.

Mortgage loans rose from €8.1bn to €8.4bn, on new loans of €0.8bn (up 19.4%, from €0.7bn). The quality of the loan stock remained positive: gross NPLs decreased in absolute terms, from €332.1m to €314.8m, and in relative terms account for 3.7% of the total loan book (4%); whereas net NPLs declined from €155.1m to €129.8m, and account for 1.5% (1.9%) of total net loans, with a coverage ratio of 58.8% (53.3%). Net bad loans totalled €67.8m (0.8% of the total), covered at 69.3% (60.9%); the amount reflects €19m in extra provisioning made as part of IFRS 9 FTA, to reflect a possible disposal scenario. In line with this scenario, at end-December 2018, an agreement was reached to dispose of the entire portfolio of legacy non-performing items generated by the French branch office (this line of operations was discontinued in December 2009), carried at €3.3m (against a gross value of €14.3m). Closing will take place in the early months of 2019, and accordingly the items have been transferred to Financial assets held for sale (in accordance with IFRS 5).

## PRIVATE BANKING

This division comprises Mediobanca Private Banking,<sup>11</sup> Compagnie Monégasque de Banque, Spafid, Cairn Capital (alternative AM), Mediobanca SGR, Mediobanca Management Company and RAM Active Investments.

	(€m)			
	6 mths ended 31/12/17	12 mths ended 30/6/18	6 mths ended 31/12/18	Chg. (%)
<b>Profit-and-loss</b>	<i>IAS39</i>	<i>IAS 39</i>	<i>IFRS 9</i>	
Net interest income	20.1	43.2	23.6	17.4
Net treasury income	6.8	11.3	3.4	-50.0
Net fee and commission income	84.9	179.0	99.0	16.6
<b>Total income</b>	<b>111.8</b>	<b>233.5</b>	<b>126.0</b>	<b>12.7</b>
Labour costs	(45.5)	(98.5)	(56.6)	24.4
Administrative expenses	(40.6)	(83.0)	(43.0)	5.9
<b>Operating costs</b>	<b>(86.1)</b>	<b>(181.5)</b>	<b>(99.6)</b>	<b>15.7</b>
Gains (losses) on disposal of equity holdings	0.6	2.0	0.3	-50.0
Loan loss provisions	(0.2)	0.1	0.6	n.m.
Other income (losses)	—	(0.6)	0.2	n.m.
<b>Profit before tax</b>	<b>26.1</b>	<b>53.5</b>	<b>27.5</b>	<b>5.4</b>
Income tax for the period	(5.8)	(11.4)	(6.1)	5.2
Minority interest	—	(0.6)	(1.6)	n.m.
<b>Net profit</b>	<b>20.3</b>	<b>41.5</b>	<b>19.8</b>	<b>-2.5</b>
<i>Cost/Income (%)</i>	77.0	77.7	79.0	

	31/12/17	30/6/18	31/12/18
<b>Balance-sheet data</b>			
Loans and advances to customers	2,161.8	2,252.1	2,344.2
No. of staff	526	567	567
Risk-weighted assets	1,984.0	2,043.4	1,838.3

	31/12/17	30/6/18	31/12/18
AUM/AUA	23,933.0	28,876.6	28,048.1
AUC	8,935.5	7,583.3	6,659.2
Direct funding	4,891.0	4,793.2	6,562.9
<b>Total assets under management</b>	<b>37,759.5</b>	<b>41,253.1</b>	<b>41,270.2</b>

The Private Banking division earned a net profit of €19.8m in the six months, lower than last year despite the consolidation of RAM (€5.2m), due to the almost complete lack of performance fees (31/12/17: €8.5m).

<sup>11</sup> 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.



Revenues were up 12.7% (from €111.8m to €126m, €19.7m attributable to RAM), and reflect higher fees (up 16.6%, from €84.9m to €99m); net of RAM, fee income would have been down 6.6%, or up 3% not considering the performance fees. Net interest income rose from €20.1m to €23.6m, due to an improved contribution from CMB (up from €16.2m to €19.8m).

Costs were up 15.7%, from €86.1m to €99.6m, with RAM responsible for €10.6m, made up of labour costs totalling €7.7m and administrative expenses of €2.8m.

TFAs were stable at €41.3bn, €6.6bn in deposits (up 37%), €28bn in AUM/AUA (down 3%), and €6.7bn in assets under custody (down 11%). The stock reflects the market trend (down €1.4bn), which accounted for some of the net new money collected in the six months (up €2.4bn), most of which in deposits (€1.7bn) but a significant share in AUM/AUA as well (up €592m).

By individual business unit, CMB reported a net profit of €14m, on revenues of €47.4m, (€47.8m), costs of €30.4m (€30.2m), and tax of €3.2m (€3.4m); TFAs totalled approx. €10bn, €3.1bn of which in deposits and NNM of €223m. Mediobanca Private Banking and the product factories delivered a net profit of €3.4m, on revenues of €40.6m (€44.3m) reflecting the absence of performance fees (€4m last year) and costs of €36m (€35.2m), with TFAs of €19.7bn, including deposits of €3.4bn and NNM of €1.7bn. RAM contributed a net profit of €5.2m (net of minority interests totalling €1.6m), on revenues of €19.7m and costs of €10.6m, with TFAs of €3.8bn. Cairn Capital posted revenues of €8.4m (€10m) and costs of €9.9m (€9.7m), with TFAs of €3.9bn and NNM of €382m (mostly linked to CLO business). Spafid, which provides fiduciary business and corporate services, reported revenues of €9.8m and costs of €10m.

## 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 to clients.

	(€m)			
	6 mths ended 31/12/17	12 mths ended 30/6/18	6 mths ended 31/12/18	Chg. (%)
<b>Profit-and-loss</b>	<i>IAS39</i>	<i>IAS 39</i>	<i>IFRS 9</i>	
Net interest income	432.3	868.8	450.2	4.1
Net fee and commission income	60.8	127.4	63.2	3.9
<b>Total income</b>	<b>493.1</b>	<b>996.2</b>	<b>513.4</b>	<b>4.1</b>
Labour costs	(47.4)	(96.1)	(48.6)	2.5
Administrative expenses	(89.6)	(188.4)	(93.3)	4.1
<b>Operating costs</b>	<b>(137.0)</b>	<b>(284.5)</b>	<b>(141.9)</b>	<b>3.6</b>
Loan loss provisions	(121.6)	(241.9)	(113.9)	-6.3
Other income (losses)	—	(6.6)	—	n.m.
<b>Profit before tax</b>	<b>234.5</b>	<b>463.2</b>	<b>257.6</b>	<b>9.9</b>
Income tax for the period	(75.0)	(147.9)	(83.2)	10.9
<b>Net profit</b>	<b>159.5</b>	<b>315.3</b>	<b>174.4</b>	<b>9.3</b>
<i>Cost/Income (%)</i>	27.8	28.6	27.6	

	31/12/2017	30/6/18	31/12/18
<b>Balance-sheet data</b>			
Loans and advances to customers	12,097.5	12,517.8	12,766.2
New loans	3,346.3	7,025.1	3,492.8
No. of branches	166	171	172
No. of staff	1,417	1,429	1,432
Risk-weighted assets	11,668.5	11,822.0	12,041.1

The Consumer Banking division earned a net profit of €174.4m in the six months, 9.3% higher than last year, on revenues of €513.4m (up 4.1%), costs of €141.9m (up 3.6%; cost/income ratio 27.6%), and loan loss adjustments of €113.9m (down 6.3%, with the cost of risk declining further to 180 bps).

By individual revenue source, net interest income was up 4.1%, from €432.3m to €450.2m, with margins and volumes growth resilient; while net fees and commissions rose by 3.9% (from €60.8m to €63.2m), in line with the commercial growth and despite higher rappel commissions payable to distribution partners.

Operating costs were up 3.6%, from €137m to €141.9m, due to reinforcement of the headcount (with fifteen new employees taken on) and distribution network (with six more direct branch offices and sixteen more agencies).

Loan loss provisions were down 6.3%, from €121.6m to €113.9m, indicative of ongoing improvement in the cost of risk (now 180 bps, compared with 199 bps at 30 June 2018 and 204 bps at 31 December 2017).

Loans and advances to customers increased from €12.5bn to €12.8bn, with new loans for the six months up from €3.3bn to €3.5bn; around 60% of the stock is made up of personal loans, while salary-backed finance accounts for slightly more than €2bn (16%). Gross NPLs declined from €698.5m to €694.8m, and account for 5.1% of total gross loans (5.2%); while net NPLs were near their lowest-ever levels, at €185.8m (just 1.5% of total loans), with a coverage ratio of 73.3% (73.4%). Net bad loans total €13.2m, represent just 0.1% of the total loan book, and reflect a coverage ratio of 93.6%. The coverage ratio for performing items rose from 2.7% to 3%, as a result of applying the new IFRS 9 models. NPLs worth a total of €114.1m were sold external to the Group during the six months (compared with €97.5m last year).

## CORPORATE AND INVESTMENT BANKING

This division provides services to customers 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.

	6 mths ended 31/12/17	12 mths ended 30/6/18	6 mths ended 31/12/18	Chg. %
	(€m)			
<b>Profit-and-loss</b>	<i>IAS39</i>	<i>IAS 39</i>	<i>IFRS 9</i>	
Net interest income	136.0	266.1	138.9	2.1
Net treasury income	64.5	110.5	71.9	11.5
Net fee and commission income	116.5	254.4	122.5	5.2
<b>Total income</b>	<b>317.0</b>	<b>631.0</b>	<b>333.3</b>	<b>5.1</b>
Labour costs	(66.7)	(137.4)	(66.7)	n.m.
Administrative expenses	(54.7)	(118.5)	(63.3)	15.7
<b>Operating costs</b>	<b>(121.4)</b>	<b>(255.9)</b>	<b>(130.0)</b>	<b>7.1</b>
Gains (losses) on disposal of equity holdings	—	—	0.9	n.m.
Loan loss provisions	21.9	18.3	14.3	(34.7)
Provisions for other financial assets	0.9	0.7	(0.1)	n.m.
Other income (losses)	—	(2.0)	—	n.m.
<b>Profit before tax</b>	<b>218.4</b>	<b>392.1</b>	<b>218.4</b>	<b>n.m.</b>
Income tax for the period	(72.3)	(127.6)	(72.3)	n.m.
<b>Net profit</b>	<b>146.1</b>	<b>264.5</b>	<b>146.1</b>	<b>n.m.</b>
<i>Cost/Income (%)</i>	38.3	40.6	39.0	
	<b>31/12/17</b>	<b>30/6/18</b>	<b>31/12/18</b>	
<b>Balance-sheet data</b>				
Loans and advances to customers	15,467.0	16,134.2	17,400.6	
New loans	6,390.8	12,686.0	6,872.7	
No. of staff	577	587	571	
Risk-weighted assets	24,863.5	19,510.9	19,819.2	

## WHOLESALE BANKING

	(€m)			
	6 mths ended 31/12/17	12 mths ended 30/6/18	6 mths ended 31/12/18	Chg. (%)
<b>Profit-and-loss</b>	<i>IAS39</i>	<i>IAS 39</i>	<i>IFRS 9</i>	
Net interest income	106.0	198.5	98.2	-7.4
Net treasury income	64.6	110.5	71.8	11.1
Net fee and commission income	90.0	207.3	95.0	5.6
<b>Total income</b>	<b>260.6</b>	<b>516.3</b>	<b>265.0</b>	<b>1.7</b>
Labour costs	(58.8)	(121.0)	(58.7)	-0.2
Administrative expenses	(43.0)	(91.4)	(48.2)	12.1
<b>Operating costs</b>	<b>(101.8)</b>	<b>(212.4)</b>	<b>(106.9)</b>	<b>5.0</b>
Gains (losses) on disposal of equity holdings	—	—	0.9	n.m.
Loan loss provisions	36.5	44.0	30.6	-16.2
Provisions for other financial assets	0.9	0.7	(0.3)	n.m.
Other income (losses)	—	(2.0)	—	n.m.
<b>Profit before tax</b>	<b>196.2</b>	<b>346.6</b>	<b>189.3</b>	<b>-3.5</b>
Income tax for the period	(65.1)	(112.8)	(62.9)	-3.4
<b>Net profit</b>	<b>131.1</b>	<b>233.8</b>	<b>126.4</b>	<b>-3.6</b>
<i>Cost/Income (%)</i>	39.1	41.1	40.3	
	<b>31/12/17</b>	<b>30/6/18</b>	<b>31/12/18</b>	
<b>Balance-sheet data</b>				
Loans and advances to customers	13,438.3	13,996.9	14,809.8	
New loans	3,843.0	7,331.7	3,571.6	
No. of staff	341	344	331	
Risk-weighted assets	22,817.0	17,362.9	17,167.6	

Wholesale Banking earned a net profit of €126.4m in the six months (€131.1m), a reduction of 3.6% due exclusively to lower writebacks on loans of €30.3m (€37.4m).

Revenues were up 1.7%, from €260.6m to €265m, as a result of improved contributions from Corporate Finance (up 63%, to €47.9m) and Capital Market Solutions (up 56%, to €66.9m); the main income items performed as follows:

- Net interest income fell by 7.4%, from €106m to €98.2m, due to lower margins on loans only in part offset by the higher stock (up 5.2%) which remains concentrated in quality counterparties;
- Net treasury income rose by 11.1%, from €64.6m to €71.8m, due to growth in business with CMS clients, the contribution from which grew from €38.9m

to €63m, compensating for the reduction in income from the trading book, which declined from €25.8m to €8.8m, reflecting the downturn on markets witnessed in the fourth quarter of 2018;

- Net fee and commission income rose by 5.6%, from €90m to €95m, on positive results in Corporate Finance which offset the decline in capital market operations.

Operating costs rose from €101.8m to €106.9m, due to additional overheads and sundry other costs arising in connection with projects and updating the IT procedures (which added €1.3m), higher legal and consultancy expenses (€1.2m), and an increase in costs incurred by support units (€2.1m).

Financial assets (loans and banking book securities) reflect net writebacks of €30.3m, due chiefly to certain UTP positions being revised as a result of positive performances that could lead to them being reclassified.

Loans and advances to customers grew from €14bn to €14.8bn, on new loans of €3.6bn, following repayments of €2.8bn, €1.2bn of which were early repayments (lower than last year).

	30/6/18		31/12/18		Chg.
	(€m)	%	(€m)	%	
Italy	6,629.4	47%	7,371.1	50%	11.2%
France	1,202.8	9%	1,515.9	10%	26.-%
Spain	1,404.7	10%	1,085.3	7%	-22.7%
Germany	899.7	6%	921.0	6%	2.4%
U.K.	1,171.4	8%	1,138.6	8%	-2.8%
Other non resident	2,688.9	20%	2,777.9	19%	3.3%
<b>Total loans and advances to customers</b>	<b>13,996.9</b>	<b>100%</b>	<b>14,809.8</b>	<b>100%</b>	<b>5.8%</b>

Gross NPLs, consisting entirely of unlikely-to-pay exposures generating positive cash flows, decreased from €648m to €631.2m, and account for 4.2% (4.5%) of the total loan book. As an effect of the writebacks mentioned above, net NPLs increased from €341.7m to €360.9m but remained flat in relative terms, at 2.4% of the loan book, with the coverage ratio reducing from 47.3% to 42.8%.

A brief description of the main trends in the investment banking market and the results achieved by the Group is provided below:

- The European investment banking market reflects an increase in M&A activity, in Italy, Spain and Germany in particular. This drove an increase in fee income from advisory business (from €29.3m to €47.9m). The main deals covered by the Bank during the period were as follows: Prysmian (non-Italian acquisition), 21 Investimenti (stake disposal), Zephyro (sale of company), Tiscali (strategic partnership), Bain Capital (acquisitions in Italy), Mediaset (acquisition in Italy), Intrum (acquisitions in Italy), Globalvia (acquisition of stake), and Eurobank (stake disposal);
- Debt capital market (DCM) activity grew in the main European countries (Italy, France, Spain and Germany). Over twenty deals were executed during the six months under review, generating fees of €10.8m (higher than the €9.6m generated in the second half of last year, but still lower than €15.3m posted in the first six months of the 2017-18 financial year, when the trend was especially positive);
- Equity capital market (ECM) activities showed a substantial downturn in the main European countries, down more than 60% in Italy, France and Spain); fee income reduced accordingly for the six months, from €13.8m to €4m (five deals);
- The EMEA debt market showed an overall increase of 10% during the period; while in Italy, it remained virtually stable. Lending fees too were flat versus last year, at €25.8m (€26.2m).

	6 mths ended 31/12/17	6 mths ended 31/12/18	Chg.
Capital Market	29,1	14,8	-49,1%
Lending	26,2	25,8	-1,5%
Advisory M&A	29,3	47,9	63,5%
Markets, sales and other gains	5,4	6,5	20,4%
<b>Net fee and commission income</b>	<b>90,0</b>	<b>95,0</b>	<b>5,6%</b>

(€m)

## SPECIALTY FINANCE

	(€m)			
	6 mths ended 31/12/17	12 mths ended 30/6/18	6 mths ended 31/12/18	Chg. (%)
<b>Profit-and-loss</b>	<i>IAS39</i>	<i>IAS 39</i>	<i>IFRS 9</i>	
Net interest income	30.0	67.6	40.7	35.7
Net treasury income	(0.1)	—	0.1	n.m.
Net fee and commission income	26.5	47.1	27.5	3.8
<b>Total income</b>	<b>56.4</b>	<b>114.7</b>	<b>68.3</b>	<b>21.1</b>
Labour costs	(7.9)	(16.4)	(8.0)	1.3
Administrative expenses	(11.7)	(27.1)	(15.1)	29.1
<b>Operating costs</b>	<b>(19.6)</b>	<b>(43.5)</b>	<b>(23.1)</b>	<b>17.9</b>
Loan loss provisions	(14.6)	(25.7)	(16.3)	11.6
Provisions for other financial assets	—	—	0.2	n.m.
<b>Profit before tax</b>	<b>22.2</b>	<b>45.5</b>	<b>29.1</b>	<b>31.1</b>
Income tax for the period	(7.2)	(14.8)	(9.4)	30.6
<b>Net profit</b>	<b>15.0</b>	<b>30.7</b>	<b>19.7</b>	<b>31.3</b>
<i>Cost/Income (%)</i>	34.8	37.9	33.8	
	<b>31/12/17</b>	<b>30/6/18</b>	<b>31/12/18</b>	
<b>Balance-sheet data</b>				
Loans and advances to customers	2,028.7	2,137.3	2,590.8	
New loans	2,547.8	5,353.9	3,301.1	
No. of staff	236	243	240	
Risk-weighted assets	2,046.5	2,148.0	2,651.6	

Specialty Finance reported a 31.3% increase in net profit for the six months, up from €15m to €19.7m, split equally between MBCredit Solutions (up from €8.3m to €10.2m) and MBFACTA (up from €6.7m to €9.5m).

Growth in revenues of 21.1%, from €56.4m to €68.3m, reflects higher volumes in both segments, and is split between net interest income, which climbed 35.7%, from €30m to €40.7m (€23.8m MBFACTA, €16.9m MBCredit Solutions), and net fee and commission income, up 3.8%, from €26.5m to €27.5m, €16.3m of which due to the higher collections on the NPLs portfolio (€14.8m).



At the same time, operating costs were also up 17.9%, from €19.6m to €23.1m, due in particular to recovery costs in connection with NPL portfolio management (up from €4.8m to €7.1m).

Loan loss provisions rose from €14.6m to €16.3m, €8.8m of which in relation to factoring (in particular higher provisioning for instalment loans), and the other €7.5m to NPL management (for the most recent portfolios).

Growth of 21.2% in loans and advances to customers, from €2,137.3m to €2,590.8m, chiefly regards ordinary factoring (€1,836.6m, as against €1,449.4m), as well as instalment factoring (€413.5m, as against €399.6m), and non-recourse acquisitions of NPLs (€345.1m, as against €287.9m). The latter are concentrated in the retail unsecured segment (78.3%), and in the six months there have been non-recourse purchases totalling €75m (with a nominal value of €1.3bn).

## PRINCIPAL INVESTING

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

	(€m)			
	6 mths ended 31/12/17	12 mths ended 30/6/18	6 mths ended 31/12/18	Chg. (%)
<b>Profit-and-loss</b>	<i>IAS39</i>	<i>IAS 39</i>	<i>IFRS 9</i>	
Other incomes	2.9	14.7	5.4	86.2
Equity-accounted companies	121.2	280.3	165.5	36.6
<b>Total income</b>	<b>124.1</b>	<b>295.0</b>	<b>170.9</b>	<b>37.7</b>
Labour costs	(1.8)	(3.8)	(2.0)	11.1
Administrative expenses	(0.5)	(1.0)	(0.5)	—
<b>Operating costs</b>	<b>(2.3)</b>	<b>(4.8)</b>	<b>(2.5)</b>	<b>8.7</b>
Gains (losses) on disposal of equity holdings	93.8	96.3	(10.8)	n.m.
Net loss provisions	(0.5)	(1.8)	—	n.m.
<b>Profit before tax</b>	<b>215.1</b>	<b>384.7</b>	<b>157.6</b>	<b>-26.7</b>
Income tax for the period	(10.1)	(10.9)	1.1	n.m.
<b>Net profit</b>	<b>205.0</b>	<b>373.8</b>	<b>158.7</b>	<b>-22.6</b>

	31/12/17	30/6/18	31/12/18
<b>Balance-sheet data</b>			
Banking book equity securities	439.5	718.5	630.1
IAS28 investments	3,185.7	3,210.8	3,056.5
Risk-weighted assets	5,976.1	6,256.6	6,004.1

Results for the six months reflect the introduction of IFRS 9, which impacts on Principal Investing in two ways in particular: valuations and gains on disposals of equities held in the banking book (formerly classified as Available for Sale) are no longer taken through profit and loss, whereas interests in private equity funds and seed capital are recognized at fair value through profit and loss.

The sharp increase in revenues posted by the Principal Investing division, from €124.1m to €170.9m, is due to the higher contribution from the Assicurazioni Generali investment. However, net profit for the six months ended 31 December 2018 fell from €205m to €158.7m, due to the absence of gains on banking book equities, which last year added €93.8m, and to valuations of holdings in funds, which were €10.8m lower.

The book value of the Assicurazioni Generali investment at the reporting date was €3bn, lower than the €3.2bn reported at 30 June 2018, due to lower valuation reserves (down €315.6m), partly offset by profits for the period (€165.1m); other investments declined from €258.7m to €127.4m, after disposals of €134.5m, the gains on which (€1.2m) were taken directly through other comprehensive income; investments in funds recognized at fair value increased from €459.8m to €502.6m, after new investments totalling €57m (€51m of which in seed capital) and redemptions totalling €4m.

## HOLDING FUNCTIONS (CENTRAL UNITS, TREASURY AND LEASING OPERATIONS)

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 central Group functions.<sup>12</sup>

	(€m)			
	6 mths ended 31/12/17	12 mths ended 30/6/18	6 mths ended 31/12/18	Chg. (%)
<b>Profit-and-loss</b>	<i>IAS39</i>	<i>IAS 39</i>	<i>IFRS 9</i>	
Net interest income	(24.6)	(37.5)	(23.5)	4.5
Net trading income	4.9	13.1	12.3	n.m.
Net fee and commission income	8.6	15.5	4.6	-46.5
<b>Total income</b>	<b>(11.1)</b>	<b>(8.9)</b>	<b>(6.6)</b>	<b>40.5</b>
Labour costs	(60.1)	(118.2)	(55.7)	-7.3
Administrative expenses	(20.8)	(55.1)	(25.6)	23.1
<b>Operating costs</b>	<b>(80.9)</b>	<b>(173.3)</b>	<b>(81.3)</b>	<b>0.5</b>
Gains (losses) on disposal of equity holdings	—	—	0.2	n.m.
Loan loss provisions	(4.9)	(7.2)	(3.3)	-32.7
Provisions for other financial assets	(0.8)	(0.3)	(0.8)	n.m.
Other income (losses)	(10.5)	(49.3)	(11.3)	-7.6
<b>Profit before tax</b>	<b>(108.2)</b>	<b>(239.0)</b>	<b>(103.1)</b>	<b>4.7</b>
Income tax for the period	39.8	83.3	39.1	-1.8
Minority interest	(1.8)	(3.2)	(1.8)	n.m.
<b>Net profit</b>	<b>(70.2)</b>	<b>(158.9)</b>	<b>(65.8)</b>	<b>6.3</b>
	<b>31/12/17</b>	<b>30/6/18</b>	<b>31/12/18</b>	
<b>Balance-sheet data</b>				
Loans and advances to customers	2,176.1	2,116.7	2,043.7	
Banking book securities	6,461.2	6,487.2	6,480.8	
No. of staff	862	801	798	
Risk-weighted assets	3,932.9	4,016.0	3,926.7	

The loss posted by the Holding Functions division fell from €70.2m to €65.8m, due to the reduction in treasury liabilities (from €36.3m to €31.8m), only in part offset by higher central costs, with profits earned from leasing operations unchanged. The negative total income figure virtually halved, with net

<sup>12</sup> Since December 2017, the former Banca Esperia central staff functions have been transferred to the Holding Functions division, hence all services performed are debited to this division.

trading income improving (from €4.9m to €12.3m); costs were stable at €81.3m (€80.9m), with central costs less than 10% of the Group total. Provisions for customer loans and financial assets declined from €5.7m to €4.1m.

There were also contributions to the interbank deposit guarantee fund of €11.2m (€10.4m), and €0.3m in fair value adjustments for the exposure to Carige subordinated bonds following the Group's voluntary intervention.

The various segments performed as follows:

- Group Treasury and ALM delivered a net loss of €31.8m, better than the €36.3m loss posted last year, due to the improvement in net interest expense (which was cut from €47.4m to €43m) and higher treasury income of €12.2m (€4.8m). In particular the result was helped by the reduction in the cost of funding, from 90 bps to 80 bps, due to use of diversified forms of funding (retail and secured) assisted by Mediobanca's solidity in periods of high market volatility, and the redemption of certain particularly expensive bond issues;
- Leasing delivered a net profit of €2.6m, unchanged, on revenues of €21.3m (€24.1m), operating costs of €12.4m (€13m) and loan loss provisions of €3.3m (€4.9m). Leases outstanding declined from €2,116.7m to €2,043.7m, despite new business increasing from €192m to €239m; at the same time, gross NPLs increased from €206.6m to €208.1m, and represent 9.7% (9.4%) of the total loan book; net NPLs fell from €140.2m to €126.9m, with the coverage ratio up from 32.2% to 39%, in part as a result of the adjustments made in an IFRS 9 FTA scenario to factor in potential disposal scenarios.

	(€m)			
	6 mths ended 31/12/17	12 mths ended 30/6/18	6 mths ended 31/12/18	Chg. (%)
<b>Profit-and-loss</b>	<i>IAS39</i>	<i>IAS 39</i>	<i>IFRS 9</i>	
Net interest income	22.5	45.2	19.7	-12.4
Net treasury income	0.1	0.2	0.1	n.m.
Net fee and commission income	1.5	2.6	1.5	n.m.
<b>Total income</b>	<b>24.1</b>	<b>48.0</b>	<b>21.3</b>	<b>-11.6</b>
Labour costs	(6.8)	(13.8)	(6.3)	-7.4
Administrative expenses	(6.2)	(12.5)	(6.1)	-1.6
<b>Operating costs</b>	<b>(13.0)</b>	<b>(26.3)</b>	<b>(12.4)</b>	<b>-4.6</b>
Loan loss provisions	(4.9)	(7.3)	(3.3)	-32.7
Other income (losses)	—	(2.9)	(0.1)	n.m.
<b>Profit before tax</b>	<b>6.2</b>	<b>11.5</b>	<b>5.5</b>	<b>-11.3</b>
Income tax for the period	(1.8)	(3.5)	(1.1)	-38.9
Risultato di pertinenza di terzi	(1.8)	(3.2)	(1.8)	n.m.
<b>Net profit</b>	<b>2.6</b>	<b>4.8</b>	<b>2.6</b>	<b>n.m.</b>
<i>Cost/Income (%)</i>	53.9	54.8	58.2	

	31/12/2017	30/6/18	31/12/18
<b>Balance-sheet data</b>			
Loans and advances to customers	2,176.1	2,116.7	2,043.7
New loans	192.0	423.0	239.0
No. of staff	142	142	138
Risk-weighted assets	1,951.3	1,879.0	1,823.2

# MEDIOBANCA SPA

## RESTATED PROFIT AND LOSS ACCOUNT

	31/12/17	30/6/18	31/12/18	(€m)
				Chg. (%)
<b>Profit-and-loss data</b>	<i>IAS39</i>	<i>IAS39</i>	<i>IFRS9</i>	
Net interest income	47.6	95.1	48.2	1.3
Net treasury income	77.6	146.8	92.2	18.8
Net fee and commission income	124.6	270.7	124.4	-0.2
Dividends on investments	5.2	177.5	—	n.m.
<b>Total income</b>	<b>255.0</b>	<b>690.1</b>	<b>264.8</b>	<b>3.8</b>
Labour costs	(116.5)	(237.8)	(118.1)	1.4
Administrative expenses	(83.1)	(177.0)	(87.7)	5.5
<b>Operating costs</b>	<b>(199.6)</b>	<b>(414.8)</b>	<b>(205.8)</b>	<b>3.1</b>
Gains (losses) on disposal of equity holdings	93.8	96.3	(11.4)	n.m.
Loan loss provisions	36.1	44.3	27.4	-24.1
Provisions for other financial assets	2.4	1.1	(0.7)	n.m.
Impairment on investments	—	(0.3)	(2.3)	n.m.
Other income (losses)	(0.4)	(32.7)	(0.4)	n.m.
<b>Profit before tax</b>	<b>187.3</b>	<b>384.0</b>	<b>71.6</b>	<b>-61.8</b>
Income tax for the period	(34.0)	(47.0)	(21.0)	-38.2
<b>Net profit</b>	<b>153.3</b>	<b>337.0</b>	<b>50.6</b>	<b>-67.0</b>

## RESTATED BALANCE SHEET

(€m)

	31/12/17	30/6/18	31/12/18
Balance-sheet data	<i>IAS39</i>	<i>IAS39</i>	<i>IFRS9</i>
<b>Assets</b>			
Financial assets held for trading	10,069.3	8,211.9	9,354.3
Treasury financial assets	9,532.3	9,236.0	11,199.1
Banking book securities	11,350.5	11,454.9	11,808.8
Customer loans	25,686.0	25,745.1	27,124.1
Equity Investments	3,394.8	3,831.0	3,741.1
Tangible and intangible assets	160.1	155.4	151.1
Other assets	556.3	600.1	565.3
<b>Total assets</b>	<b>60,749.3</b>	<b>59,234.4</b>	<b>63,943.8</b>
<b>Liabilities and net equity</b>			
Funding	40,367.1	39,173.0	42,109.7
Treasury financial liabilities	7,634.3	7,287.4	8,027.0
Financial liabilities held for trading	6,753.0	6,510.5	8,141.7
Other liabilities	805.7	872.5	717.7
Provisions	107.8	105.5	128.6
Net equity	4,928.1	4,948.5	4,768.5
Profit of the period	153.3	337.0	50.6
<b>Total liabilities and net equity</b>	<b>60,749.3</b>	<b>59,234.4</b>	<b>63,943.8</b>

Mediobanca S.p.A. delivered a net profit of €50.6m for the six months, much lower than the €153.3m posted last year, due to the absence of gains on disposals of AFS equities which in 1H FY 2017-18 totalled €93.8m. Total income was up 3.8%, from €255m to €264.8m, with the main items reflecting the following performances:

- Net interest income rose by 1.3%, from €47.6m to €48.2m, despite the difficult market conditions and the reduction in credit spreads on loans to large corporate clients with high credit ratings;
- Net treasury income increased from €77.6m to €92.2m, boosted by the CMS area (where revenues rose from €38.9m to €63m), plus gains taken on the banking book of €5.7m (€11.5m) which offset the lower performance by the proprietary trading book of €26.3m (€8.8m);
- Net fee and commission income was unchanged at €124.4m, with Private Banking contributing €24.7m (€28.3m) and Corporate and Investment Banking contributing €99.6m (€96m).



Operating costs were up 3.1%, from €199.6m to €205.8m, in particular due to projects related to upgrading the Private Banking platform and rationalizing the IT systems.

Net writebacks of €27.4m (€36.1m) were credited to the loan book, €33.4m of which corporate loans after certain UTP positions were revalued (as previously mentioned), and €0.4m of which exposures to Private Banking clients, against €6.4m in provisions for loans to Group companies; conversely, the coverage ratio for non-performing items fell from 47.7% to 43.6% (Wholesale Banking 42.7%, Private Banking 82.4%).

With regard to the main balance-sheet items:

- Loans and advances to customers rose by 5.4%, from €25.7bn to €27.1bn, €10.8bn of which Wholesale Banking, €1.1bn to Private Banking clients, and €15.2bn to Group companies; gross loan loss provisions declined from €658.2m to €643.7m, whereas net loan loss provisions rose from €344m to €363.3m as an effect of the writebacks mentioned above;
- Banking book bonds rose slightly, from €11.5bn to €11.8bn, split between Hold to collect (€7.3bn, €4.7bn of which intercompany), Hold to collect and sell (€4.4bn), and securities measured at fair value taken through profit and loss (€54m);
- Investment holdings declined from €3.8bn to €3.7bn; as from this year, this item comprises controlling interests and investments covered by IAS 28, as well as equities formerly classified as AFS and funds held as part of the banking book; there were sales of listed equities totalling €134.5m, plus the liquidation of MB Turkey (resulting in a €1.9m charge being taken through profit and loss);
- There was a €4.4bn mismatch between financial instruments held for trading and treasury assets and liabilities, higher than the €3.7bn reported six months ago; the balance includes equities worth €1.6bn, cash and liquid assets of €361.3m, and other net deposits (including repos) of €2.8bn;
- Funding rose by 7.5%, from €39.2bn to €42.1bn, reflecting higher Private Banking deposits (up €1.5bn, for a total of €3.5bn) and CheBanca! funding (from €10.8bn to €11.2bn), against a reduction in debt securities which, despite seven new issues in a total of €1.1bn for the six months, reflect redemptions and buybacks on the market totalling €1.5bn;

- The reduction in net equity, from €4,948.5m to €4,768.5m, following distribution of the 2018 dividend (€411.2m), only a small part of which was offset by the profit for the six months (€50.6m), downward adjustments to reflect IFRS 9 first-time adoption, of €5.2m, and launch of the buyback scheme in an amount of €77.9m (reflecting the purchase of 10.2 million shares); the valuation reserves also declined, from €130m to €87.8m. The Bank's share capital increased, from €443.3m to €443.5m, following the exercise of 492,500 stock options for a total amount of €3m, including the share premium; during the six months under review, 1,827,063 performance shares were awarded, from the treasury shares held by the Bank;
- AUM/AUA in the Private Banking segment rose by 6%, to €14.9bn, with NNM of €1.7bn, part of which was offset by the market effect (€0.8bn).

\* \* \*

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

							(€m)
Company	Percentage shareholding	Business Line	Total assets	Loans and advances to customers	Total net equity <sup>1</sup>	No. of staff	
Mediobanca Securities (data in USDm)	100%	Wholesale Banking	6.7	—	5.5	4	
Mediobanca Turchia (data in TRYm) (under liquidation)	100%	Wholesale Banking	1.5	—	5.1	—	
Mediobanca Funding Luxembourg	100%	Wholesale Banking	10.3	10.0	0.4	—	
Mediobanca International	100%	Wholesale Banking / Holding Functions	6,671.9	4,581.8	338.2	16	
MBFACTA	100%	Specialty Finance	2,315.9	2,245.8	132.9	28	
MBCredit Solutions	100%	Specialty Finance	388.9	345.5	132.3	211	
Compass Banca	100%	Consumer Banking	13,296.8	11,739.7	1,803.9	1,361	
Futuro	100%	Consumer Banking	1,706.1	1,625.2	127.6	73	
Quarzo S.r.l.	90%	Consumer Banking	0.6	—	—	—	
Quarzo CQS	90%	Consumer Banking	0.4	—	—	—	
Compass RE	100%	Consumer Banking	370.8	—	134.6	1	
CheBanca!	100%	Affluent & Premier	20,298.6	8,381.5	328.3	1,329	
Mediobanca Covered Bond	90%	Affluent & Premier	0.5	—	0.1	—	
Compagnie Monégasque de Banque	100%	Private Banking	4,155.0	1,249.8	777.2	215	
Spafid	100%	Private Banking	57.3	—	49.5	48	
Spafid Connect	100%	Private Banking	21.6	—	18.1	10	
Spafid Family Office SIM	100%	Private Banking	1.3	—	0.7	5	
Cairn Capital Group Limited (data in GBPm) *	100%	Private Banking	11.6	—	8.8	56	
CMB Wealth Management UK (data in GBPm)	100%	Private Banking	1.3	—	1.2	—	
RAM Active Investments (data in CHFm) **	89.3%	Private Banking	30.3	—	12.5	39	
RAM Active Investments (Luxembourg) (data in CHFm)	100%	Private Banking	10.4	—	2.3	4	
Compagnie Monégasque de Gestion	100%	Private Banking	15.6	—	1.8	9	
Spafid Trust S.r.l.	100%	Private Banking	1.6	—	1.3	3	
Mediobanca SGR S.p.A.	100%	Private Banking	32.6	—	24.2	46	
Mediobanca Management Company S.A.	100%	Private Banking	14.0	—	5.8	7	
Mediobanca International Immobilière	100%	Holding Functions	1.9	—	1.7	—	
SelmaBipiemme Leasing	60%	Holding Functions	2,194.3	2,043.8	204.7	137	
Prominvestment (under liquidation - under arrangement with creditors)	100%	Holding Functions	0.4	—	(0.9)	—	
Mediobanca Innovation Services	100%	Holding Functions	93.4	—	37.5	113	
Ricerche e Studi	100%	Holding Functions	0.9	—	0.1	14	

<sup>1</sup> 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. 99.

\*\* Taking into account the put and call option; see Part A1 – Section 3 – Area and methods of consolidation, p. 99.

							(€m)
Company	Percentage shareholding	Business Line	Total income	Operating costs	Loss provisions	Gain/(loss) for the period	
Mediobanca Securities (data in USDm)	100%	Wholesale Banking	1.7	(1.3)	—	0.4	
Mediobanca Turchia (data in TRYm) (under liquidation)	100%	Wholesale Banking	0.2	(3.8)	—	(3.7)	
Mediobanca Funding Luxembourg	100%	Wholesale Banking	—	(0.2)	—	(0.2)	
Mediobanca International	100%	Wholesale Banking / Holding Functions	8.8	(3.9)	(2.5)	1.4	
MBFACTA	100%	Specialty Finance	26.4	(4.3)	(9.0)	8.8	
MBCredit Solutions	100%	Specialty Finance	42.4	(19.3)	(7.5)	10.7	
Compass Banca	100%	Consumer Banking	462.6	(133.1)	(117.3)	145.3	
Futuro	100%	Consumer Banking	24.5	(8.3)	(1.7)	9.8	
Quarzo S.r.l.	90%	Consumer Banking	0.1	(0.1)	—	—	
Quarzo CQS	90%	Consumer Banking	—	—	—	—	
Compass RE	100%	Consumer Banking	26.2	(0.4)	—	18.9	
CheBanca!	100%	Affluent & Premier	146.2	(115.5)	(9.4)	6.1	
Mediobanca Covered Bond	90%	Affluent & Premier	—	—	—	—	
Compagnie Monégasque de Banque	100%	Private Banking	44.9	(28.2)	0.2	14.0	
Spafid	100%	Private Banking	5.4	(4.6)	—	0.6	
Spafid Connect	100%	Private Banking	3.2	(4.5)	—	(0.8)	
Spafid Family Office SIM	100%	Private Banking	0.9	(0.6)	—	0.2	
Cairn Capital Group Limited (data in GBPm) *	100%	Private Banking	7.5	(8.8)	—	(1.0)	
CMB Wealth Management UK (data in GBPm)	100%	Private Banking	—	—	—	—	
RAM Active Investments (data in CHFm) **	89,3%	Private Banking	20.1	(10.7)	—	7.1	
RAM Active Investments (Luxembourg) (data in CHFm)	100%	Private Banking	2.4	(1.3)	—	0.8	
Compagnie Monégasque de Gestion	100%	Private Banking	2.6	(1.6)	—	0.7	
Spafid Trust S.r.l.	100%	Private Banking	0.4	(0.4)	—	—	
Mediobanca SGR S.p.A.	100%	Private Banking	9.5	(6.6)	—	1.9	
Mediobanca Management Company S.A.	100%	Private Banking	2.2	(1.5)	—	0.6	
Mediobanca International Immobilière	100%	Holding Functions	0.1	—	—	—	
SelmaBipiemme Leasing	60%	Holding Functions	21.3	(14.5)	(0.8)	4.4	
Prominvestment (under liquidation - under arrangement with creditors)	100%	Holding Functions	—	(0.1)	—	(0.1)	
Mediobanca Innovation Services	100%	Holding Functions	—	0.5	—	0.4	
Ricerche e Studi	100%	Holding Functions	1.2	(0.9)	—	0.3	

\* Taking into account the put and call option; see Part A1 – Section 3 – Area and methods of consolidation, p. 99.

\*\* Taking into account the put and call option; see Part A1 – Section 3 – Area and methods of consolidation, p. 99.

## **Other information**

### **Related party disclosure**

Financial accounts outstanding as at 31 December 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 (previously Article 36) of Consob resolution 16191/07 (Market Regulations) on the subject of prerequisites for listing in respect of parent companies incorporated or regulated by the laws of EU member states and relevant to the preparation of the consolidated accounts, Compagnie Monégasque de Banque is the only Group company affected by this provision, and adequate procedures have been adopted to ensure full compliance with it.

### **Principal risks facing the Group**

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

In particular, this involves concentration risk in the Group's Corporate Finance activities towards the leading Italian industrial groups, its presence in Consumer Banking and Affluent & Premier businesses on the domestic market, and its exposure to market volatility in respect of its securities portfolio in the Wholesale Banking, Principal Investing and Holding Functions divisions.

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

## **Research**

R&S has continued with its analysis of companies and capital markets as in the past. The company produced the forty-third edition of its Annual Directory, which includes analysis of leading Italian listed companies, and published the profiles of around seventy other industrial and financial groups online. The twenty-third 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.

## **Rating**

The long-term rating assigned by Standard & Poor's to Mediobanca is unchanged at BBB, with the outlook downgraded from stable to negative following the downgrade in the outlook for the republic of Italy. The rating assigned by Fitch to Mediobanca is BBB with negative outlook. The long-term rating assigned by Moody's to Mediobanca is Baa1, two notches higher than the rating for long-term sovereign Italian debt, with stable outlook.

## **Outlook**

The Group's performance in the next six months will reflect the uncertainties over global growth, the slowdown in international trade and the differences in timing between the cycles of the world's leading economic areas. The main risks on the domestic market relate to the expected stagnation in growth, and to the increase in the cost of refinancing in the financial sector that could in turn require increased caution in granting credit. Without prejudice to the possible impact of customs duties worsening and a no-deal Brexit, financial markets should continue to be driven by monetary policies that remain accommodative and a renewed sensitivity to the issue of increase in fiscal policies.

Against this backdrop, the next six months should see net interest income perform in line with the first half-year, due to the trend in Consumer Banking and efficient funding and liquidity management. Fees should reflect the growth of AUM/AUA in Wealth Management (itself conditional upon market trends) and a stable performance by the other products. The cost of risk could increase slightly despite remaining below last year's levels. Operating costs will reflect the inclusion of various projects currently in progress.

## Reconciliation of shareholders' equity and net profit

		(€'000)
	Shareholders' equity	Net profit (loss)
Balance at 31/12 as per Mediobanca S.p.A. accounts	4,768,483	50,611
Net surplus over book value for consolidated companies	14,822	229,890
Differences on exchange rates originating from conversion of accounts made up in currencies other than the Euro	(6,692)	—
Other adjustments and restatements on consolidation, including the effects of accounting for companies on an equity basis	3,977,801	170,018
Dividends received during the period	—	—
<b>TOTAL</b>	<b>8,754,414</b>	<b>450,519</b>

Milan, 7 February 2019

THE BOARD OF DIRECTORS

DECLARATION BY HEAD  
OF COMPANY FINANCIAL REPORTING





**Declaration in respect of interim financial statements  
as required by Article 81-ter of Consob resolution no. 11971  
issued on 14 May 1999 as amended**

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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 interim financial statements:
  - were adequate in view of the company’s characteristics
  - were effectively applied during the six months ended 31 December 2018.
2. Assessment of the adequacy of said administrative and accounting procedures for the preparation of the consolidated financial statements as at 31 December 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 frameworks).
3. It is further hereby declared that:
  - 3.1 the consolidated interim review:
    - has 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 account ledgers;
    - is 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 interim review of operations contains reliable analysis of the most important events to take place in the first six months of the financial year and their impact on the interim financial statements, along with a description of the main risks and uncertainties for the remaining six months. The interim review of operations also contains reliable analysis of information on major transactions involving related parties.

Milan, 7 February 2019

*Chief Executive Officer*

Alberto Nagel

*Head of Company  
Financial Reporting*  
Emanuele Flappini

EXTERNAL  
AUDITORS' REPORT





## *Review report on consolidated condensed interim financial statements*

To the shareholders of  
Mediobanca SpA

### *Foreword*

We have reviewed the accompanying consolidated condensed interim financial statements of Mediobanca SpA and its subsidiaries (the Mediobanca Group) as of 31 December 2018, comprising the consolidated balance sheet, consolidated profit and loss account, consolidated comprehensive profit and loss account, statement of changes to consolidated net equity, the consolidated cash flow statement and related notes to the accounts. The directors of Mediobanca SpA are responsible for the preparation of the consolidated condensed interim financial statements in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these consolidated condensed interim financial statements based on our review.

### *Scope of review*

We conducted our work in accordance with the criteria for a review recommended by Consob in Resolution No. 10867 of 31 July 1997. A review of consolidated condensed interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than a full-scope audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the consolidated condensed interim financial statements.

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### *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 Wulhrer 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. 0458263901 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311



### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated condensed interim financial statements of the Mediobanca Group as of 31 December 2018 are not prepared, in all material respects, in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, 8 February 2019

PricewaterhouseCoopers SpA

Marco Palumbo  
(Partner)

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

CONSOLIDATED  
FINANCIAL STATEMENTS



## Consolidated Balance Sheet \*

	(€'000)	
Assets	31/12/18 IFRS9	30/6/18 IAS39
10. Cash and cash equivalents	98,478	1,238,001
20. Financial assets at fair value with impact taken to profit and loss	10,160,887	
<i>a) Financial assets held for trading</i>	9,315,399	
<i>b) Financial assets designated at fair value</i>	51,253	
<i>c) Other financial assets mandatorily at fair value</i>	794,235	
Financial assets held for trading (former heading 20 IAS39 pursuant)		8,204,911
Financial assets available-for-sale (former heading 40 IAS39 pursuant)		5,721,877
30. Financial assets at fair value with impact taken to comprehensive income	4,572,292	
40. Financial assets at amortized cost	56,101,203	
<i>a) Due from banks</i>	7,436,528	
<i>b) Due from customers</i>	48,664,675	
Financial assets held-to-maturity (former heading 50 IAS39 pursuant)		2,595,747
Due from banks (former heading 60 IAS39 pursuant)		7,552,958
Due from customers (former heading 70 IAS39 pursuant)		40,977,889
50. Hedging derivatives	212,327	225,814
60. Adjustment of hedging financial assets (+/-)	—	—
70. Equity investments	3,056,533	3,210,839
80. Reinsured portion of technical reserve	—	—
90. Property, plant and equipments	285,104	287,809
100. Intangible assets	739,672	739,864
<i>of which:</i>		
<i>goodwill</i>	621,223	649,781
110. Tax assets	741,803	816,484
<i>a) current</i>	86,763	181,771
<i>b) deferred</i>	655,040	634,713
120. Assets classified as held for sale	3,259	—
130. Other assets	559,556	728,329
<b>Total assets</b>	<b>76,531,114</b>	<b>72,300,522</b>

\* The Group has availed itself of the right not to restate the comparative data for the first year of IFRS 9 adoption on a like-for-like basis. Accordingly, the figures for FY 2017-18, stated in accordance with IAS 39, are not fully comparable.

	(€'000)	
<b>Liabilities and net equity</b>	<b>31/12/18 IFRS9</b>	<b>30/6/18 IAS39</b>
10. Financial liabilities at amortized cost	57,315,339	
<i>a) Due to banks</i>	13,192,362	
<i>b) Due to customers</i>	23,715,733	
<i>c) Debt securities in issue</i>	20,407,244	
Due to banks (former heading 10 IAS39 pursuant)		12,263,459
Due to customers (former heading 20 IAS39 pursuant)		21,320,043
Debt securities in issue (former heading 30 IAS39 pursuant)		20,608,518
20. Trading financial liabilities	8,087,714	
Trading liabilities (former heading 40 IAS39 pursuant)		6,462,404
30. Financial liabilities designated at fair value	53,525	—
40. Hedging derivatives	180,409	233,086
50. Adjustment of hedging financial liabilities (+/-)	—	—
60. Tax liabilities	499,581	531,587
<i>a) current</i>	173,475	191,999
<i>b) deferred</i>	326,106	339,588
70. Liabilities included in disposal groups classified as held for sale	—	—
80. Other liabilities	716,042	760,375
90. Staff severance indemnity provision	26,291	27,510
100. Provisions	186,261	185,482
<i>a) commitments and financial guarantees</i>	11,283	—
<i>b) post-employment and similar benefits</i>	—	—
<i>c) other provisions</i>	174,978	185,482
110. Insurance reserves	171,858	175,853
120. Revaluation reserves	418,209	764,255
130. Redeemable shares repayable on demand	—	—
140. Equity instruments repayable on demand	—	—
150. Reserves	5,865,576	5,490,450
160. Share premium reserve	2,194,716	2,191,743
170. Share capital	443,521	443,275
180. Treasury share (-)	(167,608)	(109,338)
190. Minority interests (+/-)	89,161	87,900
200. Profit/(loss) for the period (+/-)	450,519	863,920
<b>Total liabilities and net equity</b>	<b>76,531,114</b>	<b>72,300,522</b>

## Consolidated Profit and Loss Account \*

(€'000)

Items	31/12/18 IFRS9	30/6/18 IAS39	31/12/2017 IAS39
10. Interest and similar income of which: interest income calculated according to the effective interest method	969,201 839,524	1,896,801	941,807
20. Interest expense and similar charges	(243,925)	(530,760)	(257,260)
<b>30. Net interest income</b>	<b>725,276</b>	<b>1,366,041</b>	<b>684,547</b>
40. Fee and commission income	297,903	590,649	270,404
50. Fee and commission expense	(71,373)	(134,315)	(65,627)
<b>60. Net fee and commission income</b>	<b>226,530</b>	<b>456,334</b>	<b>204,777</b>
70. Dividends and similar income	29,128	84,323	26,161
80. Net trading income	14,241		
Net trading income (former heading 80 IAS39 pursuant)		38,662	50,903
90. Net hedging income (expense)	2,517	2,857	(1,059)
100. Gain (loss) on disposal/repurchase:	29,672		
<i>a) financial assets measured at amortized cost</i>	6,631		
<i>b) financial assets valued at fair value with impact taken to comprehensive income</i>	21,989		
<i>c) financial liabilities</i>	1,052		
Gain (loss) on disposal/repurchase: (former heading 100 IAS39 pursuant)		105,057	90,184
<i>a) loans and advances</i>		(9,363)	3,690
<i>b) AFS securities</i>		123,066	93,004
<i>c) financial assets held to maturity</i>		(919)	(2,116)
<i>d) financial liabilities</i>		(7,727)	(4,394)
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	4,853		
<i>a) financial assets and liabilities designated at fair value</i>	190		
<i>b) other financial assets mandatorily valued at fair value</i>	4,663		
<b>120. Total income</b>	<b>1,032,217</b>	<b>2,053,274</b>	<b>1,055,513</b>
130. Net write-offs (write-backs) for credit risk:	(112,875)		
<i>a) financial assets measured at amortized cost</i>	(112,225)		
<i>b) financial assets valued at fair value with impact taken to comprehensive income</i>	(650)		
Adjustments for impairment to: (former heading 130 IAS39 pursuant)		(212,134)	(100,870)
<i>a) loans and advances</i>		(209,231)	(102,197)
<i>b) AFS securities</i>		(4,658)	(3,294)
<i>c) financial assets held to maturity</i>		3,264	3,010
<i>d) other financial assets</i>		(1,509)	1,611
140. Gains (losses) from contractual modifications without derecognition	(657)		
<b>150. Net income from financial operations</b>	<b>918,685</b>	<b>1,841,140</b>	<b>954,643</b>
160. Premiums earned (net)	29,773	57,867	28,422
170. Other income (net) from insurance activities	(5,045)	(8,989)	(244)
<b>180. Net profit from financial and insurance activities</b>	<b>943,413</b>	<b>1,890,018</b>	<b>982,821</b>
190. Administrative expenses:	(573,512)	(1,172,200)	(536,191)
<i>a) personnel costs</i>	(282,206)	(557,824)	(272,376)
<i>b) other administrative expenses</i>	(291,306)	(614,376)	(263,815)
200. Net transfers to provisions:	(1,597)	(26,677)	716
<i>a) commitments and financial guarantees</i>	1,970		
<i>b) other sums set aside (net)</i>	(3,567)	(26,677)	716
210. Net adjustments to tangible assets	(6,839)	(15,952)	(8,902)
220. Net adjustments to intangible assets	(14,574)	(27,928)	(14,359)
230. Other operating income (expense)	70,076	167,819	61,349
<b>240. Operating costs</b>	<b>(526,446)</b>	<b>(1,074,938)</b>	<b>(497,387)</b>
250. Gain (loss) on equity investments	165,523	280,291	121,228
260. Net result from fair value valuation of tangible and intangible assets	—	—	—
270. Goodwill write-offs	—	—	—
280. Gain (loss) on disposal of investments	93	475	4
<b>290. Profit (loss) on ordinary activity before tax</b>	<b>582,583</b>	<b>1,095,846</b>	<b>606,666</b>
300. Income tax for the year on ordinary activities	(129,601)	(228,120)	(128,589)
<b>310. Profit (loss) on ordinary activities after tax</b>	<b>452,982</b>	<b>867,726</b>	<b>478,077</b>
320. Gain (loss) of ceded operating assets, net of tax	—	—	—
<b>330. Net profit (loss) for the period</b>	<b>452,982</b>	<b>867,726</b>	<b>478,077</b>
340. Net profit (loss) for the period attributable to minorities	(2,463)	(3,806)	(1,751)
<b>350. Net profit (loss) for the period attributable to Mediobanca</b>	<b>450,519</b>	<b>863,920</b>	<b>476,326</b>

\* The Group has availed itself of the right not to restate the comparative data for the first year of IFRS 9 adoption on a like-for-like basis. Accordingly, the figures for FY 2017-18, stated in accordance with IAS 39, are not fully comparable.



## Consolidated Comprehensive Profit and Loss Account \*

(€'000)

	31/12/2018 <i>IFRS9</i>	30/06/2018 <i>IAS39</i>
10. Profit (Loss) for the period	452,982	478,077
<b>Other income items net of tax without passing through profit and loss</b>	<b>1,802</b>	<b>11,000</b>
Equity securities designated at fair value with impact taken to		
20. comprehensive income	2,008	—
Financial liabilities at fair value with impact taken to profit and loss		
30. (variation of own credit risk)	—	—
Hedging of equity securities designated at fair value with impact taken to		
40. comprehensive income	—	—
50. Property, plant and equipments	—	—
60. Intangible assets	—	—
70. Defined benefit schemes	54	(1,061)
80. Non-current assets held for sale	—	—
90. Share of valuation reserves attributable to equity-accounted companies	(260)	12,061
<b>Other income items net of tax passing through profit and loss</b>	<b>(328,541)</b>	<b>(56,186)</b>
100. Foreign investments hedges	—	—
110. Exchange rate differences	2,097	(1,037)
120. Cash flow hedges	(2,565)	34,282
130. Hedging instruments (non-designated elements)	—	—
Financial assets (other than equity securities) valued at fair value with		
140. impact taken to comprehensive income	(16,949)	(115,763) <sup>1</sup>
150. Non-current assets held for sale	—	—
160. Share of valuation reserves attributable to equity-accounted companies	(311,124)	26,332
<b>170. Total other income items, net of tax</b>	<b>(326,739)</b>	<b>(45,186)</b>
<b>180. Comprehensive income (Heading 10 +170)</b>	<b>126,243</b>	<b>432,891</b>
<b>190. Consolidated comprehensive income attributable to minorities</b>	<b>2,797</b>	<b>2,134</b>
<b>200. Consolidated comprehensive income attributable to Mediobanca</b>	<b>123,446</b>	<b>430,757</b>

\* The Group has availed itself of the right not to restate the comparative data for the first year of IFRS 9 adoption on a like-for-like basis. Accordingly, the figures for FY 2017-18, stated in accordance with IAS 39, are not fully comparable.

<sup>1</sup> This heading shows the change in item 100 "Financial assets available-for-sale" pursuant to Bank of Italy Circular 262/2005 fourth amendment.

## Statement of Changes to Consolidated Net Equity

(€'000)

	Total Group net equity at 30/06/2018	Modification of start-of-period amounts <sup>1</sup>	Amounts at 01/07/2018 for previous period		Reserves and other fund reserves applications		Changes during the reference period				Total net equity at 31/12/18	Net equity attributable to the minorities at 31/12/18		
			Allocation of profit	Dividends and other fund reserves applications	Changes to reserves	New Treasury shares issued	Extra-ordinary dividend payouts	Changes to equity instruments	Treasury shares	Stock options			Changes to investments	Overall consolidated profit for the 6 months ended 31/12/18
Share capital:	459,918	—	459,918	—	(14)	246	—	—	—	—	460,150	448,521	16,629	
a) ordinary shares	459,918	—	459,918	—	(14)	246	—	—	—	—	460,150	448,521	16,629	
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—	—	
Share premium reserve	2,193,591	—	2,193,591	—	—	2,973	—	—	—	—	2,196,564	2,194,716	1,848	
Reserves:	5,559,032	(67,091)	5,491,941	867,726	(411,229)	3,039	(19,594)	—	4,559	—	5,936,442	5,865,576	70,866	
a) retained earnings	5,412,494	(67,091)	5,345,403	867,726	(411,229)	1,799	—	—	—	—	5,803,699	5,733,460	70,239	
b) others	146,538	—	146,538	—	—	1,240	(19,594)	—	4,559	—	132,743	132,116	627	
Valuation reserves	761,276	(17,733)	743,543	—	(1,240)	—	—	—	—	—	(326,739)	418,209	(2,645)	
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	
Treasury shares	(109,338)	—	(109,338)	—	—	—	(58,270)	—	—	—	(167,608)	(167,608)	—	
Profit (loss) for the period	867,726	—	867,726	(867,726)	—	—	—	—	—	—	452,982	450,519	2,463	
Total net equity	9,732,205	(84,824)	9,647,381	—	(411,229)	1,785	3,219	(77,864)	—	—	126,243	9,294,094	X	
Net equity attributable to the group	9,644,305	(79,773)	9,564,532	—	(411,229)	(1,730)	3,219	(77,864)	—	—	123,446	X	9,204,933	X
Net equity attributable to minorities	87,900	(5,051)	82,849	—	—	3,515	—	—	—	—	2,797	X	89,161	

<sup>1</sup> The Group has availed itself of the right not to restate the comparative data for the first year of IFRS 9 adoption on a like-for-like basis. Accordingly, the figures for FY 2017-18, stated in accordance with IAS 39, are not fully comparable.

<sup>2</sup> Represents the effects of the stock options and performance shares related to the ESOP schemes.

## Statement of Changes to Consolidated Net Equity

(€'000)

	Allocation of profit net equity at 30/06/2017		Changes during the reference period					Total net equity at 31/12/17	Net equity attributable to the minorities at 31/12/17					
	Reserves	Dividends and other fund applications	Changes to reserves	New shares issued	Treasury shares acquired	Extra-ordinary dividend payouts	Changes to equity instruments			Treasury shares derivatives	Stock options	Changes to investments <sup>1</sup>	Overall consolidated profit for the 6 mths ended 31/12/17	
Share capital:	457,155	—	—	1,426	—	—	—	—	—	—	—	458,581	442,030	16,551
a) ordinary shares	457,155	—	—	1,426	—	—	—	—	—	—	—	458,581	442,030	16,551
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	2,189,428	—	—	8,044	—	—	—	—	—	—	—	2,197,472	2,195,624	1,848
Reserves:	5,132,771	742,249	(9,168)	(758)	—	—	—	—	—	—	—	5,549,319	5,481,364	67,955
a) retained earnings	4,998,175	742,249	(9,168)	(758)	—	—	—	—	—	—	—	5,410,272	5,342,317	67,955
b) others	134,596	—	—	—	—	—	—	—	—	—	—	139,047	139,047	—
Valuation reserves	867,768	—	—	—	—	—	—	—	—	—	(45,187)	822,581	825,817	(3,236)
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(197,709)	—	—	—	—	—	—	—	—	—	—	(197,709)	(197,709)	—
Profit (loss) for the period	742,249	(742,249)	—	—	—	—	—	—	—	—	—	478,077	478,077	476,326
Total net equity	9,191,662	(320,226)	(9,168)	8,712	—	—	—	—	—	—	—	9,308,321	9,308,321	9,308,321
Net equity attributable to the group	9,108,929	(320,226)	(9,168)	8,710	—	—	—	—	—	—	—	9,223,452	9,223,452	9,223,452
Net equity attributable to minorities	82,733	—	—	2	—	—	—	—	—	—	—	2,134	2,134	2,134

<sup>1</sup> Represents the effects of the stock options and performance shares related to the ESOP schemes.

# Consolidated Cash Flow Statement Direct Method \*

(€'000)

	Amount	
	31/12/18 IFRS9	31/12/17 IAS39
<b>A. Cash flows from operating activity</b>		
<b>1. Operating activity</b>	<b>194,648</b>	<b>76,171</b>
- interest received (+)	1,216,128	2,397,485
- interest paid (-)	(628,349)	(1,921,390)
- dividends and similar income (+)	25,562	18,011
- net fees and commission income (+/-)	88,294	67,790
- cash payments to employees (-)	(248,003)	(202,341)
- net premium income (+)	29,113	37,485
- other premium from insurance activity (+/-)	(56,577)	(68,128)
- other expenses paid (-)	(181,128)	(514,673)
- other income received (+)	32,877	247,959
- income taxes paid (-)	(83,269)	13,973
- Expenses/income from group of assets being sold (+/-)	—	—
<b>2. Cash generated/absorbed by financial assets</b>	<b>(1,880,105)</b>	<b>189,794</b>
- financial assets held for trading	91,624	
- financial assets valued at fair value	218,984	
- financial assets mandatorily valued at fair value	(51,686)	
- financial assets valued at fair value with impact taken to profit and loss	—	
- financial assets valued at amortized cost	(2,073,990)	
- other assets	(65,037)	932,135
- financial assets held for trading (IAS39 pursuant)		(1,772,971)
- due from banks: on demand (IAS39 pursuant)		978,199
- financial assets available for sale (IAS39 pursuant)		666,735
- due from customers (IAS39 pursuant)		(2,052,462)
- due from banks: other (IAS39 pursuant)		1,438,158
<b>3. Cash generated/absorbed by financial liabilities</b>	<b>1,033,302</b>	<b>(912,755)</b>
- financial liabilities valued at amortized cost	1,068,972	
- financial liabilities held for trading	(55,359)	
- financial liabilities designated at fair value	—	
- other liabilities	19,689	(112,956)
- trading liabilities (IAS39 pursuant)		(194,709)
- due to banks: other (IAS39 pursuant)		448,918
- due to customers (IAS39 pursuant)		1,272,221
- debt securities (IAS39 pursuant)		(1,966,403)
- due to banks: on demand (IAS39 pursuant)		(359,826)
<b>Net cash flow (outflow) from operating activities</b>	<b>(652,155)</b>	<b>(646,790)</b>
<b>B. Cash flows from investment activity</b>		
<b>1. Cash generated from:</b>	<b>8,746</b>	<b>45,019</b>
- disposal of shareholdings	3	—
- dividends received in respect of equity investments	—	—
- disposals/redemptions of financial assets held to maturity (IAS39 pursuant)	—	43,112
- disposals of tangible assets	243	1,799
- disposals of intangible assets	—	108
- disposals of subsidiaries or business units	8,500	—
<b>2. Cash absorbed by:</b>	<b>(10,239)</b>	<b>(149,627)</b>
- purchases of shareholdings	—	—
- acquisitions of held-to-maturity investments (IAS39 pursuant)	—	(132,583)
- purchases of tangible assets	(3,886)	(4,046)
- purchases of intangible assets	(6,353)	(12,998)
- purchases of subsidiaries or business units	—	—
<b>Net cash flow (outflow) from investment activity</b>	<b>(1,493)</b>	<b>(104,608)</b>
<b>C. Cash flows from funding activity</b>	<b>(485,875)</b>	<b>(311,515)</b>
- issuance/acquisition of treasury shares	(74,645)	8,711
- issuance/acquisition of capital instruments	—	—
- distribution of dividends and other purposes	(411,230)	(320,226)
- purchases/acquisition of minorities	—	—
<b>Net cash flow (outflow) from funding activities</b>	<b>(485,875)</b>	<b>(311,515)</b>
<b>Net cash flow (outflow) during the period</b>	<b>(1,139,523)</b>	<b>(1,062,913)</b>

\* The Group has availed itself of the right not to restate the comparative data for the first year of IFRS 9 adoption on a like-for-like basis. Accordingly, the figures for FY 2017-18, stated in accordance with IAS 39, are not fully comparable.

## Reconciliation of Movements in Cash Flow during the Period

(€'000)

Accounting items	Amount	
	31/12/18	31/12/17
Cash and cash equivalents: balance at start of period	1,238,001	1,330,224
Total cash flow (outflow) during the period	(1,139,523)	(1,062,913)
Cash and cash equivalents: exchange rate effect	63,237	(1)
Cash and cash equivalents: balance at end of period	161,715	267,310

\* The Group has availed itself of the right not to restate the comparative data for the first year of IFRS 9 adoption on a like-for-like basis. Accordingly, the figures for FY 2017-18, stated in accordance with IAS 39, are not fully comparable.

# NOTES TO THE ACCOUNTS



## NOTES TO THE ACCOUNTS

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## **Part A - Accounting policies**

### **A.1 - General policies**

#### **SECTION 1**

#### **Statement of conformity with IAS/IFRS**

The Mediobanca Group's consolidated financial statements for the period ended 31 December 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 IAS 34 on interim financial reporting, and the "Instructions on preparing statutory and consolidated financial statements for banks and financial companies which control banking groups" issued by the Bank of Italy in its circular no. 262 on 22 December 2005 (fifth update issued on 22 December 2017).

#### **SECTION 2**

#### **General principles**

These consolidated financial statements comprise:

- Balance sheet;
- Profit and loss account;
- Comprehensive income statement;
- 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.

The table below lists the regulations approved by the European Commission during the six months under review which will be applied as from the next financial year or thereafter, which supplement the regulations on accounting standards in force and will be incorporated into the Group’s accounting policies accordingly:

Approval regulation	Group application date	Topic
2018/1595 of 23 October 2018	1 July 2019	Adoption of IFRIC 23 - Uncertainty over income tax treatments

As from the start of the present financial year, the Mediobanca Group has applied IFRS 9 and IFRS 15, adopted by the European Commission in Commission Regulation 2016/2067 of 22 November 2016 and Commission Regulation 2016/1905 of 22 September 2016.

## **Transition to IFRS 9<sup>1</sup>**

### **1. Regulatory framework**

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

The Mediobanca Group adopted IFRS 9 as from 1 July 2018.

IFRS 9, with regard to financial instruments, is structured into three different areas: “Classification and measurement”, “Impairment” and “Hedge accounting”.

<sup>1</sup> A “Report on transition to IFRS 9” has been published on the Group’s website at [www.mediobanca.com](http://www.mediobanca.com).

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:

- How financial assets (apart from shares) are classified and measured depends on two tests, one of the business model and the other on the contractual cash flow characteristics, known as the “Solely Payments of Principal and Interest Test” (or SPPI). Only those instruments which pass both tests can be recognized at amortized cost, otherwise they will have to be measured at fair value, with the effects taken through the profit and loss account (hence this will become the residual portfolio). There is also an intermediate portfolio (“Held to collect and sell”), for which, like with the previous Available for sale portfolio, the instruments are recognized at fair value through net equity (i.e. through Other comprehensive income). Shares still have to be recognized at fair value, apart from those held for trading, the fair value effects of which can be recognized in a net equity reserve rather than taken through the profit and loss account; however, the possibility of recycling has been removed, i.e. the effects of sales will no longer be taken through the profit and loss account. 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 moves from an incurred to an expected impairment model; provisioning will have to be carried out for the whole portfolio (i.e. for assets with no impairment as well) and based on estimates which reflect macroeconomic factors (“expected losses”). In particular, at stage 1 of the recognition process, the instrument will have to reflect the expected loss over a 12-month time horizon; if there is a significant increase in the credit risk, the asset is classified as under-performing (stage 2), meaning its valuation will have to factor in the expected loss over its whole life-time; and if further impairment is recorded, the asset will be classified as non-performing (stage 3), where the final recoverable value will be estimated. The expected loss will be based on point-in-time data reflecting the internal credit models.

- 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.

## **2. Group project**

### **2.1 Classification and measurement**

Among the activities required for classification and measurement of financial instruments, IFRS 9 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 has been analysed by assessing the Group's entire financial assets portfolio in view of the strategy instituted by senior management, risk management on the portfolio, remuneration mechanisms, reporting methodologies and movements (past sales and future expectations). These considerations have been incorporated in the internal management policies, which as well as reiterating the link between the business model and accounting treatment, also introduce frequency and significance thresholds for portfolios recognized at cost.

The analysis performed showed that:

- The loan books – which under IAS 39 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 IAS 39, 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” 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 the business model associated with such instruments;
- 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 IFRS 9, 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, in which loans are analysed using a tool developed internally based on decision-making trees, for the individual

financial instrument or product according to the degree of customization involved. 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.

Shares in investment funds previously treated as AFS which fail the SPPI test, in accordance with the recent guidance issued by the IFRS Interpretation Committee, are treated as equities obliged to be recognized at fair value through profit and loss.

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

## **2.2 Impairment**

Under IFRS 9, 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, by adopting an “expected loss” approach, with the loss estimated at twelve months or the end of the instrument’s remaining life. The losses must therefore 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, IFRS 9 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 IFRS 9 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, which are already used by Mediobanca, 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:

- Valuation of the significant increase in credit risk. This takes into account qualitative and quantitative items, and serves to identify significant deterioration in the counterparty’s credit standing for each facility. The recognition of forbearance measures and the thirty days past due criterion are considered as backstop indicators. In accordance with the supervisory authority’s expectations the simplified, or “low credit risk exemption” approach, has only been used to a very limited degree. The criteria defined for the purposes of transferring exposures from stage 2 to stage 1 are symmetrical to those of the significant increase in credit risk (i.e. when significant deterioration indicators no longer apply, the exposure returns to stage 1);
- Inclusion of forward-looking information within the expected loss calculation model: forward-looking information is considered with reference to three possible scenarios (baseline, mild-positive and mild-negative) which impact on the risk parameters (PD and LGD). The estimates are limited to three years, in order to ensure a time horizon considered to be reasonable. 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. In particular, 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: with reference to models based on detecting expected losses, a process for validation and retrospective testing has been finalized. The framework adopted provides for the unit responsible for model development to be independent of the unit responsible for validation, in view of the clear definition of roles and responsibilities. Provision is also made for

regular analysis to be carried out to ensure that the assumptions underlying the model continue to be valid and that new information available is taken into account;

- Twelve-month and life-time expected loss calculations: the IFRS 9 estimate of the PD, LGD and EAD parameters is based on existing prudential models, adapted to incorporate forward-looking information and the multi-period time horizon.

## **2.3 Hedge Accounting**

As for the IFRS 9 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 IAS 39, the Group has nonetheless chosen to opt into the new general hedging criteria, with no significant impact as a result.

## **3. Effects of first-time adoption (FTA)**

The changes introduced by IFRS 9 in the areas of “Classification and measurement” and “Impairment” produce their effects at the first-time adoption stage on the amount and composition of Net equity.

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

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 IAS 39 to IFRS 9 with reference to “Classification and Measurement” has entailed the following reclassifications (see tables 1 and 2 below for details):

- €219.3m of loans and receivables have been reclassified as FVPL in view of the fact that the instruments’ characteristics (subordination, equity



convertible options, indirect exposure to equity) meant they did not pass the SPPI test. The impact in terms of measurement is €3.3m (see table 3 below);

- €649m of available-for-sale debt securities has been reclassified as HTC to provide a better representation of the business model's strategies, which led to the net equity reserve accumulated written back and the historical acquisition cost being recovered. The impact in terms of measurement is €3.3m (see table 3 below);
- €54m of debt securities held as part of the banking book have been reclassified as FVPL, as a result of failing the SPPI test;
- €511.4m 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;
- €260.8m in AFS equities have been reclassified as financial assets recognized at FVOCI (without passing through profit and loss);
- €193.9m of held-for-trading financial assets have been reclassified as FVOCI following changes to the business model.

Moreover, with reference to the fifth update of Bank of Italy circular 262/05, the change in the method by which financial assets are classified compared to the fourth update should be noted:

4° update, Bank of Italy Circular 262	5° update, Bank of Italy Circular 262
20. Financial assets held for trading	20. Financial assets at fair value with impact taken to profit or loss: <ul style="list-style-type: none"> <li>a) Financial assets held for trading</li> <li>b) Financial assets designated at fair value</li> <li>c) <i>Other financial assets mandatorily at fair value</i></li> </ul>
30. Financial assets at fair value through profit or loss	30. Financial assets at fair value with impact taken to comprehensive income
40. Financial assets available-for-sale	40. Financial assets at amortized cost: <ul style="list-style-type: none"> <li>a) <i>Due from banks</i></li> <li>b) <i>Due from customers</i></li> </ul>
50. Financial assets held-to-maturity	
60. Due from banks	
70. Due from customers	

\* \* \*

As far as regards financial liabilities, no significant impact is estimated, apart from one restatement of loan loss provisions equal to €13.4m recorded in respect of commitments to disburse funds and financial guarantees given: in view of the fifth update of Bank of Italy circular 262/05, these amounts have to be reclassified under “Provisions” rather than as “Other liabilities”.

The Group has also chosen to apply the fair value option for a limited number of financial liabilities with a book value of €51.4m in order to eliminate accounting asymmetries with some financial assets which fail the SPPI test.

With regard to the mandatory schemes required by the Bank of Italy, the change in the method by which financial liabilities are classified compared to the fourth update should be noted:

4° update, Bank of Italy Circular 262	5° update, Bank of Italy Circular 262
10. Due to banks	10. Financial liabilities at amortized cost:
20. Due to customers	<i>a) Due to banks</i>
30. Debt securities in issue	<i>b) Due to customers</i>
	<i>c) Debt securities in issue</i>
40. Trading liabilities	20. Trading liabilities
50. Financial liabilities designated at fair value	30. Financial liabilities designated at fair value

Adoption of the new classification rules for financial instruments generates an almost null effect on net equity, representing the balance between changes in business model (which added €3.4m) and instruments failing the SPPI test (which subtracted €3.4m).<sup>2</sup>

As mentioned, the most significant impact of the transition to IFRS 9 derives from changes in relation to “Impairment”. Compared to the IAS 39 provisioning, the overall increase in the expected losses totals €118.7m, 67% of which is attributable to the performing exposures (stage 1 and stage 2) and the other 33% to the non-performing exposures (stage 3).

The increase in provisioning for performing exposures (€79.3m) is 96% attributable to the positions classified as stage 2, which account for approx. 4% of the performing exposures.

<sup>2</sup> The new category entails a change in the valuation models which impacts on both recognition value and net equity (cf. below).

The increase in adjustments for non-performing exposures (€39.4m) chiefly involves the mortgages and leasing portfolios.

The reclassifications and increased provisioning referred to above drove a €37.8m increase in deferred tax assets.

The combined effect of the changes on the Group's net equity totals €118,7m (€80.9m net of the tax effects), and implies a reduction of some 20 bps in the Group's CET1 ratio.

In order to mitigate the impact of the new reporting standard on prudential ratios, Regulation (EU) 2017/2395 “Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds”, amending Regulation (EU) 575/2013 (the “CRR”) to include a new Article 473-bis, “Introduction of IFRS9”, offers the possibility for banks to spread the impact deriving from the introduction of IFRS 9 on their own funds over a five-year transitional period by including a decreasing amount of such impact in their Common Equity Tier 1. The Mediobanca Group will apply the static approach, in order to neutralize the effect of the higher provisioning for performing assets, starting from the IFRS 9 FTA financial statements and for the next five years.<sup>3</sup>

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 IFRS 9 and IFRS 1 “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.

<sup>3</sup> Year 1: 95%; year 2: 85%; year 3: 70%; year 4: 50%; year 5: 25%.

### **3.1 Reconciliation between IAS 39-compliant and IFRS 9-compliant balance-sheet data**

The reconciliations between the published financial statements as at 30 June 2018 and the new schemes introduced by the fifth update of Bank of Italy circular 262 as at 1 July 2018 are shown below. IAS 39-compliant values as at 30 June 2018 are assigned to new headings, without taking into account the classification and measurement provisions introduced by IFRS 9 (i.e. the value of total assets and total liabilities remains unchanged).

Table 1: Reconciliation between IAS 39 and IFRS 9 - assets

	IAS 39	10	20	30	40	50	60	70	80	90	100	110	120	130	140	150	160	
IFRS 9		Cash and cash equivalents	Financial assets held for trading	Financial assets at fair value through profit or loss	Financial assets available-for-sale	Financial assets held-to-maturity	Due from banks	Due from customers	Hedging derivatives	Adjustment of holding financial assets (+/-)	Equity investments	Reinsured portion of technical reserves	Property, plant and equipment	Intangible assets	Tax assets	Assets classified as held for sale	Other assets	
10 Cash and cash equivalents		1,233,001	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1,233,001
20 Financial assets at fair value with impact taken to profit and loss		—	8,008,776	—	565,481	2	—	219,394	—	—	—	—	—	—	—	—	3,842	8,797,445
a) Financial assets held for trading		—	8,008,494	—	—	—	—	—	—	—	—	—	—	—	—	—	—	8,008,494
b) Financial assets designated at fair value		—	—	—	58,509	—	—	—	—	—	—	—	—	—	—	—	—	58,509
c) Other financial assets mandatorily at fair value		—	282	—	511,922	2	—	219,394	—	—	—	—	—	—	—	—	—	735,442
30 Financial assets at fair value with impact taken to comprehensive income		—	196,134	—	4,507,087	—	—	—	—	—	—	—	—	—	—	—	—	4,703,221
40 Financial assets at amortized cost		—	1	—	649,000	2,595,745	7,552,958	40,758,495	—	—	—	—	—	—	—	—	4,000	51,560,279
50 Hedging derivatives		—	—	—	—	—	—	—	225,814	—	—	—	—	—	—	—	—	225,814
60 Adjustment of hedging financial assets (+/-)		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
70 Equity investments		—	—	—	—	—	—	—	—	—	3,210,839	—	—	—	—	—	—	3,210,839
80 Reinsured portion of technical reserve		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
90 Property, plant and equipment		—	—	—	—	—	—	—	—	—	—	—	287,809	—	—	—	—	287,809
100 Intangible assets		—	—	—	—	—	—	—	—	—	—	—	—	739,864	—	—	—	739,864
110 Tax assets		—	—	—	—	—	—	—	—	—	—	—	—	—	816,484	—	—	816,484
120 Assets classified as held for sale		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
130 Other assets		—	—	—	—	359	—	—	—	—	—	—	—	—	—	—	—	720,766
Total assets		1,233,001	8,204,911	—	5,721,877	2,595,747	7,552,958	40,977,889	225,814	—	3,210,839	—	287,809	739,864	816,484	—	720,407	728,329
																		72,300,522

Table 2: Reconciliation between IAS 39 and IFRS 9 – liabilities

	IAS 39	10	20	30	40	50	60	70	80	90	100	110	120	130	140	150	160	170	180	190	200	210	220	Total			
IFRS 9		Due to banks	Due to customers	Due to issue	Trading liabilities	Financial liabilities designated at fair value	Financial derivatives	Adjustment of hedging financial liabilities (+)	Tax liabilities in disposal	Liabilities in disposal groups classified as held for sale	Liabilities in disposal groups classified as held for sale	Staff severance indemnity provision	Provisions	Insurance reserves	Revaluation reserves	Revaluable shares repayable on demand	Equity instruments repayable on demand	Reserves	Share premium reserve	Share capital	Treasury share (-)	Minority interests (+)	Minority interests (+)	Profit/(loss) for the period	Profit/(loss) for the period		
10 Financial liabilities at amortized cost		12,263,459	21,320,043	20,355,701	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	541,003,93		
20 Trading financial liabilities		-	-	-	6,462,404	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,462,404	
30 Financial liabilities designated at fair value		-	-	51,427	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	51,427	
40 Hedging derivatives		-	-	-	-	233,086	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	233,086	
50 Adjustment of hedging financial liabilities (+)		-	-	-	-	-	-	-	531,387	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
60 Tax liabilities		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	531,387	
70 Liabilities included in disposal groups classified as held for sale		-	-	-	-	-	-	-	-	746,945	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	746,945	
90 Staff severance indemnity provision		-	-	-	-	-	-	-	-	-	27,310	-	-	-	-	-	-	-	-	-	-	-	-	-	-	27,310	
100 Provisions		-	-	-	-	-	-	-	13,430	-	165,482	-	-	-	-	-	-	-	-	-	-	-	-	-	-	190,912	
110 Insurance reserves		-	-	-	-	-	-	-	-	-	-	-	175,853	-	-	-	-	-	-	-	-	-	-	-	-	175,853	
120 Revaluation reserves		-	-	-	-	-	-	-	-	-	-	-	-	764,255	-	-	-	-	-	-	-	-	-	-	-	764,255	
130 Redeemable shares repayable on demand		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
140 Equity instruments repayable on demand		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
150 Reserves		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,190,450	-	-	-	-	-	-	-	-	5,190,450	
160 Share premium reserve		-	-	-	-	-	-	-	-	-	-	-	-	-	2,191,743	-	-	-	-	-	-	-	-	-	-	2,191,743	
170 Share capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	443,275	-	-	-	-	-	-	443,275	
180 Treasury share (-)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(109,338)	-	-	-	-	(109,338)		
190 Minority interests (+)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
200 Profit/(loss) for the period		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	87,900	
Total liabilities and net equity		12,263,459	21,320,043	20,008,518	6,462,404	-	233,086	-	531,387	-	746,945	27,310	165,482	175,853	764,255	-	-	5,190,450	2,191,743	443,275	(109,338)	-	-	-	-	87,900	863,920
																										863,920	
																										863,920	
																										863,920	

### 3.2 Reconciliation of assets and liabilities

The table below shows, for each asset and liability heading pursuant to the fifth update of Bank of Italy circular 262/05, the impact arising from application of the new IFRS 9 accounting standard, for the “Classification and measurement” and “Impairment” work streams.

The column headed “Classification and measurement” shows the value changes arising from the different valuation criterion. The column entitled “Impairment” shows value changes arising from the adoption of the new impairment model introduced by IFRS 9.

*Table 3: Reconciliation of balance-sheet items - assets*

Heading	IAS39 30/6/18	Transition effect		IFRS 9 1/7/18
		Classification and measurement	Impairment	
10 Cash and cash equivalent	1,238,001	—	—	1,238,001
20 Financial assets at at fair value with impact taken to profit and loss	8,797,445	(411)	—	8,797,034
<i>a) financial assets held for trading</i>	8,008,494	—	—	8,008,494
<i>b) Financial assets designated at fair value</i>	53,509	—	—	53,509
<i>c) Other financial assets mandatorily at fair value</i>	735,442	(411)	—	735,031
30 Financial assets at fair value with impact taken to comprehensive income	4,703,221	—	—	4,703,221
40 Financial assets at amortized cost	51,560,279	5,751	(118,767)	51,447,263
50 Hedging derivatives	225,814	—	—	225,814
60 Adjustment of hedging financial assets (+/-)	—	—	—	—
70 Equity investments	3,210,839	—	—	3,210,839
80 Reinsured portion of technical reserves	—	—	—	—
90 Property, plant and equipment	287,809	—	—	287,809
100 Intangible assets	739,864	—	—	739,864
110 Tax assets	816,484	3,847	41,345	861,676
120 Assets classified as held for sale	—	—	—	—
130 Other assets	720,766	—	—	720,766
<b>Total assets</b>	<b>72,300,522</b>	<b>9,187</b>	<b>(77,422)</b>	<b>72,232,287</b>

*Table 4: Reconciliation of balance-sheet items - liabilities*

Heading	IAS39 30.06.2018	Transition effect		IFRS 9 1/7/18
		Classification and measurement	Impairment	
10. Financial liabilities at amortized cost	54,140,593	—	—	54,140,593
20. Trading liabilities	6,462,404	—	—	6,462,404
30. Financial liabilities designated at fair value	51,427	5,938	—	57,365
40. Hedging derivatives	233,086	—	—	233,086
50. Adjustment of hedging financial liabilities (+/-)	—	—	—	—
60. Tax liabilities	531,587	5,413	1,927	538,927
70. Liabilities included in disposal groups classified as held for sale	—	—	—	—
80. Other liabilities	746,945	457	(1,829)	745,573
90. Staff severance indemnity provision	27,510	—	—	27,510
100. Provisions	198,912	(1,015)	1,728	199,625
110. Insurance reserves	175,853	—	—	175,853
120. Revaluation reserves	764,255	(19,930)	2,197	746,522
130. Redeemable shares repayable on demand	—	—	—	—
140. Equity instruments repayable on demand	—	—	—	—
150. Reserves	5,490,450	18,324	(76,394)	5,432,380
160. Share premium reserve	2,191,743	—	—	2,191,743
170. Share capital	443,275	—	—	443,275
180. Treasury share (-)	(109,338)	—	—	(109,338)
190. Minority interests (+/-)	87,900	—	(5,051)	82,849
200. Profit/(loss) for the period (+/-)	863,920	—	—	863,920
<b>Total liabilities and net equity</b>	<b>72,300,522</b>	<b>9,187</b>	<b>(77,422)</b>	<b>72,232,287</b>



### 3.3 Reconciliation of post-FTA net equity

The following table shows the reconciliation for net equity between IAS 39-compliant values as at 30 June 2018 and the corresponding headings introduced by the new classification, measurement and impairment requirements introduced by IFRS 9.

	Values
<b>Net equity as at 30 June 2018</b>	<b>9,732,205</b>
– Group	9,644,305
– of which: minorities	87,900
<b>Total effects of IFRS9 transition - 1 July 2018</b>	
<i>of which: Change in Reserves</i>	<b>(80,859)</b>
<b>of which: Classification</b>	<b>(19)</b>
<b>of which: Impairment</b>	<b>(118,666)</b>
- Stage 1 and 2	(79,257)
- Stage 3	(39,409)
<b>of which: Tax effect</b>	<b>37,826</b>
<b>Net equity (IFRS9) as at 1 July 2018</b>	<b>9,689,172</b>
– Group	9,606,323
– of which: minorities	82,849

### Transition to IFRS 15

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 for the Mediobanca Group starting from 1 July 2018, and requires revenues to be recognized on the basis of 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.

Implementation of the standard was co-ordinated centrally by Mediobanca S.p.A. through an ad hoc working group to extend the analysis to the whole Group involving the subsidiaries as and where necessary.

The analysis led to all types of contracts with customers being identified, and the means by which to record the revenues generated by them to establish their compliance with the new standard's provisions. No significant impact emerged from application of the new standard, except for contingent liabilities arising to cover the early collection of insurance premiums in respect of mortgage loans which would then have to be written back in the event of early repayment of the mortgages themselves (for a total of €5.9m, €4m net of the tax effect).

## **IFRS 16: Leasing**

As from the new financial year commencing on 1 July 2019, the Mediobanca must adopt IFRS 16 on leasing (approved by the European Commission under Commission Regulation 2017/1986 of 31 October 2017), replacing IAS 17 currently in force (as well as the IFRIC 4, SIC 15 and SIC 27 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 it as right-of-use asset in the balance sheet to be matched by a liability which over time will generate interest expense to be taken through the profit and loss account. The standard will also apply to property renting contracts.

For the lessor there will be no changes.

Given the changes to be introduced, work began during the six months under review on assessing the impact of the new standard to be adopted, in terms of adapting the accounting models, revising processes and the internal controls framework, and preparing the necessary IT implementations.

For the Mediobanca Group, the scope of application chiefly regards vehicle leasing and core property rental contracts (mainly the Compass and CheBanca! branch offices).

### SECTION 3

#### **Area and methods of consolidation**

The consolidated financial statements comprise the financial/earnings results of the Group companies and the companies directly or indirectly controlled by them, including those operating in sectors dissimilar to the one in which the parent company operates.

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

The following events should be noted:

- The liquidation procedure for MB Advisory Turkey commenced in July 2018;
- Conversely, the liquidation procedure for Quarzo MB (owned by Mediobanca S.p.A.) was completed and the company’s name removed from the company register, as was the liquidation of Société Monégasque des Études Financières (“SMEF”), owned CMB S.A.

There were no new additions to the scope of consolidation during the period under review.

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

Name	Registered office	Type of relationship <sup>1</sup>	Shareholding		% voting rights <sup>2</sup>
			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. CMB ASSET MANAGEMENT S.A.M.	Montecarlo	1	A.1.6	99,3	99,30
9. CMB WEALTH MANAGEMENT LIMITED	London	1	A.1.1	100.0	100.0
10. MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.	Luxembourg	1	A.1.1	99.0	99.0
		1	A.1.11	1.0	1.0
11. COMPASS BANCA S.P.A.	Milan	1	A.1.1	100.0	100.0
12. CHEBANCA! S.P.A.	Milan	1	A.1.1	100.0	100.0
13. MB CREDIT SOLUTIONS S.P.A.	Milan	1	A.1.11	100.0	100.0
14. SELMABIPIEMME LEASING S.P.A.	Milan	1	A.1.1	60.0	60.0
15. MB FUNDING LUXEMBOURG S.A.	Luxembourg	1	A.1.1	100.0	100.0
16. RICERCHE E STUDI S.P.A.	Milan	1	A.1.1	100.0	100.0
17. MEDIOBANCA SECURITIES USA LLC	New York	1	A.1.1	100.0	100.0
18. MBFACTA S.P.A.	Milan	1	A.1.1	100.0	100.0
19. QUARZO S.R.L.	Milan	1	A.1.11	90.0	90.0
20. FUTURO S.P.A.	Milan	1	A.1.11	100.0	100.0
21. QUARZO CQS S.R.L.	Milan	1	A.1.20	90.0	90.0
22. MEDIOBANCA COVERED BOND S.R.L.	Milan	1	A.1.12	90.0	90.0
23. COMPASS RE (LUXEMBOURG) S.A.	Luxembourg	1	A.1.11	100.0	100.0
24. MEDIOBANCA INTERNATIONAL IMMOBILIERE S. A R.L.	Luxembourg	1	A.1.10	100.0	100.0
25. MB ADVISORY KURUMSAL DANISMANLIK HIZMETLERI ANONIM SIRKETI - under liquidation	Istanbul	1	A.1.1	100.0	100.0
26. CAIRN CAPITAL GROUP LIMITED	London	1	A.1.1	100.0 *	51.0
27. CAIRN CAPITAL LIMITED	London	1	A.1.26	100.0	100.0
28. CAIRN CAPITAL NORTH AMERICA INC.	Stamford (U.S.A.)	1	A.1.26	100.0	100.0
29. CAIRN CAPITAL GUARANTEE LIMITED (non operating)	London	1	A.1.26	100.0	100.0
30. CAIRN CAPITAL INVESTMENTS LIMITED (non operating)	London	1	A.1.26	100.0	100.0
31. CAIRN INVESTMENT MANAGERS LIMITED (non operating)	London	1	A.1.26	100.0	100.0
32. AMPLUS FINANCE (non operating)	London	1	A.1.26	100.0	100.0
33. SPAFID FAMILY OFFICE SIM	Milan	1	A.1.3	100.0	100.0
34. SPAFID TRUST S.R.L.	Milan	1	A.1.3	100.0	100.0
35. MEDIOBANCA MANAGEMENT COMPANY S.A.	Luxembourg	1	A.1.1	100.0	100.0
36. MEDIOBANCA SGR S.P.A.	Milan	1	A.1.1	100.0	100.0
37. RAM ACTIVE INVESTMENTS S.A.	Geneva	1	A.1.1	89.3 **	69.0
38. RAM ACTIVE INVESTMENTS (LUXEMBOURG) S.A.	Luxembourg	1	A.1.37	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 from the third to the tenth anniversary of the execution date of the transaction.

### Legend

<sup>1</sup> Type of relationship:

1 = majority of voting rights in ordinary AGMs

2 = dominant influence in ordinary AGMs

<sup>2</sup> Effective and potential voting rights in ordinary AGMs.

## *2. Considerations and significant assumptions used to determine consolidation area*

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

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

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

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

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

For equity-accounted companies, any differences in the carrying amount of the investment and the investee company’s net equity are reflected in the book value of the investment. This value is also reduced if the investee company

distributes dividends. The profit made or loss incurred by the investee company is recorded in the profit and loss account, as are any long-term reductions in value or reversals.

Investee company Assicurazioni Generali, meanwhile, will continue to use IAS 39 rather than IFRS 9 adopted by the Mediobanca Group since 1 July 2018, having opted for the deferred approach provided by IFRS 9 as governed by IFRS 4. Accordingly, in the Mediobanca Group's consolidated financial statements, the figures shown under "Value reserves for investments accounted for using the equity method" will be calculated in accordance with IAS 39. Such amounts will therefore be classified in the Other Comprehensive Income statement based on IAS 39 with no adjustments.

### *3. Investments in subsidiaries with significant minority interests*

Nothing to report.

### *4. Significant restrictions*

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

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

### *5. Other information*

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

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

Associates which have reporting periods ending on different dates compared to the Group prepare a pro forma accounting situation as at the consolidated reporting date, or alternatively send a statement relative to a previous date as long as it is not more than three months previously; such an arrangement is permitted (IAS 28, par. 24-25), provided that account is taken of any significant transactions or events which take place between this date and the consolidated reporting date. As mentioned previously, Assicurazioni Generali has opted for the deferred approach governed by IFRS 4, and will therefore continue to apply IAS 39 until 1 January 2021.

#### SECTION 4

### **Events subsequent to the reporting date**

Since the reporting date, no events have taken place that would cause the results presented in the consolidated report for the six months ended 31 December 2018 to be amended.

#### SECTION 5

### **Other aspects**

The interim consolidated report is audited in a partial way 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 recognized at amortized cost**

These include loans and advances to customers and banks, debt securities and repo transactions which meet the following conditions:

- The financial instrument is held and managed based on the Hold-to-collect business model, i.e. with the objective of holding it in order to collect the cash flows provided for in the contract;
- Such contractual cash flows consist entirely of payment of principal amount and interest (and therefore meet the requisites set by the SPPI test).

This heading also includes receivables originated from financial leasing transactions, the valuation and classification rules for which are governed by IAS 17 (cf. below), even though the impairment rules introduced by IFRS 9 apply for valuation purposes.

The Group business model should reflect the ways in which financial assets are managed at a portfolio level (and not at instrument level), on the basis of factors observable at a portfolio level (and not at instrument level):

- Operating procedure adopted by management in the process of performance evaluation;
- Risk type and procedure for managing risks taken, including indicators for portfolio rotation;
- Means for determining remuneration mechanisms for decision-making managers.

The business model is based on expected reasonable scenarios (without considering “worst case” and “best case” scenarios), and in the event of cash flows differing from those estimated at initial recognition, the Group is not bound to change the classification of financial instruments forming part of the portfolio, but uses the information for deciding the classification of new financial instruments.

At initial recognition, the Group analyses contractual cash flows for the instrument as part of the SPPI test; when contractual cash flows do not represent solely payments of principal and interest on the outstanding amount, the Group mandatorily classifies the instrument at fair value through profit and loss.

At the initial recognition date, financial assets are recognized at fair value, including any costs or income directly attributable to individual transactions that can be established from the outset even if they are actually settled at



later stages. The recognition value does not, however, factor in costs with the above characteristics which are repaid separately by the borrower, or may be classified as normal internal administrative expenses.

The instrument is recognized at amortized cost, i.e. the initial value less/plus the repayments of principal made, writedowns/writebacks, and amortization – calculated using the effective interest rate method – of the difference between the amount disbursed and the amount repayable at maturity, adjusted to reflect expected losses.

The amortized cost method is not used for short-term receivables, as the effect of discounting them is negligible; for this reason, such receivables are recognized at historical cost. The original effective interest rate 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.

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.

Following initial recognition, all financial assets recognized at amortized cost are subject to the impairment model based on the expected loss, i.e. performing as well as non-performing assets.

Impairment regards losses which are expected to materialize in the twelve months following the reference date of the financial statement, or, in cases where a significant increase in credit risk is noted, the losses which are expected to materialize throughout the rest of the instrument's life. Both the twelve-month and outstanding life expected losses can be calculated on an individual or collective basis according to the nature of the underlying portfolio.

In accordance with the provisions of IFRS 9, the financial assets are split into three different categories:

- Stage 1: this includes exposures at their initial recognition date for as long as there is no significant impairment to their credit standing; for

such instruments, the expected loss is to be calculated on the basis of default events which are possible within twelve months of the reporting date;

- Stage 2: this includes exposures which, while not classified as impaired as such, have nonetheless experienced significant impairment to their credit standing since the initial recognition date; in moving from stage 1 to stage 2, the expected loss must be calculated for the outstanding life of the instrument;
- Stage 3: this category consists of impaired exposures according to the definition provided in the regulations. In moving to stage 3, exposures are valued individually, that is, the value adjustment is calculated as the difference between the carrying value at the reference date (amortized cost) and the discounted value of the expected cash flows, which are calculated by applying the original effective interest rate. The cash flow estimates factor in the expected collection times, the probable net realizable value of any guarantees, and costs which are likely to be incurred in order to recover the credit exposure from a forward-looking perspective which takes account of alternative recovery scenarios and developments in the economic cycle.

The Group policy adopted to establish what constitutes significant increases in credit risk takes both the qualitative and quantitative aspects of each lending transaction or financial instrument into account. The following in particular are considered decisive: forbearance measures having been granted; the 30 days past due criterion; and other backstops having been identified, such as reclassification to watchlist status in accordance with the rules on credit risk monitoring. The Group uses the simplified, low credit risk exemption approach only to a very limited extent.

Purchased or originated credit impaired items (POCIs) are receivables which are already impaired at the point in time when they are acquired or disbursed. At the initial recognition date they are recognized at amortized cost on the basis of an internal rate of return which is calculated using an estimate of the recovery flows expected for the item, with interest calculated later using an internal rate of return adapted to the circumstances. The expected credit losses are recorded and released only insofar as the changes actually occur. For financial instruments held to be in default (for further details see the section

specifically on credit quality in Part E of the Notes to the Accounts), the Group records an expected loss for the outstanding life of the instrument (similar to stage 2 above); while value adjustments are calculated for all the exposures split into different categories, factoring in forward-looking information which reflects macro-economic factors.

### **Financial assets recognized at fair value through profit and loss**

These include financial assets held for trading and other financial assets that must be recognized at fair value.

Financial assets held for trading are assets which have been acquired or issued principally for the purpose of being traded. 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).

Financial assets that must be recognized at fair value are assets which are not held for trading but must compulsorily be recognized at fair value through profit and loss on the grounds that they do not meet the requisites to be recognized at amortized cost.

At the settlement date for securities and subscription date for derivatives, such assets are recognized at fair value not including any transaction expenses or income directly attributable to the asset concerned, which are taken through the profit and loss account. Following their initial recognition they continue to be recognized at fair value, and any changes in fair value are recorded in the profit and loss account. Interest on instruments that must be recognized at fair value is recorded on the basis of the interest rate stipulated contractually. Dividends paid on equity instruments are recorded through profit and loss when the right to collect them becomes effective.

Equities and linked derivatives for which it is not possible to reliably determine fair value using the methods described above are stated at amortized cost (these too qualify as Level 3 assets). If the assets suffer impairment, they are written down to their current value.

Gains and losses upon disposal and/or redemption and the positive and negative effects of changes in fair value over time are reflected in the profit and loss account under the heading Net trading income.

Trading assets which must be recognized at fair value also include loans which do not guarantee full repayment of principal in the event of the counterparty finding itself in financial difficulties and which therefore do not pass the SPPI test. The process followed to write down these positions is aligned with that used for other loans, on the grounds that the exposure is basically attributable to credit risk, with both the gross exposure and related provisioning stated.

### **Financial assets recognized at fair value through other comprehensive income**

These are financial instruments, mostly debt securities, for which both the following conditions are met:

- The instruments are on the basis of a business model in which the objective is the collection of cash flows provided for contractually and also of the proceeds deriving from the sale of instruments;
- The contractual terms which pass the SPPI test.

Financial assets recognized at fair value through other comprehensive income (FVOCI) are recognized fair value, including transaction costs and income directly attributable to them. Thereafter they continue to be measured at fair value. Changes in fair value are taken through other comprehensive income, while interest and gains/losses on exchange rates are taken through profit and loss (in the same way as financial instruments recognized at amortized cost).

Financial assets recognized at fair value through other comprehensive income (debt securities and equities) must have their expected losses calculated (as per the impairment process), in the same way as financial assets recognized at amortized cost, with the resulting value adjustment taken through profit and loss.

Retained earnings and accumulated losses recorded in other comprehensive income are taken through profit and loss when the instrument is removed from the balance sheet.

The category also includes equities not held for trading which meet the definition provided by IAS 32, and which the Group decided to classify irrevocably in this category at the initial recognition stage. As the instruments in question are equities they are not subject to impairment, and the gains/losses on equities are never taken through profit and loss, even following the sale of the instrument. Conversely, dividends on the instruments are recorded through profit and loss when the right of collection takes effect.

### **Derecognition of assets**

A financial asset must be derecognized from the balance sheet if, and only if, the contractual rights to the cash flows deriving from it have expired, or if the asset has been transferred in accordance with IFRS 9. In such cases the Group checks if the contractual rights to receive the cash flows in respect of the asset have been transferred, or if they have been maintained while a contractual obligation to pay the cash flows to one or more beneficiaries continues to exist. It is necessary to check that basically all risks and benefits have been transferred, and any right or obligation originated or maintained as a result of the transfer is recorded separately as an asset or liability where appropriate. If the Group retains virtually all risks and benefits, the financial asset must continue to be recorded.

If the Group has neither transferred nor maintained all risks and benefits, but at the same time has retained control of the financial asset, this continues to be recognized up to the residual interest retained in that asset.

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.

When a financial asset recognized at amortized cost is renegotiated, the Group derecognizes it only if the renegotiation entails a change of such magnitude that the initial instrument effectively becomes a new one. In such cases the difference between the original instrument's carrying value and the fair value of the new instrument is recorded through profit and loss, taking due account of any previous writedowns that may have been charged. The new instrument is classified as stage 1 for purposes of calculating the expected loss (save in cases where the new instrument is classified as a POCI).

In cases where the renegotiation does not result in substantially different cash flows, the Group does not derecognize the instrument, but the difference between the original carrying value and the estimated cash flows discounted using the original internal rate of return must be recorded through profit and loss (taking due account of any provisions already set aside to cover it).

## **Leasing**

An agreement is classified as a leasing contract (or contains a leasing element) based on the substance of the agreement at the execution date. An agreement is, or contains a lease if its performance depends on the use of a specific good (or goods) and confers the right to use such good (goods), even if the good itself is not stated explicitly in the agreement.

A leasing contract must be classified at the execution date as either a financial lease or an operating lease.

A lease which transfers basically all risks and benefits typical of ownership to the lessee is a financial lease.

Financial leases in which the Group is the lessor are capitalized at the start of the transaction based on the fair value of the good at the execution date, or the current value of the minimum payments provided for by the agreement if lower. Payments are split into the two components of interest payable and repayment of the amount due under the lease itself based on methods which reflect a constant, regular return on the lessor's net investment.

The good being leased is recorded in the accounts and amortized over the course of its useful life. If there is no reasonable certainty that the Group will acquire the good at the end of the lease, it is amortized over its useful life or the duration of the lease itself, whichever is shorter.

Payments made in respect of operating lease contracts are recorded through profit and loss as costs on a straight-line basis throughout the life of the leasing contract itself.

Leases in which the Group is the lessor and does not transfer basically all risks and benefits associated with ownership of the good are classified as operating leases. Revenues generated from contracts such as these are recorded through profit and loss on a straight-line basis throughout the life of the leasing contract. Any costs incurred to negotiate the contract are added to the value of the good and recorded throughout the life of the contract using the same criterion adopted to record the revenues.

## **Hedges**

For hedging transactions, the Group has adopted the provisions of IFRS 9 since 1 July 2018 and has chosen not to avail itself of the exemption provided to continue applying the rules of IAS 39 to this type of operation.

Two types of hedge are used by the Group:

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

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

Hedge derivatives are recognized at fair value as follows:

- Changes in fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged asset, where a difference

between the two emerges as a result of the partial ineffectiveness of the hedge;

- Designated and qualify as cash flow hedges are recognized in net equity, while the gain or loss deriving from the ineffective portion is recognized through the profit and loss account only as and when, with reference to the hedged item, the change in cash flow to be offset crystallizes.

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

At inception, the Group formally designates and documents the hedging relationship, with an indication of the risk management objectives and strategy for the hedge. The documentation includes identification of the hedging instrument, the item hedged, the nature of the risk hedged and how the entity intends to assess if the hedging relationship meets the requisites for the hedge to be considered effective (including analysis of the sources of any ineffectiveness and how this affects the hedging relationship). The hedging relationship meets the eligibility criteria for accounting treatment reserved for hedges if, and only if, the following conditions are met:

- The effect of the credit risk does not prevail over the changes in value resulting from the economic relationship;
- The coverage provided by the hedging relationship is the same as the coverage which results from the quantity of the item hedged which the entity effectively hedges, and the quantity of the hedge instrument which the Bank actually uses to hedge the same quantity of the item hedged. However, this designation must not reflect a mismatch between the weightings of the item hedged and the hedging instrument which would result in the hedge becoming ineffective (regardless of whether the ineffectiveness is observed), which could give rise to a result in accounting terms which is in contrast with the purpose of accounting for hedging transactions.

#### *Fair value hedges*

As long as the fair value hedge meets the criteria for eligibility, the profit or loss on the hedge instrument must be recorded in the profit and loss account or under one of the other comprehensive income headings if the hedge instrument



hedges another instrument representative of equity for which the Group has chosen to recognize changes in fair value through OCI. The profit or loss on the hedged item is recorded as an adjustment to the book value of the hedge with a matching entry through the profit and loss account, even in cases where the item hedged is a financial asset (or one of its components) recognized at fair value with changes taken through OCI. However, if the item hedged is an equity instrument for which the entity has opted to recognize changes in fair value through OCI, the amounts remain in the other items in the comprehensive income statement.

If the item hedged is an irrevocable commitment (or one of its components) not booked to the accounts, the cumulative change in the fair value of the item hedged resulting from its designation as such is recorded as an asset or liability with corresponding gain or loss recorded in the profit (loss) for the period.

#### *Cash flow hedges*

As long as the cash flow hedge meets the criteria for eligibility, it is accounted for as follows:

- The gain or loss on the hedge instrument in relation to the effective part of the hedge is taken through OCI in the cash flow reserve, whereas the ineffective part is taken directly through profit and loss.
- The cash flow reserve is adjusted to reflect the lower amount of:
- The gain or loss accumulated on the hedge instrument since the hedge's inception; and
- The cumulative change in fair value (versus the present value) of the item hedged (i.e. the present value of the cumulative change in the estimated future cash flows hedged) since the hedge's inception;

The amount accumulated in the cash flow hedge reserve must be reclassified from the cash flow hedge reserve to profit (loss) for the period as an adjustment due to reclassification in the same period or periods in which the estimated future cash flows hedged impact on the profit (loss) for the period (e.g. in periods when interest receivable or payable are recorded, or when the planned sale takes place). However, if the amount constitutes a loss and the entity does not

expect to recover the whole loss or part of it in one or more future periods, the entity must classify the amount it does not expect to recover in the profit (loss) for the period (as an adjustment due to reclassification) immediately.

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 interests held in jointly-controlled companies and associates. Companies subject to joint control, otherwise known as joint ventures, are defined as entities of which control is contractually stipulated as being shared between the Group and one or more other parties, or when for decisions regarding relevant activities, the unanimous consent of all parties which share control of the entity is required.

Companies subject to significant influence, otherwise known as associates, are defined as entities in which the Group holds at least 20% of the voting rights (including “potential” voting rights) or for which – despite holding a lower share of the voting rights – it is entitled to participate in deciding the financial and management policies of the investee company under specific legal arrangements, e.g. participation in shareholder agreements.

The Group uses the net equity method to account for these investments; hence they are initially recognized at cost and subsequently adjusted to reflect changes in the net assets attributable to the Group since the acquisition date.

Following application of the net equity method, if there is objective evidence that the value of an investment may have reduced, estimates are made of its recoverable value, taking into account the value of the discounted cash flows which the investment might generate, including the final sale value of the investment itself.

If the recoverable value is lower than the book value, the difference is taken through profit and loss.

If, in a period following the year in which a long-term reduction in value is

recorded, a change occurs in the estimates used to determine the recoverable value, the book value of the investment will be revised to reflect the recoverable value and the adjustment will give rise to a writeback.

In cases where significant influence or joint control are lost, the Group recognizes and values any residual share still held at fair value. Any difference between the book value at the date on which the loss of significant influence or joint control occurs, plus the fair value of the share still held and the consideration received on disposal, are taken through the profit and loss account.

### **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.

The heading also includes tangible assets classified pursuant to IAS 2 – *Inventories*, namely assets deriving from guarantees being enforced or acquired in auction scenarios which the firm has the intention of selling in the near future, without carrying out any major refurbishment work on them, and which do not fall into any of the previous categories.

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 deriving from business combinations subject to IFRS 3R.

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.

## **Provisions for liabilities and charges**

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

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

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

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

This heading also includes credit risk provisions in respect of commitments to disburse funds and guarantees issued falling within the scope of application of the rules on impairment introduced by IFRS 9. In such cases the same staging and expected loss calculation criteria are used for both financial assets recognized at amortized cost and/or fair value through other comprehensive income.

## **Financial liabilities recognized at amortized cost**

These include the items *Due to banks, Due to customers and Debt securities in issue* less any amounts bought back. The heading also includes amounts receivable in respect of finance leasing transactions, the valuation and classification rules for which are governed by IAS 17 but which are also affected by the IFRS 9 impairment rules. For a description of the rules for valuing and classifying leasing receivables, see the relevant section.

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 when they are not closely correlated to the host instrument. 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 and the changes are taken through the profit and loss account.

### **Staff severance indemnity provision**

The staff severance indemnity provision qualifies as a defined-contribution benefit scheme for units accruing starting from 1 January 2007 (the date on which the reform of complementary pension schemes came into force under Italian Legislative Decree 252/05), for cases where the employee opts into a complementary pension scheme, and also for cases where contributions are paid to the treasury fund held with the Italian national pension scheme (INPS).

For such payments, the amount accounted for under labour costs is determined on the basis of the contributions due without application of actuarial calculation methods.

The staff severance indemnity provision accrued until 1 January 2007 qualifies as a defined-benefit pension scheme, and as such is stated to reflect the actuarial value of the provision as calculated in line with the Projected Unit method. Accordingly, 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 using the market yield on bonds issued by companies of primary standing as the benchmark, and taking due account of the average duration outstanding of the liability, weighted according to the percentage of the amount paid or advanced, at each expiry date, relative to the total amount to be paid and/or advanced until the entire obligation has been paid in full.

Actuarial gains and/or losses are recorded in the Other Comprehensive Income statement, while the interest component is taken through profit and loss.

### **Foreign currency transactions**

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

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

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

## **Tax assets and liabilities**

Income taxes are recorded in the profit and loss account, with the exception of tax payable on items debited or credited directly to net equity. Provisions for income tax are calculated on the basis of current, advance and deferred obligations. Advance and deferred tax is calculated on the basis of temporary differences – without time limits – between the carrying amount of an asset or liability and its tax base, according to statutory criteria and the corresponding values used for tax purposes.

Advance tax assets are recognized in the balance sheet based on the likelihood of their being recovered.

Deferred tax liabilities are recognized in the balance sheet with the exception of tax-suspended reserves, if the size of the reserves available already subjected to taxation is such that it may be reasonably assumed that no transactions will be carried out on the Group's own initiative that might lead to their being taxed.

Deferred tax arising upon business combinations is recognized when this is likely to result in a charge for one of the companies concerned.

Tax assets and liabilities are adjusted as and when changes occur in the regulatory framework or in applicable tax rates, inter alia to cover charges that might arise in connection with inspections by or disputes with the tax revenue authorities.

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

## **Stock options and performance shares**

The stock option and performance share schemes operated on behalf of Group staff members and collaborators are treated as a component of labour costs.

Schemes which involve payment through the award of shares are recognized through profit and loss, with a corresponding increase in net equity, based on the fair value of the financial instruments allocated at the award date, thus spreading



the cost of the scheme throughout the period of time in which the requisites in terms of service and performance where appropriate) are met.

The overall cost of the scheme is recorded in each financial year up to the date on which the plan vests, so as to reflect the best possible estimate of the number of shares that will actually vest. Requisites in terms of service and performance objectives are not considered in determining the fair value of the instruments awarded, but the probability of such objectives being reached is estimated by the Group and this is factored into the decision as to the number of instruments that will vest. Conversely, market conditions will be included in establishing the fair value, whereas conditions unrelated to the requisites in terms of service are considered “non-vesting conditions” and are reflected in the fair value established for the instruments, and result in the full cost of the scheme being recorded in the profit and loss account immediately in the absence of any service requisites and/or performance conditions.

In the event of performance or service conditions not being met and the benefit failing to be allocated as a result, the cost of the scheme is written back. However, if any market conditions fail to be reached, the cost must be recorded in full if the other conditions have been met.

In the event of changes to the scheme, the minimum cost to be recorded is the fair value at the scheme award date pre-change, if the original conditions for vesting have been met. An additional cost, established at the date on which the change is made to the scheme, must be recorded if the change has entailed an increase in the overall fair value of the scheme for the beneficiary.

For schemes which will involve payments in cash, the Group records an amount payable equal to the fair value of the scheme measured at the award date of the scheme and at every reporting date thereafter, up to and including the settlement date, with any changes recorded as labour costs.

## **Treasury shares**

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

## **Fees and commissions receivable in respect of services**

This heading includes all revenues deriving from the provision of services to customers with the expectation of those relating to financial instruments, leases and insurance contracts.

Revenues from contracts with clients are recorded through profit and loss when ownership of the service is transferred to the client, in an amount that reflects the consideration to which the Group considers it is entitled in return for the service rendered.

In order to record the revenues, the Group analyses the contracts to establish whether they contain more than one obligation to provide services to which the price of the transaction should be allocated. The revenues are then recorded throughout the time horizon over which the service is rendered, using suitable methods to recognize the measurement in which the service is provided. The Group also takes into consideration the effects of any variable commissions, and whether or not a significant financial component is involved.

In the event of additional costs being incurred to perform or execute the contract, where such costs meet the requisites of IFRS 15, the Group will assess whether to capitalize them and then amortize them through the life of the contract, or to make use of the exemption provided by IFRS 15 to expense the costs immediately in cases where the amortization period for them would be complete within twelve months.

## **Dividends**

Dividends are recorded through profit and loss in the year in which their distribution is approved. They refer to distributions deriving from equities not issued by companies qualifying as associates and/or joint ventures which are valued on the basis of the provisions of IAS 28.

## **Recognition of costs**

Costs are recorded through profit and loss in accordance with the revenues to which they refer, save in cases where the requisites for capitalizing them apply and where provided in order to determine amortized cost. Any other costs which cannot be associated with revenues are accounted for immediately in profit and loss.

## **Related parties**

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

- a) Individuals or entities which directly or indirectly, are subject to joint control by Mediobanca, parties to the Mediobanca shareholders' agreement with syndicated interests of over 3% of the company's share capital, and the entities controlled by or controlling them;
- b) Associate companies, joint ventures and entities controlled by them;
- c) Management with strategic responsibilities, that is, individuals with powers and responsibilities, directly or indirectly, for the planning, direction and control of the parent company's activities, including the members of the Board of Directors and Statutory Audit Committee;
- d) Entities controlled or jointly controlled by one or more of the individuals listed under the foregoing letter c);
- e) Close family members of the individuals referred to in letter c) above, that is, individuals who may be expected to influence them or be influenced by them in their relations with Mediobanca (this category includes partners, children, partners' children, dependents and partners' dependents) as well as any entities controlled, jointly controlled or otherwise associated with such individuals;
- f) Pension funds for employees of the parent company or any other entity related to it;
- g) Transactions involving vehicle companies, even if these are not directly attributable to related parties but the benefits from them still accrue to related parties.

### A.3 - Information on transfers between portfolios of financial assets

#### A.3.1 Reclassified financial assets: change in business model, book value and interests income

Type of instrument	Transferred from	Transferred to	Reclassification date	Reclassified book value	Interests income booked during the t period (pre-tax)
Debt securities (ABS)	Available for sale securities	Financial assets valued at amortised cost	FY 2010/11	115,302	3,092
Total				115,302	3,092

### 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<sup>4</sup>.

In accordance with the provisions of IFRS 13 as enacted in Bank of Italy circular no. 262, the fair value hierarchy assigns decreasing priority to measurements based on different market parameters. The highest priority (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:

- Level 1: quoted prices (single and unadjusted) in active markets for the individual financial instrument being measured.

<sup>4</sup> Cf. IFRS 13, paragraph 73: “the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement”; and paragraph 74: “The fair value hierarch ranks fair value measurements based on the type of inputs; it does not depend on the type of valuation techniques used”. For further details see IFRS 13, paragraphs 72-90.

- Level 2: inputs other than the quoted prices referred to above, that are observable on the market either directly (prices) or indirectly (price derivatives). In this case fair value is measured via a comparable approach, or by using a pricing model which leaves little scope for subjective interpretation and is commonly used by other financial operators.
- Level 3: significant inputs which are either unobservable on the market and/or reflect complex pricing models. In this case the fair value is set based on assumptions of future cash flows, which could lead to different estimates by different observers of the value of the same financial instrument.

As a rule Mediobanca uses market prices (level 1) or models based on observable inputs (level 2). In cases where level 3 instruments are used, additional price verification procedures are set in place, including: revision of relevant historical data, analysis of profits and losses, individual measurement of each single component in a structured component, and benchmarking. This approach involves the use of subjective parameters and judgements based on experience, and adjustments may therefore be required to valuations to take account of the bid-ask spread, liquidity or counterparty risk, and the type of measurement model adopted. All models in any case, including those developed internally, are verified independently and validated by different Bank units, thus ensuring an independent control structure.

### **Fair value adjustment**

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

- Credit/debt valuation adjustment;
- Other adjustments.

### **Credit/debt valuation adjustment (CVA/DVA)**

Credit and debt value adjustments (CVA and DVA respectively) are incorporated into the valuation of derivatives to reflect the impact respectively

of the counterparty's credit risk and the Bank's own credit quality on the fair value, as follows:

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

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

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

- Expected positive exposure (EPE) and expected negative exposure (ENE) of the valuation of the derivatives, deriving from simulation techniques;
- PD (probability of default (PD), derived from historical PD readings or those implied in market prices for credit default swaps or bond securities;
- Loss given default (LGD) based on the estimated value of recovery in the event of the counterparty going bankrupt, as defined in specific analysis conducted by the Bank itself or the default rates conventionally utilized for credit default swap prices.

### **Other adjustments (FVA)**

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 and to take account of the cost of funding.

With reference to this latter point, the fair value of non-collateralized derivatives may be influenced by the Bank's cost of funding, for those linked to these transactions. To take account of 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 in the European corporate derivative market.

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

##### ***Assets and liabilities measured at fair value on a recurring basis***

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

- Bonds: instruments not traded on active markets are marked to model using the implied credit spread curves obtained from Level 1 instruments, to which a further spread is added to reflect their illiquidity. The model makes maximum use of observable inputs and minimum use of non-observable inputs. In this way, depending on how representative the credit spread curve applied is, bonds are categorized as either Level 2 or Level 3 (the latter in cases where non-observable credit spreads are used). In fair value measurement, fair value adjustments can be used in cases where there is reduced liquidity and model risk, to compensate for the lack of observable market inputs for Level 2 and Level 3 positions.
- Asset-backed securities, CLOs and loans: the measurement process relies on information providers which effectively collect market prices. Basically ABS are categorized as Level 3, with the exception of those for which a bid/ask contribution can be provided with the respective quantities on an ongoing basis, in which case they are categorized as Level 1.
- Derivatives: the fair value of derivatives not traded on an active market derives from application of mark-to-model measurement techniques. In cases where there is an active market to provide inputs for the various components of the derivative to the valuation model, the fair value is measured on the basis of the market prices. Measurement techniques based on observable inputs are categorized as Level 2, whereas those based on non-observable inputs are categorized as Level 3.
- Equities: equities are categorized as Level 1 when quoted prices are available on an active market considered to be liquid, and Level 3 when there are no quoted prices or when quoted prices have been suspended indefinitely and for which an internal model is used in order to determine the fair value.
- Investment funds: Mediobanca owns holdings in investment funds which publish the net asset value (NAV) per stock unit. Such funds include mutual funds, private equity funds, hedge funds (including funds of funds) and real estate funds. Investments in funds are usually classified as Level 1 in cases



where the NAV is available on a daily basis and considered to be active; otherwise they are categorized as Level 3.

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

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

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

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

Bonds issued by Mediobanca are categorized as fair value Level 1 if quoted on an active market (using the market price as the input); if not, i.e. in cases where there are no quoted prices, the fair value is categorized as Level 2 and is calculated via the expected discounted cash flow using a market interest rate adjusted for the Bank's issuer risk (with a distinction being made between senior and subordinated risks).

#### A.4.2 Measurement processes and sensibilities

As required by IFRS13, quantitative information on the significant non-observable inputs used in measuring the fair value of Level 3 instruments is provided below.

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

Non-observable inputs	Quantification of uncertainty inherent input	+/- delta vs MtM (€'000), 31/12/18	+/- delta vs MtM (€'000), 30/6/18
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)	930	620
Equity-equity correlation	Equal to 1% between two indexes and 2% between two single stocks	695	325

##### *Measurement techniques used for equity, credit and interest rate products*

Product	Measurement technique	Non-observable inputs	Fair value * Assets 31/12/18 (€m)	Fair value * Liabilities 31/12/18 (€m)	Fair value * Assets 30/6/18 (€m)	Fair value * Liabilities 30/6/18 (€m)
OTC equity plain vanilla options, OTC equity digital options, variance swap	Black-Scholes/ Black model	Implicit volatility (1)	2.95	(2.79)	1.46	(7.81)
OTC equity basket options, best of/ worst of	Black-Scholes model	Implicit volatility Equity-equity correlation (2)	2.94	(4.58)	2.70	(4.84)

\* Values are shown net of reserves booked.

<sup>1</sup> 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).

<sup>2</sup> 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.

#### *A.4.3 Fair value ranking*

##### ***Transfer among fair value ranking levels***

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

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

Conversely, transfers from Level 2 to Level 3 (or vice versa) are decided on the basis of the significance of the input data, in particular the weight which non-observable data have in the inputs compared to observable data.

#### *A.4.4 Other information*

The Mediobanca Group has availed itself of the exception provided under IFRS 13, paragraph 48 from measuring fair value on a net basis for financial assets and liabilities with positions compensating for the counterparty's market or credit risks.

## QUANTITATIVE INFORMATION

### A.4.5 Fair value ranking

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

<i>Financial assets/liabilities measured at fair value</i>	31/12/18		
	Level 1	Level 2	Level 3
1. Financial assets measured at fair value with impact taken to profit and loss	6,364,445	3,055,072	741,370
a) financial assets held for trading	6,151,509	2,783,832	380,058
b) financial assets designated at fair value	—	51,253	—
c) other financial assets mandatorily valued at fair value	212,936	219,987	361,312
2. Financial assets measured at fair value with impact taken to other comprehensive income	4,246,599	304,436	21,257
3. Hedging derivatives	—	212,327	—
4. Tangible assets	—	—	—
5. Intangible assets	—	—	—
<b>Total</b>	<b>10,611,044</b>	<b>3,571,835</b>	<b>762,627</b>
1. Financial liabilities held for trading	(4,973,779)	(3,037,071)	(76,864)
2. Financial liabilities valued at fair value	—	(53,525)	—
3. Hedging derivatives	—	(180,409)	—
<b>Total</b>	<b>(4,973,779)</b>	<b>(3,271,005)</b>	<b>(76,864)</b>

The Level 3 instruments held for trading include options traded, i.e. contracts with the same underlying instrument but executed with different counterparties, totalled €68.4m (30/7/18: €72.6m), plus €1.1m (€1.9m) in options linked to bonds issued and hedged on the market. Net of these items, the Level 3 assets increased from €110.2m to €310.6m, following new deals of €243.5m (deriving chiefly from the bridge subscribed to by Mediobanca in its role as arranger with Intesa/ICCREA receivables as the underlying instrument, which will gradually be sold), disposals and redemptions totalling €14.2m other changes, including negative movements in fair value €28.9m.

Financial assets compulsorily recognized at fair value,<sup>5</sup> which mostly consist of investments in funds (including seed capital) increased from €309m to €361.3m, following investments of €61.1m, almost all of which in respect of a new Cairn fund, sales and redemptions totalling €5.7m, and other negative changes of €3.1m.

Financial assets recognized at fair value through other comprehensive income, consisting of holdings in unlisted companies (valued on the basis of internal models), rose slightly from €19.5m to €21.3m.

<sup>5</sup> A financial asset is classified as a financial asset which must compulsorily be recognized at fair value if it does not meet the conditions, in terms of business model and cash flow characteristics ("solely payment of principal and interest" – i.e. if it does not pass the SPPI test) to be recognized at amortized cost or at fair value through Other Comprehensive Income.

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

*A.4.5.1 Assets and liabilities recognized at fair value on a recurring basis, by fair value levels*

(€'000)

Financial assets/liabilities measured at fair value	30/6/18		
	Level 1	Level 2	Level 3
1. Financial assets held for trading	4,805,779	3,214,454	184,678
2. Financial assets recognized at fair value	—	—	—
3. AFS securities	5,107,728	303,178	310,971
4. Hedge derivatives	—	225,814	—
5. Tangible assets	—	—	—
6. Intangible assets	—	—	—
<b>Total</b>	<b>9,913,507</b>	<b>3,743,446</b>	<b>495,649</b>
1. Financial liabilities held for trading	(3,206,919)	(3,168,354)	(87,131)
2. Financial liabilities recognized at fair value	—	—	—
3. Hedge derivatives	—	(233,086)	—
<b>Total</b>	<b>(3,206,919)</b>	<b>(3,401,440)</b>	<b>(87,131)</b>

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

	Financial assets valued at fair value with impact taken to profit and loss					Financial assets valued at fair value with impact taken to other comprehensive income	Hedging derivatives	Tangible assets	Intangible assets
	Total	of which: a) financial assets held for trading <sup>1</sup>	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily valued at fair value					
1. Opening balance	438,689	110,200	—	309,015	19,474	—	—	—	
2. Increases	310,063	243,357	—	64,423	1,783	—	—	—	
2.1 Purchases	304,537	243,467	—	61,070	—	—	—	—	
2.2 Profits recognized in:	2,918	191	—	2,727	—	—	—	—	
2.2.1 profit and loss	1,110	191	—	919	—	—	—	—	
- of which, gains	139	139	—	—	—	—	—	—	
2.2.2 net equity	1,783	X	X	X	1,783	—	—	—	
2.3 Transfers from other levels	—	—	—	—	—	—	—	—	
2.4 Other increases	825	199	—	626	—	—	—	—	
3. Decreases	55,615	43,490	—	12,125	—	—	—	—	
3.1 Disposals	13,825	13,418	—	407	—	—	—	—	
3.2 Redemptions	6,070	789	—	5,281	—	—	—	—	
3.3 Losses recognized in:	25,055	18,618	—	6,437	—	—	—	—	
3.3.1 profit and loss	18,618	18,618	—	—	—	—	—	—	
- of which, losses	18,618	18,618	—	—	—	—	—	—	
3.3.2 net equity	—	X	X	X	—	—	—	—	
3.4 Transfers to other levels	—	—	—	—	—	—	—	—	
3.5 Other decreases	10,665	10,665	—	—	—	—	—	—	
4. Closing balance	693,137	310,567	—	361,313	21,257	—	—	—	

<sup>1</sup> Net of market value of options covering those attached to bonds as well as options traded (€68.4m and €72.6m respectively), the values of which are recorded as both assets and liabilities for the same amount.

#### A.4.5.3 Annual changes in liabilities recognized at fair value on a recurring basis

(€'000)

	Financial liabilities		
	Held for trading <sup>1</sup>	Designated at fair value	Hedging derivatives
1. Opening balance	12,652	—	—
2. Increases	4,122	—	—
2.1 Issuance	1,642	—	—
2.2 Losses recognized in:	2,156	—	—
2.2.1 profit and loss	2,156	—	—
<i>- of which, losses</i>	2,156	—	—
2.2.2 net equity	X	—	—
2.3 Transfers from other levels	324	—	—
2.4 Other increases	—	—	—
3. Decreases	9,401	—	—
3.1 Redemptions	3,612	—	—
3.2 Buybacks	—	—	—
3.3 Profits recognized in:	5,789	—	—
3.3.1 profit and loss	5,789	—	—
<i>- of which, gains</i>	5,789	—	—
3.3.2 net equity	X	—	—
3.4 Transfers to other levels	—	—	—
3.5 Other decrease	—	—	—
4. Closing balance	7,373	—	—

<sup>1</sup> Net of market value of options covering those attached to bonds as well as options traded (€68.4m and €72.6m respectively), the values of which are recorded as both assets and liabilities for the same amount.

#### A.4.5.4 Assets and liabilities not recognized at fair value or recognized at fair value on a non-recurring basis, by fair value ranking

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/18			
	Book value	Fair value		
		Level 1	Level 2	Level 3
1. Financial assets valued at amortised cost	56,101,203	2,568,740	18,683,398	35,744,196
2. Tangible assets held for investment purposes	68,146	—	—	141,867
3. Non-current assets and groups of assets being sold	3,259	—	—	3,259
Total	56,172,608	2,568,740	18,683,398	35,889,322
1. Financial liabilities valued at amortised cost	57,315,339	1,197,405	56,384,908	50,483
2. Liabilities held in respect of assets being sold	—	—	—	—
Total	57,315,339	1,197,405	56,384,908	50,483

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

*A.4.5.4 Assets and liabilities not recognized at fair value or recognized at fair value on a non-recurring basis, by fair value ranking*

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	30/6/18			
	Book value	Fair value		
		Level 1	Level 2	Level 3
1. Financial assets held to maturity	2,595,747	2,586,499	28,086	—
2. Due from banks	7,552,958	—	5,934,247	1,637,891
3. Due from customers	40,977,889	—	8,334,617	33,696,913
4. Tangible assets held for investment purposes	77,388	—	—	154,516
5. Non-current assets and groups of assets being sold	—	—	—	—
<b>Total</b>	<b>51,203,982</b>	<b>2,586,499</b>	<b>14,296,950</b>	<b>35,489,320</b>
1. Due to banks	(12,263,459)	—	(12,263,459)	—
2. Due to customers	(21,320,043)	—	(21,317,138)	—
3. Debt securities in issue	(20,608,518)	(704,927)	(20,118,202)	(49,719)
4. Liabilities in respect of noncurrent assets being sold	—	—	—	—
<b>Total</b>	<b>(54,192,020)</b>	<b>(704,927)</b>	<b>(53,698,799)</b>	<b>(49,719)</b>

## **A.5 - Information on “day one profit/loss”**

For Level 3 transactions, the fair value derived from the model may differ from the price of the transaction itself. If the difference is positive (day one profit), it is amortized over the outstanding life of the financial instrument; if it is negative (day one loss), it is taken directly to the profit and loss account, on prudential grounds. Any subsequent changes in fair value will therefore be linked to the trends in the various risk factors to which the instrument is exposed (interest rate/exchange rate risk, etc.) and recorded directly in the profit and loss account.

During the period from 1 July 2016 to 30 June 2017 this principle was applied by suspending the approx. €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 paragraphs B5.1.2A and B5.2.2A of IFRS 9, 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. €1.3m, while the portion that remains suspended amounts to approx. €7.1m.



## Part B - Notes to consolidated Balance Sheet \*

### Assets

#### SECTION 1

### Heading 10: Cash and cash equivalents

#### 1.1 Cash and cash equivalents: composition

	31/12/18	30/6/18
a) Cash	98,436	65,410
b) Demand deposits with Central Banks	42	1,172,591
<b>Total</b>	<b>98,478</b>	<b>1,238,001</b>

#### SECTION 2

### Heading 20: Financial assets at fair value with impact taken to profit and loss

#### 2.1 Financial assets held for trading: composition \*

Items/Values	31/12/18		
	Level 1	Level 2	Level 3
<b>A. Balance-sheet assets</b>			
1. Debt securities	3,876,870	72,164	241,529
1.1 Structured securities	393	8,815	—
1.2 Other securities	3,876,477	63,349	241,529
2. Equity securities <sup>1</sup>	1,572,736	—	53,227
3. UCITs	117,777	3	9,917
4. Loans	24,969	—	—
4.1 Repos	—	—	—
4.2 Others	24,969	—	—
<b>Total (A)</b>	<b>5,592,352</b>	<b>72,167</b>	<b>304,673</b>
<b>B. Derivative instruments</b>			
1. Financial derivatives	559,157	2,542,018	75,385
1.1 trading	559,157	2,526,553	74,539 <sup>2</sup>
1.2 related to the fair value option	—	—	—
1.3 others	—	15,465	846 <sup>3</sup>
2. Credit derivatives	—	169,647	—
2.1 trading	—	169,647	—
2.2 related to the fair value option	—	—	—
2.3 others	—	—	—
<b>Total (B)</b>	<b>559,157</b>	<b>2,711,665</b>	<b>75,385</b>
<b>Total (A+B)</b>	<b>6,151,509</b>	<b>2,783,832</b>	<b>380,058</b>

\* 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”.

<sup>1</sup> Equities include shares committed in securities lending transactions totalling €1,277,841,000.

<sup>2</sup> Includes €63,380,000 related to options brokered, whose counterparty is booked into trading financial liabilities.

<sup>3</sup> Includes the market value of options (€1.1m as at 31/12/18) matching those associated with bond issues booked as financial instruments held for trading.

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

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

### 2.1 Financial assets held for trading: composition \*

Items/Values	30/6/18		
	Level 1	Level 2	Level 3
<b>A. Cash assets</b>			
1. Debt securities	2,538,652	254,051	14,128
1.1 Structured securities	109	11,526	—
1.2 Other debt securities	2,538,543	242,525	14,128
2. Equity instruments <sup>1</sup>	1,616,416	—	81,402
3. Units in investment funds	101,499	—	10,504
4. Loans	24,966	—	—
4.1 Repos	—	—	—
4.2 Others	24,966	—	—
<b>Total A</b>	<b>4,281,533</b>	<b>254,051</b>	<b>106,034</b>
<b>B. Derivative instruments</b>			
1. Financial derivatives	524,246	2,754,834	78,644
1.1 Trading	524,246	2,685,191	77,072 <sup>2</sup>
1.2 Related to the fair value option	—	—	—
1.3 Others	—	69,643	1,572 <sup>3</sup>
2. Credit derivatives	—	205,569	—
2.1 Trading	—	205,569	—
2.2 Related to the fair value option	—	—	—
2.3 Others	—	—	—
<b>Total B</b>	<b>524,246</b>	<b>2,960,403</b>	<b>78,644</b>
<b>Total (A+B)</b>	<b>4,805,779</b>	<b>3,214,454</b>	<b>184,678</b>

\* 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”.

<sup>1</sup> Equities as at 30/6/18 include shares committed in securities lending transactions totalling €982,223,000.

<sup>2</sup> Includes €72,603,000 related to options brokered, whose counterparty is booked into trading financial liabilities.

<sup>3</sup> Includes the market value of options (€1.9m as at 30/6/18) matching those associated with bond issues booked as financial instruments held for trading.

### 2.3 Financial assets designated at fair value: composition

Items/Values	Total 31/12/18		
	Level 1	Level 2	Level 3
1. Debt securities	—	51,253	—
1.1 Structured securities	—	—	—
1.2 Other debt securities	—	51,253	—
2. Loans	—	—	—
2.1 Structured	—	—	—
2.2 Others	—	—	—
Total	—	51,253	—

### 2.5 Other financial assets mandatorily at fair value: composition

This is a residual item consisting of banking book debt securities that have failed the SPPI test.

Items/Values	31/12/18		
	Level 1	Level 2	Level 3
1. Debt securities	359	43	8,778
1.1 Structured securities	—	—	—
1.2 Others	359	43	8,778
2. Equity instruments	—	—	2,262
3. Units investment funds	212,577	—	336,562
4. Loans	—	219,944	13,710
4.1 Repos	—	—	—
4.2 Others	—	219,944	13,710
Total	212,936	219,987	361,312

## SECTION 3

### Heading 30: Financial assets at fair value with impact taken to comprehensive income

#### 3.1 Financial assets at fair value with impact taken to comprehensive income: composition \*

Items/Values	31/12/18		
	Level 1	Level 2	Level 3 <sup>1</sup>
1. Debts securities	4,138,666	304,436	—
1.1 Structured securities	—	—	—
1.2 Other	4,138,666	304,436	—
2. Equity instruments	107,933	—	21,257
3. Loans	—	—	—
<b>Total</b>	<b>4,246,599</b>	<b>304,436</b>	<b>21,257</b>

\* 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”.

<sup>1</sup> These include investments in unlisted companies valued on the basis of internal models.

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

#### 4.1 AFS securities: composition \*

Items/Values	30/6/18		
	Level 1	Level 2	Level 3 <sup>1</sup>
1. Debt securities	4,646,431	303,178	—
1.1 Structured securities	—	—	—
1.2 Other debt securities	4,646,431	303,178	—
2. Equity instruments	240,994	—	24,704
2.1 Valued at fair value	240,994	—	24,704
2.2 Valued at cost	—	—	—
3. Units in investment funds	220,303	—	286,267
4. Loans	—	—	—
<b>Total</b>	<b>5,107,728</b>	<b>303,178</b>	<b>310,971</b>

\* 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”.

<sup>1</sup> These include investments in unlisted companies valued on the basis of internal models.

## SECTION 4

### Heading 40: Financial assets at amortized cost \*

#### 4.1 Financial assets at amortized cost: composition of due from banks

Type of transactions/Values	31/12/18					
	Balance value			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	Level 1	Level 2	Level 3
A. Due from Central Banks	179,215	—	—	—	150,651	—
1. Deposits to Maturity	—	—	—	X	X	X
2. Compulsory reserves	179,215	—	—	X	X	X
3. Repos	—	—	—	X	X	X
4. Others	—	—	—	X	X	X
B. Due from banks	7,257,313	—	—	57,455	6,552,600	504,670
1. Loans	6,833,205	—	—	—	6,371,695	336,593
1.1 Current accounts and demand deposits	1,017,324	—	—	X	X	X
1.2. Time deposits	83,714	—	—	X	X	X
1.3 Other loans:	5,732,167	—	—	X	X	X
- Repos	4,285,236	—	—	X	X	X
- Finance leases	3,631	—	—	X	X	X
- Others	1,443,300	—	—	X	X	X
2. Debts securities	424,108	—	—	57,455	180,905	168,077
2.1 Structured securities	—	—	—	—	—	—
2.2 Other debt securities	424,108	—	—	57,455	180,905	168,077
<b>Total</b>	<b>7,436,528</b>	<b>—</b>	<b>—</b>	<b>57,455</b>	<b>6,703,251</b>	<b>504,670</b>

\* 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”.

#### 4.2 Financial assets at amortized cost: composition of due from customers

Type of transaction/Values	31/12/18					
	Balance value			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	Level 1	Level 2	Level 3
1. Loans	44,737,855	1,156,954	345,054	—	11,932,395	35,026,483
1.1. Current accounts	1,269,980	68,468	68,340	X	X	X
1.2. Repos	3,799,947	—	—	X	X	X
1.3. Mortgages	21,855,046	480,682	—	X	X	X
1.4. Credit cards, personal loans and salary-backed finance	9,689,899	400,076	245,382	X	X	X
1.5. Finance lease	1,878,599	152,632	27,416	X	X	X
1.6. Factoring	2,225,734	10,807	—	X	X	X
1.7. Other loans	4,018,650	44,289	3,916	X	X	X
2. Debt securities	2,769,866	—	—	2,511,285	47,752	213,043
2.1. Structured securities	—	—	—	—	—	—
2.2. Other debt securities	2,769,866	—	—	2,511,285	47,752	213,043
Total	47,507,721	1,156,954	345,054	2,511,285	11,980,147	35,239,526

The column headed “of which: impaired items acquired” contains the non-performing loans (NPLs) acquired by Group company MBCredit Solutions.

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

#### 5.1 Financial assets held to maturity: composition \*

	30/6/18			
	Book value	Fair value		
		Level 1	Level 2	Level 3
1. Debt securities	2,595,747	2,586,499	28,086	—
- structured	—	—	—	—
- others	2,595,747	2,586,499	28,086	—
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”.

### 6.1 Due from banks: composition \*

Type of transactions/Values	30/6/18			
	Book values	Fair value		
		Level 1	Level 2	Level 3
A. Loans to Central Banks	212,418	—	212,421	—
1. Time deposits	—	X	X	X
2. Compulsory reserve	212,418	X	X	X
3. Repos	—	X	X	X
4. Others	—	X	X	X
B. Loans to banks	7,340,540	—	5,721,826	1,637,891
1. Loans	7,340,540	—	5,721,826	1,637,891
1.1 Current accounts and demand deposits	849,094	X	X	X
1.2 Time deposits	25	X	X	X
1.3 Other loans	6,491,421	X	X	X
- Repos	4,902,337	X	X	X
- Finance lease	3,636	X	X	X
- Others	1,585,448	X	X	X
2. Debt securities	—	—	—	—
2.1 Structured	—	X	X	X
2.2 Others	—	X	X	X
Total	7,552,958	—	5,934,247	1,637,891

\* 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”.

### 7.1 Due from customers: composition \*

Type of transactions/Values	30/6/18					
	Book values			Fair Value		
	Performing	Non-performing		Level 1	Level 2	Level 3
		Purchased	Others			
Loans	39,648,585	287,927	842,061	—	8,300,289	33,532,861
1. Current accounts	1,250,480	137,715	345	X	X	X
2. Repos	446,410	—	—	X	X	X
3. Mortgages	20,904,933	—	498,750	X	X	X
4. Credit cards, personal loans and salary-backed finance	9,595,332	123,658	156,048	X	X	X
5. Financial leases	1,970,491	22,638	138,321	X	X	X
6. Factoring	1,830,548	—	10,194	X	X	X
7. Other loans	3,650,391	3,916	38,403	X	X	X
Debt securities	199,316	—	—	—	34,328	164,052
8. Structured securities	—	—	—	X	X	X
9. Other debt securities	199,316	—	—	X	X	X
Total	39,847,901	287,927	842,061	—	8,334,617	33,696,913

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

## SECTION 5

### Heading 50: Hedging derivatives

#### 5.1 Hedging derivatives: by hedge type and level

	Fair Value			Notional value 31/12/18	Fair Value			Notional value 30/6/18
	31/12/18				30/6/18			
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives								
1. Fair value	—	212,177	—	9,986,275	—	225,814	—	9,590,262
2. Cash flows	—	150	—	—	—	—	—	—
3. Net investment in foreign subsidiaries	—	—	—	—	—	—	—	—
B. Credit derivatives								
1. Fair value	—	—	—	—	—	—	—	—
2. Cash flows	—	—	—	—	—	—	—	—
Total	—	212,327	—	9,986,275	—	225,814	—	9,590,262

#### 5.2 Hedging derivatives: by portfolio hedged and hedge type

Transaction / Type of hedging	Fair Value							Cash-flow hedges		Net Investments on foreign subsidiaries	
	Micro							Macro	Micro		Macro
	debt securities and interest rates	equity securities and stock indexes	currencies and gold	credit	commodities	others					
1. Financial assets vslued at fair value with impact taken to other comprehensive income	—	—	—	—		X	X	X	—	X	X
2. Financial assets valued at amortised cost	562	X	—	—		X	X	X	—	X	X
3. Portfolio	X	X	X	X		X	X	—	X	—	X
4. Others	—	—	—	—		—	—	X	—	X	—
Total assets	562	—	—	—		—	—	—	—	—	—
1. Financial liabilities	211,615	X	—	—		—	—	X	150	X	X
2. Portfolio	X	X	X	X		X	X	—	X	—	X
Total liabilities	211,615	—	—	—		—	—	—	150	—	—
1. Expected transactions	X	X	X	X		X	X	X	—	X	X
2. Financial assets and liabilities portfolio	X	X	X	X		X	X	—	X	—	—



## SECTION 7

### Heading 70: Equity investments

#### 7.1 Equity investments: disclosure on relationships

Company name	Legal office	Operating office	Control type	Ownership		Voting rights %
				Controlling entity	% shareholding	
A. Entities under significant 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.

#### 7.2 Significant investments: book values, fair values and dividends received

Company name	Book value	Fair Value (*)
A. Entities under significant influence		
1. Assicurazioni Generali S.p.A.	3,016,687	2,959,617
2. Istituto Europeo di Oncologia S.r.l.	39,798	n.a.
3. Burgo Group S.p.A.	—	n.a.
4. Others	48	n.a.
Total	3,056,533	

\* Available only for listed companies.

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.

The international accounting standards (IAS 28, IAS 36, IFRS 10 and IFRS 11) require the value of equity investments to be subject to impairment testing at least once a year, when there is evidence to suggest that there may have been a reduction in value. The Mediobanca Group carries out impairment test in conjunction with the annual financial statements for the year ending 30 June; as at 31 December 2018 no evidence of impairment had emerged.

## SECTION 9

### Heading 90: Property, plant and equipments

#### 9.1 Core tangible assets stated at cost

Activities/Values	Total 31/12/18	Total 30/6/18
1. Property assets	208,837	210,421
a) lands	84,882	84,883
b) buildings	98,565	100,044
c) furniture	11,787	10,630
d) electronic system	9,548	10,440
e) other	4,055	4,424
2. Leased assets	—	—
a) lands	—	—
b) buildings	—	—
c) furniture	—	—
d) electronic system	—	—
e) other	—	—
Total	208,837	210,421
<i>of which: arising from the recovery of guarantees received</i>	—	—

#### 9.2 Properties held for investment purposes stated at cost

Activities/Values	Total 31/12/18			Total 30/6/18				
	Book value	Fair value		Book value	Fair value			
		Level 1	Level 2		Level 3	Level 1	Level 2	Level 3
1. Property assets	68,146	—	—	141,867	77,388	—	—	154,516
a) lands	29,054	—	—	83,821	30,224	—	—	85,092
b) buildings	39,092	—	—	58,046	47,164	—	—	69,424
2. Leased assets	—	—	—	—	—	—	—	—
a) lands	—	—	—	—	—	—	—	—
b) buildings	—	—	—	—	—	—	—	—
Total	68,146	—	—	141,867	77,388	—	—	154,516
<i>of which: arising from the recovery of guarantees received</i>	43,112	—	—	47,790	43,857	—	—	47,790

## 9.5 Inventories pursuant to IAS2: composition

Items/Values	Total
	31/12/18
1. Inventories of tangible assets arising from the recovery of guarantees received	8,121
a) lands	1,145
b) buildings	6,976
c) furnitures	—
d) electronic systems	—
e) others	—
2. Other tangible assets	—
<b>Total</b>	<b>8,121</b>
<i>of which: valued at fair value less costs to sell</i>	—

This item consists of properties collected as a result of leasing agreements, which previously were recorded as Properties held for investment purposes (under IAS 40), but have now been restated as Tangible assets in accordance with the provisions of IAS 2 although only those of negligible amounts which it is not convenient to lease out and which it is anticipated will be sold within the next three or four years.

## SECTION 10

### Heading 100: Intangible assets

#### 10.1 Intangible assets: composition

Activities/Values	31/12/18		30/6/18	
	Definite life	Indefinite life	Definite life	Indefinite life
A.1 Goodwill	X	621,223	X	649,781
A.1.1 attributable to the group	X	621,223	X	649,781
A.1.2 attributable minorities	X	—	X	—
A.2 Other intangible asset	65,779	52,670	74,593	15,490
A.2.1 Assets valued at cost	65,779	52,670	58,140	15,490
a) intangible assets generated internally	—	—	—	—
b) other assets	65,779	52,670	58,140	15,490
A.2.2 Assets valued at fair value	—	—	16,453	—
a) intangible assets generated internally	—	—	—	—
b) other assets	—	—	16,453	—
<b>Total</b>	<b>65,779</b>	<b>673,893</b>	<b>74,593</b>	<b>665,271</b>

## Information on intangible assets and goodwill

Intangible assets include the effects of transactions executed by the Group.

As required by IFRS 3, the buyer must recognize the assets and liabilities acquired (including intangible assets and contingent liabilities not recorded in the acquired entity's accounts) in its own financial statements at fair value, by performing a purchase price allocation (PPA) process.

With reference to the acquisition of RAM AI, the purchase price allocation process for the acquisition was completed during the six months under review, which led to two new intangible assets being identified:

- The RAM brand, estimated at €37.2m, with an indefinite useful lifetime calculated using the market approach, taking into account the fact that some of RAM's main funds are among the top performers in the Morningstar rankings;
- The contract for AUM of a certain amount managed by one of the selling shareholders, with a value of €2.4m and a useful lifetime of five years.

Accordingly, the goodwill initially recorded of €177m reduces to €152.7m, including deferred tax of €7.1m.

A table summarizing the effects of the PPA process is shown below.

*Table 1: Summary of PPA effects on RAM AI*

	RAM AI	
	CHF million	EUR million <sup>2</sup>
<i>Acquisition date</i>	28/02/18	
Acquisition date net equity	7.7	6.8
Brands	41.9	37.2
Defined life intangible assets	2.7	2.4
<i>no. of years amortization</i>	5	5
Tax effects	8.0	7.1
Mediobanca interest in RAM AI	89.25%	89.25%
Post-PPA net equity, pro-quota	39.5	35.1
<i>Cum award purchase price</i>	211.6	187.8
<b>Goodwill</b>	<b>172.1</b>	<b>152.7</b>

<sup>1</sup> RAM AI became part of the Mediobanca Group on 28 February 2018, with the acquisition of a 69% stake plus a put-and-call option, which, if exercised, will allow the Group to increase its investment to 89.3%. See the annual report for the year ended 30 June 2018 for further details.

<sup>2</sup> Figures in Euros have been converted on the basis of the exchange rate prevailing at 31 December 2018.

*Table 2: Goodwill*

<b>Deal</b>	<b>31/12/18</b>	<b>30/6/18</b>
Compass-Linea	365,934	365,934
Spafid-IFID	3,540	3,540
Spafid Connect	2,342	2,342
Spafid-ISPS	—	3,831
Spafid Fiduciaria	3,080	3,080
Cairn Capital	41,508	41,905
Mediobanca Private Banking	52,103	52,103
RAM	152,719	177,046

*Table 3: Other intangible assets acquired through extraordinary transactions*

<b>Type</b>	<b>Deal</b>	<b>31/12/18</b>	<b>30/6/18</b>
Customer relationship		26,478	30,495
	IFID	258	308
	Spafid	532	588
	ISPS	—	2,915
	Barclays	13,855	16,454
	RAM Active Investments	3,156	3,606
	CMB	6,293	6,624
	RAM Active Investments	2,384	—
Brand		52,670	16,422
	ISPS	—	933
	MB Private Banking	15,489	15,489
	RAM Active Investments	37,181	—
Acquired software	Spafid Connect	4,447	5,033
<b>Total intangible assets from PPA</b>		<b>83,595</b>	<b>51,950</b>

On 20 December 2018, Spafid Connect sold its Market Connect business unit, the IT services platform acquired in March 2017 from Borsa Italiana. The sale, to Norwegian group Infront, involved related staff, equipment and accounts receivable and payable, intangible assets of €7.9m, €3.8m of which booked as goodwill, €2.8m as customer list, €0.9m as brand and €0.3m as software.

None of the other items show any evidence of impairment.

## SECTION 11

### **Asset heading 110 and Liability heading 60: Tax assets and liabilities**

#### *11.1 Advance tax assets: composition*

	<b>Total 31/12/18</b>	<b>Total 30/6/18</b>
- Balancing to the Profit and Loss	619,241	614,153
- Balancing to Net Equity	35,799	20,560
<b>Total</b>	<b>655,040</b>	<b>634,713</b>

#### *11.2 Deferred tax liabilities: composition*

	<b>Total 31/12/18</b>	<b>Total 30/6/18</b>
- Balancing to the Profit and Loss	293.518	284.242
- Balancing to Net Equity	32.588	55.346
<b>Total</b>	<b>326.106</b>	<b>339.588</b>

Tax assets and liabilities reflect the effects of IFRS 9 first-time adoption; for further details, see Part A of the Notes to the Accounts and/or the “Report on transition to IFRS 9” published on the Group’s website at [www.mediobanca.com](http://www.mediobanca.com).

### 11.3 Changes in advance tax during the period (balancing to profit and loss)

	Total 31/12/18	Total 30/6/18
1. Opening balance	614,153	700,672
2. Increases	82,703	51,140
2.1 Deferred tax assets for the year	82,659	50,518
a) relating to previous years	32	39,447
b) due to changes in accounting policies	—	—
c) writebacks	—	—
d) others	82,627	11,071
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	44	622
3. Decreases	77,615	137,659
3.1 Deferred tax assets derecognised in the year	76,571	95,353
a) reversals of temporary differences	76,530	92,789
b) writedowns of non-temporary items	—	—
c) changes in accounting policies	—	—
d) others	41	2,564
3.2 Reduction in tax rates	140	—
3.3 Other decreases:	904	42,306
a) conversion into tax receivables pursuant to Italian Law 214/2011	—	—
b) others	904	42,306
4. Closing balance	619,241	614,153

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

	Total 31/12/18	Total 30/6/18
1. Opening balance	548,385	609,074
2. Increases	—	71
3. Decreases	—	60,760
3.1 Reversals of temporary differences	—	57,536
3.2 Conversion into tax receivables deriving from:	—	—
a) year losses	—	—
b) tax losses	—	—
3.3 Other decreases	—	3,224
4. Closing balance	548,385	548,385

\* Italian decree law 59/16 on 29 April 2016 on deferred tax receivable pursuant to Italian decree law 214/11, as amended by Italian decree law 237/16, provides that in order to be able to retain the right to take advantage of the possibility of converting DTAs into tax credits, an irrevocable option must be specifically exercised, which involves payment of an annual instalment equal to 1.5% of the difference between the increase in advance tax assets at the reporting date since 30 June 2008 and the tax paid during the same period each year until 2029. Mediobanca has exercised this option in order to retain the possibility of converting DTAs for all companies adhering to the tax consolidation. No payment shall be due in this respect, however, given that the payments made to the tax consolidation exceed the increase in DTAs recorded since 30 June 2008.

As a result of the provisions contained in the Italian 2019 budget law, the writeoff to current taxes has been postponed, hence no changes have been recorded.

### 11.5 Changes in deferred tax during the period (balancing to profit and loss)

	Total 31/12/18	Total 30/6/18
1. Opening balance	284,242	290,368
2. Increases	60,927	8,217
2.1 Deferred tax liabilities of the year	54,999	4,392
a) relating to previous years	—	—
b) due to changes in accounting policies	—	—
c) others	54,999	4,392
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	5,928	3,825
3. Decreases	51,651	14,343
3.1 Deferred tax liabilities derecognised in the year	50,576	12,849
a) reversals of temporary differences	49,659	9,910
b) due to changes in accounting policies	—	—
c) others	917	2,939
3.2 Reductions in tax rates	780	—
3.3 Other decreases	295	1,494
4. Closing balance	293,518	284,242

### 11.6 Changes in advance tax during the period (balancing to net equity)

	Total 31/12/18	Total 30/6/18
1. Opening balance <sup>1</sup>	65,752	14,687
2. Increases	3,055	16,281
2.1 Deferred tax liabilities of the year	3,043	16,175
a) relating to previous years	—	—
b) due to changes in accounting policies	—	—
c) others	3,043	16,175
2.2 New taxes or increases in tax rates	—	1
2.3 Other increases	12	105
3. Decreases	33,008	10,408
3.1 Deferred tax liabilities derecognised in the year	33,006	10,174
a) reversals of temporary differences	31,835	9,344
b) writedowns of non-recoverable amounts	—	—
b) due to changes in accounting policies	—	—
c) others	1,171	830
3.2 Reductions in tax rates	—	—
3.3 Other decreases	2	234
4. Closing balance	35,799	20,560

<sup>1</sup> Initial balance as at 31/12/18 includes the effects of FTA of the new financial reporting standards.



### 11.7 Changes in deferred tax during the period (balancing to net equity)

	Total 31/12/18	Total 30/6/18
1. Opening balance <sup>1</sup>	60,724	79,878
2. Increases	495	254,221
2.1 Deferred tax liabilities of the year	8	254,220
a) relating to previous years	—	—
b) due to changes in accounting policies	—	—
c) others	8	254,220
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	487	1
3. Decreases	28,631	278,753
3.1 Deferred tax liabilities derecognised in the year	28,631	278,753
a) reversals of temporary differences	—	277,861
b) due to changes in accounting policies	—	—
c) others	28,631	892
3.2 Reductions in tax rates	—	—
3.3 Other decreases	—	—
4. Closing balance	32,588	55,346

<sup>1</sup> The initial balance as at 31/12/18 includes the effects of IFRS 9 FTA.

## SECTION 12

### **Assets heading 120 and Liability heading 70: Non-current assets and disposal groups classified as held for sale**

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

	31/12/18
A. Assets held for sale	
A.1 Financial assets	3,259
A.2 Equity investments	—
A.3 Tangible assets	—
<i>of which: obtained via the obtainment of the collateral</i>	—
A.4 Intangible assets	—
A.5 Other non-current assets	—
Total (A)	3,259
<i>of which: valued at cost</i>	—
<i>of which: valued at fair value, level1</i>	—
<i>of which: valued at fair value, level2</i>	—
<i>of which: valued at fair value, level3</i>	3,259

At end-December 2018, CheBanca! reached an agreement to dispose of its entire legacy of non-performing loans generated by the French branch office (this line of operations was discontinued in December 2009); the portfolio of loans will be transferred early in 2019.

The portfolio sold does not contain any items which would constitute “Discontinued operations liabilities” or “Liabilities in respect of discontinued operations”.

## SECTION 13

### Heading 130: Other assets

#### *13.1 Other assets: composition*

	31/12/18	30/6/18
1. Gold, silver and precious metals	695	695
2. Accrued income other than capitalized income from financial assets	19,200	26,765
3. Trade receivables or invoices to be issued	169,315	175,290
4. Amounts due from tax revenue authorities (not recorded under Heading 140)	169,391	213,004
5. Other items	200,955	312,575
- bills for collection	41,296	138,305
- amounts due in respect of premiums, grants, indemnities and other items in respect of lending transactions	22,431	20,845
- advance payments on deposit commissions	3,009	3,178
- other items in transit	31,032	119,170
- amounts due from staff	462	348
- sundry other items <sup>1</sup>	100,914	28,880
- improvements on third parties' assets	1,811	1,849
Total	559,556	728,329

<sup>1</sup> Includes prepaid expenses.

# Liabilities

## SECTION 1

### Heading 10: Financial liabilities at amortized cost

#### 1.1 Financial liabilities at amortized cost: composition of due to banks

Type of transaction/Values	31/12/18				30/6/18			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Due to Central Banks	4,374,223	X	X	X	4,384,592	X	X	X
2. Due to banks	8,818,139	X	X	X	7,878,867	X	X	X
2.1 Current accounts and on demand deposits	482,982	X	X	X	495,301	X	X	X
2.2 Deposits to maturity	—	X	X	X	—	X	X	X
2.3 Loans	8,230,173	X	X	X	7,242,932	X	X	X
2.3.1 Reverse repos	2,970,313	X	X	X	3,821,874	X	X	X
2.3.2 Other	5,259,860	X	X	X	3,421,058	X	X	X
2.4 Liabilities in respect of commitments to repurchase own equity instruments	—	X	X	X	—	X	X	X
2.5 Other liabilities	104,984	X	X	X	140,634	X	X	X
Total	13,192,362	—	13,192,362	—	12,263,459	—	12,263,459	—

#### 1.2 Financial liabilities at amortized cost: composition of due to customers

Type of securities/Values	31/12/18				30/6/18			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Current accounts and on demand deposits	16,717,811	X	X	X	14,573,523	X	X	X
2. Deposits to maturity	5,599,636	X	X	X	4,966,008	X	X	X
3. Loans	1,236,796	X	X	X	1,646,122	X	X	X
3.1 Reverse repos	785,370	X	X	X	806,937	X	X	X
3.2 Other	451,426	X	X	X	839,185	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	—	X	X	X	—	X	X	X
5. Other liabilities	161,490	X	X	X	134,390	X	X	X
Total	23,715,733	—	23,715,733	—	21,320,043	—	21,317,138	—

### 1.3 Financial liabilities at amortized cost: composition of debt securities in issue

Type of securities/Values	31/12/18					30/6/18			
	Book value	Fair Value *			Book value	Fair Value *			
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Debts securities									
1. bonds	19,231,344	1,197,405	18,351,396	—	19,187,164	704,927	18,746,567	—	
1.1 structured	4,975,506	—	5,161,055	—	5,089,072	—	5,212,649	—	
1.2 other	14,255,838	1,197,405	13,190,341	—	14,098,092	704,927	13,533,918	—	
2. other securities	1,175,900	—	1,125,417	50,483	1,421,354	—	1,371,635	49,719	
2.1 structured	—	—	—	—	—	—	—	—	—
2.2 other	1,175,900	—	1,125,417	50,483	1,421,354	—	1,371,635	49,719	
<b>Total</b>	<b>20,407,244</b>	<b>1,197,405</b>	<b>19,476,813</b>	<b>50,483</b>	<b>20,608,518</b>	<b>704,927</b>	<b>20,118,202</b>	<b>49,719</b>	

\* The fair values are shown net of Mediobanca issuer risk; if this item is included, the fair value at 31 December 2018 would show a gain of €384.3m (€260.3m).

### 1.4 Breakdown of subordinated debt securities

The heading “Debt securities in issue” includes the following six subordinated Lower Tier 2 issues, for a total amount of €2,450,042,000:

Issue	31/12/18		
	ISIN code	Nominal value	Book value
MB Subordinato Mar 29	XS1579416741	50,000	50,483
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	615,327	643,964
MB OPERA 3.75 2026	IT0005188351	300,000	299,367
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	392,552	395,352
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	499,859	506,923
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	499,480	553,953
<b>Total subordinated securities</b>		<b>2,357,218</b>	<b>2,450,042</b>

## SECTION 2

### Heading 20: Trading financial liabilities

#### 2.1 Trading financial liabilities: composition

Operation type / Values	31/12/18				Fair Value *
	Notional value	Fair value			
		Level 1	Level 2	Level 3	
A. Cash liabilities					
1. Due to banks	3,944,781	4,313,130	—	—	4,313,130
2. Due to customers	22,312	24,483	—	—	24,483
3. Debt securities	—	—	—	—	X
3.1 Bonds	—	—	—	—	X
3.1.1 Structured	—	—	—	—	X
3.1.2 Other bonds	—	—	—	—	X
3.2 Other securities	—	—	—	—	X
3.2.1 Structured	—	—	—	—	X
3.2.2 Other	—	—	—	—	X
Total (A)	3,967,093	4,337,613	—	—	4,337,613
B. Derivative instruments					
1. Financial derivatives	X	636,166	1,663,191	76,864	X
1.1 Trading	X	636,166	1,639,505	75,115 <sup>1</sup>	X
1.2 Related to the fair value option	X	—	—	—	X
1.3 Other	X	—	23,686	1,749 <sup>2</sup>	X
2. Credits derivatives	X	—	1,373,880	—	X
2.1 Trading	X	—	1,373,880	—	X
2.2 Related to the fair value option	X	—	—	—	X
2.3 Other	X	—	—	—	X
Total (B)	X	636,166	3,037,071	76,864	X
Total (A+B)	3,967,093	4,973,779	3,037,071	76,864	4,337,613

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

<sup>1</sup> Including €68,330,000 for options traded, matching the amount booked as financial assets held for trading.

<sup>2</sup> Includes the market value of options covering others attached to bonds issued, matching the amount booked as financial assets held for trading.

The tables prepared pursuant to IAS39 and to previous circular 262 of Banca d'Italia (IV amendment dated 15 December 2015) are reported below for the purpose of comparability.

#### 4.1 Trading liabilities: composition

Type of transactions/Values	30/6/18				Fair Value *
	Nominal value	Fair value			
		Level 1	Level 2	Level 3	
<b>A. Cash liabilities</b>					
1. Deposits from banks	2,081,829	2,399,210	—	—	2,399,210
2. Deposits from customers	213,819	246,452	—	—	246,452
3. Debt securities	—	—	—	—	—
3.1 Bonds	—	—	—	—	—
3.1.1 structured	—	—	—	—	X
3.1.2 other bonds	—	—	—	—	X
3.2 Other securities	—	—	—	—	—
3.2.1 structured	—	—	—	—	X
3.2.2 other bonds	—	—	—	—	X
<b>Total A</b>	<b>2,295,648</b>	<b>2,645,662</b>	<b>—</b>	<b>—</b>	<b>2,645,662</b>
<b>B. Derivative instruments</b>					
1. Financial derivatives	X	561,257	1,936,667	87,131	X
1.1 Trading	X	561,257	1,849,508	83,713 <sup>1</sup>	X
1.2 Related to the fair value option	X	—	—	—	X
1.3 Others	X	—	87,159	3,418 <sup>2</sup>	X
2. Credit derivatives	X	—	1,231,687	—	X
2.1 Trading	X	—	1,231,687	—	X
2.2 Related to the fair value option	X	—	—	—	X
2.3 Others	X	—	—	—	X
<b>Total B</b>	<b>X</b>	<b>561,257</b>	<b>3,168,354</b>	<b>87,131</b>	<b>X</b>
<b>Total (A + B)</b>	<b>X</b>	<b>3,206,919</b>	<b>3,168,354</b>	<b>87,131</b>	<b>X</b>

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

<sup>1</sup> Respectively €72,603,000 and €65,407,000 for options traded, matching the amount recorded among assets held for trading.

<sup>2</sup> 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 3

### Heading 30: Financial liabilities designated at fair value

#### 3.1 Financial liabilities designated at fair value: composition

Operation Type/Values	Total 31/12/18					Fair value
	Nominal value	Fair value			Fair value	
		Level 1	Level 2	Level 3		
1. Due to banks						
1.1 Structured	—	—	—	—		X
1.2 Others	—	—	—	—		X
<i>of which:</i>						
- commitments to disburse funds	—	X	X	X		X
- financial guarantees given	—	X	X	X		X
2. Due to customers						
2.1 Structured	—	—	—	—		X
2.2 Others	—	—	—	—		X
<i>of which:</i>						
- commitments to disburse funds	—	X	X	X		X
- financial guarantees given	—	X	X	X		X
3. Debt securities						
3.1 Structured	50,000	—	53,525	—		X
3.2 Others	—	—	—	—		X
<b>Total</b>	<b>50,000</b>	<b>—</b>	<b>53,525</b>	<b>—</b>		<b>53,525</b>

## SECTION 4

### Heading 40: Hedging derivatives

#### 4.1 Hedging derivatives: by hedge type and level

Items/Values	Notional value 31/12/18	31/12/18			Notional value 30/6/18	30/6/18		
		Fair value				Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Financial derivatives	8,452,133	—	180,409	—	9,135,810	—	233,086	—
1) Fair value hedges	8,417,133	—	175,212	—	9,095,810	—	227,445	—
2) Cash flow hedges	35,000	—	5,197	—	40,000	—	5,641	—
3) Foreign investments	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value hedges	—	—	—	—	—	—	—	—
2) Cash flow hedges	—	—	—	—	—	—	—	—
<b>Total</b>	<b>8,452,133</b>	<b>—</b>	<b>180,409</b>	<b>—</b>	<b>9,135,810</b>	<b>—</b>	<b>233,086</b>	<b>—</b>



#### 4.2 Hedging derivatives: by portfolio hedged and hedge type

Transactions/Type of hedge	Fair Value						Cash flow		Foreign invest.	
	Specific			Generic			Specific	Generic		
	Debt securities and interest rates	Equities and equity index	Currencies and gold	Credit	Commodities	Others				
1. Financial assets valued at fair value with impact taken on comprehensive income	44,047	—	—	—	X	X	X	—	X	X
2. Financial assets valued to amortized cost	35,887	X	—	—	X	X	X	—	X	X
3. Portfolio	X	X	X	X	X	X	—	X	—	X
4. Other operations	—	—	—	—	—	—	X	—	X	—
Total assets	79,934	—	—	—	—	—	—	—	—	—
1. Financial liabilities	95,437	X	—	—	—	—	X	5,038	X	X
2. Portfolio	X	X	X	X	X	X	—	X	—	X
Total liabilities	95,437	—	—	—	—	—	—	5,038	—	—
1. Expected transactions	X	X	X	X	X	X	X	—	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	—	X	—	—

## SECTION 6

### Heading 60: Tax liabilities

Please see asset section 11.

## SECTION 8

### Heading 80: Other liabilities

#### 8.1 Other liabilities: composition

	31/12/18	30/6/18
1. Payment agreements (IFRS 2)	—	—
2. Impaired endorsements <sup>1</sup>	—	15,404
3. Working capital payables and invoices pending receipt	283,640	308,165
4. Amounts due to revenue authorities <sup>2</sup>	80,431	67,468
5. Amounts due to staff	148,809	194,054
6. Other items:	203,162	175,284
- bills for collection	26,467	25,895
- coupons and dividends pending collection	2,235	2,326
- available sums payable to third parties	35,490	41,927
- premiums, grants and other items in respect of lending transactions	19,385	24,493
- credit notes to be issued	—	—
- other <sup>2</sup>	119,585	80,643
7. Adjustments upon consolidation	—	—
Total	716,042	760,375

<sup>1</sup> With the introduction of the fifth update to Bank of Italy circular 262/05, total provisions in respect of commitments to disburse funds and of financial guarantees issued, which previously were accounted for as “Other liabilities”, are now stated as “Provisions”.

<sup>2</sup> 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 9

### Heading 90: Staff severance indemnity provision

#### 9.1 Staff severance indemnity provision: changes during the period

	31/12/18	30/6/18
A. Initial amount	27,510	29,779
B. Increases	4,761	10,038
B.1 Provision of the year	4,118	8,622
B.2 Other increases	643	1,416
C. Reductions	5,980	12,307
C.1 Severance payments	1,708	4,914
C.2 Other decreases <sup>1</sup>	4,272	7,393
D. Closing balance	26,291	27,510
Total	26,291	27,510

<sup>1</sup> Includes €2,342,000 in transfers to external, defined contribution pension schemes (30/6/18: €4,287,000).

## SECTION 10

### Heading 100: Provisions

#### 10.1 Provisions: composition

Items/Components	31/12/18	30/6/18
1. Provisions for credit risk related to financial obligations and warranties <sup>1</sup>	11,283	—
2. Provisions on other obligations and warranties release	—	—
3. Provisions of business retirement	—	—
4. Other provisions for risks and obligations	174,978	185,482
4.1. legal and fiscal controversies	—	—
4.2 obligations for employees	10,621	12,421
4.3 others	164,357	173,061
Total	186,261	185,482

<sup>1</sup> With the introduction of the fifth update to Bank of Italy circular 262/05, total provisions in respect of commitments to disburse funds and of financial guarantees issued, which previously were accounted for as “Other liabilities”, are now stated as “Provisions”.

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

As at 31 December 2018, the heading “Other provisions” totalled €212.6m, and includes €11.3m in commitments to disburse funds and financial guarantees issued (which until last year were accounted for as other liabilities), €10.6m in staff-related expenses (following withdrawals of approx. €2m during the six months), plus €164.4m for litigation and other contingent liabilities. The provisions chiefly involve Mediobanca (€94.1m), CheBanca! (€48.9m), SelmaBipiemme (€10.9m, the majority of which in relation to leasing contracts) 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 4 June 2019.

- 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. Judgement is currently pending at the court of Milan; after the first hearing held on 30 October 2018, the judge found that it was necessary to dwell further on the preliminary issues, hence the next hearing to discuss them has been set for 9 April 2019.

With reference to the disputes outstanding with the Italian revenue authorities as at 31 December 2018, during the six months under review Mediobanca S.p.A. received notification that the transparency tax required by the regulations on controlled foreign companies (CFCs) had not been applied to revenues generated by Compagnie Monégasque de Banque and Compagnie Monégasque de Gestion, as follows:

- The notice of assessment regards the alleged failure by Mediobanca to pay tax in FY 2013-14 on 2013 earnings, in an amount of €21.3m (plus fines and interest);
- The same charge was made in a report of findings for FY 2014-15 (earnings 2014), for which no notice of assessment has yet been issued.

The company is convinced there is no wrongdoing, and in particular that it falls within the exemptions permitted by the law, and for this reason intends to challenge the rulings. Furthermore, since 2016 both Group companies have paid income tax in the Principality of Monaco, meaning they would be excluded from application of the CFC regulations.

A total of nineteen disputes were outstanding as at 31 December 2018. In addition to the 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;
- Two cases 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; the company has been successful at the first stage of the ruling process, and the terms for appeals to be submitted by the Italian revenue authority are currently pending;
- 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;
- Two claims 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 €467,000; regarding the dispute outstanding at 30 June 2018 (for higher tax worth a notified amount of €87,000), the company has been successful at the first stage of the ruling process, and the terms for appeals to be submitted by the Italian revenue authority are currently pending;
- 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; the claims are currently at different stages of the ruling process, and so far not all of them have gone in the company's favour.

Mediobanca SGR has also been charged, in its capacity as manager of the *Marsupio* real estate fund, for the alleged failure to charge withholding tax on three deals involving higher tax worth a notified amount of €746,000; to date the first-degree ruling has gone in favour of the company in two cases, and against it in the third.

The provision for risks and charges is comfortably adequate to cover any charges due in connection with all the cases that have been brought against Mediobanca and the other Group companies (for which no other significant litigation, tax or otherwise, is pending).<sup>1</sup>

### 10.2 Provisions: movements during the period

	Provisions on other commitments and other guarantees given	Provision to retirement payments and similar	Other provisions	Total
A. Opening balance <sup>1</sup>	—	12,421	172,880	185,301
B. Increases	—	200	3,367	3,567
B.1 Provision for the year	—	200	3,367	3,567
B.2 Changes due to passage of time	—	—	—	—
B.3 Difference due to discount rate changes	—	—	—	—
B.4 Other increases	—	—	—	—
C. Decreases	—	2,000	11,890	13,890
C.1 Use during the year	—	2,000	11,880	13,880
C.2 Difference due to discount rate changes	—	—	—	—
C.3 Other decreases	—	—	10	10
D. Closing balance	—	10,621	164,357	174,978

<sup>1</sup> The balance as at 31/12/18 includes the effects of the new reporting standards coming into force.

### 10.3 Provisions for credit risk related to commitments and financial guarantees given

	Provisions for credit risk related to financial obligation and warranties release			Total
	First stage	Second stage	Third stage	
Obligation to distribute funds	6,566	2,008	1,578	10,152
Financial warranties release	1,128	-	3	1,131
Total	7,694	2,008	1,581	11,283

<sup>1</sup> As permitted by IAS 37, paragraph 92, no precise indication has been given of other contingent liabilities

## SECTION 11

### Heading 110: Technical reserves

#### 11.1 Technical reserves: composition

	Direct business	Indirect business	31/12/18	30/6/18
A. Non-life insurance	—	171,858	171,858	175,853
A.1 Premium reserves	—	163,677	163,677	165,752
A.2 Accident reserves	—	8,181	8,181	10,101
A.3 Other reserves	—	—	—	—
B. Life insurance	—	—	—	—
B.1 Mathematical reserves	—	—	—	—
B.2 Reserves for sums to pay	—	—	—	—
B.3 Other reserves	—	—	—	—
C. Technical reserves when investment risk is supported by insureds	—	—	—	—
C.1 Reserves related to contract which performance are connected to investment funds and market index	—	—	—	—
C.2 Reserves originated by retirement funds management	—	—	—	—
D. Total technical reserves	—	171,858	171,858	175,853

#### 11.2 Technical reserves: movements during the period

	31/12/18	30/6/18
A. Non-life business		
Balance at start of period	175,853	165,974
Combinations involving group companies	—	—
Changes to reserves (+/-)	(3,995)	9,879
Other additions	—	—
Balance at end of period	171,858	175,853
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	171,858	175,853

## SECTION 13

### Headings 120, 130, 140, 150, 160, 170 and 180: Net equity

#### 13.1 “Capital” and “treasury shares”: composition

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

#### 13.2 Share capital: changes in no. of parent company shares in issue during the period

Item/Type	Ordinary
A. Shares in issue at start of period	886,550,440
- entirely unrestricted	886,550,440
- with restrictions	—
A.1 Treasury shares (-)	(8,714,833)
A.2 Shares in issue: balance at start of period	877,835,607
B. Additions	2,319,563
B.1 New shares issuance as a result of:	492,500
- rights issued	—
- business combinations	—
- bond conversions	—
- exercise of warrants	—
- others	—
- bonus issues	492,500
- to staff members	492,500
- to Board members	—
- others	—
B.2 Treasury shares' disposals <sup>1</sup>	1,827,063
B.3 Other additions	—
C. Reductions	(10,241,154)
C.1 Cancellations	—
C.2 Treasury shares' buybacks	(10,241,154)
C.3 Disposals of businesses	—
C.4 Other reductions	—
D. Shares in issue: balance at end of period	869,914,016
D.1 Add: treasury shares	(17,128,924)
D.2 Shares in issue at end of period	887,042,940
- entirely unrestricted	887,042,940
- with restrictions	—

<sup>1</sup> In connection with the exercise of performance shares.



On 8 November 2018, the share buyback programme authorized by shareholders at the annual general meeting held on 27 October 2018 and by the European Central Bank pursuant to Articles 77-78 of Regulation (EU) 575/2013 (the “CRR”) on 23 October 2018. The buyback involves a maximum of 3% of the share capital (or some 26.6 million shares), for use in connection with possible acquisitions or to implement share-based compensation schemes, current or future. As at 31 December 2018, a total of 10.2 million shares had been acquired, for an outlay of €77.9m. Since the year-end a further 0.7 million shares have been purchased, for an outlay of €4.9m.

#### *13.4 Profit reserves: other information*

<b>Item</b>	<b>31/12/18</b>	<b>30/6/18</b>
Legal reserve	88,705	88,124
Statutory reserve	1,131,830	1,284,471
Treasury shares	167,608	109,338
Others	4,477,433	4,008,517
<b>Total</b>	<b>5,865,576</b>	<b>5,490,450</b>

## **SECTION 14**

### **Heading 190: Minority interests**

#### *14.1 Heading 210: Minority interests: composition*

<b>Company name</b>	<b>31/12/18</b>	<b>30/6/18</b>
1. SelmaBipiemme S.p.A.	83,652	86,603
2. RAM Active Investments S.A. <sup>1</sup>	5,503	1,290
3. Other minors	6	7
<b>Total</b>	<b>89,161</b>	<b>87,900</b>

<sup>1</sup> The change chiefly regards the effects of the PPA process.

## Other information

### 1. Commitments and financial guarantees given

	Nominal value of commitments and financial guarantees given			31/12/18
	First stage	Second stage	Third stage	
1. Commitment to disburse funds	10,249,441	45,807	11,051	10,306,299
a) Central Banks	—	—	—	—
b) Public Administration	1,968,386	—	—	1,968,386
c) Banks	40,016	—	—	40,016
d) Other financial companies	1,053,185	11	5,000	1,058,196
e) Non-financial companies	5,732,737	37,857	4,854	5,775,448
f) Families	1,455,117	7,939	1,197	1,464,253
2. Financial guarantees given	291,988	13,185	323	305,496
a) Central Banks	—	—	—	—
b) Public Administration	—	—	—	—
c) Banks	46,069	—	—	46,069
d) Other financial companies	161,822	—	—	161,822
e) Non-financial companies	64,812	13,185	323	78,320
f) Families	19,285	—	—	19,285

### 2. Other commitments and guarantees given

Portfolio	31/12/18
1. Other guarantees given	23,103,105
<i>of which: impaired</i>	—
a) Central Banks	—
b) General governments	—
c) Banks	12,217,110
d) Other financial corporations	10,834,479
e) Non financial corporations	41
f) Households	51,475
2. Other commitments	11,480
<i>of which: impaired</i>	—
a) Central Banks	—
b) General governments	—
c) Banks	1,911
d) Other financial corporations	—
e) Non financial corporations	—
f) Households	9,569

## 6. Assets managed and traded on behalf of customers

Type of service	31/12/18	30/6/18
1. Orders execution on behalf of customers	12,427,946	33,181,962
a) Purchases	6,285,913	16,781,417
1. settled	6,259,723	16,633,525
2. unsettled	26,190	147,892
b) Sales	6,142,033	16,400,545
1. settled	6,115,843	16,252,653
2. unsettled	26,190	147,892
2. Portfolio management	28,818,485	29,967,839
a) Individual	12,338,363	13,010,988
b) Collective	16,480,122	16,956,851
3. Custody and administration of securities	63,479,864	51,095,550
a) Third-party securities on deposits: relating to depositary banks activities (excluding portfolio management)	8,395,932	8,894,582
1. securities issued by companies included in the area of consolidation	194,311	194,759
2. other securities	8,201,621	8,699,823
b) Third-party securities held in deposits (excluding portfolio management): other	15,945,129	15,604,059
1. securities issued by companies included in the area of consolidation	13,979,067	34
2. other securities	1,966,062	15,604,025
c) Third-party securities deposited to third	20,572,401	18,026,801
d) Own securities deposited to third	18,566,402	8,570,108
4. Other operations	1,935,670	1,934,851

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

### *1. Guarantees and commitments*

<b>Operations</b>	<b>30/6/18</b>
1) Financial guarantees given to	295,211
a) Banks	17,256
b) Customers	277,955
2) Commercial guarantees given to	68,942
a) Banks	5
b) Customers	68,937
3) Irrevocable commitments to disburse funds	10,619,616
a) Banks	398,799
i) usage certain	398,709
ii) usage uncertain	90
b) Customers	10,220,817
i) usage certain	9,086,995
ii) usage uncertain	1,133,822
4) Commitments underlying credit derivatives protection sales	19,893,957
5) Assets formed as collateral for third-party obligations	—
6) Other commitments	4,081,688
<b>Total</b>	<b>34,959,414</b>

### *2. Assets pledged as collateral for own liabilities and commitments*

<b>Portfolio</b>	<b>30/6/18</b>
1. Financial instruments held for trading	3,089,233
2. Financial instruments designated at fair value	—
3. Financial instruments available for sale	1,333,617
4. Financial instruments held to maturity	823,976
5. Loans and receivables with banks	335,086
6. Loans and receivables with customers	8,992,820
7. Property, plant and equipments	—

## Part C - Notes to consolidated profit and loss account

### SECTION I

#### Headings 10 and 20: Net interest income

##### 1.1 Interest and similar income: breakdown

Items/Technical forms	Debt securities	Loans	Other operations	6 mths ended 31/12/2018
1. Financial assets at fair value with impact taken to P&L:	16,595	1,395	—	17,990
1.1 Financial assets held for trading	15,274	272	—	15,546
1.2 Financial assets designated at fair value	—	—	—	—
1.3 Other financial assets mandatorily at fair value	1,321	1,123	—	2,444
2. Financial assets at fair value with impact taken to comprehensive income	31,664	—	X	31,664
3. Financial assets at amortized cost	28,611	851,920	X	880,531
3.1 Due from banks	8,012	10,196	X	18,208
3.2 Due from customers	20,599	841,724	X	862,323
4. Hedging derivatives	X	X	29,319	29,319
5. Other assets	X	X	579	579
6. Financial liabilities	X	X	X	9,118
<b>Total</b>	<b>76,870</b>	<b>853,315</b>	<b>29,898</b>	<b>969,201</b>
of which: income interests on impaired financial assets	—	31,420	—	31,420

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

##### 1.1 Interest and similar income: breakdown

Items/Technical forms	Debt securities	Loans	Other transactions	6 months ended 31/12/17
1. Financial assets held for trading	7,443	957	—	8,400
2. Financial assets valued at fair value through profit and loss	—	—	—	—
3. Available for sale financial assets	33,982	—	—	33,982
4. Held to maturity financial assets	20,829	—	—	20,829
5. Due from banks	—	12,206	—	12,206
6. Due from customers	3,851	808,646	—	812,497
7. Hedging derivatives	X	X	44,446	44,446
8. Other assets	X	X	9,477	9,477
<b>Total</b>	<b>66,105</b>	<b>821,809</b>	<b>53,893</b>	<b>941,807</b>

### 1.3 Interest expense and similar charges: breakdown

Items/Technical forms	Debts	Securities	Other operations	6 mths ended 2018/2019
1. Financial liabilities at amortized cost	(51,256)	(188,334)	X	(239,590)
1.1 Due to central banks	(381)	X	X	(381)
1.2 Due to banks	(12,947)	X	X	(12,947)
1.3 Due to customers	(37,928)	X	X	(37,928)
1.4 Debt securities in issue	X	(188,334)	X	(188,334)
2. Trading financial liabilities	—	—	—	—
3. Financial liabilities designated at fair value	—	(1,235)	—	(1,235)
4. Other liabilities and funds	X	X	(200)	(200)
5. Hedging derivatives	X	X	—	—
6. Financial assets	X	X	X	(2,897)
<b>Total</b>	<b>(51,256)</b>	<b>(189,569)</b>	<b>(200)</b>	<b>(243,922)</b>

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

### 1.4 Interest expense and similar charges: breakdown

Items/Technical forms	Debts	Securities	Other transactions	6 months ended 31/12/17
1. Due to Central Banks	(408)	X	—	(408)
2. Due to banks	(8,643)	X	—	(8,643)
3. Due to customers	(30,861)	X	—	(30,861)
4. Debt securities in issue	X	(214,934)	—	(214,934)
5. Financial liabilities held for trading	—	—	—	—
6. Financial liabilities valued at fair value through profit and loss	—	—	—	—
7. Other liabilities and provisions	X	X	(2,414)	(2,414)
8. Hedging derivatives	X	X	—	—
<b>Total</b>	<b>(39,912)</b>	<b>(214,934)</b>	<b>(2,414)</b>	<b>(257,260)</b>

## SECTION 2

### Headings 40 and 50: Net fee and commission income

#### 2.1 Fee and commission income: breakdown

Type of service/Values	6 mths ended 31/12/18	6 mths ended 31/12/17
a) guarantees given	974	643
b) credit derivatives	—	—
c) management, brokerage and consultancy income:	163,505	161,451
1. securities trading	6,579	6,916
2. currency trading	—	—
3. portfolio management	59,818	42,171
3.1. individual	14,781	17,252
3.2. collective	45,037	24,919
4. custody and administration of securities	5,763	7,249
5. custodian bank	—	—
6. placement of securities	34,330	48,325
7. reception and transmission of orders	5,490	5,658
8. advisory services	2,765	6,032
8.1. related to investments	2,765	6,032
8.2. related to financial structure	—	—
9. distribution of third parties services	48,760	45,100
9.1. portfolio management	13,848	17,112
9.1.1. individual	13,467	17,053
9.1.2. collective	381	59
9.2. insurance products	33,128	26,528
9.3. other products	1,784	1,460
d) collection and payment services	6,502	10,417
e) securitization servicing	254	—
f) factoring services	3,094	2,853
g) tax collection services	—	—
h) management of multilateral trading facilities	—	—
i) management of current account	3,219	3,331
j) other services	120,355	91,709
Total	297,903	270,404

The figures as at 31 December 2018 include €23m deriving from the consolidation of RAM AI in connection with collective portfolio asset management activity.

## 2.2 Fees and commissions expenses: breakdown

Services/Amounts	6 mths ended 31/12/18		6 mths ended 31/12/17	
a) guarantees received		(17)		(3)
b) credit derivatives		—		—
c) management and brokerage services		(10,671)		(11,318)
1. trading in financial instruments		(3,855)		(4,346)
2. currency trading		—		—
3. portfolios management:		(5,100)		(2,884)
3.1 own portfolio		(103)		(91)
3.2 third parties portfolio		(4,997)		(2,793)
4. custody and administration securities		(1,421)		(2,162)
5. financial instruments placement		(295)		(1,926)
6. off-site distribution of financial instruments, products and services		—		—
d) collection and payment services		(6,365)		(6,634)
e) other services		(54,320)		(47,672)
Total		(71,373)		(65,627)

The figures as at 31 December 2018 include €3.3m deriving from the consolidation of RAM AI in connection with delegated investment management activity.

## SECTION 3

### Heading 70: Dividends and similar income

#### 3.1 Dividends and similar income: breakdown

Items/Income	6 mths ended 31/12/18		6 mths ended 31/12/17	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	20,176	—	19,175	373
B. Other financial assets mandatorily measured at fair value	8,916	13	174	6,439
C. Financial assets measured at fair value through other comprehensive income	23	—	—	—
D. Investments	—	—	—	X
Total	29,115	13	19,349	6,812



## SECTION 4

### **Heading 80: Net trading income**

#### *4.1 Net trading income: breakdown*

Transactions / 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	58,267	90,521	(343,404)	(91,106)	(285,722)
1.1 Debt securities	41,534	24,092	(111,281)	(14,751)	(60,406)
1.2.Equity	16,669	65,934	(221,267)	(74,750)	(213,414)
1.3.Units in investments funds	64	405	(10,833)	(1,605)	(11,969)
1.4 Finanziamenti	—	90	—	—	90
1.5.Others	—	—	(23)	—	(23)
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	(39,527)
4. Derivatives	1,518,332	1,086,455	(1,290,460)	(1,025,449)	339,490
4.1 Financial derivatives:	1,171,836	764,095	(1,010,483)	(701,258)	274,802
- on debt securities and interest rates <sup>1</sup>	518,486	27,599	(444,011)	(77,092)	24,982
- on equity securities and shares indexes	653,070	710,489	(566,472)	(624,166)	172,921
- on currencies and gold	X	X	X	X	50,612
- other	280	26,007	—	—	26,287
4.2 Credit derivatives	346,496	322,360	(279,977)	(324,191)	64,688
<i>of which: natural hedges connected to         fu option</i>	X	X	X	X	—
<b>Total</b>	<b>1,576,599</b>	<b>1,176,976</b>	<b>(1,633,864)</b>	<b>(1,116,555)</b>	<b>14,241</b>

<sup>1</sup> Of which €27,155,000 in negative margins on interest rate derivatives (31/12/17: minus €910,000).

## SECTION 5

### Heading 90: Net hedging income (expense)

#### 5.1 Net hedging income (expense): breakdown

Income elements/Amounts	6 mths ended 31/12/18	6 mths ended 31/12/17
A. Income from:		
A.1 Fair value hedging instruments	50,947	265,920
A.2 Hedged asset items (in fair value hedge relationship)	37,066	23,292
A.3 Hedged liability items (in fair value hedge relationship)	19,065	232,094
A.4 Cash-flows hedging derivatives	4	—
A.5 Assets and liabilities denominated in currency	—	—
Total gains on hedging activities (A)	107,082	521,306
B. Losses on:		
B.1 Fair value hedging instruments	(23,022)	(436,823)
B.2 Hedged asset items (in fair value hedge relationship)	(15,182)	(53,302)
B.3 Hedged liability items (in fair value hedge relationship)	(66,359)	(32,238)
B.4 Cash-flows hedging derivatives	(2)	(2)
B.5 Assets and liabilities denominated in currency	—	—
Total losses on hedging activities (B)	(104,565)	(522,365)
C. Net profit from hedging activities (A - B)	2,517	(1,059)
of which: result of hedges on net exposures	—	—

## SECTION 6

### Heading 100: Gain (loss) on disposals/repurchases

#### 6.1 Gain (loss) on disposals/repurchases: breakdown

Items / Income	6 mths ended 31/12/18		
	Gains	Losses	Net profit
A. Financial assets			
1. Financial assets at amortized cost	3,160	(1,529)	6,631
1.1 Loans and receivables with banks	1,543	(116)	1,427
1.2 Loans and receivables with customers	6,617	(1,413)	5,204
2. Financial assets at fair value with impact taken to comprehensive income	27,908	(5,919)	21,989
2.1 Debt securities	27,908	(5,919)	21,989
2.2 Loans	—	—	—
Total assets (A)	36,068	(7,448)	28,620
B. Financial liabilities at amortized cost			
1. Deposits with banks	—	—	—
2. Deposits with customers	—	—	—
3. Debt securities in issue	3,301	(2,249)	1,052
Total liabilities (B)	3,301	(2,249)	1,052

Gains on financial assets recognized at fair value through other comprehensive income and financial assets recognized at amortized cost include exchange rate valuations of €9.7m and €0.8m respectively.

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

### 6.1 Gain (loss) on disposal/repurchases: breakdown

Items/Income	6 months ended 31/12/17		
	Gains	Losses	Net result
Financial assets			
1. Due from banks	—	—	—
2. Due from customers	6,477	(2,787)	3,690
3. Financial assets available for sale	103,951	(10,947)	93,004
3.1 Debt securities	9,452	(10,877)	(1,425)
3.2 Equity instruments	94,482	—	94,482
3.3 Units in investment funds	17	(70)	(53)
3.4 Loans	—	—	—
4. Financial assets held to maturity	462	(2,578)	(2,116)
<b>Total assets</b>	<b>110,890</b>	<b>(16,312)</b>	<b>94,578</b>
Financial liabilities			
1. Due to banks	1,097	—	1,097
2. Due to customers	—	—	—
3. Debt securities in issue	—	(5,491)	(5,491)
<b>Total liabilities</b>	<b>1,097</b>	<b>(5,491)</b>	<b>(4,394)</b>

## SECTION 7

### Heading 110: Net result of other financial assets and liabilities valued at fair value with impact taken to profit and loss

#### 7.1 Net variation in the value of other financial assets and liabilities valued at fair value with impact taken to profit and loss: composition of financial assets and liabilities designated at fair value

Operation/Income item	Gains (A)	Proceeds (B)	Losses (C)	Minus from disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets					
1.1 Debt securities	—	—	(2,218)	—	(2,218)
1.2 Loans	278	—	—	(496)	(218)
2. Financial liabilities					
2.1 Debt securities in issue	2,626	—	—	—	2,626
2.2 Due to banks	—	—	—	—	—
2.3 Due to customers	—	—	—	—	—
3. Foreign-currency denominated financial assets and liabilities: exchange rate differences					
	X	X	X	X	—
<b>Total</b>	<b>2,904</b>	<b>—</b>	<b>(2,218)</b>	<b>(496)</b>	<b>190</b>

7.2 Net variation in the value of other financial assets and liabilities valued at fair value with impact taken to profit and loss: composition of other financial assets mandatorily valued at fair value

Operation/Income item	Gains (A)	Proceeds from disposal (B)	Losses (C)	Minus from sale (D)	Net result [(A+B) - (C+D)]
1. Financial assets	30,559	1,120	(27,054)	—	4,625
1.1 Debt securities	—	984	(465)	—	519
1.2 Equity securities	—	—	—	—	—
1.3 UCITS	9,100	136	(19,608)	—	(10,372)
1.4 Loans	21,459	—	(6,981)	—	14,478
2. Financial assets: exchange rate differences	X	X	X	X	38
Total	30,559	1,120	(27,054)	—	4,663

SECTION 8

Heading 130: Net write-offs (write-backs) for credit risk

8.1 Net write-offs for credit risk related to financial assets valued at amortized cost: breakdown

Transactions/Income	Writedowns (1)			Writebacks (2)		6 mths ended 31/12/18
	First and second stage	Third stage		First and second stage	Third stage	
		Write-off	Others			
A. Loans and receivables with banks	(307)	—	—	5	—	(302)
- Loans	(214)	—	—	5	—	(209)
- Debt receivables	(93)	—	—	—	—	(93)
of which: financial assets purchased or originated credit impaired	—	—	—	—	—	—
B. Loans and receivables with customers	(207,998)	(20,905)	(144,891)	149,420	112,451	(111,923)
- Loans	(207,628)	(20,905)	(144,891)	149,268	112,451	(111,705)
- Debt receivables	(370)	—	—	152	—	(218)
of which: financial assets purchased or originated credit impaired	—	(17,264)	—	—	26,512	9,248
Total	(208,305)	(20,905)	(144,891)	149,425	112,451	(112,225)

The table below shows the data stated in accordance with IAS 39, as per Bank of Italy circular 262, fourth amendment (15 December 2015), for comparative purposes.

### 8.1 Net value adjustments for impairment: breakdown

Transactions/Income	Writedowns			Writebacks				6 months ended 31/12/17
	Specific		Portfolio	Specific		Portfolio		
	Writeoffs	Others		A	B	A	B	
A. Due from banks								
- Loans	—	—	(258)	—	—	—	—	(258)
- Debt securities	—	—	—	—	—	—	—	—
B. Due from customers								
Non-performing purchased loans								
- Loans	(13,531)	—	X	—	20,683 <sup>1</sup>	X	X	7,152
- Debt securities	—	—	X	—	—	X	X	—
Other receivables								
- Loans	(9,135)	(152,797)	(158,154)	2,210	85,834	—	122,110	(109,932)
- Debt securities	—	—	—	—	—	—	841	841
C. Total	(22,666)	(152,797)	(158,412)	2,210	106,517	—	122,951	(102,197)

<sup>1</sup> 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 write-offs for credit risk related to financial assets valued at fair value with impact taken to comprehensive income: breakdown

Transactions/Income	Writedowns (1)			Writebacks (2)		6 mths ended 31/12/18
	Stage 1 and stage 2	Stage 3		Stage 1 and stage 2	Stage 3	
		Write-off	Others			
A. Debt securities	(650)	—	—	—	—	(650)
B. Loans	—	—	—	—	—	—
- to customers	—	—	—	—	—	—
- to banks	—	—	—	—	—	—
of which: financial assets purchased or originated credit impaired	—	—	—	—	—	—
Total	(650)	—	—	—	—	(650)

## SECTION 9

### **Heading 140: Gains (losses) from contractual modifications without derecognition**

#### *9.1 Gains (losses) from contractual modifications: breakdown*

This heading, which reflects a loss of €657,000, includes the impact of modifications to contracts for financial assets which, as they do not constitute substantial modifications, under IFRS 9 do not entail derecognition of the assets but require the modifications to the cash flows provided for contractually to be taken through the profit and loss account.

## SECTION 10

### **Heading 160: Net premium**

#### *10.1 Net premium income: breakdown*

Premium for insurance	Direct business	Indirect business	6 mths ended 31/12/18	6 mths ended 31/12/17
A. Life business				
A.1 Gross premiums written (+)	—	—	—	—
A.2 Reinsurance premiums paid (-)	—	X	—	—
A.3 Total	—	—	—	—
B. Non-life business				
B.1 Gross premium written (+)	—	27,700	27,700	38,196
B.2 Reinsurance premiums paid (-)	—	X	—	—
B.3 Change in gross value of premium reserve (+/-)	—	2,073	2,073	(9,774)
B.4 Change in provision for unearned premiums ceded to reinsurers (+/-)	—	—	—	—
B.5 Total	—	29,773	29,773	28,422
Total net premiums	—	29,773	29,773	28,422

## SECTION 11

### Heading 170: Other income (net) from insurance activities

#### 11.1 Other income (net) from insurance activities: breakdown

Items	6 mths ended 31/12/18	6 mths ended 31/12/17
1. Net change in insurance provisions	—	—
2. Claims paid pertaining to the year <sup>1</sup>	(2,162)	2,783
3. Other income and expense from insurance	(2,883)	(3,027)
<b>Total</b>	<b>(5,045)</b>	<b>(244)</b>

<sup>1</sup> The item “Claims paid for the period” includes writebacks in an amount of €6.4m for the six months ended 31/12/18, against the valuation reserve for risks in respect of claims estimated but not yet reported.

#### 11.3 Breakdown of sub-heading “Claims paid out during the year”

Changes for claims	6 mths ended 31/12/18	6 mths ended 31/12/17
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 (-)	—	—
<b>Total life-business claims</b>	<b>—</b>	<b>—</b>
Non-life business: expense related to claims, net of amounts recovered from reinsurers		
C. Claims paid	(4,083)	(2,632)
C.1 Gross annual amount	(4,083)	(2,632)
C.2 Amount attributable to reinsurers (-)	—	—
D. Change in recoveries net of reinsurers portion	—	—
E. Change in claims reserves	1,921	5,415
E.1 Gross annual amount	1,921	5,415
E.2 Amount attributable to reinsurers (-)	—	—
<b>Total non-life business claims</b>	<b>(2,162)</b>	<b>2,783</b>



## SECTION 12

### Heading 190: Administrative expenses

#### 12.1 Personnel costs: breakdown

Type of expense/Amounts	6 months ended 31/12/18	6 mths ended 31/12/17
1) Employees	(272,409)	(262,150)
a) wages and salaries	(197,136)	(188,389)
b) social security contributions	(46,041)	(41,783)
c) severance pay (only for Italian legal entities)	(4,014)	(4,174)
d) social security costs	—	—
e) allocation to employees severance pay provision	(3,230)	(3,301)
f) provision for retirement and similar provisions:	—	—
- defined contribution	—	—
- defined benefits	—	—
g) payments to external pension funds:	(8,374)	(8,017)
- defined contribution	(8,374)	(8,017)
- defined benefits	—	—
h) expenses resulting from share based payments	(4,467)	(3,906)
i) other employees' benefits	(9,147)	(12,580)
2) Other staff	(3,159)	(2,705)
3) Directors and Statutory Auditors	(4,274)	(4,291)
4) Early retirement costs	(2,364)	(3,230)
Total	(282,206)	(272,376)

The figures for 1H FY 2018-19 include the contribution to labour costs deriving from the first-time consolidation of RAM AI, in an amount of €7.7m.

#### 12.2 Average number of staff by category

	6 mths ended 31/12/18	6 mths ended 31/12/17
Employees:		
a) Senior executives	409	393
b) Executives	1,830	1,814
c) Other employees	2,403	2,481
Other staff	236	206
Total	4,878	4,894

The figures also include RAM AI (41 staff, of which 21 senior management, 19 middle management and one employee).

### 12.5 Other administrative expenses: breakdown

Type of services/Amounts	6 mths ended 31/12/18	6 mths ended 31/12/17
OTHER ADMINISTRATIVE EXPENSES		
- legal, tax and professional services	(31,439)	(23,940)
- loan recovery activity	(32,609)	(29,258)
- marketing and communications	(19,638)	(21,747)
- property	(25,696)	(27,072)
- EDP	(59,871)	(50,584)
- info-provider	(20,027)	(18,444)
- bank charges, collection and payment fees	(10,200)	(9,530)
- operating expenses	(31,590)	(33,687)
- other staff expenses	(12,146)	(11,945)
- other costs <sup>1</sup>	(19,140)	(16,055)
- indirect and other taxes	(28,950)	(21,553)
Total other administrative expenses	(291,306)	(263,815)

<sup>1</sup> The item includes contributions to the various resolution funds: €11.5m for the six months ended 31/12/18 and €10.4m for the six months ended 31/12/17.

The figures for 1H FY 2018-19 include the contribution to administrative expenses deriving from the first-time consolidation of RAM AI, in an amount of €2.8m.

## SECTION 13

### Heading 200: Net transfers to provisions

#### 13.1 Net transfers for credit risk related to commitments to disburse funds and financial guarantees given: breakdown

	6 mths ended 31/12/18		
	Provisions	Reallocation surplus	Total
Loan commitments	(2,657)	6,209	3,552
Financial guarantees given	(1,690)	108	(1,582)

#### 13.3 Net transfers to other provisions: breakdown

	6 mths ended 31/12/18		
	Provisions	Reallocation surplus	Total
1. Other provisions			
1.1 Legal disputes	—	—	—
1.2 Staff costs	(200)	—	(200)
1.3 Other	(3,415)	48	(3,367)
Total	(3,615)	48	(3,567)

## SECTION 14

### Heading 210: Net adjustments to tangible assets

#### 14.1 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	(6,839)	—	—	(6,839)
- For operational use	(5,884)	—	—	(5,884)
- For investment	(955)	—	—	(955)
- Inventories	X	—	—	—
A.2 Acquired through finance lease	—	—	—	—
- For operational use	—	—	—	—
- For investment	—	—	—	—
Total	(6,839)	—	—	(6,839)

## SECTION 15

### Heading 220: Net adjustments to intangible assets

#### 15.1 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	(14,574)	—	—	(14,574)
- Internally generated by the company	(8,196)	—	—	(8,196)
- Others	(6,378)	—	—	(6,378)
A.2 Acquired through finance lease	—	—	—	—
Total	(14,574)	—	—	(14,574)

## SECTION 16

### Heading 230: Other operating income (expense)

#### *16.1 Other operating expense: breakdown*

<b>Income-based components/Values</b>	<b>6 mths ended 31/12/18</b>	<b>6 mths ended 31/12/17</b>
a) Leasing activity	(5,273)	(6,294)
b) Sundry costs and expenses	(5,046)	(8,451)
Total	(10,319)	(14,745)

#### *16.2 Other operating income: breakdown*

<b>Income-based components/Values</b>	<b>6 mths ended 31/12/18</b>	<b>6 mths ended 31/12/17</b>
a) Amounts received from customers	27,535	22,828
b) Leasing activity	4,662	5,526
c) Other income	48,201	47,740
Total	80,398	76,094

## SECTION 17

### Heading 250: Gain (loss) on equity investments

#### 17.1 Gain (loss) on equity investments: breakdown

Income/Value	6 mths ended 31/12/18	6 mths ended 31/12/17
1) Joint venture		
A. Incomes	—	—
1. Revaluation	—	—
2. Gains on disposal	—	—
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	—	—
1. Write-downs	—	—
2. Impairment losses	—	—
3. Losses on disposal	—	—
4. Other expenses	—	—
Net profit	—	—
2) Companies subject to significant influence		
A. Incomes	165,523	121,228
1. Revaluation	165,523	121,228
2. Gains on disposal	—	—
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	—	—
1. Write-downs	—	—
2. Impairment losses	—	—
3. Losses on disposal	—	—
4. Other expenses	—	—
Net profit	165,523	121,228
Total	165,523	121,228

## SECTION 20

### Heading 280: Gain (loss) on disposal of investments

#### 20.1 Gain (loss) on disposal of investments: breakdown

Income/Value	6 mths ended 31/12/18	6 mths ended 31/12/17
A. Assets	(73)	—
- Gains on disposal	—	—
- Losses on disposal	(73)	—
B. Other assets	166	4
- Gains on disposal	166	4
- Losses on disposal	—	—
Net result	93	4

## SECTION 21

### Heading 300: Income tax for the year on ordinary activities

#### 21.1 Income tax for the year on ordinary activities: breakdown

Income components/Sectors	6 mths ended 31/12/18	6 mths ended 31/12/17
1. Current tax expense (-)	(129,991)	(41,641)
2. Changes of current tax expense of previous years (+/-)	608	(29,633)
3. Reduction in current tax expense for the period (+)	191	—
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 (+/-)	(52,027)	(53,557)
5. Changes of deferred tax liabilities (+/-)	51,618	(3,758)
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(129,601)	(128,589)

## SECTION 23

### Heading 340: Net profit (loss) for the period attributable to minorities

#### 23.1 Breakdown of Heading 340 “Net profit (loss) for the period attributable to minorities”

Company name	6 mths ended 31/12/18	6 mths ended 31/12/17
1. SelmaBipiemme S.p.A.	1,765	1,763
2. RAM Active Investments S.A.	700	—
3. Others	(2)	(12)
Total	2,463	1,751

## SECTION 25

### Earnings per share

#### 25.1 Average number of ordinary shares on a diluted basis

	6 mths ended 31/12/18	6 mths ended 31/12/17
Net profit	450,519	476,326
Avg. no. of shares in issue	860,117,762	857,874,975
Avg. no. if potentially diluted shares	5,163,815	8,352,269
Avg. no. of diluted shares	865,281,577	866,227,244
Earnings per share	0.52	0.56
Earnings per share, diluted	0.52	0.55

## **Part E - Information on risks and related hedging policies**

### **SECTION I**

#### **Banking Group risks**

##### **1.1 CREDIT RISK**

#### **QUALITATIVE INFORMATION**

##### **1. General aspects**

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 S.p.A. (the Group Risk Management unit), which also performs specific activities for the parent company 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 leadership, 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 carries 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 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 coordinating operations between the London front office teams and the various risk management sub-units based at Mediobanca S.p.A..

With reference to the authorization process to use AIRB models in order 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. As 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). On 12 December 2018, CheBanca! received authorization to use internal PD and LGD models to calculate the credit risk deriving from its Italian mortgage loans. The adoption of the models for reporting purposes is conditional upon the PD metrics being revised for certain sub-portfolios. Actual usage of the models will therefore begin from 1Q 2019.

## **2. Credit risk management policies**

### *2.1 Organizational aspects*

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 guarantee 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; 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.

## *2.2 Management, measurement and control systems*

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. The RAF is the framework which sets the risks due to the company strategy (translating mission and strategy into qualitative and quantitative risk variables) in relation with the risk objectives of its operations (translating risk objectives into limits and incentives for each area).

As required by the prudential regulations, the formalization of risk objectives, through definition of the RAF, which are consistent with the maximum risk that can be taken, the business model and strategic guidance is a key factor in establishing a risk governance policy and internal controls system with the objective of enhancing the Bank’s capability in terms of governing its own company risks, and also ensuring sustainable growth over the medium and long term. In this connection, the Group has developed a Risk Appetite Framework governance model which identifies the roles and responsibilities of the corporate bodies and units involved, with co-ordination mechanisms instituted to ensure the risk appetite is suitably bedded into the management processes.

In the process of defining its risk appetite, Mediobanca:

- identifies the risks which it is willing to assume;
- defines, for each risk, the objectives and limits in normal and stressed conditions;
- identifies the action necessary in operating terms to bring the risk back within the set objective.

For the purposes of defining the RAF, based on the strategic positioning and risk profile which the Group has set itself the objective of achieving, the risk appetite statement is structured into metrics and risk thresholds, which are identified with reference to the four framework risk pillars, in line with

best international practice: capital adequacy; liquidity; bank-specific factors; conduct/operational risk. The Board of Directors has a proactive role in defining the RAF, guaranteeing that the expected risk profile is consistent with the strategic plan, budget, ICAAP and recovery plan, and structured into adequate and effective metrics and limits. For each dimension analysed, the risk assumed is set against a system of objectives and limits representative of the regulatory restrictions and the Group's general attitude towards risk, as defined in accordance with the strategic planning, ICAAP and risk management processes.

In addition to identifying and setting risk appetite parameters, Mediobanca also governs the mechanisms regulating the governance and processes for establishing and implementing the RAF, in terms of updating/revising it, monitoring, and escalating reporting to the Committees and corporate bodies. 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. As required by the provisions of the Capital Requirements Directive IV ("CRD IV"), the Mediobanca Group prepares an Internal Liquidity Adequacy Assessment Process document (ILAAP), describing the set of policies, processes and instruments put in place to govern liquidity and funding risks. The Group's objective is to maintain a level of liquidity that enables it to meet the payment obligations, ordinary and extraordinary, which it has taken on while minimizing costs at the same time. The Group's liquidity management strategy is based on the desire to maintain an appropriate ratio between potential inflows and potential outflows, in the short and the medium/long term, by monitoring both regulatory and management metrics, in accordance with the risk profile defined as part of the RAF.

### *2.3 Methods for measuring expected losses*

The internal rating models are the baseline instrument for establishing the risk parameters to be used in calculating the expected losses, subject to the regulatory indicators in particular being adjusted to make allowance for characteristics which do not lend themselves to direct use in an accounting

environment (for example, reconverting the data to reflect a point-in-time approach). Indeed, the calculation of expected losses required under IFRS 9 derives from the product of the PD, LGD and EAD metrics. The calculation is based on the outstanding duration of the instruments for which the risk has undergone significant impairment (“Stage 2”) or which show objective signs of impairment (“Stage 3”) and on a time horizon over twelve months for the instruments not included in the previous two categories (“Stage 1”).

The Group adopts qualitative and quantitative criteria to establish whether there has been a significant increase in credit risk, using backstop indicators, such as accounts which are thirty or more days overdue or have been classified as forborne, to assess whether or not they should be treated as Stage 2. Cases of low-risk instruments at the recording date are also identified, compatible with classification as Stage 1 (low credit risk exemption), where there is a BBB- rating on the Standard & Poor’s scale, or a corresponding internal PD estimate. In accordance with the provisions of IFRS 9, a change in forward-looking twelve-month PD is used as the benchmark quantitative metric for identifying positions to be classified as Stage 2. The Group has verified that twelve-month PD is a reasonable proxy of increases in risk on a lifetime basis, and monitors the validity of this assumption over time. The change in PD selected to determine reclassification to Stage 2 is specific to each Group company but on average reflects the reading at least trebling since the initial recognition date.

In cases where there is no internal rating model for a specific portfolio, the backstop indicators apply as qualitative criteria; the qualitative factors considered by the Group for reclassification to Stage 2 include: a) Mediobanca Corporate and Financial Institutions counterparties being classified in the watchlist as “amber” and “red”; b) indicators of a delay in payments for retail exposures.

The provisioning reflects the sum of the expected credit losses (over a time horizon of twelve months or to the contractual expiry date of the relevant exposure, depending on which Stage it is classified in) discounted at the effective interest rate. The expected loss is the result of the combined valuation of three scenarios (baseline, mild-positive and mild-negative), weighted according to their likelihood of occurring. The scenarios, determined at Group level, are updated once every six months. In particular, the Group defines the estimates for the baseline scenario, compiling the economic variables using an external

macroeconomic model which factors in the internal expectations regarding interest rates. Levels of deviation from the baseline scenario are defined in order to determine the mild-negative and mild-positive scenarios.

#### *2.4 Credit risk mitigation techniques*

The Group has put in place a system for managing credit risk mitigation techniques, which covers the entire process of obtaining, assessing, supervising and implementing the mitigation instruments in use. The requisites for eligibility of collateral as set out in Regulation (EU) 575/2013 of the European Parliament and of the Council. But the Group has also compiled specific criteria by which collateral not recognized for regulatory purposes may in any case be recognized at the operating level as effective to mitigate credit risk.

The use of financial instruments or of moveable and immoveable assets as collateral and of personal guarantees or endorsements is widespread in lending activity, in particular as follows:

- mortgage guarantees: when mortgages are taken out, valuations are required from independent experts; specific procedures are also in place to calculate the fair value of the asset and monitor it at regular intervals, based on market indicators furnished by external information providers; further valuations are also required in cases where significant departures are noted from the most recent valuation available;
- pledges: pledges are valued according to the market value for listed financial instruments, or on the basis of their expected realizable value; prudential haircuts are then applied to the values thus calculated which differ according to the financial instruments over which the pledge has been made.

The Group also adopts risk mitigation policies through entering into netting and collateral agreements, checking to ascertain that the agreements are legally valid and meet the regulatory criteria in force to be recognized for prudential purposes.

Credit risk mitigation activities are governed by specific directives adopted by the Group companies concerned. The specific nature of the products originated by the individual businesses and the forms of collateral securing

them, as well as the different organizational models necessarily adopted by the various Group companies, means that different CRM processes must coexist within the Group as a whole. In particular, the phases of obtaining the collateral, checking, reporting on and assessing its eligibility may be performed by different units. However, the role of Risk Management in establishing eligibility for regulatory and management purposes remains central, with Group Risk Management responsible for supervising consistency overall. Controls on the mitigation instruments are included in the general risk control and management framework.

### **3. Impaired credit exposures**

The Mediobanca Group is distinguished by its prudent approach to risk, which is reflected in the fact that its NPL levels are among the lowest seen in the Italian national panorama. Our management of non-performing loans also helps to keep the levels of impaired assets on the books low, including the use of different options typically available, such as disposals (of both individual assets and portfolios), collateral enforcement activity, and negotiating restructuring agreements.

Impaired exposures are identified on the basis of definitions that give equal weight to the guidance provided by the regulations in force on regulatory capital requisites (for the concept of “default”), supervisory statistical reporting (for the definition of “non-performing”), and Stage 3 assets (for the definition of “credit-impaired”). This approach is then adopted differently within the individual Group companies, which, depending on the specific monitoring processes they have implemented, may choose to prioritize analytical methods for detecting impairment of individual positions not yet ninety days overdue, or systems based on automatic algorithms. Equally, the accounting treatment by which impaired exposures are represented may either reflect analysis of individual positions, or be based on identifying clusters of similar positions, depending on the specific nature of the Group company’s own business.

At the monitoring stage the possible need to write off positions is also assessed, i.e. cases in which the credit may not be recoverable, in part or in whole. Accounts are written off before legal action to recover the asset is completed, and this does not necessarily entail waiving the Group’s legal right to recover the amount due to it.

#### **4. Financial assets subject to commercial renegotiations and concessions**

Financial assets may be subject to contractual amendments based primarily on two different needs: to maintain a mutually satisfactory commercial relationship with clients, or to re-establish/improve the credit standing of a customer in financial difficulty, or about to become so, to help them meet the commitments they have entered into.

The former case, defined here as a commercial renegotiation, recurs at the point where the client might look to end the relationship, as a result of its own high credit standing and of favourable market conditions. In a situation such as this, changes can be made at the client's initiative or on a preventative basis with a view to maintaining the relationship with the client by improving the commercial terms offered, without having to forfeit a satisfactory return on the risk taken and in compliance with the general strategic objectives set (e.g. in terms of target customers).

The second case, which completes the notion of forbearance measure, occurs, in accordance with the specific regulations on this issue, when contractual amendments are made, refinancing arrangements entered into, or when clauses provided for in the contract are exercised by the client.

For an exposure to be classified as forborne, the Group assesses whether or not, as a result of such concessions being made to the client (typically rescheduling expiry dates, suspending payments, refinancings or waivers to covenants), a situation of difficulty arises due to 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).

Both non-performing exposures and exposures for which the difficulties recorded are still compatible with their being treated as performing may be classified as forborne. However, as represented in the previous sections, an

account being assigned the status of “forborne” is considered to be incompatible with its being classified as Stage 1. For this reason, the minimum periods of time that an exposure can be assigned the “forborne” status stipulated in the regulations in force on supervisory statistical reporting are reflected in the prudent transitions between Stages 1, 2 and 3. For instance, when concessions have been made in respect of exposures at Stage 2, the exposures in question cannot return to Stage 1 in less than two years, in line with the minimum duration of two years provided for the “forborne performing exposure” status (during this period, the status can only be downgraded to reflect the exposure’s transition to non-performing). Similarly, exposures in Stage 3 cannot be returned to Stage 1 in less than three years, in line with the requirement for “non-performing forborne exposure” to retain this status for at least one year, followed (unless the non-performing status requires to be prolonged) by the minimum duration of two years for the “forborne performing exposure” status.

To return to Stage 1, exposures must give proof of having fully recovered their credit quality and the conditions requiring them to be classified as “forborne” must have ceased to apply. Accordingly, the monitoring to detect any new needs for exposures to transition back to Stages 2 or 3 is no different from the monitoring reserved to exposures which have not moved from Stage 1. Nonetheless, “forborne” exposures that have returned from Stage 3 to Stage 2 are subject to enhanced monitoring, for which, if there is a delay of more than thirty days in payment or if a new forbearance measure is applied, the exposure concerned returns immediately to Stage 3 on prudential grounds.

## **5. Details by individual business segment**

### *Corporate lending (Mediobanca and MBInternational)*

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 has adopted 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 parameters are obtained starting from through-the-cycle matrices used to develop the internal rating model, which are then converted to point-in-time readings. LGD readings are calculated based on the modelling used for the regulatory calculation, with the downturn effect removed.

### *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. Scenarios for sales strategies are also factored in. The portfolio of performing accounts is measured basis according to internal PD ratings and LGD parameters. To define the PD parameters, the through-the-cycle transition matrices for the management models based on internal data are used, which are then converted into point-in-time readings. The forward-looking component is factored in by applying the internal scenarios defined to the PD readings. The LGD readings for the exposures differ according to type of product (vehicle leasing, core goods, yachts and property), and are subjected to the same macroeconomic scenarios defined internally to obtain forward-looking data.

#### *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, 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 established, 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. To define the PD parameters, the through-the-cycle transition matrices from the management models based on internal data are used, which are then converted to point-in-time data. The matrices have been calculated separately by product type, according to the specific internal management process involved (e.g. credit cards, special purpose loans, low-risk personal loans, high-risk personal loans, small tickets and salary-backed finance to public entities, private individuals or pensioners). The forward-looking component is factored in by applying the internal scenarios defined to the PD readings, whereas the LGD parameters are defined based on the internal models estimated on the basis of internal rates of recovery experienced.

#### *Factoring (MBFACTA)*

Factoring includes both traditional factoring (i.e. acquisition of short-term trade receivables, often backed by insurance cover) and instalment factoring (acquiring loans from the selling counterparty, to be repaid via monthly instalments by the borrowers whose accounts have been sold, which 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.

Non-performing exposures are quantified analytically, for corporate counterparties, based on similar clusters to those identified for retail exposures. The portfolio of performing assets is valued on the basis of PD and LGD parameters. To define the PD parameters, the revised indicators supplied by external providers are used, or indicators estimated internally based on the retail portfolio. For transactions valued by Mediobanca S.p.A. as part of its corporate business, the parameters set in the relevant process apply.

### *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. 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. The LGD values used differ according on the type of guarantee involved.

#### *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 insolvent (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 forbore 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 based on clusters of similar positions identified for probable default, other overdue and performing accounts. For the analytical provisions for non-performing items, account is taken of the official valuations of the assets (deflated on a prudential basis), timescales and recovery costs. Also factored in are scenarios related to the strategies for selling non-performing mortgages. The PD parameters are obtained starting from through-the-cycle matrices used to develop the internal model, which are then converted to point-in-time readings. The forward-looking component is factored in by applying the internal scenarios to the PD readings. The LGD readings are calculated based on the modelling used for the regulatory calculation, with the downturn effect removed. The inclusion of forward-looking elements in this case is based on satellite models.

## QUANTITATIVE INFORMATION

### SECTION 1 - CONSOLIDATED ACCOUNTING RISKS

#### A. Credit quality

##### A.1 Non-performing and performing accounts: amounts, adjustments, trends and segmentation by earnings

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

Portfolios/quality	Bad loans *	Unlikely to pay	Overdue exposures (NPLs)	Other exposures (non performing) <sup>1</sup>	Other exposures (performing)	Total
1. Financial assets at amortized cost	452,999	641,562	62,392	340,112	54,604,137	56,101,202
2. Financial assets at fair value with impact taken to comprehensive income	—	—	—	—	4,443,102	4,443,102
3. Financial assets designated at fair value	—	—	—	—	51,253	51,253
4. Other financial assets mandatorily at fair value	—	13,710	—	—	229,124	242,834
5. Financial assets being sold	3,259	—	—	—	—	3,259
Total 31/12/18	456,258	655,272	62,392	340,112	59,327,616	60,841,650

<sup>1</sup> Regarding the net exposure in overdue performing loans, the gross value of the unpaid instalments is €72.5m, of which €119.4m is attributable to CheBanca! mortgage loans (0.21% of the performing loans in this segment), €82.4m to consumer credit (0.15%), and €71.8m to leasing (0.13%). The item also includes net exposures being renegotiated under the terms of collective agreements totaling €31m, equally distributed between Consumer and mortgage loans (€15.5m and €15.7m respectively).

\* Includes the NPLs held by MBCredit Solutions in an amount of €339m (see p. 212 below).



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

Asset portfolio/quality	Non-performing loans				Performing loans			Total (net exposure)
	Gross exposure	Accumulated impairment	Net exposure	Overall partial write-off	Gross exposure	Accumulated impairment	Net exposure	
1. Financial assets at amortized cost	2,132,657	(975,704)	1,156,953	—	55,451,063	(506,814)	54,944,249	56,101,202
2. Financial assets at fair value with impact taken to comprehensive income	—	—	—	—	4,443,102	—	4,443,102	4,443,102
3. Financial assets designated at fair value	—	—	—	—	X	X	51,253	51,253
4. Other financial assets mandatorily at fair value	132,122	(118,412)	13,710	—	X	X	229,124	242,834
5. Financial assets being sold	14,350	(11,091)	3,259	—	—	—	—	3,259
<b>Total 31/12/18</b>	<b>2,279,129</b>	<b>(1,105,207)</b>	<b>1,173,922</b>	<b>—</b>	<b>59,894,165</b>	<b>(506,814)</b>	<b>59,667,728</b>	<b>60,841,650</b>

Asset portfolio/quality	Assets with obviously poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	6,799	6,418	9,258,848
2. Hedging Derivatives	—	—	212,327
<b>Total 31/12/18</b>	<b>6,799</b>	<b>6,418</b>	<b>9,471,175</b>

## Information on exposures to sovereign debt

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

Portfolio/quality	Non performing loans				Performin			Total net exposure <sup>1</sup>
	Gross exposure	Individual adjustments	Collective adjustments	Net exposure	Gross exposure	Collective adjustments	Net exposure	
1. Financial assets held for trading	—	—	—	—	X	X	(578,619)	(578,619)
France	—	—	—	—	X	X	(662,375)	(662,375)
Italy	—	—	—	—	X	X	247,053	247,053
Germany	—	—	—	—	X	X	(124,124)	(124,124)
UK	—	—	—	—	X	X	(43,777)	(43,777)
Others	—	—	—	—	X	X	4,604	4,604
2. Financial assets designated at fair value through other comprehensive income	—	—	—	—	3,475,062	—	3,475,062	3,475,062
Italy	—	—	—	—	1,520,061	—	1,520,061	1,520,061
Germany	—	—	—	—	1,076,808	—	1,076,808	1,076,808
United States	—	—	—	—	525,300	—	525,300	525,300
France	—	—	—	—	201,159	—	201,159	201,159
Spain	—	—	—	—	151,734	—	151,734	151,734
3. Financial assets at amortized cost	—	—	—	—	1,988,923	—	1,988,923	1,988,923
Italy	—	—	—	—	1,141,667	—	1,141,667	1,141,667
France	—	—	—	—	368,373	—	368,373	368,373
Spain	—	—	—	—	212,465	—	212,465	212,465
Germany	—	—	—	—	150,861	—	150,861	150,861
Others	—	—	—	—	115,557	—	115,557	115,557
Total 31/12/18	—	—	—	—	5,463,985	—	4,885,366	4,885,366

\* Does not include financial or credit derivatives.

<sup>1</sup> 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 €7.9m.

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

Portfolio/quality	Trading Book <sup>1</sup>			Banking Book <sup>2</sup>			
	Nominal value	Book value	Duration	Nominal value	Book value	Fair value	Duration
Italy	269,506	247,053	1.90	2,634,318	2,661,727	2,653,472	2.54
Germany	(122,500)	(124,124)	2.23	1,175,000	1,227,669	1,229,196	3.51
Spain*	(4,000)	(4,485)	(4.19)	360,000	364,199	366,986	3.01
United States	—	—	—	606,987	608,352	608,538	1.38
France	(595,728)	(662,375)	4.26	565,400	569,532	572,282	2.77
Others	(32,682)	(34,688)	—	40,114	32,506	41,397	—
Total 31/12/18	(485,404)	(578,619)		5,381,819	5,463,985	5,471,871	

\* The figure does not include forward sales with a notional amount of €46m.

<sup>1</sup> Does not include sales of €270m on Bund/Bobl/Schatz futures (Germany), with a negative fair value of €2.3m; or sales of €135.8m on the BPT future (Italy) with a negative fair value of €6.5m. Net hedge buys of €834m have also not been included (virtually all of which allocated to France country risk).

<sup>2</sup> Item does not include Greek GDP-linkers securities in a notional amount of €127m recorded at a fair value of €0.4m.

## SECTION 2

### Prudential consolidated risks

#### A. Credit quality

##### A.1 Credit exposures (performing and non-performing): amounts, value adjustments, trends and earnings distribution

##### A.1.3 Banking Group - financial assets, commitments to end funds and financial guarantees issued: transfers between different stages of credit risk (gross and nominal values)

Type of exposure/Amounts	Gross amounts/nominal values					
	Passages from stage 1 and stage 2		Passages from stage 2 and stage 3		Passages from stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets valued at amortized cost	1,088,117	584,424	174,536	40,807	70,116	1,815
2. Financial assets with impact taken to comprehensive income	—	—	—	—	—	—
3. Commitments to disburse funds and financial guarantees given	9,116	7,186	51	6	300	413
31/12/18	1,097,233	591,610	174,587	40,813	70,416	2,228

*A.1.4 Banking Group - Cash and off-balance-sheet exposures to banks: gross and net values*

Type of exposure/Values	Gross exposures		Accumulated impairment and provisions	Net Exposure	Total partial write-off
	Non-performing loans	Performing loans			
A. Cash credit exposures					
a) Bad loans	—	X	—	—	—
- of which: forborne exposures	—	X	—	—	—
b) Probable defaults	—	X	—	—	—
- of which: forborne exposures	—	X	—	—	—
c) Overdue exposures (NPLs)	—	X	—	—	—
- of which: forborne exposures	—	X	—	—	—
d) Overdue exposures (performing)	X	23	—	23	—
- of which: forborne exposures	X	—	—	—	—
e) Other exposures (performing)	X	8,048,005	(1,614)	8,046,391	—
- of which: forborne exposures	X	—	—	—	—
Total (A)	—	8,048,028	(1,614)	8,046,414	—
B. Off-balance-sheet exposures					
a) Non-performing	—	X	—	—	—
b) Performing	X	7,243,766	(44)	7,243,722	—
Total (B)	—	7,243,766	(44)	7,243,722	—
Total (A+B)	—	15,291,794	(1,658)	15,290,136	—

### A.1.5 Banking Group - Cash and off-balance-sheet exposures to customers: gross and net values

Type of exposure/Values	Gross exposures		Total value adjustments and total provisions	Net exposure	Total write-off
	Non-performing loans	Performing loans			
A. Credit exposures for cash					
a) Non performing loans	852,417	X	(396,159)	456,258	—
- of which: forborne exposures	85,970	X	(71,568)	14,402	—
b) Probable defaults	1,257,630	X	(602,358)	655,272	—
- of which: forborne exposures	955,482	X	(418,630)	536,852	—
c) Impaired expired exposures	169,083	X	(106,690)	62,393	—
- of which: forborne exposures	34,523	X	(26,418)	8,105	—
d) Expired exposures not impaired	X	430,013	(89,924)	340,089	—
- of which: forborne exposures	X	55,515	(18,879)	36,636	—
e) Other non-impaired exposures	X	55,636,047	(415,296)	55,220,751	—
- of which: forborne exposures	X	651,263	(37,186)	614,077	—
Total (A)	2,279,130	56,066,060	(1,610,427)	56,734,763	—
B. Non-balance sheet credits exposures					
a) Non-performing loans	11,027	X	(1,581)	9,446	—
b) Performing loans	X	14,839,438	(7,536)	14,831,902	—
Total (B)	11,027	14,839,438	(9,117)	14,841,348	—
Total (A+B)	2,290,157	70,905,498	(1,619,544)	71,576,111	—

The non-performing items include €339m attributable to MBCredit Solutions, i.e. acquisitions of non-performing loans with a nominal value of €5.5bn. Of these items, €8.6m (with a nominal book value of €605m) involve assets acquired from other Group companies, mostly those involved in consumer credit activities.

As at 31 December 2018 non-performing loans net of forborne exposures amounted to €559.4m, with a coverage ratio of 48%, while performing loans qualifying as forborne amounted to €650.7m with a coverage ratio of 7.9%. Overall the non-performing forborne positions represent 1.2% of the total customer loan book, and the performing forborne exposures 1.4%.

## B. Exposures distribution and concentration

### B.1 Banking Group - Cash and off-balance sheet exposures towards customers by sector

Exposures/Counterparts	Public administration		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Families	
	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment	Net exposure	Accumulated impairment
A. Balance sheet credit exposures										
A.1 Bad loans *	—	—	413	(2,037)	—	—	94,345	(38,857)	361,500	(355,265)
- of which: <i>forborne exposures</i>	—	—	—	—	—	—	10,036	(11,476)	4,366	(60,092)
A.2 Unlikely to pay	12,202	(2,931)	17,685	(11,897)	—	—	441,488	(312,206)	183,897	(275,324)
- of which: <i>forborne exposures</i>	—	—	11,492	(7,906)	—	—	422,336	(291,475)	103,024	(119,249)
A.3 Overdue exposures (NPLs)	1,783	(46)	96	(50)	—	—	11,389	(3,417)	49,125	(103,177)
- of which: <i>forborne exposures</i>	—	—	—	—	—	—	65	(138)	8,040	(26,280)
A.4 Performing exposures	9,277,257	(2,849)	8,803,692	(7,556)	1,058,225	(1,783)	14,559,331	(53,855)	22,920,560	(440,960)
- of which: <i>forborne exposures</i>	—	—	363,272	(6)	—	—	62,481	(2,167)	224,960	(53,892)
Total (A)	9,291,242	(5,826)	8,821,886	(21,540)	1,058,225	(1,783)	15,106,553	(408,335)	23,515,082	(1,174,729)
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	—	—	3,700	(1,300)	—	—	5,077	(53)	669	(228)
B.2 Performing exposures	1,969,436	—	4,805,329	(803)	423,552	—	6,689,388	(3,221)	1,367,749	(3,512)
Total (B)	1,969,436	—	4,809,029	(2,103)	423,552	—	6,694,465	(3,274)	1,368,418	(3,740)
Total (A+B) 31/12/18	11,260,678	(5,826)	13,630,915	(23,643)	1,481,777	(1,783)	21,801,018	(411,609)	24,883,500	(1,178,466)

\* Includes the NPLs held by MBCredit Solutions in an amount of €339m (see p. 212 below).

### B.2 Banking Group - Cash and off-balance sheet exposures towards customers by geography

Exposures/Geographical Area	Italy		Other european countries		United States		Asia		Rest of the world	
	Net exposures	Total write-downs	Net exposures	Total write-downs	Net exposures	Total write-downs	Net exposures	Total write-downs	Net exposures	Total write-downs
A. Balance sheet credit exposures										
A.1 Bad loans *	446,150	(383,115)	8,953	(12,903)	403	(87)	—	(15)	752	(39)
A.2 Unlikely to pay	651,382	(598,865)	2,947	(3,263)	253	(131)	190	(99)	—	—
A.3 Overdue exposures	54,178	(106,233)	3,795	(193)	4,420	(264)	—	—	—	—
A.4 Performing exposures	42,473,127	(466,718)	10,549,366	(28,597)	2,239,300	(7,302)	83,319	(440)	215,728	(2,163)
Total (A)	43,625,337	(1,554,931)	10,565,061	(44,956)	2,244,376	(7,784)	83,509	(554)	216,480	(2,202)
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	9,446	(1,581)	—	—	—	—	—	—	—	—
B.2 Performing exposures	7,740,170	(5,036)	6,012,678	(1,304)	864,040	(902)	155,175	(294)	59,839	—
Total (B)	7,749,616	(6,617)	6,012,678	(1,304)	864,040	(902)	155,175	(294)	59,839	—
Total (A+B) 31/12/18	51,374,953	(1,561,548)	16,577,739	(46,260)	3,108,416	(8,686)	238,684	(848)	276,319	(2,202)

\* Includes the NPLs held by MBCredit Solutions in an amount of €339m (see p. 212 below).

*B.3 Banking Group – Cash and off-balance sheet exposures towards banks by geography*

Exposures/Geographical	Italy		Other european countries		United States		Asia		Rest of the world	
	Net exposures	Accumulated impairment	Net exposures	Accumulated impairment	Net exposures	Accumulated impairment	Net exposures	Accumulated impairment	Net exposures	Accumulated impairment
A. Balance sheet credit exposures										
A.1 Bad loans	—	—	—	—	—	—	—	—	—	—
A.2 Unlikely to pay	—	—	—	—	—	—	—	—	—	—
A.3 Overdue exposures	—	—	—	—	—	—	—	—	—	—
A.4 Performing exposures	2,400,512	(754)	5,593,346	(850)	50,295	(7)	1,787	(1)	474	(2)
Total (A)	2,400,512	(754)	5,593,346	(850)	50,295	(7)	1,787	(1)	474	(2)
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	—	—	—	—	—	—	—	—	—	—
B.2 Performing exposures	404,222	(45)	6,839,467	1	33	—	—	—	—	—
Total (B)	404,222	(45)	6,839,467	1	33	—	—	—	—	—
Total (A+B) 31/12/18	2,804,734	(799)	12,432,813	(849)	50,328	(7)	1,787	(1)	474	(2)



### *B.4a Credit risk indicators*

	31/12/18	30/6/18
a) Gross bad loans/total loans	1.62%	1.67%
b) NPLs/cash exposures	4.02%	4.00%
c) Net bad loans/regulatory capital <sup>1</sup>	5.52%	4.94%

<sup>1</sup> This item includes the NPL portfolios acquired and held by MBCredit Solutions, which during the six months increased from €281.8m to €339m.

### *B.4b Large risks*

	31/12/18	30/6/18
a) Book value	11,701,533	10,964,196
b) Weighted value	8,140,851	7,773,030
c) No. of exposures	8	7

At the reporting date, aggregate exposures (including market risks and equity investments) to a total of eight groups of clients (one more than last year) were in excess of 10% of the regulatory capital, for a gross exposure of €11.7bn (€8.1bn, taking into account guarantees and weightings), also basically stable versus the figures at end-June 2018 (which were €11bn and €7.8bn respectively). In detail the eight exposures are to three industrial groups, one insurance company and four banking groups.

## **C. Securitizations**

### **QUALITATIVE INFORMATION**

The Group's portfolio of securities deriving from securitizations by other issuers totalled €432.4m (approx. 60% of which as part of the trading book), higher than the €181.8m reported last year, following purchases of €332.3m and disposals and redemptions totalling €79m. The purchases mainly regard the trading book, which accordingly increased from 21m to 265.3m, and involves a senior issue with NPLs originated by Intesa and ICCREA as the underlying instrument, in which Mediobanca acted as sponsor; the securities acquired will be sold on gradually the secondary market. In this issue, Mediobanca held a retention share of 5% of the mezzanine and junior securities on its trading book in connection with its role as sponsor.

The banking book, which remains concentrated in senior tranches, increased from securities, increased from €160.8m to €167.1m, following early redemptions of €56.5m, sales of €8.4m, and purchases of €73.8m in connection with the Intesa/ICCREA NPL deal referred to above.

Overall the securitization portfolio remains concentrated in senior tranches (96%), with the remainder regarding two mezzanine issues (€6.5m) and two junior securities (€10.6m, €10m of which acquired at end-December 2018 as part of the Adagio deal).

Mediobanca also has exposures to:

- 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 it manages, with an investment of €25.8m;
- Italian Recovery Fund, a closed-end alternative investment fund (AIF) incorporated under Italian law and managed by Quaestio Capital Management SGR, which is currently invested in four securitizations (Valentine, Berenice, Cube and Este) with Italian banks' NPLs as the underlying instrument; the €30m commitment has to date been drawn as to €28.5m.

Regarding the securitizations by Group SPVs currently outstanding, the following should be noted:

- Securitization by Quarzo S.r.l (Compass), executed on 6 December 2018, of a €0.9bn portfolio of performing assets. The deal involves performing Compass Banca receivables being sold on a revolving basis. After the assets have been sold, securities worth a total of €0,9bn were issued, €0.6bn of which senior notes A1 (subsequently sold on the market) and €0.147bn in senior A2 notes, plus €0.153bn in junior notes, the latter subscribed for by Compass Banca S.p.A.;
- A new, unsecured issue by MB Funding Lux S.A. for an amount of €400m, with a duration of five years and maturing on 30 October 2023, 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).

## QUANTITATIVE INFORMATION

### C.2 Banking Group - exposures 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	382,503	25	2,005	—	653	—
B. Spain NPLs (residential mortgages and real estates)	26,320	—	—	—	—	—
C. Other receivables	6,714	(199)	14,443	(63)	—	—
Total 31/12/18	415,537	(174)	16,448	(63)	653	—
Total 30/6/18	171,727	(52)	6,911	(73)	3,166	—

### 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	2,042,807	—	169,319	1,694,000	—	517,000
Quarzo 6 - Quarzo S.r.l.	Milan	Accounting	3,069,976	—	243,587	2,640,000	—	672,012
Quarzo 7 - Quarzo S.r.l.	Milan	Accounting	1,397,952	—	108,584	1,215,000	—	290,900
Quarzo 8 - Quarzo S.r.l.	Milan	Accounting	810,164	—	98,049	747,000	—	153,000
Quarzo CQS S.r.l. (2015)	Milan	Accounting	166,000	—	47,000	101,000	—	82,000
Quarzo CQS S.r.l. (2018)	Milan	Accounting	576,000	—	23,000	531,000	—	52,000
MB Funding Lux S.A.	Luxembourg	Accounting	710,000	—	—	710,000	—	—

### 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)					
		Non performing	Per- forming	Non performing	Per- forming	Senior		Mezzanine		Junior	
						Non performing	Non performing	Non performing	Non performing		
Futuro	Quarzo CQS	14,532	796,201	—	145,544	—	97,65	—	—	—	—
Compass	Quarzo Srl	277,192	7,494,878	—	2,154,618	—	—	—	—	—	—

### *C.6 Consolidated prudential - securitization SPVs consolidated*

Accounts between the originator and the SPVs during the six months under review were as follows:

SPV	Receivables ceded	Amounts collected	Servicing fees	Interest on junior amounts	Additional return accrued
Quarzo CQS S.r.l.	—	153.0	0.5	1.2	29.3
Quarzo S.r.l.	2,741.9	2,164.1	7.2	23.8	186.5
MB Funding Lux	850.3	47.5	—	—	0.9

## **D. Disposals**

*B. Financial assets sold and fully derecognized with continuing involvement recorded*

*D.4 Prudential consolidated - covered bond operations*

As part of the ten-year, CheBanca! covered bond programme implemented pursuant to Italian law 130/99 and expiring in 2021, the fifth issue was made in a nominal amount of €750m at a fixed rate of 1.1.25% with six-year maturity (in two tranches, issued between August and October 2018).

## 1.2 MARKET RISKS

### 1.2.1 INTEREST RATE RISK AND PRICE RISK - SUPERVISORY TRADING BOOK

#### QUALITATIVE INFORMATION

Exposure to financial risks on the trading book, which within the Group affects only Mediobanca S.p.A., is measured on a daily basis by calculating the following main indicators:

- Sensitivity – chiefly delta and vega – 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 these 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 more effectively other risks on trading positions that are not fully measured by VaR and sensitivity analysis. The products requiring the use of such metrics in any case account for an extremely minor proportion of Mediobanca's overall trading portfolio.

The value-at-risk on the Trading and General Management HFT portfolio in Mediobanca ranged from a low of minus €2.4m (end-July 2018) and a high of €4.6m (mid-December 2018). The trading portfolio reflects an increased exposure to directional risks; the volatilities of the forex and sovereign interest rate asset classes showed an increase in the month of November which continued to the end of the reporting period, driven by uncertainties over the Italian budget

and the difficulties that have arisen in the Brexit negotiations. The average VaR reading for the first six months of FY 2018-19, €3.4m, was therefore higher than the average reading for the second half of 2017-18 (€2.7m). The point-in-time reading for VaR at 31 December 2018 was €3.3m.

The expected shortfall on the combined trading portfolio showed a sharp increase in the average reading, from €3.4m to €4.2m, due to the increase in trading positions.

The results of the daily back-testing on the trading book during the six months under review, based on comparison with the theoretical profits and losses, showed only one event in which the theoretical losses deriving from trading activity were higher than the VaR. This event occurred at the start of December and was largely due to widespread losses on indexes and the individual underlying stocks.

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

Risk factors (€*000)	6 mths to 31/12/18				6 mths to 31/12/17
	31/12	Min	Max	Avg.	
Interest rates	2,287	614	2,697	1,554	591
Credit	1,080	773	2,637	1,285	732
Share prices	1,129	989	2,243	1,623	2,303
Exchange rates	1,560	607	1,840	1,234	416
Inflation	187	17	377	99	59
Volatility	1,073	579	1,619	868	697
<i>Diversification effect *</i>	<i>(3,317)</i>	<i>(2,229)</i>	<i>(4,468)</i>	<i>(3,239)</i>	<i>(2,129)</i>
Total	4,000	2,401	4,615	3,424	2,669
<b>Expected Shortfall</b>	<b>4,283</b>	<b>2,960</b>	<b>5,295</b>	<b>4,161</b>	<b>3,380</b>

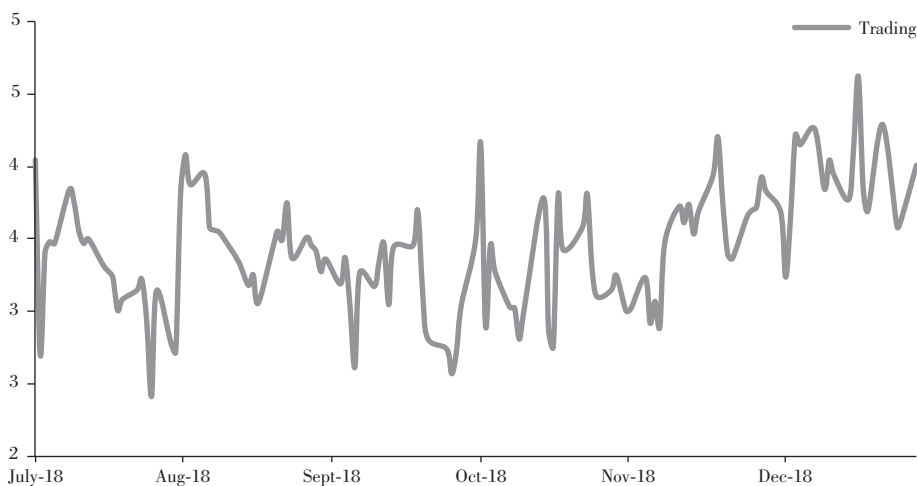
(\*) Due to mismatch between risk factors.

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 on average reflect long delta and vega positions. The exposure to interest rates ranged from €82,000 to €496,000, with an average reading of approx. €273,000.

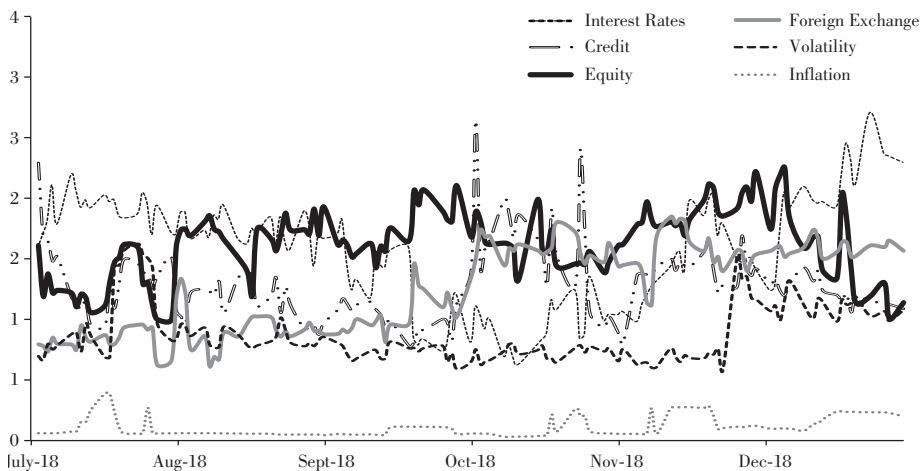
*Table 2: Overview of trends in main sensitivities for trading book*

Risk factors (€'000)	6 mths to 31/12/18			
	31/12	Min	Max	Avg.
Equity delta (+1%)	811	(427)	1,236	724
Equity vega (+1%)	363	(179)	605	165
Interest rate delta(+1bp)	491	82	496	273
Inflation delta (+1 bp)	20	(9)	24	2
Exchange rate delta (+1%)	673	(1,080)	682	(83)
Credit delta (+1bp)	634	321	784	570

*Trends in VaR*



*Trends in VaR constituents*



## 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 200 bps 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 thirty-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 31 December 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 €50m.

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 increases by 200 basis points ("parallel up"). The loss in this case would be €12m, chiefly due to decreases by CheBanca! (€10m) and Compass (€53m), which would outweigh the increase by Mediobanca (€42m).



This data is summarized in the table below:

Data at 31/12/18	(€'000)					
	Banking Book					
	Maximum level scenario	Group	Mediobanca S.p.A.	CheBanca!	Compass	Others
Net interest income sensitivity	<i>Parallel Down</i>	(34)	(34)	(12)	15	(3)
Discounted value of cash flows sensitivity	<i>Steeper</i>	(12)	42	(10)	(53)	9

At Group level, the values obtained in both scenarios continue to remain within the limits set by the Group policy on managing interest rate risk on the banking book, which are respectively 11.5% (net interest income sensitivity/estimated Group net interest income) and 6% (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).<sup>3</sup>

### 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<sup>3</sup>.

<sup>3</sup> This target is maintained even in the presence of hedging contracts with market counterparties with netting agreements and collateralization (CSA), and whose valuation is based on Eonia rates.

Fair value hedges are used by Mediobanca S.p.A. to hedge fixed-rate transactions involving corporate loans and securities recognized at fair value through other comprehensive income or at amortized cost, and also to mitigate price risk on equity investments recognized at FVOCI. 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 in the portfolio of assets recognized at FVOCI 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 IFRS 13, the fair value incorporates the effects of the counterparty's credit risk (CVA) and Mediobanca's credit risk (DVA) based on the future exposure profile of the aggregate of such contracts outstanding.

### **1.2.3 EXCHANGE RATE RISK**

#### **QUALITATIVE INFORMATION**

##### **A. General aspects, operating processes and measurement techniques**

##### **B. Exchange rate risk hedging**

The trend in the exchange rate component of VaR shown on p. 220 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**

### *2. Internal models and other methodologies used for sensitivity analysis*

During the period under review, directional positions taken on exchange rates at the aggregate level initially remained in line with those seen in the previous financial year. Volatility too remained at the last six-month period levels, apart from the last two months of 2018, November in particular, when the uncertainties over Brexit and commercial tensions with China triggered a sharp increase in volatility for this asset class. The VaR for the forex component at the aggregate level therefore showed an average reading of around €12.4m, virtually unchanged from the average figure recorded for the previous six months (€12.2m). The point-in-time reading for VaR as at 31 December 2018 was €15.9m.

## 1.3 DERIVATIVE FINANCIAL PRODUCTS AND HEDGING POLICIES

### 1.3.1 TRADING DERIVATIVES

#### A. Financial derivatives

##### *A.1 Trading financial derivatives: average and reporting-date notional values*

Underlying assets/Type of derivatives	31/12/18			
	Central Counterparts	Over the counter		Established markets
		Without central counterparties		
		With clearing arrangements	Without clearing arrangements	
1. Debt securities and interest rate	42,780,673	46,373,886	1,576,444	34,362,128
a) Options	—	8,077,688	150,000	33,545,742
b) Swap	42,780,673	36,035,818	1,426,444	—
c) Forward	—	474,380	—	—
d) Futures	—	—	—	816,386
e) Others	—	1,786,000	—	—
2. Equities and stock indexes	—	10,950,765	1,877,576	10,958,225
a) Options	—	9,444,865	1,877,576	10,512,886
b) Swap	—	1,388,751	—	—
c) Forward	—	117,149	—	—
d) Futures	—	—	—	445,339
e) Others	—	—	—	—
3. Currencies and gold	—	9,935,294	106,685	—
a) Options	—	1,845,518	—	—
b) Swap	—	3,693,516	104,803	—
c) Forward	—	4,396,260	1,882	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other	—	—	—	—
<b>Total</b>	<b>42,780,673</b>	<b>67,259,945</b>	<b>3,560,705</b>	<b>45,320,353</b>

## A.2 Trading financial derivatives: positive and negative fair values by product

Types of derivatives	31 dicembre 2018			
	Over the counter			Established markets
	Central Counterparts	Without central counterparties		
		With clearing arrangements	Without clearing arrangements	
<b>1. Positive fair value</b>				
a) Options	—	447,228	3,892	551,216
b) Interest rate swap	139	1,819,375	13,839	—
c) Cross currency swap	—	202,498	10,670	—
d) Equity swap	—	41,428	—	—
e) Forward	—	24,564	598	—
f) Futures	—	—	—	8,003
g) Others	—	—	—	—
<b>Total</b>	<b>139</b>	<b>2,535,093</b>	<b>28,999</b>	<b>559,219</b>
<b>2. Negative fair value</b>				
a) Options	—	(452,402)	(25,441)	(614,519)
b) Interest rate swap	(1)	(1,010,653)	(9,270)	—
c) Cross currency swap	—	(153,928)	—	—
d) Equity swap	—	(1,545)	—	—
e) Forward	—	(103,538)	(171)	—
f) Futures	—	—	—	(21,478)
g) Others	—	—	—	—
<b>Total</b>	<b>(1)</b>	<b>(1,722,066)</b>	<b>(34,882)</b>	<b>(635,997)</b>

*A.3 OTC trading financial derivatives: notional values, positive and negative fair values by counterparty*

<b>Underlyings</b>	<b>Central Counterparts</b>	<b>Banks</b>	<b>Other financial companies</b>	<b>Other entities</b>
<b>Contracts not included in clearing agreement</b>				
1) Debt securities and interest rate				
- notional value	X	1,385,335	—	191,109
- positive fair value	X	15,924	—	318
- negative fair value	X	(9,116)	(188)	(14)
2) Equities and stock indexes				
- notional value	X	1,415,617	461,931	29
- positive fair value	X	1,325	379	384
- negative fair value	X	(25,436)	(119)	(8)
3) Currencies and gold				
- notional value	X	1,130	752	104,803
- positive fair value	X	—	—	10,670
- negative fair value	X	—	(2)	—
4) Commodities				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
5) Others				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
<b>Contracts included in clearing arrangements</b>				
1) Debt securities and interest rate				
- notional value	42,780,673	28,573,889	10,432,595	7,367,402
- positive fair value	139	1,496,729	274,042	197,213
- negative fair value	(1)	(829,153)	(353,568)	(30,067)
2) Equities and stock indexes				
- notional value	—	6,499,918	2,845,167	1,605,681
- positive fair value	—	134,738	71,077	107,122
- negative fair value	—	(207,125)	(75,064)	(14,827)
3) Currencies and gold				
- notional value	—	5,632,653	2,416,802	1,885,838
- positive fair value	—	73,290	102,072	78,812
- negative fair value	—	(105,069)	(8,918)	(98,277)
4) Commodities				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
5) Others				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—

## B. Credit derivatives

### B.1 Trading credit derivatives: average and reporting-date notional values

Type of transaction	Trading derivatives	
	with a single counterparty	with more than one counterparty (basket)
1. Protection purchases		
a) Credit default products	2,156,085	19,449,208
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other <sup>1</sup>	559,597	—
Total 31/12/2018	2,715,682	19,449,208
2. Security sales		
a) Credit default products	6,773,200	23,614,427
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other	—	—
Total 31/12/2018	6,773,200	23,614,427

<sup>1</sup> Of which certificates totalling €559,597,000.

### B.2 Trading credit derivatives: positive and negative fair values by product

Type of derivatives	31/12/18
1. Positive fair value	
a) Credit default products	222,757
b) Credit spread products	—
c) Total rate of return swap	—
d) Other	—
Total	222,757
2. Negative fair value	
a) Credit default products	(878,237)
b) Credit spread products	—
c) Total rate of return swap	—
d) Other <sup>1</sup>	(478,874)
Total	(1,357,111)

<sup>1</sup> Of which certificates totalling €478,874,000.



*B.3 Trading book OTC credit derivatives: notional values and gross positive/negative fair value, by counterparty*

	Central counterparts	Bank	Other financial companies	Other subjects
Contracts not covered by clearing agreements				
1) Purchase protection				
- notional value <sup>1</sup>	X	4,485,619	12,251	—
- positive fair value	X	21,766	3,400	—
- negative fair value <sup>1</sup>	X	(478,874)	—	—
2) protection sale				
- notional value	X	11,413,413	—	—
- positive fair value	X	44,554	—	—
- negative fair value	X	(3,935)	—	—
Contracts covered by clearing agreements				
1) Purchase protection				
- notional value	4,669,000	6,470,454	6,527,566	—
- positive fair value	—	46,580	20,666	—
- negative fair value	(5,660)	(59,083)	(44,567)	—
2) protection sale				
- notional value	4,555,747	8,170,064	6,248,403	—
- positive fair value	—	52,222	33,569	—
- negative fair value	—	(733,651)	(31,341)	—

<sup>1</sup> Of which certificates with a notional value of €559,597,000 and a fair value of €478,874,000.

### 1.3.2 ACCOUNTING HEDGES

#### A. Hedge financial derivatives

##### A.1 Hedge financial derivatives: average and reporting-date notional values

Underlying assets/Type of derivatives	31/12/18			Established markets
	Over the counter			
	Central Counterparts	Without central counterparties		
		With clearing arrangements	Without clearing arrangements	
1. Debt securities and interest rate	18,074,454	6,813,954	40,850	—
a) Options	—	130,000	—	—
b) Swap	18,074,454	6,583,954	40,850	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	100,000	—	—
2. Equities and stock indexes	—	—	—	—
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
3. Currencies and gold	—	—	—	—
a) Options	—	—	—	—
b) Swap	—	—	—	—
c) Forward	—	—	—	—
d) Futures	—	—	—	—
e) Others	—	—	—	—
4. Commodities	—	—	—	—
5. Other	—	—	—	—
<b>Total</b>	<b>18,074,454</b>	<b>6,813,954</b>	<b>40,850</b>	<b>—</b>

## A.2 Hedge financial derivatives: positive and negative fair values by product

Types of derivatives	Positive and negative fair value				Change in the value used to calculate the ineffectiveness of the hedge
	31/12/18				
	Central Counterpar	Over the counter		Organized markets	
		With clearing arrangements	Without clearing arrangements		
1. Positive fair value					
a) Options	—	3,987	—	—	—
b) Interest rate swap	84,166	123,223	951	—	69,383
c) Cross currency swap	—	—	—	—	—
d) Equity swap	—	—	—	—	—
e) Forward	—	—	—	—	—
f) Futures	—	—	—	—	—
g) Others	—	—	—	—	—
<b>Total</b>	<b>84,166</b>	<b>127,210</b>	<b>951</b>	<b>—</b>	<b>69,383</b>
2. Negative fair value					
a) Options	—	(2,332)	—	—	—
b) Interest rate swap	(22,250)	(150,631)	(5,197)	—	(21,241)
c) Cross currency swap	—	—	—	—	—
d) Equity swap	—	—	—	—	—
e) Forward	—	—	—	—	—
f) Futures	—	—	—	—	—
g) Others	—	—	—	—	—
<b>Total</b>	<b>(22,250)</b>	<b>(152,963)</b>	<b>(5,197)</b>	<b>—</b>	<b>(21,241)</b>

*A.3 OTC hedge financial derivatives: notional values, positive and negative fair values by counterparty*

<b>Underlyings</b>	<b>Central Counterparts</b>	<b>Banks</b>	<b>Other financial companies</b>	<b>Other entities</b>
<b>Contracts not included in clearing agreement</b>				
1) Debt securities and interest rate				
- notional value	X	40,850	—	—
- positive fair value	X	951	—	—
- negative fair value	X	(5,197)	—	—
2) Equities and stock indexes				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
3) Currencies and gold				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
4) Commodities				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
5) Others				
- notional value	X	—	—	—
- positive fair value	X	—	—	—
- negative fair value	X	—	—	—
<b>Contracts included in clearing arrangements</b>				
1) Debt securities and interest rate				
- notional value	18,074,454	5,552,839	911,115	350,000
- positive fair value	84,166	126,530	680	—
- negative fair value	(22,250)	(137,462)	(5,108)	(10,393)
2) Equities and stock indexes				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
3) Currencies and gold				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
4) Commodities				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
5) Others				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—

## 1.4 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 defined as 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 defined as 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 level.

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;
- 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's Risk Appetite Framework.

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 Business and Capital Planning 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 Group's assets eligible for refinancing with the European Central Bank.

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 period 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 period under review, both the LCR and the NSFR, which form part of the Group's Risk Appetite Framework, remained well above the limits set under the regulation in force of 100% at all times. In particular, the LCR as at 31 December 2018 stood at 210%.

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 and/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 high volatility due to the European Central Bank gradually exiting from its quantitative easing programme and the unstable Italian situation, the Group has kept its funding budget for the current financial year unchanged, which has been made possible as a result of its ability to alter the composition of its liabilities with a view to optimizing cost while maintaining the same quantity.

In the six months under review, against redemptions of securities totalling €1.5bn, issues were placed in an amount of some €1.65bn, €300m of which senior unsecured, €600m securitizations of Compass Banca loans, and €750m in covered bonds with a six-year duration. There was also €800m in secured financing and €300m in interbank loans, with maturities of longer than 24 months. Funding raised by refinancing assets with the European Central Bank was unchanged at €4.3bn.

As at 31 December 2018, the counterbalancing capacity stood at €12.3bn, €12.1bn of which in the form of bonds deliverable in exchange for cash from the ECB (€10.1bn as at 30 June 2018, €8.7bn of which deliverable bonds); while the balance of liquidity reserves established at the European Central bank amounted to €5.6bn (unchanged from the amount recorded for the previous six-month period), approx. €1.3bn of which in the form of cash not used and hence qualifying as part of the counterbalancing capacity.

## 1.5 OPERATIONAL RISKS

### **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 as at 31 December 2018 was €311.8m (unchanged since the balance-sheet date).

### **Risk mitigation**

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

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

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

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.

As for the different classes of operational risk, the percentage composition of the Group’s Basel II event types is shown in the table below:

Event Type	% on Total Loss
Clients, products and business practices	47%
Execution, delivery and process management	31%
External fraud	10%
Employment practices and workplace safety	12%
Other	—

During the six months under review, around half of the operating losses were due to the “Clients, products and business practices” event type, which includes losses deriving from complaints or litigation by retail clients in connection with financial terms or interest rates applied to financing products. One-third of the overall losses was due to process risks (“Execution, delivery and process management”), whereas the other classes regard external fraud on retail financing products (fake documentation and/or cards) and employment practices.

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.

## Other risks

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

- Concentration risk, i.e. risk deriving from a concentration of exposures to individual counterparties or groups of counterparties (“single name concentration risk”) or to counterparties operating in the same economic sector or which operate in the same business or belong to the same geographical area (geographical/sector concentration risk);
- Strategic risk, both in the sense of risk deriving from current and future changes in profits/margins compared to estimated data, due to volatility in volumes or changes in customer behaviour (business risk), and of current and future risk of reductions in profits or capital deriving from disruption to business as a result of adopting new strategic choices, wrong management decisions or inadequate execution of decisions taken (pure strategic risk);
- Risk from equity investments held as part of the “Hold to collect and sell” (“HTCS”) banking book, deriving from the potential reduction in value of the equity investments, listed and unlisted, which are held as part of the HTCS portfolio, due to unfavourable movements in financial markets or to the downgrade of counterparties (where these are not already included in other risk categories);
- Sovereign risk, in regard to the potential downgrade of countries or national central banks to which the Group is exposed;
- Compliance risk, i.e. the risk of incurring legal or administrative penalties, significant financial losses or damages to the Bank’s reputation as a result of breaches of external laws and regulations or self-imposed regulations;
- Reputational risk, i.e. the current and future risk of reductions in profits or capital deriving from a negative perception of the Bank’s image by customers, counterparties, shareholders, investors or regulatory authorities.

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

\* \* \*

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 2.8% 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 \**

Net equity items	Prudential consolidation	Insurance companies	Other companies	Consolidation adjustments and eliminations	Total	Of which: minorities
1. Share capital	460,150	—	—	—	460,150	16,629
2. Share premium reserve	2,196,564	—	—	—	2,196,564	1,848
3. Reserves	5,936,442	—	—	—	5,936,442	70,866
4. Equity instruments	—	—	—	—	—	—
5. Treasury shares	(167,608)	—	—	—	(167,608)	—
6. Valuation reserves:	415,564	—	—	—	415,564	(2,645)
- Equity instruments valued at fair value with impact taken to comprehensive income	55,148	—	—	—	55,148	—
- Hedging of equity instruments valued at fair value with impact taken to comprehensive income	—	—	—	—	—	—
- Financial assets (other than equity instruments) valued at fair value with impact taken to comprehensive income	29,151	—	—	—	29,151	—
- Tangible assets	—	—	—	—	—	—
- Intangible assets	—	—	—	—	—	—
- Hedging of foreign investments	—	—	—	—	—	—
- Hedging of cash flows	(17,914)	—	—	—	(17,914)	(2,535)
- Hedging instruments [not designated instruments]	—	—	—	—	—	—
- Exchange differences	(6,696)	—	—	—	(6,696)	(4)
- Non-current assets and group of assets being sold	—	—	—	—	—	—
- Financial liabilities designated at fair value with impact taken to profit and loss (variation of own credit risk)	—	—	—	—	—	—
- Actuarial gains (losses) on defined benefits pension schemes	(6,108)	—	—	—	(6,108)	(106)
- Valuation reserves share of equity-accounted interests	352,351	—	—	—	352,351	—
- Extraordinary revaluation laws	9,632	—	—	—	9,632	—
7. Net profit (loss) for the period (+/-) of Group and minorities	452,982	—	—	—	452,982	2,463
Total	9,294,094	—	—	—	9,294,094	89,161

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

## B.2 AFS valuation reserves: composition

Assets/Values	Prudential consolidation		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	43,015	(13,864)	—	—	—	—	—	—	43,015	(13,864)
2. Equity securities	55,203	(55)	—	—	—	—	—	—	55,203	(55)
3. Loans	—	—	—	—	—	—	—	—	—	—
Total at 31/12/18	98,218	(13,919)	—	—	—	—	—	—	98,218	(13,919)
Total at 30/6/18	153,930	(32,086)	1,239	(1,543)	—	—	—	—	155,169	(33,629)

## SECTION 2

### Own funds 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.[1] At 31 December 2018, the authority asked Mediobanca to maintain a CET1 ratio of 7.654% on a consolidated basis (Total SREP Capital Requirement – TSCR – 11.154%): these figures include the transitional regime for the capital conservation buffer of 1.875%, as opposed to 2.50% when fully operative from 2019, and the counter-cyclical capital buffer, calculated considering the exposure in the different member states at 31 December 2018.

#### 2.1 Scope of application for regulations

Based on the new body of supervisory and corporate governance rules for banks which consists of Capital Requirements Directive IV (CRD IV) and Capital Requirements Regulation (CRR) issued by the European Parliament in 2013 and enacted in Italy in Bank of Italy circular no. 285, the Group has applied the phase-in regime, and in particular, having received the relevant authorizations, has weighted the Assicurazioni Generali investment at 370% as

<sup>1</sup> Following the results of the supervisory review and evaluation process from the supervisory authority (the “SREP 2018 Decision”) received on 5<sup>th</sup> February 2019, the authority has asked Mediobanca to maintain, as from March 2019, a CET1 ratio of 8.25% on a consolidated basis (Total SREP Capital Requirement – TSCR – 11.75%), which includes the Pillar 2 (“P2R”) requirement of 1.25%, unchanged from last year, bearing out the Group’s asset quality and the adequacy of its risk management and the capital conservation buffer at its full level of 2.50%.

permitted by Article 471 of the CRR (up to the book value as at end-December 2012 and in compliance with the concentration limits versus insurance groups, equal to 20% of the limit for related parties).

On 4 December 2018, Ecofin approved the proposal<sup>2</sup> of the Parliament and of the European Commission for the revision of the Capital Requirement Regulation (CRR), in which the Article 471 has been amended, on one site, extending its transitional effectiveness to 31 December 2024 and, on the other, providing for the right not to deduct the investment in insurance entities, based on the adequacy of monitoring investment risk. For effect of this change, it is reasonable to believe that Mediobanca can continue to not deduct the full participation in Assicurazioni Generali<sup>3</sup> by opting for the weighting at 370%.

## 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 €606m of the positive FVOCI financial assets reserves, €18.8m of which in government securities and €521.9m deriving from Assicurazioni Generali being equity-consolidated) and the profit for the period (€238m, net of the estimated payout). The deductions regard: treasury shares (€234m), including €151m already owned as at 31 December 2018 and commitments to buy totalling €83m to reach 3% of the share capital (as approved by shareholders in annual general meeting and authorized by the ECB in October 2018<sup>4</sup>), intangible assets (€131.2m), goodwill of €621.2m, and other prudential adjustments of €43.6m in connection with the values of financial instruments (AVAs and DVAs). Interests in financial companies (banking and insurance) worth €1,686.1m were deducted, €1,409.7m of which in respect of the Assicurazioni Generali investment and €103.3m in respect of Compass RE.

<sup>2</sup> The amended Regulation will be published in the Official Journal after the formal approval by the Council and Parliament.

<sup>3</sup> Subject to compliance with the concentration limits.

<sup>4</sup> In accordance with the provisions of Commission Delegated Resolution (EU) no. 241/2014 of 7 January 2014 supplementing Regulation (EU) no. 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for Own Funds requirements for institutions.



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

Tier 2 capital includes subordinated liabilities, down from €1,819.4m to €1.669,7m due to amortization.

Issue	31/12/18		
	ISIN	Nominal value	Calculated amount *
MB Subordinato Mar 29	XS1579416741	50,000	48,506
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	615,327	224,911
MB OPERA 3.75 2026	IT0005188351	300,000	291,287
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	392,552	189,754
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	499,859	491,005
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	499,480	424,260
Total subordinated debt securities		2,357,218	1,669,723

\* The calculated amount differs from the book value due to items recognized at fair value and amortized cost and to buyback commitments.

No subordinated tier 2 issue benefits from the grand-fathering permitted under Articles 483ff of the CRR. The buffer, which consists of the higher accounting adjustments to cover the expected losses, totalled €12.5m (30/6/18: €9.2m).

## QUALITATIVE INFORMATION

	31/12/18	30/6/18
A. Common equity tier 1 (CET1) prior to application of prudential filters <i>of which: CET1 instruments subject to phase-in regime</i>	8,958,930	9,285,623
B. CET1 prudential filters (+/-)	(10,190)	(12,852)
C. CET1 gross of items to be deducted and effects of phase-in regime (A +/- B)	8,948,740	9,272,771
D. Items to be deducted from CET1	(3,463,601)	(3,518,758)
E. Phase-in regime - impact on CET1 (+/-), including minority interests subject to phase-in regime	1,101,433	992,586
F. Total common equity tier 1 (CET1) (C-D+/-E)	6,586,572	6,746,599
G. Additional tier 1 (AT1) gross of items to be deducted and effects of phase-in regime <i>of which: AT1 instruments subject to temporary provisions</i>	—	—
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 <i>of which: T2 instruments subject to phase-in regime</i>	1,682,183	1,828,666
N. Items to be deducted from T2	—	—
O. Phase-in regime - Impact on T2 (+/-), including instruments issued by branches and included in T2 as a result of phase-in provisions	—	—
P. Total T2 (M-N+/-O)	1,682,183	1,828,666
Q. Total own funds (F+L+P)	8,268,755	8,575,265

### 2.3 Capital adequacy

## QUALITATIVE INFORMATION

As at 31 December 2018, the Group's Common Equity Ratio, calculated as tier 1 capital as a percentage of total risk-weighted assets, amounted to 13.87%, lower than at 30 June 2018 (14.24%) due chiefly to the treasury share buyback scheme launched (which accounted for 38 bps). RWAs were basically stable during the six months under review: much of the growth in CIB (of €0.3bn) and Consumer Banking (€0.2bn) was offset by the reduction in PI (down €0.3bn), on a €0.1bn reduction in the book value of the Holding Functions division. It should be noted that since EBA opinion no. 2017\_3270 was issued in September 2018, the weighting applied to the non-performing loans acquired by Mediobanca Credit Solutions has been increased from 100% to 150%, leading to an increase in RWAs of approx. €0.2bn (in the CIB segment). Conversely, the total capital ratio declined from 18.11% to 17.41%.

Fully-loaded, the ratios stood at 12.52% (CET1 ratio) and 16.36% (total capital ratio), slightly lower than six months previously when they stood at 13.15% and 17.32% respectively.

## QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts <sup>5</sup>		Weighted amounts/requirements	
	31/12/18	30/6/18	31/12/18	30/6/18
<b>A. RISK ASSETS</b>				
A.1 Credit and counterpart risk	66,539,905	65,110,914	40,455,583	40,479,850
1. Standard methodology	50,590,485	49,338,183	31,155,392	31,415,612
2. Internal rating methodology	15,782,109	15,611,090	9,199,959	8,936,201
2.1 Basic	—	—	—	—
2.2 Advanced	15,782,109	15,611,090	9,199,959	8,936,201
3. Securitization	167,311	161,641	100,232	128,037
<b>B. REGULATORY CAPITAL REQUIREMENTS</b>				
B.1 Credit and counterparty risk			3,236,447	3,238,388
B.2 Credit valuation risk			46,250	49,724
B.3 Settlement risk			—	—
B.4 Market risk			204,502	189,093
1. Standard methodology			204,502	189,093
2. Internal models			—	—
3. Concentration risk			—	—
B.5 Other prudential requirements			311,808	311,808
1. Basic Indicator Approach (BIA)			311,808	311,808
2. Standard methodology			—	—
3. Advanced methodology			—	—
B.6 Other calculation elements			—	—
B.7 Total prudential requirements			3,799,007	3,789,013
<b>C. RISK ASSETS AND REGULATORY RATIOS</b>				
C.1 Risk-weighted assets			47,487,589	47,362,665
C.2 CET1 capital/risk-weighted assets (CET1 capital ratio)			13.87%	14.24%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 capital ratio)			13.87%	14.24%
C.4 Regulatory capital/risk-weighted assets (total capital ratio)			17.41%	18.11%

<sup>5</sup> For what regards the standard methodology, “unweighted amounts” correspond – as required by the regulatory framework – to the value of the exposure (including prudential filters, risk mitigation techniques and credit conversion factors). For what regards the internal ratings methodology, “unweighted amounts” correspond to the exposure-at-default (EAD) amount. For what regards guarantees given and commitments to disburse funds, credit conversion factors are also included in determining the EAD amount.

## **Part G - Combinations involving Group companies or business units**

### **SECTION 1**

#### **Transactions Completed During The Period**

No new business combinations were completed during the period.

The only point worth noting in this connection is completion of the Purchase Price Allocation process in respect of RAM AI.

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 in connection with previous business combinations for the period under review.

## **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](http://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 six months under review.

#### *2.2 Quantitative information*

The exposure (representing the sum of assets plus guarantees and commitments) remained virtually unchanged in the six months, at €1.1bn (30/6/18: €1.2bn) and accounts for 1.5% of total assets, while net interest income from such items accounted for 1.1% of such items.

## Situation as at 31 December 2018

	(€m)			
	Directors, statutory auditors and strategic management	Associates	Other related parties	Total
Assets	1.2	331.3	777.1	1,109.6
<i>of which: other assets</i>	—	138.2	384.3	522.5
<i>plans and advances</i>	1.2	193.1	392.8	587.1
Liabilities	18.1	—	147.7	165.8
Guarantees and commitments	—	—	44.0	44.0
Interest income	—	4.8	5.9	10.7
Interest expense	—	—	(0.8)	(0.8)
Net fee income	—	0.9	28.0	28.9
Other income (costs)	(20.9) <sup>1</sup>	(1.2)	(63.7)	(85.8)

<sup>1</sup> Of which: short-term benefits amounting to €19.3m and performance shares worth €1.6m. The figure refers to the staff included in the definition of management with strategic responsibilities during the six months.

## Situation 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
<i>of which: other assets</i>	—	212.1	393.6	605.7
<i>plans and advances</i>	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	21.6
Interest expense	(0.1)	—	(1.6)	(1.7)
Net fee income	—	2.8	60.9	63.7
Other income (costs)	(39.3) <sup>1</sup>	(1.1)	(26.2)	(66.6)

<sup>1</sup> 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.

## 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 <sup>1</sup>	4,000,000	28 October 2009	1 July 2020	3,375,000 <sup>2</sup>
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	5,013,815 <sup>3</sup>

<sup>1</sup> At a general meeting held on 27 June 2007, shareholders approved a proposal to grant stock options to Board members.

<sup>2</sup> Of these, 2,000,000 were granted to one former director.

<sup>3</sup> In respect of awards made in 2014, 2015, 2016, 2017 and 2018.

#### 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 a 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 allocated 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 17,301,424 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 2018 financial year, a total of 1,744,669 performance shares were awarded, with a total notional cost of €11.7m in respect of the variable remuneration 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).

On 30 November 2018, a total of 1,827,063 shares were awarded (in respect of performance share awards from 2013 to 2016 inclusive) through delivery of treasury shares.



## B. QUANTITATIVE INFORMATION

### 1. Changes in stock option scheme during the year

	31/12/18			30/6/18		
	No. of performance shares	Avg. price	Avg. expiry	No. of performance shares	Avg. price	Avg. expiry
A. Opening balance	642,500	6.51	October 18	4,442,500	6.53	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	492,500	6.54	X	3,800,000	6.54	X
C.3 Performance shares expired	—	—	X	—	—	X
C.4 Other reductions	—	—	X	—	—	X
D. Closing balance	150,000	6.43	August 19	642,500	6.51	October 18
E. Performance shares exercisable as at reporting date	150,000	6.43	X	642,500	6.51	X

### 2. Changes in performance share scheme during the year

	31/12/18		30/6/18	
	No. of performance shares	Avg. price	No. of performance shares	Avg. price
A. Opening balance	5,096,209	6.69	5,065,713	6.37
B. Increases				
B.1 New issues	1,744,669	6.73	1,834,484	7.93
B.2 Other additions	—	—	—	—
C. Decreases				
C.1 Performance shares cancelled	—	—	—	—
C.2 Performance shares made available	1,827,063	6.34	1,559,507	7.09
C.3 Performance shares expired	—	—	—	—
C.4 Other reductions	—	—	244,481	6.99
D. Closing balance	5,013,815	6.83	5,096,209	6.69

## Part L - Segmental reporting

### A. PRIMARY SEGMENTAL REPORTING

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

(€m)

Profit-and-loss figures	Wealth Management	Consumer Banking	Corporate & Investment Banking	Principal Investing	Holding Functions	Writeoffs <sup>1</sup>	Group
Net interest income	127.8	450.2	138.9	(3.6)	(23.5)	10.8	700.6
Net trading income	3.8	—	71.9	9.0	12.3	0.6	97.6
Net fee and commission income	140.6	63.2	122.5	—	4.6	(18.0)	312.9
Share in profits earned by equity-accounted companies	—	—	—	165.5	—	—	165.5
<b>Total income</b>	<b>272.2</b>	<b>513.4</b>	<b>333.3</b>	<b>170.9</b>	<b>(6.6)</b>	<b>(6.6)</b>	<b>1,276.6</b>
Personnel costs	(109.2)	(48.6)	(66.7)	(2.0)	(55.7)	—	(282.2)
Administrative expenses	(105.9)	(93.3)	(63.3)	(0.5)	(25.6)	9.2	(279.4)
<b>Operating costs</b>	<b>(215.1)</b>	<b>(141.9)</b>	<b>(130.0)</b>	<b>(2.5)</b>	<b>(81.3)</b>	<b>9.2</b>	<b>(561.6)</b>
Gain (losses) on AFS	—	—	0.9	(10.8)	0.2	(0.1)	(9.8)
Net loss provisions	(6.6)	(113.9)	14.2	—	(4.1)	(0.2)	(110.6)
Others	0.2	—	—	—	(11.3)	—	(11.1)
<b>Profit before tax</b>	<b>50.7</b>	<b>257.6</b>	<b>218.4</b>	<b>157.6</b>	<b>(103.1)</b>	<b>2.3</b>	<b>583.5</b>
Income tax for the period	(13.4)	(83.2)	(72.3)	1.1	39.1	(0.9)	(129.6)
Minority interest	(1.6)	—	—	—	(1.8)	—	(3.4)
<b>Net profit</b>	<b>35.7</b>	<b>174.4</b>	<b>146.1</b>	<b>158.7</b>	<b>(65.8)</b>	<b>1.4</b>	<b>450.5</b>
<i>Cost/income ratio (%)</i>	79.0	27.6	39.0	1.5	n.m.		44.0

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 and Mediobanca International, Mediobanca Securities and Mediobanca Turkey);
  - Specialty Finance: comprises factoring and credit management (including NPL portfolio acquisitions and management) performed by MBFACTA and MBCredit Solutions;
- Consumer Banking (CB): 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): recently set up division, bringing 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 (deriving from the Banca Esperia merger) and Spafid, and in the Principality of Monaco by Compagnie Monégasque de Banque;
  - Alternative AM, which comprises Cairn Capital, Mediobanca SGR, Mediobanca Management Company, Compagnie Monégasque de Gestion, CMB Asset Management and RAM Active Investment;
- 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 €1.4m).

## A.2 Balance-sheet data by business segment

(€m)

Balance-sheet data	Wealth Management	Consumer Banking	Corporate & Investment Banking	Principal Investing	Holding Functions	Group
Financial assets held for trading	23.0	—	9,292.4	—	—	9,315.4
Treasury funds	269.3	173.0	4,104.0	—	5,674.5	10,220.8
Banking book debt securities	355.5	194.6	666.6	—	6,480.8	7,697.5
Loans and advances to customers	10,725.7	12,766.2	17,400.6	—	2,043.7	42,936.2
Equity investments	18.5	1.8	—	3,688.6	28.2	3,737.1
Tangible and intangible assets	143.2	380.0	1.2	—	500.4	1,024.8
Tangible and intangible assets	335.4	568.8	32.9	—	662.2	1,599.3
<b>Total assets</b>	<b>11,870.6</b>	<b>14,084.5</b>	<b>31,497.7</b>	<b>3,688.6</b>	<b>15,389.8</b>	<b>76,531.1</b>
Funding	21,208.3	3,522.6	—	—	26,021.5	50,752.4
Treasury funding	—	—	3,903.3	—	2,638.0	6,541.3
Financial liabilities held for trading	—	—	8,087.7	—	—	8,087.7

# ANNEXES



## **Consolidated financial statements**

### **Comparison between restated balance sheet and format recommended by Bank of Italy circular no. 262/05, fifth update**

The balance sheet shown in the Review of operations reflects the following restatements:

Assets:

- The heading “Treasury financial assets” includes “Cash and cash equivalents” (heading 10); receivables in respect of current accounts and untied deposits, repos and other deposits in connection with securities lending operations and derivatives booked as “Financial assets recognized at amortized cost: due from banks and due from customers” (headings 40a and 40b respectively), plus certain items booked as “Other assets” (heading 130);
- The heading “Banking book securities” includes the debt securities booked as “Financial assets recognized through other comprehensive income” (heading 30) and as “Financial assets recognized at amortized cost” (heading 40c) and “Financial assets recognized at fair value through profit and loss” designated at fair value or classified compulsorily as such (headings 20b and 20c);
- The balance of “Equity investments” includes the equities accounted for as “Financial assets recognized through other comprehensive income (heading 30), the “Equity investments” (heading 70) themselves, and the funds compulsorily recognized at fair value in heading 20 c);
- The heading “Customer loans” includes loans and receivables booked as “Financial assets recognized at amortized cost: due from banks and due from customers” (headings 40a and 40b respectively) including those recognized compulsorily at fair value through profit and loss booked under heading 20c) net of the “Value adjustment to financial assets subject to generic hedging” (heading 60) for loans and receivables;
- The heading “Other assets” includes the amounts booked under headings 130 “Other assets”, 110 “Tax assets” and 50 “Hedging derivatives”, and the sundry debtor items booked as “Financial assets recognized at amortized cost: due from banks and due from customers” (headings 40a and 40b);

Liabilities:

- The heading “Funding” includes due to banks, due to customers and debt securities in issue booked as “Financial liabilities recognized at amortized cost” (headings 10a, 10b and 10c respectively) net of the amounts booked as “Treasury financial liabilities” and “Other assets” as well as those booked as “Financial liabilities designated at fair value” (heading 30);
- The heading “Treasury financial liabilities” include amounts payable in respect of current accounts and untied deposits, repos and other deposits in connection with securities lending operations and derivatives booked as “Financial liabilities recognized at amortized cost – a) Due to banks” and “b) Due to customers” (headings 10a and 10b respectively);
- The heading “Other liabilities” includes the headings 40 “Hedging derivatives”, 60 “Tax liabilities” and 110 “Technical reserves”, plus the sundry creditor items different from those booked as financial liabilities recognized at amortized cost.

*Balance sheet as at 31 December 2018 - Assets*

(€m)

Assets	Financial assets held for trading	Treasury financial assets	Banking book securities	Customer loans	Equity Investments	Tangible and intangible assets	Other assets	Total assets
10. Cash and cash equivalents	—	98.5	—	—	—	—	—	98.5
20. Financial assets at fair value with impact taken to profit and loss	9,315.4	—	60.4	233.6	551.4	—	—	10,160.8
<i>a) Financial assets held for trading</i>	9,315.4	—	—	—	—	—	—	9,315.4
<i>b) Financial assets designated at fair value</i>	—	—	51.2	—	—	—	—	51.2
<i>c) Other financial assets mandatorily at fair value</i>	—	—	9.2	233.6	551.4	—	—	794.2
30. Financial assets at fair value with impact taken to comprehensive income	—	—	4,443.1	—	129.2	—	—	4,572.3
40. Financial assets at amortized cost	—	10,119.3	3,194.0	42,702.6	—	—	85.3	56,101.2
50. Hedging derivatives	—	—	—	—	—	—	212.3	212.3
60. Adjustment of hedging financial assets (+/-)	—	—	—	—	—	—	—	—
70. Equity investments	—	—	—	—	3,056.5	—	—	3,056.5
80 Reinsured portion of technical reserve	—	—	—	—	—	—	—	—
90. Property, plant and equipments	—	—	—	—	—	285.1	—	285.1
100. Intangible assets	—	—	—	—	—	739.7	—	739.7
110. Tax assets	—	—	—	—	—	—	741.8	741.8
120. Assets classified as held for sale	—	—	—	—	—	—	3.3	3.3
130. Other assets	—	3.0	—	—	—	—	556.6	559.6
<b>Total assets</b>	<b>9,315.4</b>	<b>10,220.8</b>	<b>7,697.5</b>	<b>42,936.2</b>	<b>3,737.1</b>	<b>1,024.8</b>	<b>1,599.3</b>	<b>76,531.1</b>

*Balance sheet as at 31 December 2018 - Liabilities*

(€m)

Liabilities and net equity	Funding	Treasury financial liabilities	Financial liabilities held for trading	Other liabilities	Provisions	Net equity and minority interests	Total liabilities and net equity
10. Financial liabilities at amortized cost	50,698.9	6,541.3	—	75.1	—	—	57,315.3
<i>a) Due to banks</i>	8,644.6	4,543.7	—	4.0	—	—	13,192.3
<i>b) Due to customers</i>	21,647.1	1,997.6	—	71.1	—	—	23,715.8
<i>c) Debt securities in issue</i>	20,407.2	—	—	—	—	—	20,407.2
20. Trading financial liabilities	—	—	8,087.7	—	—	—	8,087.7
30. Financial liabilities designated at fair value	53.5	—	—	—	—	—	53.5
40. Hedging derivatives	—	—	—	180.4	—	—	180.4
50. Adjustment of hedging financial liabilities (+/-)	—	—	—	—	—	—	—
60. Tax liabilities	—	—	—	499.6	—	—	499.6
70. Liabilities included in disposal groups classified as held for sale	—	—	—	—	—	—	—
80. Other liabilities	—	—	—	716.0	—	—	716.0
90. Staff severance indemnity provision	—	—	—	—	26.3	—	26.3
100. Provisions	—	—	—	—	186.3	—	186.3
110. Insurance reserves	—	—	—	171.9	—	—	171.9
120. Revaluation reserves	—	—	—	—	—	418.2	418.2
130. Redeemable shares repayable on demand	—	—	—	—	—	—	—
140. Equity instruments repayable on demand	—	—	—	—	—	—	—
150. Reserves	—	—	—	—	—	—	—
160. Share premium reserve	—	—	—	—	—	5,865.6	5,865.6
170. Share capital	—	—	—	—	—	2,194.7	2,194.7
180. Treasury share (-)	—	—	—	—	—	443.5	443.5
190. Minority interests (+/-)	—	—	—	—	—	(167.6)	(167.6)
200. Profit/(loss) for the period (+/-)	—	—	—	—	—	89.2	89.2
<b>Total liabilities and net equity</b>	<b>50,752.4</b>	<b>6,541.3</b>	<b>8,087.7</b>	<b>1,643.0</b>	<b>212.6</b>	<b>9,294.1</b>	<b>76,531.1</b>



## **Comparison between restated profit and loss account and format recommended by Bank of Italy circular no. 262/05, fifth update**

The profit and loss account shown in the Review of operations on p. 21 reflects the following restatements:

- “Net interest income” includes the items stated under headings 10 “Interest and similar income”, 20 “Interest and similar expense”, the margins on derivatives trading stated under heading 80 “Net trading income”, and the net profit or loss on hedges of customer loans and funding stated under heading 90 “Net hedging income”;
- “Net treasury income” contains the amounts stated under heading 70 “Dividends and similar income”, heading 80 “Net trading income” (except for amounts booked as Net interest income), the net profit or loss on banking book securities stated under heading 100 “Net gains (losses) on disposals/repurchases”, the share of securities lending transactions stated under headings 40 “Fee and commission income” and 50 “Fee and commission expense” and the share of heading 110 “Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss” not related to lending funds
- The heading “Net fee and commission income” contains the amounts stated under heading 60 “Net fee and commission income”, the operating income stated under heading 230 “Other operating income (expense)”, and the writebacks due to collections on NPLs acquired stated under heading 130 “Net value adjustments for credit risk” and the “Net profit from insurance activities” of headings 160 and 170;
- The heading “Loan loss provisions” contains the amounts relating to loans stated under headings 130 “Net value adjustments for credit risk” (net of the writebacks to NPLs), 100 “Net gains (losses) on disposals/repurchases”, 110 “Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss” and 140 “Gain (losses) from contractual modifications without derecognition” and the share of heading 200 “Net transfers to provisions – a) commitments and guarantees issued” related to leasing;

- The heading “Gains (losses) on disposal of equity holdings” contains the earnings effects of the Group’s holdings in equity investments, shares and funds stated under headings 250 “Gains (losses) on equity investments” and 110 “Net gains (losses) on other financial assets and liabilities recognized compulsorily at fair value through profit and loss”;
- The heading “Operating costs” contains heading 190 “Administrative expenses”, Net transfers to provisions of heading 200, Writedowns/writebacks on tangible and intangible assets and Other operating income (expense) of heading 230 net of the writebacks already booked under Net fees and commission;
- The heading “Other income (losses)” contains the non-recurring costs stated under heading 190 “Administrative expenses”, in particular the contributions to the Single Resolution Fund and Deposit Guarantee scheme, amounts set aside in respect of refurbishments, and depreciation/amortization of tangible and/or intangible assets.

*Profit and loss account as at 31 December 2018*

(€m)

Profit-and-loss account	Net interest income	Net treasury income	Net fee and commission income	Equity-accounted companies	Operating costs	Gains (losses) on disposal of equity holdings	Loan loss provisions	Provisions for other financial assets	Other income (losses)	Income tax for the period	Minority interest	Net profit
10. Interest and similar income	969.2	—	—	—	—	—	—	—	—	—	—	969.2
20. Interest expense and similar charges	(243.9)	—	—	—	—	—	—	—	—	—	—	(243.9)
<b>30. Net interest income</b>	<b>725.3</b>	—	—	—	—	—	—	—	—	—	—	<b>725.3</b>
40. Fee and commission income	—	5.1	292.8	—	—	—	—	—	—	—	—	297.9
50. Fee and commission expense	—	(3.1)	(68.2)	—	—	—	—	—	—	—	—	(71.3)
<b>60. Net fee and commission income</b>	<b>—</b>	<b>2.0</b>	<b>224.6</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>226.6</b>
70. Dividends and similar income	—	29.1	—	—	—	—	—	—	—	—	—	29.1
80. Net trading income	(27.2)	41.4	—	—	—	—	—	—	—	—	—	14.2
90. Net hedging income (expense)	2.5	—	—	—	—	—	—	—	—	—	—	2.5
100. Gain (loss) on disposal/repurchase:	—	24.9	—	—	—	—	4.8	—	—	—	—	29.7
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	—	0.2	—	—	—	—	14.5	—	—	—	—	4.9
<b>120. Total income</b>	<b>700.6</b>	<b>97.6</b>	<b>224.6</b>	<b>—</b>	<b>—</b>	<b>(9.8)</b>	<b>19.3</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,032.3</b>
130. Net write-offs (write-backs) for credit risk:	—	—	16.3	—	—	—	(128.1)	(1.1)	—	—	—	(112.9)
140. Gains (losses) from contractual modifications without derecognition	—	—	—	—	—	—	(0.7)	—	—	—	—	(0.7)
<b>150. Net income from financial operations</b>	<b>700.6</b>	<b>97.6</b>	<b>240.9</b>	<b>—</b>	<b>—</b>	<b>(9.8)</b>	<b>(109.5)</b>	<b>(1.1)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>918.7</b>
160. Premiums earned (net)	—	—	29.7	—	—	—	—	—	—	—	—	29.7
170. Other income (net) from insurance activities	—	—	(5.0)	—	—	—	—	—	—	—	—	(5.0)
<b>180. Net profit from financial and insurance activities</b>	<b>700.6</b>	<b>97.6</b>	<b>265.6</b>	<b>—</b>	<b>—</b>	<b>(9.8)</b>	<b>(109.5)</b>	<b>(1.1)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>943.4</b>
190. Administrative expenses:	—	—	—	—	(561.4)	—	—	—	(11.2)	—	—	(572.6)
200. Net transfers to provisions:	—	—	—	—	(1.6)	—	—	—	—	—	—	(1.6)
210. Net adjustments to tangible assets	—	—	—	—	(6.8)	—	—	—	—	—	—	(6.8)
220. Net adjustments to intangible assets	—	—	—	—	(14.6)	—	—	—	—	—	—	(14.6)
230. Other operating income (expense)	—	—	47.3	—	22.8	—	—	—	—	—	—	70.1
<b>240. Operating costs</b>	<b>—</b>	<b>—</b>	<b>47.3</b>	<b>—</b>	<b>(561.6)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(11.2)</b>	<b>—</b>	<b>—</b>	<b>(525.5)</b>
250. Gain (loss) on equity investments	—	—	165.5	—	—	—	—	—	—	—	—	165.5
260. Net result from fair value valuation of tangible and intangible assets	—	—	—	—	—	—	—	—	—	—	—	—
270. Goodwill write-offs	—	—	—	—	—	—	—	—	—	—	—	—
280. Gain (loss) on disposal of investments	—	—	—	—	—	—	—	—	0.1	—	—	0.1
<b>290. Profit (loss) on ordinary activity before tax</b>	<b>700.6</b>	<b>97.6</b>	<b>312.9</b>	<b>165.5</b>	<b>(561.6)</b>	<b>(9.8)</b>	<b>(109.5)</b>	<b>(1.1)</b>	<b>(11.1)</b>	<b>—</b>	<b>—</b>	<b>583.5</b>
300. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—	—	(129.6)	—	(129.6)
<b>310. Profit (loss) on ordinary activities after tax</b>	<b>700.6</b>	<b>97.6</b>	<b>312.9</b>	<b>165.5</b>	<b>561.6</b>	<b>(9.8)</b>	<b>(109.5)</b>	<b>(1.1)</b>	<b>(11.1)</b>	<b>(129.6)</b>	<b>—</b>	<b>453.9</b>
320. Gain (loss) of ceded operating assets, net of tax	—	—	—	—	—	—	—	—	—	—	—	—
<b>330. Net profit (loss) for the period</b>	<b>700.6</b>	<b>97.6</b>	<b>312.9</b>	<b>165.5</b>	<b>(561.6)</b>	<b>(9.8)</b>	<b>(109.5)</b>	<b>(1.1)</b>	<b>(11.1)</b>	<b>(129.6)</b>	<b>—</b>	<b>453.9</b>
340. Net profit (loss) for the period attributable to minorities	—	—	—	—	—	—	—	—	—	—	(3.4)	(3.4)
<b>350. Net profit (loss) for the period attributable to Mediobanca</b>	<b>700.6</b>	<b>97.6</b>	<b>312.9</b>	<b>165.5</b>	<b>(561.6)</b>	<b>(9.8)</b>	<b>(109.5)</b>	<b>(1.1)</b>	<b>(11.1)</b>	<b>(129.6)</b>	<b>(3.4)</b>	<b>450.5</b>

## Comparison between restated balance sheet and format recommended by Bank of Italy circular no. 262/05. fifth update

*Balance sheet as at 31December 2018 - Assets* (€m)

Assets	Financial assets held for trading	Treasury financial assets	Banking book securities	Customer loans	Equity Investments	Tangible and intangible assets	Other assets	Total assets
10. Cash and cash equivalents	—	0.6	—	—	—	—	—	<b>0.6</b>
20. Financial assets at fair value with impact taken to profit and loss	9,354.3	—	54.5	233.7	531.0	—	—	<b>10,173.5</b>
<i>a) Financial assets held for trading</i>	9,354.3	—	—	—	—	—	—	<b>9,354.3</b>
<i>b) Financial assets designated at fair value</i>	—	—	51.3	—	—	—	—	<b>51.3</b>
<i>c) Other financial assets mandatorily at fair value</i>	—	—	3.2	233.7	531.0	—	—	<b>767.9</b>
30. Financial assets at fair value with impact taken to comprehensive income	—	—	4,443.1	—	127.4	—	—	<b>4,570.5</b>
40. Financial assets at amortized cost	—	11,198.5	7,311.2	26,890.4	—	—	47.9	<b>45,448.0</b>
50. Hedging derivatives	—	—	—	—	—	—	213.5	<b>213.5</b>
60. Adjustment of hedging financial assets (+/-)	—	—	—	—	—	—	—	<b>—</b>
70. Equity investments	—	—	—	—	3,082.7	—	—	<b>3,082.7</b>
80. Property, plant and equipments	—	—	—	—	—	115.5	—	<b>115.5</b>
90. Intangible assets	—	—	—	—	—	35.6	—	<b>35.6</b>
100. Tax assets	—	—	—	—	—	—	153.9	<b>153.9</b>
110. Assets classified as held for sale	—	—	—	—	—	—	—	<b>—</b>
120. Other assets	—	—	—	—	—	—	150.0	<b>150.0</b>
<b>Total assets</b>	<b>9,354.3</b>	<b>11,199.1</b>	<b>11,808.8</b>	<b>27,124.1</b>	<b>3,741.1</b>	<b>151.1</b>	<b>565.3</b>	<b>63,943.8</b>

*Balance sheet as at 31 December 2018 - Liabilities*

(€m)

Liabilities and net equity	Funding	Treasury financial liabilities	Financial liabilities held for trading	Other liabilities	Provisions	Net equity and minority interests	Total liabilities and net equity
10. Financial liabilities at amortized cost	42,056.2	8,027.0	—	2.7	—	—	<b>50,085.9</b>
<i>a) Due to banks</i>	20,602.2	6,029.4	—	2.1	—	—	<b>26,633.7</b>
<i>b) Due to customers</i>	5,087.2	1,997.6	—	0.5	—	—	<b>7,085.3</b>
<i>c) Debt securities in issue</i>	16,366.8	—	—	0.1	—	—	<b>16,366.9</b>
20. Trading financial liabilities	—	—	8,141.7	—	—	—	<b>8,141.7</b>
30. Financial liabilities designated at fair value	53.5	—	—	—	—	—	<b>53.5</b>
40. Hedging derivatives	—	—	—	167.8	—	—	<b>167.8</b>
50. Adjustment of hedging financial liabilities (+/-)	—	—	—	—	—	—	—
60. Tax liabilities	—	—	—	340.2	—	—	<b>340.2</b>
70. Liabilities included in disposal groups classified as held for sale	—	—	—	—	—	—	—
80. Other liabilities	—	—	—	207.0	—	—	<b>207.0</b>
90. Staff severance indemnity provision	—	—	—	—	7.5	—	<b>7.5</b>
100. Provisions	—	—	—	—	121.1	—	<b>121.1</b>
110. Revaluation reserves	—	—	—	—	—	87.8	<b>87.8</b>
120. Redeemable shares repayable on demand	—	—	—	—	—	—	—
130. Equity instruments repayable on demand	—	—	—	—	—	—	—
140. Reserves	—	—	—	—	—	2,210.1	<b>2,210.1</b>
150. Share premium reserve	—	—	—	—	—	2,194.7	<b>2,194.7</b>
160. Share capital	—	—	—	—	—	443.5	<b>443.5</b>
170. Treasury share (-)	—	—	—	—	—	(167.6)	<b>(167.6)</b>
180. Profit/(loss) for the period (+/-)	—	—	—	—	—	50.6	<b>50.6</b>
<b>Total liabilities and net equity</b>	<b>42,109.7</b>	<b>8,027.0</b>	<b>8,141.7</b>	<b>717.7</b>	<b>128.6</b>	<b>4,819.1</b>	<b>63,943.8</b>

## Comparison between restated profit and loss account and format recommended by Bank of Italy circular no. 262/05, fifth update

*Profit and loss account as at 31 December 2018*

Profit-and-loss account	Net interest income	Net treasury income	Net fee and commission income	Dividends on investments	Operating costs	Gains (losses) on disposal of equity holdings	Loan loss provisions	Provisions for other financial assets	Impairment on investments	Other income (losses)	Income tax for the period	Net profit
10. Interest and similar income	362,6	—	—	—	—	—	—	—	—	—	—	362,6
20. Interest expense and similar charges	(311,9)	—	—	—	—	—	—	—	—	—	—	(311,9)
<b>30. Net interest income</b>	<b>50,7</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>50,7</b>
40. Fee and commission income	2,9	4,9	127,0	—	—	—	—	—	—	—	—	134,8
50. Fee and commission expense	—	(3,9)	(10,9)	—	—	—	—	—	—	—	—	(14,8)
<b>60. Net fee and commission income</b>	<b>2,9</b>	<b>1,0</b>	<b>116,1</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>120,0</b>
70. Dividends and similar income	—	29,1	—	—	—	—	—	—	—	—	—	29,1
80. Net trading income	(6,5)	36,5	—	—	—	—	—	—	—	—	—	30,0
90. Net hedging income (expense)	1,1	—	—	—	—	—	—	—	—	—	—	1,1
100. Gain (loss) on disposal/repurchase:	—	25,2	—	—	—	—	—	—	—	—	—	25,2
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	—	0,4	—	—	—	(9,5)	14,5	—	—	—	—	5,4
<b>120. Total income</b>	<b>48,2</b>	<b>92,2</b>	<b>116,1</b>	<b>—</b>	<b>—</b>	<b>(9,5)</b>	<b>14,5</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>261,5</b>
130. Net write-offs (write-backs) for credit risk:	—	—	—	—	—	—	12,8	(0,7)	(2,3)	—	—	9,8
140. Gains (losses) from contractual modifications without derecognition	—	—	—	—	—	—	—	—	—	—	—	—
<b>150. Net income from financial operations</b>	<b>48,2</b>	<b>92,2</b>	<b>116,1</b>	<b>—</b>	<b>—</b>	<b>(9,5)</b>	<b>27,3</b>	<b>(0,7)</b>	<b>(2,3)</b>	<b>—</b>	<b>—</b>	<b>271,3</b>
160. Administrative expenses:	—	—	—	—	(199,1)	—	—	—	—	(0,4)	—	(199,5)
170. Net transfers to provisions:	—	—	—	—	(0,3)	—	0,1	—	—	—	—	(0,2)
180. Net adjustments to tangible assets	—	—	—	—	(1,6)	—	—	—	—	—	—	(1,6)
190. Net adjustments to intangible assets	—	—	—	—	(3,6)	—	—	—	—	—	—	(3,6)
200. Other operating income (expense)	—	—	8,3	—	(1,2)	—	—	—	—	—	—	7,1
<b>210. Operating costs</b>	<b>—</b>	<b>—</b>	<b>8,3</b>	<b>—</b>	<b>(205,8)</b>	<b>—</b>	<b>0,1</b>	<b>—</b>	<b>—</b>	<b>(0,4)</b>	<b>—</b>	<b>(197,8)</b>
220. Gain (loss) on equity investments	—	—	—	—	—	(1,9)	—	—	—	—	—	(1,9)
230. Net result from fair value valuation of tangible and intangible assets	—	—	—	—	—	—	—	—	—	—	—	—
<b>240. Goodwill write-offs</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
250. Gain (loss) on disposal of investments	—	—	—	—	—	—	—	—	—	—	—	—
<b>260. Profit (loss) on ordinary activity before tax</b>	<b>48,2</b>	<b>92,2</b>	<b>124,4</b>	<b>—</b>	<b>(205,8)</b>	<b>(11,4)</b>	<b>27,4</b>	<b>(0,7)</b>	<b>(2,3)</b>	<b>(0,4)</b>	<b>—</b>	<b>71,6</b>
270. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—	—	—	(21,0)	(21,0)
<b>280. Profit (loss) on ordinary activities after tax</b>	<b>48,2</b>	<b>92,2</b>	<b>124,4</b>	<b>—</b>	<b>(205,8)</b>	<b>(11,4)</b>	<b>27,4</b>	<b>(0,7)</b>	<b>(2,3)</b>	<b>(0,4)</b>	<b>(21,0)</b>	<b>50,6</b>
290. Net profit (loss) for the period attributable to minorities	—	—	—	—	—	—	—	—	—	—	—	—
<b>300. Net profit (loss) for the period attributable to Mediobanca</b>	<b>48,2</b>	<b>92,2</b>	<b>124,4</b>	<b>—</b>	<b>(205,8)</b>	<b>(11,4)</b>	<b>27,4</b>	<b>(0,7)</b>	<b>(2,3)</b>	<b>(0,4)</b>	<b>(21,0)</b>	<b>50,6</b>

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