MEDIOBANCA

LIMITED COMPANY
SHARE CAPITAL € 443,616,723.50
HEAD OFFICE: PIAZZETTA ENRICO CUCCIA 1, MILAN, ITALY

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

Annual Accounts and Reports as at 30 June 2020

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translation from the Italian original which remains the definitive version

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CONSOLIDATED ACCOUNTS

REVIEW OF OPERATIONS
MEDIOBANCA GROUP

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REVIEW OF GROUP OPERATIONS

The twelve months under review reflect the unprecedented shock caused by the Covid-19 epidemic, which caused the leading global economies to stall rapidly and enter recession.

Stock markets lost more than 30% in March 2020 compared to the start of the year, before gradually recovering by-end June.

The most recent estimates for 2020 suggest global GDP will fall on average by 6.5%, Eurozone GDP by 9.2%, and Italian GDP by 11.6%, with the expectation that growth could resume from as early as 2021, but uncertainty over when end-2019 levels will be recovered.

Prompt intervention by the main central banks and extraordinary fiscal policy measures implemented by the governments of individual countries and by the European Union through the Next Generation EU recovery facility helped markets remain under control.

The initiatives promoted by the Italian government, with the "Cura Italia", "Liquidità" and "Rilancio" decrees, have helped business's production capacity and household spending to recover, with clear benefits not only to the cost of risk, but also to business volumes in terms of new loans. The set of measures adopted will start to affect public finance indicators as from this year, increasing public borrowing substantially, but in this Italy is in fundamentally the same situation as all the other main global economies.

The Mediobanca Group went into this severe crisis scenario better placed than the 2008 and 2011 crises: more solid capital position (CET1 ratio near all-time highs), lower exposure to leverage lending, government bonds and trading activities, higher average corporate loan book rating, householder risk (mortgage lending and consumer credit) reflecting continuous improvement over the years, and strongly reduced exposure to equity compared to 2011.

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The Covid-19 crisis is only in part reflected in the Group's accounts for the twelve months, which were helped by the solid results posted by the Group in the first eight months of the year, plus the healthy trend recorded in June 2020, Net profit totalled €600.4m, 27% lower than last year (€823m), with just €132.8m added in 2H (vs €467.6m in 1H) but strongly impacted by various one-off items (including the RAM goodwill impairment charge). Revenues were unchanged at €2.5bn, and operating efficiency remained healthy (cost/income ratio 47.3%); profitability too continued to reflect satisfactory levels (ROAC for banking activities above 10%, ROTE 7%, which rises to 10% net of the one-off items), on a significantly improved capital position (CET1 ratio 16%). The results, as mentioned, reflect a series of one-off items, attributable in particular to the increase in the cost of risk deriving from recalculation of the expected loss based on the new macroeconomic scenario (which is particularly severe for 2020[1]), plus the impairment charge to the RAM investment (approx. €65m) which became necessary following the sharp contraction in the company's profitability as a result of redemptions by institutional clients and the reduced growth prospects.

In view of the most recent ECB recommendations, the Board has decided not to propose a dividend for the financial year under review. For the coming years, however, if the gradual recovery expectations for the world's economies are confirmed, the Group may resume its dividend policy and its capital optimization plans, with a target annual CET1 ratio level of 13.5%, to be achieved *inter alia* through share buybacks and net of the capital used to strengthen the business lines.

Revenues for the twelve months remained at last year's levels at €2,513m (30/6/19: €2,524.7m) following the reduction posted in the last four months. The main income items performed as follows:

– Net interest income was up 3.3% (from €1,395.6m to €1,442.2m), on higher contributions from Consumer Banking (up 5.5%, from €898.8m to €948m) and Wealth Management (up 4.2%, from €260.2m to €271m), while Corporate and Investment Banking effectively matched last year's performance with €271.4m (30/6/19: €272.7m);

– Net fee and commission income rose by 3.1%, from €611.2m to €630.2m, on a good performance by Wealth Management (fees up 9%, from €280.9m to

[1] The internal scenario estimates an 11.6% reduction in Italian GDP in 2020, with a recovery of 0.8% in 2021 and of 5.2% in 2022; these figures are -9.2%, +0.1% and +4.7% respectively for the Eurozone, and -10.8%, +7.6% and +6.0% for the United States, the other two main geographies for the Mediobanca Group.

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€306.1m) which now accounts for virtually half the Group's total; Corporate and Investment Banking's contribution was virtually unchanged from last year, at €225.8m (€227.6m), following the consolidation of Messier Maris et Associés for the full twelve months (adding €33.8m), which was largely responsible for the impressive growth in fees earned from advisory business (up 28.4%, from €87.5m to €112.4m);

- Net treasury income fell from €196.7m to €136.3m, on reduced contributions from activities with CMS clients of €86m (€122m) and the proprietary portfolio (trading and banking book), reflecting the sharp market correction which was only in part made up by end-June 2020; the Covid-19 impact may be quantified at approx. €45m, mostly due to the effects of postponement or cancellation of 2019 dividends on equity derivative valuations;[2]
- The equity-accounted companies' contribution to net profit decreased from €321.2m to €304.3m, with the 4Q contribution of €54.8m reflecting the profits delivered by Assicurazioni Generali in 1Q 2020.

The increase in costs (up 2.3%, from €1,161.9m to €1,188.9m), chiefly reflects the consolidation of Messier Maris et Associés (up €18.8m, €14m of which in labour costs), enhancement of the commercial network in Wealth Management (up €14m), and the Group's IT initiatives. The heading also includes extraordinary expenses linked to the Covid-19 emergency totalling €3.8m; while €2.6m has also been donated to charitable initiatives.

Loan loss provisions were nearly 70% higher than last year (up from €222.6m to €374.9m), translating to a cost of risk for the Group of 82 bps (vs 52 bps last year); the increase was concentrated in 4Q (cost of risk up to 141 bps), due to the deterioration in households' risk profile, and the worsening macroeconomic scenario. The Covid-19 effect can be estimated at €113m, around 30% of the total provisioning taken for the twelve months. The performance in Consumer Banking reflects the operating difficulties encountered in credit recovery and collection activities during the months of April and May in particular, plus a prudent valuation of the share of the portfolio involved in the moratoria: the increase in provisioning (up 36.5%, from €237.8m to €324.7m, €63.9m of which Covid-related) is reflected in the upward trend in the cost of risk (from 185 bps to 247 bps, with a high of 361 bps recorded in 4Q). Corporate and Investment Banking charged writedowns of €20m (compared with net writebacks of €36.2m last year),

[2] The profits reported by the company as at 31 March 2020 have been increased by the writebacks subsequently recorded at end-June, as the share written down in the quarterly accounts was subsequently reversed at the interim reporting date; the difference in profit (of which Mediobanca's pro rata share is approx. €40m) has been taken through the valuation reserves.

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due to provisioning being recalculated on the basis of the new macroeconomic scenario for the wholesale portfolio (impact quantifiable as €37m). The increase in provisioning in Wealth Management was smaller in absolute terms, with adjustments increasing from €11.8m to €20.5m, concentrated in CheBanca! (up 41.6%, from €13.7m to €19.4m, €4.4m of which Covid-related).

Other charges include the increase in estimated losses on banking book securities, reflecting the new scenario, and taking account of the recent downgrade of Italian sovereign debt (provisions up €1.3m to €8.8m, €7.5m of which in 4Q). The heading also includes value adjustments for holdings in funds, which reflect negative adjustments at the year-end totalling €11.7m, better than at 9M (total charges €20m), for the two main seed capital investments (RAM and Cairn) in particular.

The contributions to the resolution funds were also higher than last year (from €53.5m to €59.7m), with the ordinary payment to the Single Resolution Fund increasing from €26.8m to €37.2m. This reflects the increase in deposits at system level, plus the extraordinary contribution to the national resolution system of €11.1m (€9.1m). Other charges also include non-recurring costs totalling €8,5m in connection with the fine handed down to Compass by the antitrust authority,[3] and the restructuring plans in leasing operations.

The results for the twelve months also reflect impairment charges taken in respect of the goodwill on RAM, which has been reduced to €64.6m on prudential grounds, in line with the valuation of the company following the reduction in profitability recorded in the first months of 2020 as a result of redemptions on some of the main funds managed. The impact on profit and loss is €65.1m, representing the difference between the effects of the goodwill impairment (€96.9m) less the writeback due to the lower valuation of the liabilities to buy out the minority interest (€31.8m).

* * *

Total assets rose from €78.2bn to €78.9bn, as a result of higher customer loans (up 5.2%), with a consequent increase in funding (up 6.9%) in part offset by the reduction in treasury volumes; the main items reflect the following trends:

[3] The Italian antitrust authority charged Compass with engaging in improper commercial practices in the distribution of insurance products bundled with loans. Compass is convinced that it has conducted itself properly in its relations with clients, and accordingly has challenged the ruling, appealing to the Lazio regional court to overthrow it.

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– Customer loans grew from €44.4bn to €46.7bn in the twelve months, chiefly due to the contribution from Wealth Management which was up 16.1%, from €11.4bn to €13.2bn - including CheBanca! mortgage loans (up 14%) – as did that of Corporate and Investment Banking (up 4.4%, from €17.9bn to €18.6bn), on higher volumes in the large corporate segment; Consumer Banking returned to near the levels seen at the start of the year, down just 1.4% (from €13.2bn to €13bn), after recording an all-time high of €13.8bn at end-February 2020, due to the sharp downturn in new loans during the months of April and May which was recovered partly in June;
– Funding grew from €51.4bn to €54.9bn, mainly as a result of increased recourse to T-LTRO facilities (up from €4.3bn to €5.7bn, including €3bn for T-LTRO III), and higher Private Banking deposits (up from €7.4bn to €8.5bn); the debt security funding component grew slightly, from €18.5bn to €18.8bn, on €4.6bn in new issues, €500m of which in 4Q; the cost of funding remains virtually unchanged during the year at 80 bps;
– Banking book securities were up 1.9% (from €6.7bn to €6.8bn), with the sovereign debt security component equal to €4.7bn, €3.3bn of which domestic; net treasury assets increased from €5.3bn to €6.1bn, with an increasing liquidity component (ECB deposits just over €3bn).

Wealth Management TFAs totalled €63.6bn, €2.2bn higher than last year despite the €1bn negative market effect (roughly half the loss recorded at end-March 2020 was recovered in 4Q). Deposits grew from €22.4bn to €23.8bn, and AUA/AUM totalled €39.8bn, also higher than last year (€39bn). There was clear growth in assets managed in both the Affluent segment (€27.8bn, up €2.4bn in 12M) and Private Banking (up €2bn, €1.3bn of which generated by Mediobanca Private Banking), which offset the less certain trend in institutional asset management (€9.6bn, versus €11.8bn), as a result of lower valuations and substantial outflows from RAM and Mediobanca Asset Management.

The capital ratios – calculated in accordance with the most recent versions of both the CRR and the Bank of Italy's circular no. 285[4] – remain at high levels, comfortably above both the original targets and the limits set by the

[4] The most recent update to Bank of Italy circular no. 285 has amended the national regulations on the assumption of risks versus related parties. As a result, exposures to insurance companies held in accordance with the provisions of Article 471 of the CRR (the "Danish Compromise") are excluded from calculation of the exposure limits. In the light of this change and until June 2021 (when CRR II comes into force), the Group's investment in Assicurazioni Generali group is deducted from regulatory capital in order to respect the general concentration limit of 25% of eligible capital (CRR large exposures), rather than the narrower limit of 20% for related parties.

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regulations. The Common Equity Tier 1 ratio reached a record high of 16.13%, 200 bps higher than last year (14.09%): contributing factors include the higher percentage of retained earnings for the year used as capital (adding 130 bps), net of the goodwill impairment charges which do not affect the capital ratios, the 35% weighting of salary-backed finance exposures being brought forward (adding 22 bps), and the lower deductions for the Assicurazioni Generali investment (adding 50 bps) as a result of the different treatment applied for related parties. In view of the positive trend in the capital ratios and the low impact of Covid-related effects, at present the Group has decided not to take up the option of using the additional phase-in measures (or "prudential filters") introduced by the regulator in recent months to neutralize the effect of the impairment charges taken under IFRS 9 and changes in the valuation reserves for government securities.

The CET1 ratio, fully loaded without the Danish Compromise, i.e. with the Assicurazioni Generali investment deducted in full (minus 145 bps) and full application of the IFRS 9 FTA effect (minus 15 bps), is equal to 14.5% (30/6/19: 12.83%).

The total capital ratio increased in the twelve months, from 17.46% to 18.82% (17.55% fully loaded).

The divisional performances for the year were as follows:

– Wealth Management confirmed its growth trend, with net profit improving by 12.9%, from €71.2m to €80.4m, and revenues climbing 6.7%, to €583.8m, with ROAC of 19% (vs 15% last year). Fee income rose by 9% (from €280.9m to €306.1m), the division now accounting for virtually half the Group's total, with the non-recurring component below 5%. The solidity of the business model allowed profitability to be maintained even in 4Q, when a net profit of €13.9m was earned on NNM of €1.3bn, with no significant outflows from Affluent and Private clients, and with the markets recovering (the negative effect as at end-March 2020 had been more than halved). Total Financial Assets (TFAs) amounted to €63.6bn, with deposits of €23.8bn (€22.4bn last year) and AUM totalling €39.8bn, up approx. €800m despite the institutional outflows and the market effect referred to above (leading to a total outflow of €1bn for the twelve months);

– Consumer Banking delivered top-line growth of 4.3%, from €1,026.9m to €1,070.6m, with a cost/income ratio of 28.3% due to an outstanding

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performance in the first eight months of the year, while the last four months were impacted by the sharp fall in new loans (down by as much as 80% in April) and higher loan losses which in the end totalled €324.7m (up 36.5%), taking the cost of risk to just under 250 bps. Accordingly, net profit fell from €336.4m to €296.6m, but the division remains the most profitable in the Group, with ROAC of 29% (30%), reflecting *inter alia* the lower capital requirement for salary-backed exposures;

– Corporate and Investment Banking: this division's performance reflects the sharp market correction recorded at end-March (only in part recovered by end-June) plus adaptation to the new macroeconomic scenario which penalizes expected loss on Wholesale Banking loans in particular. Net profit was down by almost one-third, from €265.8m to €180.7m, with ROAC declining to 10% (11.5% net of the Covid-19 effect on loan loss provisions). Revenues were down 8.3%, due solely to lower net treasury income of €77.9m (€126.8m), while net interest income and fees both remained near last year's levels, at €271.4m and €225.8m respectively; provisions for other financial assets (loans and securities) totalled €23.5m, considerably worse than the €37.1m net writebacks last year, and reflecting €42.5m in Covid-related charges;

– Principal Investing: this division posted a net profit for the twelve months of €295m, lower than the €314.2m reported last year due to a reduced contribution from the equity-accounted Assicurazioni Generali investment of €303.7m (€320m), plus higher writedowns to holdings in funds recognized at fair value (€10.9m, vs €3.3m last year);

– The net loss posted by Holding Functions increased from €167.5m to €183.7m, due to the reduced contribution from banking book securities to total income (already evident in 1H) and higher payments to the resolution funds (up from €53.5m to €59.7m); operating costs decreased from €177.6m to €172.8m.

* * *

As well as approval of the Group's new strategic plan (for details of which see the press release issued on 12 November 2019), other significant events that took place during the twelve months under review were as follows:

– In October 2020 an agreement was reached with the Italian authority Agenzia delle Entrate regarding the dispute over the application of transfer pricing

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between Mediobanca S.p.A. and Mediobanca International SA (based in Luxembourg) in the financial years from 2012-13 to 2016-17. The agreement entailed extra costs of €21m plus interest (but no fines). At the same time, Mediobanca agreed on a new funds transfer pricing methodology with the tax authority that should minimize tax risk in the future. The Bank also took the opportunity to voluntarily release profit reserves for a total of €42m deriving from Mediobanca International's activities prior to 2002, when the Italian transparency tax mechanism was not yet operative for companies headquartered in countries with favourable tax regimes (blacklisted countries). The impact on earnings was largely absorbed by amounts released from the provision for risks and charges resulting from the analysis of the tax risk subsequent to the agreement being finalized; Mediobanca International SA has submitted an application to the Luxembourg tax authority to recover the higher taxes paid on the taxable which the Italian revenue authority has now allocated to Italy;

- The results of the supervisory review and evaluation process carried out by the ECB (the "SREP 2019 Decision") which confirmed the quantitative indicators set the previous year: the authority has asked Mediobanca to maintain a Pillar 2 Requirement ("P2R") of 1.25%, one of the lowest in Italy; with application of Article 105 of CRD V being brought forward, the minimum CET1 ratio to be maintained on a consolidated basis reduces from 8.25% to 7.94%,[5] while the Overall Capital Requirement ("OCR") is unchanged at 11.75%;
- Following the "Lexitor" ruling by the European Court of Justice,[6] on 4 December 2019 the Bank of Italy issued new operating guidelines to all financial intermediaries on the early repayment of loans to consumers (including salary-backed finance). Starting from 5 December 2019, if a loan is repaid early, the client is reimbursed the expenses incurred when the loan was taken out (including any fee paid for brokerage activity) pro rata to the duration of the contract. Given that Compass and Futuro have always included these components in the amortized cost of the individual transactions, and they therefore pass through profit and loss only at the point when the early repayment is actually made, the new arrangements have no impact on the previous accounting treatment, but will affect future earnings (the impact for the first seven months of not recording income from early repayments may be estimated at around €11m);

[5] This calculation does not include the countercyclical capital buffer or the Pillar 2 Guidance.

[6] Court of Justice of the European Union, 11 September 2019, case C-383/18.

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- In December 2020, Compass was fined by the Italian antitrust authority (AGCM) for unfair commercial practices in breach of Article 24 and Article 25 letter a) of the Italian consumer protection code for the alleged forced bundling of finance and insurance products unrelated to the loans being granted; an appeal has been made against this ruling and is pending with the Lazio regional court. In April 2020, the AGCM found that the measures adopted by Compass were insufficient to prevent the alleged practice from spreading, and so launched a non-compliance procedure which should be complete by mid-September 2020;
- On 30 April 2020 Compass and the Trinugraha consortium mutually agreed to terminate the agreement signed in August 2018 for the acquisition of a 19.9% stake in BFI Finance Indonesia ("BFI"). Once the current economic and financial crisis has passed, Compass will resume the process of assessing options in markets with positive macroeconomic scenarios;
- The share buyback scheme launched in November 2018 ended on 25 March 2020 having reached the limit of 3% of the company's share capital, i.e. 26,611,288 shares. The purchases were made exclusively on the Mercato Telematico Azionario, and within the limits of distributable earnings and available reserves;
- On 23 January 2020, the Group made its first senior non-preferred issue (maturing in five years, interest rate 1.125%), which enabled the funding plan for the year to be completed, and so strengthened its MREL position;
- A Crisis Unit was established to tackle the healthcare emergency, chaired by the Group General Manager, with the objective of ensuring the Group's operations while safeguarding the health and safety of staff and clients; working from home was encouraged, working hours were reduced at the retail branches (which remained open during the lockdown period but were operative basically by appointment only), and a specific healthcare policy was adopted;
- To address the economic consequences of Covid-19, the Group participated in the initiatives adopted by the Italian government and category associations to support households and businesses; it moved quickly to incorporate the provisions contained in the recent "Cura Italia" and "Liquidità" decrees; and it took up the measures introduced by the Italian Banking Association (ABI) and the other category associations (in particular consumer credit and mortgage association Assofin), as well as implementing initiatives specific to the Group itself. As at end-June 2020, the Group had granted moratoria

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in an amount of approx. €2.6bn, around half of which in Consumer Banking, one-quarter in leasing, and one-quarter in mortgage lending; neither the moratoria permitted by law nor the private initiatives implemented in accordance with the EBA guidelines have resulted in forbearance measures being introduced, so the automatic mechanisms introduced by IFRS 9 for significant increases in credit risk have not been triggered;[7]

– In this year, which will be remembered above all for the outbreak of the Covid-19 pandemic, the Group has continued to focus its attention on the communities in which it operates and their institutions. During phase 1 of the emergency, a total of €1.1m was donated to the region of Lombardy, the Milan municipality fund for mutual assistance, and the Luigi Sacco Hospital also in Milan (this sum includes contributions made by the Group's own staff). These first initiatives were soon followed by others: CheBanca! donated the equivalent of 1x1,000 for new funds deposited in tied deposit accounts in the month of April to help in the emergency. The first €300,000 was donated to the "Hope" non-profit association to buy ventilators, portable ultrasound machines, and PPE. During June, a further €950,000 was donated to three solidarity initiatives selected by the Group CSR Committee: the "Sempre con Voi" fund to support the families of doctors and healthcare workers who lost their lives fighting Covid-19; the mutual assistance fund of the city of Bergamo, and non-profit organization "Mission Bambini" which provides IT equipment to children in need. These donations also reflect the decision on the part of management, directors and statutory auditors to forego or reduce their salaries.[8] Compagnie Monégasque de Banque has also donated €100,000 to the *Centre Hospitalier Princesse Grace* (CHPG), for the acquisition of biological material to perform testing and swab testing, medical equipment and PPE.

* * *

[7] Under IFRS 9, stage 2 consists of exposures which, while not impaired, have nonetheless experienced a significant deterioration in terms of credit risk since the initial recognition date, whereas stage 3 consists of exposures which are non-performing under the regulatory definition.

[8] Chairman Renato Pagliaro, Chief Executive Officer Alberto Nagel and Group General Manager Francesco Saverio Vinci all waived the emoluments due to them in respect of their positions as Board members, and committed to donating 30 percent of their fixed salaries for May-December 2020 to initiatives linked to the emergency. The statutory auditors of Mediobanca have also elected to support the initiatives, waiving 20% of their annual emoluments.

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Developments in capital markets

The twelve months under review saw a relatively positive performance by the world economy until February 2020, when the Covid-19 pandemic unleashed a global economic crisis comparable to the one caused by World War II. From July 2019 to February 2020, global growth had slowed before stabilizing at around 3%, chiefly due to the international trade tensions between the United States and China.

In the second half of 2019 stock market prices continued to increase (S&P500 gained 9.0% in the quarter, the Eurostoxx 600 7.2%, and the Nikkei 8.9%), and credit spreads narrowed to near the lows of 2010 (the iTraxx Europe went from 51 bps to 44 bps, and the US high grade CDS narrowed from 52 bps to 45 bps), while the absolute levels of rates first fell down then increased (the 10Y Treasury fell from 2.00% to 1.66% in 2019 third quarter and then rose up to 1.92% in the last one, the 10Y Bund went from -0.36% to -0.57% in third quarter and then increased to -0.18% in the last three month), consistent with the perception of an improvement in the overall scenario.

The markets continued to operate in conditions of basic economic stability and monetary stimulus, until the first cases of Covid-19 began to appear in Europe and Japan at the end of February, transforming the disease into a global pandemic, and causing markets to see the effects of prolonged lockdown on production.

Risk aversion soared to levels similar to those seen during the 2008 crisis;

- The MSCI World index staged a 34.1% decline between 19 February (the high for the period) and 23 March 2020 (the low for the period); the market correction then reduced to 23.8% by end-March, in the wake of the reaction from the policy makers;
- The US high grade CDS went from 44 bps on 19 February to 124 bps on 23 March, while the yield on 10Y US Treasury went from 1.57% (with the German Bund at -0.42%) to 0.79% (with the Bund at -0.37%) in the same period, closing the quarter at 0.67% (with the Bund at -0.47%);
- The volatility index for the S&P 500 went from 14.4 on 19 February to 61.6 on 23 March (recording a high on 16 March of 82.7, above the highest level seen during the 2008 crisis);

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– Commodity prices saw widespread decreases; the impact on oil prices was especially profound, following the collapse at the start of March due to the decision by members of OPEC + Russia to abandon the quota system. After some excursions into negative territory (-$38 per barrel on 20 April), oil prices eventually stabilized at around $40 per barrel.

The economic activity of many countries effectively ground to a halt for several weeks in response to the pandemic, with an impact far greater than that of the 2008 crisis. The shock to the economy was tackled by a combination of monetary and fiscal policy. It was fiscal policy that proved essential in that it preserved the fabric of the economy, while the related monetary policy kept the cost of public borrowing down, preventing bankruptcies in the private sector, and avoiding forced sell-offs of financial assets. Overall the fiscal policy measures at the start of the second quarter amounted for the German economy to approx. 40% of its 2019 GDP, for the French economy to 27%, and for the Italian economy just under 49%. Similarly, the US and Japanese governments released financial support measures equal to approx. 14% and 21% of their respective GDP in the first half of 2020.

The contractions in GDP reported for 1Q 2020 were as follows: 1.25% in the United States, 3.6% in the Eurozone, 10% in China, and 0.6% in Japan; and in 2Q, 7.92%, 11.5%, 12.1% and 7.8% respectively.

The process of reopening commercial and industrial activities, combined with the strong impetus provided by economic policy, drove a recovery in the final quarter of the financial year, the solidity of which has still to be seen. Excluding China, which was already recovering by March, the PMIs give an indication of the recovery from the lows recorded in April (when the PMI Composite was 27 in the United States, 13.6 in the Eurozone, 53.4 in China, 25.8 in Japan) continuing until August (PMI Composite 54.7 in the United States, 51.6 in the Eurozone, 54.5 in China, and 44.9 in Japan). Risk assets benefited from the improvement in confidence in the manufacturing sector, with valuations rising during the period (the MSCI World index climbed 22.5% from early May to end-August, while the US investment grade credit default swap declined from 91 bps to 66 bps and the Itraxx Europe from 85 bps to 55 bps in the same period).

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Turning to the European economy, in the second half of 2019 the European economic cycle weakened. Average growth in the Euro area decreased from 0.35% quarter-on-quarter in 1H to 0.15% QoQ in 2H. Various factors contributed to this slowdown, including the long automotive industry's long transformation process, the ongoing uncertainty over the execution of Brexit (which could lead to the United Kingdom departing the European Union with no deal, i.e. with trade agreements having to be conducted based on the World Trade Organization rules), and the uncertainties over the US-China tensions.

The economic slowdown was accompanied by an ongoing and material reduction in inflation estimates, leading the ECB to relax financial conditions in line with the conduct adopted in other jurisdictions as well. Less expensive terms of finance globally stabilized both economic activity and inflation prospects, and consolidated the improving performance of risky assets seen in 4Q.

The impact of the pandemic caused the Eurostoxx600 index to contract by approx. 35% between 26 February and 23 March; the same index then rebounded by some 14% in the remaining six trading days to the end of the month. The fall in prices involved many financial assets, including high-yield credits which lost 20% from 19 February to 23 March before closing the month down 15.8%.

All European governments combined extraordinary public health measures with programmes to support the economy, mostly taking the form of direct expenses, tax payment suspensions, support for employment (furlough schemes), and state guarantees for bank loans.

The initial fiscal response mitigated the economic crisis only in part. GDP for the Euro area shrank by 3.6% in 1Q 2020, and the need for additional support was rapidly acknowledged.

The ECB released a series of measures between the start of March and early June, making the intervention more effective. These included temporary measures making it more advantageous for the banking system to lend to Eurozone corporates (through changes to the Targeted Long Term Refinancing Operations III programme), and those to preserve the transmission of monetary policy stimuli through purchases of assets temporarily departing from the ECB's customary share of national capital (through the Pandemic Emergency Purchase Programme, or PEPP).

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But it is on the fiscal policy front that the most radical action has been seen. Since end-April an EU governance innovation process has been launched, which superseded the principle whereby joint finance is granted in return for economic reforms in the beneficiary country, introducing the concept of financial subsidiarity between countries. The most innovative step has been “Next Generation EU”, which in a nutshell consists of €360bn in subsidized loans and €390bn in grants to finance public expenditure in proportion to the damage caused by Covid-19 on member states. For the first time inter-governmental fiscal transfers are allowed, not tied to any conditions whatsoever, and the joint EU debt issuance is possible. Prompt public spending action has contained the impact of the pandemic on the European economic fabric, limiting it to the fully justified cost of a pronounced and widespread deterioration of public finances.

The European Commission is estimating an overall reduction in GDP of 8.5% for the Euro area in 2020, with public borrowing at 102.7% of GDP. For Italy the contraction in GDP rises to 10.4% (6.8% for the primary balance, i.e. net of interest expense on debt), with public borrowing at 155.7% of GDP. For France the contraction is 9.9% (8.4% for the primary balance) with borrowing at 116.5%; for Germany 7.7% (6.3%) and 75.6% respectively; and for Spain 10.1% (7.7%) and 115.6% respectively..

Despite the deterioration, the progress made in the direction of greater fiscal integration reassured the market of the desire to continue with the European project, and created interest in the assets even before the new public finance arrangements had been finalized.

In the period from May to end-August:

– European government bond spreads narrowed relative to the German curve, taking them back to not far from pre-Covid 19 levels (the spread on 10Y Italian debt narrowed by approx. 65 bps to 170 bps at end-June before reaching 150 bps by end-August; while the spread on 10Y Spanish debt tightened by around 48 bps to 92 bps at end-June before reaching 80 bps by end-August);
– The domestic currency rallied (the EUR/USD exchange rate rose by approx. 2% to 1.12 at end-June to reach 1.19 at end-August);

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- Stock market prices increased more or less in line with global prices (in the two months to end-June, Eurostoxx600 gained some 7% to 360, reaching 364 at end-August);
- The high-yield credit index had gained 4.9% by end-June to reach 322; and gained a further 3.2% to reach 333 at end-August.

* * *

In line with Europe, the Italian economy saw GDP grow at a very modest rate in the first half of 2019 (the average quarterly change in 1H was just 0.16% QoQ, below the 0.35% recorded by the Eurozone), coupled with stagnant industrial output levels, and a less negative propensity to invest on the part of industrials (which, in the Bank of Italy's figures, went from -28.5% in 4Q 2018 to -16.8% at the end of 1H 2019). The unanticipated government crisis at the start of August 2019 caused a sudden increase of 240 bps in the spread on 10Y Italian versus German debt, which then normalized at 140 bps following the more conciliatory stance taken by the new government to the European institutions. At the same time, the Italian equity index was moving in line with the European and global indexes, suggesting that market sentiment was still largely favourable towards Italian risk until end-October. For the remainder of 2019 the Italian economic performance, like that of the Eurozone and of Europe in general, benefited from the ECB monetary policy actions, indirectly from those initiated by the Fed in 3Q, and from the multi-phased agreement proposal tabled by the United States and China to resolve the trade disputes.

Italian stock market prices, in line with those globally, rose until the violent reaction caused by Covid-19 beginning to manifest itself outside of China began to felt.

The impact of the Covid-19 containment measures on the Italian economy hit particularly hard:

- The average quarterly industrial production figures was down 8.4% from 4Q 2019 to 1Q 2020, with social distancing and lockdown measures broadly applied only from end-March; the same indicator showed a 17.6% QoQ reduction in 2Q 2020, making an overall reduction of 17% from 1H 2019 to 1H 2020;

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- There was a 5.4% QoQ reduction in GDP in 1Q 2020 and the 12.4% reduction in 2Q, that compare with 3.6% and 12.1% respectively for the Eurozone;
- The household consumer spending index went from average quarterly growth of 0.2% YoY in 1Q to a 0.2% YoY reduction in 2Q, with the index edging down from 102.5 at end-2019 to 102.4 at end-June 2020, after having reached 102.6 in March 2020.

At the microeconomic level, the largest non-financial companies in the share index saw a 25.3% YoY reduction in sales in 1H 2020 (of which 13.8% YoY in 1Q and 37.8% YoY in 2Q), and a 6.9% reduction in net operating profit as a percentage of sales during the same period (for the energy/utilities sector this ratio rose by 2.1% to 17.7%, while in manufacturing there was a 8.4% decrease to -0.5%, in services a 12.3% fall to 9.9%, and in oil and gas a 16.7% reduction to -2.4%).

Their financial structure also changed materially as a result of the dual nature of the pandemic, triggering a shock in both supply and demand, causing businesses to draw down credit lines that had already been granted to finance production activities given the reduction in revenues.

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The tapping of existing credit lines is justified by the increase in credit risk that Covid-19 has entailed for Italy and for Europe in general:

- The iTraxx Europe index rose from 42 bps on 19 February to 116 bps on 23 March, before falling to 67 bps at end-June, and more slowly to 54 bps at end-August;
- The debt/equity ratio for the companies considered rose to 137.1%, from 114.9% at December 2019 (an increase of 22.2% in six months), driven by the increase in borrowing (up 9.7%) as well as the reduction in net equity (down 8.1%).

The companies' financial structure should gradually normalize in time as credit risk retreats slowly but gradually.

The prospects for the Italian economy remain complex. External growth factors typically involve the performance of the country's commercial partners, plus the good functioning of the global value chains in which the domestic Italian manufacturing sector plays an important part. Internal factors consist of structural reforms (justice, the public administration, measures to address tax evasion, etc.) on which policy makers have been focusing their attention for some time. The principle of closer integration in fiscal policies underpinning the Next Generation EU agreement is certainly the most significant change induced by the pandemic, and it is an opportunity that Italy cannot afford to pass up.

* * *

After growth in 2019 at a similar pace to the previous year, in the first six months of 2020, following the outbreak of the Covid-19 pandemic, consumer credit flows were down 29.6% on the same period last year, with a total of €23.6bn in new loans for the period.

The worst affected segments were loans to support householders' projects: personal loans were down 39.8% on the first six months of 2019, followed by vehicle credit (down 27.9%) and salary-backed finance (down 24.9%). The reductions were less pronounced for other special purpose loans (down 23.0%) and credit cards (down 19.5%). The most recent figures for the month of June 2020 show a strong upturn in vehicle credit (22.0% higher than in June 2019) and

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other special purpose loans (14.4% higher), whereas the other forms continue to remain in negative territory, albeit at lower levels than in the previous two months.

This performance should be interpreted in the context of a national emergency situation in which household spending collapsed dramatically, affecting all spending items with the exception of food; consumer confidence plunged to the lowest levels seen since December 2013, in the economic and future component particularly.

	2016		2017		2018		2019		1H 2020	
	(€m)	%	(€m)	%	(€m)	%	(€m)	%	(€m)	%
Vehicle credit	13,687	22.6	8,619	14.7	5,861	9.9	6,371	9.7	2,331	9.7
Personal loans	20,137	33.2	22,441	38.2	24,499	41.1	26,123	39.6	8,476	35.3
Specific purpose loans	4,075	6.7	3,782	6.4	4,778	8.0	5,363	8.1	1,911	8.0
Credit cards	17,472	28.8	18,759	32.0	19,064	32.0	22,238	33.7	8,979	37.4
Salary-backed finance	5,221	8.6	5,103	8.7	5,339	9.0	5,801	8.8	2,295	9.6
	60,592	100.0	58,704	100.0	59,541	100.0	65,896	100.0	23,992	100.0

In 2019, the Italian real estate sector continued its recovery of recent years, albeit at a slower pace, with the number of properties sold rising to over 600,000, up 4.3%. By contrast, in 1Q 2020 the sector was impacted negatively by the outbreak of Covid-19, recording 117,000 property sales, down 15.5% on the same period in 2019.

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The mortgage lending market for house purchases by households recorded new loans of €48.9bn, 3% lower than the €50.4bn posted the previous year.

The Italian leasing market in 2019 consolidated the volumes reported in previous years, closing at €27.9bn, down 3.3% on 2018; overall 698,000 new leases were executed, down 1.7% on the previous year. In the first six months of 2020 there was a down turn with 239,000 new contracts (down 37.2% on the corresponding period in 2019), and approx. €9.6bn financed (down 32.5% on the corresponding period in 2019) as a result of the deteriorating economic situation over all due to the Covid-19 pandemic.

	2017		2018		2019		1H 2020	
New loans	**(€m)**	**%**	**(€m)**	**%**	**(€m)**	**%**	**(€m)**	**%**
Automotive	13,371	50.2	15,722	52.8	14,132	50.6	4,929	51.2
Plant and equipment	8,993	33.8	9,426	31.7	9,426	33.7	3,207	33.3
Property	3,742	14.0	4,110	13.8	3,805	13.6	1,233	12.8
Shipping	522	2.0	516	1.7	579	2.1	261	2.7
	26,628	100.0	29,774	100.0	27,942	100.0	9,630	100.0

Source: Dataforce data compiled by Assilea.

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Consolidated profit-and-loss/balance-sheet data

The consolidated profit and loss account and balance sheet have been restated – including by business area – according to the new divisional segmentation, in order to provide the most accurate reflection of the Group's operations.

CONSOLIDATED PROFIT-AND-LOSS ACCOUNT

(€m)

	12 mths ended 30 June 2019	12 mths ended 30 June 2020	Chg. (%)
Profit-and-loss data			
Net interest income	1,395.6	1,442.2	3.3
Net treasury income	196.7	136.3	-30.7
Net fee and commission income	611.2	630.2	3.1
Equity-accounted companies	321.2	304.3	-5.3
Total income	**2,524.7**	**2,513.0**	**-0.5**
Labour costs	(581.7)	(599.3)	3.0
Administrative expenses	(580.2)	(589.6)	1.6
Operating costs	**(1,161.9)**	**(1,188.9)**	**2.3**
Loan loss provisions	(222.6)	(374.9)	68.4
Provisions for other financial assets	(2.1)	(20.5)	n.m.
Other income (losses)	(54.0)	(133.4)	n.m.
Profit before tax	**1,084.1**	**795.3**	**-26.6**
Income tax for the period	(256.5)	(191.1)	-25.5
Minority interest	(4.6)	(3.8)	-17.4
Net profit	**823.0**	**600.4**	**-27.0**
Net profit adjusted *	**823.0**	**665.5**	**-19.1**
Gross operating profit from banking activities	***812.9***	***640.7***	***-21.2***

* Adjusted net profit does not include the RAM impairment charge (net effect €65.1m).

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CONSOLIDATED BALANCE SHEET

(€m)

	30/6/19	30/6/20
Assets		
Financial assets held for trading	9,765.7	8,818.6
Treasury financial assets and cash	10,170.2	9,257.0
Banking book securities	6,695.9	6,824.5
Customer loans	44,393.7	46,685.1
Equity Investments	3,980.3	4,009.7
Tangible and intangible assets	1,187.6	1,311.8
Other assets	2,051.3	2,043.0
Total assets	**78,244.7**	**78,949.7**
Liabilities and net equity		
Funding	51,393.2	54,917.0
Treasury financial liabilities	6,565.6	3,988.0
Financial liabilities held for trading	8,027.8	7,956.9
Other liabilities	2,168.9	2,190.3
Provisions	190.3	157.4
Net equity	8,986.2	9,048.2
Minority interests	89.7	91.5
Profit for the period	823.0	600.4
Total liabilities and net equity	**78,244.7**	**78,949.7**
Tier 1 capital	*6,524.4*	*7,745.0*
Regulatory capital	*8,085.6*	*9,041.1*
Risk-weighted assets	*46,309.9*	*48,030.5*
Tier 1 capital/risk-weightes assets	*14.09%*	*16.13%*
Regulatory capita/risk-weighted assets	*17.46%*	*18.82%*
No. of shares in issue (million)	*887.2*	*887.2*

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

(€m)

12 mths ended 30/6/20	Wealth Management	Consumer Banking	Corporate and Investment Banking	Principal Investing	Holding Functions	Group
Profit-and-loss						
Net interest income	271.0	948.0	271.4	(7.1)	(55.0)	1,442.2
Net treasury income	6.7	—	77.9	15.6	37.5	136.3
Net fee and commission income	306.1	122.6	225.8	—	10.6	630.2
Equity-accounted companies	—	—	—	304.3	—	304.3
Total income	**583.8**	**1,070.6**	**575.1**	**312.8**	**(6.9)**	**2,513.0**
Labour costs	(236.5)	(102.0)	(141.0)	(3.3)	(116.5)	(599.3)
Administrative expenses	(214.3)	(201.2)	(135.2)	(1.0)	(56.3)	(589.6)
Operating costs	**(450.8)**	**(303.2)**	**(276.2)**	**(4.3)**	**(172.8)**	**(1,188.9)**
Loan loss provisions	(20.5)	(324.7)	(20.0)	—	(9.7)	(374.9)
Provisions for other financial assets	(0.5)	—	(3.5)	(10.9)	(5.6)	(20.5)
Other income (losses)	1.8	(4.7)	—	—	(64.3)	(133.4)
Profit before tax	**113.8**	**438.0**	**275.4**	**297.6**	**(259.3)**	**795.3**
Income tax for the period	(32.6)	(141.4)	(92.4)	(2.6)	76.3	(191.1)
Minority interest	(0.8)	—	(2.3)	—	(0.7)	(3.8)
Net profit	**80.4**	**296.6**	**180.7**	**295.0**	**(183.7)**	**600.4**
Net profit adjusted	**80.4**	**296.6**	**180.7**	**295.0**	**(183.7)**	**665.5**
Cost/income ratio (%)	*77.2*	*28.3*	*48.0*	*n.m.*	*n.m.*	*47.3*
Balance-sheet data						
Loans and advances to customers	13,183.6	13,037.4	18,644.2	—	1,819.9	46,685.1
Risk-weighted assets	4,951.7	11,800.8	20,027.7	8,121.9	3,128.4	48,030.5
No. of staff	2,021	1,441	630	11	817	4,920

Notes:

1) Divisions comprise:
- Wealth Management (WM): this division brings together all asset management services offered to the various client segments. It includes CheBanca!, which targets the Affluent & Premier client bracket, offering traditional banking services as well; the MBPB and Compagnie Monégasque de Banque private banking networks, and the asset management companies (Cairn Capital, Mediobanca SGR, Mediobanca Management Company, and RAM Active Investment), plus Spafid;
- Consumer Banking (CB): this division provides retail clients with the full range of consumer credit products, from personal loans to salary-backed finance (Compass Banca, Futuro and Compass RE);
- Corporate and Investment Banking (CIB): this division brings together all services provided to corporate clients in the following areas: investment banking (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca and Mediobanca International, Mediobanca Securities and Messier Maris et Associés); and Specialty Finance, which in turn consists of factoring and credit management (including NPL portfolio acquisitions and management) performed by MBFACTA and MBCredit Solutions;
- Principal Investing (PI): division which brings together the Group's portfolio of equity investments and holdings;
- Holding Functions: division which includes SelmaBipiemme Leasing, MIS, Spafid Connect and other minor companies, plus the following Group functions: Treasury and ALM, operations, support and control, plus the senior management of Mediobanca S.p.A.; for further details please refer to p. 64.

2) Sum of divisional data differs from Group total due to adjustments/differences arising on consolidation between business areas (equal to €3.5m), and, this year, the net impact of the RAM goodwill impairment charges taken through profit and loss (€65.1m) and not allocated to any business line.

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(€m)

12 mths ended 30/06/19	Wealth Management	Consumer Banking	Corporate and Investment Banking	Principal Investing	Holding Functions	Group
Profit-and-loss						
Net interest income	260.2	898.8	272.7	(7.1)	(47.1)	1,395.6
Net treasury income	6.2	—	126.8	18.3	45.0	196.7
Net fee and commission income	280.9	128.1	227.6	—	7.4	611.2
Equity-accounted companies	—	—	—	321.2	—	321.2
Total income	**547.3**	**1,026.9**	**627.1**	**332.4**	**5.3**	**2,524.7**
Labour costs	(221.8)	(99.4)	(139.4)	(3.9)	(117.1)	(581.7)
Administrative expenses	(212.2)	(194.1)	(129.9)	(1.2)	(60.5)	(580.2)
Operating costs	**(434.0)**	**(293.5)**	**(269.3)**	**(5.1)**	**(177.6)**	**(1,161.9)**
Loan loss provisions	(11.8)	(237.8)	36.2	—	(9.0)	(222.6)
Provisions for other financial assets	0.3	—	0.9	(3.3)	0.1	(2.1)
Other income (losses)	0.6	—	—	—	(54.8)	(54.0)
Profit before tax	**102.4**	**495.6**	**394.9**	**324.0**	**(236.0)**	**1,084.1**
Income tax for the period	(28.7)	(159.2)	(129.1)	(9.8)	70.6	(256.5)
Minority interest	(2.5)	—	—	—	(2.1)	(4.6)
Net profit	**71.2**	**336.4**	**265.8**	**314.2**	**(167.5)**	**823.0**
Cost/income ratio (%)	*79.3*	*28.6*	*42.9*	*n.m.*	*n.m.*	*46.0*
Balance-sheet data						
Loans and advances to customers	11,353.8	13,223.0	17,865.3	—	1,951.6	44,393.7
Risk-weighted assets	4,533.8	12,564.1	20,065.8	5,641.6	3,504.7	46,309.9
No. of staff	1,936	1,427	621	11	810	4,805

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Balance sheet

The Group's total assets increased by 1%, from €78.2bn to €78.9bn. The main balance-sheet items, of which Mediobanca S.p.A. contributes 53.2%, showed the following trends for the twelve months under review (comparative data as at 30 June 2019).

Funding – this item grew from €51.4bn to €54.9bn, an increase of 6.9%, in all components but mainly as a result of increased recourse to the T-LTRO facilities (up from €4.3bn to €5.7bn, including €3bn for T-LTRO III), and higher Private Banking deposits (up from €7.4bn to €8.5bn), with growth concentrated in 4Q due to clients' propensity to hold more liquid assets). The debt security funding component was virtually unchanged at €18.8bn, on €4.6bn in new issues, €1.4bn of which secured (ABS consumer and covered bond), €500m in senior non-preferred securities, and €166m in capital-guaranteed certificates, against redemptions totalling €4.2bn and €200m in net buybacks on the market; placements in 4Q reached almost €500m. Including CheBanca! deposits (€15.3bn), Wealth Management continues to account for 40% of the Group's funding, contributing to the stability of the average cost of funding (approx. 80 bps).

	30/6/19		30/6/20		Chg.
	(€m)	%	(€m)	%	
Debt securities (incl. ABS)	18,531.3	36%	18,751.0	34%	1.2%
CheBanca! retail funding	15,032.0	29%	15,276.7	28%	1.6%
Private Banking deposits	7,417.6	14%	8,530.7	16%	15.0%
Interbank funding (+CD/CP)	5,484.4	11%	5,166.8	9%	-5.8%
LTRO	4,322.4	9%	5,660.8	10%	31.0%
Other funding	605.5	1%	1,531.0	3%	n.m.
Total funding	**51,393.2**	**100%**	**54,917.0**	**100%**	**6.9%**

Loans and advances to customers – customer loans rose by 5.2% from €44.4bn to €46.7bn, due to an increase in Wealth Management (up 16.1%, from €11.4bn to €13.2bn), which includes CheBanca! mortgage loans (up 14%, from €9bn to €10.2bn) and loans attributable to Compagnie Monégasque de Banque (up 51%, from €1.2bn to €1.8bn). Growth in CIB (up 4.4%, from €17.9bn to €18.6bn) was due to higher volumes in Wholesale Banking (up from €15.6bn to €16.5bn), as a result of increased recourse by clients to drawdowns on revolving lines (€1.3bn in the last six months), against a slight reduction in Specialty

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Finance (from €2.3bn to €2.1bn). Consumer Banking reported a sharp downturn in the last four months, with the loan stock reducing from €13.2bn to €13bn, after recording an all-time high of €13.8bn at end-February 2020.

During the twelve months under review there was growth in new loans in Wholesale Banking (from €5.8bn to €5.9bn) and mortgage lending (from €1.7bn to €2.2bn, albeit declining in 4Q), but a reduction in Consumer Banking (down 13%, from €7.4bn to €6.4bn), with volumes in 4Q barely one-eighth of those seen in previous quarters (with a low of 80% recorded in April). Turnover in factoring rose from €6.6bn to €7.4bn, while new business in leasing was stationary at €290m.

	30/6/19		30/6/20		Chg.
	(€m)	%	(€m)	%	
Corporate & Investment Banking	17,865.3	40%	18,644.2	40%	4.4%
Consumer loans	13,223.0	30%	13,037.4	28%	-1.4%
Wealth Management	11,353.8	26%	13,183.6	28%	16.1%
Holding Functions (leasing)	1,951.6	4%	1,819.9	4%	-6.7%
Total loans and advances to customers	**44,393.7**	**100%**	**46,685.1**	**100%**	**5.2%**

(€m)

	30/6/20			
	Stage1	*Stage2*	*Stage3*	Totale
Corporate & Investment Banking	17,229.8	739.4	675.0	18,644.2
Consumer Banking	11,282.9	1,430.3	324.2	13,037.4
Wealth Management	12,328.9	740.0	114.7	13,183.6
Holding Functions (leasing)	1,579.0	122.0	118.9	1,819.9
Total loans and advances to customers	**42,420.6**	**3,031.7**	**1,232.8**	**46,685.1**
As % of total	90.9%	6.5%	2.6%	100.0%

	30/6/19		30/6/20	
	(€m)	Coverage ratio %	(€m)	Coverage ratio %
Corporate & Investment Banking	394.7	41.2%	316.4	41.6%
Consumer Banking	189.0	74.4%	324.2	68.1%
Wealth Management	110.5	44.3%	114.7	45.9%
Holding Functions (leasing)	111.8	35.9%	118.9	35.8%
Total net non-performing loans*	**806.0**	**54.8%**	**874.2**	**55.3%**
– of which: bad loans	*79.8*		*78.4*	
As % of total loans and advances	**1.8%**		**1.9%**	
As % of gross total loans and advances	**3.9%**		**4.1%**	

* Excluding NPLs purchased by MBCredit Solutions.

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Gross non-performing loans (NPLs)[9] were up 10%, from €1,782.3m to €1,954.2m, and represent 4.1% (3.9%) of total loans.[10] Over 90% of the increase is due to Consumer Banking, which, in addition to the one-time effect of certain positions being reclassified from performing to non-performing due to the new definition of default adopted in September 2019, also reflects the impact of the standstill in repayments and credit recovery. Similarly, net NPLs also increased, from €806m to €874.2m, and in relative terms were virtually unchanged at 1.8% of the total loan book, as a result of the higher provisioning (coverage ratio up from 54.8% to 55.3%); particularly noteworthy in this respect is the reduction in provisioning in CIB (from €394.7m to €316.4m), after two material UTP positions were reclassified as performing. Net bad debts declined to €78.4m (€79.8m), and account for 0.17% of total loans (30/6/19: 0.18%), with a coverage ratio of 81.6% (79.7%). NPLs do not include the assets acquired by MBCredit Solutions, which decreased from €368.6m to €358.6m in the twelve months due to a prudent approach being adopted for new acquisitions (NPLs worth a nominal amount of €0.3bn were acquired, involving an outlay of €35.5m).

Conversely, there was an increase in Stage 2, i.e. positions which are beginning to show evidence of some deterioration in credit standing, from €2,676m to €3,032m, but these remain at very low levels (6.5% of total loans); Consumer Banking in particular saw growth of 26% (from €1,136.1m to €1,430.3m), due to prudent valuation of the items covered by moratoria, thus raising the coverage ratio for all performing loans from 3% to 3.2%.

[9] Since the reporting at 30 September 2019, the Mediobanca Group has adopted a new definition of default for the AIRB segments, on a voluntary basis and subject to receiving authorization from the ECB. The new definition is fully aligned with the EBA Guidelines (EBA/GL/2016/07), Commission Delegated Regulation (EU) 2018/171 of 19 October 2017, and Regulation (EU) 2018/1845 of the European Central Bank of 21 November 2018. The new regulations govern the classification of credit operations as being in default based on stricter criteria for transactions with unpaid instalments or which are overdrawn on an ongoing basis, "overdue or overdrawn" shares, and mechanisms for exiting default status.

[10] The Finrep gross NPL ratio (calculated without acquired NPLs) remains unchanged at 3.4%; for further details please see Part E of the Notes to the Accounts

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(€m)

Moratoria (Gross book value)	Granted until 30/6/20	Expired[1]	Residual until 30/6/20	% Loans and advances to customers[2]	of which Stage1
Corporate and Investment Banking	5.5	—	5.5	—	4.1
Consumer Banking	1,333.3	745.5	587.8	4.2%	223.1
Wealth Management	602.2	0.8	601.4	4.5%	492.2
Leasing (holding function)	661.2	—	661.2	34.8%	567.8
Total Moratoria for Covid-19	**2,602.2**	**746.3**	**1,855.9**	**3.9%**	**1,287.2**
- of which Decreto Cura Italia	45.2%		63.3%		
- of which industry-wide initiatives	39.6%		28.8%		
- of which individual initiative[3]	15.2%		7.9%		

[1] Moratoria paid off, i.e. those for which the payment suspension terms have ended and the normal repayment schedule has resumed.

[2] Covid-related moratoria outstanding as a percentage of gross customer loans at 30 June 2020.

[3] Moratoria granted on a voluntary basis at the Bank's own initiative.

In response to the economic crisis generated by the medical emergency, the Group has implemented numerous measures to assist its clients. Overall the Group has granted moratoria in respect of loans totalling approx. €2.6bn (more than 133,000 clients), roughly half of which in Consumer Banking and the remainder split equally between leasing and mortgage lending. Of these, a total of €1.9bn were outstanding at 30 June 2020 (just under 4% of the Group's total customer loans, over 90% of which continue to be classified as Stage 1); and concessions totalling €745m expired in Consumer Banking (where on average deferrals of two months were granted; indeed, almost 95% of the concessions granted to Compass clients will expire in the next quarter). Preliminary analysis shows that some 85% of clients have resumed their repayment schedule, while 9% have applied for a short-term extension to the moratorium, and the remainder are in difficulties. The good performance has continued since the reporting date too, with even higher repayment resumption rates.

Investment holdings[11] – this item was virtually unchanged at €4bn, €3.2bn consisting of the investment in Assicurazioni Generali, €141.6m in HTC&S shares (listed and unlisted), and €663.4m in holdings in funds, 65.7% invested as seed capital in new funds launched by the Group's product factories.

The book value of the Assicurazioni Generali investment (12.9% of the company's share capital) decreased from €3,219.3m to €3,163.4m, following profit for the period totalling €303.7m, which was more than offset by the decrease in the valuation reserves (€221.7m), the dividend collected (€101.4m),

[11] 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) recognized at fair value through profit and loss.

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and value adjustments taken in respect of the other reserves (€36.3m, chiefly due to application of IAS 29). The Group's pro rata share in the profits and valuation reserves of the investee company in 4Q differs from the figures reported by Assicurazioni General in its financial statements as at 31 March 2020, due to the valuation of AFS equities and funds subject to recycling.[12]

Investments in seed capital grew from €413.5m to €435.7m, following net outlays of €33m, much of which was made up by fair value adjustments at the reporting date (€12.5m, approximately half the charges taken at 31 March 2020); other holdings in funds (mostly private equity) increased from €168.4m to €227.8m, as a result of new net investments totalling €57.3m against gains of €2m.

(€m)

	30/6/19		30/6/20	
	Book value	HTC&S reserve	Book value	HTC&S reserve
IAS28 investments	3,259.8	N/A	3,204.7	N/A
Listed shares	102.6	52.6	112.5	65.6
Other unlisted shares	36.0	12.2	29.1	5.3
Seed capital	413.5	—	435.7	—
Private equity	66.1	—	70.6	—
Other funds	102.3	—	157.1	—
Total equity holdings	**3,980.3**	**64.8**	**4,009.7**	**70.9**

The Group's investment in Assicurazioni Generali at 30 June 2020 had a stock market value of €2,730.6m (slightly lower than its book value). However, the investment passed the impairment test, based on a value in use calculated in accordance with the Group's policy which was higher than the investment's current book value.

(€m)

	% share capital	30/6/19	30/6/20
Assicurazioni Generali	12.88	3,219.3	3,163.4
Burgo	22.13	—	—
Istituto Europeo di Oncologia	25.37	40.5	41.3
Total IAS28 investments		**3,259.8**	**3,204.7**

[12] As stated by the General group, *inter alia* in its financial statements as at 31 March 2020, which do not constitute interim statements pursuant to IAS 34, the writedowns charged at that date did not reflect a definitive change in the book value of the investments, which value was recalculated subsequently. Investments measured at fair value by the Generali group reflected €655m in charges in respect of AFS shares and holdings in funds as at 31 March 2020, which had reduced by as much as €313m by end-2Q 2020. The difference to earnings (Mediobanca's pro rata share approx. €40m) has been taken through the valuation reserves.

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Banking book securities[13]

	30/6/19		30/6/20	
	(€m)	%	(€m)	%
Hold to Collect	2,892.0	43%	3,285.4	48%
Hold to Collect & Sell	3,748.2	56%	3,485.9	51%
Other (Mandatorily measured at FV)	55.7	1%	53.2	1%
Total banking book securities	**6,695.9**	**100%**	**6,824.5**	**100%**

This heading totalled €6.8bn, basically unchanged from last year (30/6/19: €6.7bn), with the portfolio split equally between securities classified as Hold to Collect (fixed assets) and Hold to Collect & Sell (available for sale). During the year under review there were purchases of €5.2bn (concentrated in Italian government securities classified as Hold to Collect & Sell), against disposals and redemptions for roughly the same amount (€5.1bn), generating gains of €51.6m. The OCI reserve fell from €36.2m to €13.1m, chiefly due to the sales referred to above, plus downward adjustments of €6.3m to reflect fair value at the balance-sheet date.

Sovereign debt securities account for roughly three-quarters of the total (€4.7bn), more than half of which (€3.3bn) Italian, with a duration of four years.

Unrealized gains on the Hold to Collect securities recognized at cost were unchanged at €52m.

	30/6/19			30/6/20		
	Book value		OCI reserve	Book value		OCI reserve
	HTC	HTC&S		HTC	HTC&S	
Italian government bonds	1,088.6	1,161.3	4.8	1,512.5	1,740.0	2.6
Foreign government bonds	644.9	1,701.8	5.0	621.9	873.7	-0.4
Bond issued by financial institutions	710.9	663.3	15.6	687.8	613.2	8.3
Corporate bonds	294.3	221.8	10.8	262.0	259.0	2.6
Asset Backet Securities (ABS)	153.3	—	—	201.2	—	—
Total banking book securities	**2,892.0**	**3,748.2**	**36.2**	**3,285.4**	**3,485.9**	**13.1**

[13] 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.

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Net treasury assets – these increased from €5,342.5m to €6,130.7m, on higher ECB deposits of €3.1bn (€632.1m), against reductions in liquid assets (from €3bn to €2.2bn) and outright positions. The balance of trading instruments halved from €1,737.9m to €861.6m, reflecting growth in the issued certificates component (from €864.4m to €1,368.9m), against a reduction in investments in equities (from €2.6bn to €1.8bn).

(€m)

	30/6/19	30/6/20	Chg.
Financial assets held for trading	9,765.7	8,818.6	-9.7%
Treasury financial assets and cash	10,170.2	9,257.0	-9.0%
Financial liabilities held for trading	(8,027.8)	(7,956.9)	-0.9%
Treasury financial liabilities	(6,565.6)	(3,988.0)	-39.3%
Net treasury assets	**5,342.5**	**6,130.7**	**14.8%**

(€m)

	30/6/19	30/6/20	Chg.
Equities	2,620.4	1,807.2	-31.0%
Bond securities	66.3	564.8	n.m.
Derivative contract valuations	(91.3)	(145.4)	59.3%
Certificates	(864.4)	(1,368.9)	58.4%
Trading loans	6.9	3.9	-43.5%
Financial instruments held for trading	**1,737.9**	**861.6**	**-50.4%**

(€m)

	30/6/19	30/6/20	Chg.
Cash and current accounts	878.1	2,073.7	n.m.
Cash available at ECB	632.1	3,101.4	n.m.
Deposits	2,094.4	94.0	n.m.
Net treasury	**3,604.6**	**5,269.1**	**46.2%**

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(€m)

	30/6/19		30/6/20	
	Assets	Liabilities	Assets	Liabilities
Italian government bonds	2,356.9	(2,126.9)	1,274.8	(1,109.3)
Foreign government bonds	1,041.5	(2,021.0)	606.2	(1,828.4)
Bond issued by financial institutions	563.0	—	1,258.6	—
Corporate bonds	161.4	—	333.9	—
Asset Backet Securities (ABS)	91.4	—	29.0	—
Equities	2,770.1	(149.7)	2,032.2	(225.0)
Total securities	**6,984.3**	**(4,297.6)**	**5,534.7**	**(3,162.7)**

(€m)

	30/6/19		30/6/20	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	819.1	(650.5)	696.9	(587.7)
Foreign exchange	383.2	(258.0)	217.5	(256.0)
Interest rate options/futures	10.4	(20.5)	43.6	(10.5)
Equity swaps e options	1,071.4	(1,387.0)	2,134.7	(2,325.0)
Credit derivatives (others)	490.5	(549.9)	187.2	(246.1)
Derivative contract valuations	**2,774.6**	**(2,865.9)**	**3,279.9**	**(3,425.3)**

(€m)

	30/6/19		30/6/20	
	Assets	Liabilities	Assets	Liabilities
Securities lending/repos deposits	6,360.8	(4,005.1)	3,134.7	(2,596.1)
Stock lending deposits	672.3	(948.9)	324.4	(318.7)
Other deposits	1,626.8	(1,611.5)	626.0	(1,076.3)
Deposits	**8,659.9**	**(6,565.5)**	**4,085.1**	**(3,991.1)**

Tangible and intangible assets – this item increased from €1,187.6m to €1,311.8m, reflecting the growth in tangible assets as a result of the new IFRS 16 first-time adoption.[14] This has resulted in €205m being added to the value in use for leasing contracts and property rentals. The twelve-month performance includes a €96.9m impairment charge taken in respect of the goodwill on RAM, new leasing contracts amounting to €30.9m, new tangible assets acquired for €13.8m, and new software purchases totalling €27.1m.

[14] For further details on first-time adoption of IFRS 16, please see Part A of the Notes to the Accounts.

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Depreciation and amortization charges for the twelve months amounted to €83.8m, €38.6m by way of values in use under IFRS 16, €15m for tangible assets and €30.2m for intangible assets. Impairment to goodwill on RAM (which has been cut to €64.6m) reflects the impact at the year-end; for further details, please refer to Section 10 of the Notes to the Accounts, which also contains the results of the Purchase Price Allocation (PPA) process for Messier Maris et Associés (where the higher brand value and new client list have reduced the goodwill originally recognized).

	30/6/19		**30/6/20**		**Chg.**
	(€m)	**%**	**(€m)**	**%**	
Land and properties	256.7	22%	447.8	34%	74.4%
- of which: core	*181.8*	*15%*	*179.8*	*14%*	*-1.1%*
buildings RoU ex IFRS16	*N/A*	*N/A*	*196.1*	*15%*	*n.m.*
Other tangible assets	29.1	3%	47.9	4%	64.6%
- of which: RoU ex IFRS16	*N/A*	*N/A*	*11.8*	*1%*	*n.m.*
Goodwill	772.4	65%	666.5	51%	-13.7%
Other intangible assets	129.4	10%	149.6	11%	15.6%
Total tangible and intangible assets	**1,187.6**	**100%**	**1,311.8**	**100%**	**10.5%**

(€m)

Transaction	**30/6/19**	**30/6/20**
Compass-Linea	365.9	365.9
Spafid	9.0	9.0
Cairn Capital	41.4	40.7
MB Private Banking	52.1	52.1
RAM	155.0	64.6
Messier Maris et Associés	149.0	134.2
Total Goodwill	**772.4**	**666.5**

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

	Squ. M	Book value (€m)	30/6/20 Book value per squ. m(€m)
Milan:			
- Piazzetta Enrico Cuccia n. 1 *	9,318	14.5	1.6
- Via Filodrammatici n. 1, 3, 5, 7 - Piazzetta Bossi n. 1 - Piazza Paolo Ferrari n. 6 *	13,390	62.7	4.7
- Foro Buonaparte n. 10 *	2,926	9.0	3.1
- Via Siusi n. 1-7	22,608	25.0	1.1
Rome **	1,790	8.0	4.5
Vicenza	4,239	4.8	1.1
Luxembourg	442	3.7	8.4
Monaco	4,576	47.9	10.5
Other minor properties	3,637	1.4	0.4
Total	**62,926**	**177.0**	

* Following revision to the respective land register plans.

** The Piazza di Spagna property, carried at a book value of €24.9m, is used only in part by Mediobanca and has therefore not been included among the core assets.

Investment properties were worth €64.3m (30/6/19: €74.9m), following depreciation charges of €1.9m, while "Tangible asset inventories" (in accordance with IAS 2) totalled €7.6m, and include assets collected under leasing agreements; no new properties were acquired during the period.

Provisions[15] – these fell from €190.3m to €157.4m, and consist of provisions set aside to meet commitments and guarantees (which rose from €10.5m to €14m), the staff severance and post-retirement provisions (which were stable at €30.4m), and provisions for risks and charges (down from €150.1m to €113m). The latter item regards withdrawals made in particular by Mediobanca (€23.5m, due to recalculation of the tax risk following settlement of the dispute pending which involved Mediobanca International) and CheBanca! (€12m, to cover the most recent strategic projects, plus staff exits following the Barclays acquisitions); while provisions for the twelve months (€12.1m) mostly relate to pending litigations and staff management. The balance of €113m is split between Mediobanca (down from €96.2m to €71.4m), CheBanca! (down from

[15] This heading includes provisions for risks and charges, the staff severance indemnity and post-retirement benefit provisions, plus provisions set aside to meet commitments to disburse funds and financial guarantees issued.

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€32.9m to €19.4m), SelmaBipiemme (virtually unchanged at €10m), Compagnie Monégasque de Banque (down from €4.5m to €3.8m), and Compass Banca (€3.2m, versus €2.3m last year).

	30/6/19		30/6/20		Chg.
	(€m)	%	(€m)	%	
Commitments and financial guarantees given	10.5	6%	14.0	9%	33.3%
Provisions for risks and charges	150.1	79%	113.0	72%	-24.7%
Staff severance indemnity provision	29.7	15%	30.4	19%	2.4%
of which: staff severance provision discount	*3.7*	—	*4.4*	—	*18.9%*
Total provision	**190.3**	**100%**	**157.4**	**100%**	**-17.3%**

Net equity - net equity decreased in the twelve months under review, from €9,809.2m to €9,648.6m, chiefly due to reductions in the valuation reserves (down €222.8m), distribution of the 2019 dividend (€408.5m), and completion of the share buyback (€105.5m), all of which were only partly offset by the profit for the year (€600.4m). In particular the valuation reserves (which declined from €597.5m to €374.7m) reflect the lower contribution from equity-accounting the Assicurazioni Generali investment (down from €560.6m to €341.7m), in line with the figure reported at end-March 2020, with the other Group items substantially stable; the decrease in financial assets recognized at fair value through OCI (from €84.6m to €71.5m) was offset by the reduction in the liability on the cash flow hedge reserve (from €41.2m to €30.6m).

The share buyback scheme ended on 25 March 2020,[16] having reached the limit of 3% of the company's share capital, i.e. 26.6 million shares, after 13 million shares were purchased (for an outlay of €105.5m); in November 2019, a total of 1.7 million of these shares were used in connection with the performance share scheme.

[16] Under the resolution adopted by shareholders at the annual general meeting held in October 2018, buybacks could be made up to 3% of the company's share capital, for a total of 26.6 million shares.

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(€m)

	30/6/19	30/6/20	Chg.
Share capital	443.6	443.6	n.m.
Other reserves	7,945.1	8,229.9	3.6%
Valuation reserves	597.5	374.7	-37.3%
- of which: Other Comprehensive Income	*84.6*	*71.5*	*-15.5%*
cash flow hedge	*(41.2)*	*(30.6)*	*-25.7%*
equity investments	*560.6*	*341.7*	*-39,0%*
Profit for the period	823.0	600.4	-27,0%
Total Group net equity	**9,809.2**	**9,648.6**	**-1.6%**

The Group's OCI reserve involves equities worth €71.5m, following the tax effect of €9.4m, made up of equities (€67.8m) and bonds and other debt securities (€13.1m), including Italian sovereign debt securities of €2.6m.

(€m)

	30/6/19	30/6/20	Chg.
Equity shares	64.8	67.8	4.6%
Bonds	36.2	13.1	-63.8%
of which: Italian government bonds	*4.8*	*2.6*	*-45.8%*
Tax effect	(16.4)	(9.4)	-42.7%
Total OCI reserve	**84.6**	**71.5**	**-15.5%**

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Profit and loss account

Net interest income – net interest income was up 3.3% (from €1,395.6m to €1,442.2m), on higher average volumes in Consumer Banking (up 5.5%), helped by an outstanding performance in the first eight months of the year (with customer loans reaching a high of €13.8bn), thus offsetting the sharp reduction in new business in April and May 2020, part of which had been recovered by end-June. Wealth Management also performed well, with net interest income up 4.2% (from €260.2m to €271m) on higher mortgage volumes (up €1.2bn) and Private Banking loans (up €596.7m). Corporate and Investment Banking matched last year's performance with €271.4m (30/6/19: €272.7m), the reduction in profits being offset by the higher volumes. Conversely, net interest expense posted by the Holding Functions division increased from €47.1m to €55m, due to a poor performance in leasing (net interest expense totalling €2.8m), plus the substantial liquidity position. The Group's cost of funding remained stable at 80 bps. Net interest income was virtually unchanged in 4Q, confirming the loan book's healthy diversification.

(€m)

	30/6/19	30/6/20	Chg.
Consumer Banking	898.8	948.0	5.5%
Wealth Management	260.2	271.0	4.2%
Corporate and Investment Banking	272.7	271.4	-0.5%
Holding Functions and other (including intercompany)	(36.1)	(48.2)	33.5%
Not interest income	**1,395.6**	**1,442.2**	**3.3%**

Net treasury income – net treasury income totalled €136.3m, some 31% lower than last year (€196.7m), reflecting the market correction at end-March, only part of which was made up in 4Q.[17] The reduction in net treasury income from CIB operations reflects the performance in activities with CMS clients, which this year added just €86m (down 30%, from €127m), and was almost entirely due to the effects of the postponement or cancellation of 2019 dividends on the valuation of equity derivatives hedging the certificates issued, and the increase in the loss on the proprietary trading portfolio which this year totalled €7.7m (as compared with €1m last year), despite recovering to add €9.5m in 4Q. Treasury Management (Holding Functions) contributed positively, adding €37.5m but still lower than last year (€45m); the total includes gains realized on

[17] The Covid-related effect can be estimated at €45m (€55m in 9M).

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banking book securities of €51m, part of which was offset by the performance of the ALM proxy hedge portfolio. Income contributed by Principal Investing decreased from €18.3m to €15.6m, €9.3m of which from funds (€7.3m of which attributable to Cairn).

(€m)

	12 mths ended 30/6/19	12 mths ended 30/6/20	Chg.
Corporate Investment Banking	126.8	77.9	-38.6%
Principal Investing	18.3	15.6	-14.8%
Holding Functions	45.0	37.5	-16.7%
Other (including Intercompany)	6.6	5.3	-19.7%
Net treasury income	**196.7**	**136.3**	**-30.7%**

Net fee and commission income – net fees grew from €611.2m to €630.2m, on a good performance in Wealth Management (up 9%, from €280.9m to €306.1m), with CIB stable (fees down from €227.6m to €225.8m, €33.8m of which due to MMA being consolidated for the full twelve months), and Consumer Banking decreasing slightly (down from €128.1m to €122.6m), reflecting the reduced insurance component following the reduction in new loans. Wealth Management posted significant growth in management and upfront fees (up 8.4%, from €306.3m to €332.1m, €81.7m in 4Q) as well as the return of performance fees which added €13.2m (almost all of which in 1H); the Wealth Management division now contributes 50% of the Group's total fee income. Corporate and Investment Banking delivered a healthy recovery in investment banking activity, where fee income increased from €178.6m to €191.2m, adding €45.4m in 4Q, and offsetting the reduction in Specialty Finance which posted fees of €34.6m (€49m) due to the lower extra collections on the NPLs acquired.

(€m)

	12 mths ended 30/6/19	12 mths ended 30/6/20	Chg.
Wealth Management	280.9	306.1	9.0%
Corporate & Investment Banking	227.6	225.8	-0.8%
Consumer Banking	128.1	122.6	-4.3%
Holding Functions and other (including intercompany)	(25.4)	(24.3)	-4.3%
Net fee and commission income	**611.2**	**630.2**	**3.1%**

Equity-accounted companies - the equity-accounted companies' contribution to net profit decreased from €321.2m to €304.3m, reflecting in particular earnings by

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Assicurazioni Generali (which decreased from €320m to €303.7m), with €54.8m contributed in 4Q, calculated based on the company's results as at 31 March 2020, and adjusted to factor in writebacks of approx. €40m pro rata (on a pro forma basis) credited in the three months ended 30 June 2020 for shares and funds subject to recycling[18]. The investment in the IEO contributed €607,000 (€1.2m).

Operating costs – these rose by 2.3%, from €1,161.9m to €1,188.9m, helped, compared to 1H (when costs rose by 5.3%), by the Covid-related measures:

– Labour costs rose by 3%, from €581.7m to €599.3m, reflecting the consolidation of MMA for the full-year (which increased costs by €14m) and strengthening the commercial network, in Wealth Management especially (adding €14.7m), but also the lower variable remuneration component, where the saving in some areas (such as investment banking was substantial; in this connection it should be noted that members of the governing bodies of Mediobanca have waived some of their compensation, for a total amount of €640,000, which they have donated to charitable initiatives supported by the Group;

– Administrative expenses rose by 1.6%, from €580.2m to €589.6m, with a slowdown in 4Q on spending on projects, travel, events and marketing; the heading includes Covid-related expenses totalling €3.8m (including payments to agents in Consumer Banking), and €2.6m in donations to charitable initiatives.

(€m)

	12 mths ended 30/6/19	12 mths ended 30/6/20	Chg.
Labour costs	581.7	599.3	3.0%
of which: directors	*9.8*	*10.7*	9.2%
stock option and performance share schemes	*12.0*	*12.6*	5.0%
Sundry operating costs and expenses	580.2	589.6	1.6%
of which: depreciations and amortizations (incl. IFRS16)	*43.0*	*83.8*	*n.m.*
administrative expenses	*533.0*	*504.8*	*-5.3%*
Operating costs	**1,161.9**	**1,188.9**	**2.3%**

[18] Assicurazioni Generali continues to apply IAS 39, which requires that negative valuation reserves for the AFS portfolio above a given amount be recycled through profit and loss. The definitive impact is calculated on a half-yearly basis, so the writedowns charged at end-March 2020 were adjusted in the interim financial statements to reflect the writebacks credited the following quarter. Mediobanca has chosen to record the impact through profit and loss net of this effect, which has been maintained in the valuation reserves.

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(€m)

	12 mths ended 30/6/19	12 mths ended 30/6/20	Chg.
Legal, tax and professional services	10.5	10.3	-1.9%
Other consultancy expenses	48.8	35.1	-28.1%
Credit recovery activities	55.6	57.2	2.9%
Marketing and communication	42.3	37.2	-12.1%
Rent and property maintenance*	53.2	21.4	-59.8%
EDP	125.9	132.3	5.1%
Financial information subscriptions	41.0	44.7	9.0%
Bank services, collection and payment commissions	21.6	24.2	12.0%
Operating expenses	63.6	65.0	2.2%
Other labour costs	22.5	14.7	-34.7%
Other costs	25.8	35.8	38.8%
Direct and indirect taxes	22.2	26.9	21.2%
Total administrative expenses	**533.0**	**504.8**	**-5.3%**
Depreciations and amortizations ex IFRS16	—	38.6	*n.m.*

* The reduction for 30 June 2020 involves the effects of IFRS 16 first-time adoption, adding additional depreciation charges of €38.6m.

Overheads rose by less than 2% (from €580.2m to €589.6m), €6.4m of which attributable to Messier Maris et Associés and including the Covid-related effects (€6.3m in contributions to agents, health and safety work, and donations to charity). The reduction in property rental and maintenance charges was offset by the higher depreciation as a result of IFRS 16 first-time adoption, but with no material impact on profit and loss. In the twelve months under review there were substantial savings in expenses on consultants and marketing, due to the slowdown in project activities principally at Mediobanca S.p.A. and CheBanca!, whereas spending on IT increased (info-providers and data processing), as did banking and collection charges (including credit recovery costs).

Loan loss provisions – this item increased from €222.6m to €374.9m, with a steep rise in the cost of risk (CoR 82 bps, compared with 52 bps and despite having reached a record low in 2Q of 39 bps); the Covid-19 effect can be estimated at approx. €113m. The division most affected was Consumer Banking, where provisioning rose by 36.5%, from €237.8m to €324.7m, at a cost of risk of 247 bps (361 bps in 4Q, after peaking in April and May, much of which had reduced by end-June); the Covid-related effect for the division was €63.9m. CIB charged writedowns of €20m, despite two material UTP positions in Wholesale Banking being reclassified as performing (€60m); the €33m writedowns charged in 4Q reflect the hedges on the performing loan book being recalculated based on parameters adapted to reflect the new macroeconomic scenario (Covid-related impact €40.4m). Provisioning

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in Wealth Management rose from €11.8m to €20.5m, chiefly for CheBanca! mortgages, for which the Covid-related effect can be estimated at €4.4m. Leasing set aside just under €10m, at a CoR of 51 bps.

(€m)

	12 mths ended 30/6/19	12 mths ended 30/6/20	Chg.
Corporate & Investment Banking	(36.2)	20.0	n.m.
Consumer Banking	237.8	324.7	36.5%
Wealth Management	11.8	20.5	73.7%
Holding Functions (leasing)	9.2	9.7	5.4%
Loan loss provisions	**222.6**	**374.9**	**68.4%**
Cost of risk (bps)	**52**	**82**	**57.7%**

Provisions for other financial assets[19] – The valuations of other financial assets mandatorily recognized at fair value (investments in Group funds - seed capital and other private equity and real estate funds) were negative this year, at €11.7m (compared with €0.8m last year), but recovering strongly in 4Q (€20.1m, i.e. roughly half the losses recorded at end-March). A total of €8.8m was set aside in respect of bonds classified as Hold to Collect and Hold to Collect & Sell, a sharp increase on the €1.3m provided last year, due to the impact of 4Q (€7.5m) when the performance also reflected the downgrade in Italian sovereign debt.

(€m)

	12 mths ended 30/6/19	12 mths ended 30/6/20
Hold-to-Collect securities	0.5	4.0
Hold-to-Collect & Sell securities	0.8	4.8
Financial assets mandatorily FVTPL[1]	0.8	11.7
Provisions for other financial assets	**2.1**	**20.5**

[1] These are funds recognized at fair value.

Other gains (losses) – this heading brings together the Group's one-off items, including contributions to the resolution and deposit protection funds (EU and national), which for FY 2019-20 rose from €53.5m to €59.7m, plus non-

[19] Under IFRS 9, the impairment process 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).

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recurring costs which include the RAM impairment charge (€65.1m), the fine handed down to Compass by the Italian antitrust authority (€4.7m), and the leasing restructuring costs (€4.5m). The impact due to RAM represents the balance between the reduction in goodwill (€96.9m) as a result of the value in use calculation, and the gain arising on the valuation of the liability to minority shareholders (€31.8m), calculated based on the presumable realization value which has been estimated to be lower than the value in use.

Income tax – income tax for the period totalled €191.1m, at an effective tax rate of 24%, slightly higher than last year (23.7%). The item does not include the effects of the dispute over funds transfer pricing rate applied between Mediobanca and Mediobanca International SA, virtually all of which was absorbed by provisions being released.

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

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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 Banking (Mediobanca Private Banking and Compagnie Monégasque de Banque[20]).

The division also includes the product factories (Mediobanca SGR, Cairn Capital, RAM Active Investment and Mediobanca Management Company) grouped as asset management, plus the fiduciary activities performed by Spafid, Spafid Family Office SIM and Spafid Trust.

[20] On 22 July, at the Board of Directors' proposal, the shareholders of Compagnie Monégasque de Banque S.A. gathered in extraordinary general meeting approved an amendment to the company's Articles of Association changing its name from "Compagnie Monégasque de Banque" to "CMB Monaco".

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(€m)

	12 mths ended 30/06/19	12 mths ended 30/6/20	Chg. (%)
Profit-and-loss			
Net interest income	260.2	271.0	4.2
Net trading income	6.2	6.7	8.1
Net fee and commission income	280.9	306.1	9.0
Total income	**547.3**	**583.8**	**6.7**
Labour costs	(221.8)	(236.5)	6.6
Administrative expenses	(212.2)	(214.3)	1.0
Operating costs	**(434.0)**	**(450.8)**	**3.9**
Loan loss provisions	(11.8)	(20.5)	73.7
Provisions for other financial assets	0.3	(0.5)	n.m.
Other income (losses)	0.6	1.8	n.m.
Profit before tax	**102.4**	**113.8**	**11.1**
Income tax for the period	(28.7)	(32.6)	13.6
Minority interest	(2.5)	(0.8)	-68.0
Net profit	**71.2**	**80.4**	**12.9**
Cost/income ratio (%)	*79.3*	*77.2*	

	30/6/19	30/6/20
Balance-sheet data		
Loans and advances to customers	11,353.8	13,183.6
of which:		
CheBanca! mortgage loans	*9,001.9*	*10,235.0*
Private Banking	*2,351.9*	*2,948.6*
New loans	1,782.6	2,173.2
Risk-weighted assets	4,533.8	4,951.7
ROAC	15%	19%
No. of staff	1,936	2,021

	30/6/19	30/6/20
Commercial data		
Relationship managers	445	454
Financial advisors	335	414
No. of branches/agencies CheBanca!	180	192
Private Banker	127	132

Despite the entirely unfavourable, Covid-related scenario, the Wealth Management division again posted improving results, confirmed in 4Q with net new money of €1.3bn, and largely resilient recurring fees.

During the twelve months under review, the Wealth Management division has continued on the growth path mapped out in the Strategic Plan, enhancing its distribution structure, in particular CheBanca! now has 454 Affluent and

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Premier relationship managers (vs 445 last year) and 414 Financial Advisors (335), who provide their services from a total of 192 branches and POS.

Banking activity effectively supported by use of remote channels (some 98% of transactions have been executed digitally in recent months), as too is advisory activity in asset management, where client interaction via telephone and video link has intensified with the Group's experts in financial products and markets, who have provided support in their investment decisions which is even more crucial in highly volatile environment.

Net new money raised since the start of the year amounts to €3.2bn (€2bn of which in AUM/AUA), with a growing trend in the two half-years (€2bn in NNM in 2H, €1.3bn in AUM/AUA, most of which, however, was offset by the outflows from institutional clients), confirming the strength of the Affluent and Private distribution model even in challenging market phases, unlike the institutional channel where inflows are more dependent on market performance. Approx. €2.6bn is attributable to CheBanca! (€2.3bn AUM/AUA, split equally between the FAs and proprietary networks), €1.8bn of which in 2H (half of which consisting of AUM/AUA). Private Banking contributed €2.3bn (€1.3bn in high quality assets), with an impressive contribution in 2H (€1.4bn) albeit concentrated in deposits.

The product offering for clients has been enriched further, with:

- Dedicated placement of the Mediobanca Defensive Allocation and Mediobanca Diversified Credit Portfolio funds managed by Mediobanca SGR (with total funding of €70m raised between April and the start of July);
- Inclusion of new portfolio management lines in Mediobanca Private Banking, with management delegated to Mediobanca SGR, on specific themes meeting the growing demand for investments in sectors delivering strong growth in the post-Covid scenario (new health care, tech and top global companies lines), plus launch of new lines for Affluent clients distributed by CheBanca!;
- Placement of funds of funds in private markets, giving subscribers an opportunity to invest directly in the real economy, and enabling diversification both in management and asset classes (Mediobanca Private Markets third vintage), and direct investment in trophy assets in the real estate sector, with a medium-/long-term investment time horizon (second round of fund focusing on prestigious real estate assets);

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- Positive performances by Cairn Capital's credit funds, which outperformed their benchmarks, and good takeup for the Strata UCITS (dedicated primarily to Group clients) and for Cairn European Loan (addressed to the institutional market);
- Launch of the Group's first eco-sustainable fund, RAM Stable Climate Equity, which, along with RAM Diversified Alpha, aim to leverage on market opportunities in a volatile scenario such as the present one.

Wealth Management delivered significant top-line growth in the twelve months, with revenues up 6.7%, from €547.3m to €583.8m, a performance which remains impressive (up 5%) even net of performance fees (€13.2m, compared with €2.9m last year); 4Q, despite being penalized by lower average volumes, nonetheless saw distribution revenues substantially in line with the previous quarters; the contribution from the product factories declined, with performance affected by the outflows reported by RAM. The cost/income ratio improved from 79.3% to 77.2%, despite the substantial growth in the workforce (up 10%). ROAC increased from 15% to 19%, in line with the strategic objectives.

Customer loans in Wealth Management totalled €13.2bn (€11.4bn), with the mortgage component increasing from €9bn to €10.2bn, on new loans of €2.2bn which remain higher than last year (€1.8bn) despite the slowdown in 4Q (€0.4bn, vs a quarterly average of €0.6bn); the share attributable to Private Banking totalled €2.9bn (€2.4bn) following a healthy contribution from Compagnie Monégasque de Banque (up from €1.2bn to €1.8bn). Gross NPLs remain low at 1.6% of total loans, or €211.9m (€198.6m), and chiefly regard CheBanca! mortgage loans (where NPLs totalled €194.9m, or 1.9% of total loans); net NPLs in mortgage lending represent less than 1% of total loans (or €114.7m, €46.4m of which were bad debts), with a coverage ratio of 45.9% (60.5% of bad debts).

Moratoria conceded involved almost exclusively CheBanca! clients, under both the legislation introduced (Article 54 of the "Cura Italia" decree) and category initiatives. As at 30 June 2020, the moratoria granted (more than 80% of the 6,258 applications received) involved a total gross exposure of €601m (approx. 6% of the loan stock), of which €35.7m were prudentially reclassified as Stage 2, and €4.6m as Stage 3; around half the concessions thus made will resume repayment by the year-end, and the remainder in the first six months of 2021. Barely any applications were received in the Private Banking segment (three clients involving a total amount of €1.2m).

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Total Financial Assets (TFAs) amounted to €63.6bn, and were split equally between the Affluent segment (€27.8bn) and Private Banking (€26.4bn); following the downturn in March (€60.2bn, reflecting €4bn in lower valuations), TFAs returned to end-December level (€63.7bn).

AUM/AUA, the higher profitability products, came in at €39.8bn, recovering from March 2020 (€37.8bn) but some €2bn lower than at end-December 2019 (€41.8bn) due chiefly to the market effect which halved the outflow (from €4bn to €2bn). NNM for the twelve months totalled €3.2bn, representing the difference between net inflows in the Affluent segment (€2.6bn) and in Private Banking (€2.3bn), and outflows from institutional clients reported by the product factories (€1.6bn); the good performance by Cairn Capital (€0.8bn inflows) was more than offset by RAM (outflows of €1.4bn) and by Mediobanca Asset Management (€1bn). NNM in 4Q totalled €1.3bn, representing the balance between inflows in Affluent and Private (€0.9bn and €1.2bn respectively) and outflows in Asset Management (€0.7bn); growth in managed assets continues in the Affluent segment, whereas in Private Banking liquidity tends to prevail.

Asset management products placed internally to the Group totalled €9.6bn.

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Net TFAs	30/6/19	31/12/19	30/6/20	Chg. % June 20 / June 19	Chg. % June 20 / Dec 19
Affluent Banking	25,366	26,465	27,781	9.5%	5.0%
Private Banking	24,392	25,968	26,373	8.1%	1.6%
Asset Management	20,336	21,374	19,000	-6.6%	-11.1%
Intercompany	(8,681)	(10,091)	(9,571)	10.3%	-5.1%
Wealth Management	**61,414**	**63,716**	**63,582**	**3.5%**	**-0.2%**

Deposits	30/6/19	31/12/19	30/6/20	Chg. % June 20 / June 19	Chg. % June 20 / Dec 19
Affluent Banking	15,032	14,460	15,277	1.6%	5.6%
Private Banking	7,417	7,446	8,531	15.0%	14.6%
Asset Management	—	—	—	n.m.	n.m.
Wealth Management	**22,450**	**21,906**	**23,807**	**6.0%**	**8.7%**

AUM/AUA	30/6/19	31/12/19	30/6/20	Chg. % June 20 / June 19	Chg. % June 20 / Dec 19
Affluent Banking	10,334	12,005	12,504	21.0%	4.2%
Private Banking	16,975	18,522	17,842	5.1%	-3.7%
Asset Management	20,336	21,374	19,000	-6.6%	-11.1%
Intercompany	(8,681)	(10,091)	(9,571)	10.3%	-5.1%
Wealth Management	**38,964**	**41,811**	**39,775**	**2.1%**	**-4.9%**

Net New Money	30/6/19	2019-2020				30/6/20
	12 mths	1Q	2Q	3Q	4Q	12 mths
Affluent Banking	2,635	290	506	853	909	2,557
Private Banking	3,034	710	173	261	1,166	2,310
Asset Management	(352)	(689)	295	(498)	(739)	(1,631)
Wealth Management	**5,316**	**310**	**974**	**616**	**1,335**	**3,236**

The division posted a net profit of €80.4m,[21] 12.9% higher than last year (€71.2m) and in line with the Strategic Plan expectations, despite the 4Q performance (€13.9m) being below that of the previous quarters due to the sharp reduction in TFAs at end-March and the higher loan loss provisions taken in mortgage lending (with a Covid-related effect in the region of €4.4m).

The division's good performance for the twelve months is reflected in ROAC, which increased from 15% to 19%; and the cost/income ratio continues to improve, falling from 79.3% to 77.2%.

[21] The individual companies' contributions to divisional net profit were as follows: CheBanca! €31.9m, MBPB €15.9m, Compagnie Monégasque de Banque €26.1m, RAM €2.5m, and MBSGR (including Mediobanca Management Company) €9.2m; the Spafid group's results reflect substantial breakeven, while Cairn Capital again posted a loss (of €3.1m).

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(€m)

Revenues	12 mths ended 30/06/19	12 mths ended 30/6/20	Chg. %
Affluent	297.1	317.4	6.8%
Private Banking	159.1	186.7	17.3%
Asset Management	77.0	71.7	-6.9%
Other	14.1	8.0	-43.3%
Total revenues	**547.3**	**583.8**	**6.7%**

The main income items performed as follows:

– Net interest income rose by 4.2% (from €260.2m to €271m), with positive contributions from the Affluent segment (up 1.7%, from €210.6m to €214.1m) and Private Banking (up 14.7%) with the contribution of Compagnie Monégasque de Banque in particular growing (from €40.5m to €45m);

– Fee income climbed by 9% (from €280.9m to €306.1m), with significant growth posted in management fees (up 8.4%, from €306.3m to €332.1m), before commissions credited back to FAs (up from €28.3 to €39.2m); the contribution of performance fees remains low – albeit far higher than last year – at €13.2m (€2.9m). The Affluent segment rose by 18.9% (from €85.7m to €101.9m), and Private Banking by 19.6% (from €103.8m to €124.1m), while there was a 6.7% reduction in asset management (from €77.3m to €72.1m) due exclusively to the decline reported by RAM.

(€m)

Commissions - segment	12 mths ended 30/06/19	12 mths ended 30/6/20	Chg. %
Affluent	85.7	101.9	18.9%
Private Banking	103.8	124.1	19.6%
Asset Management	77.3	72.1	-6.7%
Other	14.1	8.0	-43.3%
Total commissions	**280.9**	**306.1**	**9.0%**

(€m)

Commissions - nature	12 mths ended 30/06/19	12 mths ended 30/6/20	Chg. %
Management fees	306.3	332.1	8.4%
- of which: upfront fees	*28.0*	*33.5*	*19.6%*
Performance Fees	2.9	13.2	n.m.
Negative fees	(28.3)	(39.2)	38.5%
Total commissions	**280.9**	**306.1**	**9.0%**

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– Operating costs were up 3.9% (from €434m to €450.8m), due to strengthening of the distribution network (Affluent and Compagnie Monégasque de Banque) which was reflected in the higher labour costs (up from €221.8m to €236.5m) and only marginally in administrative expenses, which were basically unchanged at €214.3m, as a result of the postponement of certain major projects.

(€m)

Costs	12 mths ended 30/06/19	12 mths ended 30/6/20	Chg. %
Affluent Banking	(236.3)	(249.8)	5.7%
Private Banking	(118.8)	(131.1)	10.4%
Asset Management	(64.7)	(61.4)	-5.1%
Other	(14.2)	(8.5)	-40.1%
Total costs	**(434.0)**	**(450.8)**	**3.9%**

Loan loss provisions of €20.5m (€11.8m) are largely attributable to mortgage lending activity, and rose as a result of the Covid-19 effect referred to above; some writebacks in Private Banking last year were not repeated this year.

Other profits include non-recurrent items attributable to Spafid and the other product factories.

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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, and the newly-incorporated Compass Rent, which allows customers to hire assets, in particular second-hand vehicles.

(€m)

	12 mths ended 30/06/19	12 mths ended 30/6/20	Chg. (%)
Profit-and-loss			
Net interest income	898.8	948.0	5.5
Net fee and commission income	128.1	122.6	-4.3
Total income	**1,026.9**	**1.070.6**	**4.3**
Labour costs	(99.4)	(102.0)	2.6
Administrative expenses	(194.1)	(201.2)	3.7
Operating costs	**(293.5)**	**(303.2)**	**3.3**
Loan loss provisions	(237.8)	(324.7)	36.5
Other income (losses)	—	(4.7)	n.m.
Profit before tax	**495.6**	**438.0**	**-11.6**
Income tax for the period	(159.2)	(141.4)	-11.2
Net profit	**336.4**	**296.6**	**-11.8**
Cost/income ratio (%)	*28.6*	*28.3*	

	30/6/19	30/6/20
Balance-sheet data		
Loans and advances to customers	13,223.0	13,037.4
- of which:		
Personal loans	*7,393.0*	*7,101.2*
Salary-backed finance	*2,039.3*	*1,983.6*
New loans	7,350.0	6,380.8
Risk-weighted assets	12,564.1	11,800.8
ROAC	30%	27%
No. of staff	1,427	1,441

	30/6/19	30/6/20
Commercial data		
Branches (Consumer Banking)	172	172
Agencies (Consumer Banking)	27	41

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The Italian consumer credit market suffered a brusque slowdown post Covid-19, with new loans down 29.6% in the early months of 2020 compared to the same period last year, wiping out the 5.7% growth posted in 2019; new loans totalled €24bn, with all segments suffering: special purpose loans down 23%, credit cards down 19.5%, salary-backed finance down 24.9%, and personal loans down 39.8%.

Compass underperformed the market in this period, reporting a 35.3% reduction, on account of its product mix being more geared towards personal loans (which fell by 46.2%) and in particular towards the indirect channels, in part offset by the lower impact on special purpose loans (down 21.5%, as opposed to 25.8%).

Various initiatives were implemented during the year, aimed primarily at enhancing the "direct" distribution channels, through:

- Launch of "Compass Quinto", a new network of agencies specializing in salary-backed finance under the Compass own brand; as a result of the rebranding of the Equilon agencies, a total of 48 Compass Quinto agencies are already in operation;
- Strengthening geographical coverage at national level, with the opening of 14 new agencies under the Compass brand (in addition to the existing 27 agencies and 172 own branches), with a direct distribution network of 908 FTEs;
- Consolidation of market share in special purpose loans, the main channel for acquiring new customers, by developing partnerships with large-scale organized distribution (telephony and electronics in particular), and developing agreements managed locally by the geographical network;
- Development of the internet channel, which during lockdown in particular reported a 20% increase versus last year (€319m, vs €265m), equal to an impressive almost 18% of personal loans through the direct channel.

At end-June 2020 net loans outstanding totalled €13bn, slightly lower than last year (€13.2bn); 54% consist of personal loans, while the salary-backed finance stock was approx. €2bn.

Compass posted a 13.2% reduction in new loans for the twelve months, declining from €7.4bn to €6.4bn, reflecting the medical crisis in 4Q which as a result contributed only one-eighth of the year's total, with the low point recorded in April (down 80%).

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Gross NPLs increased from €737.7m at end-June 2019 to €1,015.7m, and increased in relative terms as a percentage of the loan book to 7.2% (5.2%). Similarly, net NPLs rose to €324.2m (€189m), account for 2.5% (1.4%) of the total loan book, and show a coverage ratio of 68.1% reflecting the recent additions compared to last year (74.4%). Net bad loans totalled €14.6m (€13.7m), account for 0.1% of total loans (stable), and reflect a coverage ratio of 94.6% (94.3%); disposals in 3M amounted to €30m, bringing the twelve-month total to €181.4m.

Moratoria were granted in respect of loans worth a total outstanding €1.3bn (€1bn under the Assofin initiatives, and the remainder under voluntary initiatives by Compass itself); of these, roughly half were still in force at 30 June 2020, the majority of which will expire by the end of the next quarter. Although 85% of the accounts for which moratoria were granted have resumed making regular repayments, the remainder (€587.8m) have nonetheless been classified especially prudently, with only 38% classified as performing Stage 1, 59% classified as Stage 2, and the other 3% as impaired (Stage 3).

Careful and prudent classification to Stage 2, the gross balance of which rose during the twelve months from €1,393m to €1,691.7m (approx. 12% of the total loan book), translates to higher loan loss provisions and an increase in the coverage ratio for the performing portfolio, which rises from 3% to 3.2%.

The division reported a net profit of €296.6m (vs €336.4m last year), on revenues of €1,070.6m (up 4.3%) with the cost/income ratio remaining at 28.3%. The 11.8% reduction in net profit reflects a one-off provision taken in 2H (€4.7m, to cover the fine handed down by the Italian antitrust authority), and the increase in the cost of risk (from 185 bps to 247 bps) due to the higher loan loss provisions taken since March 2020. ROAC came in at 27% (30%).

The main income items performed as follows in the twelve months:

– Net interest income was up 5.5% (from €898.8m to €948m), driven by average volumes (up 5.5%), with the high recorded allowing the sharp reduction in new loans from mid-March to be absorbed; the last four months of the financial year also reflect a reduction in profitability linked to the different business mix, which was in part offset by the lower cost of funding;

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- Net fee and commission income was down 4.3%, from €128.1m to €122.6m, due to lower volumes in new loans, affecting the insurance component (€60.7m, compared with €73.2m last year,[22] only part of which was absorbed by the lower fees on amounts credited back to commercial partners;
- Operating costs rose by 3.3%, from €293.5m to €303.2m, due to the IT component and credit recovery expenses (an activity which is vital in the current scenario), against lower marketing expenses (with the advertising campaign having been suspended); Covid-related expenses totalled €2.7m, and chiefly regard payments to agents;
- Loan loss provisions were up 36.5%, from €237.8m to €324.7m, €120.6m of which in 3Q; the Covid-related impact may be estimated at €64m (approx. three-quarters of the total annual increase).

[22] Since 1 May 2020, following the non-compliance proceeding brought by the Italian antitrust authority, the sale of unrelated insurance products bundled with personal loans has been discontinued.

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CORPORATE AND INVESTMENT BANKING

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

- Wholesale Banking: lending, capital market activities and advisory services, and trading – client and proprietary – performed by Mediobanca, Mediobanca International, Mediobanca Securities and Messier Maris et Associés);
- Specialty Finance: factoring and credit management (including acquisition and management of NPL portfolios), performed by MBFACTA and MBCredit Solutions and the newly-incorporated MBContact Solutions.

(€m)

	12 mths ended 30/06/19	12 mths ended 30/6/20	Chg. (%)
Profit-and-loss			
Net interest income	272.7	271.4	-0.5
Net treasury income	126.8	77.9	-38.6
Net fee and commission income	227.6	225.8	-0.8
Total income	**627.1**	**575.1**	**-8.3**
Labour costs	(139.4)	(141.0)	1.1
Administrative expenses	(129.9)	(135.2)	4.1
Operating costs	**(269.3)**	**(276.2)**	**2.6**
Loan loss provisions	36.2	(20.0)	n.m.
Provisions for other financial assets	0.9	(3.5)	n.m.
Other income (losses)	—	—	n.m.
Profit before tax	**394.9**	**275.4**	**-30.3**
Income tax for the period	(129.1)	(92.4)	(28.4)
Minority interest	—	(2.3)	n.m.
Net profit	**265.8**	**180.7**	**-32.0**
Cost/income ratio (%)	*42.9*	*48.0*	

	30/6/19	30/6/20
Balance-sheet data		
Loans and advances to customers	17,865.3	18,644.2
of which: Corporate	*15,560.8*	*16,521.7*
Factoring	*1,935.4*	*1,763.7*
Credit Management - NPLs	*369.1*	*358.8*
Corporate new loans	5,777.3	5,949.9
Factoring turnover	6,578.5	7,422.6
NPLs purchased	117.9	35.5
Risk-weighted assets	20,065.8	20,027.7
ROAC	15%	10%
No. of staff	621	630
Front Office Wholesale	297	302

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M&A activity was affected in 4Q by the post-Covid-19 containment measures, with the deal value on the Bank's three core markets - Italy, Spain and France – half that in 3Q; in particular, acquisitions by corporates plunged by 75%, while the flow of transactions with private equity funds remained positive. In view of this performance, the first half of 2020 saw a reduction of 16% (compared with a 15% reduction for the twelve months of 2019).

The ECM market picked up in the second quarter of 2020, with capital increases and convertible issues up more than 50% in the Group's three core geographies; while only Italy showed positive figures for the entire six-month period (up 29%). The DCM market showed greater resilience, posting growth for the twelve months of 9% (confirmed in 3Q), with the investment grade segment contributing positively (up 32%) and offsetting the weak performance in high yield and securitization.

Lending activity also recovered in the three months ended 30 June 2020, up 36%, with new deals focused on investment grade clients and extraordinary transactions.

Customer loans rose in the year, from €17.9bn to €18.6bn, with the Large Corporate segment contributing well with €16.5bn (€15.6bn), which offset the reduction in Specialty Finance (down from €2.3bn to €2.1bn), due in particular to the reduction in ordinary factoring to €1.4bn (vs €1.5bn last year and €2bn at end-December 2019). In Lending and Structured Finance, new loans in the twelve months totalled €5.9bn (the majority with counterparties ranked as investment grade), against redemptions totalling €5bn (€1.9bn of which early redemptions) mostly with crossover clients; drawdowns on revolving lines have intensified in the last four months (for working capital facilities in particular), for a total amount of €1.3bn in the six months, or 40% of the new loans for the six months. Factoring posted a 13% increase in turnover from €6.6bn to €7.4bn, with a good performance by ordinary factoring activities offsetting the reduction in instalment factoring (down 21.8%, from €317.7m to €248.3m). Acquisitions of NPL portfolios were very low (with a nominal amount of €0.3bn, involving an outlay of €35.5m), reflected in the reduction in the stock of NPLs (from €368.6m to €358.6m), with a nominal value of €5.4bn.

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	30/6/19		30/6/20		Chg.
	(€m)	%	(€m)	%	
Italy	10,188.5	57%	10,215.6	55%	0.3%
France	1,558.9	9%	1,426.4	8%	-8.5%
Spain	941.2	5%	1,011.8	5%	7.5%
Germany	904.8	5%	1,509.0	8%	66.8%
U.K.	1,131.3	6%	1,257.5	7%	11.2%
Other non resident	3,140.6	18%	3,223.9	17%	2.7%
Total loans and advances to customers CIB	**17,865.3**	**100%**	**18,644.2**	**100%**	**4.4%**
- of which: Specialty Finance	*2,304.5*	*13%*	*2,122.6*	*11%*	*-7.9%*

Asset quality remains at high levels: gross NPLs (not including the NPLs acquired) decreased from €671.7m to €541.5m, after two material UTP positions (gross exposure €108.6m) returned to performing status, against three decidedly smaller exposures acquiring non-performing status (involving a total amount of €39.4m); in relative terms they were equal to 2.9% of the total CIB loan book (3.8%). Net NPLs decreased from €394.7m to €316.4m, declining from 2.3% to 1.7% of the loan book, with a coverage ratio of 41.6% (41.2%).

The Covid-related impact remains low, concentrated in certain specific sectors, and involving counterparties with no problems in terms of liquidity. As at end-June 2020, around thirty waiver applications had been received, only five of which to defer payments (involving a total amount by way of principal and interest of €12m), whereas all the others were for financial covenants in the light of the lower turnover expected for 2020 as a consequence of lockdown. Given the temporary nature of the issues, and having ascertained that there are no structural problems with the counterparties' liquidity, the majority of the waivers granted have not been classified as forbearance measures, meaning that only four positions have been reclassified as stage 2, the balance of which for CIB positions at end-June was €739.4m (i.e. 4% of the total loan book), some 5% lower than at the same time last year.

The market volatility and uncertainties over the future as a result of the medical crisis affected trading activity and loan loss provisioning, the effect of which was only in part offset by the consolidation of Messier Maris et Associés.[23] Net profit therefore decreased from €265.8m to €180.7m,[24] €25.5m of which was generated in 4Q (compared with €11.1m in 3Q); ROAC came in at 10%, and the cost/income ratio rose to 48%.

[23] MMA's contribution for the twelve months (rather than 3M last year) was as follows: revenues €33.8m (€5.3m), and costs €24.2m (€5.4m), €17.8m of which labour costs (€3.8m).

[24] The various divisions' contributions break down as follows: Wholesale Banking €155.3m (of which MMA €4.6m); MBCredit Solutions €10.4m, and MBFACTA €15m.

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The 8.3% reduction in revenues, from €627.1m to €575.1m, was mainly due to the decrease in net trading income from €126.8m to €77.9m, following a lower contribution from activities with CMS clients of €85.6m (€127.3m), reflecting the effect of 2019 dividend payments being postponed on the valuations of derivatives used to hedge the certificates issued. The proprietary portfolio reflected a net loss of €7.7m for the twelve months, despite the €9.5m recovery posted in 4Q from the lows recorded at end-March. Net interest income remained at €271.4m (down just 0.5%) despite the large corporate loans being less profitable, due to the higher contribution of securities (trading portfolio and CMS alternative investments); Specialty Finance fell slightly due to lower NPL volumes (-4.5%). Fee income was virtually stable at €225.8m (€227.6m), with the full consolidation of MMA (which contributed fees of €33.8m in 12M, compared to €5.3m in 3M last year) offsetting the widespread reduction in other areas, in particular Lending (down from €43.3m to €37.8m due to the decline in acquisition finance), and Specialty Finance, down from €49m to €34.6m, due to the lower contribution from NPL activities; the 4Q contribution was stable at €52m, roughly half of which was due to the resumption of advisory and M&A activities.

Revenues	**12 mths ended 30/06/19**	**12 mths ended 30/6/20**	**Chg. (%)**
Capital Market	30.4	22.9	-24.6%
Lending	208.9	191.0	-8.6%
Advisory M&A	87.5	112.4	28.4%
Trading Prop	12.5	11.3	-9.6%
Market, sales and other gains	155.7	123.6	-20.6%
Specialty Finance	132.2	113.9	-13.8%
Total Revenues	**627.1**	**575.1**	**-8.3%**

Commissions	**12 mths ended 30/06/19**	**12 mths ended 30/6/20**	**Chg. (%)**
Capital Market, Sales and other gains	47.8	41.0	-14.2%
Lending	43.3	37.8	-12.7%
Advisory M&A	87.5	112.4	28.4%
Specialty Finance	49.0	34.6	-29.4%
Total CIB Commissions	**227.6**	**225.8**	**-0.8%**

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Operating costs rose from €269.3m to €276.2m, split equally between labour and other costs. The year-end figures reflect the consolidation of Messier Maris et Associés (€24.2m), net of which costs would reduce by 6.4%. In particular, the increase in labour costs (up 1.1%, from €139.4m to €141m) includes €17.8m from MMA, offsetting the substantial reduction in the variable component; administrative expenses (up 4.1%, from €129.9m to €135.2m) include €6.4m from MMA and higher credit recovery expenses for NPL activity in Specialty Finance.

Net provisions for financial assets (loans and banking book securities) total €23.5m, compared with €37.1m in net writebacks last year. Provisioning for Specialty Finance decreased from €26.5m to €24.5m in order to take account of the lower extra collections on NPLs. The Wholesale Banking portfolio saw the writebacks on to two UTP positions reclassified as performing (approx. €60m) wiped out by the higher provisioning for performing loans due to the worsening macroeconomic scenario (the Covid-related effect being equal to €37m) and impairment for the period (i.e. positions reclassified to Stage 2 and Stage 3) totalling €26m.

	12 mths ended 30/06/19	12 mths ended 30/6/20	Chg.
CIB	62.7	4.5	n.m.
Specialty Finance	(26.5)	(24.5)	-7.5%
Other financial assets	0.9	(3.5)	n.m.
Total	**37.1**	**(23.5)**	**n.m.**

* * *

With reference to M&A activities, a total of over seventy deals was completed during the year, roughly one-quarter of which by Messier Maris et Associés. These include in particular acting as financial advisor to Total in its acquisition of assets in Spain, and to PSA in the merger with FCA (for which it has already been paid an announcement fee this year). By industry, significant

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contributions were made by Consumer & Luxury (six deals, including acting as financial advisor in the sale of Supermercati Italiani), FIG (11 deals, including the strategic partnership between Prelios and Intesa Sanpaolo to manage UTP receivables, the sale by Piraeus Bank of its subsidiary Piraeus Bulgaria, the agreement between Crédit Agricole and Banco BPM in the consumer credit sector, and the renegotiation of the agreement between Intrum and Intesa regarding the acquisition of a portfolio of NPLs), real estate, where seven deals were completed (including as advisor to Castello SGR in the disposal of assets to the Oaktree fund, and the acquisition of a property in Via Santa Margherita in Milan from Kryalos through a club deal in private banking), and energy, where five deals were completed (including as advisor to Snam in its acquisition of a 49% stake in OLT, and assisting DAAM in its disposal of Spanish company Arenales). Coverage of the financial sponsor sector also remained stable, with a total of twelve deals completed, eight of which with large corporate clients (these include: Bain Capital on the acquisition of non-performing loans from MPS and of a computer engineering company), and four with Italian mid-corporate clients (including assisting Clessidra in acquiring L&S). Also in the mid-corporate area, more than ten deals were concluded in support of disposals processes and funds investing in Italian companies (some of the main deals include Laminam, CBG Acciai and AMF).

With reference to capital markets activity, the Bank has managed over sixty placements concentrated in Italy, Spain/Portugal, France, Austria and the United Kingdom, with leading roles in deals involving Banco Santander, Unicaja Banco, Banco Bilbao, Unicredit, Banco BPM, Banca IFIS, MPS, Cassa Depositi e Prestiti, Deutsche Bank, Raiffesen Bank, Virgin Media, Italgas, Iren, Compagnie de Financement Foncier, EDP, SNAM, Ziggo and Amplifon, and in some of the largest domestic ECM transactions, such as the ABOs by Cellnex, Hera, Nexi and Unieuro, and the capital increase by Juventus.

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PRINCIPAL INVESTING

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

(€m)

	12 mths ended 30/6/19	12 mths ended 30/6/20	Chg. (%)
Profit-and-loss			
Other incomes	11.2	8.5	-24.1
Equity-accounted companies	321.2	304.3	-5.3
Total income	**332.4**	**312.8**	**-5.9**
Labour costs	(3.9)	(3.3)	-15.4
Administrative expenses	(1.2)	(1.0)	-16.7
Operating costs	**(5.1)**	**(4.3)**	**-15.7**
Net loss provisions	(3.3)	(10.9)	n.m.
Other income (losses)	—	—	n.m.
Profit before tax	**324.0**	**297.6**	**-8.1**
Income tax for the period	(9.8)	(2.6)	-73.5
Net profit	**314.2**	**295.0**	**-6.1**

	30/6/19	30/6/20
Balance-sheet data		
Banking book equity securities	656.7	673.9
IAS28 investments	3,259.8	3,204.6
Risk-weighted assets	5,641.6	8,121.9

The division posted a net profit for the twelve months down from €314.2m to €295m, on equity method valuations totalling €304.3m (30/6/19: €321.2m), and dividends and other income collected on holdings in shares and funds amounting to €15.6m (€18.3m). The sharp price correction in the various asset classes is reflected in the value adjustments to holdings in funds, in particular seed capital invested in equity products (RAM) and credit products (Cairn Capital); overall a writedown of €12.3m was charged (compared with €6.5m last year), following the substantial writebacks credited in 4Q totalling €18.7m (equal to roughly half the net loss posted for the previous quarter).

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The book value of the Assicurazioni Generali investment decreased from €3,219.3m to €3,163.4m, on earnings of €303.7m, decreases in the valuation reserves totalling €221.7m, and the reduction following collection of the first tranche of the 2019 dividend (€101.4m).[25] The Group's pro rata share in the profits and valuation reserves of the investee company in 4Q differ from the figures reported by Assicurazioni General in its financial statements as at 31 March 2020, due to the share of the writebacks recorded in 2Q 2020 in respect of AFS shares and funds subject to recycling.[26]

As for the banking book securities, positions held in funds increased from €520.4m to €534.8m, reflecting the valuations referred to above and net investments totalling €25.1m; holdings in equities increased from €136.3m to €139.1m, to reflect alignment with stock market prices at end-June 2020, taken directly through the net equity valuation reserves.

[25] On 30 April 2020, the shareholders of Assicurazioni Generali gathered in general meeting approved a dividend of €0.96 split in two tranches: one of €0.50 per share, paid in May 2020; and one of €0.46 per share, payable by the year-end subject to the Board verifying *inter alia* that the limits set in the group's Risk Appetite Framework are met as at 30 September 2020, and further subject to all supervisory instructions and guidance on payment of dividends in force at the time being complied with.

[26] The pro rata share of the profits as at 31 March 2020 reported by the company have been adjusted to include the writebacks on AFS shares and funds recorded at end-June 2020, as the writedowns charged in 1Q are revised at the end of the first half of the financial year.

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HOLDING FUNCTIONS (CENTRAL, TREASURY AND LEASING)

The Holding Functions comprises SelmaBipiemme Leasing, MIS, Spafid Connect,[27] Ricerche e Studi and Prominvestment, and all costs relating to central Group functions (including Group treasury and ALM with the aim of optimizing funding and liquidity management on a consolidated basis, including the securities held as part of the banking book[28]), operations, support units (Planning and Control, Corporate Affairs, Investor Relations, etc.), senior management and the control units (Risk Management, Group Audit and Compliance) for the part not allocated to the business lines.

(€m)

	12 mths ended 30/06/19	12 mths ended 30/6/20	Chg. (%)
Profit-and-loss			
Net interest income	(47.1)	(55.0)	16.8
Net trading income	45.0	37.5	-16.7
Net fee and commission income	7.4	10.6	43.2
Total income	**5.3**	**(6.9)**	**n.m.**
Labour costs	(117.1)	(116.5)	-0.5
Administrative expenses	(60.5)	(56.3)	-6.9
Operating costs	**(177.6)**	**(172.8)**	**-2.7**
Loan loss provisions	(9.0)	(9.7)	7.8
Provisions for other financial assets	0.1	(5.6)	n.m.
Other income (losses)	(54.8)	(64.3)	17.3
Profit before tax	**(236.0)**	**(259.3)**	**9.9**
Income tax for the period	70.6	76.3	8.1
Minority interest	(2.1)	(0.7)	-66.7
Net profit	**(167.5)**	**(183.7)**	**9.7**

	30/6/19	30/6/20
Balance-sheet data		
Loans and advances to customers	1,951.6	1,819.9
Banking book securities	5,550.5	5,611.5
No. of staff	810	817 [29]
Risk-weighted assets	3,504.7	3,128.4

The net loss increased from €167.5m to €183.7m, due to the lower contribution to the banking book securities (approx. €13m in lower interest receivable and gains on disposals, plus the increase in provisioning) and the higher payments to the resolution funds (up 11.5%, from €53.5m to €59.7m). Overall the net interest expense incurred by the division increased from €47.1m to €55m, while net treasury income declined from €45m to €37.5m. Operating costs decreased from

[27] As from 1 January 2019, following the sale of the Market Connect business unit.

[28] Group Treasury finances the individual business areas' operations, applying the funds transfer pricing (FTP) rate based on the relevant curves, with varying spreads applied depending on the expiries agreed for the respective use of funds.

[29] The 817 staff are divided as follows: 119 in Selmabipiemme Leasing and 8 in the other non-core companies; 31 in group Treasury and ALM; 127 at MIS, 209 in operations, 171 in support functions, 145 in control functions and 7 in management (senior management and their assistants), with the cost of approximately 224 FTE charged back to the business lines.

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€177.6m to €172.8m, due to lower functioning costs for leasing (down €4m), plus central costs contributing just over 9% of Group total costs.

The areas of operation performed as follows:

- Treasury management: the net loss increased from €54.7m to €63.1m, on higher net interest expense of €92.1m (€87.4m) and lower trading income of €37.5m (€45.1m); the reduction in net interest income is due to the lower returns on assets as a result of the reduction in interest rates and the substantial liquidity position maintained in order to keep the LCR and NSFR ratios above the internal targets set in a phase of high uncertainty and market volatility; the cost of funding remained stable at 81 bps due to increased use of less expensive sources (T-LTRO and Wealth Management deposits), given that the annual debt security funding plan had been completed by mid-March 2020 (including the first non-preferred senior issue to support the already substantial MREL buffer); while net trading income, given the fact that gains on the banking book were virtually unchanged at €51m (€55m) reflects the negative fair values of the hedging strategies implemented in order to allow more active management of the segment, plus the effects of the provisioning for HTC and HTC&S securities (€6m, due to the downgrade of Italian sovereign debt and the new macroeconomic scenario under IFRS 9);
- Leasing operations show a sharp reduction in net profit, to €1m (€3.2m), due to extraordinary charges in connection with the staff restructuring plans (€4.5m), plus higher loan loss provisioning (up from €8.6m to €9.7m); the 7.3% reduction in revenues, from €42.3m to €39.2m, was largely offset by the reduction in operating costs, from €27m to €23m. Customer leases outstanding declined from €1,951.6m to €1,819.9m, on new business worth €290.4m (€433m last year). Gross NPLs rose from €174.3m to €185m, representing 9.8% (8.6%) of the total; similarly, net NPLs increased from €111.8m to €118.9m (up 6.4%), with a coverage ratio of 35.8% (35.9%). Net bad loans totalled €17.5m (€24.1m), and represent 1% (1.2%) of total loans, with a coverage ratio of 53.4% (46.8%). Much of the leasing book was affected by the moratoria granted under Article 56 of the “Cura Italia” decree, which allowed for deferral of half-yearly instalments. Applications in respect of leases worth an aggregate amount of €661.2m were granted (more than 90% of the 7,029 applications received), representing slightly over 35% of total leases; of these, almost 90% were for clients showing no deterioration in credit risk. The share of leases classified as Stage 2 increased from €120.1m to €122.1m in the year, €2.6m of which in the last four months; the coverage ratio for performing exposures (Stage 1 and Stage 2) rose to 0.7%.

* * *

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

(€m)

Company	Percentage shareholding	Business Line	Total income	Operating costs	Loss provisions	Gain/(loss) for the period
Mediobanca Securities (data in USDm)	100%	Corporate and Investment Banking	2.7	(2.5)	—	0.1
Mediobanca Funding Luxembourg	100%	Corporate and Investment Banking	0.7	(0.7)	—	—
Messier Maris et Associés S.C.A. *	100%	Corporate and Investment Banking	33.8	(23.5)	—	7.4
Messier Maris et Associés L.L.C. (data in USDm) *	100%	Corporate and Investment Banking	1.2	(2.0)	—	(0.5)
Mediobanca International	100%	Corporate and Investment Banking / Holding Functions	12.9	(9.4)	(15.5)	(10.8)
MBFACTA	100%	Corporate and Investment Banking	51.3	(10.9)	(18.7)	14.6
MBCredit Solutions	100%	Corporate and Investment Banking	63.8	(42.8)	(5.3)	11.4
MB Contact Solutions	100%	Corporate and Investment Banking	—	—	—	—
Compass Banca	100%	Consumer Banking	983.8	(290.8)	(320.3)	245.5
Futuro	100%	Consumer Banking	41.7	(16.2)	(3.9)	14.6
Quarzo S.r.l.	90%	Consumer Banking	0.2	(0.2)	—	—
Quarzo CQS S.r.l.	90%	Consumer Banking	—	—	—	—
Compass RE	100%	Consumer Banking	44.9	(0.8)	—	32.7
Compass Rent	100%	Consumer Banking	—	—	—	—
CheBanca!	100%	Wealth Management	318.4	(249.8)	(21.4)	22.4
Mediobanca Covered Bond	90%	Wealth Management	0.1	(0.1)	—	—
CMB Monaco	100%	Wealth Management	101.7	(69.3)	(0.6)	27.8
Spafid	100%	Wealth Management	8.7	(9.1)	(0.7)	—
Spafid Family Office SIM	100%	Wealth Management	1.4	(1.2)	—	0.1
Cairn Capital Group Limited (data in GBPm) *	100%	Wealth Management	16.0	(20.8)	—	(4.4)
CMB Wealth Management UK (data in GBPm) (under liquidation)	100%	Wealth Management	—	—	—	—
RAM Active Investments (data in CHFm)*	89.3%	Wealth Management	22.7	(18.5)	—	3.0
RAM Active Investments (Luxembourg) (data in CHFm)	100%	Wealth Management	3.0	(2.3)	—	0.6
Compagnie Monégasque de Gestion	100%	Wealth Management	5.6	(2.7)	—	2.0
Spafid Trust S.r.l.	100%	Wealth Management	0.6	(0.7)	—	(0.1)
Mediobanca SGR S.p.A.	100%	Wealth Management	25.6	(14.3)	—	8.0
Mediobanca Management Company S.A.	100%	Wealth Management	3.9	(2.2)	—	1.3
Mediobanca International Immobilière	100%	Holding Functions	0.2	(0.1)	—	0.1
SelmaBipiemme Leasing	60%	Holding Functions	39.2	(27.4)	(9.7)	1.8
Prominvestment (under liquidation - under arrangement with creditors)	100%	Holding Functions	—	—	—	—
Mediobanca Innovation Services	100%	Holding Functions	0.1	(0.1)	—	(2.5)
Ricerche e Studi	100%	Holding Functions	2.3	(2.3)	—	—
Spafid Connect	100%	Holding Functions	2.4	(3.0)	(0.1)	(0.3)

* Taking into account the put-and-call option; see Part A1 – Section 3 – Area and methods of consolidation, p. 117.

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(€m)

Company	Percentage shareholding	Business Line	Total assets	Loans and advances to customers	Total net equity[1]	No. of staff
Mediobanca Securities (data in USDm)	100%	Corporate and Investment Banking	7.0	—	5.7	5
Mediobanca Funding Luxembourg	100%	Corporate and Investment Banking	11.3	10.0	0.9	—
Messier Maris et Associés S.C.A. *	100%	Corporate and Investment Banking	—	—	—	36
Messier Maris et Associés L.L.C. (data in USDm) *	100%	Corporate and Investment Banking	0.4	—	(1.2)	5
Mediobanca International	100%	Corporate and Investment Banking / Holding Functions	6,428.6	4,912.6	341.5	19
MBFACTA	100%	Corporate and Investment Banking	1,838.9	1,765.8	151.8	35
MBCredit Solutions	100%	Corporate and Investment Banking	416.4	358.8	151.5	217
MB Contact Solutions	100%	Corporate and Investment Banking	0.6	—	0.5	—
Compass Banca	100%	Consumer Banking	13,029.6	11,461.0	1,919.1	1.370
Futuro	100%	Consumer Banking	1,617.7	1,576.4	144.3	69
Quarzo S.r.l.	90%	Consumer Banking	0.6	—	—	—
Quarzo CQS S.r.l.	90%	Consumer Banking	—	—	—	—
Compass RE	100%	Consumer Banking	403.5	123.0	172.3	1
Compass Rent	100%	Consumer Banking	2.0	—	2.0	—
CheBanca!	100%	Wealth Management	23,466.1	10,235.0	505.4	1.429
Mediobanca Covered Bond	90%	Wealth Management	0.6	—	0.1	—
CMB Monaco	100%	Wealth Management	5,416.2	1,803.8	806.6	242
Spafid	100%	Wealth Management	57.3	—	46.5	48
Spafid Family Office SIM	100%	Wealth Management	1.8	—	0.9	3.0
Cairn Capital Group Limited (data in GBPm) *	100%	Wealth Management	14.4	—	9.3	54
CMB Wealth Management UK (data in GBPm) (under liquidation)	100%	Wealth Management	0.1	—	0.1	—
RAM Active Investments (data in CHFm) *	89.3%	Wealth Management	30.1	—	24.3	38
RAM Active Investments (Luxembourg) (data in CHFm)	100%	Wealth Management	9.6	—	3.6	7
Compagnie Monégasque de Gestion	100%	Wealth Management	4.5	—	-0.7	9
Spafid Trust S.r.l.	100%	Wealth Management	1.5	—	1.4	3
Mediobanca SGR S.p.A.	100%	Wealth Management	47.3	—	28.8	49
Mediobanca Management Company S.A.	100%	Wealth Management	13.5	—	6.8	6
Mediobanca International Immobilière	100%	Holding Functions	1.9	—	1.8	—
SelmaBipiemme Leasing	60%	Holding Functions	1,952.6	1,820.0	210.9	119
Prominvestment (under liquidation - under arrangement with creditors)	100%	Holding Functions	0.4	—	(0.6)	—
Mediobanca Innovation Services	100%	Holding Functions	93.1	—	37.5	127
Ricerche e Studi	100%	Holding Functions	1.9	—	0.1	14
Spafid Connect	100%	Holding Functions	10.0	—	7.3	7

[1] Does not include profit for the period.

* Taking into account the put-and-call option; see Part A1 – Section 3 – Area and methods of consolidation, p. 117.

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Finally, it should be noted that:

– On 29 April 2020, Compagnie Monégasque de Banque approved its consolidated financial statements for the twelve months ended 31 December 2019, which reflect a net profit of €13.3m, higher than last year (€12.3m), on higher revenues (up from €94m to €103m), only in part offset by the increase in costs which were up 12% (from €59m to €66.1m), reflecting the introduction of a new management team and enhancement of the commercial structure. Growth was recorded in both net interest income (up 14.6%, from €37.7m to €43.2m) and net fee income (up 4.8% from €58.3m to €61.1m), reflecting the increase in the asset headings: customer loans rose from €1,250m to €1,633m, deposits held with banks increased from €2,339m to €2,740m, and customer deposits grew from €3,257m to €3,952m; net AUM/AUA increased from €6.7bn to €7.5bn, taking TFAs up from €10bn to €11.4bn.

Other information

Related party disclosure

Financial accounts outstanding as at 30 June 2020 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 for 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.

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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 self-assessment process required by the regulations in force.

In particular, this involves concentration risk versus Italian groups in the Group's corporate activities, financial risk on the banking book (primarily interest rate risk), strategic or business risk, risk deriving from exposure to volatility on financial markets for the equities held in the HTCS portfolio, and exposure to sovereign debt.

Consolidated non-financial statement

The Group publishes a Consolidated Non-Financial Statement which is drawn up in accordance with Article 4 of Italian Legislative Decree 254/16, and contains information on environmental and social issues, human resources, protection of human rights and anti-corruption measures, in order to facilitate understanding of the Group's activities, performance, results and impact generated.

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

Research

R&S has continued with its analysis of companies and capital markets as in the past. The company produced the forty-third edition of its Annual Directory (the last in the series), which includes analysis of leading Italian listed companies, a survey of local utilities operating in the largest Italian municipalities, examined both from an earnings/financial perspective, and in

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terms of the quality and efficiency provided by them, and a new edition of the leading international banks (also the last in the series).

Rating

As a result of the Covid-19 emergency, all the ratings agencies stepped up their monitoring of the various countries' growth prospects, which entailed major revisions for Europe and Italy in particular.

From as early as end-March 2020 some of the ratings agencies revised their outlook for the Italian banking sector to Negative, ahead of the half-yearly review of the sovereign debt rating, which in the end saw only Fitch downgrade Italy's rating from "BBB" to "BBB-" with stable outlook.

Given the cap mechanism in place on banks' ratings, the situation for Mediobanca is currently as follows: S&P Global rating confirmed as "BBB" for the long term and "A-2" for the short term with "negative" outlook (already assigned at end-2019); Moody's confirmed its rating as "Baa1" for the long term and "P-2" for the short term with "negative" outlook (previously "stable"); and Fitch Ratings, following its downgrade of Italian sovereign debt, cut its long-term rating by notch to "BBB-", its rating for long-term deposits to "BBB", and its rating for short-term debt to "F3" with stable outlook.

Outlook

The sharp reduction in new loans in the last four months of FY 2019-20 will affect the contribution made by Consumer Banking and Specialty Finance to next year's revenues. In this scenario, the Group has launched a series of initiatives to keep down the cost of funding and increase the proprietary portfolio's contribution, including through temporary use of the T-LTRO programme. The anticipated reduction in net interest income could be offset by growth in fees generated from Wealth Management, given the healthy growth in assets reported in 4Q which should continue next year, and from Corporate and Investment Banking, where the deal pipeline is decidedly robust. Furthermore, in the absence of any market corrections which are not foreseeable, the contribution from net trading income should return to the levels seen in previous years. Costs will continue to reflect the implementation of IT investment plans and

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the enhancement of the commercial network, in accordance with the guidelines of the 2019-23 Strategic Plan. The cost of risk is expected to normalize in the second half of the year, and so is expected to increase slightly on an annual basis, in Consumer Banking especially.

Reconciliation of shareholders' equity and net profit

(€'000)

	Shareholders' equity	Net profit (loss)
Balance at 30/06 as per Mediobanca S.p.A. accounts	4,674,459	42,198
Net surplus over book value for consolidated companies	14,822	374,515
Differences on exchange rates originating from conversion of accounts made up in currencies other than the Euro	394	—
Other adjustments and restatements on consolidation, including the effects of accounting for companies on an equity basis	4,358,524	183,669
Dividends received during the period	—	
Total	**9,048,199**	**600,382**

Milan, 30 July 2020

THE BOARD OF DIRECTORS

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DECLARATION BY HEAD OF COMPANY FINANCIAL REPORTING

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

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 in the year ended 30 June 2020.

2. Assessment of the adequacy of said administrative and accounting procedures for the preparation of the consolidated financial statements as at 30 June 2020 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 financial statements:
      – 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 review of operations contains reliable analysis of the Group's operating performance and results, and of the situation of Mediobanca S.p.A. and the group of companies comprised within its area of consolidation, along with a description of the main risks and uncertainties to which they are exposed.

Milan, 16 September 2020

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

EXTERNAL AUDITORS' REPORT

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Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

Mediobanca SpA

Consolidated Financial Statements as of 30 June 2020

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Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of Mediobanca SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Mediobanca Group (the Group), which comprise the Consolidated Balance Sheet as of 30 June 2020, the Consolidated Profit and Loss Account, the Consolidated Comprehensive Profit and Loss Account, the Statement of Changes to Consolidated Net Equity, the Consolidated Cash Flow Statement for the year then ended, and notes to the accounts, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 30 June 2020, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Mediobanca SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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 - **Bergamo** 24121 Largo Belotti 5 Tel. 035229691 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25121 Viale Duca d'Aosta 28 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Recoverable amount of intangible assets with an indefinite useful life arising from business combinations *Notes to the accounts:* *Part A- Accounting policies, Section 2 paragraph "A.2 Significant accounting policies – Intangible assets".* *Part B – Notes to the Consolidated Balance Sheet, "Section 10, – Heading 100 - Intangible assets".* *Part C – Notes to the Consolidated Profit and Loss Account, "Section 19, Heading 270 – Impairment charges to goodwill".* As at 30 June 2020 the carrying amount of intangible assets with an indefinite useful life arising from business combinations amounted to Euro 748.6 million, Euro 666.5 million of which relating to goodwill and Euro 82 million related to trademarks. During the financial year, an impairment was charged for to Euro 96.9 million due to the partial impairment of the carrying amount of goodwill arising from the acquisition of the subsidiary RAM Active Investments S.A. The Directors are required to assess the recoverable amount of intangible assets with an indefinite useful life at least once a year through an impairment test. In accordance with IAS 36 this assessment is based on the comparison between the carrying amount and the higher of the fair value less costs of disposal and the value in use of each cash generating unit ("CGU") to which these intangible assets are allocated. The recoverable amount of each CGU was estimated by the Directors also with the support of independent third-party experts, by applying the Dividend Discount Model methodology, with excess capital version for capital-intensive CGUs. This valuation method, which is a consolidated	In performing our audit we considered internal control relevant to financial reporting. In order to define auditing procedures appropriate, we took into account the exceptional nature of the current macro-economic scenario due to the Covid-19 health emergency. Specifically, in order to address this key audit matter, the following activities were performed also with the support of experts belonging to the PwC network: • Understanding and evaluation of the process and methodology adopted by the Directors to carry out the impairment tests of the cash generating units ("CGUs"); • Verification that the valuation method adopted was in line with the requirements of IAS 36, taking account of the acknowledged practice, the distinctive characteristics of each CGU, as well as the recent communications from the Supervisory Authorities issued following the Covid-19 health emergency; • Verification of the completeness of the scope of the CGUs tested for impairment and, on a sample basis: - Comparison of the forecast data prepared during the previous year with the actual data of the current year in relation to each CGU, in order to verify the reasonableness of the Directors' assumptions; - Critical analysis of the reasonableness of the future projections revised by the Directors in light of the uncertainty linked to the Covid-19 health emergency; - Assessment of the criteria to determine the main quantitative parameters (cost of capital, discount and growth rates) developed by the Directors also with the support of independent third party experts and used to perform impairment tests;

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and acknowledged methodology consistent with the prevailing practice, requires the use of information, parameters and assumptions that result in a high degree of complexity of the estimation processes, with particular reference to the expected future cash flows. For the current year the estimation process proved to be far more complex considering the exceptional macro-economic scenario due to the Covid-19 health emergency ; when deemed necessary, the Directors have therefore adjusted their estimates of cash flows projections. For the reasons set out above, we considered the recoverable amount of intangible assets with an indefinite useful life arising from business combinations as a key audit matter for the audit of the consolidated financial statements of Mediobanca Group as at 30 June 2020.	- Verification of the accuracy of the impairment tests prepared by the Directors through an independent recalculation and comparison between the recoverable amount of each CGU with its carrying amount. - Examination of the sensitivity analyses performed by the Directors on the main quantitative parameters, whose change could significantly impact the estimated recoverable amount; - Verification of the appropriateness and completeness of disclosures provided by the Directors in the notes to the accounts as required by the International Financial Reporting Standards and the applicable regulatory framework, as well as the recent communications from the Supervisory Authorities issued in the aftermath of the Covid-19 health emergency.
Valuation of loans to customers measured at amortized cost *Notes to the accounts:* *Part A – Accounting policies.* *Part B – Notes to the consolidated balance sheet, Assets, Section 4 and Section 12.* *Part C – Notes to the consolidated profit and loss account, Section 8.* *Part E – Information on risks and related hedging policies – 1.1 Credit risk.* As of 30 June 2020 loans to customers were equal to Euro 47,225 million, corresponding to 94 per cent of line item "*40 b) Financial assets at amortized cost – due from customers*", equal to Euro 50,024 million and corresponding to 60 per cent of total assets in the consolidated financial statements. Net losses on loans to customers charged in the year amounted to Euro 393.6 million. We paid special attention to the measurement of	In performing our audit we considered internal control relevant to financial reporting. In order to define auditing procedures appropriate to the circumstances, we also took account of the exceptional nature of the current macro-economic scenario due to the Covid-19 health emergency. Specifically, in order to address this key audit matter, the following main activities were performed also with the support of experts belonging to the PwC network: • Analysis of the adequacy of the IT environment and tests of the operating effectiveness of relevant controls over the IT systems and software applications used; • Understanding and evaluation of the design of relevant controls over the monitoring, classification and measurement of loans to customers and tests of operating effectiveness of those controls; • Verification, on a sample basis, of the reasonableness of the policies,

the above assets in the course of our audit considering the materiality of the balance as well as the complexity of the measurement processes and methods.

Estimation processes require significant assumptions, aside from the verification of the SICR (Significant Increase in Credit Risk) and the allocation of the portfolios to the various risk stages (Staging), also when determining the hypotheses and inputs to the ECL (Expected Credit Loss) models and, in relation to assets measured individually (third stage), when estimating the expected future cash flows, the timing of those cash flows, and the realisable value of any collateral.

During the current year these estimation processes proved to be far more complex considering the exceptional nature of the present macro-economic scenario due to the Covid-19 health emergency which required, as also pointed out in the recent communications from the Supervisory Authorities and the standard setters, the update of the processes and methods to measure loans, with particular regard to the SICR determination, and the reasonableness of the forward looking information used when defining the expected macro-economic scenarios for the determination of the ECL.

procedures and models used to measure the SICR, for the stage allocation and for determining the ECL, on both a collective and individual basis. Special attention was paid to the parties which adopted and benefitted from measures in support of the economy, including government measures and those prompted by trade associations or by the Group (typically moratoria, waivers of covenants and rescheduling) following the Covid-19 health emergency;

- Understanding and verification of the criteria to determine the inputs used in the models for ECL calculation. Specifically, we verified the reasonableness of the estimates made by the Directors when defining the expected macro-economic scenarios with specific regard to the adjustments to the satellite model forecasts used to estimate the risk parameters such as the PD (Probability of Default) and the LGD (Loss Given Default), with a view to consider the increased risk in the current context linked to the Covid-19 health emergency. Specific tests were performed on the correct application of the credit conversion factors for off-balance sheet commitments and exposures;
- Verification of the correct application of the model defined for performing loans (first and second stage), of the completeness and accuracy of the data bases used in the ECL calculation and the accuracy of the calculation formulas of the key estimation parameters (Probability of Default, Loss Given Default and Exposure at Default);
- Verification, on a sample basis, of the reasonableness of classification among performing loans (first and second stage) and among non-performing loans (third stage) based

	on the available information on the debtor's status and other available evidence, including from external sources. With specific regard to non-performing loans (third stage), specific analyses were conducted in relation to the assumptions made with reference to the identification and quantification of the estimated future cash flows from recoveries, the measurements of the collaterals securing those exposures and the estimated timing of recovery; • Examination of the sensitivity analyses carried out by the Directors on the expected losses recorded at year-end compared with changes to the expected macro-economic scenario in the short/medium term; • Analysis of the results of the activities performed by the external auditors of the subsidiaries; • Verification of the completeness and adequacy of the disclosures provided in the notes to the accounts by the Directors in accordance with the requirements of the International Financial Reporting Standards and the regulatory framework as well as the recent communications issued the Supervisory Authorities and the standard setters following the Covid-19 health emergency.
Measurement of complex financial instruments (securities and derivatives) not quoted in active markets and measured at fair value on a recurring basis *Notes to the accounts:* *Part A – Accounting policies – A.2 Significant accounting policies and A.4 Information on fair value.* *Part B – Notes to the Consolidated Balance Sheet, Assets, Section 2, Section 3 and Section 5, and Liabilities, Section 1, Section 2, Section 3 and Section 4.* *Part C – Notes to the Consolidated Profit and Loss Account, Section 4, Section 5 and Section 7.*	In performing our audit we considered internal control relevant to financial reporting in order to define auditing procedures appropriate to the circumstances. In detail, to address this key audit matter we performed the following main activities: • Analysis of the adequacy of the IT environment and tests of the operating effectiveness of relevant controls over the IT systems and software application used; • Understanding and evaluation of the design of relevant controls over the monitoring, classification and

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Part E – Information on risks and related hedging policies – 1.2 Market risks.

As part of our audit we paid special attention to the analysis of the valuation models of complex financial instruments not quoted in active markets and measured at fair value on a recurring basis.

Certain types of securities and derivative instruments are measured using complex valuation models, acknowledged in prevailing practice. This practice is fed with inputs and parameters directly observable and not observable in the market and estimated internally based on qualitative and quantitative assumptions (financial instruments with fair value hierarchy levels 2 and 3).

As of 30 June 2020 financial instruments measured at fair value on a recurring basis with fair value hierarchy levels 2 and 3 showed a positive fair value equal to Euro 4,321.6 million, corresponding to about 5.5 per cent of total assets in the balance sheet and a negative fair value equal to Euro 4,620.1 million, corresponding to about 6 per cent of total balance sheet liabilities.

This was considered as a key audit matter due to the materiality of the amount, the number and complexity of the valuation models used and the significant estimates and assumptions required. The valuation models used, beside being numerous and different in relation to the type of instruments, require developing specific qualitative and quantitative assumptions that can bring significantly different results.

measurement of financial instruments with fair value hierarchy levels 2 and 3 and test of the operating effectiveness of those controls;

- Understanding and verification of the appropriateness of the policies, procedures and valuation models used by the Group to determine fair value;
- Verification, on a sample basis, of fair value to analyze the reasonableness of the qualitative and quantitative assumptions made and inputs used, as well as the adjustments to certain parameters in order to reflect the use of updated macro-economic scenarios following the Covid-19 health emergency. These analyses were performed with the support of experts from the PwC network;
- Verification, on a sample basis, of classification in the consolidated financial statements in accordance with the categories provided by the applicable financial reporting and regulatory framework.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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The directors are responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the parent company Mediobanca SpA or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

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- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No. 537/2014

On 27 October 2012, the shareholders of Mediobanca SpA in general meeting engaged us to perform the statutory audit of the Company's and the consolidated financial statements for the years ending 30 June 2013 to 30 June 2021.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of Mediobanca SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Mediobanca Group as of 30 June 2020, including their consistency with the relevant consolidated financial statements and their compliance with the law.

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We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Mediobanca Group as of 30 June 2020 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Mediobanca SpA as of 30 June 2020 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree No. 254 of 30 December 2016

The directors of Mediobanca SpA are responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016.
We have verified that the directors approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Milan, 1 October 2020

PricewaterhouseCoopers SpA

Signed by

Raffaella Preziosi
(Partner)

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

CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated Balance Sheet

(€ '000)

Assets	**30/6/20**	**30/6/19**
10. Cash and cash equivalents	3,219,951	738,362
20. Financial assets at fair value with impact taken to profit and loss	9,585,412	10,622,973
a) Financial assets held for trading	*8,818,590*	*9,765,653*
b) Financial assets designated at fair value	*51,002*	*51,976*
c) Other financial assets mandatorily at fair value	*715,820*	*805,344*
30. Financial assets at fair value with impact taken to comprehensive income	3,627,591	3,886,771
40. Financial assets at amortized cost	55,957,290	56,599,859
a) Due from banks	*5,932,944*	*7,961,932*
b) Due from customers	*50,024,346*	*48,637,927*
50. Hedging derivatives	464,718	412,234
60. Adjustment of hedging financial assets (+/-)	—	—
70. Equity investments	3,204,702	3,259,777
80. Reinsured portion of technical reserve	—	—
90. Property, plant and equipments [1]	495,772	285,849
100. Intangible assets	815,996	901,758
of which:		
goodwill	*666,536*	*772,427*
110. Tax assets	908,837	806,033
a) current	*251,337*	*146,550*
b) deferred	*657,500*	*659,483*
120. Assets classified as held for sale	—	22,168
130. Other assets	669,396	708,945
Total assets	**78,949,665**	**78,244,729**

[1] The increase is mainly due to the First Time Application of the IFRS16 "Leasing" accounting principle offset by the debt to the lessor recognized as financial liabilities measured at amortized cost.

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(€ '000)

Liabilities and net equity	30/6/20	30/6/19
10. Financial liabilities at amortized cost	58,941,428	57,936,936
a) Due to banks	*12,810,330*	*13,870,858*
b) Due to customers	*26,373,214*	*23,987,882*
c) Debt securities in issue	*19,757,884*	*20,078,196*
20. Trading financial liabilities	7,956,935	8,027,751
30. Financial liabilities designated at fair value	216,020	55,859
40. Hedging derivatives	465,225	414,241
50. Adjustment of hedging financial liabilities (+/-)	—	—
60. Tax liabilities	517,316	600,938
a) current	*191,868*	*281,766*
b) deferred	*325,448*	*319,172*
70. Liabilities included in disposal groups classified as held for sale	—	—
80. Oher liabilities	798,069	948,958
90. Staff severance indemnity provision	27,862	27,808
100. Provisions	129,493	162,515
a) commitments and financial guarantees	*13,964*	*10,536*
b) post-employment and similar benefits	*2,573*	*1,840*
c) other provisions	*112,956*	*150,139*
110. Insurance reserves	157,244	170,838
120. Revaluation reserves	374,650	597,504
130. Redeemable shares repayable on demand	—	—
140. Equity instruments repayable on demand	—	—
150. Reserves	6,265,864	5,891,473
160. Share premium reserve	2,195,606	2,195,606
170. Share capital	443,617	443,608
180. Treasury share (-)	(231,538)	(141,989)
190. Minority interests (+/-)	91,492	89,658
200. Profit/(loss) for the period (+/-)	600,382	823,025
Total liabilities and net equity	**78,949,665**	**78,244,729**

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Consolidated Profit and Loss Account

(€ '000)

Items	30/6/20	30/6/19
10. Interest and similar income	1,943,892	1,885,990
of which: interest income calculated according to the effective interest method	*1,741,687*	*1,618,642*
20. Interest expense and similar charges	(502,197)	(481,792)
30. Net interest income	**1,441,695**	**1,404,198**
40. Fee and commission income	625,292	584,923
50. Fee and commission expense	(138,630)	(144,455)
60. Net fee and commission income	**486,662**	**440,468**
70. Dividends and similar income	87,425	105,803
80. Net trading income	(18,022)	(12,148)
90. Net hedging income (expense)	(4,787)	5,426
100. Gain (loss) on disposal/repurchase:	58,395	79,359
a) financial assets measured at amortized cost	*(2,672)*	*2,365*
b) financial assets valued at fair value with impact taken to comprehensive income	*60,421*	*66,799*
c) financial liabilities	*646*	*10,195*
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	33,098	16,399
a) financial assets and liabilities designated at fair value	*2,331*	*(28)*
b) other financial assets mandatorily valued at fair value	*30,767*	*16,427*
120. Total income	**2,084,466**	**2,039,505**
130. Net writeoffs (writebacks) for credit risk:	(402,364)	(210,291)
a) financial assets measured at amortized cost	*(397,559)*	*(209,512)*
b) financial assets valued at fair value with impact taken to comprehensive income	*(4,805)*	*(779)*
140. Gains (losses) from contractual modifications without derecognition	(253)	(199)
150. Net income from financial operations	**1,681,849**	**1,829,015**
160. Premiums earned (net)	57,532	59,173
170. Other income (net) from insurance activities	(15,791)	(12,715)
180. Net profit from financial and insurance activities	**1,723,590**	**1,875,473**
190. Administrative expenses:	(1,235,439)	(1,233,763)
a) personnel costs	*(605,015)*	*(581,141)*
b) other administrative expenses	*(630,424)*	*(652,622)*
200. Net transfers to provisions:	13,720	(23)
a) commitments and financial guarantees	*(3,427)*	*3,707*
b) other sums set aside (net)	*17,147*	*(3,730)*
210. Net adjustments to tangible assets [1]	(53,551)	(13,890)
220. Net adjustments to intangible assets	(30,222)	(30,274)
230. Other operating income (expense)	189,407	163,891
240. Operating costs	**(1,116,085)**	**(1,114,059)**
250. Gain (loss) on equity investments	304,269	321,157
260. Net result from fair value valuation of tangible and intangible assets	—	—
270. Goodwill writeoffs	(96,900)	—
280. Gain (loss) on disposal of investments	59	166
290. Profit (loss) on ordinary activity before tax	**814,933**	**1,082,737**
300. Income tax for the year on ordinary activities	(213,504)	(256,529)
310. Profit (loss) on ordinary activities after tax	**601,429**	**826,208**
320. Gain (loss) on operating assets sold, net of tax	—	—
330. Net profit (loss) for the period	**601,429**	**826,208**
340. Net profit (loss) for the period attributabe to minorities	(1,047)	(3,183)
350. Net profit (loss) for the period attributable to Mediobanca	**600,382**	**823,025**

[1] Includes the effects of the accounting standard IFRS16 "Leasing" replacing the rental fees which until 30/6/19 were accounted for under "other administrative expenses".

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Consolidated Comprehensive Profit and Loss Account

(€ '000)

		30/6/20	30/6/19
10.	Profit (Loss) for the period	601,429	826,208
	Other income items net of tax without passing through profit and loss	**656**	**(11,923)**
20.	Equity securities designated at fair value with impact taken to comprehensive income	3,148	10,928
30.	Financial liabilities at fair value with impact taken to profit and loss (variation of own credit risk)	(1,724)	—
40.	Hedging of equity securities designated at fair value with impact taken to comprehensive income	—	—
50.	Property, plant and equipments	—	—
60.	Intangible assets	—	—
70.	Defined benefit schemes	(2,261)	(1,106)
80.	Non-current assets held for sale	—	—
90.	Share of valuation reserves attributable to equity-accounted companies	1,493	(21,745)
	Other income items net of tax passing through profit and loss	**(222,294)**	**(133,288)**
100.	Foreign investments hedges	(3,212)	(3,838)
110.	Exchange rate differences	5,475	3,706
120.	Cash flow hedges	11,212	(28,582)
130.	Hedging instruments (non-designated elements)	—	—
140.	Financial assets (other than equity securities) valued at fair value with impact taken to comprehensive income	(15,390)	(23,179)
150.	Non-current assets held for sale	—	—
160.	Share of valuation reserves attributable to equity-accounted companies	(220,379)	(81,395)
170.	**Total other income items, net of tax**	**(221,638)**	**(145,211)**
180.	**Comprehensive income (Heading 10 +170)**	**379,791**	**680,997**
190.	**Consolidated comprehensive income attributable to minorities**	**1,478**	**3,337**
200.	**Consolidated comprehensive income attributable to Mediobanca**	**378,313**	**677,660**

Statement of Changes to Consolidated Net Equity

(€ ’000)

	Total Group net equity at 30/6/2019	Modification of start-of-period amounts [1]	Amounts at 01/07/2019	Allocation of profit for previous period		Changes during the reference period									Total net equity at 30/6/20	Net equity attributable to the group at 30/6/20	Net equity attributable to the minorities at 30/6/20
							Transactions involving net equity										
				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 [2]	Changes to investments	Overall consolidated profit for the 12 mths ended 30/6/20			
Share capital:	460,237	—	460,237	—	—	—	9	—	—	—	—	—	—	—	460,246	443,617	16,629
a) ordinary shares	460,237	—	460,237	—	—	—	9	—	—	—	—	—	—	—	460,246	443,617	16,629
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	2,197,454	—	2,197,454	—	—	—	—	—	—	—	—	—	—	—	2,197,454	2,195,606	1,848
Reserves:	5,962,296	(513)	5,961,783	826,208	(408,549)	(35,893)	(9)	(15,979)	—	—	—	12,665	—	—	6,340,226	6,265,864	74,362
a) retained earnings	5,821,906	—	5,821,906	826,208	(408,549)	(36,678)	(9)	—	—	—	—	—	—	—	6,202,878	6,129,143	73,735
b) others	140,390	(513)	139,877	—	—	785	—	(15,979)	—	—	—	12,665	—	—	137,348	136,721	627
Valuation reserves	594,679	—	594,679	—	—	(785)	—	—	—	—	—	—	—	(221,638)	372,256	374,650	(2,394)
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(141,989)	—	(141,989)	—	—	—	—	(89,549)	—	—	—	—	—	—	(231,538)	(231,538)	—
Profit (loss) for the period	826,208	—	826,208	(826,208)	—	—	—	—	—	—	—	—	—	601,429	601,429	600,382	1,047
Total net equity	9,898,885	(513)	9,898,372	—	(408,549)	(36,678)	—	(105,528)	—	—	—	12,665	—	379,791	9,740,073	X	X
Net equity attributable to the group	9,809,227	(513)	9,808,714	—	(408,549)	(37,034)	—	(105,528)	—	—	—	12,665	—	378,313	X	9,648,581	X
Net equity attributable to minorities	89,658	—	89,658	—	—	356	—	—	—	—	—	—	—	1,478	X	X	91,492

[1] Includes the effects of the first application of IFRS16 accounting standard deriving from sub-leasing contracts.

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

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Statement of Changes to Consolidated Net Equity

(€ '000)

	Total Group net equity at 30/6/2018	Modification of start-of-period amounts [1]	Amounts at 01/07/2018	Allocation of profit for previous period: Reserves	Allocation of profit for previous period: Dividends and other fund applications	Changes during the reference period: Changes to reserves	Transactions involving net equity: New shares issued	Transactions involving net equity: Treasury shares acquired	Transactions involving net equity: Extra-ordinary dividend payouts	Transactions involving net equity: Changes to equity instruments	Transactions involving net equity: Treasury shares Derivatives	Transactions involving net equity: Stock options [2]	Changes to investments	Overall consolidated profit for the 12 mths ended 30/6/19	Total net equity at 30/6/19	Net equity attributable to the group at 30/6/19	Net equity attributable to the minorities at 30/6/19
Share capital:	459,918	—	459,918	—	—	(14)	333	—	—	—	—	—	—	—	460,237	443,608	16,629
a) ordinary shares	459,918	—	459,918	—	—	(14)	333	—	—	—	—	—	—	—	460,237	443,608	16,629
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	2,193,591	—	2,193,591	—	—	—	3,863	—	—	—	—	—	—	—	2,197,454	2,195,606	1,848
Reserves:	5,559,032	(67,091)	5,491,941	867,726	(411,230)	23,672	(12)	(22,006)	—	—	—	12,205	—	—	5,962,296	5,891,473	70,823
a) retained earnings	5,412,494	(67,091)	5,345,403	867,726	(411,230)	20,019	(12)	—	—	—	—	—	—	—	5,821,906	5,751,710	70,196
b) others	146,538	—	146,538	—	—	3,653	—	(22,006)	—	—	—	12,205	—	—	140,390	139,763	627
Valuation reserves	761,276	(17,733)	743,543	—	—	(3,653)	—	—	—	—	—	—	—	(145,211)	594,679	597,504	(2,825)
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(109,338)	—	(109,338)	—	—	—	—	(32,651)	—	—	—	—	—	—	(141,989)	(141,989)	—
Profit (loss) for the period	867,726	—	867,726	(867,726)	—	—	—	—	—	—	—	—	—	826,208	826,208	823,025	3,183
Total net equity	9,732,205	(84,824)	9,647,381	—	(411,230)	20,005	4,184	(54,657)	—	—	—	12,205	—	680,997	9,898,885	X	X
Net equity attributable to the group	9,644,305	(79,773)	9,564,532	—	(411,230)	16,533	4,184	(54,657)	—	—	—	12,205	—	677,660	X	9,809,227	X
Net equity attributable to minorities	87,900	(5,051)	82,849	—	—	3,472	—	—	—	—	—	—	—	3,337	X	X	89,658

[1] Includes the effects of reclassification and revaluations of financial assets and liabilities in consequence of IFRS9 accounting standard first time adoption and effects of IFRS15 first time adoption, as described in dedicated paragraphs of Part A of Consolidated Accounts.

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

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Consolidated Cash Flow Statement Direct Method

(€ '000)

	Amount	
	30/6/20	30/6/19
A. Cash flows from operating activity		
1. Operating activity	**251,860**	**195,892**
- interest received	1,838,280	1,723,804
- interest paid	(680,668)	(678,589)
- dividends and similar income	78,166	94,091
- net fees and commission income	207,441	153,751
- cash payments to employees	(469,204)	(444,184)
- net premium income	53,910	57,263
- other premium from insurance activity	(122,091)	(129,294)
- other expenses paid	(492,364)	(768,217)
- other income received	226,707	411,928
- income taxes paid	(388,317)	(224,661)
- Expenses/income from group of assets being sold	—	—
2. Cash generated/absorbed by financial assets	**5,234,187**	**(197,097)**
- financial assets held for trading	177,267	(813,289)
- financial assets valued at fair value	—	—
- financial assets mandatorily valued at fair value	122,730	(3,657)
- financial assets valued at fair value with impact taken to profit and loss	278,923	961,638
- financial assets valued at amortized cost	4,455,972	(1,307,743)
- other assets	199,295	965,954
3. Cash generated/absorbed by financial liabilities	**(2,544,716)**	**14,069**
- financial liabilities valued at amortized cost	(2,264,569)	(266,712)
- financial liabilities held for trading	(72,813)	257,002
- financial liabilities designated at fair value	160,878	—
- other liabilities	(368,212)	23,779
Net cash flow (outflow) from operating activities	**2,941,331**	**12,864**
B. Cash flows from investment activity		
1. Cash generated from:	**101,363**	**193,072**
- disposal of shareholdings	—	1,443
- dividends received in respect of equity investments	101,357	182,442
- disposals of tangible assets	6	192
- disposals of intangible assets	—	27
- disposals of subsidiaries or business units	—	8,968
2. Cash absorbed by:	**(48,774)**	**(25,747)**
- purchases of shareholdings	—	—
- purchases of tangible assets	(21,648)	(10,416)
- purchases of intangible assets	(27,126)	(15,331)
- purchases of subsidiaries or business units	—	—
Net cash flow (outflow) from investment activity	**52,589**	**167,325**
C. Cash flows from funding activity	**(512,331)**	**(679,828)**
- issuance/acquisition of treasury shares	(105,528)	(266,186)
- issuance/acquisition of capital instruments	—	(2,412)
- distribution of dividends and other purposes	(406,803)	(411,230)
- purchases/acquisition of minorities	—	—
Net cash flow (outflow) from funding activities	**(512,331)**	**(679,828)**
Net cash flow (outflow) during the period	**2,481,589**	**(499,639)**

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Reconciliation of Movements in Cash Flow during the Period

(€ '000)

Accounting items	Amount	
	30/6/20	30/6/19
Cash and cash equivalents: balance at start of period	738,362	1,238,001
Total cash flow (ouflow) during the period	2,481,589	(499,639)
Cash and cash equivalents: exchange rate effect	—	—
Cash and cash equivalents: balance at end of period	3,219,951	738,362

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NOTES TO THE ACCOUNTS

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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 30 June 2020 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 30 June 2020 have also been prepared on the basis of 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 (sixth update issued on 30 November 2018), which lay down the structure to be used in compiling and preparing the financial statements and the contents of the notes to the accounts.

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.

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

IFRS 16 came into force on 1 January 2019. The new standard has been incorporated into the Group's accounting policies, and has been applied since 1 July 2019, for further details please see "New IFRS 16: Leasing" in this section. Certain other changes to the accounting standards have also been applied since 1 July 2019, none of which is of especial relevance to the Mediobanca Group, having been ratified by the European Commission in the course of 2018 and 2019. In particular the following regulations have come into force: Commission Regulation no. 2018/498 of 22 March 2018 – Amendments to IFRS 9 – *Prepayment features with negative compensation;* no. 2019/237 of 8 February 2019 – Amendments to IAS 28 – *Investments in associates and joint ventures*; no. 2019/402 of 13 March 2019 – Amendments to IAS 19 – *Employee benefits*; no. 2019/412 of 14 March 2019 on Amendments to IAS 12 – *Income taxes,* Amendments to IAS 23 – *Borrowing costs,* Amendments to IFRS 3 – *Business combinations,* Amendments to IFRS 11 – *Joint arrangements;* no. 2018/1595 of 23 October 2018 – *Adoption of IFRIC 23 – Uncertainty over income tax treatments,* which clarifies how to apply the booking and valuation criteria for tax laid down in IAS 12 "Income taxes" (for current and deferred tax assets and liabilities), in cases where there is uncertainty over how to account for income tax. According to IFRIC 23, the entity must assess if the taxation authority is likely to accept an uncertain tax treatment; if it is, it must establish a value for it, if not, in order to establish the taxable income (tax loss) and the other values required for tax purposes, it must apply either the most likely amount or expected value methods. The interpretation provides closer definition of the treatment of uncertainty, but for the Mediobanca Group this has not generated material changes from the approach already adopted.

It should also be noted that the Mediobanca Group has adopted the new definition of default, ahead of its coming to force, as from 30 September 2019; for further details reference is made to *"Part E – Section 3 – Non-performing credit exposures"*.

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For purposes of full disclosure, it should be noted that the following regulations have been approved by the European Commission during the twelve months under review: Commission Regulation (EU) 2019/2075,[1] Commission Regulation (EU) 2019/2104[2] of 29 November 2019, Commission Regulation (EU) 2020/34[3] of 15 January 2020, and Commission Regulation (EU) 2020/551,[4] which provide explanations and clarifications of certain IAS and IFRS already in force. All these amendments and additions will be applied by the Mediobanca Group as from 1 July 2020.

Statements have also been made by the regulatory and supervisory authorities regarding the most correct way for applying the reporting standards in relation to the Covid-19 pandemic emergency. Some of the most significant of these statements, which for the most part were issued regarding the quarterly and half-yearly reporting, and hence apply to the annual financial statements as well, were as follows:

– Consob:
  Reminder no. 8/20 of 16 July 2020 and Reminder no. 6/20 of 9 April 2020 regarding: "*Covid 19 – Richiamo di attenzione sull'informativa finanziaria*", which draws the attention of members on the management and control bodies and heads of company financial reporting on the need to observe the principles underpinning the process of producing financing reporting in view of the impact which the effects of the pandemic could have with reference to business continuity, to application of IFRS 9 on financial assets, and to impairment testing;

– ESMA:
  Public Statement of 11 March 2020: "*ESMA recommends action by financial market participants for Covid-19 impact*". The statement discusses the issue of financial reporting, in connection with which certain guidelines are laid down regarding the conduct to be adopted with respect to the impact of the pandemic, in the following areas in particular: ongoing market disclosure, where issuers are reminded to disclose any relevant significant information concerning the impacts of Covid-19 on their fundamentals, economic prospects or financial situation

[1] Involves changes to the following standards: IAS 1 – Presentation of financial statements; IAS 8 – Accounting policies, changes in accounting estimates and errors; IAS 37 – Provisions, contingent liabilities and contingent assets; IAS 38 – Intangible assets; IFRS 2 – Share-based payment; IFRS 3 – Business combinations; IFRS 6 – Exploration for and evaluation of mineral resources; IFRIC 12 – Service concession arrangements; IFRIC 19 – Extinguishing financial liabilities with equity instruments; IFRIC 20 – Stripping costs in the production phase of a surface mine; IFRIC 22 – Foreign currency transactions and advance consideration; SIC 32 – Intangible assets – website costs.

[2] Involves changes to the following standards: IAS 1 – Presentation of financial statements; IAS 8 – Accounting policies, changes in accounting estimates and errors; IAS 10 – Events after the reporting period; IAS 34 – Interim financial reporting; IAS 37 – Provisions, contingent liabilities and contingent assets.

[3] Involves changes to the following standards IAS 39 – Financial instruments: recognition and measurement; IFRS 7 – Financial instruments: Disclosures; and IFRS 9 – Financial instruments.

[4] Involves changes to IFRS 3 – Business combinations.

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as soon as possible, when such information is "relevant" and "significant", in accordance with their transparency obligations under the Market Abuse Regulation; in the area of financial reporting, issuers are reminded to guarantee maximum transparency on the actual and potential impacts of Covid-19 on their business activities, financial situation and economic performance, based on both a qualitative and quantitative assessment where possible. Disclosure is required to be made in the earliest available regular report (annual or interim, or quarterly if the company prepares quarterly reporting on a voluntary basis).

Public Statement of 25 March 2020 "*Accounting implications of the Covid-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9*", which deals with the accounting treatment of changes resulting from the introduction of support measures, and valuation of significant increases in credit risk (SICR), avoiding the automatic reclassification mechanisms instituted by IFRS 9,[5] expected credit loss estimation, public guarantees for issuers' exposures, and the issue of transparency in disclosures.

Public Statement of 20 May 2020 "Implications of the Covid-19 outbreak on the half-yearly financial reports" which recommends comply to the requirements of a transparent and consistent application of European rules, with a particular focus to International Accounting Standards, in drawing up interim financial reports that includes all the effects of the pandemic impacts.

– EBA:
Public Statement of 25 March 2020 "S*tatement on the application of the prudential framework regarding Default, Forbearance and IFRS9 in light of Covid-19 measures*", compiled in conjunction and consistent with the equivalent document issued by ESMA.

Guidelines of 2 April 2020 and 25 June 2020: "*Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis":* the European Union (EU) and its member states, in order to minimize the economic impacts of the pandemic, have implemented a broad range of measures to support the real economy and the financial sector, including moratoria introduced by law for repayments of loans and granting borrowers various forms of relief on their outstanding obligations. Many member states have also introduced various forms of public guarantees to be applied to the new loans. The Guidelines provide a full overview of the measures adopted.

[5] IFRIC 4 "Determining Whether an Arrangement Contains a Lease", SIC 15 "Operating Leases – Incentives", and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".

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Guidelines of 2 June 2020: "*Guidelines on reporting and disclosure of exposures subject to measures applied in response to the Covid-19 crisis*", on reporting and disclosure requirements to the public on measures applied in the light of the Covid-19 crisis.

– ECB:
  Press release issued on 20 March 2020*: "ECB Banking Supervision provides further flexibility to banks in reaction to coronavirus"*, containing indications on the classification and valuation of loans. The statement provides reassurance to banks regarding the fact that moratoria being granted does not necessarily constitute an automatic trigger for an exposure to be considered unlikely to pay, as in such cases payments are simply deferred by law, hence the calculation of the number of days is effectively discontinued for purposes of identifying the number of days past due once the moratoria have ended.

  Letter from the Chair of the Supervisory Board to all Significant Institutions of 1 April 2020, "*IFRS 9 in the context of the coronavirus (Covid-19) pandemic*"; providing guidance on the use of forecasts in expected credit loss estimations for loans during the pandemic.

  Communication issued on 4 June 2020: "*Eurosystem staff macroeconomic projections for the euro area, June 2020*": this document contains guidance on the methods used to determine forecasts in order to estimate closing data for end-March and end-June, for which the anchor points must be the macroeconomic projections produced by the ECB staff. The specific scenario for Italy included in the baseline for the ECB projections, was published by the Bank of Italy in a document entitled *"Proiezioni macroeconomiche per l'economia italiana"* on 5 June 2020;

– IASB:
  Statement of 27 March 2020, "*IFRS 9 and Covid-19: Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the Covid-19 pandemic*", which explicitly supports the guidance provided by ESMA, the EBA and the ECB.

– IOSCO:
  Statement, 3 April 2020*: IOSCO "Statement on Application of Accounting Standards during the Covid-19 Outbreak"*: this statement draws attention to the importance of clear, reliable and transparent disclosure to provide investors with information that will help them to evaluate the impact of the pandemic on earnings and financial data. The statement acknowledges and

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recommends the guidance issued by the IASB on *(i)* assessment of possible significant increases in credit risk, and *(ii)* the use of forward-looking information over the long period.

Statement, 29 May 2020: "*IOSCO Statement on Importance of Disclosure about Covid-19*", which further reiterates the guidelines on financial disclosure already referred to.

* * *

As stated in the press release issued on 31 July 2020, Mediobanca is committed to executing the strategic and operating priorities set out in its 2020-23 Strategic Plan, leveraging on the distinctive features of its business model and its proven track record of tackling crisis periods and turning problems into opportunities. In the uncertainty that still characterizes the reference macroeconomic scenario, the Group still has a robust capital position, with a CET1 ratio at all-time highs, and the expectations are currently for the operating scenario to normalize progressively by December 2020, to guarantee the strategic guidelines and objectives set in the 2019-23 Strategic Plan approved in November 2019.

New IFRS 16: Leasing

Regulatory provisions

On 1 July 2019 the new IFRS 16 on "Leasing" came into force, replacing IAS 17 and its respective interpretations,[6] as ratified by the European Commission under Regulation no. 1986/2017.

The standard introduces a change in the definition of leasing, whereby a lease is defined as a contract that conveys the right to use an asset for a period of time in exchange for a consideration, meaning that long-term rental or hire contracts are also included.

The new standard also requires the lessee to represent the amount of the "right of use" for the asset covered by the leasing/rental agreement in its accounts

[6] IFRIC4 "determing whether an arrangement contains a lease" SIC15 "operating lease - incentives", and SIC27 "evaluating the subtance of transactions in the legal form of a lease".

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as an asset, against the related liability in respect of the future instalments due on it discounted as at the reporting date. Thereafter the right of use is amortized throughout the useful life of the contract and the obligation will be paid off through payments of the instalments due on the lease plus interest expenses accruing. The impact on profit and loss does not change across the life of the contracts as a whole, but does reflect a different distribution in terms of timing. As provided by the new standard, the Annual Report includes the additional disclosure in the specific section M. Thus there is no longer any distinction between the methods of accounting for operating and finance leases.

With regard to the accounting model for the lessor, there are no substantial changes as the distinction in treatment between operating and financial leases continues to apply in continuity with the existing IAS 17.

In implementing the new reporting standard, the Mediobanca Group has decided to:

- Use the "modified retrospective approach" at the FTA stage, which means recording the effect of first-time adoption cumulatively, without restating the comparative data, by calculating the value of the obligation as at the date of first-time adoption;
- Adopt some of the simplifications permitted by the new reporting standard, thus excluding from the representation contracts with a duration of twelve months ("short-term" or less calculated at FTA), contracts involving amounts of less than €5,000 ("low value"), and contracts for intangible assets;
- Not to strip out the service components from the leases themselves, and so to account for the entire contract as a lease, and to extrapolate the rate for discounting future cash flows from the Funds Transfer Pricing (FTP) curve in force as at the date in question;
- If the original contract has been sub-leased to a counterparty, liability in respect of the original lease is balanced by an amount receivable from the subscriber rather than by the value in use;

The lease's duration is estimated on the basis of the contract, experience acquired and information available at the date of first-time adoption regarding the exercise of options to extend or repay the lease early.

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Effects of First Time Adoption (FTA)

Since the new principle has come into force and based on the transition choices that have been made, the Group's assets have increased by €205m, due to the right of use over properties, vehicles and other core goods being recognized under heading 90, "Property, plant and equipment".

This was matched by an equivalent increase in heading 10 "Financial liabilities recognized at amortized cost", representing the payment obligations in respect of future instalments on the leases.

As required by the reporting standard, sub-leasing contracts are recorded in heading 40 "Financial assets recognized at amortized cost" in an amount of approx. €5m; the difference between the instalment collected from the sale and the one paid in the leasing contract, approx. €500,000, was taken to Net equity.

A table reconciling the balance-sheet entries at 30 June 2019 pursuant to IAS 17 and at 1 July 2019 pursuant to IFRS 16 is shown below:

Items	30/6/19	Transition effects	IFRS 16 01/7/19
		IFRS16 impacts	
10 Cash and cash receivables	738,362	—	738,362
20 Financial assets valued at fair value with impact taken to profit and loss	10,622,973	—	10,622,973
a) trading financial assets	*9,765,653*	—	*9,765,653*
b) financial assets designated at fair value	*51,976*	—	*51,976*
c) financial assets mandatorily valued at fair value	*805,344*	—	*805,344*
30 Financial assets valued at fair value with impact taken to comprehensive income	3,886,771	—	3,886,771
40 Financial assets valued at amortized cost	56,599,859	4,754	56,604,613
50 Hedging derivatives	412,234	—	412,234
60 Adjustments to hedged financial assets (+/-)	—	—	—
70 Equity interests	3,259,777	—	3,259,777
80 Technical reserves of reinsurers	—	—	—
90 Tangible assets	285,849	205,346	491,195
100 Intangible assets	901,758	—	901,758
110 Tax assets	806,033	—	806,033
120 Held for sale financial assets	22,168	—	22,168
130 Other assets	708,945	(492)	708,454
Total assets	**78,244,729**	**209,608**	**78,454,337**

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Items	30/6/19	Transition effects	IFRS 16 01/7/19
		IFRS16 impacts	
10. Financial liabilities valued at amortized cost	57,936,936	210,121	58,147,057
20. Trading financial liabilities	8,027,751	—	8,027,751
30. Financial liabilities designated at fair value	55,859	—	55,859
40. Hedging derivatives	414,241	—	414,241
50. Adjustments to hedged financial liabilities (+/-)	—	—	—
60. Tax liabilities	600,938	—	600,938
70. Liabilities associated to held for sale financial assets	—	—	—
80. Other liabilities	948,958	—	948,958
90. Staff severance payment	27,808	—	27,808
100. Provisions	162,515	—	162,515
110. Technical reserves	170,838	—	170,838
120. Evaluation reserves	597,504	—	597,504
130. Repayable shares	—	—	—
140. Equity instruments	—	—	—
150. Reserves	5,891,473	(513)	5,890,960
160. Share premiums	2,195,606	—	2,195,606
170. Share capital	443,608	—	443,608
180. Treasury shares (-)	(141,989)	—	(141,989)
190. Minority interests	89,658	—	89,658
200. Gain (loss) for the period	823,025	—	823,025
Total liabilities and net equity	**78,244,729**	**209,608**	**78,454,337**

The overall value in use (recognized to Property, plant and equipment) is €205.3m, made up as follows:

– Value in use of properties: €195.6m;

– Value in use of vehicles: €8.5m;

– Value in use of other assets: €1.2m.

The increase in assets also affects the RWAs with an approx. 6 bps impact on the capital ratios.

The table below shows a reconciliation of future commitments in respect of leases pursuant to IAS 17 with the liabilities recorded in respect of leases in the financial statements. The difference is due to the effect of discounting the amount payable at the marginal financing rate. As at the FTA date, the weighted average marginal financing rate used for liabilities in respect of leasing was 1.2%. The curve is revised on a regular monthly basis.

(€ '000)

Leasing-related commitments (ex IAS17)	Financial liabilities (ex IFRS16)	Difference
220,235	210,121	10,114

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During the twelve months under review, Mediobanca continued to record new operating leases and contract renewals falling within the IFRS 16 scope of application by making use of the exemptions used in a FTA scenario.

Group project on interbank benchmark rates

Regulation (EU) 2016/1011 (the "Benchmarks Regulation", or "BMR)") has introduced new rules to avert the risks of manipulation and ensure the integrity and accuracy of the indices used as benchmarks for the valuation of financial instruments and contracts and to measure the performances of investment funds.

The BMR incorporates the guidelines of the Financial Stability Board (FSB-IOSCO) on the need to reform interbank rates in order to restore the integrity of these indicators following instances of market manipulation, and also applies to the interest rates most frequently used on markets, such as Euribor, Eonia and Libor ("critical benchmarks"), which, except for Euribor, will no longer be able to be used starting from 1 January 2022.

Euribor itself was reformed during 2019 regarding the quote mechanism and is now in line with the requisites set by the Regulation, requiring no further action from the European Money Markets Institute (EMMI). Euribor can therefore be used after 1 January 2022, hence the fair value hedges related to Euribor are considered not to be impacted by the reform.

For EONIA, by contrast, the reform is still in progress. At present, since 2 October 2019 EONIA has been complemented by a new unsecured overnight rate, the Euro Short-Term Rate (€STR), which will replace EONIA in full starting from 1 January 2022. On 27 July 2020, the London Clearing House was the first to use the new interest rate as the discount curve for IRS products. It will still be possible to calculate EONIA as €STR plus a fixed spread.

Under the reform of LIBOR rates, which is still in progress, the Financial Conduct Authority (FCA) will no longer require the banks in the panel to submit quotes from 1 January 2022, and the market is already moving towards alternative rates identified for the different currencies in which Libor is denominated.

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However, the uncertainty caused by the lack of a single alternative parameter for the whole market, in particular in the valuation of the economic relationship between hedged item and hedging instrument, could lead to hedging arrangements being discontinued. To prevent this from happening, on 26 September 2019 IASB made some temporary exceptions to the regulations (chiefly regarding IFRS 9, IAS 39 and IFRS 7) that will remain in force until the reform of the benchmark indicators is complete. The exceptions mainly refer to the possibility, in valuing the economic relationship, of the benchmark used to determine the interest rate on the hedged or hedging instrument not being altered following the reform of the rates themselves, until the change itself has taken place. These exceptions have been incorporated by the European Union through Regulation (EU) 2020/34 of 15 January 2020 ("Regulation 34").

The Mediobanca Group has set up a working group to monitor the development of the interest rate reform, to supervise implementation for the Group as a whole, and to draw up all the operating procedures necessary for realization and application by year-end 2022. In particular, a Group assessment has been carried out to identify the financial products affected, the respective exposures, and the types of contract potentially requiring revision. Internal regulations have been drawn up to address scenarios in which the benchmark interest rates used by Mediobanca Group undergo material changes or are discontinued.

For the purposes of these financial statements, the Group has chosen to adopt Regulation 34 in advance, thereby doing away with the uncertainty of interpretation for certain hedge contracts indexed to underlying benchmark rates that are due to be replaced. These involve in particular IRS contracts with USD Libor as the underlying benchmark, taken out by Mediobanca S.p.A. to hedge bond issues, involving a notional amount of $2,050m.

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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 in the twelve months should be noted:

– A capital increase by Cairn Capital Group Limited was completed in December 2019. Mediobanca subscribed for its own share plus other rights not taken up, increasing its equity investment in the Group company to 63.5%; certain of the call options in force have also been exercised, leading the overall equity investment to reach 70.93%;

– Activities related to the composition with creditors for Group company Prominvestment are progressing, as are those related to the liquidation of CMB Wealth;

– Two new companies have been incorporated: Compass Rent, 100%-owned by Compass Banca S.p.A., which rents out movable assets (second-hand vehicles in particular); and MBContact Solutions, 100%-owned by MBCredit Solutions, which operates in the phone collection segment on behalf of companies external to the Mediobanca Group.

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

	Name	Registered office	Type of relationship [1]	Shareholding		% voting rights [2]
				Investor company	% interest	
A.	COMPANIES INCLUDED IN AREA OF CONSOLIDATION					
A.1	Line-by-line					
1.	MEDIOBANCA - Banca di Credito finanziario S.p.A.	Milan	1	—	—	—
2.	PROMINVESTMENT S.P.A. - under liquidation and arrangement with creditors	Milan	1	A.1.1	100.0	100.0
3.	SPAFID S.P.A	Milan	1	A.1.1	100.0	100.0
4.	SPAFID CONNECT S.P.A.	Milan	1	A.1.5	100.0	100.0
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	99.9	99.9
8.	CMB ASSET MANAGEMENT S.A.M.	Montecarlo	1	A.1.6	99.2	99.2
9.	CMB WEALTH MANAGEMENT LIMITED - under liquidation	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.	MB FACTA 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.	CAIRN CAPITAL GROUP LIMITED	London	1	A.1.1	100.0(*)	70.9
26.	CAIRN CAPITAL LIMITED	London	1	A.1.25	100.0	100.0
27.	CAIRN CAPITAL NORTH AMERICA INC.	Stamford (U.S.A.)	1	A.1.25	100.0	100.0
28.	CAIRN CAPITAL GUARANTEE LIMITTED (non operating)	London	1	A.1.25	100.0	100.0
29.	CAIRN CAPITAL INVESTMENTS LIMITED (non operating)	London	1	A.1.25	100.0	100.0
30.	CAIRN INVESTMENT MANAGERS LIMITED (non operating)	London	1	A.1.25	100.0	100.0
31.	AMPLUS FINANCE (non operating)	London	1	A.1.25	100.0	100.0
32.	SPAFID FAMILY OFFICE SIM S.P.A.	Milan	1	A.1.3	100.0	100.0
33.	SPAFID TRUST S.R.L.	Milan	1	A.1.3	100.0	100.0
34.	MEDIOBANCA MANAGEMENT COMPANY S.A.	Luxembourg	1	A.1.1	100.0	100.0
35.	MEDIOBANCA SGR S.P.A.	Milan	1	A.1.1	100.0	100.0
36.	RAM ACTIVE INVESTMENTS S.A.	Geneve	1	A.1.1	89.3 (**)	69.0
37.	RAM ACTIVE INVESTMENTS (LUXEMBOURG) S.A.	Luxembourg	1	A.1.36	100.0	100.0
38.	MESSIER MARIS & ASSOCIES S.C.A.	Paris	1	A.1.1	100.0(***)	66.4
39.	MESSIER MARIS & ASSOCIES LLC.	New York	1	A.1.38	100.0(***)	50.0
40.	MBCONTACT SOLUTIONS S.R.L.	Milan	1	A.1.13	100.0	100.0
41.	COMPASS RENT S.R.L.	Milan	1	A.1.11	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.

*** Taking into account the put-and-call options exercisable from the fifth anniversary of the execution date of the transaction.

Legend

[1] Type of relationship:
1 = Majority of voting rights in ordinary AGMs.

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

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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; and
– 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.

Under the equity method of accounting, any changes in the net equity of the

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investee company since the acquisition date, including profits and losses, are included in the book value of the investment (originally recognized at cost). The gain or loss generated by the investment is recorded pro rata to the consolidated profit and loss account, along with any long-term reductions in value or reversals; while all other changes are taken through net equity.

The financial statements of the consolidated companies represented in currencies other than the Euro are converted by applying the exchange rate prevailing at the end of the accounting period to the balance-sheet items, and the average of the monthly avergare exchange rates for the same period to the profit-and-loss items. All exchange rate differences arising as a result of conversion are recorded in a specific net equity valuation reserve which, as and when the investment is sold, is eliminated and the relevant amount is debited from or credited to the profit and loss account as the case may be.

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 "Valuation 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.

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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 referring to a previous date as long as it is not more than three months previously; such an arrangement is permitted (IAS 28, par. 33-34) provided that due account is taken of any material transactions or events that occur between said date and the reporting date for the financial statements. As mentioned above, Assicurazioni Generali, for its own consolidated financial statement, will apply the IFRS 9 accounting principle starting from 1st January 2023 together with the first time application of the new accounting principle IFRS 17 – Insurance contracts which will replace the existing IFRS 4 - Insurance Contracts. Assicurazioni Generali will therefore continue to apply IAS 39 until 1st January 2023. It should be noted that under this standard, the losses on the AFS equity portfolio recorded in the valuation reserves must be recognized, or "recycled", through profit and loss if certain quantitative or timing thresholds are exceeded considered evidence of impairment. The thresholds set internally by Assicurazioni Generali are a loss of over 30% compared to the acquisition value, and a prolonged loss, again relative to acquisition value, recorded for more than twelve months. Any accounting effects of such "recycling" on the interim financial situations – which are not prepared in accordance with IAS 34 – are not considered to be definitive, and if material, will be including among the subsequent events that require the reporting package to be amended.

SECTION 4

Events subsequent to the reporting date

On 22 July 2020, at the Board of Directors' proposal, the shareholders of Compagnie Monégasque de Banque gathered in extraordinary general meeting

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approved changes to the company's Articles of Association including changing the company's name to "CMB Monaco".

Reference is made to Part E – Credit Risk for an update on events since the year-end and for disclosure on the moratoria still in progress.

No events have taken place that would cause the results presented in the consolidated report for the twelve months ended 30 June 2020 to be amended.

SECTION 5

Other aspects

The consolidated financial statements and the individual accounts of Mediobanca S.p.A. have been audited by external auditors PricewaterhouseCoopers S.p.A. as required by Italian Legislative Decree 39/10 and under the resolution adopted by shareholders at the Annual General Meeting held on 27 October 2012, for the 2013-21 financial years.

A.2 - Significant accounting policies

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.[7]

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

[7] See Part A – Information on fair value on pp. 130-146.

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through profit and loss on the grounds that they do not meet the requisites to be recognized at amortized cost. In particular, after clarification from the IFRS Interpretation Committee, holdings in mutual funds are also classified in this category.[8]

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 amortize 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 respective headings.

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.

The heading also includes financial assets are measured at fair value upon initial recognition. In such cases, financial assets are recognized irrevocably at FVPL if, and only if, their being included in this category eliminates or significantly reduces an inconsistency in terms of valuation.

[8] The IFRS Interpretation Committee's clarification rules out any possibility of such instruments being treated as equities.

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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 these 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.

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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 IFRS 16 (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" or "stress 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.[9]

At initial recognition, the Group analyses contractual cash flows for the instruments to check whether the instrument, product or sub-product passes the SPPI test. In this connection, the Group has developed a standardized process

[9] These considerations are stated in the internal management policies, which reiterate the link between business model and accounting treatment, and introduce frequency and materiality thresholds for movements in portfolios of assets recognized at amortized cost.

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for performing the test, which involves analysing the loans using a specific tool, developed internally, which is structured on the basis of decision-making trees, at the level of the individual financial instrument or product based on their different degrees of customization. If the test is not passed, the tool will show that the assets should be recognized at fair value through profit and loss (FVTPL). The method by which loans are tested differs according to whether or not the asset concerned is a retail or corporate loan: at product level for retail loans, individually for corporate loans. An external info-provider is used to test debt securities; if, however, the results of the test are unavailable, the instrument is analysed using the SPPI tool. When contractual cash flows for the instrument 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.

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

– Stage1: 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;

– Stage2: 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 Stage1 to Stage2, the expected loss must be calculated for the outstanding life of the instrument;

– Stage3: 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. During the Covid-19 pandemic and in line with the guidance issued by the EBA, ECB, Consob and ESMA, the Mediobanca Group decided not to apply automatic reclassification mechanisms for moratoria granted as part of the support programmes approved by the law, category association agreements or equivalent voluntary initiatives adopted by the individual companies, as described in further depth in Part E of the Notes to the Accounts. Moreover, the Group only makes very limited use of the simplified low credit risk exemption approach.

Purchased or originated credit impaired items (POCIs) are receivables which are already impaired at the point in time when they are acquired or disbursed.

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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, and interest is calculated later using an internal rate of return adapted to the circumstances.

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.

The expected credit losses[10] are recorded and released only insofar as the changes actually occur. For financial instruments held to be in default, 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.

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.

[10] Reference is made to the section on Credit Quality in Part E of the Notes to the Accounts for an exhaustive analysis of the staging criteria and application of the forward-looking approach, including the adjustments made as a result of the Covid-19 situation.

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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 (IFRS 16)

An agreement is classified as a leasing contract[11] (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) – the "Right of Use" (RoU) – for an agreed period of time and in return for payment of a fee. This definition of leasing therefore also includes long-term rentals or hires.

[11] Leases in which the Group is lessor are divided into financial and operating leases. A lease is defined as a financial lease if all the risks and benefits typically associated with ownership are transferred to the lessee. Such leases are accounted for by the financial method, which involves a receivable being booked as an asset for an amount equal to the amount of the lease, net of the instalments on principal expired and paid by the lessee, and the interest receivable being taken through profit and loss.

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Right of use is recorded among "Tangible assets", and is calculated as the sum of the discounted value of future payments (which is equal to the current value of the liability booked in respect of it), of the initial direct costs, any instalments received in advance or at the date from which the lease is effective (jumbo instalment), any incentives received from the lessor, and estimates of any costs of removing or restoring the asset underlying the lease itself.

The liability, which is booked under "Financial liabilities recognized at amortized cost", is equal to the discounted value of the payments due in respect of the lease; and the marginal financing rate is equal to the Funds Transfer Pricing rate (FTP) as at the date concerned.

The duration of a leasing contract takes into consideration the period during which the lease cannot be cancelled (as provided by the contract) and also any options for extending which it may reasonably be assumed will be used. In particular, where automatic renewal is provided for, account must be taken of previous behaviour, the existence of company schemes for disposing of assets leased, and every other circumstance that would point towards the existence of reasonable certainty of renewal.

After initial recognition, RoU is amortized over the lease's duration, and written down as appropriate. The liability is increased as the interest payable accrues, and decreases gradually in line with the instalments being paid. If there are changes to the payments due in respect of the lease, the liability is recalculated against the asset recognized by way of RoU.

For sub-leasing, i.e. when an original renting contract has been replicated with a counterparty, and there are grounds for classifying it as a finance lease, the liability in respect of the original lease is matched by an amount receivable from the sub-lessee rather than the value in use.

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.

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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;

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- 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 Group 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 hedge 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.

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- 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.

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.

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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 and equipment of all kinds. It also includes the RoU acquired under leases and related use of tangible assets (for lessees) 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,

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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, goodwill recorded as an asset is tested for impairment.[12] Any reduction value due to impairment 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.

[12] Mediobanca has adopted a Group Impairment Policy in line with the guidance issued by the Italian organization for valuation (OIV, or Organismo Italiano di Valutazione) on "Impairment testing on goodwill in financial and real crisis situations" of 14 June 2012, "Italian valuation standards" published in 2015, the discussion paper issued on 22 January 2019, ESMA's recommendations contained in the document entitled "European common enforcement priorities for 2013 financial statements", the joint document issued by the Bank of Italy, Consob and IVASS (document no. 4 of 3 March 2010), and Consob's communications (no. DIE/17131 of 3 March 2014 and no. 3907 of 19 January 2015).

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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.[13] 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.

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 IFRS 16, 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.

[13] Under IAS 36, impairment testing, i.e. tests to ascertain whether or not there has been a loss in the value of individual tangible and intangible assets, must be carried out at least once a year, in conjunction with preparation of the financial statements, or more frequently if events have taken place or materialized that would indicate there has been a reduction in the value of such assets (known as "impairment indicators").

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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.

Financial liabilities recognized at fair value

These include the value of financial liabilities recognized at fair value through profit and loss based on the fair value option permitted under IFRS 9 and in accordance with the cases permitted under the regulation itself.

Financial liabilities at present value of the redemption amount

These consist of liabilities under the terms of agreements to buy out minorities in connection with acquisitions of controlling interests. These items, accounted for in heading “80. Other liabilities” of Balance Sheet, must be recognized at the present value of the redemption amount.

Provisions for liabilities and charges

These regard risks linked to commitments to disburse funds and guarantees issued, and to the Group’s operations which could lead to expenses in the future (cf. below).

In the first case (provisions for liabilities and charges to cover commitments and guarantees issued), the amounts set aside are quantified in accordance with the rules on impairment on financial assets recognized at amortized cost.

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In the other cases the rules of IAS 37 apply, i.e. the potential charge must be estimated reliably; if the time effect is material, provisions are discounted using current market rates; and the provision is 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, paragraph 92, no precise indication has been given of any potential liabilities where this could compromise the company in any way.

Staff severance indemnity provision and post-retirement schemes

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.

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The post-retirement scheme provisions have been instituted under company agreements and also qualify as defined benefit schemes. In this case the discounted value of the liability is adjusted by the fair value of any assets to be used under the terms of the scheme.

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 using the average of the average monthly exchange rate readings 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.

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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.

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

Stock options, performance shares and long-term incentives

The stock option, performance share and long-term incentive (LTI) 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

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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.

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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

Related parties are defined, *inter alia* in accordance with IAS 24, as follows:

a) Individuals or entities which directly or indirectly, are subject to joint control by Mediobanca, shareholders with stakes of 3% or more in the Bank's share capital;[14]

[14] Excluding market-makers and asset managers, Italian and international, which, in the exercise of their collective fund management activity, undertake not to take an active part in the management of the companies in which they are investing.

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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.

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

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

(€ '000)

Type of instrument	Transferred from	Transferred to	Reclassification date	Reclassified book value	Interests income booked during the period (pre-tax)
Debt securites (ABS)	Available for sale securities	Financial assets valued at amortised cost	FY 2010/11	8.370	1.488
Total				8.370	1.488

A.4 - Information on fair value

QUALITATIVE INFORMATION

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

For financial instruments listed on active markets, fair value is determined on the basis of the official prices prevailing on the principal market, or alternatively the most advantageous market to which the Group has access; such instruments are thus said to be marked to market. A market is defined as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

For instruments not listed on an active market or in cases where the market is not functioning properly, that is, it does not have a sufficient and continuous number of transactions, or sufficiently low bid-ask spreads and volatility, valuation models using market inputs are used instead, such as:

– Valuations of instruments with similar characteristics,
– Discounted cash flow calculations,
– Option price calculation models, values recorded in recent comparable transactions, prudentially adjusted to reflect the illiquid nature of some

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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.

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.

The outbreak of the Covid-19 pandemic and subsequent government and healthcare measures had an immediate impact on capital markets, which priced in the new estimates of the economic slowdown as well as the regulators' restrictions on share buybacks and payments of dividends. These two combined effects caused a reduction in liquidity and made it difficult to hedge trades and risk reduction transactions generally (on dividends and volatility in particular). Overall there was a significant rise in uncertainty for the input parameters required in order to value the positions held by the Bank and in the parameters used for control activities.

In terms of independent price verification (IPV), the Bank stepped up its controls following the mismarking of volatility, correlation and dividends by using alternative providers, resulting in an increase in corrections to the original values proposed by the business units.

Fair value is reported according to rankings based on the quality of the input parameters used to determine it.[15]

In accordance with the provisions of IFRS 13 as enacted in Bank of Italy circular no. 262, the fair value hierarchy assigns decreasing priority to measurements based on different market parameters. The highest priority (level 1) is assigned to measurements based on prices quoted (un-adjusted) on an active market for identical assets or liabilities; while the lowest of priority (level 3) is assigned to valuations deriving predominantly from unobservable inputs.

[15] 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.

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The fair value ranking level assigned to an asset or liability is defined as the lowest-level input that is significant to the entire measurement. Three levels are identified:

- Level 1: quoted prices (single and unadjusted) in active markets for the individual financial instrument being measured.
- Level 2: inputs other than the quoted prices referred to above, that are observable on the market either directly (prices) or indirectly (price derivatives). In this case fair value is measured via a comparable approach, or by using a pricing model which leaves little scope for subjective interpretation and is commonly used by other financial operators.
- Level 3: significant inputs which are either unobservable on the market and/or reflect complex pricing models. In this case the fair value is set based on assumptions of future cash flows, which could lead to different estimates by different observers of the value of the same financial instrument.

In cases where the input data used to value an asset or liability have different rankings, the choice of fair value level is driven by the significance of the input data (IFRS 13, paragraph 74).

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. Similarly, the Bank has an independent control unit which checks the parameters used, comparing them with similar inputs from different sources which must nonetheless meet observability criteria.

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Fair value adjustment

Fair value adjustment is defined as the quantity that has to be added to or subtracted from 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. In line with the best market practices, during the year under review all fair value adjustments were aligned with the prudential categories defined in Article 105 of the CRR ("Prudent Valuation"). Introduction of the new framework has resulted in the need to start further calculating adjustments.

The changes in scope of fair value adjustments thus include the following in particular:

– Close-Out Costs;
– Investing and Funding Costs;
– Market Price Uncertainty;
– Model Risk.

Some fair value adjustments 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.

The following activities were performed during the year under review:

– Revision of the scope and method of calculation used for the "dynamic" method (previously the fair value adjustment was calculated at the execution date for specific transactions, using market stress scenarios as input which were far worse but not monitored over time, i.e. "static"). Some of the main changes made were as follows:
  – Recalculation of the adjustments hedging the funding risk implicit in credit-linked issues. Using a point-in-time valuation approach, the use of a conservative factor linked to the credit curves has been eliminated from the calculation;
  – Changes to the calculation methods used for adjustments linked to the uncertainty of the repo margin: the Bank has transitioned from a simplified methodology to an approach based on a market consensus instrument, in line with the method already used for other risk factors.

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- Removal of some FVAs: some of these adjustments were more linked to commercial than to risk issues,[16] and have in part been replaced by the introduction of Close-Out Costs;
- Introduction of Close-Out Costs: depending on the materiality of the risks present, the Bank has adjusted the fair value to ensure that the exit price is recorded, as required by IFRS 13.[17]

Credit/debt valuation adjustment (CVA/DVA)

Credit and debt value adjustments (CVA and DVA) 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 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 recovery rates conventionally utilized for credit default swap prices.

[16] That is, they were intended to mitigate the potential impact for clients in the event of buybacks of arbitrage trades, a phenomenon that has never occurred.

[17] The adjustment is calculated, for each risk factor considered, as a semi-bid/ask for the market data, multiplied by the exposure to the instrument to which the data refers.

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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: 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, by fair value level

Level 1

This level comprises all instruments quoted on active markets or for which quotations are available on an ongoing basis. The former instance covers cash equity instruments, funds and listed derivatives[18] (futures and options with equity, interest rates and sovereign debt as the underlying) traded on regulated markets for which an official closing price was available. The second instance covers liquid debt securities for which quotations are available on an ongoing basis, and ABS and CLOs for which tradable quotations are available at the reporting date.

Level 2

– Bonds: securities traded on less liquid markets that show bid/ask spreads above adequate levels are classified as Level 2; as are instruments not traded on active markets that are marked to model using the implied credit spread curves obtained from Level1 or Level 2 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, only if the credit spread curve applied is representative, the bonds are categorized as Level 2. 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;

[18] Provided that the quotation is considered to be effectively liquid following the IPV process.

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- Derivatives: the fair value of derivatives not traded on an active market derives from application of mark-to-model measurement techniques. In accordance with the definitions provided in paragraphs 3, 61 and 67 of IFRS 13, where possible the Bank uses models that maximize observable parameters, which are preferable to models where the use of unobservable parameters is predominant. When there is an active market for the input parameters to be used for the different components of the valuation model, the fair value is established on the basis of their market quotations. Hence an OTC derivative that mainly uses observable inputs deriving from Level 1 instruments (quoted prices, as established in paragraphs 76-80 of IFRS 13) or Level 2 instruments (interest rate curves, implicit volatilities and credit spreads, as stipulated in paragraph 82 of IFRS 13) is classified as Level 2. These derivatives include:
- Plain vanilla instruments, such as options with equity or exchange rates, interest rate swaps, cap & floor, credit default swaps and credit default indexes as underlying;
- Exotic instruments which use more complex models such as exotic equity options, structured forex including derivatives embedded in notes issued by Mediobanca whose characteristics replicate those referred to above;
- Issues of certificates with credit derivatives or shares as underlying (basket or single name), including the issuer credit risk which is thus factored into the total calculation of the fair value.

The instruments referred to above are classified as Level 2 when the fair value component calculated using models based on observable inputs is adjudged to be predominant.

The observability of an input parameter depends on the type of product, and on the adequacy of the parameters used. In both cases the relevant issuers are the availability of quotes, expiry and level of moneyness.

Level 3

- Bonds: instruments whose fair value is determined using prices that cannot be corroborated are classified as Level 3, as are instruments not traded on active markets which are marked to model using the credit spread curves implicitly derived from Level 1 or Level 2 instruments, to which a spread

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is added in order to factor in their unobservable illiquidity. Fair value adjustments may be used in recognizing such instruments at fair value when there is low liquidity, in order to compensate for the lack of observable market parameters for the Level 3 positions;

- Asset-backed securities, CLOs and loans: the measurement process relies on info-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.
- Credit exposures which, based on the characteristics of their cash flows, are recognized at fair value (IFRS 9, SPPI criteria - Solely Payments of Principal and Interest): specific valuation methodologies are adopted to represent the individual exposure's characteristics, seeking to maximize use of observable market data;
- 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. Some residual equities for which fair value cannot be established reliably using the methods described above are recognized at cost;
- 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;
- Derivatives: when the valuation of an OTC derivative has been materially affected by unobservable parameters it is classified as Level 3. Such derivatives include:
  - Plain vanilla instruments, such as options with equity as the underlying and long expiries, or dividends on which there is no market consensus and options on equity baskets (indexes and single name);
  - Equity certificates for which the valuation inputs show a high degree of uncertainty (as it emerges during the Independent Price Verification process) in terms of volatility or future dividends;

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- Exotic instruments that use complex models (exotic options), or certain payoffs on exchange rates for which the valuation inputs are not directly observable, including derivatives embedded in bonds issued;
- Bespoke CDO tranches.

The instruments referred to above are classified as Level 3, because as stated in paragraphs 73 and 75 of IFRS 13, their fair value is established primarily by components attributable to unobservable inputs (such as implicit volatility above certain observation levels, equity and credit correlation, etc.), or contains adjustments that significantly alter the most liquid input parameters used.

All inputs used to determine the fair value of the principal risk positions, regardless of their fair value levels, are subject to the Independent Price Verification process based on the principle of verifying the data against input from other info-providers.

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 which are generally not 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).

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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). The fair value of the naked components of Mediobanca structured issues is also categorized as Level 2 when Mediobanca strips out the derivative embedded in such issues; the derivative's fair value level is according to the method described above.

A.4.2 Measurement processes and sensibilities

As required by IFRS 13, quantitative information on the significant non-observable inputs used in measuring the fair value of Level 3 instruments is provided below.

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

Non-observable inputs	Quantification of uncertainty inherent input	+/- delta vs MtM (€) 30/6/20	+/- delta vs MtM (€m) 30/6/19
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)	0.52	0.46
Equity-equity correlation	Equal to 1% between two indexes and 2% between two single stocks	1.15	0.612

Measurement techniques used for equity, credit and interest rate products

Product	Measurement technique	Non-observable inputs	Fair value * Assets 30/6/20 (€m)	Fair value * Liabilities 30/6/20 (€m)	Fair value * Assets 30/6/19 (€m)	Fair value * Liabilities 30/6/19 (€m)
OTC equity single name options, variance swap	Black-Scholes/ Black model	Implicit volatility [1]	14.16	(14.20)	0.81	(3.89)
OTC equity basket options, best of/ worst of, equity auto-callable multi-asset options	Black-Scholes/ Black model, local volatility model	Implicit volatility Equity-equity correlation [2]	39.05	(20.73)	9.85	(9.40)

* Values are shown net of reserves booked.

[1] Volatility in a financial context is a measurement of how much the price of an instrument underlying a derivative may vary over time. The higher the volatility of the underlying instrument, the greater the risk associated with it. In general terms long positions in options benefit from increases in volatility, whereas short positions in options lose out from them. For equity derivatives, the implicit volatility surface may be obtained from the price of the call and put options, as there are regulated markets for these. The uncertainty inherent in this input is attributable to one of the following scenarios: illiquidity of quoted prices (wide bid/ask spreads, typically present on long maturities or moneyness far from the at-the-money spot), concentration effects and non-observable market data (here too present when maturities are considered too long or moneyness too far from the at-the-money spot).

[2] Equity-equity correlation is a measurement of the correlation between two equity financial instruments underlying a derivative. Variations in the correlation levels may impact favourably or unfavourably, depending on the correlation type, on an instrument's fair value. Equity-equity correlations are less observable than volatilities, because correlation products are not quoted on any regulated markets. For this reason correlations are more prone to input uncertainty.

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A.4.3 Fair value ranking

Transfers between 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 the loss (increase) in 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.

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QUANTITATIVE INFORMATION

A.4.5 Fair value ranking

A.4.5.1 Assets and liabilities recognized at fair value on a non-recurring basis, by fair value ranking

(€ ’000)

Financial assets/liabilities measured at fair value	30/6/20			30/6/19		
	Level1	Level2	Level3	Level1	Level2	Level3
1. Financial assets measured at fair value with impact taken to profit and loss	5,888,700	2,715,128	981,584	7,393,508	2,575,250	654,215
a) financial assets held for trading	5,582,684	2,664,126	571,780	7,054,588	2,321,359	389,706
b) financial assets designated at fair value	—	51,002	—	—	51,976	—
c) other financial assets mandatorily valued at fair value	306,016	—	409,804	338,920	201,915	264,509
2. Financial assets measured at fair value with impact taken to other comprehensive income	3,467,377	134,475	25,739	3,613,361	240,572	32,838
3. Hedging derivatives	—	464,718	—	—	412,234	—
4. Tangible assets	—	—	—	—	—	—
5. Intangible assets	—	—	—	—	—	—
Total	9,356,077	3,314,321	1,007,323	11,006,869	3,228,056	687,053
1. Financial liabilities held for trading	4,018,034	3,407,947	530,954	4,948,023	2,829,951	249,777
2. Financial liabilities valued at fair value	—	216,020	—	—	55,859	—
3. Hedging derivatives	—	465,225	—	—	414,241	—
Total	4,018,034	4,089,192	530,954	4,948,023	3,300,051	249,777

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

(€ '000)

	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 [1]	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily valued at fair value				
1. Opening balance	450,562	153,215	—	264,509	32,838	—	—	—
2. Increases	341,896	112,845	—	228,218	833	—	—	—
2.1 Purchases	249,223	65,339	—	183,838	46	—	—	—
2.2 Profits recognized in:	57,461	12,309	—	44,365	787	—	—	—
2.2.1 profit and loss	57,459	12,309	—	44,365	785	—	—	—
- of which, gains	*11,821*	*11,821*	—	—	—	—	—	—
2.2.2 net equity	2	X	X	X	2	—	—	—
2.3 Transfers from other levels	35,197	35,197	—	—	—	—	—	—
2.4 Other increases	15	—	—	15	—	—	—	—
3. Decreases	194,328	103,475	—	82,923	7,932	—	—	—
3.1 Disposals	130,281	61,832	—	67,663	786	—	—	—
3.2 Redemptions	4,507	4,507	—	—	—	—	—	—
3.3 Losses recognized in:	44,502	22,096	—	15,260	7,146	—	—	—
3.3.1 profit and loss	37,356	22,096	—	15,260	—	—	—	—
- of which, losses	*22,029*	*22,029*	—	—	—	—	—	—
3.3.2 net equity	7,146	X	X	X	7,146	—	—	—
3.4 Transfers to other levels	—	—	—	—	—	—	—	—
3.5 Other decreases	15,040	15,040	—	—	—	—	—	—
4. Closing balance	598,128	162,585	—	409,804	25,739	—	—	—

[1] Net of market value of options covering those attached to bonds issued (30/6/20: €351,000; 30/6/19: €506,000) and options traded (€408.8m and €236m respectively), the values of which are recorded as both assets and liabilities for the same amount.

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A.4.5.3 Annual changes in liabilities recognized at fair value on a recurring basis (Level 3 liabilities)

(€ '000)

	Financial liabilities		
	Held for trading [1]	**Designated at fair value**	**Hedging derivatives**
1. Opening balance	13,285	—	—
2. Increases	112,300	—	—
2.1 Issuance	22,558	—	—
2.2 Losses recognized in:	2,916	—	—
2.2.1 profit and loss	2,916	—	—
- of which, losses	*2,916*	—	—
2.2.2 net equity	X	—	—
2.3 Transfers from other levels	86,826	—	—
2.4 Other increases	—	—	—
3. Decreases	3,826	—	—
3.1 Redemptions	56	—	—
3.2 Buybacks	—	—	—
3.3 Profits recognized in:	3,770	—	—
3.3.1 profit and loss	3,770	—	—
- of which, gains	*2,277*	—	—
3.3.2 net equity	X	—	—
3.4 Transfers to other levels	—	—	—
3.5 Other decreass	—	—	—
4. Closing balance	121,759	—	—

[1] Net of market value of options covering those attached to bonds issued (30/6/20: €0.35m; 30/6/19: €0.5m) and options traded (€408.8m and €236m respectively), the values of which are recorded as both assets and liabilities for the same amount.

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

(€ '000)

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	30/6/20				30/6/19			
	Book value	Fair value			Book value	Fair value		
		Level1	Level2	Level3		Level1	Level2	Level3
1. Financial assets valued at amortised cost	55,957,290	2,799,665	17,765,808	38,498,309	56,599,859	2,487,696	19,157,722	38,229,986
2. Tangible assets held for investment purposes	64,347	—	—	139,818	66,883	—	—	141,764
3. Non-current assets and groups of assets being sold	—	—	—	—	22,168	—	—	22,168
Total	56,021,637	2,799,665	17,765,808	38,638,127	56,688,910	2,487,696	19,157,722	38,393,918
1. Financial liabilities valued at amortised cost	59,241,107	1,287,832	57,913,842	39,433	57,936,936	1,109,322	57,136,709	48,237
2. Liabilities held in respect of assets being sold	—	—	—	—	—	—	—	—
Total	59,241,107	1,287,832	57,913,842	39,433	57,936,936	1,109,322	57,136,709	48,237

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The Level 3 instruments held for trading include options traded, i.e. contracts originated and closed with different counterparties but the same underlying instrument and uncertain risk parameter, totalled €408.8m (30/6/19: €236m), plus €0.35m in options linked to bonds issued and hedged on the market (€0.5m).

Net of these items, the Level 3 assets increased from €153.2m to €162.6m, as a result of new entries totalling €65.4m (€37m of which relating to derivative contracts) against departures totalling €66.3m, €59.6m of which regarding the transfer of ABS to a new provision and redemptions totalling €4.5m. Transfers from other levels totalled €35.2m, and chiefly involve derivative contracts being reclassified during the course of the year, due to the increase in uncertainty over volatility and the underlying dividends. Downward movements in fair value totalled €24.8m.

Level 3 liabilities, minus options traded and those linked to the bond issues referred to above, rose from €13.3m to €121.8m, as a result of the reclassifications made during the twelve months, regarding certain certificates and derivative contracts (worth a total of €86.8m), which became necessary due to the rise in uncertainty over estimated dividends, plus new positions totalling €22.5m (mainly derivative contracts); upward adjustments to fair value totalled €0.8m.

Financial assets compulsorily recognized at fair value, which mostly consist of investments in funds (including seed capital) increased from €264.5m to €409.8m, as a result of new additions totalling €183.8m, €110m of which in relation to the initial subscription to a fund with ABS as the underlying instrument, and €55m in additional investments in the Cairn funds, against departures totalling €67.7m which mostly involve the partial disposal of the above fund; overall there were other positive changes totalling €29m, representing the difference between €44.3m in higher valuations due to improvements in the credit rating of certain convertible loans, and €15.3m in downward value adjustments made to seed capital (primarily for Cairn).

Financial assets recognized at fair value through other comprehensive income, consisting of holdings in unlisted companies (valued on the basis of internal models), remain low at €25.7m (€32.8m).

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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.

Suspension of the day one profit is currently applied to 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 in FY 2016-17. This difference was generated from the use of an internal model to value the unlisted instrument, and, 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 share remaining totals approx. €3.4m, and the portion that passed through profit and loss during the period totalled €2.5m.

The suspension approach is also applied to the profit deriving from trades in derivatives on Exchange rates linked to hedges of M&A deals: as the derivative becomes effective only if the deal is executed, the profit is suspended until the uncertainty regarding the deal’s execution has ceased. At the reporting date there was only one trade of this kind, involving a profit of €470,000.

The Bank also has deals classified as Level 3 for which the initial profit has not had to be suspended, as these deals were originally negotiated with other market counterparties, without generating any material upfront difference.

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Part B - Notes to the Consolidated Balance Sheet (*)

Assets

SECTION 1

Heading 10: Cash and cash equivalents

1.1 Cash and cash equivalents: composition

	30/6/20	30/6/19
a) Cash	118,582	106,260
b) Demand deposits with Central Banks	3,101,369	632,102
Total	3,219,951	738,362

(*) Figures in €’000, save in footnotes, where figures are provided in full.

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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	30/6/20			30/6/19		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
A. Cash assets						
1. Debt securities	2,954,447	519,132	28,968	3,857,970	297,582	58,831
1.1 Structured securities	2,758	18,177	1,998	17,251	10,451	—
1.2 Other securietes	2,951,689	500,955	26,970	3,840,719	287,131	58,831
2. Equity securites[1]	1,962,771	—	46,476	2,441,048	—	76,336
3. UCITs	20,114	—	2,853	245,002	3	7,385
4. Loans	3,930	—	—	6,894	—	—
4.1 Reverse Repos	—	—	—	—	—	—
4.2 Others	3,930	—	—	6,894	—	—
Total (A)	4,941,262	519,132	78,297	6,550,914	297,585	142,552
B. Derivative instruments						
1. Financial Derivatives	641,422	1,957,794	493,483 [2]	503,674	1,533,275	247,154 [2]
1.1 trading	641,422	1,953,287	493,340	503,674	1,488,740	246,957
1.2 related to the fair value option	—	—	—	—	—	—
1.3 others	—	4,507	143	—	44,535	197
2. Credit Derivatives	—	187,200	—	—	490,499	—
2.1 trading	—	187,200	—	—	490,499	—
2.2 related to the fair value option	—	—	—	—	—	—
2.3 others	—	—	—	—	—	—
Total (B)	641,422	2,144,994	493,483	503,674	2,023,774	247,154
Total (A+B)	5,582,684	2,664,126	571,780	7,054,588	2,321,359	389,706

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

[1] Equities include shares committed in securities lending transactions totalling €982,223,000 at 30 June 2020 and €1,277,841,000 at 30/6/19.

[2] Includes both the market value of options (€351,000 as at 30/6/20 and €506,000 as at 30/6/19) matching those associated with bond issued booked as financial liabilities held for trading and matched options traded (€408,844,000 as at 30/6/20 and €235,984,000 as at 30/6/19) matching amounts booked as financial liabilities held for trading.

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2.2 Financial assets held for trading: by borrowers/issuers

Items/Values	30/6/20	30/6/19
A. Financial assets		
1. Debt securities	3,502,547	4,214,383
a) Central Banks	—	—
b) Public Administrations	1,880,990	3,398,524
c) Banks	1,203,460	553,734
d) Other financial companies	201,525	197,994
of which: insurance companies	2,904	—
e) Non financial companies	216,572	64,131
2. Equity instruments	2,009,247	2,517,384
a) Banks	149,796	391,154
b) Other finanzial companies	464,779	205,008
of which: Insurance companies	169,779	94,336
c) Non financial companies	1,394,672	1,921,222
d) Other issuers	—	—
3. UCITs	22,967	252,390
4. Loans	3,930	6,894
a) Central Banks	—	—
b) Public Administrations	—	—
c) Banks	—	—
d) Other financial companies	—	2,031
of which: insurance companies	—	—
e) Non financial companies	3,930	4,863
f) Families	—	—
Total (A)	5,538,691	6,991,051
B. Derivative instruments		
a) Central Counterparties	201,441	95,465
b) Others	3,078,458	2,679,137
Total (B)	3,279,899	2,774,602
Total (A+B)	8,818,590	9,765,653

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2.3 Financial assets designated at fair value: composition

Items/Values	30/6/20			30/6/19		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	—	51,002	—	—	51,976	—
1.1 Structured securities	—	—	—	—	—	—
1.2 Other debt securities	—	51,002	—	—	51,976	—
2. Loans	—	—	—	—	—	—
2.1 Structured	—	—	—	—	—	—
2.2 Others	—	—	—	—	—	—
Total	—	51,002	—	—	51,976	—

2.4 Financial assets designated at fair value: by borrower/issuer

Items/Values	30/6/20	30/6/19
1. Debt securities	51,002	51,976
a) Central Banks	—	—
b) Public Administrations	—	—
c) Banks	—	—
d) Other financial companies	51,002	51,976
of which: Insurance companies	—	—
e) Non financial companies	—	—
2. Loans	—	—
a) Central Banks	—	—
b) Public Administrations	—	—
c) Banks	—	—
d) Other financial companies	—	—
of which: Insurance companies	—	—
e) Non financial companies	—	—
f) Households	—	—
Total	51,002	51,976

2.5 Other financial assets mandatorily at fair value: composition

Items/Values	30/6/20			30/6/19		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	306	—	1,785	489	—	3,146
1.1 Structured securities	—	—	—	—	—	—
1.2 Others	306	—	1,785	489	—	3,146
2. Equity instruments	—	—	4,939	—	—	7,163
3. UCITs	305,710	—	352,746	338,431	—	236,328
4. Loans	—	—	50,334	—	201,915	17,872
4.1 Reverse Repos	—	—	—	—	—	—
4.2 Others	—	—	50,334	—	201,915	17,872
Total	306,016	—	409,804	338,920	201,915	264,509

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2.6 Other financial assets mandatorily at fair value: by borrower/issuer

Items/Values	30/6/20	30/6/19
1. Equity instruments	4,939	7,163
of which: banks	—	—
of which: other financial companies	4,939	7,163
of which: other non financial companies	—	—
2. Debts securities	2,091	3,635
a) Central Banks	—	—
b) Public administration	306	489
c) Banks	—	—
d) Other financial companies	1,785	3,146
of which: insurance companies	—	—
e) Non financial companies	—	—
3. UCITs	658,456	574,759
4. Loans	50,334	219,787
a) Central Banks	—	—
b) Public administration	—	—
c) Banks	—	—
d) Other financial companies	27	202,305
of which: insurance companies	—	—
e) Non financial companies	50,307	17,482
f) Households	—	—
Total	715,820	805,344

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 **

Item/Values	30/6/20			30/6/19		
	Level 1	Level 2	Level 3 [1]	Level 1	Level 2	Level 3 ([1])
1. Debts securities	3,351,465	134,475	—	3,507,591	240,572	—
1.1 Structured securities	—	—	—	—	—	—
1.2 Other	3,351,465	134,475	—	3,507,591	240,572	—
2. Equity instruments	115,912	—	25,739	105,770	—	32,838
3. Loans	—	—	—	—	—	—
Total	3,467,377	134,475	25,739	3,613,361	240,572	32,838

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

[1] Includes investments in unlisted companies valued based on internal models.

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3.2 Financial assets at fair value through other comprehensive income: by borrowers/issuers

Items/Values	30/6/20	30/6/19
1. Debt securities	3,485,940	3,748,163
a) Central Banks	—	—
b) Public administrations	2,613,617	2,863,097
c) Banks	521,126	507,767
d) Other financial companies	208,717	216,529
of which: insurance companies	64,983	131,292
e) Non financial companies	142,480	160,770
2. Equity securities	141,651	138,608
a) Banks	116	114
b) Other issuers:	141,535	138,494
- other financial companies	26,611	33,690
of which: insurance companies	—	—
- non financial companies	114,924	104,804
- others	—	—
3. Loans	—	—
a) Central Banks	—	—
b) Public administrations	—	—
c) Banks	—	—
d) Other financial companies	—	—
of which: insurance companies	—	—
e) Non financial companies	—	—
f) Households	—	—
Total	3,627,591	3,886,771

3.3 Financial assets at fair value through other comprehensive income: gross value and total accumulated impairments

	Gross value				Writedown			Write off partial total
	Stage 1	of which: low credit risk *	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	3,492,048	67,139	—	—	6,108	—	—	—
Loans	—	—	—	—	—	—	—	—
Total 30/6/20	3,492,048	67,139	—	—	6,108	—	—	—
Total 30/6/19	3,750,003	204,812	—	—	1,840	—	—	—
of which: impaired financial assets aquired or created	X	X	—	—	X	—	—	—

* As required by Bank of Italy circular no. 262, fifth amendment, the column headed "Of which: instruments with low credit risk" must show the gross value of the low credit risk instruments as defined by IFRS 9, paras. B5.5.29. For the Mediobanca Group, the concept of "low credit risk" is equivalent to that of rating, hence low credit risk applies to the case of counterparties rated investment grade.

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Heading 40: Financial assets at amortized cost *

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

Type of transaction/Values	30/6/20					
	Book value			Fair value		
	Stage 1 and stage 2	Stage 3	*of which: impaired acquired or originated*	Level 1	Level 2	Level 3
A. Due from Central Banks	588,815	—	—	—	588,815	—
1. Term deposits	—	—	—	X	X	X
2. Compulsory reserves	588,815	—	—	X	X	X
3. Reverse repos	—	—	—	X	X	X
4. Others	—	—	—	X	X	X
B. Due from banks	5,344,129	—	—	239,190	4,873,797	269,588
1. Loans	4,857,932	—	—	—	4,810,838	71,261
1.1 Current accounts and demand deposits	1,245,824	—	—	X	X	X
1.2. Time deposits	31,990	—	—	X	X	X
1.3 Other loans:	3,580,118	—	—	X	X	X
- Reverse repos	2,464,519	—	—	X	X	X
- Finance leases	1,852	—	—	X	X	X
- Others	1,113,747	—	—	X	X	X
2. Debts securities	486,197	—	—	239,190	62,959	198,327
2.1 Structured securities	—	—	—	—	—	—
2.2 Other debt securities	486,197	—	—	239,190	62,959	198,327
Total	5,932,944	—	—	239,190	5,462,612	269,588

Type of transaction/Values	30/6/19					
	Book value			Fair value		
	Stage 1 and stage 2	Stage 3	*of which: impaired acquired or originated*	Level 1	Level 2	Level 3
A. Due from Central Banks	259,120	—	—	—	211,382	—
1. Term deposits	—	—	—	X	X	X
2. Compulsory reserves	259,120	—	—	X	X	X
3. Reverse repos	—	—	—	X	X	X
4. Others	—	—	—	X	X	X
B. Due from banks	7,702,812	—	—	275,178	6,625,844	853,304
1. Loans	7,232,563	—	—	—	6,469,971	669,363
1.1 Current accounts and demand deposits	898,595	—	—	X	X	X
1.2. Time deposits	63,653	—	—	X	X	X
1.3 Other loans:	6,270,315	—	—	X	X	X
- Reverse repos	4,482,055	—	—	X	X	X
- Finance leases	4,634	—	—	X	X	X
- Others	1,783,626	—	—	X	X	X
2. Debts securities	470,249	—	—	275,178	155,873	183,941
2.1 Structured securities	—	—	—	—	—	—
2.2 Other debt securities	470,249	—	—	275,178	155,873	183,941
Total	7,961,932	—	—	275,178	6,837,226	853,304

* 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”.

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

Type of transaction/Values	30/6/20					
	Book Value			Fair value		
	Stage 1 and stage 2	Stage 3	of which: impaired acquired or originated	Level 1	Level 2	Level 3
1. Loans	45,995,939	1,229,166	358,574	—	12,265,313	37,994,080
1.1. Current accounts	1,444,080	71,178	71,177	X	X	X
1.2. Reverse Repos	994,532	—	—	X	X	X
1.3. Mortgages	26,128,110	436,086	16,439	X	X	X
1.4. Credit cards, personal loans and salary-backed finance	9,429,392	531,262	245,884	X	X	X
1.5 Finance lease	1,657,101	142,991	25,074	X	X	X
1.6. Factoring	1,604,723	7,491	—	X	X	X
1.7. Other loans	4,738,001	40,158	—	X	X	X
2. Debt securities	2,799,241	—	—	2,560,475	37,883	234,641
2.1. Structured	—	—	—	—	—	—
2.2. Other debt securities	2,799,241	—	—	2,560,475	37,883	234,641
Total	48,795,180	1,229,166	358,574	2,560,475	12,303,196	38,228,721

Type of transaction/Values	30/6/19					
	Book Value			Fair value		
	Stage 1 and stage 2	Stage 3	of which: impaired acquired or originated	Level 1	Level 2	Level 3
1. Loans	45,059,134	1,156,867	368,637	—	11,068,820	37,202,323
1.1. Current accounts	1,294,359	74,928	74,913	X	X	X
1.2. Reverse Repos	2,550,975	—	—	X	X	X
1.3. Mortgages	23,317,445	489,194	17,690	X	X	X
1.4. Credit cards, personal loans and salary-backed finance	9,947,099	406,187	248,550	X	X	X
1.5 Finance lease	1,810,589	138,369	27,484	X	X	X
1.6. Factoring	1,915,630	10,018	—	X	X	X
1.7. Other loans	4,223,037	38,171	—	X	X	X
2. Debt securities	2,421,926	—	—	2,212,518	1,251,676	174,359
2.1. Structured	—	—	—	—	—	—
2.2. Other debt securities	2,421,926	—	—	2,212,518	1,251,676	174,359
Total	47,481,060	1,156,867	368,637	2,212,518	12,320,496	37,376,682

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

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4.3 Financial assets at amortized cost: breakdown by borrowers/issuers of due from customers

Type of transaction / Values	30/6/20			30/6/19		
	Stage 1 and stage 2	Stage 3	of which: impaired assets aquired or created	Stage 1 and stage 2	Stage 3	of which: impaired assets aquired or created
1. Debt securities	2,799,241	—	—	2,421,926	—	—
a) Public Administration	2,143,431	—	—	1,733,519	—	—
b) Other financial company	437,441	—	—	432,677	—	—
of which: insurance companies	229,394	—	—	229,762	—	—
c) Non financial companies	218,369	—	—	255,730	—	—
2. Loans to:	45,995,937	1,229,166	358,574	45,059,134	1,156,867	368,637
a) Public Administration	343,149	2,719	—	209,875	13,342	—
b) Other financial company	5,795,827	3,081	401	6,726,486	2,709	412
of which: insurance companies	617,668	—	—	695,307	—	—
c) Non financial companies	15,271,523	483,141	56,396	14,583,974	549,526	63,562
d) Households	24,585,440	740,225	301,777	23,538,799	591,290	304,663
Total	48,795,180	1,229,166	358,574	47,481,060	1,156,867	368,637

4.4 Financial assets at amortized cost: gross value and total accumulated impairments

	Gross value				Write-down			Partial write offs Total
	Stage 1	of which: low credit risk *	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	3,290,988	*282,795*	—	—	5,550	—	—	—
Loans	48,688,255	*603,374*	3,333,424	2,240,213	235,595	343,398	1,011,047	6,023
Total 30/6/20	51,979,243	*886,169*	3,333,424	2,240,213	241,145	343,398	1,011,047	6,023
Total 30/6/19	53,135,655	*604,751*	2,824,170	2,017,484	197,324	319,509	860,617	9,948
of which: impaired financial assets aquired or originated	X	*X*	—	358,782	X	—	208	—

* As required by Bank of Italy circular no. 262, fifth amendment, the column headed "Of which: instruments with low credit risk" must show the gross value of the low credit risk instruments as defined by IFRS 9, paras. B5.5.29. For the Mediobanca Group, the concept of "low credit risk" is equivalent to that of rating, hence low credit risk applies to the case of counterparties rated investment grade.

SECTION 5

Heading 50: Hedging derivatives

5.1 Hedging derivatives: by hedge type and level

	Fair Value			Notional value	Fair Value			Notional value
	30/6/20				30/6/19			
	Level 1	Level 2	Level 3	30/6/20	Level 1	Level 2	Level 3	30/6/19
A. Financial derivatives								
1. Fair value	—	464,718	—	20,996,513	—	410,675	—	15,223,497
2. Cash flows	—	—	—	—	—	1,559	—	30,000
3. Foreign investments	—	—	—	—	—	—	—	—
B. Credit derivatives								
1. Fair value	—	—	—	—	—	—	—	—
2. Cash flows	—	—	—	—	—	—	—	—
Total	—	464,718	—	20,996,513	—	412,234	—	15,253,497

5.2 Hedging derivatives: by portfolio hedged and hedge type

Transaction / Type of hedge	Fair Value							Cash-flow		Foreign investments
	Specific						Generic	Specific	Generic	
	debt securities and interest rates	equity securities and stock indexes	currencies and gold	credit	commodities	others				
1. Financial assets valued at fair value with impact taken to other comprehensive income	—	—	—	—	X	X	X	—	X	X
2. Financial assets valued at amortised cost	—	X	—	—	X	X	X	—	X	X
3. Portfolio	X	X	X	X	X	X	—	X	—	X
4. Others	—	—	—	—	—	—	X	—	X	—
Total assets	—	—	—	—	—	—	—	—	—	—
1. Financial liabilities	464,718	X	—	—	—	—	X	—	X	X
2. Portfolio	X	X	X	X	X	X	—	X	—	X
Total liabilities	464,718	—	—	—	—	—	—	—	—	
1. Forecast transactions	X	X	X	X	X	X	X	—	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	—	X	—	—

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SECTION 7

Heading 70: Equity investments

7.1 Equity investments: disclosure on relationships

Company name	Legal office	Operating office	Control type	Ownership		Ownership
				Controlling entity	% shareholding	
A. Entities under significant influence						
1. Assicurazioni Generali S.p.A.	Trieste	Trieste	2	Mediobanca S.p.A.	12.9	12.9
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 *	Dividend received **
A. Entities under significant influence			
1. Assicurazioni Generali S.p.A.	3,163,439	2,730,551	101,357
2. Istituto Europeo di Oncologia S.r.l.	41,213	N/A	—
3. Burgo Group S.p.A.	—	N/A	—
Total [1]	3,204,652	—	—

[1] The amount stated here differs from that represented in the balance sheet because of other investments which are minor in terms of both percentage share owned and amount (€50,000).

* Available only for listed companies.

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

As at 30 June 2020, the book value carried under the "Equity investments" heading totalled €3,204.7m, split between Assicurazioni Generali (12.9% of the company's share capital, carried at €3,163.4m), and Istituto Europeo di Oncologia (25.4% of the entity's share capital, carried at €41.2m). The value of the stake held in Burgo (22.1% of the entity's share capital) has been written off entirely on prudential grounds.[1]

[1] The same has been made for the "Strumento Finanziario Partecipativo - SFP" (the Mediobanca share amounth to a nominal amount of €130m), recorded under heading 30: Financial assets recognized through other comprehensive income.

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The Assicurazioni Generali and Istituto Europeo di Oncologia investments have been accounted for 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 dividends collected are not taken through profit and loss but have been deducted from the carrying value of the investment.

As permitted by IAS 28 (see Part A of the Notes to the Accounts on associates which have reporting periods ending on different dates compared to the parent company and significant events occurring between the two dates), the pro rata share of earnings and valuation reserves for 4Q differ from the figures stated by Assicurazioni Generali itself as at 31 March 2020, due to the writeback credited by the company in 2Q in respect of AFS equities and investments in funds that are recycled through profit and loss. In particular, the pro rata share of earnings stated by the company at 31 March 2020 have been adjusted to reflect the writebacks to AFS equities and funds as at 30 June 2020, as the writedowns charged in 1Q were reversed in the half-yearly accounts.[2]

Impairment testing of equity investments

The value of the equity investments has been subject to impairment testing, as required by IAS 28, IAS 36, IFRS 10 and IFRS 11, in order to ascertain whether or not there is objective evidence to suggest that the book value at which the assets are recognized might not be recovered in full.

The process of recording impairment charges involves checking whether there are indicators of impairment and then proceeding to write the investment down if appropriate. Indicators of impairment may be subdivided into two main categories:

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

[2] See Assicurazioni Generali's interim financial statements for the six months ended 30 June 2020, p. 11.

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IAS 28, paragraph 41A states that:

– Impairment charges must be taken for an asset if the book value is higher than the recoverable value, defined by IAS 36 as the higher of fair value (net of sales costs) and "value in use";

– To calculate fair value (as governed by IFRS 13), the methodologies that may be used are as follows:

  – Stock market prices, in cases where the investee company is listed on an active market;

  – Valuation models generally recognized by the market, including market multiples (for significant transactions in particular);

– To calculate "value in use" (as governed by IAS 28 paragraph 42), one or other of the following methodologies may be used:

  – The discounted value of the cash flows generated by the investee company, as derived from the cash flows generated by the investments owned by the company and the proceeds deriving from the sale of those investments; or

  – The discounted value of the cash flows assumed to derive from dividends receivable and the eventual sale of the investment.

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

* * *

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Accounting data for the investee companies consolidated using the equity method is provided below, as taken from the most recent official financial statements of these companies, up to 31 December 2019.

7.3 Significant investments: accounting data

Company name	Company name		
	Assicurazioni Generali S.p.A.	Istituto Europeo di Oncologia S.r.l.	Burgo Group S.p.A.
Cash and cash-convertible assets	X	X	X
Financial assets	463,929	99	441
Non-financial assets	43,772	128	991
Financial liabilities	40,904	85	989
Non-financial liabilities	443,820	73	176
Total revenues	94,635	362	1,698
Profit/(Loss) on ordinary activities before tax	3,587	10	15
Profit/(Loss) on ordinary activities after tax	2,465	8	10
Profit/(Loss) on held-for-sale assets after tax	475	—	—
Profir/(Loss) for the period (1)	2,939	8	10
Other profit/(loss) components after tax (2)	3,757	—	(4)
Total profit/(loss) for the period (3) = (1) + (2)	6,696	8	6

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

Entities under significant influence	Aggregate net equity [1]	Pro rata net equity	Differences arising upon consolidation [2]	Consolidated book value
Assicurazioni Generali S.p.A.	24,565.8 [1]	3,165.1	(1.6) [2]	3,163.4
Istituto Europeo di Oncologia S.r.l.	162.4 [3]	41.2	—	41.2

[1] The overall net equity reflects the dividend received in May 2020 (€787m).

[2] The differences arising on consolidation refer to the Mediobanca shares owned by the company (worth €12.6m; pro rata €1.6m).

[3] The net equity value of €132m as at 31/3/20 (€33.5m pro rata) has been adjusted to reflect property revaluations net of depreciation charges accrued (totalling €7.7m pro rata).

For details on the nature of the relations between the companies, please refer to section 7.1.

As at 30 June 2020, the market value of the Group's investment in Assicurazioni Generali was €2,730.6m (equal to €13.47 per share), which is below the book value of the holding (€3,163.4m). Under IAS 28 and in accordance

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with the internal policy in force, an impairment test was run to determine the value in use of the investment, taking into account the following aspects:

- With a 12.9% interest in the ordinary share capital of Assicurazioni Generali, Mediobanca is the group's long-standing largest shareholder;
- The book value of the investment is aligned with the group's net asset value (pro rata), and so does not reflect any goodwill.

To determine the value in use, the dividend discount model was used (excess capital). The valuation was made using the same methods used in previous years, based solely on information in the public domain. For this reason the most recent analysts' estimates were used to identify the cash flows to be discounted. The cost of capital (9.3%) was determined based on the capital asset pricing model, and the growth rate was assumed to be consistent with the estimated inflation rate for 2022 (1.3%). Sensitivity analysis was also performed, to test the sensitivity of the results thus obtained to changes in the valuation parameters.

The impairment test process confirmed that the recoverable value is higher than the book value; hence according to paragraph 41A of IAS 28, the impairment test was passed.

The valuation obtained was also slightly higher than the analysts' average target prices.

As for the investment in Istituto Europeo di Oncologia, its book value is in line with its net present value, as the latter was adjusted to factor in the revaluation of the properties owned by the company based on market prices when the stake was acquired.

No reduction to book value has been necessary for either investment.

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7.5 *Equity investments: movements during the period*

	30/6/20	30/6/19
A. Opening balance	3,259,777	3,210,839
B. Increases	304,269	321,161
B.1 Purchases	—	—
B.2 Writebacks	—	—
B.3 Revaluations	—	—
B.4 Other changes	304,269	321,161
C. Decreases	359,344	272,223
C.1 Sales	—	—
C.2 Adjustments	—	—
C.3 Writeoffs	—	—
C.4 Other changes [1]	359,344	272,223
D. Closing balance	3,204,702	3,259,777
E. Total revaluations	—	—
F. Total adjustments	733,478	733,478

[1] Includes the dividend collected.

SECTION 9

Heading 90: Property, plant and equipment

9.1 *Core tangible assets: composition of assets stated at cost*

Activities/Values	Total	Total
	30/6/20	30/6/19
1. Property assets	215,885	210,949
a) lands	84,895	84,895
b) buildings	94,884	96,912
c) furniture	14,783	12,994
d) electronic system	8,663	9,042
e) other	12,660	7,106
2. Leased assets	207,909	—
a) lands	—	—
b) buildings	196,082	—
c) furniture	—	—
d) electronic system	—	—
e) other	11,827	—
Total	423,794	210,949
of which: arising from the recovery of guarantees received	*75*	*76*

* The Mediobanca Group has applied IFRS 16 since 1 July 2019.

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9.2 Properties held for investment purposes stated at cost: composition of assets stated at cost

Activities/Values	Total 30/6/20				Total 30/6/19			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Property assets	64,347	—	—	139,818	66,883	—	—	141,764
a) lands	29,144	—	—	84,688	29,054	—	—	84,398
b) buildings	35,203	—	—	55,130	37,829	—	—	57,366
2. Rights of use acquired through the lease	—	—	—	—	—	—	—	—
a) lands	—	—	—	—	—	—	—	—
b) buildings	—	—	—	—	—	—	—	—
Total	64,347	—	—	139,818	66,883	—	—	141,764
of which: arising from the recovery of guarantees received	*39,774*	—	—	*46,375*	*41,999*	—	—	*47,590*

9.5 Inventory of assets as governed by IAS 2: composition

Items/Values	Total 30/6/20	Total 30/6/19
1. Inventories of tangible assets arising from the recovery of guarantees received	7,631	8,017
a) lands	971	1,100
b) buildings	6,660	6,917
c) furnitures	—	—
d) electronic systems	—	—
e) others	—	—
2. Other tangible assets	—	—
Total	7,631	8,017
of which: valued at fair value less costs to sell	—	—

The above includes assets received under leasing contracts, which were originally recorded as Investment Property (under IAS 40), and have now been restated as Inventories in accordance with IAS 2 in cases where only minor amounts are involved and where leasing the properties out is not economically feasible and sale is expected to take place in the next three years.

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9.6 Core assets: movements during the year

	Lands	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance 30 june 2019	84,895	338,992	63,733	43,093	61,510	592,223
A.1 Total net reduction value	—	(46,494)	(50,739)	(34,051)	(44,649)	(175,933)
A.2 Net opening balance 30 june 2019	84,895	96,912	12,994	9,042	7,106	210,949
A.3 Changes in opening balances (FTA IFRS16)		195,586	—	—	9,755	205,341
A.4 Net initial carrying amount	84,895	292,498	12,994	9,042	16,861	416,290
B. Increase:	—	38,738	4,710	1,821	15,678	60,947
B.1 Purchasing	—	6,089	4,160	839	7,374	18,462
- of which business combinations	—	—	—	—	—	—
B.2 Capitalised improvement costs	—	2,750	547	982	3,486	7,765
B.3 Writebacks	—	—	—	—	20	20
B.4 Positive changes in fair value allocated to	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit & loss	—	—	—	—	—	—
B.5 Positive foreign exchange differences	—	28	2	—	15	45
B.6 Transfer from investment properties	—	—	X	X	X	—
B.7 Other adjustment	—	29,871	1	—	4,783	34,655
C. Decrease:	—	40,270	2,921	2,200	8,052	53,443
C.1 Sales	—	1	—	—	5	6
- of which business combinations	—	—	—	—	—	—
C.2 Depreciation	—	37,565	2,918	2,198	8,017	50,698
C.3 Impairment losses allocated to	—	1,000	—	—	—	1,000
a) net equity	—	—	—	—	—	—
b) profit & loss[1]	—	1,000	—	—	—	1,000
C.4 Negative chages in fair value allocated to	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit & loss	—	—	—	—	—	—
C.5 Negative foreign exchange differences	—	8	—	—	—	8
C.6 Transfer to:	—	—	—	—	—	—
a) investments	—	—	X	X	X	—
b) non-current assets and group of assets held for sale	—	—	—	—	—	—
C.7 Other adjustment	—	1,696	3	2	30	1,731
D. Net closing balance 30 June 2020	84,895	290,966	14,783	8,663	24,487	423,794
D.1 Total net write-down	—	(81,294)	(52,782)	(36,200)	(51,376)	(221,652)
D.2 Gross closing balance 30 June 2020	84,895	372,260	67,565	44,863	75,863	645,446
E. Carried at cost	—	—	—	—	—	—

[1] Refers the lease on the Frankfurt branch office which is in the process of being wound up.

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Movements in core tangible investments include right of use acquired under finance leases as required by IFRS 16. Accordingly, the opening holdings have been adjusted to reflect the effects of IFRS 16 first-time adoption as from 1 July 2019 (see Part A of the Notes to the Accounts, "New IFRS16: Leasing", for further details). New leases executed during the twelve months totalled €30.9m (stated in row B.7 "Other adjustments"), whereas depreciation charges for RoU totalled €38.6m (stated in row C.2 "Depreciation". Adjustments of €1m were also taken in connection with the closure of the Mediobanca S.p.A. branch office in Frankfurt.

9.7 Assets held for investment purposes: movements during the year

	Total	
	Lands	**Buildings**
A. Opening balance	29,054	37,829
B. Increase	650	917
B.1 Purchasing	—	—
- of which: business combinations	—	—
B.2 Capitalised expenditure on improvements	—	110
B.3 Positive changes in fair value	—	—
B.4 Writebacks	—	—
B.5 Positive exchange differences	—	—
B.6 Transfer from investment properties	—	—
B.7 Other adjustments	650	807
C. Decrease	560	3,543
C.1 Sales	—	—
- of which: business combinations	—	—
C.2 Depreciation	—	1,853
C.3 Negative changes in fair value	—	—
C.4 Impairment losses	—	—
C5 Negative exchange difference	—	—
C.6 Transfer to:	—	—
a) property used in operations	—	—
b) non-current assets and group of assets held for sale;	—	—
C.7 Other adjustments	560	1,690
D. Closing balance	29,144	35,203
E. Measured at fair value	84,688	55,130

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These consist of the following properties:

Properties	SQU./m.	Book value (€ '000)	Book value per SQU. m. (€'000)
Rome	8,228	24,573	0.3
Lecce	21,024	17,172	1.2
Verona*	30,502	9,440	3.2
Bologna*	6,913	5,676	1.2
Vicenza	6,200	4,885	1.3
Pavia	2,250	1,164	1.9
Padua	4,208	1,437	2.9
Total	**79,325**	**64,347**	

* Includes industrial premises and areas used for offices.

9.8 Inventory of assets pursuant to IAS 2: movements during the year

	Inventories of property and equipment resulting from the enforcement of guarantees					Other inventories of property and equipment	Total
	Land	Buildings	Furniture	Electronic equipment	Other		
A. Opening balance	1,100	6,917	—	—	—	—	8,017
B. Increases	—	—	—	—	—	—	—
B.1 Purchases	—	—	—	—	—	—	—
B.2 Recoveries	—	—	—	—	—	—	—
B.3 Positive foreign exchange differences	—	—	—	—	—	—	—
B.4 Other changes	—	—	—	—	—	—	—
C. Decreases	129	257	—	—	—	—	386
C.1 Sales	—	—	—	—	—	—	—
C.2 Impairment losses	—	—	—	—	—	—	—
C.3 Negative foreign exchange differences	—	—	—	—	—	—	—
C.4 Other changes	129	257	—	—	—	—	386
D. Closing balance	971	6,660	—	—	—	—	7,631

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SECTION 10

Heading 100: Intangible assets

Intangible assets with indefinite duration consist of goodwill and brands acquired as part of business combinations, whereas those with definite duration are the client lists similarly acquired and software. For details on the methods by which intangible assets are valued, reference is made to Part A – Accounting Policies.

During the twelve months under review this item fell from €901.8m to €816m, chiefly as a result of the writedown charged to the goodwill on RAM AI, as described below.

10.1 Intangible assets: composition

Activities/Values	30/6/20		30/6/19	
	Definite life	Indefinite life	Definite life	Indefinite life
A.1 Goodwill	X	666,536	X	772,427
A.1.1 attributable to the group	X	666,536	X	772,427
A.1.2 attributable minorities	X	—	X	—
A.2 Other intangible asset	67,403	82,057	59,233	70,098
A.2.1 Assets valued at cost:	67,403	82,057	47,976	70,098
a) intangible assets generated internally	—	—	—	—
b) other assets	67,403	82,057	47,976	70,098
A.2.2 Assets valued at fair value:	—	—	11,257	—
a) intangible assets generated internally	—	—	—	—
b) other assets	—	—	11,257	—
Total	67,403	748,593	59,233	842,525

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10.2 Intangible assets: movements during the year

	Goodwill	Other intangible assets: internally generated		Other intangible assets: others		Total
		Definite life	Indefinite life	Definite life	Indefinite life	
A. Opening balance	772,427	—	—	233,464	70,098	1,075,989
A.1 Reductions of total net value	—	—	—	(174,231)	—	(174,231)
A.2 Net opening balance	772,427	—	—	59,233	70,098	901,758
B. Increases	6,606	—	—	41,063	11,959	59,628
B.1 Purchases	—	—	—	27,126	—	27,126
- of which business combinations	—	—	—	—	—	—
B.2 Increments of internal intagible assets	X	—	—	—	—	—
B.3 Value recoveries	X	—	—	—	—	—
B.4 Positive variations of fair value	—	—	—	—	—	—
- equity	X	—	—	—	—	—
- to P&L statement	X	—	—	—	—	—
B.5 Positive exchange differences	—	—	—	78	1,605	1,683
B.6 Other variations	6,606	—	—	13,859	10,354	30,819
C. Decreases	112,497	—	—	32,893	—	145,390
C.1 Sales	—	—	—	—	—	—
- of which business combinations	—	—	—	—	—	—
C.2 Value adjustment	96,900	—	—	30,222	—	127,122
- Amortisations	X	—	—	30,222	—	30,222
- Depreciations	96,900	—	—	—	—	96,900
+ equity	X	—	—	—	—	—
+ P&L statement	96,900	—	—	—	—	96,900
C.3 Negative variations of fair value	—	—	—	—	—	—
- equity	X	—	—	—	—	—
- to P&L statement	X	—	—	—	—	—
C.4 Transfer to non-current assets	—	—	—	—	—	—
C.5 Negative exchange differrences	—	—	—	—	—	—
C.6 Other variations	15,597	—	—	2,671	—	18,268
D. Net closing balance	666,536	—	—	67,403	82,057	815,996
D.1 Adjustment of net total values	—	—	—	(209,562)	—	(209,562)
E. Gross closing balance	666,536	—	—	276,965	82,057	1,025,558
F. Measurement at cost	—	—	—	—	—	—

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Information on intangible assets and goodwill

No new acquisitions were completed during the twelve months under review, but the purchase price allocation process (PPA) for the Messier Maris & Associés acquisition made last year has been completed, resulting in:

– A new valuation for the brand of €27.2m (when the deal was executed the brand was valued at €17m) with indefinite useful life. The new estimate was made by applying the royalty relief method based on the 2020-23 strategic plan and a royalty rate of 4.4% (taken from the Markables database);

– A new customer relationship being identified in an amount of €11.3m, to be amortized over eight years.

Goodwill, including deferred tax of €6.7m, thus reduces from €149 a €134.2m.

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

Table 1: Summary of PPA effects, Italian acquisitions

	Linea	**IFID**	**Spafid Connect**	**Barclays**	**Esperia**
Acquisition date	*27/6/2008*	*1/8/2014*	*18/6/2015*	*26/8/2016*	*6/4/2017*
Price paid	406,938	3,600	5,124	(240,000)	233,920
of which: ancillary charges	*2,000*	*200*	—	—	—
Liabilities	—	—	—	80,000	—
Intangible assets, defined life	(44,200)	(700)	(3,250)	(26,000)	(4,508)
no. of years amortization	*8*	*7*	*10*	*5*	*5*
Brands	(6,300)	—	—	—	(15,489)
Fair value adjustments	—	—	—	84,200	11,232
Balance of other assets (liabilities)	(2,659)	420	(466)	98,300	(176,585)
Tax effects	12,155	220	934	3,500	6,613
Goodwill before impairment test	**365,934**	**3,540**	**2,342**	**—***	**55,183**

* The deal generated badwill.

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Table 1: Summary of PPA effects, non-Italian acquisitions

	Cairn	RAM[1]	MMA
Acquisition date	*31/12/2015*	*28/2/2018*	*11/4/2019*
Currency	GPB	CHF	EURO
Price paid	24,662	164,732	107,856
of which: ancillary charges	—	—	—
Liabilities	20,813	46,850	54,540
Intangible assets, defined life	—	(2,398)	(11,330)
no. of years amortization	—	*5*	*8*
Brands	—	(37,395)	(10,230)
Fair value adjustments	—	—	—
Balance of other assets (liabilities)	(8,345)	(6,853)	(13,353)
Tax effects	—	7,163	6,684
Goodwill before impairment test	**37,130**	**172,099**	**134,167**

[1] All amounts are calculated pro rata (89.25%).

The situation for the Group's other main acquisitions is as follows:

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

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

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

– The deal to acquire the Barclays' Italian business unit required the seller to pay badwill of €240m, generating, which in the purchase price allocation process was treated as a contingent liability in an amount of €59m (linked to the restructuring process) and loan loss provisions for mortgages totalling €21m, roughly half of which for non-performing exposures. Taking account intangible assets with time-limited life of €26m related to a list of clients with AUM and AUA with a useful life of five years, the bargain purchase generated a gain of €98.3m, most of which was absorbed by the one-off costs related to integrating the Barclays' geographical and IT networks into CheBanca! (approx. €80m);

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- The Cairn Capital acquisition (£24.7m for a 51% stake, along with put-and-call options over the other 49% valued at £20.8m) generated goodwill of £37.1m (calculated based on 100%). This goodwill was confirmed at the end of the purchase price allocation processed; Cairn Capital Group has been treated as a single CGU. Following exercise of some tranches, the interest held in the company is now equal to 70.93%, while the outstanding liability, valued at the presumed realizable value, is equal to €13.9m.
- Acquisition of 50% of Banca Esperia held by Banca Mediolanum in return for a consideration of €141m (the deal closed on 6 April 2017); in December 2017 Banca Esperia was merged into Mediobanca, and the purchase price allocation process was completed the same month, which led to a brand being recognized worth €15.5m, a customer list of €4.5m to be amortized over five years, and goodwill of €52.1m split between the Private Banking and Mid-Cap CGUs (for €29.4m and €22.7m respectively);
- In February 2018 a 69% stake was acquired in RAM AI under the terms of a put-and-call arrangement which allows the investment to be increased to 89.25%, exercisable from the third to the tenth year after the deal was executed. The purchase price allocation process led to recognition of a brand worth CHF 41.9m with indefinite life and a client list (related to the AUM management contracts followed by REYL) worth CHF 2.7m, to be amortized over five years. Goodwill post-PPA was calculated at CHF 172.1m, which includes the liability in respect of the put-and-call option (over the other 20.25% not acquired) valued at CHF 46.9m:
- The acquisition of 66.4% of the share capital of Messier Maris & Associés – MMA (completed in April 2019), for a consideration of €107.9m settled by means of 11.6 million Mediobanca treasury shares (equal to 1.3% of the Bank's share capital). A put-and-call agreement was also executed, exercisable as from the fifth year following the acquisition, that would allow the interest acquired to rise to 100%. In conjunction with the deal closing, the Messier Maris brand was transferred at a value of €17m, which was increased by €27.2m following the PPA process, along with a client list worth €11.3m to be amortized over eight years, which reduced the goodwill to €134.2m.

With reference to the RAM AI CGU, in view of the fact that its FY 2019-20 was considerably below the budget estimates, in part due to the crisis that developed following the Covid-19 pandemic, it has become necessary to revise the company's earnings projections. The company's growth estimates have been

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revised downwards compared to those at the acquisition date, and results are expected to return to their 2018-19 levels only in the next four or five years. The revised valuation of company based on the new plan is now comprised within a range that is below the original book value. The valuation has been confirmed by a specialist external operator. In view of these events, Mediobanca has decided to reduce the original goodwill by 60%, from CHF 172.1m to CHF 68.8m, with an impact on profit and loss of CHF 103.3m (€96.9m). Conversely, the liability in respect of the put-and-call option over the 20.25% stake not already owned has been adjusted to CHF 12.9m, aligned with the valuation resulting from the impairment testing, considering the right of exercise and the related expiry date, and so distinguishing it from the value in use. The adjustment produced a benefit of CHF 34m (€31.8m), which reduced the overall impact on profit and loss to CHF 69m (€65.1m).

The tables below show a list of the intangible assets acquired as part of M&A transactions and summarizing the goodwill recognized in the accounts as broken down both by deal and cash-generating unit (CGU).

Table 2: Other intangible assets acquired as a result of M&A transactions

Typology	**Deal**	**30/6/20**	**30/6/19**
Customer relationship		25,156	22,201
	IFID	—	*208*
	Spafid	*390*	*390*
	Barclays/CheBanca!	*6,838*	*11,258*
	MB Private Banking	*1,807*	*2,705*
	CMB	*5,215*	*5,865*
	RAM Active Investments	*1,346*	*1,774*
	Messier Maris et Associes	*9,560*	—
Brand		65,057	53,219
	MB Private Banking	*15,489*	*15,489*
	RAM Active Investments	*39,338*	*37,730*
	Messier Maris et Associes[1]	*10,230*	—
Acquired software	Spafid Connect	2,468	3,005
Total		**92,681**	**78,425**

[1] Added to the brand transferred in connection with the acquisition and equal to €17m (figure taken from financial statements for year ended 30 June 2019).

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Table 3: Goodwill

Deal	30/6/20	30/6/19
Compass-Linea	365,934	365,934
Spafid-IFID	3,540	3,540
Spafid Connect	2,342	2,342
Spafid-Fiduciaria	3,080	3,080
Cairn Capital	40,738	41,414
Banca Esperia	52,103	52,103
RAM Active Investments	64,632	154,974
Messier Maris & Associés	134,167	149,040
Total goodwill	**666,536**	**772,427**

Table 4: CGUs

CGU	Deal	30/6/20	30/6/19
Consumer credit	Linea	280,634	280,634
Credit cards	Linea	73,400	73,400
Salary-backed finance	Linea	11,900	11,900
Fiduciary services	IFID	3,540	3,540
Fiduciary services	Fiduciaria	3,080	3,080
Corporate services	Spafid Connect	2,342	2,342
Cairn Capital		40,690	41,414
Mid corporate	ex Esperia	22,650	22,650
MBPrivate Banking	ex Esperia	29,453	29,453
RAM		64,680	154,974
Messier Maris & Associés		134,167	149,040
Total goodwill		**666,536**	**772,427**

Information on impairment testing

As stated in the Accounting Policies section, IAS 36 requires any loss of value, or impairment, of individual tangible and intangible assets to be tested at least once a year, in preparing the annual financial statements, or more frequently if events or circumstances occur which suggest that there may have been a reduction in value.

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

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

The Group has adopted a policy, the most recent update of which was submitted to the approval of the Board of Directors in June 2019, governing the impairment testing process which incorporates the guidance issued jointly by the *Organismo Italiano di Valutazione* (Impairment testing of goodwill in financial crises, published on 14 June 2012, *Principi Italiani di Valutazione* (PIV) published in 2015, Discussion Paper dated 22 January 2019), the ESMA recommendations contained in its document entitled "European Common Enforcement Priorities for 2013 Financial Statements", the joint Bank of Italy-Consob-IVASS guidelines (document no. 4 issued on 3 March 2010) and Consob communications (DIE/17131 of 3 March 2014 and 3907 of 19 January 2015).

On 10 July 2020, the *Organismo Italiano di Valutazione* published its "Guidelines on impairment testing following the effects of the Covid-19 pandemic", which has been taken into account in preparing these financial statements.

The recoverable value for goodwill has been estimated using the dividend discount model methodology, with the excess capital version applied which is commonly employed by financial institutions for this purpose for capital-intensive CGUs.

The cash flows have been projected over a time horizon of three-five years based on the Group's strategic plans and the annual budgets formulated by the management of the individual CGU. In view of the exceptional nature of the circumstances witnessed in the last few months due to the Covid-19 pandemic, in preparing the budget for FY 2020-21, the rolling estimates for the following years have been revised as well. This has involved identifying a new macroeconomic scenario, and account has been taken of the short- and medium-term consequences of the pandemic in line with the most recent estimates

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(slowdown in the real economy for businesses and households, resulting in a fall in demand, risk aversion in investing, opportunities in the area of corporate restructuring, with all the related risks), and the projections for revenues, investments and cost of risk have all been revised accordingly.

To estimate the cost of equity, which is determined via the Capital Asset Model (CAPM) as required under IAS 36, certain parameters common to all CGUs have been used, namely:

– The risk-free rate, i.e. the return on investments which are risk-free or entail minimum risk over the near term and not exceeding one year, identified as the return on sovereign debt of the countries in which the asset being valued is headquartered;
– The market risk premium, i.e. the reward which investors require in order to increase the risk on their investments. This is obtained from a variety of sources, including research carried out by companies and leading academics, with the contribution of various university professors in order to estimate the long-term payout ratio and the spread of returns on equities and the spot levels of government securities;
– The growth rate (g), to calculate the terminal value, using the so-called "perpetuity" methodology, established taking into account the inflation rate expected over the long term in the country where the specific CGU is based; in some cases, however, other factors are also considered, such as the real growth scenario in the sector where the CGU operates;
– Each CGU is also assigned a systemic risk indicator (Beta) considered over a two-year time horizon based on market peers.

Finally, it should be emphasized that in calculating the cost of equity (Ke), account must also be taken of risk specific to the CGU, if any, through an additional risk (alpha coefficient/factor) to incorporate the risk perceived by the market but not fully reflected by the CAPM indicators. At this unprecedented moment in time, having decided to calculate the cost of equity using the same method as in the past, an alpha coefficient has been used, which differs according to the geography in which the CGU is located, to capture the risk not reflected in the new cash flow estimates.

Table 5: Cost of equity parameters per CGU

CGU	30/6/20					
	Risk-free rate	Equity risk premium	Beta 2y	Factor	Cost of equity	Expected growth rate
	Rf	***Erp***	**β**	**α**	***Ke***	***g***
Consumer credit	1.33%	6.97	1.03	1.36	9.88	1.3
Credit cards	1.33%	6.97	1.03	1.36	9.88	1.3
Salary-backed finance	1.33%	6.97	1.03	1.36	9.88	1.3
Fiduciary services	1.33%	6.97	1.00	1.36	9.66	1.3
Private Banking	1.33%	6.97	1.00	1.36	9.66	1.3
Mid corporate	1.33%	6.97	1.00	1.36	9.66	1.3
Services to issuers	1.33%	6.97	1.00	1.36	9.66	1.3
Cairn Capital / UK	0.51%	5.94	1.13	1.22	8.41	1.7
RAM AI / Switzerland	0.63%	6.34	1.13	2.52	9.02	1.5
MMA / France	-0.11%	6.97	1.11	1.80	8.96	1.5

CGU	30/6/19					
	Risk-free rate	Equity risk premium	Beta 2y	Factor	Cost of equity	Expected growth rate
	Rf	***Erp***	**β**	**α**	***Ke***	***g***
Consumer credit	2.82%	6.82	0.83	N/A	8.50	1.3
Credit cards	2.82%	6.82	0.83	N/A	8.50	1.3
Salary-backed finance	2.82%	6.82	0.83	N/A	8.50	1.3
Fiduciary services	2.82%	6.82	1.07	N/A	10.09	1.3
Private Banking	2.82%	6.82	1.07	N/A	10.09	1.3
Mid corporate	2.82%	6.82	1.07	N/A	10.09	1.3
Services to issuers	2.82%	6.82	0.90	N/A	8.96	2.0
Cairn Capital / UK	1.10%	6.20	1.05	1.80	9.56	2.0
RAM AI / Switzerland	1.26%	6.90	1.05	1.80	10.14	2.0

The increase in the cost of equity compared to last year is largely attributable to use of the alpha coefficient, as follows: the Italian CGUs show a reduction in the risk-free rate (from 2.82% to 1.33%) and an increase in the risk premium (from 6.82% to 6.97%), while the two alternative asset management CGUs Cairn and RAM also show a reduction in the risk-free rate and in the risk reward. For all CGUs an alpha coefficient has been included.

All the Group's CGUs passed the impairment test, as the net present value was higher than the book value which already accounted for the depreciation of the current fiscal year.

A sensitivity analysis exercise was also performed, to ascertain the results in various scenarios, such as 0.25% increase or decrease in the cost of equity

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and/or a 0.50% increase or decrease in the growth rate, and again, all results were positive. Finally, in line with the main peers, sensitivity analysis has also been performed on other variables: the cost/income ratio, and for companies with credit risk, the cost of risk.

* * *

As for the three brands currently booked under intangibles with indefinite duration, the following should be noted:

- The value of the Mediobanca Private Banking brand has been tested to confirm there are no indicators of impairment, using the royalty relief method which is based on discounting the royalty flows allocated to the Private Banking brand;
- For the RAM AI brand, the valuation has been revised using the income approach in the Purchase Price Allocation process;
- The value of the Messier Maris et Associés brand has been recalculated as part of the Purchase Price Allocation.

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SECTION 11

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

11.1 Advance tax assets: composition

	Total 30/6/20	Total 30/6/19
- Against Profit & Loss	616,727	612,627
- Against Net Equity	40,773	46,856
Total	657,500	659,483

11.2 Deferred tax liabilities: composition

	Total 30/6/20	Total 30/6/19
- Against Profit & Loss	302,963	292,302
- Against Net Equity	22,485	26,870
Total	325,448	319,172

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

	Total 30/6/20	Total 30/6/19
1. Opening balance	612,627	614,153
2. Increases	18,342	47,119
2.1 Deferred taxes assets for the year	17,651	47,111
a) relating to previous years	1,338	32
b) due to changes in accounting policies	—	—
c) writebacks	—	—
d) others	16,313	47,079
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	691	9
3. Decreases	14,242	48,646
3.1 Deferred taxes assets derecognized in the year	13,763	47,915
a) reversals of temporary differences	13,407	47,515
b) writedowns of non-temporary items	—	—
c) changes in accouting policies	—	—
d) others	356	400
3.2 Reduction in tax rates	—	—
3.3 Other decreases:	479	731
a) conversion into tax receivables pursuant to Italian Law 214/2011	—	—
b) others	479	731
4. Closing balance	616,727	612,627

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*11.4 Changes in advance tax (pursuant to Italian Law 214/11) **

	Total 30/6/20	Total 30/6/19
1. Opening balance	548,385	548,385
2. Increases	—	—
3. Decreases	—	—
3.1 Reversals of temporary differences	—	—
3.2 Conversion into tax receivables deriving from:	—	—
a) year losses	—	—
b) tax losses	—	—
3.3 Other decreases	—	—
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.

The 2020 Italian budget law has provided that the writeoff to current taxes will be postponed to the tax period in force until 31 December 2022 and the three subsequent tax periods; hence no changes have been recorded.

11.5 Changes in deferred tax during the period

	Total 30/6/20	Total 30/6/19
1. Opening balance	292,302	284,242
2. Increases	27,930	105,501
2.1 Deferred taxes liabilities of the year	21,698	1,095
a) relating to previous years	—	—
b) due to changes in accounting policies	—	—
c) others	21,698	1,095
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	6,232	104,406
3. Decreases	17,269	97,442
3.1 Deferred taxes liabilities derecognized in the year	15,506	95,774
a) rigiri	3,768	93,789
b) changes in accouting policies	—	—
c) others	11,738	1,985
3.2 Reduction in tax rates	—	32
3.3 Other decreases:	1,763	1,636
4. Closing balance	302,963	292,302

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11.6 Changes in advance tax during the period (against net equity)

	Total 30/6/20	Total 30/6/19
1. Opening balance	46,856	69,542
2. Increases	39,231	37,358
2.1 Deferred taxes liabilities for the year	38,346	37,269
a) relating to previous year	—	—
b) due to changes in accounting policies	—	942
c) others	38,346	36,327
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	885	89
3. Decreases	45,314	60,044
3.1 Deferred tax liabilities derecognized in the year	43,570	52,923
a) reversals pf temporary differences	42,859	39,056
b) writedowns of non-recoverable amounts	—	—
c) due to changes in accounting policies	—	—
d) others	711	13,867
3.2 Reductions in tax rates	—	39
3.3 Other decreases	1,744	7,082
4. Closing balance	40,773	46,856

11.7 Changes in deferred tax during the period (against net equity)

	Total 30/6/20	Total 30/6/19
1. Opening balance	26,870	59,782
2. Increases	75,772	95,855
2.1 Deferred taxes liabilities of the year	75,757	95,836
a) relating to previous years	—	—
b) due to changes in accounting policies	—	—
c) others	75,757	95,836
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	15	19
3. Decreases	80,157	128,767
3.1 Deferred taxes liabilities derecognized in the year	80,155	128,767
a) rigiri	80,155	128,577
b) changes in accouting policies	—	—
c) others	—	190
3.2 Reduction in tax rates	—	—
3.3 Other decreases:	2	—
4. Closing balance	22,485	26,870

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SECTION 12

Asset heading 120 and liability heading 70: Non-current assets and groups of assets held for sale and related liabilities

12.1 Non-current assets and groups of assets held for sale: composition

	30/6/20	30/6/19
A. Assets held for sale		
A.1 Financial assets	—	22,168
A.2 Equity investments	—	—
A.3 Tangible assets	—	—
of which: obtained by taking possession of collaterals	—	—
A.4 Intangible assets	—	—
A.5 Other non-current assets	—	—
Total (A)	—	22,168
of which: valued at cost	—	—
of which: valued at fair value, Level1	—	—
of which: valued at fair value, Level2	—	—
of which: valued at fair value, Level3	—	22,168

As for 30 June 2019, assets held for sale referred to the sale of bad debts attributable to the former Micos Banca, which were disposed of at the start of FY 2019-20.

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

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SECTION 13

Heading 130: Other assets

13.1 Other assets: composition

	30/6/20	30/6/19
1. Gold, silver and precious metals	695	695
2. Accrued income other than capitalized income from financial assets	44,631	26,024
3. Trade receivables or invoices to be issued	256,670	172,536
4. Amounts due from tax revenue authorities (not recorded under Heading 140)	159,463	179,658
5. Other items	207,937	330,032
- bills for collection	48,197	158,064
- amounts due in respect of premiums, grants, indemnities and other items in respect of lending transactions	17,092	22,634
- advance payments on deposit commissions	2,513	2,859
- other items in transit	79,036	128,099
- sundry other items[1]	61,099	18,376
Total other assets	669,396	708,945

[1] Includes accrued income.

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Liabilities

SECTION 1

Heading 10: Financial liabilities recognized at amortized cost

1.1 Financial liabilities recognized at amortized cost: composition, due to banks

Type of transaction/Values	30/6/20				30/6/19			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Loans from central banks	5,660,803	X	X	X	4,367,257	X	X	X
2. Loans from banks	7,149,527	X	X	X	9,503,601	X	X	X
2.1 Other current accounts and demand deposits	596,259	X	X	X	637,250	X	X	X
2.2 Time deposits	—	X	X	X	52,759	X	X	X
2.3 Loans	6,442,279	X	X	X	8,307,212	X	X	X
2.3.1 Repos	2,204,642	X	X	X	4,482,590	X	X	X
2.3.2 Other	4,237,637	X	X	X	3,824,622	X	X	X
2.4 Liabilities in respect of commitments to repurchase own equity instruments	—	X	X	X	—	X	X	X
2.5 Lease liabilities [1]	4,519	X	X	X	—	X	X	X
2.6 Other liabilities	106,470	X	X	X	506,380	X	X	X
Total	12,810,330	—	12,810,330	—	13,870,858	—	13,870,858	—

[1] This item includes obligations in respect of payment of future leasing installments as required by IFRS 16 and Bank of Italy circular no. 262.

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1.2 Financial liabilities recognized at amortized cost: composition, due to customers

Type of transaction/Value	30/6/20				30/6/19			
	Book Value	Fair Value			Book Value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Deposits from customers and on demand deposits	18,957,396	X	X	X	17,379,865	X	X	X
2. Time deposits	6,232,444	X	X	X	5,813,091	X	X	X
3. Loans	846,472	X	X	X	676,049	X	X	X
3.1 Repos	710,173	X	X	X	471,387	X	X	X
3.2 Other	136,299	X	X	X	204,662	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	—	X	X	X	—	X	X	X
5. Lease liabilities[1]	212,196	X	X	X	—	X	X	X
6. Other liabilities	124,706	X	X	X	118,877	X	X	X
Total	26,373,214	—	26,373,214	—	23,987,882	—	23,987,882	—

[1] This item includes obligations in respect of payment of future leasing installments as required by IFRS 16 and Bank of Italy circular no. 262.

1.3 Financial liabilities recognized at amortized cost: composition, debt securities in issue

Type of securities/ Values	30/6/20				30/6/19			
	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	18,889,474	1,287,832	17,901,254	—	18,724,942	1,109,322	17,972,952	—
1.1 structured	3,617,647	—	3,779,434	—	4,058,647	—	4,238,889	—
1.2 other	15,271,827	1,287,832	14,121,820	—	14,666,295	1,109,322	13,734,063	—
2. Other securities	868,410	—	828,977	39,433	1,353,254	—	1,305,017	48,237
2.1 structured	—	—	—	—	—	—	—	—
2.2 other	868,410	—	828,977	39,433	1,353,254	—	1,305,017	48,237
Total	19,757,884	1,287,832	18,730,231	39,433	20,078,196	1,109,322	19,277,969	48,237

* The fair values are shown net of Mediobanca issuer risk; if this item is included, the fair value at 30 June 2020 would show a gain of €235.7m (€237.8m).

Debt securities in issue increased from €18,724,942,000 to €18,889,474,000 on new issuance of €4.6bn, redemptions and buybacks of €4.4bn (generating gains of €0.6m), and other upward adjustments (exchange rates, amortized cost and hedging effects) amounting to €12.3m.

Structured bonds chiefly regard bonds with interest rate options (including cap and floor) and equity-linked notes (which account for 12.5% of this item).

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The Group's first senior-non preferred issue was made during the twelve months, in an amount of €500m, falling due in April 2025, and listed on the Dublin stock exchange ("XS2106861771 Mediobanca SNP 1.25% 23/04/2025").

1.4 Breakdown of debt securities/subordinated liabilities

The heading "Debt securities in issue" includes the following seven subordinated Lower Tier 2 issues, for a total amount of €2,441,223,000:

Issue	30/6/20		
	ISIN	Nominal value	Calculated amount
MB Subordinato Mar 29	XS1579416741	50,000	50,275
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	615,308	639,586
MB OPERA 3.75 2026	IT0005188351	299,577	311,620
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	394,970	397,272
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	500,000	506,121
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	499,177	536,349
Total subordinated debt securities		2,359,032	2,441,223

Heading 20: trading liabilities

2.1 Trading liabilities: composition

Operation type/Values	30/6/20					30/6/19				
	Notional value	Fair value			Fair value *	Notional value	Fair value			Fair value *
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. Cash liabilities										
1. Due to banks	1,431,165	1,653,615	—	—	1,653,615	2,602,390	2,903,263	—	—	2,903,263
2. Due to customers	1,306,066	1,509,072	—	—	1,509,072	1,249,673	1,394,230	—	—	1,394,230
3. Debt securities	—	—	—	—		—	—	—	—	
3.1 Bonds	—	—	—	—		—	—	—	—	
3.1.1 Structured	—	—	—	—	X	—	—	—	—	X
3.1.2 Other bonds	—	—	—	—	X	—	—	—	—	X
3.2 Other securities	—	—	—	—		—	—	—	—	
3.2.1 Structured	—	—	—	—	X	—	—	—	—	X
3.2.2 Other	—	—	—	—	X	—	—	—	—	X
Total (A)	2,737,231	3,162,687	—	—	3,162,687	3,852,063	4,297,493	—	—	4,297,493
B. Derivative instruments[2]										
1. Financial derivatives		855,347	2,989,573	530,954 [1]			650,530	2,128,951	249,777 [1]	
1.1 Trading	X	855,347	2,978,135	529,758	X	X	650,530	2,070,454	247,959	X
1.2 Related to the fair value option	X	—	—	—	X	X	—	—	—	X
1.3 Other	X	—	11,438	1,196	X	X	—	58,497	1,818	X
2. Credit derivatives		—	418,374	—			—	701,000	—	
2.1 Trading	X	—	418,374	—	X	X	—	701,000	—	X
2.2 Related to the fair value option	X	—	—	—	X	X	—	—	—	X
2.3 Other	X	—	—	—	X	X	—	—	—	X
Total (B)	X	855,347	3,407,947	530,954	X	X	650,530	2,829,951	249,777	X
Total (A+B)	X	4,018,034	3,407,947	530,954	X	X	4,948,023	2,829,951	249,777	X

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

[1] Including both €408,844,000 (30/6/19: €235,984,000) for matched options traded , matching the amount booked as financial assets held for trading and the market value of options (€351,000 as at 30/6/20 and €506,000 as at 30/6/19) matching those associated with bond issued booked as financial assets held for trading.

[2] In the data for 30/6/19, certificates have been restated based on their underlying instrument, in order to facilitate comparison with the data as at 30/6/20.

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Heading 30: Financial liabilities recognized at fair value

3.1 Financial liabilities recognized at fair value; composition

Type of transaction/Values	30/6/20					30/6/19				
	Nominal value	Fair Value			Fair Value *	Nominal value	Fair Value			Fair Value *
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
1. Due to banks	—	—	—	—	—	—	—	—	—	—
1.1 Structured	—	—	—	—	X	—	—	—	—	X
1.2 Others	—	—	—	—	X	—	—	—	—	X
of which:						—				
- commitments to disburse funds	—	X	X	X	X	—	X	X	X	X
- financial guarantees given	—	X	X	X	X	—	X	X	X	X
2. Due to clients	—	—	—	—	—	—	—	—	—	—
2.1 Structured	—	—	—	—	X	—	—	—	—	X
2.2 Others	—	—	—	—	X	—	—	—	—	X
of which:					—					
- commitments to disburse funds	—	X	X	X	X	—	X	X	X	X
- financial guarantees given	—	X	X	X	X	—	X	X	X	X
3. Debt securities	215,587	—	216,020	—	216,020	50,000	—	55,859	—	55,859
3.1 Structured [1]	215,587	—	216,020	—	X	50,000	—	55,859	—	X
3.2 Others	—	—	—	—	X	—	—	—	—	X
Total	215,587	—	216,020	—	216,020	50,000	—	55,859	—	55,859

[1] Including €160,878,000 in certificates with guaranteed capital issued during FY 2019-20.

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SECTION 4

Heading 40: Hedging derivatives

4.1 Hedging derivatives: by type of hedge/ranking

	30/6/20				30/6/19			
	Fair value			Nominal value	Fair value			Nominal value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	—	465,225	—	21,286,650	—	414,241	—	17,381,786
1) Fair value	—	428,533	—	12,943,850	—	349,007	—	12,536,786
2) Cash flow	—	36,692	—	8,342,800	—	65,234	—	4,845,000
3) Foreign investments	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	—	465,225	—	21,286,650	—	414,241	—	17,381,786

4.2 Hedging derivatives: composition by portfolio hedged/hedge type

Transactions / Type of hedge	Fair value							Cash flow		
	Specific						Generic	Specific	Generic	Foreign invest.
	debt securities and interest rates	equities and equity index	currencies and gold	credit	commodities	others				
1. Financial assets at fair value with impact taken on comprehensive income	30,470	—	—	—	X	X	X	—	X	X
2. Financial assets valued at amortized cost	367,595	X	—	—	X	X	X	—	X	X
3. Portfolio	X	X	X	X	X	X	—	X	—	X
4. Other operations	—	—	—	—	—	—	X	—	X	—
Total assets	398,065	—	—	—	—	—	—	—	—	—
1. Financial liabilities	30,468	X	—	—	—	—	X	36,692	X	X
2. Portfolio	X	X	X	X	X	X	—	X	—	X
Total liabilities	30,468	—	—	—	—	—	—	36,692	—	—
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	—	—

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SECTION 6

Heading 60: Tax liabilities

Please see Asset section 11.

SECTION 8

Heading 80: Other liabilities

8.1 Other liabilities: composition

	30/6/20	30/6/19
1. Working capital payables and invoices pending receipt	255,677	327,037
2. Amounts due to revenue authorities	63,376	76,186
3. Amounts due to staff	211,853	227,706
4. Other items:	267,163	318,029
- bills for collection	24,141	26,719
- coupons and dividends pending collection	4,149	2,564
- available sums payable to third parties	57,037	44,959
- premiums, grants and other items in respect of lending transactions	16,581	29,951
- other[1]	165,255	213,836
Total	798,069	948,958

[1] Includes the liability in respect of the put-and-call agreements entered for Cairn Capital, RAM AI and MMA.

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SECTION 9

Heading 90: Staff severance indemnity provision

9.1 Staff severance indemnity provision: changes during the period

	Total 30/6/20	Total 30/6/19
A. Opening balance	27,808	27,510
B. Increases	8,633	9,093
B.1 Provision of the year	6,635	6,394
B.2 Other increases	1,998	2,699
- of which business aggregation operations	—	—
C. Reductions	8,579	8,795
C.1 Severance payments	2,492	2,742
C.2 Other decreases[1]	6,087	6,053
- of which business aggregation operations	—	—
D. Closing balance	27,862	27,808
Total	27,862	27,808

[1] Includes €4,200,000 in transfers to external, defined contribution pension schemes (30/6/19: €3,904,000).

The staff severance indemnity provision is for those of the Group companies headquartered in Italy. For a detailed description of the accounting standards used, please see Part A - Accounting Policies.

9.2 Other information

The staff severance indemnity provision constitutes a defined benefit scheme, and the actuarial model used to account for it relies on a series of assumptions, both demographic and economic in nature.

For some of the assumptions used, reference has been made directly to the Group's own experience (e.g. estimates of disability incidence, frequency of early retirement, annual increase in rate of remuneration, early withdrawals rate), while for the others, market best practices have been taken into account (e.g. the mortality rate has been determined using the IPS55 life tables, whereas the retirement age has been determined taking into account the most recent legislation in this area); for the discount rate, the iBoxx Eurozone Corporate AA index as at 30 June 2020 has been used for similar companies to those being valued (equal to 0.31%, compared with 0.77% last year), while the inflation rate has fallen to 1.20% (from 1.50%).

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SECTION 10

Heading 100: Provisions

10.1 Provisions: composition

Items/Components	30/6/20	30/6/19
1. Funds for credit risk related to commitments to disburse funds and financial guarantees given	13,680	10,536
2. Funds on other commitments to disburse funds and guarantees given	284	—
3. Provision to retirement payments and similar[1]	2,573	1,840
4. Other provisions:	112,956	150,139
4.1 legal and fiscal controversies	—	—
4.2 staff expenses	4,835	3,889
4.3 others	108,121	146,250
Total	129,493	162,515

[1] These regard the Swiss company RAM AI, in line with Swiss regulations.

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 30 June 2020, the heading "Other provisions" totalled €129.5m, and includes €12.7m in commitments to disburse funds and financial guarantees issued, €2.6m in company post-retirement benefit provisions (which regard Group company RAM, in line with Swiss regulations), and €113m for litigation and other contingent liabilities, including labour costs. The latter reflect withdrawals by Mediobanca (€27.1m, chiefly due to the recalculation of tax risk, after the dispute pending with Mediobanca International was settled), and CheBanca! (€12m, to cover the most recent strategic projects, plus the exit of staff as a result of the Barclays acquisition); transfers to provisions for the twelve months totalled €12.1m, and chiefly involve the disputes outstanding and personnel management. The balance of €113m is split between Mediobanca (€71.4m, versus €96.2m last year), CheBanca! (€19.4m, versus €32.9m), SelmaBipiemme (€10m, basically unchanged), Compagnie Monégasque de Banque (€3.8m, versus €4.5m), and Compass (€3.2m, versus €2.3m).

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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 fourteen other banks. The liability with which the banks are charged is non-contractual, and consists of participation in the alleged damages caused by 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, until the presiding judge pronounces on whether the means of proof requested by the parties are admissible;[1]
- Lucchini S.p.A. in extraordinary administration ("Lucchini"): against twelve banks, including Mediobanca, for the alleged involvement of these banks into the company's economic and financial disaster: the banks would have allegedly prepared and executed an economic and financial plan for the company based on clearly irrealistic forecasts and figures and a restructuring plan under Article 182bis l. fall. which included guarantees to much favourable to the banks themselves; these two facts would have brought to the company entering the extraordinary administration. In a ruling issued on 21 July 2020, the presiding judge rejected Lucchini's claim (as amended with the first memo pursuant to Article 183 of the Italian Code of Civil Procedure), finding that the right to damages in question had lapsed as it was now statute-barred; the claimant may still challenge the ruling before the Milan Court of Appeal.

As stated in the Review of Operations, the effects of the "Lexitor" ruling on retail operations are minimal and are limited to possible disputes over consumer credit transactions (salary-backed finance in particular), all of which prior to 5 December 2019, for which several complaints have been received, which are following the normal procedure in view of that the law on this matter is not yet consolidated.

With reference to the disputes outstanding with the Italian revenue authorities, an inspection by the authorities started in 2018 with reference to

[1] Mediobanca has also submitted an appeal, in conjunction with the other banks involved, to the Florence Court of Appeal to have the ruling that rejected the exception to the Italian judge having jurisdiction overturned. The first hearing has been set for 25 May 2021.

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the 2014-15 and 2015-16 financial years was completed, in the course of which three main charges had emerged:

- Alleged failure to apply, as required by the transparency regulations, the tax on controlled foreign companies (CFCs) required by the regulations in force to revenues generated by Compagnie Monégasque de Banque and Compagnie Monégasque de Gestion for years 2013, 2014 and 2015, as follows:
  - Notice of assessment regarding alleged failure by Mediobanca to pay tax in FY 2013-14 on 2013 earnings, in an amount of €21.3m (plus fines and interest), notified at end-2018;
  - Notice of assessment for FY 2014-15 (on 2014 earnings), for a disputed amount of €16.1m (plus fines and interest), notified at end-December 2019;
  - A formal notice of assessment was issued in October 2019 with regard to FY 2015-16 (on 2015 earnings), for which no notice of assessment has yet been issued;
- Alleged failure to apply withholding tax on interest payable as part of a secured financing transaction, as disputed by means of notice with reference to 2014 (involving tax of €2.3m, plus fines and interest), and included again with reference to 2015 in the formal notice of assessment received in October 2019;
- Dispute over the application of transfer pricing between Mediobanca S.p.A. and Mediobanca International S.A. (based in Luxembourg) in the financial years from 2012-13 to 2016-17. With regard to this case, in October 2019 an agreement was reached with the Italian revenue authority which resulted in a payment of €21m, plus interest but no fines ("penalty protection"). At the same time, a new transfer pricing methodology has been agreed with the revenue authority, to minimize the tax risks going forward. Mediobanca took the opportunity to voluntarily free up profit reserves for a total of €42m deriving from Mediobanca International's activities prior to 2002, i.e. when the transparency taxation mechanism for companies with registered offices in countries with privileged taxation regimes (i.e. blacklisted countries) was not in place. For its part, Mediobanca International SA has submitted an application to the Luxembourg tax authority to recover the higher taxes paid in relation to the taxable revenues attributed by the Italian revenue authority to Italy.

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With reference to the first two charges, the company is convinced there has been no wrongdoing, and has challenged the rulings; in particular, the appeal presented by Mediobanca against the 2018 CFC charge was discussed by the Milan Province Tax Commission in November 2019, for which the ruling is now pending.

Other significant events during the twelve months under review include the following cases, all now successfully concluded:

- Process for writing off tax debts ("rottamazione delle liti") provided for by Article 6 of Italian Decree Law 119/18 for seven out of the eight tax disputes SelmaBipiemme (notified tax per €11.7m, plus fines and interest totalling €35.2m), which may now to all intents and purposes be considered as closed;
- Dispute regarding the alleged failure by CheBanca! to pay registration tax on the acquisition of the former Barclays business unit, with both rulings from the Court of Appeal in favour, confirming the first-degree rulings issued;
- Tax relief on collection notice issued following an automatic check carried out on the 2015 *Unico* tax model for the former Banca Esperia.

In view of the above, the number of disputes outstanding at the reporting date in which the Group is involved is very low and regards the following:

- Three disputes pending with the Court of Cassation, one of which regards leasing (involving notified tax of €191,000), one 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 (already paid), and the third regarding Mediobanca SGR, which was charged in its capacity as fund manager of the "Marsupio" real estate fund for the alleged failure to pay withholding tax on three transactions, involving a higher amount of tax notified of €746,000 (payable by the fund);
- Three disputes regarding the alleged failure to refund the tax credit due to interest on VAT for various tax years by SelmaBipiemme; in particular the Milan Court of Appeal confirmed that interest for €470,000, have not been repaid (for 2008);
- A total of eight tax disputes therefore remain outstanding, involving claims in respect of direct and indirect taxes, for minor amounts and at different stages of the legal process, for a total notified amount of €1.2m.

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The enquiries launched by the French and German tax authorities into the Mediobanca Paris and Frankfurt branches were completed in December 2019. In both cases the enquiries focused on analyzing the branch offices' transfer pricing policies in force with the parent company, and resulted in the policies being amended and settlement agreements being signed without incurring in any further charges in terms of taxes of fines (save for a very minor amount payable by way of interest), without prejudice in any case to the possibility of recovering in Italy the higher tax paid abroad.

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 is pending).

10.2 Provisions for risks and charges: changes during the period

	Funds on other commitments to disburse funds and guarantees given	Provision to retirement payments and similar	Other provisions: staff expenses	Other provisions: others	Total
A. Opening balance	—	1,840	3,889	146,250	151,979
B. Increases	284	733	2,127	12,984	16,128
B.1 Provision for the year	284	646	1,004	11,057	12,991
B.2 Changes due to the passage of time	—	—	—	—	—
B.3 Difference due to discount rate changes	—	—	—	—	—
B.4 Other increases	—	87	1,123	1,927	3,137
- *of which business aggregation operations*	—	—	—	—	—
C. Decreases	—	—	1,181	51,113	52,294
C.1 Use during the year	—	—	1,181	51,112	52,293
C.2 Difference due to discount rate changes	—	—	—	—	—
C.3 Other decreases	—	—	—	1	1
- *of which business aggregation operations*	—	—	—	—	—
D. Closing balance	284	2,573	4,835	108,121	115,813

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

	Provisions for credit risk related to commitments and financial guarantees given			
	Stage 1	Stage 2	Stage 3	Total
Commitments to disburse funds	7,967	521	2,988	11,476
Financial guarantees given	1,604	600	—	2,204
Total	9,571	1,121	2,988	13,680

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10.5 Defined benefit company retirement pension schemes

This refers to the defined benefit company retirement pension scheme operated by Caisse Bâloise on behalf of RAM AI staff as required by Swiss law. The provision is subject to actuarial quantification by an independent actuary using the Projected Unit Credit Method.[2] The current value of the liability as at the reporting date has also been adjusted to reflect the fair value of any plan assets, resulting in a liability of €2.6m (CHF 2.7m) has been booked to the accounts, which is higher than last year (€1.8m, equal to CHF 2m).

To determine the liability's value, certain financial (discount rate equal to 0.25%, salaries increase rate of 1%[3]) and demographic assumptions have been used. Some demographic assumptions have been made by referring to the company direct experience (early withdrawal rate, rate of early exiting the fund, family's groups composition), whereas others have been made by referring to market's best practices or to law provisions (the mortality rate, the turnover rate as well as the invalidity rate have been obtained by using the BVG2015 tables, population's longevity variations have been derived from the CMI2016 table, while the retirement age has been derived by referring to law provisions now in force).

The following table shows the breakdown of the net defined benefit obligation:

IAS19 Net obligation	**30/6/20**	**30/6/19**
	CHF/1000	CHF/1000
Present value of defined benefit obligation	(14,973)	(13,578)
Present value of plan assets	12,232	11,536
Surplus/(deficit)	(2,741)	(2,042)
IFRIC14 adjustment	—	—
Net accounting (liability)/asset	(2,741)	(2,042)

A sensitivity analysis is performed on the DBO to measure its sensitivity to changes in the main assumptions adopted.

[2] This method involves future outflows being projected on the basis of historical statistical analysis and the demographic curve, and then being discounted based on market interest rates.

[3] Last year 0.40% and 1% respectively.

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SECTION 11

Heading 110: Technical reserves

11.1 Technical reserves: composition

Items	Direct labour	Indirect labour	30/6/20	30/6/19
A. Non-life insurance	—	157,244	157,244	170,838
A.1 Premium reserves	—	147,192	147,192	162,203
A.2 Accident reserves	—	10,052	10,052	8,635
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 linked to investment funds and market index	—	—	—	—
C.2 Reserves originated by retirement funds management	—	—	—	—
D. Total technical reserves	—	157,244	157,244	170,838

11.2 Technical reserves: changes during the period

	30/6/20	30/6/19
A. Non-life business		
Opening balance	170,838	175,853
Combinations involving group companies	—	—
Changes to reserves (+/-)	(13,594)	(5,015)
Other additions	—	—
Closing balance	157,244	170,838
B. Life insurance and other technical reserves		
Opening balance	—	—
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	—	—
Closing balance	—	—
C. Total technical reserves	157,244	170,838

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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.

On 25 March 2020 the Bank's share buyback was completed.[4] As a result of the buyback, the Bank now owns 3% of the share capital, i.e. 26.6 million shares, having bought back 13 million shares (for an outlay of €105.5m); in November 2019, some 1.7 million shares were used in connection with the performance share scheme.

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

Items/Types	Ordinary
A. Shares in issue at the start of period	887,216,177
- entirely unrestricted	887,216,177
- with restrictions	—
A.1 Treasury shares (-)	(15,346,295)
A.2 Shares outstanding: opening balance	871,869,882
B. Additions	1,759,772
B.1 New shares issuance as a result of:	17,270
- against payment:	—
- bonds conversions	—
- exercise of warrants	—
- others	—
- free:	17,270
- to employees	17,270
- to directors	—
- others	—
B.2 Treasury shares' disposal	1,742,502
B.3 Other additions	—
C. Reductions	(13,007,495)
C.1 Cancellations	—
C.2 Treasury shares' buyback	(13,007,495)
C.3 Disposal of business	—
C.4 Other reductions	—
D. Shares outstanding: closing balance	860,622,159
D.1 Treasury shares (+)	(26,611,288)
D.2 Shares in issue at the end of period	887,233,447
- entirely unrestricted	887,233,447
- with restrictions	—

[4] Under the resolution adopted by shareholders at the 2018 Annual General Meeting, the Bank was authorized to buy back up to 3% of the share capital, or 26.6 million shares.

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13.4 Profit reserves: other information

Items	30/6/20	30/6/19
Legal reserve	88,722	88,704
Statutory reserve	1,029,580	1,157,437
Treasury shares	231,538	141,989
Others	4,916,024	4,503,343
Total	6,265,864	5,891,473

SECTION 14

Heading 190: Net equity attributable to minorities

14.1 Heading 210: Net equity attributable to minorities – composition

Company name	30/6/20	30/6/19
1. SelmaBipiemme S.p.A.	85,101	83,792
2. RAM Active Investments S.A.	6,385	5,856
3. Other minors	6	10
Total	91,492	89,658

Other information

1. Guarantees and commitments

	Nominal value of commitments and financial guarantees given			30/6/20	30/6/19
	Stage 1	Stage 2	Stage 3		
1. Commitment to disburse funds	9,877,662	44,873	15,862	9,938,397	12,608,418
a) Central Banks	—	—	—	—	—
b) Public Administration	1,129,491	—	—	1,129,491	4,069,828
c) Banks	33,525	—	—	33,525	82,745
d) Other financial companies	1,834,007	—	—	1,834,007	1,043,680
e) Non-financial companies	4,956,225	17,729	14,640	4,988,594	5,881,153
f) Families	1,924,414	27,144	1,222	1,952,780	1,531,012
2. Financial guarantees given	699,111	12,922	—	712,033	282,264
a) Central Banks	—	—	—	—	—
b) Public Administration	—	—	—	—	—
c) Banks	9,992	—	—	9,992	26,407
d) Other financial companies	196,331	—	—	196,331	166,763
e) Non-financial companies	474,126	12,922	—	487,048	70,634
f) Families	18,662	—	—	18,662	18,460

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2. Other commitments and guarantees issued

	Nominal value	
Items/Types	**30/6/20**	**30/6/19**
1. Other guarantees issued	122,626	123,463
of which: impaired credit exposures	—	—
a) Central Banks	—	—
b) Public Administration	—	—
c) Banks	6	5
d) Other financial companies	28,533	19,494
e) Non-financial companies	30,571	28,188
f) Families	63,516	75,776
2. Other commitment	148,846	129,299
of which: impaired credit exposures	—	—
a) Central Banks	—	—
b) Public Administration	—	—
c) Banks	124,199	111,319
d) Other financial companies	—	—
e) Non-financial companies	20,747	17,980
f) Families	3,900	—

3. Assets established as collateral to secure own liabilities and commitments

	Amounts	**Amounts**
Portfolios	**30/6/20**	**30/6/19**
1. Financial assets valued at fair value with impact taken to profit and loss	2,136,505	4,816,803
2. Financial assets valued at fair value with impact taken to other comprehensive income	1,085,935	1,817,460
3. Financial assets valued at amortized cost	18,092,585	15,371,083
4. Tangible assets	—	—
of which: tangible assets that constitue inventories	—	—
5. Equity investments	190,108	—

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5. Assets managed and traded on behalf of third parties

Type of service	Amounts 30/6/20	Amounts 30/6/19
1. Order execution on behalf of client		
a) purchases	26,849,645	14,820,923
1. settled	26,226,551	14,711,791
2. unsettled	623,094	109,132
b) sales	26,717,796	14,199,338
1. settled	26,094,702	14,090,206
2. unsettled	623,094	109,132
2. Portfolios management		
a) individual	12,589,696	12,358,038
b) collective	15,579,671	16,117,972
3. Custody and administration of securities		
a) Third-party securities on deposits: relating to depositary banks activities (excluding portfolio management)	11,123,568	11,191,064
1. securities issued by companies included in the area of consolidation	181,178	160,049
2. other securities	10,942,390	11,031,015
b) Third-party securities held in deposits (excluding portfolio management): other	16,905,832	16,182,829
1. securities issued by companies included in the area of consolidation	35,083	164,398
2. other securities	16,870,749	16,018,431
c) Third-party securities deposited to third	24,956,998	23,131,120
d) Own securities deposited to third	10,444,675	9,922,561
4. Other operations	2,674,546	1,702,426

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

Instrument type	Gross amount of financial assets (a)	Amount of financial liabilities offset in balance sheet (b)[1]	Net amount of financial assets reported in balance sheet (c=a-b)	Related amounts not recognised in Balance Sheet		Net amounts (f=c-d-e)	Net amounts (f=c-d-e)
				Financial instruments (d)	Cash collateral received (e)	30/6/20	30/6/19
1. Derivatives	2,703,447	549,899	2,153,548	1,407,741	245,400	500,407	603,462
2. Reverse Repos	3,459,051	—	3,459,051	3,459,051	—	—	—
3. Securities lending	—	—	—	—	—	—	—
4. Other operations	—	—	—	—	—	—	—
Total 30/6/20	6,162,498	549,899	5,612,599	4,866,792	245,400	500,407	X
Total 30/6/19	9,554,066	279,269	9,274,797	8,645,845	25,490	X	603,462

[1] Refers to transactions in derivative financial products with a central counterparty with which a netting agreement is in place which provides for daily margining.

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

Instrument type	Gross amount of the financial liabilities (a)	Amount of the financial assets offset in BS (b)	Net amount of the financial liabilities reported in BS (c=a-b)	Related amounts not recognised in Balance Sheet		Net amount (f=c-d-e)	Net amount (f=c-d-e)
				Financial instruments (d)	Cash collateral placed (e)	30/6/20	30/6/19
1. Derivatives	2,042,676	—	2,042,676	1,408,041	298,279	336,356	218,773
2. Repos	2,080,835	—	2,080,835	2,080,835	—	—	—
3. Securities lending	—	—	—	—	—	—	—
4. Other operations	—	—	—	—	—	—	—
Total 30/6/20	4,123,511	—	4,123,511	3,488,876	298,279	336,356	X
Total 30/6/19	7,176,091	—	7,176,091	6,566,792	390,526	X	218,773

8. Securities lending operations

The tables below illustrate the Group’s operations in securities lending (and borrowing), broken down by type of instrument (sovereign debt, bank bonds and others), market counterparty (banks, financial intermediaries and clients) and form (loan secured by cash, other instruments, or unsecured).

Securities lending transactions for which collateral is put up in the form of cash fully available to the lender are represented in the balance sheet as amounts due to or from banks or customers under the heading “repos”. Securities lending transactions for which collateral is put up in the form of other instruments, or which are unsecured, are represented as “off-balance-sheet exposures”.

Of the unsecured transactions entered into by Mediobanca and outstanding at 30 June 2020, in 89% of cases the counterparty was three major banking groups.

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Type of operation	Type of security		
	Government bonds	Securities issued by banks	Other securities
1. Securities borrowed collateralized by cash - Due from:	288,659	35,743	609,566
a) Banks	267,755	31,528	268,316
b) Financial institutions	20,904	4,215	341,250
c) Customers	—	—	—
2. Securities lended collateralized by cash - Due to:	(334,886)	(8,004)	(230,845)
a) Banks	(334,886)	(7,801)	(230,845)
b) Financial institutions	—	(203)	—
c) Customers	—	—	—
Total securities lending (book value)	(46,227)	27,739	378,721

Type of operation	Type of security		
	Government bonds	Securities issued by banks	Other securities
1. Securities borrowed collateralized by cash - Due from:	303,565	588,000	1,617,448
a) Banks	140,000	588,000	—
b) Financial institutions	163,468	—	1,463,936
c) Customers	97	—	153,512
2. Securities lended collateralized by cash - Due to:	(1,256,508)	(134,820)	(708,456)
a) Banks	(628,779)	—	(140,000)
b) Financial institutions	(627,729)	(134,820)	(568,456)
c) Customers	—	—	—
Total securities lending (fair value)	(952,943)	453,180	908,992

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Part C - Notes to consolidated profit and loss account

SECTION 1

Headings 10 and 20: Net interest income

1.1 Interest and similar income: breakdown

Items/Technical forms	Debt securities	Loans	Other operations	Total 12 mths ended 30/6/20	Total 12 mths ended 30/6/19
1. Financial assets valued at fair value with impact taken to P&L:	34,349	866	—	35,215	33,169
1.1 Financial assets held for trading	31,665	329	—	31,994	28,945
1.2 Financial assets designated to fair value	1,386	—	—	1,386	1,416
1.3 Other financial assets mandatorly measured at fair value	1,298	537	—	1,835	2,808
2. Financial assets valued at fair value with impact taken to other comprehensive income	40,226	—	X	40,226	63,472
3. Financial assets valued at amortized cost:	54,366	1,713,044	X	1,767,410	1,756,321
3.1 Due from banks	18,040	17,849	X	35,889	33,098
3.2 Due from clients	36,326	1,695,195	X	1,731,521	1,723,223
4. Hedging derivatives[1]	X	X	79,806	79,806	12,355
5. Other assets	X	X	99	99	1,902
6. Financial liabilities[2]	X	X	X	21,136	18,771
Total	128,941	1,713,910	79,905	1,943,892	1,885,990
of which: income interests on impaired financial assets	—	*76,393*	—	*76,393*	*64,554*
of which: interest income on finance lease	—	*46,344*	—	*46,344*	—

[1] Mainly to hedge funding.

[2] Item no. “6. Financial liabilities” includes interest expense accrued as the result of the negative interest rates, €18.6m of which in connection with T-LTRO.

1.2 Interest and similar income: other information

As at 30 June 2020, the balance of the account includes €166.2m in connection with financial assets in foreign currencies.

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1.3 Interest expense and similar charges: breakdown

Items/Technical forms	Debts	Securities	Other operations	Total 12 mths ended 30/6/20	Total 12 mths ended 30/6/19
1. Financial liabilities valued at amortized cost	(83,150)	(409,846)	X	(492,996)	(473,862)
1.1 Due to central banks	(177)	X	X	(177)	(761)
1.2 Due to banks	(19,239)	X	X	(19,239)	(25,875)
1.3 Due to customers	(63,734)	X	X	(63,734)	(83,857)
1.4 Securities in issue	X	(409,846)	X	(409,846)	(363,369)
2. Financial trading liabilities	—	—	—	—	—
3. Financial liabilities designated at fair value	—	(2,453)	—	(2,453)	(2,450)
4. Other liabilities and provisions	X	X	(5,215)	(5,215)	(519)
5. Hedging derivatives	X	X	—	—	—
6. Financial assets[1]	X	X	X	(1,533)	(4,961)
Total	(83,150)	(412,299)	(5,215)	(502,197)	(481,792)
of which: interest expenses related to lease liabilities	*(2,447)*	—	—	*(2,447)*	—

[1] Item no. "6. Financial liabilities" includes interest expense accrued as the result of the negative interest rates.

1.4 Interest expense and similar charges: other information

As at 30 June 2020, the balance of the account includes €105.9m in connection with financial liabilities in foreign currencies.

1.5 Margins on hedging transactions

Items	Total 12 mths ended 30/6/20	Total 12 mths ended 30/6/19
A. Positive differentials on hedging transactions	189,131	175,774
B. Negative differentials on hedging transactions	(109,325)	(163,419)
C. Net balance (A-B)	79,806	12,355

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SECTION 2

Headings 40 and 50: Net fee and commission income

2.1 Fee and commission income: breakdown

Type of service/Values	Total 12 mths ended 30/6/20	Total 12 mths ended 30/6/19
a) guarantees given	4,004	2,359
b) credit derivatives	—	—
c) management services, brokerage and consultancy income:	372,076	345,530
1. securities trading	19,101	14,231
2. currency trading	—	—
3. portfolio management	128,568	124,266
3.1. individuals	47,205	36,276
3.2. collectives	81,363	87,990
4. custody and administration of securities	17,307	14,242
5. depositary bank	7,458	7,458
6 placement of securities	83,571	71,955
7. reception and transmission of orders	22,416	15,173
8. consultancy activities	5,266	11,793
8.1. related to investments	5,266	11,793
8.2. related to financial structure	—	—
9. distribution of third parties services	88,389	86,412
9.1. porfolio management	13,225	12,813
9.1.1. individual	12,228	12,035
9.1.2. collective	997	778
9.2. insurance products	72,813	70,005
9.3. other products	2,351	3,594
d) collection and payment services	21,823	11,559
e) securitization servicing	438	473
f) factoring services	6,666	6,382
g) tax collection services	—	—
h) management of multilateral trading facilities	—	—
i) management of current account	6,309	4,752
j) other services	213,976	213,868
Total	625,292	584,923

The heading “Other services” includes €33.8m from the consolidation of Messier Maris et Associés, in connection with advisory activity (other services). MMA’s contribution last year (€5.3m) was for 4Q only (from 1 April to 30 June 2019).

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2.2 Fees and commissions expenses: breakdown

Services/Amounts	12 mths ended 30/6/20	12 mths ended 30/6/19
a) guarantees received	(49)	(34)
b) credit derivatives	—	—
c) management and brokerage services	(22,366)	(22,451)
1. trading in financial instruments	(8,678)	(7,740)
2. currency trading	—	—
3. portfolios management:	(9,939)	(10,882)
3.1 own portfolio	(24)	(100)
3.2 third parties portfolio	(9,915)	(10,782)
4. custody and administration securities	(3,744)	(3,448)
5. financial instruments placement	(5)	(381)
6. off-site distribution of financial instruments, products and services	—	—
d) collection and payment services	(14,294)	(13,892)
e) other services	(101,921)	(108,078)
Total	(138,630)	(144,455)

SECTION 3

Heading 70: Dividends and similar income

3.1 Dividends and similar income: breakdown

Items/Incomes	12 mths ended 30/6/20		12 mths ended 30/6/19	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	71,291	349	87,269	—
B. Other financial assets mandatorily measured at fair value	—	9,448	—	14,205
C. Financial assets measured at fair value with impact taken to other comprehensive income	6,337	—	4,329	—
D. Equity investments	—	—	—	—
Total	77,628	9,797	91,598	14,205

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SECTION 4

Heading 80: Net trading income

4.1 Net trading income: breakdown

Transactions / Income	Capital gain (A)	Trading income (B)	Capital loss (C)	Trading loss (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	171,573	374,081	(241,883)	(584,802)	(281,032)
1.1 Debt securities	84,745	122,155	(74,144)	(68,452)	64,304
1.2 Equity	86,487	242,584	(166,374)	(510,543)	(347,846)
1.3 UCITs	232	9,096	(1,205)	(5,807)	2,316
1.4 Loans	38	246	(160)	—	124
1.5 Others	71	—	—	—	71
2. Financial liabilities held for trading	—	—	—	—	—
2.1 Debt securities	—	—	—	—	—
2.2 Deposits	—	—	—	—	—
2.3 Others	—	—	—	—	—
3. Financial assets and liabilities: exchange rate differences[1]	X	X	X	X	(35,972)
4. Derivative instruments:	2,590,638	2,052,841	(2,377,864)	(1,981,648)	298,981
4.1 Financial derivatives:	1,944,815	1,397,233	(1,715,198)	(1,379,327)	262,537
- on debt securities and interest rates[2]	848,578	417,335	(817,021)	(515,973)	(67,081)
- on equity securities and shares indexes	1,096,237	979,898	(897,833)	(862,801)	315,501
- on currency and gold	X	X	X	X	15,014
- others	—	—	(344)	(553)	(897)
4.2 Credit derivatives	645,823	655,608	(662,666)	(602,321)	36,444
of which: natural hedges related to fv option	*X*	*X*	*X*	*X*	—
Total	2,762,211	2,426,922	(2,619,747)	(2,566,450)	(18,022)

[1] This item contains valuations for banking book positions based at current exchange rates totalling €20,923,000, and the exchange rate effect on hedging the RAM investment (minus €10.5m).

[2] Of which €40,912,000 in positive margins on interest rate derivatives (30/6/19: minus €13,829,000).

The result in net trading income reflects the sharp market correction at end-March 2020, only some of which had been recovered by the reporting date.

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Heading 90: Net hedging income (expense)

5.1 Net hedging income (expense): breakdown

Income elements/Amounts	12 mths ended 30/6/20	12 mths ended 30/6/19
A. Income from:		
A.1 Fair value hedging derivatives	84,743	168,235
A.2 Hedged financial assets (fair value)	196,268	239,391
A.3 Hedged financial liability (fair value)	49,544	30,895
A.4 Cash-flows hedging derivatives	6	2
A.5 Assets and liabilities denominated in currency	—	—
Total income on hedging activities (A)	330,561	438,523
B. Expenses on:		
B.1 Fair value hedging derivatives	(120,348)	(57,495)
B.2 Hedged financial assets (fair value)	(42,341)	(48,721)
B.3 Hedged financial liability (fair value)	(172,659)	(326,881)
B.4 Cash-flows hedging derivatives	—	—
B.5 Assets and liabilities denominated in currency	—	—
Total expenses on hedging activities (B)	(335,348)	(433,097)
C. Net profit from hedging activities (A-B)	(4,787)	5,426
of which: result of hedges on net exposures	—	—

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SECTION 6

Heading 100: Gain (loss) on disposals/repurchases

6.1 Gain (loss) on disposals/repurchases: breakdown

Items / Income	12 mths ended 30/6/20			12 mths ended 30/6/19		
	Gains	Losses	Net profit	Gains	Losses	Net profit
A. Financial assets						
1. Financial assets at amortized cost	13,166	(15,838)	(2,672)	17,863	(15,498)	2,365
1.1 Due from banks	1,550	(7)	1,543	—	(150)	(150)
1.2 Due from customers	11,616	(15,831)	(4,215)	17,863	(15,348)	2,515
2. Financial assets at fair value with impact taken to other comprehensive income	75,822	(15,401)	60,421	73,260	(6,461)	66,799
2.1 Debt securities	75,822	(15,401)	60,421	73,260	(6,461)	66,799
2.2 Loans	—	—	—	—	—	—
Total assets (A)	88,988	(31,239)	57,749	91,123	(21,959)	69,164
B. Financial liabilities at amortized cost						
1. Due to banks	—	—	—	—	—	—
2. Due to customers	—	—	—	—	—	—
3. Debt securities in issue	6,925	(6,279)	646	10,787	(592)	10,195
Total liabilities (B)	6,925	(6,279)	646	10,787	(592)	10,195

Gains on financial assets recognized at amortized cost and those recognized at fair value through other comprehensive income include current exchange rate valuations of €0.2m and €10.5m respectively (30/6/19: €3.7m and €14.4m).

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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 from disposal (B)	Losses (C)	Minus from disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	—	—	(965)	—	(965)
1.1 Debt securities	—	—	(965)	—	(965)
1.2 Loans	—	—	—	—	—
2. Financial liabilities	3,296	—	—	—	3,296
2.1 Debt securities in issue[1]	3,296	—	—	—	3,296
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	—
Total	3,296	—	(965)	—	2,331

[1] The figures are stated at fair value, including issuer risk which at 30/6/20 amounted to €365,000.

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 disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	56,529	220	(25,370)	(152)	31,227
1.1 Debt securities	—	—	(1,538)	—	(1,538)
1.2 Equity securities	—	—	—	—	—
1.3 UCITS	13,829	220	(23,550)	(152)	(9,653)
1.4 Loans[1]	42,700	—	(282)	—	42,418
2. Financial assets: exchange rate differences	X	X	X	X	(460)
Total	56,529	220	(25,370)	(152)	30,767

[1] The figures refer to converting instruments related to restructuring operations

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SECTION 8

Heading 130: Net writeoffs (writebacks) for credit risk

8.1 Net writeoffs for credit risk related to financial assets valued at amortized cost: breakdown

Transaction/Income	Writedowns			Writebacks		12 mths ended 30/6/20	12 mths ended 30/6/19
	Stage 1 and stage 2	Stage 3		Stage 1 and stage 2	Stage 3		
		Write-off	Others				
A. Due from banks	(2,235)	—	—	935	—	(1,300)	(264)
- Loans	(1,929)	—	—	687	—	(1,242)	45
- Debt securities	(306)	—	—	248	—	(58)	(309)
of which: financial assets purchased or originated credit impaired	—	—	—	—	—	—	—
B. Due from customers	(349,359)	(49,432)	(344,108)	178,170	168,470	(396,259)	(209,247)
- Loans	(345,464)	(49,432)	(344,108)	177,113	168,283	(393,608)	(212,964)
- Debt securities	(3,895)	—	—	1,057	187	(2,651)	3,716
of which: financial assets purchased or originated credit impaired	—	*(44,757)*	*(208)*	—	*52,310*	*7,345*	*16,073*
Total	(351,594)	(49,432)	(344,108)	179,105	168,470	(397,559)	(209,512)

Writeoffs on due from customers include the provisioning increase on performing exposure recalculated based on the new macroeconomic scenario in addition to the downgrade effect of the Italian Republic on securities.

8.2 Net writeoffs for credit risk related to financial assets valued at fair value with impact taken to comprehensive income: breakdown

Transaction/Income	Writedowns			Writebacks		Total 12 mths ended 30/6/20	Total 12 mths ended 30/6/19
	Stage 1 and stage 2	Stage 3		Stage 1 and stage 2	Stage 3		
		Write-off	Others				
A. Debt Securities[1]	(4,805)	—	—	—	—	(4,805)	(779)
B. Due to:	—	—	—	—	—	—	—
- Clients	—	—	—	—	—	—	—
- Banks	—	—	—	—	—	—	—
of which: impaired financial assets acquired or originated	—	—	—	—	—	—	—
Total	(4,805)	—	—	—	—	(4,805)	(779)

[1] It includes the downgrade effect of the Italian Republic on securities.

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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 €53,000, includes the impacts of contractual modifications on financial assets which, since they do not represent substantial modifications both according to IFRS9 provisions and to Group's policies, do not require the derecognition of assets involved but the recognition into profit and loss of modifications to contractual cash flows.

SECTION 10

Heading 160: Net premium income

10.1 Net premiums: breakdown

Premium for insurance	Direct labour	Indirect labour	12 mths ended 30/6/20	12 mths ended 30/6/19
A. Life business				
A.1. Gross premiums accounted (+)	—	—	—	—
A.2. Outward reinsurance premiums (-)	—	X	—	—
A.3. Total	—	—	—	—
B. Non-life business				
B.1. Gross premiums accounted (+)	—	42,521	42,521	55,625
B.2. Outward reinsurance premiums (-)	—	X	—	—
B.3. Change in gross value of premium reserve (+/-)	—	15,011	15,011	3,548
B.4. Change in premium reserve for premiums ceded to reinsures (+/-)	—	—	—	—
B.5. Total	—	57,532	57,532	59,173
C. Total net premiums	—	57,532	57,532	59,173

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SECTION 11

Heading 170: Other income (net) from insurance activities

11.1 Other income (net) from insurance activities: breakdown

Items	12 mths ended 30/6/20	12 mths ended 30/6/19
1. Net change in technical reserves	—	—
2. Claims paid pertaining to the year	(10,457)	(7,056)
3. Other income and expense from insurance	(5,334)	(5,659)
Total	(15,791)	(12,715)

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

Charges for claims	12 mths ended 30/6/20	12 mths ended 30/6/19
Life business: expenses relating to claims, net of reinsurance ceded		
A. Amounts paid out	—	—
A.1 Gross annual amount	—	—
A.2 (-) Amounts reinsured with third parties	—	—
B. Change in reserve for amounts payable	—	—
B.1 Gross annual amount	—	—
B.2 (-)Amounts reinsured with third parties	—	—
Total life business claims	—	—
Non-life business: expenses relating to claims, net of recoveries and reinsurance ceded		
C. Amounts paid out	(9,040)	(8,523)
C.1 Gross annual amount	(9,040)	(8,523)
C.2 (-)Amounts reinsured with third parties	—	—
D. Change in recoveries net of amount ceded to reinsures	—	—
E. Change in claims reserves	(1,417)	1,467
E.1 Gross annual amount	(1,417)	1,467
E.2 (-)Amounts reinsured with third parties	—	—
Total non-life business claims	(10,457)	(7,056)

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SECTION 12

Heading 190: Administrative expenses

12.1 Personnel costs: breakdown

Type of expense/Amounts	12 mths ended 30/6/20	12 mths ended 30/6/19
1) Employees	(586,005)	(560,935)
a) wages and salaries	(421,511)	(408,011)
b) social security contributions	(91,404)	(89,579)
c) severance pay (only for Italian legal entities)	(3,556)	(3,656)
d) social security costs	—	—
e) allocation to employees severance pay provision	(12,188)	(11,718)
f) provision for retirement and similar provisions	(63)	—
- defined contribution	(63)	—
- defined benefits	—	—
g) payments to external pension funds	(15,911)	(15,488)
- defined contribution	(15,911)	(15,488)
- defined benefits	—	—
h) expenses resulting from share based payments	(12,551)	(12,022)
i) other employees' benefits	(28,821)	(20,461)
2) Other staff	(6,674)	(6,259)
3) Directors and Statutory Auditors	(10,741)	(9,296)
4) Early retirement costs	(1,595)	(4,651)
Total	(605,015)	(581,141)

The heading includes €17.8m deriving from the consolidation of Messier Maris et Associés, starting from 1 April 2019 (versus 3.2 of the previous year).

12.2 Average number of staff by category

	12 mths ended 30/6/20	12 mths ended 30/6/19
Employees:		
a) Senior executives	427	409
b) Executives	1,944	1,860
c) Other employees	2,408	2,417
Other staff	231	246
Total	5,010	4,932

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12.5 Other administrative expenses: breakdown

Type of expense/amounts	12 mths ended 30/6/20	12 mths ended 30/6/19
OTHER ADMINISTRATIVE EXPENSES		
- legal, tax and professional services	(57,211)	(71,124)
- loan recovery activity	(69,267)	(66,467)
- marketing and communications	(37,174)	(42,268)
- properties[1]	(21,376)	(53,191)
- EDP	(132,310)	(125,900)
- info-provider	(44,725)	(40,985)
- bank charges, collection and payment fees	(24,160)	(21,645)
- operating expenses	(64,988)	(63,551)
- other staff expenses	(15,649)	(23,756)
- other costs[2]	(87,249)	(71,319)
- indirect and other taxes	(76,315)	(72,416)
Total other administrative expenses	(630,424)	(652,622)

[1] The reduction as at 30/6/20 was due to the effects of IFRS 16 first-time adoption.

[2] The item includes contributions to the various resolution funds: €60.8m for the year ended 30/6/20 and €53.5m for the year ended 30/6/19.

This heading includes €6.3m from RAM AI (compared with €2.2m of last year, when its contribution was limited to just three months).

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

	12 mths ended 30/6/20			12 mths ended 30/6/19
	Provisions	Reallocation surplus	Total	Total
Loan committments	(6,104)	4,474	(1,630)	3,786
Financial guarantees given	(1,532)	19	(1,513)	(79)
Total	(7,636)	4,493	(3,143)	3,707

13.2 Net transfers to provisions in respect of other commitments and guarantees issued

	12 mths ended 30/6/20			12 mths ended 30/6/19		
	Provisions	Reallocation surplus	Total	Provisions	Reallocation surplus	Total
Other provisions	—	—	—	—	—	—
Other guarantees given	(284)	—	(284)	—	—	—

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13.3 Net transfers to other provisions: breakdown

	12 mths ended 30/6/20			12 mths ended 30/6/19
	Provisions	Reallocation surplus	Total	
1. Other provisions				
1.1 Legal disputes	—	—	—	(2,465)
1.2 Staff costs	(153)	—	(153)	—
1.3 Other	(10,009)	27,309	17,300	(1,265)
Totale	(10,162)	27,309	17,147	(3,730)

SECTION 14

Heading 210: Net adjustments to tangible assets

14.1 Net adjustments to tangible assets: breakdown

Asset/Income	Depriciation (a)	Impairment losses (b)	Writebacks (c)	Net result (a + b - c)
A. Property, equipment and investment property				
1 For operational use	(50,718)	(1,000)	20	(51,698)
- Owned	(12,814)	—	—	(12,814)
- Licenses acquired through lease	(37,904)	(1,000)	20	(38,884)
2 For investment	(1,853)	—	—	(1,853)
- Owned	(1,853)	—	—	(1,853)
- Licenses acquired through lease	—	—	—	—
3 Inventories	X	—	—	—
Total	(52,571)	(1,000)	20	(53,551)

Following the introduction of IFRS 16, this heading now contains depreciation charges relating to rights of use. The RoU for the property housing the Frankfurt branch office has been written down by €1m following the decision to shut the office.

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SECTION 15

Heading 220: Net adjustments to intangible assets

15.1 Net adjustments to intangible assets: breakdown

Asset/Income	Amortization (a)	Impairment losses (b)	Writebacks (c)	Net risult (a + b - c)
A. Intangible assets				
A.1 Owned	(30,222)	—	—	(30,222)
- Software	(11,315)	—	—	(11,315)
- Others	(18,907)	—	—	(18,907)
A.2 Right of use acquired through lease	—	—	—	—
Total	(30,222)	—	—	(30,222)

SECTION 16

Heading 230: Other operating income (expense)

16.1 Other operating expense: breakdown

Income-based components/Values	12 mths ended 30/6/20	12 mths ended 30/6/19
a) Leasing activity	(9,519)	(10,735)
b) Sundry costs and expenses	(9,677)	(9,437)
Total	(19,196)	(20,172)

16.2 Other operating income: breakdown

Income-based components/Values	12 mths ended 30/6/20	12 mths ended 30/6/19
a) Amounts received from customers	73,698	72,909
b) Leasing activity	6,996	8,826
c) Other income[1]	127,909	102,328
Total	208,603	184,063

[1] Includes the gain deriving from the valuation of the Cairn put-and-call option following the capital increase by the company, and the positive impact deriving from the liability in respect of the RAM put-and-call option amounting to €31.8m.

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SECTION 17

Heading 250: Gain (loss) on equity investments

17.1 Gain (loss) on equity investments: breakdown

Income/Value	**12 mths ended 30/6/20**	**12 mths ended 30/6/19**
1) Joint venture		
A. Incomes	—	—
1. Revaluation	—	—
2. Gains on disposal	—	—
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	—	—
1. Writedowns	—	—
2. Impairment losses	—	—
3. Losses on disposal[1]	—	—
4. Other expenses	—	—
Net profit	—	—
2) Companies subject to significant influence		
A. Incomes	304,269	321,157
1. Revaluation	304,269	321,157
2. Gains on disposal	—	—
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	—	—
1. Writedowns	—	—
2. Impairment losses	—	—
3. Losses on disposal[1]	—	—
4. Other expenses	—	—
Net profit	304,269	321,157
Total	304,269	321,157

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SECTION 19

Heading 270 – Impairment charges to goodwill

19.1 Impairment charges to goodwill: composition

Income/Value	12 mths ended 30/6/20	12 mths ended 30/6/19
Impairment charges to goodwill	(96,900)	—

Reference is made to Part A – Accounting Policies for a description of the means by which the loss of value for goodwill has been calculated.

Meanwhile, reference is made to Part B – Notes to the Consolidated Balance Sheet for a description of the results of the goodwill impairment testing process and the procedures through which it was carried out.

SECTION 20

Heading 280: Gain (loss) on disposal of investments

20.1 Gain (loss) on disposal of investments: breakdown

Income/Value	12 mths ended 30/6/20	12 mths ended 30/6/19
A. Tangible assets	—	(73)
- Gains on disposal	—	—
- Losses on disposal	—	(73)
B. Other assets	59	239
- Gains on disposal	59	266
- Losses on disposal	—	(27)
Net profit	59	166

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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	12 mths ended 30/6/20	12 mths ended 30/6/19
1. Current tax expenses (-)	(206,499)	(257,566)
2. Changes in current taxes of previous years (+/-)	(834)	3,436
3. Reduction in current taxes of the year (+)	758	875
3. bis Reduction in current taxes of the year for tax credits pursuant to Law no. 214/2011 (+)	—	—
4. Changes in deferred tax assets (+/-)	4,003	(13,605)
5. Changes in deferred tax liabilities (+/-)	(10,932)	10,331
6. Taxes on income for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(213,504)	(256,529)

This heading includes the effect of the settlement reached with the Italian revenue authority for the dispute over application of funds transfer pricing between Mediobanca S.p.A. and Mediobanca International (€22.4m).

21.2 Reconciliation between theoretical and effective tax burden

Income/Value	12 mths ended 30/6/20	
	Amounts %	Absolute value
Total profit or loss before tax from current operations	100.00%	814,932
Theoretical tax rate	27.50%	224,106
Dividends (-)	-0.30%	(2,408)
Gains on disposals of equity investments (PEX) (-)	-0.03%	(216)
Gains on equity-accounted investments (-)	-7.82%	(63,759)
Changes in deferred tax for previous years (-)	0.00%	(15)
Other taxes (non-financial and non-Italian companies) (+/-)	0.43%	3,544
Non-taxable income 10% IRAP and staff cost (-)	0.00%	(9)
Tax sparing credit (-)	-0.03%	(280)
Impairment (+/–)	1.54%	12,579
Use of provisions	-0.40%	(3,263)
Participation to transfer price assessment	2.16%	17,571
MB International reserve redemption	1.42%	11,544
Other differences (+/-)	-2.63%	(21,446)
TOTAL IRES	21.84%	177,948
IRAP	4.36%	35,556
TOTAL HEADING[1]	26.20%	213,504

[1] Compared with a tax rate of 23.69% last year.

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SECTION 23

Heading 340: Profit (loss) for the year attributable to minorities

23.1 Breakdown of heading 340 "Profit (loss) for the period attributable to minorities"

Company name	12 mths ended 30/6/20	12 mths ended 30/6/19
1. SelmaBipiemme S.p.A.	736	2,130
2. RAM Active Investments S.A.	249	1,055
3. Other minor interests	62	(2)
Total	1,047	3,183

SECTION 25

Heading 350: Earnings per share

25.1 Average number of ordinary shares on a diluted basis

	12 mths ended 30/6/20	12 mths ended 30/6/19
Net profit	600,382	823,025
Avg. no. of shares in issue	860,611,137	871,819,196
Avg. no. if potentially diluted shares	5,255,453	5,081,612
Avg. no. of diluted shares	865,866,590	876,900,808
Earnings per share	0.70	0.94
Earnings per share, diluted	0.69	0.94

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Part D - Comprehensive consolidated profit and loss account

Breakdown of Comprehensive Profit and Loss Constituents

Items	30/6/20			30/6/19
	Before tax effect	Tax effect	After tax effect	After tax effect
10. Net profit (loss)	**X**	**X**	**601,429**	**826,208**
Other income items not passing through P&L				
20. Equity instruments designated at fair value with impact taken to comprehensive income:	**3,698**	**(550)**	**3,148**	**10,928**
a) changes in fair value	2,914	(550)	2,364	3,845
b) tranfers to other shareholders' equity items	784	—	784	7,083
30. Financial liabilities designated at fair value with impact taken to profit and loss (own creditworthiness changes):	**(2,575)**	**851**	**(1,724)**	**—**
a) changes in fair value	(2,575)	851	(1,724)	—
b) tranfers to other shareholders' equity items	—	—	—	—
40. Hedge accounting of equity instruments measured at fair value with impact taken to comprehensive income:	**—**	**—**	**—**	**—**
a) fair value change (hedged instrument)	—	—	—	—
b) fair value change (hedging instrument)	—	—	—	—
50. Property, plant and equipment	**—**	**—**	**—**	**—**
60. Intangible assets	**—**	**—**	**—**	**—**
70. Defined benefits plans	**(2,576)**	**315**	**(2,261)**	**(1,106)**
80. Non-current assets classified as held for sale	**—**	**—**	**—**	**—**
90. Valuation reserves from equity-accounted investments:	**1,493**	**—**	**1,493**	**(21,745)**
100. Tax expenses (income) relating to items not reclassified to profit or loss	**—**	**—**	**—**	**—**
Other income items passing through P&L				
110. Hedges of non-Italian investments:	**(5,116)**	**1,904**	**(3,212)**	**(3,838)**
a) changes in fair value	(5,116)	1,904	(3,212)	(3,838)
b) reclassifications through profit or loss account	—	—	—	—
c) other variations	—	—	—	—
120. Exchange differences:	**5,475**	**—**	**5,475**	**3,706**
a) changes in fair value	—	—	—	—
b) reclassifications through profit or loss account	—	—	—	—
c) other variations	5,475	—	5,475	3,706
130. Cash flow hedges:	**16,482**	**(5,270)**	**11,212**	**(28,582)**
a) changes in fair value	16,482	(5,270)	11,212	(28,582)
b) reclassifications through profit or loss account	—	—	—	—
c) other variations	—	—	—	—
of which: net position	—	—	—	—
140. Hedging instruments (non-designated items):	**—**	**—**	**—**	**—**
a) changes in value:	—	—	—	—
b) reclassifications through profit or loss account	—	—	—	—
c) other variations	—	—	—	—
150. Financial assets (different from equity instruments) at fair value with impact taken to comprehensive income:	**(23,037)**	**7,647**	**(15,390)**	**(23,179)**
a) changes in fair value	(6,274)	2,075	(4,199)	15,279
b) reclassifications through profit or loss account	(16,763)	5,572	(11,191)	(38,458)
- impairment losses	4,268	(1,411)	2,857	545
- gains/losses on disposals	(21,031)	6,983	(14,048)	(39,003)
c) other variations	—	—	—	—
160. Non-current assets classified as held for sale	**—**	**—**	**—**	**—**
a) changes in fair value	—	—	—	—
b) reclassifications through profit or loss account	—	—	—	—
c) other variations	—	—	—	—
170. Valuation reserves from equity-accounted investments	**(220,379)**	**—**	**(220,379)**	**(81,395)**
180. Tax expenses (income) relating to items reclassified to profit or loss	**—**	**—**	**—**	**—**
190. Total other comprehensive income	**(226,535)**	**4,897**	**(221,638)**	**(145,211)**
200. Comprehensive income (10+190)	**X**	**X**	**379,791**	**680,997**
210. Consolidated comprehensive income attributable to minorities	X	X	1,478	3,337
220. Consolidated comprehensive income attributable to parent company	**X**	**X**	**378,313**	**677,660**

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Part E - Information on risks and related hedging policies

INTRODUCTION

With regards to the Bank's risks governance process, a key role is played by the Risk Management division, which identifies, measures and monitors all the risks to which the Group is subject, and manages and mitigates them in co-ordination with the various business areas. The division's main duties and responsibilities are described below, along with its characteristics in terms of independence, plus an indication of the role of the other company units in risk management.

SECTION1

Banking Group risks

1.1 CREDIT RISKS

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, [1] 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

[1] On 30 July 2020, the Board of Directors of Mediobanca approved a new version of the Group Policy on Risk Appetite Framework (RAF) Definition, which sets out the general principles, organizational model and implementation process for defining the Framework. In the RAF, based on the Strategic Plan and the maximum risk assumable that is set in it, the Group states the level and type of risks which it is intended to take, plus any tolerance thresholds and operating limits to be complied with in normal operating and/or stress conditions.

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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 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 on the risk parameters used to quantify impairment charges and calculate RWAs; ii) Credit Risk Management, responsible for credit risk analysis, assigning internal ratings to counterparties and the loss-given default indicator in the event of insolvency; iii) Market Risk Management and Risk Automation, which monitors market and counterparty risk and is responsible for developing, coordinating, rationalizing and ensuring the consistency of IT development activities within Risk Management; iv) Liquidity and IR Risk Management, which monitors liquidity and interest rate risks on the banking book; v) Operational Risk Management, responsible for developing and maintaining the systems for measuring and managing operational risks; vi) 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; vii) Wealth Risk Management, which manages risks related to the investment products and services offered to clients by the Wealth Management division; and viii) 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 and for the CheBanca! Italian mortgage loan book. As an integral part of this 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 "CRR"), the Group has compiled a roll-out plan for the gradual adoption of the internal models for the various credit exposures (the "Roll-Out Plan"). With regard to exposures for which the standardized methodology for calculating regulatory capital is still used, the Group has in any case instituted internal rating models for credit risk used for management purposes.

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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 appetite for 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 Plan 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, responsible for issuing guidance in respect of credit, issuer, operational and conduct risk, and with powers of approval on market risks; Lending and Underwriting committee, for credit, issuer and conduct risk; Group 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

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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; the Group Wealth Investments committee, for defining market views and monitoring their track record; the Private & Affluent Investments committee, for defining strategic and tactical asset allocation, and for selecting investment houses, funds and other financial instruments.

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, the parent company:

- 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.

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To define 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 six framework risk pillars, in line with best international practice: capital adequacy; liquidity; profitability; external risk metrics; bank-specific factors; and non-financial risks. 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 pillar 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 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 balance 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.

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2.3 Methods for measuring expected losses

Under IFRS 9 “Financial Instruments”, assets which are not recognized in the financial statements at fair value (i.e. loans, debt securities and off-balance-sheet exposures) must be tested for impairment based on expected losses.

The internal rating models are the baseline instrument for establishing the risk parameters to be used in calculating expected losses, subject to the regulatory indicators in particular being adjusted for aspects which are not suitable to be used directly in an accounting environment (e.g. in some cases reconverting the data to reflect a point-in-time approach). Under IFRS 9, expected losses are calculated from the product of the PD, LGD and EAD metrics. The calculation is based on the outstanding duration of the instruments for which there has been a significant increase in credit risk (“Stage 2”) or which show objective signs of impairment (“Stage 3”), and on a time horizon of twelve months for the instruments not included in the previous two categories (“Stage 1”). For off-balance-sheet exposures, credit conversion factors are used to calculate the expected losses, derived from application of the internal models; if there are no specific models, the factors associated with the standard EAD calculation are used.

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 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. As required by 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, and the qualitative elements observed, are specific to each Group company.

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In line with the guidance issued by EBA, ECB, ESMA and IASB issued following the outbreak of the Covid-19 pandemic, automatic reclassification mechanisms have not been applied for contractual changes made in connection with the various support programmes made available by the law, category association measures or independent initiatives offered to clients by the Group itself.[2]

The provisioning reflects the sum of the expected credit losses (over a time horizon of twelve months, or until 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 (50%, 25% and 25% respectively). The scenarios, determined at Group level, are revised at least once every six months. In particular, the Group sets the estimates for the baseline scenario, compiling the economic variables using an external macroeconomic model which factors in the internal expectations for interest rates. Levels of deviation from the baseline scenario are established in order to determine the mild-negative and mild-positive scenarios; these deviations are obtained from historical analysis of trends in the macroeconomic parameters used in the risk parameter conditioning models, and the levels of variation compared to the base scenario are established using a 25% confidence level. In line with the ECB guidance,[3] issued in view of the Covid-19 emergency situation, the satellite model forecasts used in the IFRS 9 methodological framework to transmit macroeconomic effects to the risk parameters have in some cases been interpolated to factor in the increased risk of the current scenario without adding excessive volatility which would be unjustified given the expectations that the crisis is likely to diminish in the medium and/or long term. This has been done by applying a "spline" function to long-term trends (historical and future) in cases where the satellite model concerned gave excessively volatile results over the medium and/or short period. To date this approach has been applied to the satellite models used for the PD and LGD parameters for the Wholesale Banking portfolio, and to the model used for the LGD parameter for the mortgage portfolio.

[2] See the following in particular:
- ESMA: Public Statement of 25 March 2020, "Accounting implications of the COVID-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9";
- EBA: Public Statement of 25 March 2020, "Statement on the application of the prudential framework regarding default, forbearance and IFRS9 in light of COVID-19 measures";
- ECB: Letter from the Chair of the Supervisory Board to all Significant Institutions of 1 April 2020, "IFRS 9 in the context of the coronavirus (COVID-19) pandemic";
- IASB: Statement of 27 March 2020, "IFRS 9 and Covid-19: Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the Covid-19 pandemic".

[3] See in particular the following: ECB: Letter from the Chair of the Supervisory Board to all Significant Institutions, of 1 April 2020, "IFRS 9 in the context of the coronavirus (COVID-19) pandemic", containing guidelines on use of forecasts to estimate the expected credit loss during the pandemic.

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Reference is made to section 5 for specific details of the treatment applied to each business segment.

In terms of the expected losses' sensitivity to changes in the macroeconomic scenario, these have been estimated by comparing the values of the expected losses at end-June with those obtained by using only the mild-negative scenario to condition the risk parameters. By following this method the increase in provisioning taken through profit and loss would amount to some €7m, chiefly for the corporate exposures, as it is associated with a deterioration of 0.8% in GDP for each of the next three years compared to the baseline scenario.

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 are set out in Regulation (EU) 575/2013 of the European Parliament and of the Council as amended (the "CRR"). 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 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.

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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 setting eligibility criteria for regulatory and management purposes remains central, and the Group Risk Management Unit is responsible for supervising overall consistency in this area. Controls of the mitigation instruments are included in the general risk control and management framework.

Monitoring of collateral consisting of financial instruments has been stepped up as a result of the high volatility witnessed on financial markets following the outbreak of the Covid-19 pandemic. For instance, in Private Banking the situations most at risk have been identified, and for “Lombard” credit in particular work has begun quickly on restoring the collateral margins typically associated with this form of credit. Due to the diversification of the portfolio of assets used as collateral, and the haircuts applied when the lending value is calculated, no particular risk situations have emerged.

3. Non-performing 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 level of them 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.

The Group uses a single definition for all the following instances: “default” as defined by the regulations on regulatory capital requisites; “non-performing”,

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used for the supervisory reporting statistics; and Stage 3, or "credit-impaired", assets as defined by the accounting standards in force. In so doing, account has been taken of the provisions contained in the following documents: EBA Guidelines on the application of the definition of default (EBA/GL/2016/07), Commission Delegated Regulation (EU) 2018/171 of 19 October 2017, and Regulation (EU) 2018/1845 of the ECB of 21 November 2018. In line with these principles, instances of assets which qualify as "non-performing" include:

– Exposures identified using the 90 days past due principle, based on which the regulations referred to above have standardized the calculation criteria in use at EU level (in particular with reference to the applicable materiality thresholds, and the irrelevance of which instalment in particular is established as being past due for purposes of the calculation);
– Cases in which the credit obligation has been sold, leading to material losses in relation to the credit risk;
– Distressed restructuring, i.e. restructuring the debt of a borrower who is in or is about to encounter difficulties in meeting their own financial obligations, that imply a significantly reduced financial obligation;
– Cases of bankruptcy or other systems of protection covering all creditors or all unsecured creditors, the terms and conditions of which have been approved by a judge in a court of law or another competent institution;
– Instances identified through other indicators of a borrower being unlikely to pay, such as the enforcement of guarantees, exceeding of given financial leverage ratios, negative evidence in information systems such as central credit databases, or the borrower's sources of income suddenly becoming unavailable.

The regulations referred to above have been applied on a voluntary basis by the Group since the reports issued on 30 September 2019, after authorization was received from the ECB for the AIRB segments. Differences from the framework previously used mainly involved the 90 days past due criterion, which is now calculated using more stringent methods, and the mechanisms for exiting default status. At the first-time adoption stage, gross non-performing assets increased by almost €0.2bn as a result of this one-off effect, more than 90% of which was attributable to Consumer Banking. However, this change did not impact materially in terms of charges taken through profit and loss, as the positions were already covered.

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Also of relevance in this connection are the recent guidelines released by the regulatory and supervisory authorities in connection with the Covid-19 emergency, in particular the EBA recommendations of 25 March 2020 in its "Statement on the application of the prudential framework regarding default, forbearance and IFRS9 in light of COVID-19 measures", which require banks to reassess the counterparty closely before reclassifying accounts when moratoria are granted (if a high number of moratoria with similar characteristics are granted, automatic mechanisms should be avoided and reclassifications made only when the borrower's status has been closely scrutinized). The EBA also subsequently issued "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19", which detail the criteria to be fulfilled for moratoria not to be classified as forbearance measures or "distressed restructuring" which would result in their being categorized as in default. Also significant in this connection is the ECB's stance as set out in its "FAQs on ECB supervisory measures in reaction to the coronavirus" on 20 March 2020, whereby the use of a public guarantee issued in connection with the Covid-19 emergency is to be assessed with due flexibility as an indicator of default. This approach is then adopted differently within the individual Group companies, which, depending on the specific monitoring processes they have implemented, may choose to detect non-performance before the 90 days past due status by running individual analysis or applying automatic algorithms. Equally, the quantification of the accounting adjustment of non-performing exposures may reflect either analysis of individual positions, or be based on identifying clusters of similar positions, depending on the specific nature of the Group company's 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 may be written off even 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.

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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 corresponds to the notion of forbearance measure, is detected in accordance with the specific regulations when contractual amendments are made, refinancing arrangements entered into, or when clauses provided for in the contract are exercised by the client. In line with the EBA and ECB statements following the Covid-19 crisis, no automatic reclassification mechanisms have been applied following contractual amendments made under the terms of the immediate support programmes provided by law, category association arrangements, or equivalent initiatives offered independently by the Group itself.

For an exposure to be classified as forborne, the Group assesses whether or not such concessions (typically rescheduling expiry dates, suspending payments, refinancings or waivers to covenants) occur as a result of a situation of difficulty which can be traced 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, whereas certain predefined conditions apply in the case of consumer credit activities (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 described in the previous sections, a position being assigned the status of "forborne" is considered to be incompatible with its being treated as Stage 1. For this reason, the minimum periods of time that an exposure can be assigned "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

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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 activity

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 in 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.

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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.

The Credit Risk Management unit also carries out a review of the ratings assigned to the counterparties at least once a year. Approved limits must also be confirmed by the approving body with the same frequency.

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 in depth analysis on account of their potential or manifest weaknesses. The exposures identified are then classified by level of alert (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 is also used to provide qualitative information regarding allocation to Stage 2, which includes counterparties classified as "amber" or "red" for watchlist purposes. All forborne positions are also 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 versions. The forward-looking component is factored in by applying the internal scenarios defined to the PD estimates. LGD readings are calculated based on the modeling used for the regulatory calculation, with the downturn effect removed.

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The criterion for reclassifying positions to Stage 2, which is based on an increase in the PD indicator, has been supplemented with the additional specification that the internal rating for the position must have been downgraded by at least two notches from its original rating. This change has been introduced in order to capture the significant increase in risk as a result of the Covid-19 emergency, but the Group Chief Risk Officer and/or Lending and Underwriting Committee in any case have powers of discretion to revise the classification on prudential grounds.

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 there are 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; the asset being leased is 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.

The quantification of provisions for non-performing accounts requires individual analysis to establish the estimated loss, taking into account *inter alia* the value of the assets resulting from regularly updated expert valuations, revised downwards on a prudential basis, and/or any other

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form of collateral. Scenarios for sales strategies are also factored in. The portfolio of performing accounts is measured on the basis of internal PD and LGD parameters. To define the PD parameters, through-the-cycle transition matrices for the management models based on internal data are used, which are then converted to point-in-time versions. The forward-looking component is factored in by applying the internal scenarios defined to the PD estimates. The LGD estimates 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.

In terms of criteria for reclassification of leases to Stage 2, the evidence obtained from the parent company's watchlist for corporate clients is used as qualitative information. Also for corporate clients, the criterion used for reclassification to Stage 2 based on the observation of an increase in the PD indicator is applied subject to checking that the internal rating has been downgraded by at least two notches compared to the original rating (as stated previously for corporate loans). For mid-corporate and small business clients, in accordance with the internal Directive on Leasing, moratoria granted by law which before the request were marked as "Watchlist Red" or "Watchlist Amber" (the latter with more than 30 days past due in the three months prior to the moratorium application) are classified as forborne (Stage 2).

Consumer credit

Consumer credit operations are performed primarily by Compass Banca and Futuro, where 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 by the relevant bodies at headquarters, in accordance with the authorization levels established by the Board of Directors.

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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 installments (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, 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 estimate the PD parameters, the through-the-cycle transition matrices based on management models are used. 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 using a specific macroeconomic model based on scenarios internal to the Group. The LGD parameters are defined based on the internal models estimated on the basis of internal rates of recovery experienced.

In consumer credit specific quality indicators are used to classify exposures as Stage 2, such as the existence of suspension measures, the existence of other non-performing accounts for the same borrower, and evidence of irregularities in payment in the recent past.

Positions for which moratoria have been granted in connection with Covid-19 form an exception to the general rule whereby the existence of suspension measures would automatically lead to a position being classified as Stage 2. For such positions, a quantitative criterion has been introduced instead, namely a change in the PD (i.e. a significant increase in credit risk, or “SICR”), suitably adapted to ensure that the rating system is not unduly reactive (the system is constructed on the basis of historical series which include only ordinary suspension measures).

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Factoring

Factoring, a business in which MBFACTA specializes, 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 instalment factoring the acquisition price is calculated following due statistical analysis of the accounts being sold, and takes into consideration the projected recoveries, costs and margins.

The evidence obtained from the parent company's watchlist for corporate clients is also used as qualitative information for allocation to Stage 2, which includes counterparties classified as "amber" or "red".

NPL business [4]

This business is performed by MBCredit Solutions, which 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 determined by following well-established procedures which include appropriate sample-based or statistical analysis of the positions being sold, and take due account of projections of expected amounts recovered, expenses and margins. 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

[4] See Part A of the Notes to the Accounts for definition and treatment of POCIs.

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due to the future cash flows being overestimated, the flows are recalculated and adjustments charged as 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

Private banking operations include granting loans as a complementary activity in serving affluent, 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 backed by collateral or 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/collateral and the type of finance involved. Such loans are reviewed on a regular basis.

Provisioning for all non-performing contracts is made on an individual basis, and takes into account the value of the collateral. 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 evidence obtained from the parent company's watchlist for corporate clients is also used as qualitative information for reclassification to Stage 2, which includes counterparties classified as "amber" or "red".

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Mortgage lending

Mortgage lending is provided primarily by CheBanca!, and processing and approval exposures in this area are performed 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 collateral for positions which have become non-performing.

Accounts, both regular and irregular, are monitored through a reporting system which allows operators to monitor the trend in the asset quality and, with the help of the appropriate indicators, to enter positions at risk, 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 lawyers. Internal procedures requires that cases with four or more unpaid instalments (not necessarily consecutive), or cases with persistent irregularities or interest suspended at the legal rate, are designated as unlikely to pay accounts, and classified as bad loans once the ineffectiveness of the recovery actions has been certified.

Exposures for which concessions have been granted are defined as forborne exposures, i.e. exposures subject to tolerance measures, performing or non-performing for which the Bank grants amendments to the original terms and conditions of the contract in the event of the borrower finding itself in a state (proven or assumed) of financial difficulty, by virtue of which it is considered to be unlikely to be able to meet its borrowing obligations fully or regularly. A qualitative criterion is used for classification of mortgages to Stage 2, consisting of assignation of the worst internal rating class before default.

The existence of moratoria granted by public institutions or at the individual

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bank's own initiative due to external causes of illiquidity, potential or actual, such as the Covid-19 emergency, is considered to be an indicator of temporary economic difficulty. This kind of support does not qualify as a forbearance measure, and is compatible with an exposure being classified as Stage 1 for the duration of the moratorium; however, if there is internal information on the borrower which provides a more accurate picture of the borrower's financial difficulties, the moratorium may be treated as a forbearance measure. Specific monitoring has been instituted for such positions, which is performed by the Monitoring and Credit Recovery division, to assess whether the position concerned should be reclassified as forborne and/or unlikely to pay.

Provisioning is determined analytically for bad loans and based on clusters of similar positions for unlikely to pay, other overdue and performing accounts. The analytical provision for bad loans takes account of expert valuations of the assets (deflated on a prudential basis) as well as the timing and costs of the recovery process. 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 versions. The forward-looking component is factored in by applying the internal scenarios to the PD estimates. The LGD parameters 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.

6. Impact of Covid-19

6.1 Government and regulatory action following the Covid-19 pandemic

In order to address the effects of the Covid-19 pandemic on the economy, the Italian government launched a substantial first package of measures contained in the "Cura Italia" Decree Law issued on 17 March 2020, with the aim of safeguarding citizens' health and supporting the country's productive system by keeping firms active and so preserving workers' jobs. This first package was soon followed by another, the "Liquidità" Decree Law issued on 8 April 2020, which added further measures to support businesses.

The "Rilancio" Decree Law of 19 May 2020 confirmed and reinforced the measures introduced by the "Cura Italia" Decree Law, extending their duration

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to meet the needs resulting from the gradual reopening of the economy launched on 4 May 2020 (known as "Phase 2"). This Decree Law includes significant measures to bolster the liquidity and capitalization of firms, support the production sectors most affected by the emergency, and fund investment and innovation.

The EU institutions (notably the EBA, ESMA, ECB and IASB) also intervened in response to the medical crisis, introducing extraordinary measures described in more detail in Part A.

In this scenario, the Mediobanca Group rapidly developed and implemented procedures tailored to the specific areas of activity and their respective portfolios, in order to respond to the possibilities offered by the Decree Laws referred to above providing support to households and businesses. Steps were taken to implement the provisions of the "Cura Italia" and "Liquidità" Decree Laws; and the initiatives adopted by category associations ABI and Assofin (consumer credit and mortgage lending) were adhered to, in particular as follows:

- CheBanca!, moratoria under the Gasparrini Fund were available immediately, while the bank also implemented its own product catalogue in order to offer the possibility, from as early as 18 May 2020, for customers to apply for loans under Article 13 of the "Liquidità" Decree Law (a service which was not available before the Decree Laws were issued);
- Compass, which operates in the consumer credit segment, has not participated in the SME Guarantee Fund as its business model is not focused on granting loans to businesses and commercial enterprises, meaning it does not qualify for granting the loans provided under the Decree Laws; as for moratoria, though, in addition to implementing the operating procedures required to comply promptly with the Decree Laws' provisions, both Compass and Futuro adhered to the "Covid-19 moratoria for consumer credit" promoted by Assofin;
- SelmaBipiemme, which operates in leasing, had already adhered to the SME Guarantee Fund on account of the nature of its business, and so participated in the activities permitted by the Decree Laws straight away;
- Mediobanca S.p.A. adhered to the fund made available by SACE, approving deals involving substantial amounts under the "Liquidità" Decree Law starting from July 2020.

It should be noted that the Group has also granted moratoria on a voluntary

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basis, i.e. private initiatives to provide support to its clients, with the aim of alleviating the difficulties facing households and helping companies to tackle the situation created by the spread of the epidemic.

6.2 Moratoria granted to clients in connection with Covid-19

As mentioned above, in addition to adhering to the moratoria provided for by the "Cura Italia" [5] and "Liquidità" Decree Laws and the initiatives promoted by category associations ABI [6] and Assofin for consumer loans, [7] the Mediobanca Group has also taken initiatives on a voluntary basis, in Consumer Banking in particular, taking the view that it is fundamental to help its clients during this difficult period.

Overall, the moratoria that had been granted by the Group until 30 June 2020 (as summarized in Table 1 below) involved over 133,000 clients and a total amount of loans of some €2.6bn, half of which were in Consumer Banking and the remainder split equally between leasing and mortgage lending. Net of those exposures for which the concessions have already finished and repayments have resumed as normal (€746.3m, almost all of which in Consumer Banking which on average granted two months' relief), the amount of loans outstanding for which moratoria agreements were still in force as at 30 June 2020 totaled €1,855.9m, split equally between the three segments.

In detail, this amount, which is still subject to moratoriums, is divided into 41% whose payment plan resumes by the first half of next financial year, 45% whose payment plan resumes by the end of 2020 and 15% after 2020.[8]

In Consumer Banking, the first data suggests a much more positive trend than initially feared, with approx. 85% of clients having recommenced making repayments as normal, a small number who had asked for a short extension to the terms of the moratoria (9%, granted within the period provided by Assofin moratoria which permit repayments to be suspended for up to six months), plus a residual number of accounts past due; these figures further improve with reference to expiry dates subsequent to 30 June 2020.

[5] Italian Decree Law 18/20 (known as "Cura Italia"), as converted into Italian Law 27/20.

[6] For instalments past due and unpaid after 31 January 2020 on mortgages and leases (property and other).

[7] Under the terms of the Assofin Covid-19 moratoria, instalments can be suspended for up to six months, although shorter durations can be agreed with the client. Suspension may involve the entire instalment or only part, at the lender's discretion.

[8] With reference to the Consumer only the distribution is respectively 92%, 8%, 0%, while with reference to Wealth Management (mainly real estate mortgages) the breakdown is respectively 37%, 19% and 44%; for leasing almost all payment plans restart in the last three months of 2020.

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As already mentioned, moratoria granted to address the economic consequences of the Covid-19 emergency do not automatically result in forbearance measures being recorded.[9] Furthermore, as the moratoria in accounting terms result merely in deferral of repayments, they are treated on the basis of modification accounting rules. In view of the mechanism by which the suspensions granted by the Group function in practice, no impact from the above renegotiation has been taken through profit and loss, the mechanism itself being sufficient to guarantee that the current value of the exposure post-renegotiation is largely consistent with the value before the renegotiation took place.

Table 1 - Moratoria granted by business area

(€ m)

Gross Moratoria	Granted up to 30 June	Expired [1]	Residual as of 30 June	% Loans to customers [2]	of which Stage1
Corporate Investment Banking	5.5	—	5.5	—	4.1
Consumer Banking	1,333.3	745.5	587.8	4.2%	223.1
Wealth Management	602.2	0.8	601.4	4.5%	492.2
Leasing (holding function)	661.2	—	661.2	34.8%	567.8
Total Moratoria ex COVID-19	**2,602.2**	**746.3**	**1,855.9**	**3.9%**	**1,287.2**
- of which Decreto Cura Italia	45.2%		63.3%		
- of which industry-wide initiatives	39.6%		28.8%		
- of which Group Initiative[3]	15.2%		7.9%		

[1] Normal repayment schedule has resumed.

[2] Gross moratoria granted in relation to Covid-19 outstanding at 30/6/20 as a percentage of gross customer loans.

[3] Moratoria granted on a voluntary basis by Compass Banca, SelmaBipiemme and CheBanca!

Only some of the moratoria granted conform fully to the EBA Guidelines (EBA/GL/2020/02),[10] which require continuity in terms of classification and in particular staging. A summary of the table provided as part of the regulatory disclosure included in the Pillar III - Disclosure to the Public document is provided below.[11]

[9] The moratoria introduced in response to the pandemic aim to address system risks and to contain and mitigate potential future risks in the wider EU economy. In this sense, the measures are not specific to the client, as the moratoria are applied regardless of individual financial circumstances.

[10] To ensure that the data on moratoria granted in support of customers at European level are fully comparable, the EBA Guidelines require that only moratoria granted under law (which for Italy means the "Cura Italia" and "Liquidità" Decree Laws) and initiatives promoted by the category associations (ABI/Assofin) should be stated.

[11] The "Pillar III - Disclosure to the Public" document is available on the Bank's website at www.mediobanca.com in the section entitled "Capital Solidity".

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Table 2 - Moratoria granted by type of counterparty and timing bracket (excerpt from Template no. 2 of the EBA Guidelines)

30/6/20	Gross carrying amount [1]	of which: Legislative moratoria [2]	of which: Expired [3]	Residual maturity of moratoria [4]		
				Up to 3 months	From 3 to 6 months	From 6 to 18 months
Loans and advances for which moratorium was offered	**2,204.2**	**1,219.1**	**830.0**	**1,041.6**	**123.3**	**209.3**
Households	**1,607.0**	**627.5**	**830.0**	**449.8**	**123.3**	**204.0**
of which: Collateralised by residential immovable property	583.9	583.1	0.8	264.2	115.0	203.9
Non-financial corporations	**594.4**	**589.1**	**—**	**589.1**	**—**	**5.3**
of which: Small and Medium-sized Enterprises	401.1	397.1	—	397.1	—	4.0
of which: Collateralised by commercial immovable property	357.1	352.9	—	352.9	—	4.2
Financial corporations	**2.8**	**2.5**	**—**	**2.7**	**—**	**—**

[1] Gross book value of loans subject to moratoria received and/or granted by the Group as at 30/6/20.

[2] Moratoria granted pursuant to the "Cura Italia" Decree Law (Articles 54 and 56).

[3] I.e. for which the payment relief period has ended.

[4] Expiry date for benefit of term for suspension under moratoria granted and outstanding at 30/6/20.

The initiatives granted pursuant to the EBA Guidelines amount to €2.2bn, roughly half of which by law, almost all of which regard the moratoria granted for mortgages and leases, and the remained Assofin/Consumer Banking initiatives. Some 73% of the moratoria granted were to households, two-thirds of which in respect of consumer credit transactions and one-third mortgages. Most of the share versus non-financial companies involves leasing contracts (€570.2m out of €594.4m) in different industrial sectors, with the highest concentrations in manufacturing, real estate and wholesale/retail commerce.

The amount still subject to moratoria at 30 June 2020 falls to €1.4bn after deducting approx. €830m Consumer Banking concessions where there are no more suspension of payments (this includes cases where payments will restart in the following 30 days).

* * *

As at 31 August 2020 the Group had granted moratoria for a total amount of €2.7bn, half of which in Consumer Banking and the remainder split equally between mortgages and leasing. Of these, €1.5bn are outstanding (roughly 3% of the Group's total loans), as €1.2bn of the concessions granted in Consumer Banking have already ended (€418.4m more than at 30 June 2020); the data confirm that the trend in terms of repayment schedule resumption is positive, in line with the results as at end-June 2020, and that virtually all clients (just

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under 90%) have resumed making repayments as normal.

In the first two months of FY 2020-21, Mediobanca S.p.A. has approved a total of five deals guaranteed by SACE under the terms of the "Decreto Liquidità" for a total amount of up to €150m.

It should be noted that moratoria granted to companies under Article 56 of the "Cura Italia" decree law have been extended until 31 January 2021 under the "Decreto Legge no. 104" of 14 August 2020.

6.3 Macroeconomic scenario and Covid-related impact

The provisioning as at 30 June 2020 reflects the most recent update to the macroeconomic scenario which incorporates the most recent estimates post-Covid. With reference to 30 June 2020, internal estimates have been developed based on a more conservative scenario than the consensus, for the European geographies especially, which sees the economic slump continuing until 1Q 2021, at rates of contraction which are similar to those during lockdown; the recovery phase is assumed to begin only starting from 2Q 2021.

The macroeconomic scenario at end-June reflects a contraction in GDP for all world economies that is unprecedented in the last 90 years.

The estimates used by the Group for 2020 see GDP falling in Italy by 11.64%, in the EU area by 9.71%, and the United States by 10.77%. Equally, the figures show sharp rises in the unemployment rates: from 10% to 13.5% in Italy, from 6.3% to 9.4% in Europe, and from 3.7% to 10.7% in the United States.

All these figures show substantial improvements for 2021 (GDP in Italy +0.82%; EU -0.11%; USA +7.64%), emphasizing the pro-cyclical effects which are characteristic of the point-in-time method used to calculate provisioning under IFRS 9. As mentioned in section 2.3 above, in line with the recommendations expressed by the regulators, the Mediobanca Group has adopted methodologies for calculating and using forward-looking data that adequately reflect the specific features of the current macroeconomic scenario.

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Table 3 - Macroeconomic scenario parameters [1]

PIL Forecast	2020	2021	2022
Italy	-11.64%	0.82%	5.25%
UE	-9.71%	-0.11%	5.13%
US	-10.77%	7.64%	6.03%

Unemployment rate	2020	2021	2022
Italy	13.52%	14.20%	12.31%
UE	9.39%	10.46%	9.11%
US	10.74%	7.34%	5.16%

Interest rate on Government bond (10 years)	2020	2021	2022
Italy	1.66%	2.30%	2.83%
Germany	-0.38%	-0.31%	0.17%
US	0.87%	0.65%	1.17%

[1] Taken from internal estimates based on a more conservative scenario than consensus for the European geographies in particular, according to which the economic slump could continue until 1Q 2021, at rates of contraction similar to those seen during lockdown; the recovery phase is assumed to begin only in 2Q 2021.

As mentioned above, the contraction in the global economy is expected to recover only starting from 2021, returning to pre-Covid levels only from mid-2022. The estimated trend in the macroeconomic scenario will therefore be reflected in the trend in provisioning, which should gradually stabilize at lower values in line with the estimated recovery and with the six-monthly updates to the scenario.

Overall, the increase in loan loss provisioning for the twelve months attributable to Covid-19 is €113m, concentrated mainly in 4Q, in conjunction with the update to the scenario and the economic effects of the lockdown beginning to materialize. Roughly half of these involve Consumer Banking (€64m), even though this area is only marginally impacted by the macroeconomic scenario, with the majority attributable to the increase in the portfolio coverage levels to factor in the expected increase in rates of default already reflected in the changes to staging.

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Indeed, the portfolios most affected by the risk parameter revision are the corporate and in particular the large corporate loan books (€37m).

Table 4 - Covid-related impact on earnings

(€ m)

Impact on item 130 of P&L *	of which Covid FY20	of which IVQ
Corporate Investment Banking	43	42
Consumer Banking	64	52
Wealth Manangement	4	4
Leasing (Holding Functions)	2	2
Total	113	100

* Net loan loss provisions (writebacks) for credit risk - Section 8.

SECTION 1

Consolidated accounting risks

QUANTITATIVE INFORMATION

The accounting consolidation area includes the line-by-line consolidation of controlled entities Compass RE (a reinsurance company) and Ricerche e Studi (other company), which under the banking group method of consolidation are accounted under the equity method.

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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 *	Non performing overdue exposures (NPLs)	Performing overdue exposures [1]	Other performing exposures	Total
1. Financial assets at amortized cost	435,370	627,316	166,479	334,564	54,393,561	55,957,290
2. Financial assets at fair value with impact taken to comprehensive income	—	—	—	—	3,485,940	3,485,940
3. Financial assets designated at fair value	—	—	—	—	51,002	51,002
4. Other financial assets mandatorily at fair value	27	3,584	—	—	48,814	52,425
5. Financial assets being sold	—	—	—	—	—	—
Total 30/6/20	435,397	630,900	166,479	334,564	57,979,317	59,546,657
Total 30/6/19	468,625	670,166	57,990	465,977	58,982,830	60,645,588

[1] Regarding the net exposure in overdue performing loans, the gross value of the unpaid instalments is €106.8m, €116.1m of which is attributable to mortgage loans (1.1% of the performing loans in this segment), and €86.7m to factoring (4.9%). The item also includes net exposures being renegotiated under the terms of collective agreements in amounting to €677m, consisting primarily of consumer credit exposures totalling €632.1m.

* Includes the NPLs held by MBCredit Solutions in an amount of €358.6m, €357m of which bad loans.

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

Asset portfolio/quality	Non-performing assets				Performing assets			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	2,240,212	(1,011,047)	1,229,165	6,023	55,312,665	(584,540)	54,728,125	55,957,290
2. Financial assets at fair value with impact taken to comprehensive income	—	—	—	—	3,492,048	(6,108)	3,485,940	3,485,940
3. Financial assets designated at fair value	—	—	—	—	X	X	51,002	51,002
4. Other financial assets mandatorily at fair value	72,770	(69,159)	3,611	—	X	X	48,814	52,425
5. Financial assets being sold	—	—	—	—	—	—	—	—
Total 30/6/20	2,312,982	(1,080,206)	1,232,776	6,023	58,804,713	(590,648)	58,313,881	59,546,657
Total 30/6/19	2,279,854	(1,083,073)	1,196,781	9,948	59,709,827	(518,672)	59,448,807	60,645,588

Asset portfolio/quality	Assets with obviously poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	—	—	6,786,376
2. Hedging Derivatives	—	—	464,718
Total 30/6/20	—	—	7,251,094
Total 30/6/19	—	—	7,363,462

The non-performing items include €358.6m attributable to MBCredit Solutions, i.e. acquisitions of non-performing loans, with a nominal amount of €5.4bn as at 30 June 2020. Of these items, €4.9m (with a nominal value of €484.5m) involve assets acquired from other Group companies, mostly those operating in consumer banking.

The purchase price of these items, and also their initial recognition value, is €520.8m, compared with a nominal (original gross) value of €5.6bn.

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Information on exposures to sovereign debt

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

Portfolio/quality	Non performing loans				Performing			Total net exposure [1]
	Gross exposure	Individual adjustments	Collective adjustments	Net exposure	Gross exposure	Collective adjustments	Net exposure	
1. Financial assets held for trading	—	—	—	—	X	X	(1,471,647)	(1,471,647)
Italy	—	—	—	—	X	X	136,036	136,036
Spain	—	—	—	—	X	X	(55,418)	(55,418)
Germany	—	—	—	—	X	X	(623,809)	(623,809)
France	—	—	—	—	X	X	(928,456)	(928,456)
2. Financial assets designated at fair value through other comprehensive income	—	—	—	—	2,613,617	—	2,613,617	2,613,617
Italy	—	—	—	—	1,739,967	—	1,739,967	1,739,967
United States	—	—	—	—	328,023	—	328,023	328,023
Germany	—	—	—	—	321,963	—	321,963	321,963
France	—	—	—	—	100,515	—	100,515	100,515
Others	—	—	—	—	123,149	—	123,149	123,149
3. Financial assets at amortized cost	—	—	—	—	2,134,435	—	2,134,435	2,134,435
Italy	—	—	—	—	1,512,487	—	1,512,487	1,512,487
France	—	—	—	—	366,527	—	366,527	366,527
Spain	—	—	—	—	110,317	—	110,317	110,317
United States	—	—	—	—	62,666	—	62,666	62,666
Others	—	—	—	—	82,438	—	82,438	82,438
Total 30/6/20	—	—	—	—	4,748,052	—	3,276,405	3,276,405

* Does not include financial or credit derivatives.

[1] The net exposure includes positions in securities (long and short) recognized at fair value (including the outstanding accrual) except for assets held to maturity which are stated at amortized cost, the implied fair value of which is €36.4m.

A.1.2b Exposures to sovereign debt securities by portfolio

Portfolio/quality	Trading Book [1]			Banking Book [2]			
	Nominal value	Book value	Duration	Valore nominale	Book Value	Fair Value	Duration
Italy	148,812	136,036	3.15	3,276,095	3,252,455	3,276,437	4.15
Germany	(580,000)	(623,809)	4.24	790,000	372,073	372,193	1.61
Spain *	(53,932)	(55,418)	3.00	180,000	181,948	183,814	2.30
United States	—	—	—	511,135	390,689	392,794	0.44
France	(842,453)	(928,456)	2.88	515,400	467,042	468,885	0.84
Others	—	—	—	85,978	83,846	90,281	—
Total 30/6/20	(1,327,573)	(1,471,647)		5,358,608	4,748,053	4,784,404	

* The figure does not include forward sales with a notional amount of €300m.

[1] Does not include sales of €139m on *Bund/Bobl/Schatz* futures (Germany), with a negative fair value of €3.7m; or sales of €60.0m on the *BPT* future (Italy) with a positive fair value of €0.2m. Net hedge buys of €1,030m have also not been included (virtually all of which allocated to France country risk).

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

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Information on structured entities (apart from securitization SPVs)

In accordance with the provisions of IFRS 12, the Group treats the entities it sets up in order to achieve a limited or well-defined objective, which are regulated by contractual agreements often imposing narrow restrictions on the decision-making powers of its governing bodies, as structured entities (special purpose vehicles or entities). Such entities are therefore structured to ensure that the voting rights (or similar) are not the main factor in establishing who controls them (the activities are often governed by contractual agreements provisions agreed when the entity itself is structured and are therefore difficult to change).

B.1 Consolidated structured entities

As stated in Part A - Section 3 of the Notes to the Accounts, the securitization SPVs instituted pursuant to Italian law 130/99, namely Quarzo S.r.l., Quarzo CQS S.r.l., and MB Funding Lux S.A., a company incorporated under Luxembourg law and 100%-owned by Mediobanca S.p.A.

B.2 Structured entities not consolidated in accounting terms

The Group has no other interests in structured entities to report, apart from the stock units held in UCITs in connection with its activity as sponsor (CheBanca!, Compagnie Monégasque de Banque, Cairn Capital and RAM Active Investments) and as investor in Mediobanca S.p.A. funds including seed capital activity for funds managed by Group companies (Cairn Capital, Mediobanca SGR, Compagnie Monégasque de Gestion and RAM Active Investments).

B.2.1 Structured entities consolidated prudentially

As at 30 June 2020 there was no disclosure to be made as no instances of this type of interest apply in the case of Mediobanca.

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B.2.2 Other structured entities

QUALITATIVE INFORMATION

The Group's operations in this area are performed entirely through special purpose vehicles. In particular the following aspects should be noted:

UCITS

As part of its asset management business, CheBanca! follows the sale, exclusive to its clients, of five different segments of its Yellow Funds SICAV. The SICAV is managed by fund management company Mediobanca Management Company, whereas the funds are managed by BlackRock and Mediobanca SGR. As part of its activity as sponsor, CheBanca! has subscribed for the initial shares in the individual segments (230,000 units, for an outlay of €23m) which were still outstanding at 30 June 2020; these total 52,446, and have a NAV of €4.7m.

Compagnie Monégasque de Banque has sold its clients six fund segments of CMB Global Lux, a company authorized under Luxembourg law. The SICAV is managed by Compagnie Monégasque de Banque itself, whereas the fund management and custody activities are performed by its subsidiary Compagnie Monégasque de Gestion and by CACEIS Luxembourg respectively. As at 30 June 2020 Mediobanca S.p.A. had no investments outstanding in the above segments.

Turning to RAM Active Investments SA, Mediobanca S.p.A. has subscribed to several of its funds, providing seed capital with a total NAV of €153.9m split between four funds: one tactical fund - RAM Asia Bond Total Return (€17.3m) - and three systematic funds - RAM Systematic I/O (€49.6m), RAM Global Sustainable Income Equities (€52.9m) and RAM Global Multi-Asset (€34.1m). All the funds with the exception of RAM Systematic I/O are UCITS funds with NAV calculated daily.

Cairn Capital Group Ltd itself has subscribed to Cairn Special Opportunities Credit Fund and Cairn Strata Credit Fund and to the Cairn Loan Investment SPE I and II for a total amount of €1.7m, plus Mediobanca's share of the seed capital amounting to €243.6m invested in Cairn European Loan Fund (€106.6m, €55m of which subscribed for during the twelve months), Cairn Strata Credit Fund (€51.5m), Cairn Mediobanca Strata UCITS Credit Fund (€50m), and SPE Cairn Loan Investments Holdings I and II (€22.9m and €12.5m respectively).

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Of the funds which Mediobanca SGR sells to its clients, Mediobanca S.p.A. has subscribed for a total of €31.8m, split between €15.5m in the Mediobanca Global Multimanager fund (classes 15 and 35), €7.3m in Mediobanca Social Impact (a philanthropic fund), €4m in Mediobanca CoCo Credit Fund, and €7.5m in Mediobanca *Fondo per le imprese 1 e 2* (which invest in mini-bonds).

On 31 October 2019, Mediobanca acted as sponsor in the arrangement of the Negentropy RAIF fund, an alternative investment fund instituted under Luxembourg law and managed by Negentropy Capital Partners Limited. The deal involved the senior Belvedere ABS (IT0005357360) being transferred in return for delivery of 1,100,360 fund units subsequently sold on the market (350,000 units worth €35m). The Bank's investment in the fund as at 30 June 2020 totalled €76.4m, corresponding to around 68% of the entire NAV which in the meantime had been invested in other senior ABS. The objective is to continue with the sale process.

The process of delegating and sub-delegating investment activity, along with the broad powers of discretion afforded to delegates and the temporary nature of the investments mean that the ability to impact on returns stipulated by IFRS 10 as a precondition for establishing control of SICAVs does not apply in these cases; hence Mediobanca does not have direct control.

Asset-backed SPEs

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

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

Hold to Collect lending transactions, recorded under asset heading 40, "Financial assets recognized at amortized cost - due from customers: composition", in which the Group is the sole lender, involve an amount of €576.4m, plus €2.7m in notes booked as Hold to Collect and Sell, and €51m in notes mandatorily recognized at fair value.

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QUANTITATIVE INFORMATION

Balance-sheet item/SPE type	Accounted for under asset heading	Total assets (A)	Accounted for under liability heading	Total liabilities (B)	Net asset value (NAV) (C=A-B)	Maximum exposure to risk of loss (D)	Difference between exposure to risk of loss and NAV (E=D-C)
Yellow Fund Sicav	Financial assets mandatorily at fair value	4,749	—	—	4,749	4,749	—
CMG Funds	Financial assets mandatorily at fair value	43	—	—	43	43	—
Cairn European Loan Fund	Financial assets mandatorily at fair value	106,640	—	—	106,640	106,640	—
Cairn Strata Credit Fund	Financial assets mandatorily at fair value	51,507	—	—	51,507	51,507	—
Cairn Loan Investments	Financial assets mandatorily at fair value	36,148	—	—	36,148	36,148	—
Cairn Mediobanca Strata UCITS Credit Fund	Financial assets mandatorily at fair value	49,993	—	—	49,993	49,993	—
RAM - Systematic I/O	Financial assets mandatorily at fair value	49,602	—	—	49,602	49,602	—
RAM - Asia Bond Total Return	Financial assets mandatorily at fair value	17,305	—	—	17,305	17,305	—
RAM - Global Shareholder Yield Equities	Financial assets mandatorily at fair value	52,884	—	—	52,884	52,884	—
RAM - Global Multi-Asset	Financial assets mandatorily at fair value	34,084	—	—	34,084	34,084	—
Mediobanca Funds	Financial assets held for trading	2,526	—	—	2,526	2,526	—
Mediobanca Funds	Financial assets mandatorily at fair value	31,811	—	—	31,811	31,811	—
Negentropy RAIF Fund	*Financial assets mandatorily at fair value*	76,377	—	—	76,377	76,377	—
Other funds	Financial assets mandatorily at fair value	952	—	—	952	952	—
Asset Backed	Financial assets at amortized cost	576,385	—	—	576,385	576,385	—
Asset Backed	Financial assets at fair value with impact taken to comprehensive income	2,714	—	—	2,714	2,714	—
Asset Backed	Financial assets designated at fair value	51,002	—	—	51,002	51,002	—

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D.3 Leveraged finance transactions

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

- Credit exposures to parties for which the total gross debt (on balance sheet and committed off balance sheet) to Ebitda ratio is more than 4x;
- Credit exposures to Group companies (with more than 50% of the share capital owned or possessed) by a financial sponsor (i.e. an investment company which carries out acquisitions of companies, *inter alia* financed by debt, with a medium-term time horizon).

As at 30 June 2020 the Group's exposure to this type of transaction amounted to €5,483.6m [12] - down 3.6% on the €5,690.8m reported last year - and accounted for just under one-third of the corporate loan book, 11% of which were pure LBOs (€602m), while 8.7% have been classified as non-performing (five deals worth €477m). During the period under review there were repayments totalling €1,994.3m (with 24 deals being closed), with new investments totalling €1,787.1m (€1,416m of which in relation to 27 new deals and the remainder calls on previous commitments). The loan book continues to be concentrated on domestic deals (43.6% of the total), and deals with clients in other EU member states (40.2%).

[12] Plus off-balance-sheet exposures (commitments and derivatives) totalling €811m (30/6/19: €776m).

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SECTION 2

Banking Group risk*

1.1 CREDIT RISK

QUALITATIVE INFORMATION

For the qualitative information, see pp. 240ff in this Part of the Notes to the Accounts.

A. Credit quality

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

A.1.1 Prudential consolidation - Financial assets by past-due buckets (book values)

Portfolios/risk stages	Stage 1			Stage 2			Stage 3 *		
	From 1 to 30 days	From more than 30 days to 90 days	More than 90 days	From 1 to 30 days	From more than 30 days to 90 days	More than 90 days	From 1 to 30 days	From more than 30 days to 90 days	More than 90 days
1. Financial assets valued at amortized cost	71,937	11,597	3,869	125,084	118,190	3,886	140,242	73,620	677,792
2. Financial assets valued at fair value with impact taken to comprehensive income	—	—	—	—	—	—	—	—	—
3. Assets classified as held for sale	—	—	—	—	—	—	—	—	—
Total 30/6/20	71,937	11,597	3,869	125,084	118,190	3,886	140,242	73,620	677,792
Total 30/6/19	119,636	14,028	25,684	154,265	136,461	15,903	45,408	67,477	673,335

* Includes the NPLs acquired by MBCredit Solutions

* The following are excluded from the area of prudential consolidation: Compass RE (reinsurance), Ricerche e Studi, Compass Rent and MB Contact Solutions (other companies).

A.1.2 Prudential consolidation - financial assets, commitments to disburse funds and financial guarantees given: trend in overall writedowns and provisions

Motivations/risk stages	Cumulative writedowns													Gross provisions on commitments to disburse funds and financial guarantees given			Total
	Stage 1				Stage 2				Stage 3				of which: purchased or originated credit impaired exposures	Stage 1	Stage 2	Stage 3	
	Financial assets valued at amortised cost	Financial assets valued at fair value with impacts taken to comprehensive income	of which: individual writedowns	of which: collective writedowns	Financial assets valued at amortised cost	Financial assets valued at fair value with impacts taken to comprehensive income	of which: individual writedowns	of which: collective writedowns	Financial assets valued at amortised cost	Financial assets valued at fair value with impacts taken to comprehensive income	of which: individual writedowns	of which: collective writedowns					
Starting balance	197,324	1,840	—	199,164	319,509	—	—	319,509	860,617	—	307,494	553,123	—	7,209	974	2,353	1,389,826
Increase variations due to acquired or originated financial assets	97,874	3,710	—	101,584	93,838	—	—	93,838	47,448	—	217	47,231	—	3,622	141	5	246,638
Derecognitions other than writeoffs	(11,222)	(647)	—	(11,869)	(25,406)	—	—	(25,406)	(142,459)	—	(4,067)	(138,392)	—	(1,252)	(22)	(60)	(181,068)
Net writedowns/ writebacks due to credit risk	(50,409)	1,205	—	(49,204)	(50,273)	—	—	(50,273)	261,912	—	11,636	250,276	208	(1,244)	341	689	162,221
Contractual modifications without derecognition	546	—	—	546	11	—	—	11	—	—	—	—	—	—	—	—	557
Changes in estimating methodologies	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Write-off not recognised directly in profit and loss	(1,281)	—	—	(1,281)	(2,113)	—	—	(2,113)	(30,029)	—	(16,066)	(13,963)	—	—	—	—	(33,423)
Other variations	8,309	—	—	8,309	7,833	—	—	7,833	13,558	—	(116)	13,674	—	1,235	(311)	—	30,624
Closing balance	241,141	6,108	—	247,249	343,399	—	—	343,399	1,011,047	—	299,098	711,949	208	9,570	1,123	2,987	1,615,375
Collection proceeds on financial assets subject to writeoffs	—	—	—	—	—	—	—	—	3,770	—	3,678	92	—	—	—	—	—
Writeoffs recognised directly in profit and loss	(127)	—	—	(127)	(85)	—	—	(85)	40,473	—	42,029	(1,556)	—	—	—	—	40,261

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A.1.3 Prudential consolidation - financial assets, commitments to disburse funds and financial guarantees given: transfers between different stages of credit risk (gross and nominal values)

Portofolios/risk stages	Gross amounts / Nominal values					
	Transfers between stage 1 to stage 2		Transfers between stage 2 to stage 3		Transfers between stage 1 to 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	2,127,748	616,311	343,620	113,059	353,926	13,941
2. Financial assets valued at fair value with impact taken to other comprehensive income	—	—	—	—	—	—
3. Assets classified as held for sale	—	—	—	—	—	—
3. Commitments to disburse funds and financial guarantees given	34,313	16,899	25	4,083	1,161	1,030
30/6/20	2,162,061	633,210	343,645	117,142	355,087	14,971
30/6/19	1,543,091	597,975	262,074	76,184	199,436	2,918

A.1.4 Prudential consolidation - Cash and off-balance-sheet exposures to banks: gross and net values

Type of exposure/amounts	Gross exposures		Accumulated impairment and provision	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) Unlikely to pay	—	X	—	—	—
- *of which: forborne exposures*	—	*X*	—	—	—
c) Overdue exposures (NPLs)	—	X	—	—	—
- *of which: forborne exposures*	—	*X*	—	—	—
d) Overdue exposures (performing)	X	45	—	45	—
- *of which: forborne exposures*	*X*	—	—	—	—
e) Other exposures (performing)	X	7,428,982	(5,600)	7,423,382	—
- *of which: forborne exposures*	*X*	—	—	—	—
Total (A)	—	7,429,027	(5,600)	7,423,427	—
B. Off-balance-sheet exposures					
a) Non-performing	—	X	—	—	—
b) Performing	X	9,196,053	—	9,196,053	—
Total (B)	—	9,196,053	—	9,196,053	—
Total (A+B)	—	16,625,080	(5,600)	16,619,480	—

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A.1.5 Prudential consolidation - Cash and off-balance-sheet exposures to customers: gross and net values

Type of exposure/amounts	Gross exposures		Accumulated impairment and provision	Net Exposure	Total partial write-off
	Non-performing loans	Performing loans			
A. Cash credit exposures					
a) Bad loans *	782,717	X	(347,320)	435,397	5,572
- of which: forborne exposures	*100,574*	*X*	*(90,592)*	*9,982*	*204*
b) Unlikely to pay *	1,168,084	X	(537,184)	630,900	451
- of which: forborne exposures	*805,398*	*X*	*(323,482)*	*481,916*	—
c) Overdue exposures (NPLs)	362,181	X	(195,702)	166,479	—
- of which: forborne exposures	*68,225*	*X*	*(40,828)*	*27,397*	—
d) Overdue exposures (performing)	X	388,955	(54,436)	334,519	—
- of which: forborne exposures	*X*	*29,216*	*(3,868)*	*25,348*	—
e) Other exposures (performing)	X	54,325,157	(530,612)	53,794,545	—
- of which: forborne exposures	*X*	*566,887*	*(41,797)*	*525,090*	—
Total (A)	2,312,982	54,714,112	(1,665,254)	55,361,840	6,023
B. Off-balance-sheet exposures					
a) Non-performing	15,861	X	(2,987)	12,874	—
b) Performing	X	18,910,955	(10,692)	18,900,263	—
Total (B)	15,861	18,910,955	(13,679)	18,913,137	—
Total (A+B)	2,328,843	73,625,067	(1,678,933)	74,274,977	6,023

* Includes the NPLs acquired by MBCredit Solutions.

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A.1.7 Prudential consolidation - Cash exposures to customers: trend in gross non-performing exposures, by credit quality

Causals/ category	Bad loans *	Unlikely to pay *)	Overdue exposures (NPLs)
A. Opening balance (gross amount)	888,311	1,221,940	169,604
- Of which sold but not derecognized	47,200	126,582	51,174
B. Increases	200,406	463,313	348,287
B.1 transfers from performing loans	30,518	343,167	284,974
B.2 entry from impaired financial assets acquired or originated	35,514	—	—
B.3 transfers from other categories of non-performing exposures	98,209	62,590	14,640
B.4 contractual changes without cancellations	—	—	—
B.5 other increases	36,165	57,556	48,673
C. Decreases	306,000	517,169	155,710
C.1 transfers to perfomorming loans	1,132	183,175	8,783
C.2 write-off	58,225	16,386	2,725
C.3 recoveries	54,288	142,556	33,627
C.4 sales proceeds	17,782	11,300	4,267
C.5 losses on disposals	143	2,395	1,675
C.6 transfers to other categories of non-performing exposures	1,271	93,553	80,615
C.7 contractual changes without cancellations	—	—	—
C.8 other decreases	173,159	67,804	24,018
D. Closing balance (gross amounts)	782,717	1,168,084	362,181
- Of which sold but not derecognized	173,265	251,225	137,341

* Includes the NPLs acquired by MBCredit Solutions.

The headings "Transferred from impaired financial assets acquired or originated" and "Other increases" chiefly involve the NPL portfolios acquired by MBCredit Solutions.

The heading "Other reductions" includes the non-performing mortgage loans originated by Micos Banca in Italy, which in the accounts for the year ended 30 June 2019 were booked as Assets held for sale (under IFRS 5) at a net value of €22.2m, with the sale completed at the start of the current year.

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A.1.7bis Prudential consolidation - Cash exposures to customers: trend in gross forborne exposures, by credit quality

Description/Quality	Non-performing forborne exposures	Performing forbor-ne exposures
A. Opening balance (gross amount)	1,001,522	652,475
- Of which sold but not derecognized	*66,205*	*55,768*
B. Increases	293,884	528,087
B.1 Inflows from performing not forborne exposures	94,908	343,839
B.2 Inflow from performing forborne exposures	64,711	X
B.3 Inflows from non-performing forborne exposures	X	160,383
B.4 Inflows from non-performing not forborne exposures	95,506	2,257
B.5 other increases	38,759	21,608
C. Decreases	321,209	584,459
C.1 Outflows to performing not forborne exposures	X	259,274
C.2 Outflows to performing forborne exposures	160,383	X
C.3 Outflows to non-performing forborne exposures	X	64,711
C.4 write-off	6,186	333
C.5 recoveries	108,418	100,090
C.6 sales proceeds	5,195	281
C.7 losses on disposals	1,258	677
C.8 other decreases	39,769	159,093
D. Closing balance (gross amounts)	974,197	596,103
- Of which sold but not derecognized	*166,809*	*202,850*

As at 30 June 2020, gross non-performing exposures subject to forbearance measures[13] totalled €974.2m (30/6/19: €1,001.5m), with a coverage ratio of 46.7% (47.4%); while net NPLs totalled €519.3m (€526.7m).

Gross performing forborne exposures amount to €596.1m (€652.5m), with a coverage ratio of 7.7% (7.3%) which reduces to €550.4m (€605.2m) on a net basis.

Overall net non-performing forborne exposures represent 1.1% of total customer loans (unchanged), while performing forborne exposures represent 1.2% (1.3%).

[13] Forbearance is defined as when a specific concession is offered to a client who is facing, or who risks facing, temporary financial difficulties in meeting their payment obligations.

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A.1.9 Prudential consolidation - Non performing cash exposures to customers: trend in overall writedowns

Description/Category	Bad loans		Unlikely to pay		Overdue exposures (NPLs)	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Opening balance overall amount of writedowns	419,686	82,503	551,773	369,873	111,614	22,399
- Sold but not derecognized	*44,116*	*9,723*	*82,635*	*27,209*	*36,789*	*8,192*
B. Increases	168,141	32,005	283,468	99,005	189,194	39,443
B.1 Adjustments on acquired or originated impaired assets	—	X	—	X	—	X
B.2 other value adjustments	92,506	8,004	169,082	48,968	134,141	19,647
B.3 losses on disposal	143	12	2,395	995	1,675	251
B.4 transfers from other categories of non-performing exposures	67,089	18,144	45,343	10,927	8,805	5,792
B.5 contractual changes without cancellations	—	—	—	—	—	—
B.6 other increases	8,403	5,845	66,648	38,115	44,573	13,753
C. Reductions	240,507	23,916	298,057	145,396	105,106	21,014
C.1 writebacks from assessments	8,176	2,295	105,448	89,934	8,081	2,363
C.2 writebacks from recoveries	15,168	3,291	21,972	12,195	7,927	1,362
C.3 gains on disposal	4,548	1,502	2,516	673	285	77
C.4 write-off	58,225	2,948	16,386	2,831	2,725	407
C.5 transfers to other categories of non-performing exposures	876	204	61,740	23,519	58,621	13,057
C.6 contractual changes without cancellations	—	—	—	—	—	—
C.7 other decreases	153,514	13,676	89,995	16,244	27,467	3,748
D. Closing overall amount of writedowns	347,320	90,592	537,184	323,482	195,702	40,828
- Sold but not derecognized	*123,176*	*13,564*	*127,283*	*52,909*	*74,592*	*14,287*

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

A.2.1 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees given by class of external ratings (gross values)

Exposures	External rating classes						Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets valued at amortized cost	1,240,779	3,797,191	3,988,514	3,867,437	125,070	409,800	43,856,222	57,285,013
- First Stage	1,240,779	3,797,191	3,988,426	3,817,969	122,283	300,127	38,444,602	51,711,377
- Second Stage	—	—	3	49,468	2,787	88,338	3,192,828	3,333,424
- Third Stage	—	—	85	—	—	21,335	2,218,792	2,240,212
B. Financial assets valued at fair value with impacts taken to other comprehensive income	802,060	86,875	2,201,265	253,968	10,612	44,897	92,371	3,492,048
- First Stage	802,060	86,875	2,201,265	253,968	10,612	44,897	92,371	3,492,048
- Second Stage	—	—	—	—	—	—	—	—
- Third Stage	—	—	—	—	—	—	—	—
Total (A+B)	2,042,839	3,884,066	6,189,779	4,121,405	135,682	454,697	43,948,593	60,777,061
of which: impaired financial assets aquired or originated	—	—	—	—	—	—	*358,782*	*358,782*
C. Commitments and financial guarantees given								
- First Stage	22,505	658,733	4,719,382	826,388	67,409	6,876	4,265,489	10,566,782
- Second Stage	—	—	—	—	1,921	—	55,874	57,795
- Third Stage	—	—	—	—	—	—	15,862	15,862
Total (C)	22,505	658,733	4,719,382	826,388	69,330	6,876	4,337,225	10,640,439
Total (A+B+C)	2,065,344	4,542,799	10,909,161	4,947,793	205,012	461,573	48,285,818	71,417,500

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

The table is compliant with the classification provided by Bank of Italy circular 262/05 (sixth update), which requires external ratings to be divided into six different classes of credit standing.

The first three risk classes (classes 1, 2 and 3) consist of investment grade exposures, with a Standard & Poor’s rating of between AAA and BBB-, and represent 76% of the entire portfolio, excluding unrated counterparties and non-performing loans.

The unrated exposures refer chiefly to Private Banking clients and to small and medium-sized enterprises.

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A.2.2 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees given by class of internal ratings (gross values)

Exposures	Internal rating classes						Non performing exposures	Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6			
A. Financial assets valued at amortized cost									
- First Stage	1,057,710	6,220,524	16,495,104	17,401,263	5,007,493	88,142	—	5,441,141	51,711,377
- Second Stage	—	4,716	21,388	468,964	1,672,575	887,300	—	278,481	3,333,424
- Third Stage	—	—	—	—	—	—	2,240,212	—	2,240,212
B. Financial assets valued at fair value with impacts taken to other comprehensive income									
- First Stage	802,060	106,813	2,232,630	250,599	44,897	—	—	55,049	3,492,048
- Second Stage	—	—	—	—	—	—	—	—	—
- Third Stage	—	—	—	—	—	—	—	—	—
Total (A+B)	1,859,770	6,332,053	18,749,122	18,120,826	6,724,965	975,442	2,240,212	5,774,671	60,777,061
of which: impaired financial assets aquired or originated	—	—	—	—	—	—	*358,782*	—	*358,782*
C. Commitments and financial guarantees given									
- First Stage	78,389	885,077	5,967,080	1,736,277	320,244	7,333	—	1,572,382	10,566,782
- Second Stage	—	2	21	391	34,873	19,103	—	3,405	57,795
- Third Stage	—	—	—	—	—	—	15,862,00	—	15,862
Total (C)	78,389	885,079	5,967,101	1,736,668	355,117	26,436	15,862	1,575,787	10,640,439
Total (A+B+C)	1,938,159	7,217,132	24,716,223	19,857,494	7,080,082	1,001,878	2,256,074	7,350,458	71,417,500

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

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

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

A.3 Distribution of secured exposures by type of securities

A.3.1 Prudential consolidation - Cash and off-balance sheet secured exposures to banks

	Gross exposures	Net expo-sures	Collaterals (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Signature loans				
			Property - mortgages	Financial leasing property	Securities	Other guarantees	CLN	Other derivatives				Public Admin-istrations	Banks	Other fi-nancial company	Other enti-ties	
								Central coun-terparties	Banks	Other fi-nancial company	Other enti-ties					
1. Secured balance sheet credit exposures:	2,925,573	2,924,275	—	1,007	2,858,371	845	—	—	—	—	—	—	—	—	—	2,860,223
1.1. totally secured	2,925,573	2,924,275	—	1,007	2,858,371	845	—	—	—	—	—	—	—	—	—	2,860,223
- *of which non-performing*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1.2. partially secured	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
- *of which non-performing*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Secured off-balance sheet cred-it exposures:	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2.1. totally secured	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
- *of which non-performing*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2.2. partially secured	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
- *of which non-performing*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

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A.3.2 Prudential consolidation - Cash and off-balance sheet secured exposures to customers

	Gross exposures	Net exposures	Collaterals (1)				Personal guarantees (2)									Total (1)+(2)
			Property - mortgages	Financial leasing property	Collaterals	Other guarantees	Credit derivatives					Signature loans				
							CLN	Other derivatives				Public Admin-istrations	Banks	Other financial company	Other entities	
								Central coun-terparties	Banks	Other financial company	Other entities					
1. Secured balance sheet credit exposures:	21,373,967	20,963,313	11,184,290	1,086,040	3,117,264	1,914,187	—	—	—	—	—	54,124	10,306	265,786	1,965,423	19,597,420
1.1. totally secured	17,575,133	17,308,338	10,406,042	1,086,040	2,372,516	1,554,532	—	—	—	—	—	20,942	10,306	122,508	1,638,711	17,211,597
- of which non-performing	*481,417*	*285,713*	*146,864*	*100,485*	*565*	*19,023*	—	—	—	—	—	—	—	*11,646*	*7,130*	*285,713*
1.2. partially secured	3,798,834	3,654,975	778,248	—	744,748	359,655	—	—	—	—	—	33,182	—	143,278	326,712	2,385,823
- of which non-performing	*378,245*	*247,541*	*3,301*	—	*5,434*	—	—	—	—	—	—	—	—	—	*161*	*8,896*
2. Secured off-balance sheet credit exposures:	1,865,692	1,859,798	53,431	—	989,439	299,873	—	—	—	—	—	5,961	4,495	34,940	247,582	1,635,721
2.1. totally secured	965,718	963,095	46,674	—	345,509	299,873	—	—	—	—	—	5,961	4,495	—	247,582	950,094
- of which non-performing	*1,061*	*1,047*	*46*	—	*737*	*264*	—	—	—	—	—	—	—	—	—	*1,047*
2.2. partially secured	899,974	896,703	6,757	—	643,930	—	—	—	—	—	—	—	—	34,940	—	685,627
- of which non-performing	*14,000*	*11,060*	—	—	—	—	—	—	—	—	—	—	—	—	—	—

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A.4 Prudential consolidation - Financial and non-financial assets obtained by taking possession of collaterals

	Derecognized credit exposures	Gross amount	Gross writedowns	Book value	
					Of which: obtained during the period
A. Tangible assets	65,925	65,273	(17,793)	47,480	1,437
A.1. Core assets	82	76	(1)	75	—
A.2. Held for investment purpose	56,712	56,653	(16,879)	39,774	1,437
A.3. Inventories	9,131	8,544	(913)	7,631	—
B. Equity and debt securities	—	—	—	—	—
C. Other assets	—	—	—	—	—
D. Assets held for sale	—	—	—	—	—
D.1. Tangible assets	—	—	—	—	—
D.2. Other assets	—	—	—	—	—
30/6/20	65,925	65,273	(17,793)	47,480	1,437
30/6/19	67,476	67,030	(16,938)	50,092	526

The table includes properties originating from the enforcement of leasing contracts by SelmaBipiemme. Such properties are booked, to the consolidated accounts and the individual financial statements of the Group company, on the basis of their characteristics and in accordance with the internal procedures, as tangible assets under IAS 40 or IAS 2. In very few instances they are classified as core properties, whereas IFRS 5 is not applied as the conditions provided for in this standard do not apply.

B. Exposures distribution and concentration

B.1 Prudential consolidation - Cash and off-balance sheet exposures to 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	—	(145)	427	(9,267)	—	—	73,431	(26,949)	361,539	(310,959)
- *of which: forborne exposures*	—	—	*27*	*(7,231)*	—	—	*6,075*	*(9,433)*	*3,880*	*(73,928)*
A.2 Unlikely to pay	932	(489)	2,382	(1,180)	—	—	387,816	(223,846)	239,770	(311,669)
- *of which: forborne exposures*	—	—	*166*	*(209)*	—	—	*343,400*	*(198,159)*	*138,350*	*(125,114)*
A.3 Overdue exposures (NPLs)	1,788	(113)	299	(131)	—	—	25,478	(7,212)	138,914	(188,246)
- *of which: forborne exposures*	—	—	—	—	—	—	*211*	*(122)*	*27,186*	*(40,706)*
A.4 Performing exposures	6,981,492	(10,090)	6,696,189	(15,379)	914,940	(3,423)	15,893,819	(91,545)	24,557,564	(468,034)
- *of which: forborne exposures*	—	—	*30,718*	*(509)*	—	—	*263,338*	*(11,319)*	*256,382*	*(33,837)*
Total (A)	6,984,212	(10,837)	6,699,297	(25,957)	914,940	(3,423)	16,380,544	(349,552)	25,297,787	(1,278,908)
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	—	—	—	—	—	—	11,681	(2,959)	1,193	(28)
B.2 Performing exposures	1,163,224	—	6,770,198	(1,752)	1,361,860	—	8,932,241	(5,884)	2,034,600	(3,056)
Total (B)	1,163,224	—	6,770,198	(1,752)	1,361,860	—	8,943,922	(8,843)	2,035,793	(3,084)
30/6/20	8,147,436	(10,837)	13,469,495	(27,709)	2,276,800	(3,423)	25,324,466	(358,395)	27,333,580	(1,281,992)
30/6/19	12,292,681	(6,525)	12,947,022	(18,933)	1,574,703	(1,846)	25,020,633	(365,341)	25,777,187	(1,218,944)

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B.2 Prudential consolidation - Cash and off-balance sheet exposure to customers by geography

Exposures/geographical area	Italy		Others European countries		America		Asia		Rest of the world	
	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	430,813	(343,307)	3,686	(3,826)	342	(49)	60	(15)	496	(123)
A.2 Unlikely to pay	561,081	(511,612)	59,462	(17,408)	324	(127)	10,033	(8,037)	—	—
A.3 Overdue exposures (NPLs)	165,432	(195,394)	1,037	(306)	2	—	—	—	8	(2)
A.4 Performing exposures	40,722,039	(532,701)	11,135,210	(32,274)	1,949,333	(18,594)	55,146	(110)	267,336	(1,369)
Total (A)	41,879,365	(1,583,014)	11,199,395	(53,814)	1,950,001	(18,770)	65,239	(8,162)	267,840	(1,494)
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	12,874	(2,987)	—	—	—	—	—	—	—	—
B.2 Performing exposures	7,886,339	(5,222)	9,632,054	(3,766)	934,822	(690)	161,238	(1,014)	285,810	—
Total (B)	7,899,213	(8,209)	9,632,054	(3,766)	934,822	(690)	161,238	(1,014)	285,810	—
30/6/20	49,778,578	(1,591,223)	20,831,449	(57,580)	2,884,823	(19,460)	226,477	(9,176)	553,650	(1,494)
30/6/19	53,399,786	(1,564,201)	18,809,502	(34,131)	3,303,772	(8,728)	246,356	(453)	278,107	(2,230)

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B.3 Prudential consolidation - Cash and off-balance sheet exposure to banks by geography

Exposures/geographical area	Italy		Others European countries		America		Asia		Rest of the world	
	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	—	—	—	—	—	—	—	—	—	—
A.2 Unlikely to pay	—	—	—	—	—	—	—	—	—	—
A.3 Overdue exposures (NPLs)	—	—	—	—	—	—	—	—	—	—
A.4 Performing exposures	3,329,998	(5,267)	4,041,237	(310)	50,479	(20)	1,655	(3)	58	—
Total (A)	3,329,998	(5,267)	4,041,237	(310)	50,479	(20)	1,655	(3)	58	—
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	—	—	—	—	—	—	—	—	—	—
B.2 Performing exposures	494,418	—	8,701,566	—	69	—	—	—	—	—
Total (B)	494,418	—	8,701,566	—	69	—	—	—	—	—
30/6/20	3,824,416	(5,267)	12,742,803	(310)	50,548	(20)	1,655	(3)	58	—
30/6/19	3,830,385	(1,656)	15,730,689	(871)	49,739	(11)	5,357	(2)	399	(3)

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B.4a Credit risk indicators

	30/6/20	30/6/19
a) Gross bad loans/total loans	1.51%	1.72%
b) NPLs/cash exposures	4.18%	4.09%
c) Net bad loans/regulatory capital [1]	4.82%	5.80%

[1] This item includes the NPL portfolios acquired and held by MBCredit Solutions, which increased from €366.6m to €357m.

B.4b Gross NPL Ratio [14]

(€ m)

	30/6/20	30/6/19
	Gross value (prudential scope of consolidation)	
Loans	46,028.4	43,731.1
NPLs	1,954.2	1,782.3
Loans and advances to customers	47,982.6	45,513.4
NPLs purchased by MBCredit Solutions	358.8	368.6
Treasury financial assets *	9,105.6	10,105.0
Total Loans and Receivables (FINREP)	57,447.0	55,987.0
Gross NPL ratio Finrep %	4.0%	3.8%

* In line with the guidelines of the EBA Risk Dashboard, the calculation excludes cash and includes untied deposits held with central banks.

At 30 June 2020 the Mediobanca Group reported a Finrep gross NPL ratio 4%, basically in line with last year (3.8%) and with the EBA average, [15] confirming the Mediobanca Group as one of the best players on the national and European market.[16] The Finrep gross NPL ratio calculated without the NPLs acquired by MBCredit Solutions was 3.4% (30/6/19: 3.2%).

B.4c Large risks

	30/6/20	30/6/19
a) Book value	9,641,791	11,220,374
b) Weighted value	7,510,106	7,767,800
c) No. of exposures	6	8

As at 30 June 2020, aggregate exposures (including market risks and equity investments) to a total of six groups of clients (two fewer than last year) were in excess of 10% of the regulatory capital, for a gross exposure of €9.6bn (€7.5bn, taking into account guarantees and weightings), lower than the respective figures at end-June 2019 (€11.2bn and €7.8bn respectively). In detail the six exposures are to three industrial groups, one insurance company and two banking groups.

[14] In the EBA Risk Dashboard, the gross NPL ratio is defined as the gross book value of the NPLs (loans and advances) as a percentage of total loans and advances. Source: EBA Risk Dashboard, Risk Indicators in the Statistical Annex (AQT_3.2).

[15] The weighted average NPL ratio in the sample of banks considered by the EBA is 3% in 1Q 2020 and 2.7% in 4Q 2019 (source: EBA Risk Dashboard. The definition of NPL ratio used by the Mediobanca Group is more conservative than that of the EBA, as the denominator used does not include treasury assets which are performing but highly volatile

[16] Source: ECB Transparency exercise, December 2019.

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C. Securitization

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The Group has portfolio of securities deriving from securitizations by other issuers totalling €214.7m, €185.8m of which as part of the banking book (almost all HTC recognized at amortized cost) and €28.9m as part of the trading book.

The contribution from senior securities held as part of the banking book declined from €152.3m to €129m, following the reduction in the exposure to deals with NPLs as underlying instrument, the amount of which fell from €142.6m to €80.7m, 79% of which involved domestic deals (Unicredit-Fino, Intesa-Belvedere and Prisma), against an increase in securities with performing loans and CLOs as the underlying, to €48.4m (€9.7m); the portfolio reflects an increase in the exposure to mezzanine tranches to €56.3m (€3.3m), almost entirely attributable to the contribution of securities with performing receivables as the underlying instrument (€41.2m), and to a lesser extent, new investments in CLOs (€14.1m). The share of junior notes remains decidedly low at €0.4m. Overall the portfolio contains CLOs totalling €22.1m, €14.1m of which are mezzanine.

The trading book reflects a sizeable reduction, from €91.4m to €28.9m, with virtually the entire portfolio renewed. The balance at 30 June 2020 reflects almost exclusively mezzanine securities, €20.9m of which involve securitizations of performing receivables (mostly Italian) and €8m in CLO tranches. Movements for the period include the transfer of €50m to a fund in which a share worth a nominal €75m was subscribed.

Mediobanca also has an exposure to:

– Cairn Loan Investments LLP (CLI and CLI II), Cairn-branded CLO management companies, which, in order to comply with the prudential regulations (Article 405 of Regulation (EU) 585/2013), invest in the junior tranches of the CLOs they manage, with investments of €26m and €13m respectively;
– Italian Recovery Fund, a closed-end alternative investment fund (AIF) incorporated under Italian law and managed by DeA Capital SGR S.p.A. 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 €28m;

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– Negentropy RAIF - Debt Select Fund, an alternative investment fund instituted under Luxembourg law and managed by Negentropy Capital Partners Limited; the fund has a NAV of €112.3m, with senior tranches of Italian NPLs as the underlying instrument, 45% of which consists of the initial transfer from the Belvedere deal; Mediobanca, which acted as advisor on the deal, currently has an investment of €76.4m.

The secondary ABS market saw a sudden widening of spreads following the Covid-19 emergency, with a liquidity freeze which was largely mitigated by the monetary policy initiatives promoted by the central banks. The fiscal policy instruments finalized by the various governments, meanwhile, have preserved the average quality of the underlying instruments for the moment. However, the flow of new deals has slowed significantly, reflecting the fact that market conditions are currently less advantageous than the terms offered by the new T-LTRO.

QUANTITATIVE INFORMATION

C.2 Prudential consolidation - 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 (residential mortgages and real estates)	63,733	—	1,024	(976)	283	(357)
B. Spain NPLs (residential mortgages and real estates)	16,924	—	—	—	—	—
C. Italy Performing Loans	26,809	—	52,995	(972)	—	—
D. Netherlands Performing Loans	13,530	—	3,083	(10)	187	(11)
E. Spain Performing Loans	—	—	945	(55)	—	—
F. Germany Performing Loans	—	—	5,090	—	—	—
G. Other receivables	8,029	—	22,107	(843)	—	—
Total 30/6/20	129,025	—	85,244	(2,856)	470	(368)
Total 30/6/19	220,594	103	26,434	(6)	841	—

C.3 Prudential consolidation - Interest in vehicle companies

Name	Name	Type of consolidation	Assets			Liabilities		
			Receivables	Debt securities	Other items	Senior	Mezzanine	Junior
Quarzo 6 - Quarzo S.r.l.	Milan	Accounting	1,918,203	—	211,809	1,358,893	—	672,012
Quarzo 7 - Quarzo S.r.l.	Milan	Accounting	1,398,744	—	107,979	1,215,000	—	290,900
Quarzo 8 - Quarzo S.r.l.	Milan	Accounting	532,693	—	80,837	454,635	—	156,735
Quarzo 9 - Quarzo S.r.l.	Milan	Accounting	826,281	—	79,467	783,000	—	120,915
Quarzo 10 - Quarzo S.r.l.	Milan	Accounting	1,892,739	—	117,279	1,760,000	—	248,800
Quarzo CQS S.r.l. (2015)	Milan	Accounting	—	—	—	—	—	—
Quarzo CQS S.r.l. (2018)	Milan	Accounting	354	—	23	311	—	52
MB Funding Lux S.A.	Luxembourg	Accounting	1,247,744	—	—	850,185	—	—

C.5 Prudential consolidation - servicing - collecting securitized receivables and redeeming securities issued by vehicle companies

Servicer	Vehicle company	Securitized assets (30/6/20)		Receivables collected during the year		Percentage share of securities repaid (30/6/20)					
		Non performing	Performing	Non performing	Performing	Senior		Mezzanine		Junior	
						Non performing	Performing	Non performing	Performing	Non performing	Performing
Futuro	Quarzo CQS (2015)	—	—	3,794	50,666	—	100.00	—	—	—	3,794
Futuro	Quarzo CQS (2018)	7,203	374,858	7,638	178,612	—	52.07	—	—	—	7,638
Compass	Quarzo Srl	371,904	6,661,225	—	3,200,535	—	87.67	—	—	—	—

C.6 Prudential consolidation - consolidated securitization-related SPVs

Quarzo S.r.l. (Compass Banca)

This SPV currently has five securitizations outstanding, with performing loans granted by Compass Banca as the underlying instrument (Compass itself subscribed for the entire amount of the junior securities), which can be sold on a revolving basis for a period of between six and 66 months, after which the amortization phase can commence. In some deals Mediobanca S.p.A. and/or other Group companies subscribed to the senior notes.

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The five deals outstanding are summarized in the table below:

Issue date	Senior		Junior	Credits transferred in the year	From the repayment date
	A1	A2			
25/02/16	—	2,640	660	307	01/11/19
15/02/17	—	1,215	285	708	
06/12/18	600	147	153	—	01/07/19
25/11/19	600	183	117	131	
17/04/20	—	1,760	240	70	

Legend:

A1: issued on the market

A2: subscribed to by Mediobanca S.p.A. and/or other Group companies.

Quarzo CQS S.r.l. (Futuro)

This SPV currently has one securitization outstanding, completed in 2018 with Futuro receivables (from salary-backed finance) as the underlying instrument and sold in a single, non-revolving tranche. The senior notes (originally issued in an amount of €598m, €311.4m of which is still in issue) are listed on the Dublin stock market and have mostly been sold on the market, while the junior notes (€52m) have been subscribed to entirely by Futuro.

The option to buy back the receivables underlying the first deal (Quarzo CQS 2015, completed on 1 April 2015) was completed in May 2020, which closed with all the outstanding junior notes being redeemed (€52m) and all sums due being paid.

MB Funding Lux S.A. (Mediobanca)

This vehicle company was set up by Mediobanca S.p.A. with the aim of completing secured deals with pools of corporate receivables originated by Mediobanca International (Luxembourg) SA or Mediobanca S.p.A. as the underlying instrument, retaining the associated credit risk. The notes, which were issued under the parent company's Medium-Term Note Programme, have been entirely subscribed to by Group companies and used as collateral on the interbank market.

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The four deals have an aggregate nominal value of €840m, made up as follows:

Issue date	Value	Refund date
25/06/17	200	25/06/22
20/12/17	100	20/12/24
30/10/18	400	30/10/23
15/03/19	140	15/03/24

The Group also has a single, unsecured €10m issue outstanding, expiring in June 2023.

* * *

Accounts between the originator and the SPVs during the period under review were as follows:

SPV	Receivables ceded	Amounts collected	Servicing fees	Interest on junior amounts	Additional return accrued
Quarzo CQS S.r.l.	—	—	—	—	—
Quarzo S.r.l.	4,116.8	3,225.4	11.2	27.6	292.8
MB Funding Lux	269.0	211.9	—	—	2.2

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D. Disposals

A. Financial assets sold but not entirely derecognized

QUANTITATIVE INFORMATION

D.1 Prudential consolidation - Financial assets sold entirely recognized and related financial liabilities: book values

	Financial assets sold as a whole				Associated financial liabilities		
	Book value	*of which: subject to securitization transactions*	*of which: subject to sale contracts with repurchase agreement*	*of which deteriorated*	Book value	*of which: subject to securitization transactions*	*of which: subject to sale contracts with repurchase agreement*
A. Financial assets held for trading	1,866,258	—	1,866,258	X	1,740,442	—	1,740,442
1. Debt securities	1,539,228	—	1,539,228	X	1,421,918	—	1,421,918
2. Equities	327,030	—	327,030	X	318,524	—	318,524
3. Loans	—	—	—	X	—	—	—
4. Derivatives	—	—	—	X	—	—	—
B. Other financial assets that are duly measured at fair value	—	—	—	—	—	—	—
1. Debt securities	—	—	—	—	—	—	—
2. Equities	—	—	—	X	—	—	—
3. Loans	—	—	—	—	—	—	—
C. Financial assets designated at fair value	—	—	—	—	—	—	—
1. Debt securities	—	—	—	—	—	—	—
2. Loans	—	—	—	—	—	—	—
D. Financial assets measured at fair value with impact taken to other comprehensive income	383,482	—	383,482	—	365,219	—	365,219
1. Debt securities	383,482	—	383,482	—	365,219	—	365,219
2. Equities	—	—	—	X	—	—	—
3. Loans	—	—	—	—	—	—	—
E. Financial assets measured at amor-tized cost	5,990,083	5,121,867	868,216	126,463	3,453,703	2,778,168	675,535
1. Debt securities	654,112	—	654,112	—	588,892	—	588,892
2. Loans	5,335,971	5,121,867	214,104	126,463	2,864,811	2,778,168	86,643
30/6/20	8,239,823	5,121,867	3,117,956	126,463	5,559,364	2,778,168	2,781,196
30/6/19	10,056,012	6,049,062	4,006,950	61,416	6,282,305	2,359,845	3,922,460

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D.3 Prudential consolidation - Disposals related to financial liabilities with repayment exlusively based on assets sold and not fully derecognized: fair value

	Fully booked	Partially booked	Total	
			30/6/20	30/6/19
A. Financial assets held for trading	1,866,258	—	1,866,258	3,147,167
1. Debt securities	1,539,228	—	1,539,228	2,312,251
2. Equities	327,030	—	327,030	834,916
3. Loans	—	—	—	—
4. Derivatives	—	—	—	—
B. Other financial assets mandatorily measured at fair value	—	—	—	—
1. Debt securities	—	—	—	—
2. Equities	—	—	—	—
3. Loans	—	—	—	—
C. Financial assets designated at fair value	—	—	—	—
1. Debt securities	—	—	—	—
2. Loans	—	—	—	—
D. Financial assets measured at fair value with impact taken to other comprehensive income	383,482	—	383,482	529,449
1. Debt securities	383,482	—	383,482	529,449
2. Equities	—	—	—	—
3. Loans	—	—	—	—
E. Financial assets measured at amortized cost (fair value)	6,918,051	—	6,918,051	7,433,408
1. Debt securities	659,771	—	659,771	162,126
2. Loans	6,258,280	—	6,258,280	7,271,282
Total financial assets	9,167,791	—	9,167,791	11,110,024
Total associated financial liabilities	5,627,526	—	X	X
30/6/2020	3,540,265	—	9,167,791	11,110,024
30/6/2019	4,829,983	—	X	11,110,024

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B. Financial assets sold and fully derecognized with continuing involvement recorded

QUALITATIVE INFORMATION

D.4 Prudential consolidation - covered bond issues

Mediobanca Covered Bond S.r.l., an SPV set up in accordance with the provisions of Article 7-*bis* of Italian law 130/99, is 90%-owned by CheBanca!, with the other 10% owned by SPV Holding.

The company forms part of the €5bn, ten-year program of issuance realized pursuant to Italian law 130/99, and involves the following parties:

– Mediobanca, as the issuer of the covered bonds;
– CheBanca! as the seller (including on a revolving basis), of assets eligible for sale under the regulations in force, up to the limits on Mediobanca's regulatory capital ratios, and servicer for the transaction;
– Mediobanca Covered Bond S.r.l., an SPV and non-recourse recipient of the assets and guarantor of the covered bonds.

Five deals are outstanding under the current program (one was made at the start of FY 2020-21), all rated AA- by Fitch (following the downgrade in May 2020 after the Italy country rating was cut as well), with a nominal value of €3,750m placed with institutional investors and covered by assets totaling €5,094.5m, as follows:

Issue date	Value	Rate	Maturity date
01/10/13	750	fix: 3.625%	ott-23
01/11/15	750	fix: 1.375%	nov-25
30/11/17	750	fix: 1.25%	nov-29
31/07/18	750	fix: 1.125%	ago-24
01/07/19	750	fix: 0.5%	ott-26
	3,750		

During the twelve months under review, assets were sold by CheBanca! to Mediobanca Covered Bond in an amount of €705.8m, with assets bought back totalling €95.3m.

* * *

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E. Prudential consolidation - models for measuring credit risk

The Mediobanca Group uses the IRB Advanced method, featuring the PD and LGD parameters, in order to quantify the capital requirement for credit risk on the corporate loan book of Mediobanca and Mediobanca International and the CheBanca! Italian mortgage portfolio. A plan has also been adopted to progressively role the internal models out to cover other categories of credit asset as well (the "Roll-Out Plan"). For these exposures, for which the standardized methodology is currently used to calculate the regulatory capital requirements, the Group has nonetheless developed internal credit risk models that are used for management purposes. The Group has also developed a portfolio model to calculate the economic capital for credit risk, which allows concentration and diversification effects (geographical and sector) to be taken into consideration. For further details please see "Section 1.1 Credit risk" in Part E of the Notes to the Accounts.

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1.2 MARKET RISKS

1.2.1 INTEREST RATE RISK AND PRICE RISK - SUPERVISORY TRADING BOOK

QUALITATIVE INFORMATION

The operating exposure to market risks generated by the positions held as part of the trading book are measured and monitored, and the earnings results from trading are calculated, on a daily basis principally through use of the following indicators:

– Sensitivity - mainly Delta and Vega - to small changes in the principal risk factors (such as interest rates, share prices, exchange rates, credit spreads, inflation and volatility, dividends, correlations, etc.); sensitivity analysis shows the increase or decrease in the value of financial assets and derivatives to local changes in these risk factors, providing a static representation of the market risk of the trading portfolios;

– Value-at-risk calculated using a weighted historical simulation method with scenarios updated daily, assuming a liquidation horizon of one business day and a confidence level of 99%.

Trading exposures are monitored daily through VaR and sensitivity, to ensure that the operating limits approved to reflect the risk appetite established by the Bank for its trading book, are complied with. In the case of VaR they also serve to assess the model's resilience through back-testing. Stress tests are also carried out daily (on specific positions) and monthly (on the rest of the trading book) 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 changes in market variables.

Other complementary and more specific risk metrics are also calculated, in addition to VaR and sensitivity, in order to capture risks not fully measured by these indicators more effectively. The weight of products which require such metrics to be used is in any case extremely limited compared to the overall size of Mediobanca's trading book.

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The strong market correction which followed the Covid-19 crisis drove an increase in the use of market risk limits, which resulted in desk control and reporting activities being stepped up versus the committees, senior management and supervisors.

The aggregate value-at-risk on the trading book ranged from a low of €1.9m at end-September 2019 to a high of €7.6m in mid-March, with the average reading virtually unchanged at €4.2m (30/6/19: €4.3m). The point-in-time reading for VaR at the start of the financial year was €6.5m, but by mid-August this had reduced to €2m after some large outright positions were closed. It remained near this level until early February 2020, after which it increased progressively following the material rise in volatility. From the time when the first cases of Covid-19 were reported in Italy, market volatility and VaR rose quickly, reaching the high of €7.7m in mid-March mentioned above. Thereafter the VaR reading remained at high levels, albeit slightly lower, fluctuating between €5m and €6m due to the strong volatility that continues to affect markets. The point-in-time reading for VaR as at 30 June 2020 was €5.8m (€6.3m).

Like VaR, the expected shortfall also showed an average reading in line with the previous year, at around €5.4m.

The results of the daily back-testing on the trading book (based on comparison with the theoretical profits and losses) in the twelve months showed four occasions on which the VaR value was departed from, all of which occurred between 9 and 17 March 2020 due to the instability and high market volatility that erupted following the outbreak of Covid-19.

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

Risk factors (€ '000)	**12 mths ended 30/6/20**				**12 mths ended 30/6/19**
	30/6	**Min**	**Max**	**Avg.**	**Avg.**
Interest rates	3,312	478	4,773	2,016	2,165
Credit	2,585	788	6,888	1,750	1,163
Share prices	6,194	815	8,782	3,291	1,632
Exchange rates	633	231	1,415	718	1,740
Inflation	581	125	780	256	170
Volatility	3,462	740	4,372	1,828	1,271
Diversification effect (*)	*(10,968)*	—	—	*(5,654)*	*(3,824)*
Total	5,799	1,917	7,649	4,205	4,317
Expected Shortfall	***6,766***	***2,488***	***19,803***	***5,385***	***5,376***

(*) Due to mismatch between risk factors.

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Apart from the general VaR limit on aggregate trading positions, a system of sub-limits is also in place, reflecting a greater degree of granularity for the individual business units involved. Each trading desk also has limits in terms of sensitivities to movements in the various risk factors which are monitored daily.

Compared to last year, the exposures to the various asset classes have not increased significantly. The average exposures to equities have increased, measured by both delta and vega, with marked fluctuation between highs and lows. The interest rate delta ranged from minus €362,000 to plus €806,000, with an average reading of around €24,000, and with more pronounced fluctuations between lows and highs than last year. Conversely, the exchange rate delta was lower than last year, ranging from a low of minus €187,000 to a high of €786,000 per percentage point (last year the high was €1.9m per percentage point).

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

Risk factors (€ '000)	**12 mths ended 30/6/20**				**12 mths ended 30/6/19**
	30/6	**Min**	**Max**	**Avg.**	**Avg.**
Equity delta (+1%)	476,305	187,161	1,255,622	738,132	664,340
Equity vega (+1%)	589,060	(2,579,578)	1,748,192	858,604	618,926
Interest rate delta(+1bp)	70,398	(361,634)	806,332	23,621	323,109
Inflation delta (+1 bp)	61,533	13,360	75,255	34,296	13,743
Exchange rate delta (+1%) (*)	417,485	(186,596)	786,363	373,354	703,114
Credit delta (1 bp)	569,729	270,143	1,314,285	584,597	750,825

(*) Refers to the Euro gaining versus other currencies.

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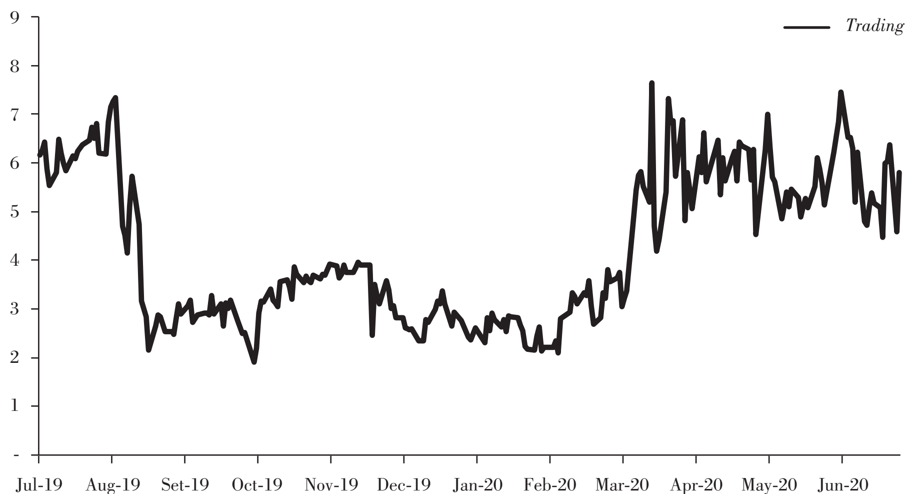
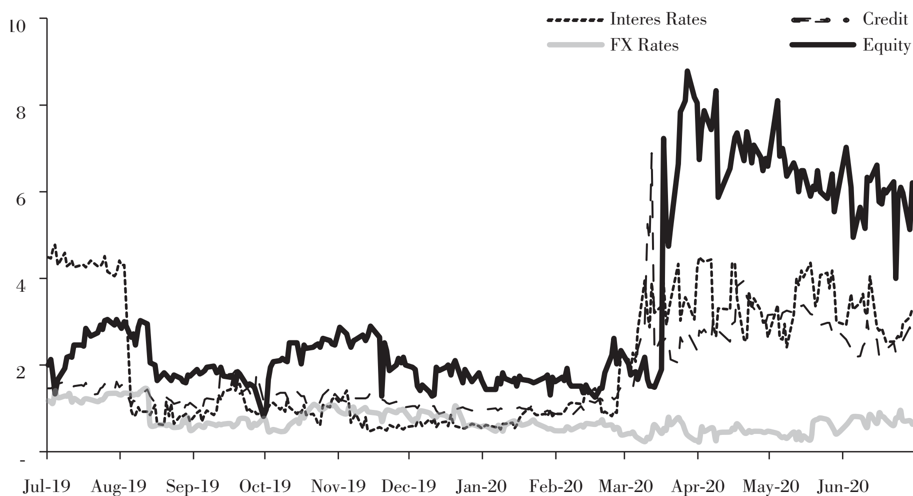
Trading Book VaR Trend



VaR Components Trend by Asset Class (Trading)



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QUANTITATIVE INFORMATION

1. Supervisory trading book: financial assets and liabilities in the form of cash and financial derivatives by outstanding duration (repricing date)

Type/residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets	3,327	166,052	250,769	189,131	1,966,865	253,916	672,488	—
1.1 Debt securities	3,327	166,052	250,769	189,131	1,966,865	253,916	672,488	—
– with early redemption option	—	—	—	—	—	—	—	—
– others	3,327	166,052	250,769	189,131	1,966,865	253,916	672,488	—
1.2 Other assets	—	—	—	—	—	—	—	—
2. Cash liabilities	35	84,684	115,729	414,796	1,993,573	52,219	276,648	—
2.1 Debt securities in issue	—	—	—	—	—	—	—	—
2.2 Other liabilities	35	84,684	115,729	414,796	1,993,573	52,219	276,648	—
3. Financial derivatives								
3.1 With underlying securities								
– Options								
+ long positions	—	—	—	—	—	—	—	—
+ short positions	—	—	—	—	—	—	—	—
– Others								
+ long positions	—	330,564	—	20,000	214,664	104,380	—	—
+ short positions	—	330,564	—	20,000	214,664	104,380	—	—
3.2 Without underlying securities								
– Options								
+ long positions	—	68,143,493	53,258,332	2,903,586	3,162,509	2,514,942	1,031,820	—
+ short positions	—	68,143,493	53,258,332	2,903,586	3,162,509	2,514,942	1,031,820	—
– Others								
+ long positions	385,883	19,275,463	7,952,506	9,091,558	14,809,523	3,177,623	5,515,294	—
+ short positions	655,480	25,625,518	8,377,407	2,047,003	14,809,523	3,177,623	5,515,294	—

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2. Supervisory trading book: exposures in equities and equity indexes to main countries by market of listing

Type of exposure/Amounts	Book value		
	Level 1	Level 2	Level 3
A. Equities [1]			
A.1 Shares	1,737,767	—	46,476
A.2 Innovative equity instruments	—	—	—
A.3 Other equity instruments	—	—	—
B. UCITs units			
B.1 Italian	—	—	2,526
- harmonized open	—	—	—
- non-harmonized open	—	—	—
- closed	—	—	2,526
- reserved	—	—	—
- speculative	—	—	—
B.2 Other EU states	20,114	—	88
- harmonized open	15,572	—	—
- non-harmonized open	—	—	88
- non-harmonized closed	4,542	—	—
B.3 Non-EU states	—	—	239
- open	—	—	239
- closed	—	—	—
Total	1,757,881	—	49,329

[1] Net mismatch between trading assets and technical shortfalls booked as trading liabilities: over 87% of the net exposure is to EU member states.

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1.2.2 INTEREST RATE RISK AND PRICE RISK - BANKING BOOK

QUALITATIVE INFORMATION

The Mediobanca Group monitors and manages interest rate risk through sensitivity testing of net interest income and economic value. The former quantifies the impact of 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 EBA guidelines (EBA/GL/2018/02) at minus 1% on the demand maturity with linear progression up to 0% at the twenty-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 proprietary behavioural models, and consumer credit items and mortgages which reflect the possibility of early repayment).

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

With reference to the Group's banking book positions at 30 June 2020, in the event of a parallel and simultaneous 200 basis point reduction in interest rates ("parallel down"), estimated net interest income would not decrease at all (compared with a €35m reduction last year).

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As for the analysis of the discounted value of future cash flows on the Group's banking book, the shock that determines the highest change occurs if the short-term part of the curve reduces ("short down"). In this scenario, estimated net interest income would reduce by €22m, due chiefly to the impact on CheBanca! (€32m) and Mediobanca (€1m), against an increase for Compass (of €5m). Last year the highest reduction was €65m in a "parallel up" scenario.

The data above has been summarized in the following table:

(€ m)

Data at 30/6/20	Banking Book					
	Maximum level scenario	Group	Mediobanca S.p.A.	CheBanca!	Compass	Others
Net interest income sensitivity	Parallel Down	45	37	9	(7)	6
Discounted value of expected cash flows sensitivity	Short Down	(22)	(1)	(32)	5	6

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 3.5% (economic value sensitivity/ CET1).

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).[1]

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

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A. Fair value hedges

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

Fair value hedges are used by 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.

B. Cash flow hedges

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

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C. Foreign investment hedging activities

Foreign investment hedging activities involve hedging the exposure of a controlling interest and its related goodwill (including intangibles identified as a result of the Purchase Price Allocation process) to foreign currencies. Such hedges can be executed through derivative or other financial instruments denominated in different currencies, such as bond issues. The Exchange rate effect of the hedging instrument is taken through net equity to cover the effects of the hedged instrument. See section 1.2.3 Exchange rate risk below for a description of the only hedge of this kind entered into by the Group.

D. Hedging instruments

E. Hedged items

As for hedged and hedging instruments, they are already exhaustively described in the previous paragraphs and throughout the document.

Counterparty risk

Counterparty risk generated by market transactions with clients or institutional counterparties is measured in terms of potential future exposure. 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) for all the time steps up to 30 years. The scope of application regards all groups of counterparties which have relations with Mediobanca, taking into account the presence 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 exposure limits 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.

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QUANTITATIVE INFORMATION

1. Banking book financial assets and liabilities by outstanding duration (repricing date)

Type	On demand	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets	8,975,172	18,112,481	7,599,108	3,456,407	14,219,659	4,202,822	2,758,070	—
1.1 Debt securities	—	672,531	993,754	928,277	2,632,088	1,300,237	48,616	—
- with early repayment option	—	—	—	—	—	—	—	—
- others	—	672,531	993,754	928,277	2,632,088	1,300,237	48,616	—
1.2 Loans to banks	1,662,417	1,680,038	697,374	252,245	848,848	—	269,405	—
1.3 Loans to customers	7,312,755	15,759,912	5,907,980	2,275,885	10,738,723	2,902,585	2,440,049	—
- current accounts	1,133,175	310,907	—	—	—	—	—	—
- other loans	6,179,580	15,449,005	5,907,980	2,275,885	10,738,723	2,902,585	2,440,049	—
- with early repayment option	3,264,836	3,338,632	973,209	1,789,352	8,715,877	2,641,651	2,391,575	—
- others	2,914,744	12,110,373	4,934,771	486,533	2,022,846	260,934	48,474	—
2. Cash liabilities	20,199,354	15,149,088	3,952,291	5,702,180	9,139,383	3,886,293	871,121	—
2.1 Due to customers	19,032,581	3,331,661	1,535,175	889,986	1,053,309	51,370	604,379	—
- current accounts	16,333,202	662,172	—	7,396	—	—	—	—
- other amounts due	2,699,379	2,669,489	1,535,175	882,590	1,053,309	51,370	604,379	—
- with early repayment option	—	—	—	—	—	—	—	—
- others	2,699,379	2,669,489	1,535,175	882,590	1,053,309	51,370	604,379	
2.2 Due to banks	1,165,936	4,660,632	1,455,310	1,779,611	3,613,844	296	104,577	—
- current accounts	565,809	—	—	—	—	—	—	—
- other amounts due	600,127	4,660,632	1,455,310	1,779,611	3,613,844	296	104,577	
2.3 Debt securities	837	7,156,795	961,806	3,032,583	4,472,230	3,834,627	162,165	—
- with early repayment option	—	—	—	—	—	—	—	—
- others	837	7,156,795	961,806	3,032,583	4,472,230	3,834,627	162,165	
2.4 Other liabilities	—	—	—	—	—	—	—	—
- with early repayment option	—	—	—	—	—	—	—	—
- others	—	—	—	—	—	—	—	—
3. Financial derivative products								
3.1 With underlying securities								
- Options								
+ long positions	—	—	—	—	—	—	—	—
+ short positions	—	—	—	—	—	—	—	—
- Others								
+ long positions	—	—	—	—	—	—	—	—
+ short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities								
- Options								
+ long positions	—	—	—	—	1,905,287	119,894	—	—
+ short positions	—	—	—	—	1,905,287	119,894	—	—
- Others								
+ long positions	—	7,821,813	3,755,464	13,197,175	9,781,730	5,674,300	27,500	—
+ short positions	—	21,031,110	1,195,000	2,523,342	9,796,730	5,684,300	27,500	—
4. Other OTC trades								
+ long positions	615,265	3,181,139	645,103	394,294	8,145,373	356,828	306,062	—
+ short positions	1,897,734	1,518,916	639,033	324,633	8,240,389	448,066	575,293	—

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2. Banking book: internal models and other sensitivity analysis methodologies

Type of exposure/Amounts	Book value		
	Level 1	Level 2	Level 3
A. Equities [1]			
A.1 Shares	115,912	—	30,678
A.2 Innovative equity instruments	—	—	—
A.3 Other equity instruments	—	—	—
B. UCITS units			
B.1 Italian	45,585	—	116,060
- harmonized open	45,585	—	—
- non-harmonized open	—	—	—
- closed	—	—	107,068
- riserved	—	—	—
- speculative	—	—	8,992
B.2 Other EU states	260,125	—	236,686
- harmonized open	4,749	—	—
- non-harmonized open	—	—	76,377
- non-harmonized closed	255,376	—	160,309
B.3 Non-EU states	—	—	—
- open	—	—	—
- closed	—	—	—
Total	421,622	—	383,424

[1] Of which 37% Italian and 53% other EU member states.

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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. 300 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.

As at 30 June 2020, a hedge was in place to cover the Exchange rate effect of the Group's investment in RAM AI, in accordance with the accounting standards in force on net investment of foreign operations, 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. The hedge was made through the issue of a CHF 150m bond 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, including goodwill. The reserve must remain suspended in net equity until such a time as the investment is sold.

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QUANTITATIVE INFORMATION

1. Assets/liabilities and derivatives by currency of denomination

Items	Currencies					
	US Dollar	Great Britain Pound	Japanese Yen	Swedish Krona	Swiss Franc	Other currencies
A. Financial assets	3,364,456	1,227,620	13,451	4,318	628,988	86,116
A.1 Debt securities	821,930	20,633	—	—	94,305	—
A.2 Equity securities	293,613	617,637	—	—	1,873	—
A.3 Due from banks	256,788	47,076	9,721	1,778	36,498	34,074
A.4 Due from customers	1,870,840	539,830	3,720	2,540	355,447	52,010
A.5 Other financial assets	121,285	2,444	10	—	140,865	32
B. Other assets	72,670	14,283	371	324	10,634	42,519
C. Financial liabilities	4,175,134	557,653	3,395	2,401	309,555	75,903
C.1 Due to banks	269,729	318,591	—	—	2,642	27
C.2 Due to customers	1,459,133	204,230	3,325	2,401	96,800	75,757
C.3 Debt securities in issue	2,266,013	33,200	—	—	143,162	—
C.4 Other financial liabilities	180,259	1,632	70	—	66,951	119
D. Other liabilities	74,636	4,864	1,798	324	5,861	42,488
E. Financial derivatives						
- Options						
+ Long positions	170,104	82,593	13,846	—	9,516	1,523
+ Short positions	161,803	91,788	20,496	—	9,721	—
- Other derivatives						
+ Long positions	4,171,147	531,901	207,712	2,290	491,409	205,358
+ Short positions	3,383,151	1,208,767	217,921	481	789,922	192,511
Total assets	7,778,377	1,856,397	235,380	6,932	1,140,547	335,516
Total liabilities	7,794,724	1,863,072	243,610	3,206	1,115,059	310,902
Difference (+/-)	(16,347)	(6,675)	(8,230)	3,726	25,488	24,614

2. Internal models and other methodologies used for sensitivity analysis

Exposures to exchange rates for the principal currencies at the aggregate Group level showed major changes in balances for the first six months of the financial year, before remaining stably at high levels until February 2020, after which there was a marked decrease in the absolute figures until the reporting date. Volatility for all major currencies remained at low levels until the Covid-19 crisis, which caused it to increase suddenly. Equally, the VaR for the exchange rate component fluctuated at low levels until mid-March 2020, when it reached a high, before decreasing slightly by end-June 2020. The average reading for VaR was around €10m, slightly lower than last year (€11.7m); while the point-in-time reading at 30 June 2020 was €11.8m (30/6/19: €9.2m).

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1.3 DERIVATIVE FINANCIAL PRODUCTS AND HEDGING POLICIES

1.3.1 TRADING DERIVATIVES

In the following tables, the figures for certificates as at 30 June 2019 have been reclassified by underlying instrument, to enable better comparison with the data as at 30 June 2020.

A. Financial derivatives

A.1 Trading financial derivatives: average and reporting-date notional values

Attività sottostanti/Tipologie derivati	30/6/20				30/6/19			
	Over the counter			Established markets	Over the counter			Established markets
	Central Counterparts	without central counterparties			Central Counterparts	without central counterparties		
		with clearing arrangements	without clea-ring arrange-ments			with clearing arrangements	without clea-ring arrange-ments	
1. Debt securi-ties and inter-est rate	28,752,849	29,232,071	2,121,512	122,834,994	24,330,615	38,947,552	1,767,838	99,014,423
a) Options	—	7,096,081	260,000	120,846,902	—	8,025,805	280,000	96,703,913
b) Swap	28,752,849	19,590,946	1,861,512	—	24,330,615	22,811,367	1,487,838	—
c) Forward	—	389,044	—	—	—	124,380	—	—
d) Futures	—	—	—	1,988,092	—	—	—	2,310,510
e) Others	—	2,156,000	—	—	—	7,986,000	—	—
2. Equities and stock indexes	—	21,501,170	2,022,780	18,380,123	—	14,396,817	2,910,398	14,159,122
a) Options	—	19,718,025	603,365	17,881,937	—	12,277,206	2,182,737	13,822,601
b) Swap	—	1,665,996	—	—	—	2,002,462	—	—
c) Forward	—	117,149	—	—	—	117,149	—	—
d) Futures	—	—	—	498,186	—	—	—	336,521
e) Others [1]	—	—	1,419,415	—	—	—	727,661	—
3. Currencies and gold	—	8,208,828	741,884	—	—	9,087,175	112,866	—
a) Options	—	654,466	1,233	—	—	1,534,191	—	—
b) Swap	—	2,977,113	379,295	—	—	2,912,799	105,448	—
c) Forward	—	4,577,249	361,356	—	—	4,640,185	7,418	—
d) Futures	—	—	—	—	—	—	—	—
e) Others	—	—	—	—	—	—	—	—
4. Commodities	—	—	—	—	—	—	—	—
5. Other	—	—	—	—	—	—	—	—
Total	28,752,849	58,942,069	4,886,176	141,215,117	24,330,615	62,431,544	4,791,102	113,173,545

[1] Regards exclusively certificates issued.

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A.2 Trading financial derivatives: positive and negative fair values by product

Tipologie derivati	30/6/20				30/6/19			
	Over the counter			Established markets	Over the counter			Established markets
	Central Coun-terparties	Without central counterparties			Central Coun-terparties	Without central counterparties		
		With clearing arrangements	Without clea-ring arrange-ments			With clearing arrangements	Without clea-ring arrange-ments	
1. Positive fair value								
a) Options	—	1,163,164	7,224	824,337	—	568,610	6,427	487,169
b) Interest rate swap	220	620,759	75,933	—	2,489	743,161	73,492	—
c) Cross currency swap	—	151,279	12,491	—	—	323,693	10,067	—
d) Equity swap	—	139,911	—	—	—	9,181	—	—
e) Forward	—	43,723	10,037	—	—	43,299	6,165	—
f) Futures	—	—	—	43,620	—	—	—	10,352
g) Others	—	—	—	—	—	—	—	—
Total	220	2,118,836	105,685	867,957	2,489	1,687,944	96,151	497,521
2. Negative fair value								
a) Options	—	1,050,845	16,385	1,232,182	—	677,049	60,315	629,169
b) Interest rate swap	133,085	440,477	14,253	—	228,968	413,582	7,946	—
c) Cross currency swap	—	113,339	—	—	—	97,932	—	—
d) Equity swap	—	25,574	—	—	—	20,436	—	—
e) Forward	—	139,099	3,522	—	—	159,058	988	—
f) Futures	—	—	—	10,490	—	—	—	20,479
g) Others [1]	—	—	1,196,624	—	—	—	713,336	—
Total	133,085	1,769,334	1,230,784	1,242,672	228,968	1,368,057	782,585	649,648

[1] Regards exclusively certificates issued.

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A.3 OTC trading financial derivatives: notional values, positive and negative fair values by counterparty

Underlyings	Central Counterparts	Banks	Other financial companies	Other entities
Contracts not included in clearing agreement				
1) Debt securities and interest rate				
- notional value	X	70,000	969,086	1,082,426
- positive fair value	X	62,919	6,414	9,155
- negative fair value	X	87	14,323	3,817
2) Equities and stock indexes				
- notional value	X	1,930,958	91,802	20
- positive fair value	X	9,348	643	3,044
- negative fair value	X	1,209,299	91	1,995
3) Currencies and gold				
- notional value	X	220,679	17,050	504,154
- positive fair value	X	534	42	13,586
- negative fair value	X	831	202	138
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	—	—	—
Contracts included in clearing arrangements				
1) Debt securities and interest rate				
- notional value	28,752,849	15,125,155	8,016,883	6,090,033
- positive fair value	220	437,775	155,150	334,199
- negative fair value	133,085	415,801	332,146	45,362
2) Equities and stock indexes				
- notional value	—	12,225,138	7,524,014	1,752,018
- positive fair value	—	446,248	293,217	255,575
- negative fair value	—	506,775	311,197	9,994
3) Currencies and gold				
- notional value	—	4,870,551	1,841,387	1,496,890
- positive fair value	—	75,543	67,024	54,108
- negative fair value	—	80,708	15,833	51,518
4) Commodities				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
5) Others				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—

[1] Of which certificates with a nominal value of €1,419,415,000 and fair value of minus €1,196,624,000.

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A.4 OTC financial derivatives: outstanding duration (notional values)

Underlying / residual maturity	Up to 1 year	Over 1 year up to 5 year	Over 5 year	Total
A.1 Financial derivative contracts on debt secu-rities and interest rates	12,921,726	30,133,026	17,051,680	60,106,432
A.2 Financial derivative contracts on equity securities and stock indexes	8,071,439	14,421,686	1,030,825	23,523,950
A.3 Financial derivatives on currencies and gold	5,417,283	2,997,621	535,810	8,950,714
A.4 Financial derivatives on commodities	—	—	—	—
A.5 Other financial derivatives	—	—	—	—
Total 30/6/20	26,410,448	47,552,333	18,618,315	92,581,096
Total 30/6/19	27,739,587	43,857,996	19,955,678	91,553,261

B. Credit derivatives

B.1 Trading credit derivatives: reporting-date notional values

Type of transaction	Trading derivatives	
	with a single counterparty	with more than one counterparty (basket)
1. Hedge purchases		
a) Credit default products	3,926,295	22,413,129
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other1	167,600	—
Total 30/6/20	4,093,895	22,413,129
Total 30/6/19	4,637,734	17,549,942
2. Hedge sales		
a) Credit default products	2,635,022	22,442,171
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other [1]	—	—
Total 30/6/20	2,635,022	22,442,171
Total 30/6/19	3,380,660	17,549,944

[1] Regards exclusively certificates issued.

The column headed “Basket” shows the positions in skew that hedge issues open, both benchmark index and with single-name underlying, and are balanced between buys and sales. The derivative embedded in the issues, for the hedge buys, is represented by individual constituents, with notional value equal to the nominal value of the issues.

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B.2 Trading credit derivatives: positive and negative fair values by product

Types of derivatives	30/6/20	30/6/19
1. Positive fair value		
a) Credit default products	187,200	490,498
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other	—	—
Total	187,200	490,498
2. Negative fair value		
a) Credit default products	246,146	549,896
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other [1]	172,228	151,104
Total	418,374	701,000

[1] Regards exclusively certificates issued.

B.3 OTC trading credit derivatives: notional values, gross positive and negative fair values by counterparty

	Central counterparties	Banks	Other financial companies	Other counterparties
Contracts not covered by clearing agreements				
1) Hedge purchases				
– notional value [1]	X	2,226,453	698,955	—
– positive fair value	X	52,145	7,157	—
– negative fair value [1]	X	174,620	—	—
2) Hedge sales				
– notional value	X	14,526	—	—
– positive fair value	X	55,610	—	—
– negative fair value	X	10,111	—	—
Contracts covered by clearing agreements				
1) Hedge purchases				
– notional value	3,676,182	8,518,761	11,386,674	—
– positive fair value	—	5,231	14,501	—
– negative fair value	3,611	83,494	75,719	—
2) Hedge sales				
– notional value	3,626,146	10,254,063	11,182,458	—
– positive fair value	—	4,030	48,526	—
– negative fair value	14,009	41,087	15,721	—

[1] Of which certificates with a notional value of €167,600 and a fair value of minus €172,228.

E-MARKET SDIR CERTIFIED

B.4 OTC credit derivatives: outstanding duration (notional values)

Underlying / residual	Up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
1 Hedge sales	1,084,304	23,498,167	494,722	25,077,193
2 Hedge purchases	549,768	25,450,034	507,223	26,507,025
Total 30/6/2020	1,634,072	48,948,201	1,001,945	51,584,218
Total 30/6/2019	1,554,766	38,227,205	3,336,309	43,118,280

1.3.2 ACCOUNTING HEDGES

QUANTITATIVE INFORMATION

A. Hedge financial derivatives

A.1 Hedge financial derivatives: average and reporting-date notional values

Underlying as-sets / Type of derivatives	30/6/20				30/6/19			
	Over the counter			Established markets	Over the counter			Established markets
	Central coun-terparties	Without central counterparties			Central coun terparties	Without central counterparties		
		With clearing arrangements	Without clearing arrangements			With clearing arrangements	Without clearing arrangements	
1. Debt securi-ties and interest rate	37,256,065	4,683,649	30,000	—	26,470,556	5,821,291	35,000	—
a) Options	—	2,025,181	—	—	—	130,000	—	—
b) Swap	37,256,065	2,658,468	30,000	—	26,470,556	5,591,291	35,000	—
c) Forward	—	—	—	—	—	—	—	—
d) Futures	—	—	—	—	—	—	—	—
e) Others	—	—	—	—	—	100,000	—	—
2. Equities and stock index-es	—	—	—	—	—	—	—	—
a) Options	—	—	—	—	—	—	—	—
b) Swap	—	—	—	—	—	—	—	—
c) Forward	—	—	—	—	—	—	—	—
d) Futures	—	—	—	—	—	—	—	—
e) Others	—	—	—	—	—	—	—	—
3. Currencies and gold	—	313,449	—	—	—	308,436	—	—
a) Options	—	—	—	—	—	—	—	—
b) Swap	—	313,449	—	—	—	308,436	—	—
c) Forward	—	—	—	—	—	—	—	—
d) Futures	—	—	—	—	—	—	—	—
e) Others	—	—	—	—	—	—	—	—
4. Commodities	—	—	—	—	—	—	—	—
5. Other	—	—	—	—	—	—	—	—
Total	37,256,065	4,997,098	30,000	—	26,470,556	6,129,727	35,000	—

E-MARKET SDIR CERTIFIED

A.2 Hedge financial derivatives: gross positive and negative fair values by product

Type of derivatives	Fair value positivo e negativo								Change in the value used to measure the ineffectiveness of the hedging	
	30/6/20				30/6/19				30/6/20	30/6/19
	Over the counter			Established markets	Over the counter			Established markets		
	Central Counter-parts	Without central counterparties			Central Counter-parts	Without central counterparties				
		With clearing arrangements	Without clearing arrangements			With clearing arrangements	Without clearing arrangements			
1. Positive fair value										
a) Options	—	5,093	—	—	—	6,505	—	—	—	—
b) Interest rate swap	416,547	42,396	318	—	305,510	98,618	463	—	238,804	356,619
c) Cross currency swap	—	365	—	—	—	1,138	—	—	—	—
d) Equity swap	—	—	—	—	—	—	—	—	—	—
e) Forward	—	—	—	—	—	—	—	—	—	—
f) Futures	—	—	—	—	—	—	—	—	—	—
g) Others	—	—	—	—	—	—	—	—	—	—
Total	416,547	47,854	318	—	305,510	106,261	463	—	238,804	356,619
2. Negative fair value										
a) Options	—	8,140	—	—	—	14,209	—	—	—	—
b) Interest rate swap	416,915	35,918	4,252	—	50,302	343,986	5,643	—	119,783	57,495
c) Cross currency swap	—	—	—	—	—	101	—	—	—	—
d) Equity swap	—	—	—	—	—	—	—	—	—	—
e) Forward	—	—	—	—	—	—	—	—	—	—
f) Futures	—	—	—	—	—	—	—	—	—	—
g) Others	—	—	—	—	—	—	—	—	—	—
Total	416,915	44,058	4,252	—	50,302	358,296	5,643	—	119,783	57,495

E-MARKET SDIR CERTIFIED

A.3 OTC hedge financial derivatives: notional values, gross positive and negative fair values by counterparty

Underlyings	Central Counterparties	Banks	Other financial companies	Other counterparties
Contracts not included in clearing agreement				
1) Debt securities and interest rate				
- notional value	X	30,000	—	—
- positive fair value	X	318	—	—
- negative fair value	X	4,252	—	—
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	—	—	—
Contracts included in clearing arrangements				
1) Debt securities and interest rate				
- notional value	37,256,065	4,210,720	472,929	—
- positive fair value	416,547	41,887	5,601	—
- negative fair value	416,915	34,613	9,445	—
2) Equities and stock indexes				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
3) Currencies and gold				
- notional value	—	298,268	15,181	—
- positive fair value	—	331	35	—
- negative fair value	—	—	—	—
4) Commodities				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
5) Others				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—

E-MARKET SDIR CERTIFIED

A.4 OTC hedging financial derivatives: outstanding duration (notional values)

Underlying/residual maturity	Up to 1 year	Over 1 year up to 5 year	Over 5 year	Total
A.1 Financial derivative contracts on debt securities and interest rates	9,529,277	21,889,535	10,550,902	41,969,714
A.2 Financial derivative contracts on equity securi-ties and stock indexes	—	—	—	—
A.3 Financial derivative contracts on currency and gold	—	313,449	—	313,449
A.3 Financial derivative on commodities	—	—	—	—
A.5 Other financial derivatives	—	—	—	—
Total 30/6/20	9,529,277	22,202,984	10,550,902	42,283,163
Total 30/6/19	6,816,866	18,142,932	7,675,485	32,635,283

C. Non-derivative hedging instruments

C.1 Hedging instruments other than derivatives, by accounting portfolio and hedge type

	Book Value			Change in the value used to measure the ineffectiveness of the hedge		
	Fair value hedge	Cash flow hedge	Foreign investments hedge	*Fair value hedge*	Cash flow hedge	Foreign investments hedge
Financial assets other than derivatives	—	—	—	—	—	—
of which: trading assets	—	—	—	—	—	—
of which: other assets mandatorily measured at fair value	—	—	—	—	—	—
of which: assets designated at fair value	—	—	—	—	—	—
Total 30/6/20	—	—	—	—	—	—
Total 30/6/19	—	—	—	—	—	—
Financial liabilities other than derivatives	—	—	142,552	—	—	5,116
Trading liabilities	—	—	—	—	—	—
Liabilities designated at fair value	—	—	—	—	—	—
Liabilities measured at amortized cost	X	X	142,552	—	—	5,116
Total 30/6/20	—	—	142,552	—	—	5,116
Total 30/6/19	—	—	135,086	—	5,417	—

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D. Instruments hedged

D.1 Fair value hedges

	Specific hedges: book value	Specific hedges - net positions: balance sheet value of assets or liabilities (before offsetting)	Specific hedges			Generic hedges: book value
			Accumulated changes in fair value of hedging instrument	Ending of hedge: residual accumulated valute of residual changes in fair value	Change in value used to measure hedging ineffectiveness	
A. Assets						
1. Financial assets measured at fair value with impact taken to other comprehensive income - hedges of:	1,080,087	—	9,557	—	333	—
1.1 Debt securities and interest rate	1,080,087	—	9,557	—	333	X
1.2 Equity and stock indixes	—	—	—	—	—	X
1.3 Currencies and gold	—	—	—	—	—	X
1.4 Credits	—	—	—	—	—	X
1.5 Other	—	—	—	—	—	X
2. Financial assets measured at amortized cost - hedges of:	7,627,808	—	333,384	—	163,239	—
1.1 Debt securities and interest rate	3,481,519	—	17,760	—	10,666	X
1.2 Equity and stock price indices	—	—	—	—	—	X
1.3 Currencies and gold	—	—	—	—	—	X
1.4 Credits	4,146,289	—	315,624	—	152,573	X
1.5 Other	—	—	—	—	—	X
Total 30/6/20	8,707,895	—	342,941	—	163,572	—
Total 30/6/19	4,707,905	2,699,965	187,608	—	215,761	—
B. Liabilities						
1. Financial liabilities measured at amortized cost - hedges of:	23,760,802	—	426,747	—	123,210	—
1.1 Debt securities and interest rate	23,760,802	—	426,747	—	123,210	X
1.2 Currencies and gold	—	—	—	—	—	X
1.3 Other	—	—	—	—	—	X
Total 30/6/20	23,760,802	—	426,747	—	123,210	—
Total 30/6/19	14,731,229	—	304,272	—	270,791	—

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D.2 Cash flow and foreign investment hedges

	Change in value used to measure hedging ineffectiveness	Hedging reserves	Ending of hedging: residual value of hedging reserves
A. Cash flows hedge			
1. Assets	—	—	—
1.1 Debt securities and interest rate	—	—	—
1.2 Equity securities and stock price indixes	—	—	—
1.3 Currencies and gold	—	—	—
1.4 Credits	—	—	—
1.5 Other	—	—	—
2. Liabilities	15,612	(30,571)	—
2.1 Debt securities and interest rate	15,612	(30,571)	—
2.2 Currencies and gold	—	—	—
2.3 Other	—	—	—
Total (A) 30/6/20	15,612	(30,571)	—
Total (A) 30/6/19	(42,704)	(41,843)	—
B. Foreign Investments hedge	X	(7,050)	—
Total (A+B) 30/6/20	15,612	(37,621)	—
Total (A+B) 30/6/19	(42,704)	(45,039)	—

E. Effects of hedging taken through net equity

E.1 Reconciliation of net equity constituents

	Riserva da copertura dei flussi finanziari					Riserva da copertura di investimenti esteri				
	Debt securities and interest rate	Equity securities and stock indexes	Currencies and gold	Credits	Others	Debt securities and interest rate	Equity securities and stock indexes	Currencies and gold	Credits	Others
Opening balance	(41,201)	—	—	—	—	—	—	(3,838)	—	—
Changes in Fair value (effective)	10,630	—	—	—	—	—	—	(3,212)	—	—
Transfer to P&L	—	—	—	—	—	—	—	—	—	—
of which: future transaction no-more expected	—	—	—	—	—	X	X	X	X	X
Other variations	—	—	—	—	—	—	—	—	—	—
of which: trans-fer at initial book value of the hedged in-struments	—	—	—	—	—	X	X	X	X	X
Closing balance	(30,571)	—	—	—	—	—	—	(7,050)	—	—

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1.3.3 OTHER INFORMATION ON DERIVATIVE INSTRUMENTS (TRADING AND HEDGING)

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

	Central counterparties	Banks	Other financial companies	Other counterparties
A. Financial derivatives				
1) Debt securities and interest rates				
- notional amount	66,008,914	19,435,875	9,458,897	7,172,459
- positive fair value	416,767	542,899	167,164	343,355
- negative fair value	550,000	454,754	355,914	49,179
2) Equity instrument and stock index				
- notional amount	—	14,156,095	7,615,817	1,752,038
- positive fair value	—	455,596	293,860	258,618
- negative fair value	—	1,716,074	311,287	11,989
3) Currency and gold				
- notional amount	—	5,389,498	1,873,618	2,001,044
- positive fair value	—	76,408	67,101	67,694
- negative fair value	—	81,539	16,035	51,656
4) Commodities				
- notional amount	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
5) Other				
- notional amount	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
B. Credit derivatives				
1) Hedge purchases				
- notional amount	3,676,182	10,745,213	12,085,629	—
- positive fair value	—	57,376	21,658	—
- negative fair value	3,611	258,114	75,719	—
2) Hedge sales				
- notional amount	3,626,146	10,268,589	11,182,458	—
- positive fair value	—	59,640	48,526	—
- negative fair value	14,009	51,198	15,721	—

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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 which is a typical part of banking activity.

Liquidity risk has different timing profiles:

- The current or potential risk of the entity not being able to manage its own liquidity needs effectively in the short term (“liquidity risk”);
- The risk of the Bank not having stable sources of financing in the medium or long term, meaning it is unable to meet its financial requirements without incurring an excessive increase in the cost of financing (“funding risk”).

An adequate liquidity and funding risk management system is fundamental to ensure the stability of the Group and the financial system in general, given that a single bank’s difficulties would affect the system as a whole. The liquidity and funding risk management system is developed as part of the Risk Appetite Framework and the risk tolerance levels contained in it. In particular, one of the management objectives contained in the Risk Appetite Framework is to maintain a liquidity position which is sufficient to cope with a period of severe stress (combining Bank-specific and systemic stress factors) lasting three months.

The Group Liquidity Risk Management Policy (the “Policy”) approved by the Board of Directors of Mediobanca S.p.A. sets the objective of having an adequate level of highly liquid assets to cover the cash flows to be maintained over the short and medium/long term.

The Policy also sets 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.

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

The Group ALM Committee also discusses the issues most relevant to liquidity risk, defining the asset and liability structure and related risk of mismatch between them taken on, directing operations in line with the commercial and financial objectives set in the budget and the Group's Risk Appetite Framework.

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 parent company units responsible for ensuring that the Policy is applied accurately are:

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

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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 Group manages its liquidity position actively, through Group Treasury, with the objective of meeting its payment obligations by the time requested.

Intraday liquidity risk is the risk of a mismatch in terms of timing within a single day between payments made by Mediobanca and those received from other market counterparties. Management of this risk requires careful and ongoing monitoring of cash flows exchanged, and, more importantly, adequate liquidity reserves. To mitigate this risk, the Group has implemented a system of indicators and monitoring to check the availability of reserves at the start of the day and their capacity to meet possible situations of stress that could involve other market counterparties or the value of the assets used in the risk mitigation.

The metric adopted for monitoring over time horizons longer than intra-day is the net liquidity position, obtained from the sum of the counterbalancing capacity (defined as the cash, bonds, receivables eligible for refinancing with the ECB and marketable securities available post-haircut) and cumulative net cash flows.

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.

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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 on average the cumulative inflows cover the cumulative outflows for maturities of more than one and up to three years.

Throughout the financial year under review, both indicators, short- and long-term, have shown that the Group has maintained an adequate level of liquidity at all times.

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In accordance with the Policy, the Group calculates and monitors the LCR (Liquidity Coverage Ratio), ALMM (Additional Liquidity Monitoring Metrics) and NSFR (Net Stable Funding Ratio) regulatory indicators. Throughout the twelve months both the LCR and the NSFR, which form part of the Group's Risk Appetite Framework, at all times remained above the regulatory limits set. In response to the Covid-19 pandemic, in March 2020 the European Central Bank introduced temporary measures to increase banks' reserves in order to help address the crisis. Banks were therefore allowed to let their liquidity indicators fall to below the regulatory limits, and measures were adopted to relax the criteria for collateral eligibility at the Eurosystem level, to help credit institutions maintain and mobilize sufficient collateral to take part in the liquidity injection operations. These measures, which were adopted by the ECB's Governing Council on 7 April 2020, were then reinforced on 22 April 2020 in order to mitigate the adverse impact of possible rating downgrades due to the economic consequences of Covid-19 on the availability of collateral for the Eurosystem.

Throughout the observation period, the Mediobanca Group has managed to keep its liquidity indicators well above the limits set by the regulators, closing 4Q with an LCR of 165% (compared with 166% at 31 March 2020 and 193% at 31 December 2019).

The LCR includes the prudential estimate of "additional liquidity outflows for other products and services" as required by Article 23 of Commission Delegated Regulation (EU) 2015/61. The Group has also adopted Commission Delegated Regulation (EU) 2018/1620 starting from 1 April 2020.

At end-June 2020 the NSFR was 109% (30/6/19: 107%), as a result of liability structure optimization, with particular attention being focused on strengthening retail and private funding.

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.

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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 pre-alarm indicator system.

During the past twelve months, against redemptions and buybacks of securities totalling €4.4bn, issues were placed in an amount of €4.6bn, €3.2bn of which unsecured (€2.7bn senior preferred, €500m senior non-preferred), €600m in securitizations of Compass receivables, and €750m in covered bonds with CheBanca! mortgages as the underlying instrument. Following the Covid-19 pandemic, ECB funding was increased through participation in the refinancing facilities to €5.7bn, and greater use was made of medium-/long-term bank funding (for expiries of 24 months or more, new loans of €1.2bn were taken out, €586m of which secured).

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As at 30 June 2020, the counterbalancing capacity stood at €13.3bn, higher than last year (€9.9bn) in part due to the accommodative measures introduced by the ECB referred to above, and includes €9.5bn in the form of bonds exchangeable for cash from the ECB to obtain immediate liquidity. The balance of liquidity reserves established at the European Central Bank amounted to approx. €10.9bn, some €5.3bn of which in the form of cash not used, and hence qualifying as part of the counterbalancing capacity.

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QUANTITATIVE INFORMATION

1 Financial assets and liabilities by outstanding life

Items/maturities	On demand	From 1 days to 7 days	From 7 days to 15 days	From 15 days to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Not specified
Cash assets	4,597,522	473,149	1,128,940	1,693,792	3,203,390	3,991,779	5,041,176	29,555,843	13,896,639	237,891
A.1 Government securities	1,338	788	1,623	2,351	8,005	532,155	406,712	3,515,960	1,612,191	—
A.2 Other debt securities	—	26,867	5,523	26,626	279,484	228,892	410,857	1,971,841	957,902	—
A.3 UCITS units	22,324	—	—	—	—	—	—	—	—	—
A.4 Loans and advances	4,573,860	445,494	1,121,794	1,664,815	2,915,901	3,230,732	4,223,607	24,068,042	11,326,546	237,891
- to banks	1,615,774	283,572	387,236	348,599	90,329	417,944	78,697	1,140,384	770,006	237,891
- to customers	2,958,086	161,922	734,558	1,316,216	2,825,572	2,812,788	4,144,910	22,927,658	10,556,540	—
Cash liabilities	20,175,970	1,106,005	1,037,409	998,597	1,660,117	3,883,788	6,186,027	20,448,501	6,033,369	—
B.1 Deposits and currentaccounts	18,883,677	979,138	320,798	498,471	1,155,393	1,326,903	774,843	151,776	—	—
- to banks	565,797	—	—	—	—	—	—	8,000	—	—
- to customers	18,317,880	979,138	320,798	498,471	1,155,393	1,326,903	774,843	143,776	—	—
B.2 Debt securities	837	136	146,627	104,366	277,516	965,047	2,291,163	10,693,387	4,990,999	—
B.3 Other liabilities	1,291,456	126,731	569,984	395,760	227,208	1,591,838	3,120,021	9,603,338	1,042,370	—
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions	433,129	178,672	109,612	2,761,805	877,029	808,800	528,051	2,345,064	267,905	—
- short positions	102,728	174,420	123,738	2,084,997	789,118	490,275	512,242	3,501,512	267,905	—
C.2 Financial derivatives without principal exchange of										
- long positions	3,030,971	6,999	10,180	3,946	28,806	44,976	118,655	—	—	—
- short positions	2,890,851	4,051	2,757	7,521	18,131	33,754	77,596	—	—	—
C.3 Deposits and loans for collection										
- long positions	508,749	121,256	370,128	46,939	84,952	217,695	75,049	109,381	—	—
- short positions	—	—	—	44,651	81,557	168,649	73,747	822,266	343,281	—
C.4 Irrevocable commitments to disburse funds *										
- long positions	15,062	22,841	1,849	56,736	1,340,950	287,881	5,004	953,724	1,339,678	—
- short positions	1,943,194	76,080	421,621	338,503	113,263	348,149	75,313	150,224	557,377	—
C.5 Financed guarantees issued	177	—	70	369	1,100	2,372	6,913	12,565	1,902	—
C.6 Financial guarantees received	—	—	—	—	—	—	—	—	—	—
C.7 Credit derivatives with exchange of principal										
- long positions	—	—	—	—	4,000	438,650	90,186	2,102,453	266,204	—
- short positions	—	—	—	—	4,000	444,650	120,186	2,274,731	57,926	—
C.8 Credit derivatives without exchange of principal										
- long positions	1,586,341	—	—	—	—	—	—	—	—	—
- short positions	1,666,442	—	—	—	—	—	—	—	—	—

* This item does not include hedge sales perfectly matched by buys of the same amount.

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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

To manage 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 30 June 2020 was €323m (30/6/19: €321.6m).

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 under 1% of the Group's total income.

s for the different classes of operational risk, the percentage composition of the Group's Basel II event types is shown in the table below.

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Event Type	% su Total Loss
Clients, products and business practices	53%
Execution, delivery and process management	32%
External fraud	6%
Employment practices and workplace safety	4%
Other	5%

More than half of the operating losses derive from 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. The second category by amount of losses materializing was instances relating to process risk (“Execution, delivery and process management”), followed by external fraud on retail financing products (fake documentation and/or cards), in connection with which mitigation action has been implemented to ensure the phenomenon remains at residual levels, plus provisions and expenses for managing relations with staff.

Although it has not generated significant losses, an increase has been recorded in instances, or classes, of operational risk such as IT & cyber risk and outsourcing risk, plus conduct risk.

It is an increase that has been observed at industry as well as Group level. The monitoring frameworks have been stepped up accordingly, in co-ordination with the other control units involved. With regard to the IT incidents generated by the outsourcer responsible for managing the Group’s technology infrastructure, a series of activities are currently in progress which, pending a more wide-ranging revision of the contract in force, include measures to strengthen governance of the service provided, and schedule actions in the short and medium term to guarantee the systems’ levels of resilience still further.

In terms of business line, operational risks were most linear in Consumer Banking and Wealth Management, albeit potentially increasing due to the stricter regulations and guidelines exposing the Group to conduct risks, plus the growth in the commercial channels and networks.

The Group continues to be exposed to the potential risk of low frequency/ high severity inherent in businesses that feature non-standard and large-sized transactions, such as CIB and Wealth Management.

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Other risks

As part of the process of assessing the current and future capital required for the company to perform regular banking activity (ICAAP), the Group has identified the following main types of risk as relevant:

- 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, i.e. exposure to 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" banking book ("HTC&S"), 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, attributable to the possibility 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, due to 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.

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The United Kingdom officially withdrew from the European Union on 31 January 2020, though the withdrawal itself will only become effective on 31 December 2020. Throughout this transitional period, Mediobanca will continue to implement the plan to adjust to the new scenario which, in accordance with the recommendations made by the European Central Bank, and in view of the fact that the Group's activities in the United Kingdom are relatively minor (accounting for approx. 3% of its total revenues), provides for a total of fifteen staff members, including key function holders, to be moved back to EU territory (mainly to the Milan, Paris and Madrid offices).[2] The Mediobanca Group will continue to operate as normal in the United Kingdom through the London branch office of Mediobanca S.p.A. under a different authorization regime ("third country") and Group company Cairn Capital (alternative fund management), without prejudice to further changes that could arise in connection with the ongoing negotiations and which continue to be monitored by an internal working group which is co-operating with the competent authorities.

[2] Six of these staff members have already been moved, and the others will move by end-September 2020.

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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	460,250	—	—	—	460,250	16,629
2. Share premium reserve	2,197,454	—	—	—	2,197,454	1,848
3. Reserves	6,340,222	—	—	—	6,340,222	74,362
4. Equity instruments	—	—	—	—	—	—
5. (Treasury shares)	(231,538)	—	—	—	(231,538)	—
6. Valuation reserves:	372,256	—	—	—	372,256	(2,394)
- Equity instruments valued at fair value with impact taken to comprehensive income	62,778	—	—	—	62,778	—
- 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	8,771	—	—	—	8,771	—
- Tangible assets	—	—	—	—	—	—
- Intangible assets	—	—	—	—	—	—
- Hedging of foreign investments	(7,050)	—	—	—	(7,050)	—
- Hedging of cash flows	(32,719)	—	—	—	(32,719)	(2,148)
- Hedging instruments [not designated instruments]	—	—	—	—	—	—
- Exchange rate differences	389	—	—	—	389	(5)
- 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)	(1,724)	—	—	—	(1,724)	—
- Actuarial gains (losses) on defined benefits pension schemes	(9,530)	—	—	—	(9,530)	(241)
- Valuation reserves share of equity-accounted interests	341,709	—	—	—	341,709	—
- Extraordinary revaluation laws	9,632	—	—	—	9,632	—
7. Net profit (loss) for the period (+/-) of Group and minorities	601,429	—	—	—	601,429	1,047
Total	9,740,073	—	—	—	9,740,073	91,492

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

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B.2 Valuation reserves for financial assets recognized at FVOCI: 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	19,410	(10,639)	—	—	—	—	—	—	19,410	(10,639)
2. Equity securities	65,886	(3,108)	—	—	—	—	—	—	65,886	(3,108)
3. Loans	—	—	—	—	—	—	—	—	—	—
Total at 30/6/20	85,296	(13,747)	—	—	—	—	—	—	85,296	(13,747)
Total at 30/6/19	91,644	(7,068)	—	—	—	—	—	—	91,644	(7,068)

B.3 Valuation reserves for financial assets recognized at FVOCI: movements during the period

	Debt securities	Equity securities	Loans
1. Opening balance	24,161	60,415	—
2. Additions	14,793	21,441	—
2.1 Increases in fair value	11,311	21,441	—
2.2 Writedowns for credit risk	3,178	—	—
2.3 Profit and loss reversal of negative reserves from realize	304	X	—
2.4 Transfers to other equity components (equity instruments)	—	—	—
2.5 Other variations	—	—	—
3. Reductions	30,183	19,078	—
3.1 Reductions in fair value	15,383	19,078	—
3.2 Writebacks for credit risk	321	—	—
3.3 Profit and loss reversal from positive reserves: from disposal	14,479	X	—
3.4 Transfers to other equity components (equity instruments)	—	—	—
3.5 Other reductions	—	—	—
4. Closing balance	8,771	62,778	—

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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 capital 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 2019.

The regulator requires Mediobanca to maintain a CET1 ratio of 7.94% [1] on a consolidated basis (8.25% until end-December 2019), which includes the capital conservation buffer of 2.50% and an additional Pillar 2 ("P2R") requisite of 1.25%, unchanged from last year and only 75% of which is met by tier 1 instruments as provided by the measures recently adopted by the European Central Bank in response to the ongoing Covid-19 crisis; the Overall Capital Requirement (OCR) was unchanged from last year at 11.75%.

2.1 Scope of application for regulations

Based on the new regulatory framework of supervisory and corporate governance rules for banks which consists of Capital Requirements Directive IV (CRD IV), Capital Requirements Regulation (CRR/CRR II) issued by the European Parliament starting from 2013 and enacted in Italy in Bank of Italy circular no. 285 as amended,[2] the Group has applied the phase-in regime, and in particular, having received the relevant authorizations, has weighted the Assicurazioni Generali investment at 370% as permitted by Article 471 of CRR2, which extended the effectiveness of the phase-in period until 31 December 2024.[3]

[1] The calculation does not include the countercyclical capital buffer and the P2 Guidance.

[2] Including the recent updates in response to the current economic situation contained in the "Quick Fix" banking package approved by the European Parliament and Commission on 19 June 2020.

[3] Application of Article 471 is limited to the book value recorded in December 2012 and compliance with the concentration limit towards the insurance group. The most recent update to Bank of Italy circular no. 285 has amended the national regulations on the assumption of risks versus related parties. As a result, exposures to insurance companies held in accordance with the provisions of Article 471 of the CRR (the "Danish Compromise") are excluded from calculation of the exposure limits. In the light of this change and until June 2021 (when CRR II comes into force), the Group's investment in Assicurazioni Generali group is deducted from regulatory capital in order to respect the general concentration limit of 25% of eligible capital (CRR large exposures), rather than the narrower limit of 20% for related parties.

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Furthermore, in order to mitigate the effect of the new accounting standards on banks' prudential ratios, since last year last year (IFRS 9 first-time adoption) the Group has applied the static approach provided by Regulation (EU) 2017/2395, "Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds", which updates Regulation (EU) 575/2013 ("CRR") by incorporating a new version of Article 473a "Introduction of IFRS 9", offers banks the possibility of neutralizing the effect of the increase in loan loss provisions for performing loans for a transitional period of five years,[4] by including a decreasing amount of loan loss provisions in CET1 over that time.

For the moment the Group has decided not to take up the option to extend the phase-in regime (for another five years) to mitigate the impact on own funds of higher IFRS 9-related adjustments due to Covid-19, as well as the option to neutralize the impact deriving from changes in the valuation reserves for sovereign debt securities and the filter for excluding certain exposures to central banks from the those used to calculate the leverage ratio.

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 €612.1m of the positive FVOCI financial assets reserves, €1.5m in government securities, and €540.6m deriving from Assicurazioni Generali being equity-accounted), plus profit for the period (€601.4m) which has been included in full in the calculation of CET1 following the ECB Recommendation[5] not to pay dividends during the Covid-19 pandemic (the dividend policy unveiled by the Group in November 2019 as part of the Strategic Plan has not been confirmed).

The deductions regard:

- Treasury shares as to €267.1m, or 3% of the Bank's share capital;

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

[5] On 27 March 2020 the European Central Bank (ECB) issued the "Recommendation of the European Central Bank of 27 March 2020 on dividend distribution during the COVID-19 pandemic and repealing Recommendation ECB/2020/1 (ECB/2020/19)", recommending that no dividends be paid, nor any irrevocable commitment to do so be undertaken by credit institutions for the 2019 and 2020 financial years, until 1 October 2020. The "Recommendation of The European Central Bank of 27 July 2020 on dividend distributions during the COVID-19 pandemic and repealing Recommendation ECB/2020/19 (ECB/2020/35)" subsequently extended the time horizon for the recommendation from 1 October 2020 to 1 January 2021.

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– Intangible assets as to €152.4m, up €19.4m following completion of the PPA process for Messier Maris and goodwill of €666.5m, following the impairment charges taken for RAM plus the MMA effect;

– Prudential changes to the valuation of financial instruments (AVA and DVA) amounting to €46m, virtually unchanged from last year (€48.3m) despite the market turmoil, due to the lower weighting temporarily introduced by the regulator to mitigate the effects of post-Covid volatility;[6]

– Significant investments in financial companies (banking and insurance firms) as to €1,196.0m, €990.8m of which for the investment in Assicurazioni Generali and €117.7m for subsidiary Compass RE. The sharp reduction from last year (€2,004.9m) chiefly refers to Assicurazioni Generali (€1,704m) due to the new calculation of the concentration limit versus related parties.

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

Tier 2 capital includes subordinated liabilities, down in the twelve months from €1,522.7m to €1,225.1m due to amortization for the period (€296.2m). No subordinated tier 2 issue benefits from the grand-fathering permitted under Articles 483 of the CRR.

Issue	**30/6/20**		
	ISIN	**Nominal value**	**Calculated amount ***
MB Subordinato Mar 29	XS1579416741	50,000	48,502
MB Secondo Atto 5% 2020 Lower Tier 2	IT0004645542	615,308	45,194
MB OPERA 3.75 2026	IT0005188351	299,577	291,632
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	394,970	73,713
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	500,000	490,129
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	499,177	275,975
Total subordinated debt securities		2,359,032	1,225,145

* The value calculated differs from the book value due to the items recognized at fair value and amortized cost and to buyback commitments entered into.

Tier 2 also includes the buffer which results from the writedowns to book value being higher than the prudential expected losses calculated using the advanced models. The surplus is €78.6m but is included as €71m (equal to the regulatory limit which is 0.6% of the amounts of the risk-weighted exposures calculated using advanced models; cf. Article 159 of the CRR).

[5] On 28 May 2020, the European Commission amended Commission Delegated Resolution (EU) no. 101/2016, setting aggregation factor "α" at 66%; at present the change is applicable until 31 December 2020.

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QUANTITATIVE INFORMATION

	30/6/20	30/6/19
A. Common equity tier 1 (CET1) prior to application of prudential filters	9,691,998	9,351,118
of which: CET1 instruments subject to phase-in regime	—	—
B. CET1 prudential filters (+/-)	(290)	7,317
C. CET1 gross of items to be deducted and effects of phase-in regime (A +/- B)	9,691,708	9,358,435
D. Items to be deducted from CET1	(3,523,703)	(3,834,987)
E. Phase-in regime - impact on CET1 (+/-), including minority interests subject to phase-in regime *	1,576,980	1,000,929
F. Total common equity tier 1 (CET1) (C-D+/-E)	7,744,985	6,524,377
G. Additional tier 1 (AT1) gross of items to be deducted and effects of phase-in regime	—	—
of which: AT1 instruments subject to temporary provisions	—	—
H. Items to be deducted from AT1	—	—
I. Phase-in regime - impact on AT1 (+/-), including instruments issued by branches and included in AT1 as a result of phase-in provisions	—	—
L. Total additional tier 1 (AT1) (G-H+/-I)	—	—
M. Tier 2 (T2) gross of items to be deducted and effects of phase-in regime	1,296,147	1,561,228
of which: T2 instruments subject to phase-in regime	—	—
N. Items to be deducted from T2	(22)	—
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)	1,296,125	1,561,228
Q. Total own funds (F+L+P)	9,041,110	8,085,605

* Adjustments include application of the phase-in provisions for the introduction of IFRS 9.

2.3 Capital adequacy

QUALITATIVE INFORMATION

As at 30 June 2020, the Group's Common Equity Ratio, calculated as tier 1 capital as a percentage of total risk-weighted assets, amounted to 16.13%, much higher than the same time last year (14.09%). The growth is attributable to retained earnings for the twelve months (€601.4m, corresponding to an increase of 130 bps), to lower deductions relating to Assicurazioni Generali as a result of the change in the concentration limit (which added 50 bps) and to the weighting of salary-backed exposures at 35% being brought forward (adding 22 bps, corresponding to a reduction of approx. €700m in RWAs).

RWAs in the twelve months rose from €46.3bn to €48bn, due to a higher contribution from the Assicurazioni Generali investment (up €2.4bn) in relation to the lower deductions, only in part offset by the decrease in RWAs for Consumer Banking related to the change in weighting of exposures to salary-backed finance (which accounted for €0.7bn) from 75% to 35%. The performance by the other

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business lines was stable overall: against increases in Wholesale Banking (up €0.2bn) and Wealth Management (up €0.4bn) there were reductions in Specialty Finance and Leasing.

Movements in RWAs

	Value
RWA as at 30 June 2019	**46,309,919**
Regulatory changes	**1,719,573**
Partecipation in Assicurazioni Generali	2,412,573
Weight reduction of exposures towards salary-backed loans (Consumer)	(693,000)
Volume effect	**991**
Corporate Investment Banking - CIB	(38,075)
Wholsale Banking - WS	230,653
Specialty Finance - SF	(268,728)
Wealth Manangement - WM	417,870
Holding Functions - HF - (Leasing)	(361,582)
Others	(17,223)
RWA as at 30 June 2020	**48,030,483**

The total capital ratio also increased from 17.46% to 18.82%.

Fully-loaded and without application of the Danish Compromise, i.e. with the Assicurazioni Generali stake fully deducted (which accounted for €1,484.3m, including the indirect effects) and with full application of the IFRS 9 effect (which accounted for €92.7m, considering the higher deductions), the CET1 ratio was 14.50% and the total capital ratio 17.55%, also higher than the figures reported at end-June last year, which were 12.83% and 16.46% respectively.

The other indicators performed as follows during the twelve months under review:

– The Leverage Ratio, calculated without taking advantage of the temporary possibility allowed by the Regulator to exclude reserves held with central banks from the exposures, rose from 8.4% on 30 June 2019 to 9.7% as a result of the increase in regulatory capital, and once again was well above the regulatory limit set (3%);

– The MREL ratio was above 45%, considerably higher than the minimum level set by the Single Resolution Board for 2020, which was 21.60%.

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QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts [5]		Weighted amounts/requirements	
	30/6/20	30/6/19	30/6/20	30/6/19
A. RISK ASSETS				
A.1 Credit and counterpart risk	70,911,069	66,599,488	40,933,278	39,194,427
1. Standard methodology	42,018,276	40,763,545	28,909,850	27,909,222
2. Internal rating methodology	28,756,686	25,679,325	11,834,261	11,165,086
2.1 Basic	—	—	—	—
2.2 Advanced	28,756,686	25,679,325	11,834,261	11,165,086
3. Securitization	136,107	156,617	189,167	120,120
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			3,274,662	3,135,554
B.2 Credit valuation risk			43,586	42,695
B.3 Settlement risk			—	—
B.4 Market risk			201,195	204,897
1. Standard methodology			201,195	204,897
2. Internal models			—	—
3. Concentration risk			—	—
B.5 Other prudential requirements			322,995	321,647
1. Basic Indicator Approach (BIA)			322,995	321,647
2. Standard methodology			—	—
3. Advanced methodology			—	—
B.6 Other calculation elements			—	—
B.7 Total prudential requirements			3,842,439	3,704,793
C. RISK ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets			48,030,483	46,309,918
C.2 CET1 capital/risk-weighted assets (CET1 capital ratio)			16.13%	14.09%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 capital ratio)			16.13%	14.09%
C.4 Regulatory capital/risk-weighted assets (total capital ratio)			18.82%	17.46%

[5] For the standardized methodology, the "un-weighted amounts", as provided by the regulations in force, correspond to the value of the exposure taking into account the prudential filters, risk mitigation techniques and credit conversion factors. For the AIRB ratings methodology, the "un-weighted amounts" correspond to the "exposure at default" (EAD). For guarantees issued and commitments to disburse funds, credit conversion factors are also included in the EAD calculation.

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Part G - Combinations involving Group companies or business units

SECTION 1

Transactions completed during the period

No new business combinations were completed during the twelve months.

However, the purchase price allocation process for acquisition of a controlling interest in Messier Maris & Associés executed in April 2019 was completed during the year under review.

For further details, 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.

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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 June 2019 and last July. The full document is published on the Bank's website at www.mediobanca.com.

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

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

2.1 Regular financial disclosure: most significant transactions

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

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2.2 Quantitative information

The exposure (sum of assets and guarantees and commitments) decreased from 1.4bn to 1.1bn following the exit of the Unicredit Group due to the sale of its investment in Mediobanca. The contribution to the total assets therefore decreases from 1.8% to 1.4% as well as the contribution to net interest income (from 1.3% to 0.7%).

Situation as at 30 June 2020

(€ m)

	Directors, statutory auditors and strategic management	**Associates**	**Other related parties**	**Total**
Assets	1.1	326.4	757.3	1.084.8
of which: other assets	—	*70.4*	*534.8*	*605.2*
loans and advances	*1.1*	*256.0*	*222.5*	*479.6*
Liabilities	16.5	0.1	41.2	57.8
Guarantees and commitments	—	14.0	22.8	36.8
Interest income	—	7.2	5.5	12.7
Interest expense	—	—	(1.6)	(1.6)
Net fee income	—	1.0	58.4	59.4
Other income (costs)	(46.4) [1]	(0.1)	(26.9)	(73.4)

[1] Of which: short-term benefits amounting to €40.8m and performance shares worth €4.4m. The number includes the resources included among the Executives with strategic responsibilities during the year.

Situation as at 30 June 2019

(€ m)

	Directors, statutory auditors and strategic management	**Associates**	**Other related parties**	**Total**
Assets	1.3	355.8	1,059.9	1,417.0
of which: other assets	—	*138.8*	*787.5*	*926.3*
loans and advances	*1.3*	*217.0*	*272.4*	*490.7*
Liabilities	18.0	0.1	393.4	411.5
Guarantees and commitments	—	10.0	—	10.0
Interest income	—	9.1	15.5	24.6
Interest expense	(0.1)	—	(2.5)	(2.6)
Net fee income	—	0.6	64.6	65.2
Other income (costs)	(41.6) [1]	0.3	(38.6)	(79.9)

[1] Of which: short-term benefits amounting to €37.5m and performance shares worth €4m. The number includes the resources included among the Executives with strategic responsibilities during the year.

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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 options schemes					
28 October 2004	15,000,000	28 October 2009	1 July 2020	12,765,000	
Of which directors [1]	*4,000,000*	*28 October 2009*	*1 July 2020*	*3,375,000*	[2]
27 October 2007	40,000,000	27 June 2012	1 July 2022	15,536,000	
For use in connection with performance share schemes					
28 October 2015	20,000,000	X	28 October 2020	5,255,453	[3]

[1] At a general meeting held on 27 June 2007, shareholders approved a proposal to grant stock options to Board members.
[2] Of these, 2,000,000 were granted to one former director.
[3] In respect of awards made in 2016, 2017, 2018, 2019 and 2020.

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.

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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 2019 (in renewal of the scheme approved by shareholders in annual general meeting on 28 October 2015).

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 same annual general meeting, with up to 20 million new Mediobanca shares being issued; the 26,611,288 treasury shares owned by the Bank may also be used for this purpose.

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On 19th December 2019, the Board of Directors approved the Long-Term Incentive (LTI) plan, addressed to the Mediobanca Chief Executive Officer and - Group General Manager and to the Chief Executive Officer of Compass and CheBanca! The beneficiaries of the LTI plan were awarded up to 338,841 Mediobanca shares, to be attributed over a five-years period after the finalization of the plan itself, from the performance shares approved by shareholders in Annual General Meeting.

During the period under review, a total of 1,964,004 performance shares were awarded, of which: 338,841 related to LTI 19/23 scheme, 50,635 to new arrivals within the Group and 1,574,528 as part of staff variable remuneration for the 2019 financial year; the shares, which are conditional upon certain performance targets being met over a three- or five-year time horizon, will be made available (for Board members and other employees with more strategical functions) in tranches (FY 2020-21 up to 30,381; FY 2021/22 up to 770,156; FY 2022/23 up to 436,784; FY 2023/24 up to 304,522 and FY 2024/2025 up to 83,320).

Beneficiaries were also awarded a total of 1,759,772 shares (treasury shares allocated and the remainder assigned under the limit approved by shareholders in general meeting in 2015).

After the reporting date, as part of the variable remuneration for the financial year 2020, a total of 1,363,953 performance shares with a total cost of 8.1 million relating to the variable remuneration component only; the shares, subject to performance objectives over a time horizon of up to 5 years, will be made available in tranches in November 2021 (up to 663.013) November 2022 (up to 170.033), November 2023 (up to 289.986), November 2024 (up to 120,968) and November 2025 (up to 119,953).

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QUANTITATIVE INFORMATION

1. Changes in stock option scheme during the year

Items/Nr. of stock options and strike prices	30/6/20			30/6/19		
	No. of performance shares	**Avg. price**	**Avg. expiry**	**No. of performance shares**	**Avg. price**	**Avg. expiry**
A. Opening balance	—	—	X	642,500	6.51	October 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	—	—	X	642,500	6.43	X
C.3 Performance shares expired	—	—	X	—	—	X
C.4 Other reductions	—	—	X	—	—	X
D. Closing balance	—	—		—	—	
E. Performance shares exercisable as at reporting date	—	—	X	—	—	X

2. Changes in performance share scheme during the year

Items/Performance shares	30/6/20		30/6/19	
	No. of performance shares	**Avg. price**	**No. of performance shares**	**Avg. price**
A. Opening balance	5,081,612	6.84	5,096,209	6.69
B. Increases				
B.1 New issues	1,964,004	7.37	1,835,703	6.78
B.2 Other additions	—	—	—	—
C. Decreases				
C.1 Performance shares cancelled	—	—	—	—
C.2 Performance shares made available	1,759,772	7.02	1,850,300	6.35
C.3 Performance shares expired	—	—	—	—
C.4 Other reductions	30,391	6.82	—	—
D. Closing balance	5,255,453	6.98	5,081,612	6.84

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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 and Investment Banking	Principal Investing	Holding Functions	Writeoffs [1]	Group
Net interest income	271.0	948.0	271.4	(7.1)	(55.0)	13.9	1.442.2
Net trading income	6.7	—	77.9	15.6	37.5	(1.4)	136.3
Net fee and commission income	306.1	122.6	225.8	—	10.6	(34.9)	630.2
Share in profits earned by equity-accounted companies	—	—	—	304.3	—	—	304.3
Total income	**583.8**	**1.070.6**	**575.1**	**312.8**	**(6.9)**	**(22.4)**	**2.513.0**
Personnel costs	(236.5)	(102.0)	(141.0)	(3.3)	(116.5)	—	(599.3)
Administrative expenses	(214.3)	(201.2)	(135.2)	(1.0)	(56.3)	18.4	(589.6)
Operating costs	**(450.8)**	**(303.2)**	**(276.2)**	**(4.3)**	**(172.8)**	**18.4**	**(1.188.9)**
Loan loss provisions	(20.5)	(324.7)	(20.0)	—	(9.7)	—	(374.9)
Provisions for other financial assets	(0.5)	—	(3.5)	(10.9)	(5.6)	—	(20.5)
Other income (losses)	1.8	(4.7)	—	—	(64.3)	(66.2)	(133.4)
Profit before tax	**113.8**	**438.0**	**275.4**	**297.6**	**(259.3)**	**(70.2)**	**795.3**
Income tax for the period	(32.6)	(141.4)	(92.4)	(2.6)	76.3	1.6	(191.1)
Minority interest	(0.8)	—	(2.3)	—	(0.7)	—	(3.8)
Net profit	**80.4**	**296.6**	**180.7**	**295.0**	**(183.7)**	**(68.6)**	**600.4**
Cost/income ratio (%)	*77.2*	*28.3*	*48.0*	*n.m.*	*n.m.*	*n.m.*	*47.3*

Notes:

Divisions comprise:

- Wealth Management (WM): this division brings together all asset management services offered to the various client segments. It includes CheBanca!, which targets the Affluent & Premier client bracket, offering traditional banking services as well; the MBPB and CMB Monaco private banking networks, and the asset management companies (Cairn Capital, Mediobanca SGR, Mediobanca Management Company, and RAM Active Investment), plus Spafid;
- Consumer Banking (CB): this division provides retail clients with the full range of consumer credit products, from personal loans to salary-backed finance (Compass Banca, Futuro and Compass RE, plus the newly-incorporated Compass Rent);
- Corporate and Investment Banking (CIB): this division brings together all services provided to corporate clients in the following areas: investment banking (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca and Mediobanca International, Mediobanca Securities and Messier Maris et Associés); and Specialty Finance, which in turn consists of factoring and credit management (including NPL portfolio acquisitions and management) performed by MBFACTA and MBCredit Solutions, plus the newly-incorporated MBContact Solutions;
- Principal Investing (PI): division which brings together the Group's portfolio of equity investments and holdings;
- Holding Functions: division which includes SelmaBipiemme Leasing, MIS, Spafid Connect and other minor companies, plus the following Group functions: Treasury and ALM, operations, support and control, plus the senior management of Mediobanca S.p.A.; for further details please refer to p. 70.

[1] Sum of divisional data differs from Group total due to adjustments/differences arising on consolidation between business areas (equal to €3.5m), and, this year, the net impact of the RAM goodwill impairment charges taken through profit and loss (€65.1m).

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A.2 Balance-sheet data by business segment

(€ m)

Balance-sheet data	Wealth Management	Consumer	Corporate and Investment Banking	Principal Investing	Holding Functions	Group
Financial assets held for trading	17.3	—	8,801.3	—	—	8,818.6
Treasury funds	—	—	1,648.0	—	7,609.0	9,257.0
Banking book debt securities	362.0	232.8	618.1	—	5,611.6	6,824.5
Loans and advances to customers	13,183.6	13,037.4	18,644.2	—	1,819.9	46,685.1
Equity investments	24.1	2.6	76.4	3,878.5	28.1	4,009.7
Tangible and intangible assets	251.6	87.4	46.2	—	926.6 [1]	1,311.8
Other assets	343.8	588.7	59.5	—	1,051.0	2,043.0
Total assets	**14,182.5**	**13,948.9**	**29,893.6**	**3,878.5**	**17,046.2**	**78,949.7**
Funding	(23,807.4)	(3,769.6)	—	—	(27,340.0)	(54,917.0)
Treasury funding	—	—	(1,365.6)	—	(2,622.4)	(3,988.0)
Financial liabilities held for trading	—	—	(7,956.9)	—	—	(7,956.9)

[1] Includes Group goodwill.

B. SECONDARY SEGMENTAL REPORTING

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

(€ m)

Profit-and-loss figures	Italy	Abroad [1]	Group
Net interest income	1,393.2	49.0	1,442.2
Net trading income	124.6	11.7	136.3
Net fee and commission income	427.8	202.4	630.2
Share in profits earned by equity-accounted companies	304.3	—	304.3
Total income	**2,249.9**	**263.1**	**2,513.0**
Personnel costs	(466.7)	(132.6)	(599.3)
Administrative expenses	(514.7)	(74.9)	(589.6)
Operating costs	**(981.4)**	**(207.5)**	**(1,188.9)**
Net loss provisions	(378.9)	(16.5)	(395.4)
Other income (losses)	(131.4)	(2.0)	(133.4)
Profit before tax	**758.2**	**37.1**	**795.3**
Income tax for the period	(173.4)	(17.7)	(191.1)
Minority interest	(0.6)	(3.2)	(3.8)
Net profit	**584.2**	**16.2**	**600.4**
Cost/income ratio (%)	*43.6%*	*78.9%*	*47.3%*

[1] This heading includes the earnings results of Mediobanca International, Compagnie Monégasque de Banque, Compass RE, MB USA, CMB Wealth Management, Cairn Capital, Mediobanca Management Company, RAM Active Investments, and Messier Maris et Associés, plus the Mediobanca S.p.A. international branch offices (Paris, Frankfurt, Madrid and London).

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B.2 Balance-sheet data by business segment

(€ m)

Balance-sheet data	Italy	Abroad [1]	Group
Financial assets held for trading	8,659.5	159.1	8,818.6
Treasury funds	4,851.4	4,405.6	9,257.0
Banking book debt securities	6,012.2	812.3	6,824.5
Loans and advances to customers	39,835.7	6,849.4	46,685.1
Equity investments	3,999.7	10.0	4,009.7
Tangible and intangible assets	1,253.3	58.5	1,311.8
Other assets	1,825.5	217.5	2,043.0
Total assets	**66,437.3**	**12,512.4**	**78,949.7**
Funding	(44,692.9)	(10,224.1)	(54,917.0)

[1] This heading includes the balance-sheet data for Mediobanca International, Compagnie Monégasque de Banque, Compass RE, MB USA, MB Turkey, CMB Wealth Management, Cairn Capital, Mediobanca Management Company, RAM Active Investments, and Messier Maris et Associés, plus the Mediobanca S.p.A. international branch offices (Paris, Frankfurt, Madrid and London); in particular "Funding" includes €4.6bn in intercompany accounts.

Information required under letters a), b) and c) of Annex A, First Part, Title III, Section 2 of Bank of Italy circular 285/13 Situation at 30 June 2020

Business Line	Composition	Heading 120 Total income *			Full Time Employees [1]		
		Italy	International	Group	Italy	International	Group
Wholesale Banking	Includes Client Business (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca S.p.A., Mediobanca International, MB USA and Messier Maris & Associés)	452	78	530	224	152	376
Specialty Finance	Comprises factoring and credit management activities (including the NPLs portfolio) headed up by MBFACTA and MBCredit Solutions	101	—	101	249	—	249
Consumer Banking	Provides retail clients with the full range of consumer credit products, ranging from personal loans to salary-backed finance (Compass, Futuro and Compass RE, a reinsurance company)	941	3	944	1,372	1	1,373
Affluent & Premier	Comprises deposit-taking, mortgage lending and retail banking services addressed by CheBanca!	316	—	316	1,364	4	1,368
Private & High Net Worth Individual	Includes asset management activities, addressed in Italy by the new division Mediobanca Private Banking and Spafid and in Monaco by Compagnie Monegasque de Banque and CMB Assets Management; it includes also (for what regards Alternative Asset Management activities) Cairn Capital, Compagnie Monegasque de Gestion and RAM Active Investment	107	154	261	231	345	576
Principal Investing	Brings together the Group's portfolio of equity investments and holdings	(2)	—	(2)	11	—	11
Holding Functions	Houses the Group's Treasury and ALM activities (as part of Mediobanca S.p.A.); and continues to include the leasing operations (headed up by SelmaBipiemme) and the services and minor companies (MIS Spafid Connect and R&S).	(13)	—	(13)	769	24	793
Adjustments [2]		(25)	(28)	(53)	—	—	—
Group total		1,877	207	2,084	4,220	526	4,746

* Stated in accordance with P&L heading 120 pursuant to Bank of Italy circular 262/05. The figure here differs from the amount stated as "Total income" in the statements found on pages 354 and 355, which provide a more accurate reflection of the Group's operations. P&L heading 120 "Total income" pursuant to Bank of Italy circular 262/05 does not include net premiums earned, other income from insurance activities or other operating income.

[1] Full-time employees at Group level.

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

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Situation at 30 June 2019

Business Line	Composition	Heading 120 Total income *			Full Time Employees [1]		
		Italy	International	Group	Italy	International	Group
Wholesale Banking	Includes Client Business (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca S.p.A., Mediobanca International, MB USA and Messier Maris & Associés)	488	46	534	196	166	362
Specialty Finance	Comprises factoring and credit management activities (including the NPLs portfolio) headed up by MBFACTA and MBCredit Solutions	105	—	105	255	—	255
Consumer Banking	Provides retail clients with the full range of consumer credit products, ranging from personal loans to salary-backed finance (Compass, Futuro and Compass RE, a reinsurance company)	884	3	887	1,357	1	1,358
Affluent & Premier	Comprises deposit-taking, mortgage lending and retail banking services addressed by CheBanca!	296	2	298	1,311	5	1,316
Private & High Net Worth Individual	Includes asset management activities, addressed in Italy by the new division Mediobanca Private Banking and Spafid and in Monaco by Compagnie Monegasque de Banque and CMB Assets Management; it includes also (for what regards Alternative Asset Management activities) Cairn Capital, Compagnie Monegasque de Gestion and RAM Active Investment	77	169	246	224	331	555
Principal Investing	Brings together the Group's portfolio of equity investments and holdings	8	—	8	11	—	11
Holding Functions	Houses the Group's Treasury and ALM activities (as part of Mediobanca S.p.A.); and continues to include the leasing operations (headed up by SelmaBipiemme) and the services and minor companies (MIS and Prominvestment). Since 1 January 2019 the Holding Functions division has also been home to the corporate services area (performed by Spafid Connect).	(3)	—	(3)	765	25	790
Adjustments [2]		(18)	(17)	(35)	—	—	—
Group total		1,837	203	2,040	4,119	528	4,647

* Stated in accordance with P&L heading 120 pursuant to Bank of Italy circular 262/05. The figure here differs from the amount stated as "Total income" in the statements found on pages 354 and 355, which provide a more accurate reflection of the Group's operations. P&L heading 120 "Total income" pursuant to Bank of Italy circular 262/05 does not include net premiums earned, other income from insurance activities or other operating income.

[1] Full-time employees at Group level.

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

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Part M - Disclosure on leasing

SECTION 1

Lessor

QUALITATIVE INFORMATION

With reference to IFRS 16 coming into force and the contracts which fall within its scope of application, virtually the only leases the Mediobanca Group has outstanding in this connection are for properties and company cars, plus some hardware leases for only a residual amount. The property leases mostly involve premises used as offices. Such leases normally have durations of more than twelve months, and typically contain renewal or termination clauses which both lessor and lessee can exercise in accordance with the provisions of law and/or specific contractual arrangements, if any. Generally speaking such leases do not contain an option to buy at expiry or entail substantial reinstatement costs for the Group. As for the car leases, these are long-term agreements for the fleet of company cars available for use by staff members for work-related purposes in accordance with Group policy in this area.

At the first-time adoption stage for IFRS 16, some simplifications have been used. In particular, leases with duration of twelve months or less ("short-term leases") have been excluded, as have those involving amounts of less than €5,000 ("low value leases"), and those for intangibles. It has also been decided not to strip out the service component from the lease proper; hence the full contract has been recognized. The discount rate used has been derived from the Funds Transfer Pricing curve used in treasury management by the Group Treasury unit.

In cases where the original lease has been replicated with another counterparty (i.e. sub-leased), the related liability is matched by an amount receivable from the counterparty at the date rather than by its value in use. Sub-leasing arrangements involve only negligible amounts.

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QUANTITATIVE INFORMATION

For quantitative information on the impact on the Group's financial and earnings situation, reference is made to the contents of the following sections of the Notes to the Accounts:

- Information on rights of use acquired, in "Notes to the consolidated balance sheet - Assets - Section 9";
- Information on amounts due under leases, in the "Notes to the consolidated balance sheet - Liabilities - Section 1";
- For the effects on earnings, "Part C Notes to the consolidated profit and loss account", in particular the headings for interest income and expense and net adjustments to tangible assets.

The value in use recorded in the balance sheet at 30 June 2020 was €207.9m, broken down as follows:

- Value in use of properties: €196.1m;
- Value in use of vehicles: €11.7m;
- Value in use of other assets: €0.1m;

The increase in assets on the balance sheet had a 7 bps impact on RWAs at 30 June 2020.

SECTION 2

Lessee

QUALITATIVE INFORMATION

The Group has operations in finance leasing through its subsidiary SelmaBipiemme. These mostly involve property, core goods and registered moveable assets. The contracts are represented in the accounts by the amount receivable under the finance lease being recorded under Heading 40, Financial assets recognized at amortized cost, the income received under Heading 10, Interest and similar income, determined by accrual, with the provisions for any losses expected on the account being recognized under Heading 130, Net value adjustments for credit risk.

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QUANTITATIVE INFORMATION

For quantitative information on the impact on the Group's financial and earnings situation, reference is made to the contents of the relevant sections of the Notes to the Accounts. In particular, the book value of the leases is found in Part B - Notes to the consolidated balance sheet - Assets - Section 4 - Heading 40: Financial assets recognized at amortized cost. During the twelve months under review, these leases generated interest income as shown in Part C - Notes to the consolidated profit and loss account - Section 1 - Headings 10 and 20: Net interest income and Section 14 - Heading 210: Net adjustments to tangible assets of the Notes to the Consolidated Accounts.

1. Balance-sheet and earnings data

2. Finance leases

2.1. Maturity analysis of lease payments receivable by timing bracket and reconciliation of undiscounted lease payments to the net investment in the lease

Time bands	30/6/20 Lease payment to be received
Up to 1 year	391,477
Between 1 and 2 years	326,049
Between 2 and 3 years	243,243
Between 3 and 4 years	269,143
Between 4 and 5 years	121,292
Over 5 years	347,973
Total lease payments to be received	**1,699,177**
Reconciliation with loans	**77,693**
Not accrued gains (+)	(179,162)
Unguaranteed residual value (-)	256,855
Loans for leases	**1,776,870**

As permitted by IFRS 16, the Group has decided not to restate comparative data in connection with the first-time adoption of the new standard. Accordingly, the table does not contain the equivalent balances as at 30 June 2019.

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The table provides a maturity analysis of the lease payments receivable, and a reconciliation of the undiscounted lease payments to the net investment in the lease, as required by IFRS 16, paragraph 94. In particular it should be noted that the payments receivable under the lease, which consist of the sum of minimum payments due by way of principal and interest, are stated net of any provisions and the discounted unguaranteed residual value due to the lessor. These are reconciled with the net investment in the lease, recognized in the balance sheet under financial assets recognized at amortized cost, by subtracting financial profits not accrued and adding the unguaranteed residual value. Non-performing leases acquired are not included.

2.2 Other information

In finance leasing operations, the credit risk associated with the contract is managed in accordance with the principles described in Part E - Information on risks and related hedging policies - Section 2 - Prudential consolidated risk - 1.1. Credit quality in the Notes to the Consolidated Accounts to which reference is made.

Contracts are classified as finance leases based on whether the risks and benefits associated with ownership of the asset in question are transferred to the lessee throughout the duration of the contract, whether the contract itself contains a final option to acquire the asset on terms that would make its failure to exercise such an option uneconomic, and whether the contract has a duration which is basically the same as the economic life of the asset itself. The same may also apply in cases where the contracts do not contain options to buy or have a duration which is significantly shorter than the asset's economic life, but are accompanied by arrangements with third party buyers that guarantee the asset will be bought when the lease expires.

3. Operating leases

The Group currently has no operating leases outstanding.

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ANNEXES

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Consolidated financial statements
Comparison between restated balance sheet and format recommended by Bank of Italy circular no. 262/05, fifth updat

As for Assets, the balance sheet shown in the Review of operations reflects the following restatements:

– 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 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 at fair value with impact taken to comprehensive income" (heading 30), as "Financial assets at amortized cost" (heading 40c) and as "Financial assets recognized at fair value with impact taken to profit and loss" both designated at fair value and classified compulsorily as such (headings 20b and 20c);

– The balance of "Equity investments" includes the equities accounted for as "Financial assets recognized at fair value with impact taken to comprehensive income" (heading 30), the "Equity investments" (heading 70) themselves, and the funds mandatorily recognized at fair value of heading 20c "Financial assets recognized at fair value with impact taken to profit and loss";

– The heading "Customer loans" includes loans and receivables booked as "Financial assets at amortized cost: due from banks and due from customers" (headings 40a and 40b respectively) including those recognized mandatorily at fair value with impact taken to profit and loss booked under heading 20c) net of the "Adjustment of hedging financial assets" (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 at amortized cost: due from banks and due from customers" (headings 40a and 40b);

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As for Liabilities:

– he heading “Funding” includes the “Financial liabilities at amortized cost – a) Due to banks, b) Due to customers and c) Debt securities in issue” different from those amounts booked as “Treasury financial liabilities”, “Other liabilities” and “Financial liabilities designated at fair value” (heading 30);
– The heading “Treasury financial liabilities” includes 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 at amortized cost – a) Due to banks” and “b) Due to customers” (heading 10);
– The heading “Other liabilities” includes the headings 40 “Hedging derivatives”, 60 “Tax liabilities” and 110 “Insurance reserves”, plus the sundry creditor items booked as “Financial liabilities at amortized cost”.

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Balance sheet as at 30 June 2020 - 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	—	3,220.0	—	—	—	—	—	3,220.0
20. Financial assets at fair value with impact taken to profit and loss	8,818.6	—	53.1	50.3	663.3	—	—	9,585.3
a) Financial assets held for trading	*8,818.6*	—	—	—	—	—	—	*8,818.6*
b) Financial assets designated at fair value	—	—	*51.0*	—	—	—	—	*51.0*
c) Other financial assets mandatorily at fair value	—	—	*2.1*	*50.3*	*663.3*	—	—	*715.7*
30. Financial assets at fair value with impact taken to comprehensive income	—	—	3,485.9	—	141.7	—	—	3,627.6
40. Financial assets at amortized cost	—	6,037.0	3,285.5	46,634.8	—	—	—	55,957.3
50. Hedging derivatives	—	—	—	—	—	—	464.7	464.7
60. Adjustment of hedging financial assets (+/-)	—	—	—	—	—	—	—	—
70. Equity investments	—	—	—	—	3,204.7	—	—	3,204.7
80. Reinsured portion of technical reserve	—	—	—	—	—	—	—	—
90. Property, plant and equipments	—	—	—	—	—	495.8	—	495.8
100. Intangible assets	—	—	—	—	—	816.0	—	816.0
110. Tax assets	—	—	—	—	—	—	908.8	908.8
120. Assets classified as held for sale	—	—	—	—	—	—	—	—
130. Other assets	—	—	—	—	—	—	669.5	669.5
Total assets	**8,818.6**	**9,257.0**	**6,824.5**	**46,685.1**	**4,009.7**	**1,311.8**	**2,043.0**	**78,949.7**

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Balance sheet as at 30 June 2020 - 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	54,701.0	3,988.0	—	252.4	—	—	58,941.4
a) Due to banks	*9,998.6*	*2,807.0*	—	*4.7*	—	—	*12,810.3*
b) Due to customers	*24,944.7*	*1,181.1*	—	*247.5*	—	—	*26,373.3*
c) Debt securities in issue	*19,757.7*	—	—	*0.2*	—	—	*19,757.9*
20. Trading financial liabilities	—	—	7,956.9	—	—	—	7,956.9
30. Financial liabilities designated at fair value	216.0	—	—	—	—	—	216.0
40. Hedging derivatives	—	—	—	465.2	—	—	465.2
50. Adjustment of hedging financial liabilities (+/-)	—	—	—	—	—	—	—
60. Tax liabilities	—	—	—	517.3	—	—	517.3
70. Liabilities included in disposal groups classified as held for sale	—	—	—	—	—	—	—
80. Oher liabilities	—	—	—	798.2	—	—	798.2
90. Staff severance indemnity provision	—	—	—	—	27.9	—	27.9
100. Provisions	—	—	—	—	129.5	—	129.5
110. Insurance reserves	—	—	—	157.2	—	—	157.2
120. Revaluation reserves	—	—	—	—	—	374.7	374.7
130. Redeemable shares repayable on demand	—	—	—	—	—	—	—
140. Equity instruments repayable on demand	**—**	**—**	**—**	**—**	**—**	**—**	**—**
150. Reserves	**—**	**—**	**—**	**—**	**—**	**6,265.8**	**6,265.8**
160. Share premium reserve	**—**	**—**	**—**	**—**	**—**	**2,195.6**	**2,195.6**
170. Share capital	**—**	**—**	**—**	**—**	**—**	**443.6**	**443.6**
180. Treasury share (-)	**—**	**—**	**—**	**—**	**—**	**(231.5)**	**(231.5)**
190. Minority interests (+/-)	**—**	**—**	**—**	**—**	**—**	**91.5**	**91.5**
200. Profit/(loss) for the period (+/-)	**—**	**—**	**—**	**—**	**—**	**600.4**	**600.4**
Total liabilities and net equity	**54,917.0**	**3,988.0**	**7,956.9**	**2,190.3**	**157.4**	**9,740.1**	**78,949.7**

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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 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 and considering that the heading includes €18.1m of Banking Book changes in Forex), 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 writeoffs (writebacks) 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;

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- The heading “Gains (losses) on disposal of equity holdings” contains the earnings effects of the Group’s holdings in equity investments stated under headings 250 “Gains (losses) on equity investments” while the effects of securities and funds stated under heading 110 “Net gains (losses) on other financial assets and liabilities recognized mandatorily at fair value” are reclassified under heading “Provisions for other financial assets”;
- The heading “Operating costs” includes amounts booked under heading 190 “Administrative expenses”, net transfers to provisions (heading 200), net adjustments to tangible and intangible assets and other operating income or expenses of heading 230, excluding those amounts reclassified as net fee and commission income;
- The heading “Other income (losses)” contains the non-recurring costs stated under heading 190 “Administrative expenses”, in particular 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 30 June 2020

(€ m)

Profit-and-loss account	Net interest income	Net treasury income	Net fee and commission income	Equity-accounted companies	Operating costs	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	1,941.8	1.1	—	—	—	—	—	1.0	—	—	1,943.9
20. Interest expense and similar charges	(491.3)	(7.6)	—	—	—	—	—	(3.3)	—	—	(502.2)
30. Net interest income	**1,450.5**	**(6.5)**	**—**	**—**	**—**	**—**	**—**	**(2.3)**	**—**	**—**	**1,441.7**
40. Fee and commission income	1.4	12.1	611.8	—	—	—	—	—	—	—	625.3
50. Fee and commission expense	—	(10.8)	(127.8)	—	—	—	—	—	—	—	(138.6)
60. Net fee and commission income	**1.4**	**1.3**	**484.0**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**486.7**
70. Dividends and similar income	—	87.4	—	—	—	—	—	—	—	—	87.4
80. Net trading income	(4.9)	(13.1)	—	—	—	—	—	—	—	—	(18.0)
90. Net hedging income (expense)	(4.8)	—	—	—	—	—	—	—	—	—	(4.8)
100. Gain (loss) on disposal/repurchase	—	64.9	—	—	—	(6.5)	—	—	—	—	58.4
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss	—	2.3	—	—	—	42.4	(11.7)	—	—	—	33.0
120. Total income	**1,442.2**	**136.3**	**484.0**	**—**	**—**	**35.9**	**(11.7)**	**(2.3)**	**—**	**—**	**2,084.4**
130. Net writeoffs (writebacks) for credit risk	—	—	13.6	—	—	(407.1)	(8.8)	—	—	—	(402.3)
140. Gains (losses) from contractual modifications without derecognition	—	—	—	—	—	(0.3)		—	—	—	(0.3)
150. Net income from financial operations	**1,442.2**	**136.3**	**497.6**	**—**	**—**	**(371.5)**	**(20.5)**	**(2.3)**	**—**	**—**	**1,681.8**
160. Premiums earned (net)	—	—	57.5	—	—	—	—	—	—	—	57.5
170. Other income (net) from insurance activities	—	—	(15.8)	—	—	—	—	—	—	—	(15.8)
180. Net profit from financial and insurance activities	**1,442.2**	**136.3**	**539.3**	**—**	**—**	**(371.5)**	**(20.5)**	**(2.3)**	**—**	**—**	**1,723.5**
190. Administrative expenses	—	—	(1.0)	—	(1,167.9)	—	—	(66.5)	—	—	(1,235.4)
200. Net transfers to provisions	—	—	—	—	(3.9)	(3.4)	—	21.0	—	—	13.7
210. Net adjustments to tangible assets	—	—	—	—	(53.6)	—	—	—	—	—	(53.6)
220. Net adjustments to intangible assets	—	—	—	—	(30.2)	—	—	—	—	—	(30.2)
230. Other operating income (expense)	—	—	91.9	—	66.7	—	—	33.6	—	(2.8)	189.4
240. Operating costs	**—**	**—**	**90.9**	**—**	**(1,188.9)**	**(3.4)**	**—**	**(11.9)**	**—**	**(2.8)**	**(1,116.1)**
250. Gain (loss) on equity investments	—	—	—	304.2	—	—	—	—	—	—	304.2
260. Net result from fair value valuation of tangible and intangible assets	—	—	—	—	—	—	—	—	—	—	—
270. Goodwill writeoffs	—	—	—	—	—	—	—	(96.9)	—	—	(96.9)
280. Gain (loss) on disposal of investments	—	—	—	—	—	—	—	0.1	—	—	0.1
290. Profit (loss) on ordinary activity before tax	**1,442.2**	**136.3**	**630.2**	**304.2**	**(1,188.9)**	**(374.9)**	**(20.5)**	**(111.0)**	**—**	**(2.8)**	**814.8**
300. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	(22.4)	(191.0)	—	(213.4)
310. Profit (loss) on ordinary activities after tax	**1,442.2**	**136.3**	**630.2**	**304.2**	**(1,188.9)**	**(374.9)**	**(20.5)**	**(133.4)**	**(191.0)**	**(2.8)**	**601.4**
320. Gain (loss) of ceded operating assets, net of tax	—	—	—	—	—	—	—	—	—	—	—
330. Net profit (loss) for the period	**1,442.2**	**136.3**	**630.2**	**304.2**	**(1,188.9)**	**(374.9)**	**(20.5)**	**(133.4)**	**(191.0)**	**(2.8)**	**601.4**
340. Net profit (loss) for the period attributabe to minorities	—	—	—	—	—	—	—	—	—	(1.0)	(1.0)
350. Net profit (loss) for the period attributable to Mediobanca	**1,442.2**	**136.3**	**630.2**	**304.2**	**(1,188.9)**	**(374.9)**	**(20.5)**	**(133.4)**	**(191.0)**	**(3.8)**	**600.4**

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The definitions of some of the technical terminology and translations used in the Review of Operations and Notes to the Accounts are provided below.

Additional Tier 1 (AT1): Additional Tier 1 capital consists of capital instruments apart from ordinary shares (which are included in common equity (see definition)) which meet the regulatory requirements for inclusion in this level of own funds.

Advisory: Activity performed by a financial intermediary assisting a client in corporate finance transactions, the duties covered by which may range from preparing valuations to drawing up documents and providing general consultancy services regarding the specific transaction.

AIRB Models (Advanced Internal Rating Based): The Basel II Accord stipulates three different methodologies for calculating credit risk: the standard method, the "foundation" internal ratings-based method (FIRB – Foundaton Internal Rating Based), and the "advanced" internal ratings-based method (AIRB – Advanced Internal Rating Based). Using the AIRB method, a bank develops its own internal models with which to estimate the indicators PD (Probability of Default), LGD (Loss-Given Default) and EAD (Exposure At Default) indicators necessary in order to calculate the capital requirement.

ALM – Asset and Liability Management: Integrated management of assets and liabilities to optimize allocation of resources on a risk/return basis.

Alternative Fund, Private Equity and Hedge Fund: Alternative investments comprise a vast range of different forms of investment, including those in private equity and hedge funds:

- Private equity investments: investments in the venture capital of companies, generally unlisted but with high growth potential and the capability to generate cash flows which are constant and stable over time;
- Hedge funds: generic term to refer to funds which use complex and sophisticated strategies to deliver returns which are higher on average than other funds.

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Amortized cost (financial assets measured at amortized cost): this is one of the categories for financial assets and liabilities provided for in IFRS 9 (paragraph 4.1.2). A financial asset is measured at amortized cost when both the following conditions are met:

- The instrument is held according to a business model consisting of collection of the contractual cash flows (Hold to collect, see definition); and
- The contractual terms of the instrument are such that the contractual cash flows represent solely payments of principal and interest.

Asset Under Administration (AUA): Assets under administration represent the market value of the aggregate of securities held by a financial institution received on deposit from its clients and managed on behalf of them. Management of such securities involves their custody, collection of interest/dividends, verifying draws for the attribution of premiums or for capital repayment, arranging repayments on behalf of the clients, and generally checking that all rights pertaining to the securities have been respected. Sums collected must then be credited to the client.

Assets Under Custody (AUC): Assets under custody represent the market value of financial instruments and securities in general (equities, bonds, government securities, shares held in mutual investment funds, etc.) in paper or dematerialized from, held by a financial institution on behalf of clients.

Assets Under Management (AUM): Assets under management constitute the total market value of all funds managed by a financial institution on behalf of its clients or investors, including mutual funds, asset management in funds or securities, insurance products and funds under administration.

Backstop: Indicators used to understand whether the financial instrument has experienced a significant increase in credit risk since the date of initial recognition. For the Mediobanca Group, backstop indicators include the 30-days past due period and the existence of forbearance measures.

Bail-In: Procedure to resolve banking crises via the exclusive and direct involvement of the shareholders, bond holders and current account holders of the bank itself with deposits of over €100,000. Since 2016 and the introduction of the Bank Recovery and Resolution Directive (Directive 2014/59/EU), the

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bail- in procedure has replaced the bail-out procedure whereby banks were rescued solely through use of public funds. The basic principle underpinning the bail- in procedure is that of "no creditor worse off" (NCWO), i.e. no shareholder, current account holder or creditor should incur greater losses than they would have incurred if the institution had been would up under normal insolvency proceedings.

Bank Recovery and Resolution Directive (Directive 2014/59/EU; BRRD): This directive introduces harmonized rules in all EU Countries to prevent and manage crises at credit institutions and investment firms. The BRRD confers on the authorities powers and instruments in order for them to be able to: plan management of the crisis; intervene in good time before the crisis fully occurs; and manage the "resolution" stages in optimal fashion.

Banking book: The banking book consists of proprietary financial assets held for purposes other than short-term trading.

Basel Accords: Guidelines on capital requirements for banks, compiled by the Basel Committee with a view to establishing standard, harmonized regulation of banking supervision at supranational level. The first accord published by the Basel Committee was in 1988, and introduced a set of minimum capital requirements for banks to reduce credit and market risk deriving from the possibility of assets losing their value excessively.

a) Basel II: The short name given to the document entitled International Convergence of Capital Measurement and Capital Standards signed in Basel in 2004 which came into force in 2008.

b) Basel III: This name refers to the new prudential requirements introduced at European level by the CRD IV/CRR package (see definition).

c) Basel IV: New regulatory framework which includes a revision of Basel III provisions and standards; it will enter into force by different stages until 2025.

Benchmark test: a qualitative and quantitative analysis, to be carried out to verify whether the conditions of the SPPI test (see definition) are met, according to paragraph B4.1.9Aff of IFRS9 standard; it regards those financial instruments which show an interest rate mismatch between the duration and the interest rate, thus for them it results a modified remuneration related to the time value

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of money. In order to carry out the benchmark test, an hypothetical instrument is considered (the "benchmark" instrument), identical to the instrument for which the test is carried out apart from the characteristic which modifies the interest rate. Then, it is necessary to compare the undiscounted contractual cash flows of the instrument subject of the analysis with those of the benchmark instrument; the SPPI test is considered not to be met, whether the difference arising is significant.

Beta: Indicator representing the correlation between the expected return on an equity instrument and the overall return on the benchmark market. Beta can show readings which are above zero (positive correlation) or below zero (negative correlation). It is used in the Capital Asset Pricing Model (see definition).

Bid-Ask Spread: Margin between the price at which an intermediary commits to sell stocks ("ask"; letter) and the price at which it commits to buy them ("bid"; cash). On the interbank market this takes the form of the margin between the interest rate at which funds are offered on a given maturity (letter) and the rate at which the funds are requested on the same maturity (cash).

Business Combination: A business combination comprises a set of assets or accounts which jointly may serve for the performance of an economic activity.

Business Model: The business model regards the way in which an entity manages its financial assets in order to generate cash flows (that is, it determines whether the cash flows derive from collection of cash flows stipulated contractually, from the sale of financial assets, or from both). The business model is not defined for individual assets but on the basis of like-for-like portfolios of assets. The classification of financial assets is based on the business model concept. Three types of business model are contemplated: Hold to collect, Hold to collect and sell, and Other.

Capital Absorption: Absorbed capital is the amount of capital which the Group has to hold in order to cover potential losses and which is needed to support its business activities and the positions held. It consists of regulatory capital plus internal capital. Regulatory capital is obtained by multiplying risk- weighted assets by the target Common Equity Tier 1 ratio. Internal capital is obtained from the sum of economic capital estimated internally to cover the Pillar I and Pillar II (see Basel Accords) risks to which the Bank is exposed.

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Capital Asset Pricing Model (CAPM): Mathematical model used to determine the price of a financial asset in view of the relationship between return and risk, as expressed by a single risk factor, namely beta (see definition).

Capital Requirement Directive (CRD): Directives 2006/48/EU and 2006/49/EU, transposed by the Bank of Italy in its circular no. 263/06 as amended, which introduced the decisions taken as part of the Basel III agreements to the European regulatory framework. The CRD IV package in particular supersedes the foregoing Directives, and consists of Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, and Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms, transposed by the Bank of Italy in its circular no. 285 of 17 December 2013 as amended.

Capital Requirement Regulation (CRR): Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms. The regulation was adopted in response to the financial crisis which broke out in 2007, and is intended to reduce the likelihood of financial institutions failing by increasing their equity, reducing their exposure to risk and reducing the financial leverage used by them.

Cash Flow Hedge: One of the types of contract permitted under IAS 39 to neutralize the exposure to changes in future cash flows attributable to particular risks associated with given balance-sheet items.

Cash-Generating Unit (CGU): According to the definition provided in IAS 36, paragraph 6, a cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The notion of CGU is used in the impairment test procedure (see definition).

Certificates: Certificates are financial instruments which in contractual terms are equivalent to derivatives with an option component, and which replicate the performance of an underlying asset. In acquiring a certificate the investor obtains the right to receive a sum linked to the value of the underlying instrument at a given date.

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Collateralized Debt Obligation (CDO): CDOs are fixed-income securities which have a portfolio of bonds, loans and other debt instruments as their collateral.

Collateralized Loan Obligation (CLO): A particular type of CDO (see definition), in which the collateral is made up by receivables.

Commercial Paper: Short-term financing instrument with duration generally of one year or less.

Common Equity: Common equity consists of the highest-quality components of a Bank's capital, such as: ordinary shares in issue, every share premium (for ordinary shares), retained earnings, and every adjustment or prudential filter (see definition) applied to the foregoing categories for regulatory or supervisory purposes.

Common Equity Tier 1 ratio (CET1 Ratio): The CET1 ratio is the ratio of a bank's core equity capital to its total risk-weighted assets or RWAs (see definition).

Compound Annual Growth Rate (CAGR): annual compound growth rate of an investment over a given period of time.

Consob – Commissione Nazionale per le Società e la Borsa: Consob is the public authority responsible for regulating the Italian financial markets. Its main functions include: *i*) checking the transparency and correct behaviour by financial market participants, in order to safeguard confidence in, and the competitiveness of, the financial system, to protect investors, and ensure that financial regulations are complied with; *ii*) exercising supervision to prevent improper conduct from occurring, and when it does, to ensure it is punished appropriately; and exercising the powers vested in it by law to ensure investors receive the necessary information in order to make informed investment decisions; and *iii*) working to guarantee maximum efficiency in trading, ensuring the quality of the prices formed and the efficiency and certainty of the means by which contracts concluded on regulated markets are executed.

Contingency Funding Plan: Set of operating procedures developed internally by a bank in order to manage liquidity crisis (short-term and/or medium-/long- term).

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Corporate Exposures: Class of credit exposures to companies which include also the following categories:

- Exposures to SMEs;
- Leveraged finance (see definition);
- Specialized lending.

Cost/Income Ratio: Operating costs (i.e. labour costs, overheads, administrative expenses and depreciation/amortization) as a percentage of total revenues.

Cost of Risk: Ratio between loan loss provisions (net of any writebacks) and average loans to customers (net of provisions). The ratio constitutes one of the indicators of the risk inherent in the Bank's assets.

Covenants: Covenants are contractual clauses which entitle the lender to renegotiate or revoke credit upon the occurrence of certain events defined in said clauses, the purpose of which being to formalize the undertakings entered into by the lender in terms of management and earnings/financial performance, and at the same time provide an instrument with which to record any differences relative to expectations to be noted.

Covered Bonds: Covered bonds are debt securities covered by assets that, in the event of failure by the issuer, serve to meet the claims of the bond-holders on a priority basis.

COVID-19: – Severe Acute Respiratory Syndrome Coronavirus-2 (SARS-CoV-2) is the name given to the 2019 novel coronavirus. COVID-19 is the name given to the disease associated with the virus. SARS-CoV-2 is a new strain of coronavirus not previously found in human beings. Current evidence suggests that SARS-CoV-2 is spread from person to person: directly, indirectly (via contaminated objects or surfaces) and through close contact with infected persons, in the form of oral and nasal secretions (saliva, respiratory secretions or droplets). To halt the spread of the virus, the free circulation of people has been limited, leading to some economic activities being halted, which has in turn led to an unprecedented economic crisis.

Credit Conversion Factor (CCF): Percentage applied to convert an off-balance-sheet exposure (e.g. a guarantee) into its equivalent balance-sheet amount. This factor is applied in the procedure used to calculate the EAD (see definition).

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Credit Default Swap (CDS): Derivative contract whereby one party (the protection seller) undertakes, in return for payment of an amount of money, to pay another party (the protection buyer) an agreed amount if a given event occurs in relation to the deterioration in the credit of a third counterparty or reference entity.

Credit Risk Mitigation (CRM): Set of techniques, ancillary contracts to credit or other instruments (such as financial assets and guarantees) which enables a reduction in the capital requirements to cover credit risk.

Credit risk stage: Credit risk stage refers to the classification of financial assets valued at FVOCI or at amortized cost, commitments to disburse funds and financial guarantees issued subject to the impairment rules of IFRS 9 according to changes in their credit risk (paragraph 5.5). There are three risk stages:

a) Stage 1 comprises:
   a. Credit exposures originated or acquired;
   b. Exposures with no significant increase in credit risk compared to their initial recognition;
   c. Exposures subject to the low credit risk exemption.
b) Stage 2: significant increase in credit risk compared to initial recognition;
c) Stage 3: impaired exposures.

Crossover Fund: Investment fund holding investments in listed and unlisted companies on regulated markets.

CVA – Credit Value Adjustment: The adjustment of a portfolio's value to incorporate the counterparty credit risk into transaction prices. CVA has been explicitly introduced by the Basel III framework, and is mainly applied to over- the-counter (OTC) derivatives, i.e. derivatives not subject to specific regulations.

Default: The condition, either expected or already occurred, of failing to repay a debt.

Deposit Guarantee Scheme (DGS): The DGS (Directive 2014/49/EU) operate at national level, financed by the national credit institutions, and their principal aim is to ensure repayment of a share of bank deposits. Currently two such schemes operate in Italy: the FITD (see definition) and the FGD *(Fondo di*

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garanzia dei Depositanti del Credito Cooperativo). At EU level the process of implementing the third pillar of the European banking union by introducing a European Deposit Insurance Scheme (EDIS), to which the funds of the various national DGS will be transferred.

Direct Funding (retail): Cash amounts due to customers, resident or otherwise, in respect of sight or term deposits or with notice, current accounts, bonds, certificates of deposits, repos and subordinated liabilities. The definition does not include amounts due to other banks, third-party funds held under administration (received from governments, regions or public institutions), liabilities in respect of bankers' drafts and other securities.

Dividend Discount Model, Excess Capital version: This model is used in order to estimate the intrinsic value of a share based on the sum of its future dividends discounted back to their present value: in this version the dividend flows, taking into account the minimum capital limits set by the regulatory authorities, are discounted back using the cost of own capital *Ke* (calculated according to the *CAPM* method (see definition)) as the discount rate, while the period of time consists of the first years of explicit estimates and the terminal value (calculated via the capitalization at constant perpetual growth rate g).

Discounted Cash Flows Model: alternative valuation method to the Dividend Discount Model (see definition), suitable for companies that do not have to comply with capital requirements, based on the assumption that the value of asset depends on the cash flows generated by the asset itself, their time horizon and risk. In this valuation model too, cash flows are discounted using the Ke rate (determined by to the CAPM methodology, see definition) over a time horizon incorporated by the company into its plans and budgets, and also taking also into account a terminal value obtained by using a constant growth rate "g".

Duration: Duration is a synthetic indicator of the interest rate risk of a bond, as bond prices have an inverse relation to interest rates. It is defined as the average maturity of expected cash flows, weighted by the contribution which the present value of each cash flow makes to the price. Duration is expressed in years.

ECAI: External Credit Assessment Institution, agency in charge of assessing the credit risk whortiness.

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Earnings per share – EPS: the ratio between the net income and the average number of shares outstanding during the period, possibly adjusted for taking into account potential equity instruments such as options and convertible bonds.

Effective Interest Rate: the rate of interest which renders the discounted value of future cash flows deriving from the loan or receivable by way of principal and interest equal to the amount disbursed, including costs/income attributable to the loan. This method of accounting enables the effect of the costs/income to be distributed over the expected outstanding life of the loan.

Embedded Derivative: An embedded derivative is a component of a hybrid security that is embedded in a non-derivative instrument (or "host"), and cannot be stripped out from its host. For an embedded derivative to be defined as such, a portion of the cash flows from the host contract must vary in relation to changes in an external variable (such as an interest rate, credit rating, the price of a commodity, or some other).

EUro Interbank Offered Rate – EURIBOR: it means the short-term interbank rate, calculated on a daily basis, at which the most important banks exchange among them euro-denominated funds.

European Banking Authority (EBA): the EBA is an independent regulatory agency of the European Union set up in 2011 and forming part of the European System of Financial Supervisors (ESFS, a group of authorities and supervisors which since 2008 has constituted the new European micro- and macro- prudential supervisory framework). The EBA has the objective of ensuring an effective and uniform level of regulation and prudential supervision in the European banking sector, thereby ensuring financial stability within the EU and guaranteeing the integrity, efficiency and proper functioning of the banking.

Euro OverNight Index Average (EONIA): Interest rate applied to interbank loans denominated in Euros with a duration of one day (overnight), calculated daily as the weighted average of overnight unsecured lending transactions undertaken by a sample of banks with high credit standing selected on a regular basis by the European Banking Federation.

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Euro Short Term Rate: This rate measures the cost of wholesale unsecured one-day funding for a sample of banks in the Euro area. The rate is calculated based on data collected as part of the Money Market Statistical Reporting (MMSR), introduced in 2016 for all money market transactions carried out by the largest banks in the Euro area.

European Central Bank (ECB): The ECB is the central bank for the European monetary union. Its primary objective is to preserve the purchasing power of the single currency, and so to maintain price stability within the Eurozone. The Single Supervisory Mechanism (SSM, the first pillar in the process of creating European banking union) has also granted the ECB powers of supervision over the largest banks in the Eurozone.

European Securities and Markets Authority (ESMA): ESMA is a European Union institution which is responsible for supervising the functioning of financial markets in Europe, ensuring the stability of the EU financial system and safeguarding its integrity, transparency and proper functioning, and strengthening investor protection.

European Systemic Risk Board (ESRB): European committee for systemic risk which is part of the European System of Financial Supervision. It is tasked with the macro-prudential oversight of the financial system within the European Union and is responsible for preventing and mitigating systemic risks that could originate within the European financial system.

Expected Loss: The expected loss is an estimate of the loss which a bank expects to incur in respect of a position or of a portfolio of assets. This amount, which by definition is predictable, in practice does not constitute a concrete risk for the Bank, and is already considered to be a component of the cost to be debited to the client when the interest rate is finalized in the loan contract.

Expected Shortfall: The expected shortfall represents the expected amount of losses over and above the VaR limit (see definition).

Exposure At Default (EAD): The amount to which the bank is exposed at the point in time upon the default of an obligor.

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Fairness/Legal opinion: it means an opinion, given at request, by professionals of sure and certain competence and professionalism, in order to ensure the correctness of economic conditions and/or of the legitimacy and/or of technical aspects of a certain operation at a certain moment.

Fair Value: Fair value is the price at which an asset (or liability) can be traded (or paid off) in a free transaction between conscious and willing parties.

Fair Value Hedge: Type of hedge provided for by IAS 39 to neutralize exposure to changes in a balance-sheet item's fair value.

FINREP: a document issued by the CEBS (Committee of European Banking Supervisors), a body which provides advisory services to the European Commission on banking regulations. The CEBS also promotes co-operation and convergence of regulatory practices within the European Union. In 2011 the EBA (European Banking Authority – see entry) began to define harmonized supervisory reporting schemes with statistical content. FINREP itself came into force in 2014.

FTA – First Time Adoption: Governed by IFRS 1, FTA refers to entities applying IAS/IFRS for the first time and also in the event of material changes in standards already adopted. With reference to IFRS 9 coming into force, first adopters must provide adequate disclosure of the effects of applying the standard to allow users of financial statements to understand the impact on the entity's financial situation and net equity. First adopters are exempted from providing comparative information.

FVOCI - Fair Value Through Other Comprehensive Income: FVOCI is one of the methods used for classifying financial assets contemplated by IFRS 9 (paragraph 4.1.2A). A financial asset must be recognized at FVOCI when all the following conditions are met:

- The asset is held according to a business model, the objective of which involves both collecting contractual cash flows and selling the financial asset (Hold to collect and sell; see definition); and
- The contractual terms of the asset are such that at given dates, the cash flows consist solely of payments of principal and interest on the principal amount for repayment.

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FVTPL - Fair Value Through Profit and Loss: FVTPL is one of the methods used for classifying financial assets contemplated by IFRS 9 (paragraph 4.1.4). It is a residual category, given that assets are measured as FVTPL only if they do not meet the criteria for being recognized at amortized cost: it is not an instrument which pays only principal and interest and which is held for purposes other than the collection of contractual cash flows (e.g. for trading purposes). This category includes instruments for which the entity has chosen to apply the fair value option (see definition), derivative instruments and those which fail the SPPI test.

Fair Value Option (FVO): A FVO is an option for classifying a financial instrument. By exercising this option a non-derivative instrument or an asset not held for trading purposes may also be recognized at fair value through being recorded in the profit and loss account.

Financial Stability Board (FSB): An international body set up following the G20 London summit in April 2009) to monitor and supervise the global financial system. Its mission is to promote international financial stability through extended co-ordination of national financial authorities and other global standard-setters.

Fondo Interbancario di Tutela dei Depositi (FITD): This is the fund to which Italian banks contribute to guarantee depositors up to the limits provided (€100,000). The Fund intervenes on the Bank of Italy's authorization in cases of insolvency or extraordinary administration; participant banks pay funds in after the crisis has occurred, at the Fund's request.

Forborne Exposures: Forborne exposures are defined as debt contracts in which concessions have been granted to a borrower which is in, or is shortly to find itself in, a situation where it is unable to meet its financial commitments (referred to as "financial difficulties"). This situation may apply to both performing and non-performing contracts.

Foundation Internal Rating Based (FIRB) Models: This is one of the three methods used to calculate credit risk under Basel II. Unlike the AIRB model (see definition), with the FIRB model the Bank only estimates PD internally, and uses regulatory values for the other parameters (LGD and EAD) needed to calculate the capital requirement.

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Forward looking information: According to the new impairment model introduced by IFRS 9, writedowns must be recorded on the basis of expected future losses in value which have not occurred yet. These expectations must incorporate forward-looking information, to anticipate the effects of possible future loss events. The expected loss calculation model applied for the Mediobanca Group considers three possible macroeconomic scenarios (baseline, mild-positive and mild-negative) which impact on PD (see definition) and LGD (see definition), including any sale scenarios where the Group's NPL strategy (see definition) envisages the possibility of recovering the loss through sale on the market.

Funding: Sourcing in various forms of the funds required to perform a corporate activity or particular financial transactions.

Funds Transfer Pricing (FTP): FTP is the rate to which each branch of the Institution resells the gathered funds to the central treasury; mirror-like it can also be the rate to which branches buy funds required to finance their own loans. FTP scheme aims to rebalance the profitability among each branch/area of the institution, rebalancing both funding and loans rates.

Futures: Standardized contracts with which the parties undertake to exchange currencies, securities or assets at an agreed price on a future date. Future contracts are traded on regulated markets, where their execution is guaranteed.

G-SIBs – Global Sistematically Important Banks: These are larger banks which as such are subject to stricter or additional requisites and specific methods of supervision.

Goodwill: Goodwill is defined as the surplus in the purchase price over and above the target company's book value (obtained as the difference between acquired assets and assumed liabilities, both valued at fair value) at the acquisition date. Goodwill is thus the premium which a buyer pays in view of future economic benefits deriving from synergies or intangible assets which cannot be recorded separately.

Governance: Governance is the set of instruments and regulations by which a company is directed and controlled, with an emphasis in particular on the transparency of company documents and deeds and the exhaustiveness of disclosure to investors.

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Grand-fathering: In general terms, grand-fathering refers to any clause in a new regulation that exempts facts or behaviour put in place prior to the said regulation coming into force from application of the new provisions.

Harmonized Mutual Funds: Mutual funds covered by the provisions of Directive 1985/611/EEC as amended, which are open-ended, allow stock units to be offered to the public and have certain limits on investments, one of which is the obligation to invest primarily in listed financial instruments.

Hold to collect: a business model, the objective of which is to hold the financial assets for the purpose of collecting its contractual cash flows. Assets treated according to this model must undergo an SPPI test (see definition), and if they pass it, are recognized at amortized cost (see definition).

Hold to collect and sell: a business model, the objective of which is both to collect contractual cash flows and to sell the instrument. This business model should not be confused with the held for trading model, whereby assets are acquired chiefly for the purpose of selling them in a short period of time. Assets treated according to this model must undergo an SPPI test (see definition), and if they pass it, are recognized at FVOCI (see definition).

IASB – International Accounting Standards Board: an independent body of experts which, as part of the IFRS (International Financial Reporting Standards) Foundation, has since 2001 replaced the IASC (International Accounting Standards Committee) in issuing international accounting standards. The Board is a group of independent experts with an appropriate mix of recent practical experience in setting accounting standards, in preparing, auditing, or using financial reports, and in accounting education.

IFRS 16 Leasing: a lease is defined as a contract under which the lessor grants another party, known as the lessee, the right to use a given asset for a period of time in return for payment of a fee. IFRS 16, which came into force on 1 January 2019 (1 July 2019 for the Mediobanca Group), replaced IAS 17 which had been in force since 2005. The most important aspect which characterizes the new standard is the fact that for purposes of accounting treatment, it does away with the distinction introduced by IAS 17 between finance and operating leases, introducing new concepts such as the right of use over the asset covered by the lease, which enables it to be established as to whether a given contract is a lease or a service. A contract is considered to be or to contain a lease if

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it transfers ownership of the right to control the use of a specific asset, for a period of time established at the outset, in return for an agreed fee, defining the terms and conditions of the asset's usage, and, even if not stated expressly, the maintenance of its efficiency over time.

Impairment: Impairment refers to the loss in value of an asset, recorded when its carrying value exceeds its recoverable amount (i.e. the value that can be obtained by selling or using the asset). IFRS 9 has introduced a forward-looking impairment model (see definition) based on the expected loss in value, as opposed to the current, incurred loss model. The expected losses are estimated at 12 months (stage 1 exposures) or at the end of the instrument's life (stages 2 and 3). The impairment losses booked must therefore reflect not only the objective losses in value recorded at the reporting date, but also the expected losses in value which have not yet been incurred. For exposures belonging to stage 1, the total value adjustments are equal to the expected loss calculated over a time horizon of up to one year. For exposures belonging to stages 2 or 3, the total value adjustments are equal to the expected loss calculated over a time horizon equal to the entire duration of the related exposure.

Impairment test: Test aimed at checking the book value of each financial assets: in case of a permanent reduction in the value, the value of the assets should be reduced (with impact taken to profit and loss). This test should take place once a year both for intangible assets with indefinite life and for goodwill originated by a business combination (see definition); in all other cases, the entity should check, at the end of each reporting date, whether there are evidences of permanent reduction in value.

Indirect Funding: Equities and other value items not issued by the deposit bank but received by it to hold as a deposit under custody, administration or in connection with asset management activity. For purposes of financial reporting, the category consists of: Assets Under Management (see definition); Assets Under Custody; and Assets Under Advice (see definition): i.e. the sum of funds under administration (shares, bonds, mutual funds and government securities) and funds under management (policies, insurances and pension schemes).

Interest Rate Swap (IRS): A contract which falls within the category of derivative contracts, and in particular that of swaps, in which counterparties exchange streams of payments which may or may not be indexed to interest rates calculated based on a notional benchmark capital.

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Internal Capital Adequacy Assessment Process (ICAAP): Pillar II of the Basel Accord (see definition) requires all intermediaries to put in place a process for ongoing assessment of the adequacy of their internal capital (ICAAP). The process must be formalized, documented and approved by the relevant bodies and submitted to internal review on a regular basis.

Internal Dealing: Trades involving the shares of issuers listed in Italy or elsewhere which are executed by "relevant parties" of the issuer itself or by persons closely related to them. The subject is governed by the Italian Banking Act and by CONSOB, with the parties involved being obliged to make disclosure to the market in timely fashion of any purchase or sale of securities in their company.

Internal Liquidity Adequacy Assessment Process (ILAAP): Directive 2013/36/EU stipulates that all intermediaries must put in place sound strategies, policies, processes and systems to identify, measure, manage and monitor liquidity risk, to ensure that adequate liquidity reserves are maintained.

Investment Grade: Term used to refer to counterparties and/or bonds which are highly reliable and have received a medium/high rating (see definition), e.g. not lower than BBB- on the Standard & Poor's scale.

IOSCO – International Organization of Securities Commission: IOSCO is the International body that brings together the world's securities regulators and is recognized as the global standard setter for the securities sector. IOSCO develops, implements and promotes adherence to internationally recognized standards for securities regulation. It works intensively with the G20 and the Financial Stability Board (FSB) on the global regulatory reform agenda.

Joint Venture (JV): Agreement pursuant to which two or more parties, usually companies, undertake to work together to pursue a joint project (industrial or commercial) or decide to jointly leverage their synergies, expertise or capital.

Junior: In a securitization, the junior tranche is the lowest-ranking of all securities issued, and is the first to incur the losses which may crystallize the course of recovering the underlying assets.

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Leveraged Finance: Type of financing which comprises transactions aimed at:

– Acquisitions of unlisted companies sponsored by private equity funds on a no-recourse basis with debt commensurate with future cash flows;
– Acquisitions of companies sponsored by corporates or financial holding companies on a no-recourse basis with a very high risk profile;
– Supporting equity distributions (including in the form of share buybacks) by very high risk borrowers.

London InterBank Offered Rate – LIBOR: reference rate for the interbank market transactions, calculated on a daily basis by the British Bankers' Association, and the rate at which most important English and European banks exchange funds with short term horizon.

Loss-Given Default (LGD): The loss that the lender incurs if the borrower defaults. In order to calculate capital requirements using the internal ratings-based method, the LGD value may be calculated using the approach set by the regulator (the FIRB method) or determined internally by the Bank using its own model (the AIRB model).

Loan To Value Ratio – LTV ratio: obtained as the ratio between the amount lended and the value of the asset which is supposed to be bought with this amount. The LTV Ratio is commonly used by banks as an indicator of credit risk.

Lockdown: this term has come to be associated in particular with the response to the Covid-19 pandemic (see entry) and the measures introduced by governments to contain the spread of the virus and so safeguard the health of their respective populations.

Low credit risk exemption: Pursuant to paragraph 5.5.10ff of IFRS 9, a company can assume that for a certain instrument the credit risk has not experienced a significant increase when this instruments shows, at the reporting date, a low credit risk. This definition is met for Stage 1 exposures, which show a low insolvency risk since they can be qualified as investment grade instruments.

Low value (IFRS 16 definition): Pursuant to paragraph 5 of IFRS 16, it represents one of two cases in which the lessee can choose not to apply the standard provisions. The standard (paragraph B3) indicates 5,000$ (ca. 5,000 Euros) as the presumption for considering an asset of low value.

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Macroeconomic scenario: description of the economic system at aggregate level, which factors in expected projections of material economic indicators.

Markets In Financial Instruments Directive (MiFID): Directive 2004/39/EC (transposed into Italian law under Legislative Decree 164/07) which has the objective of creating a single market for investment services and activities across the EU. It has recently been amended by Directive 2014/65/EU ("MiFID II").

Mark to Market: Valuation used in the futures and options markets, whereby the value of the net position for each operator is established daily on the basis of the most recent market prices.

Maturity: it indicates the reimbursement date or the expiring date of the instrument.

Mezzanine: In a securitization (see definition), the mezzanine tranche is the one with intermediate ranking between the junior and senior tranches.

Minimum Requirement for own funds and Eligible Liabilities (MREL): MREL is a requirement introduced by the BRRD Directive (see definition), the purpose of which is to ensure that the bail-in mechanism (see definition) works smoothly by increasing the Bank's capacity to absorb losses. The MREL indicator is calculated as follows:
(own funds + eligible liabilities) / (total liabilities + own funds).

Moratorium: the term "moratorium" refers to the suspension of the term for meeting an obligation, granted by provision of law, for exceptional reasons. For this reason it also covers the concessions granted in relation to the Covid-19 pandemic at government level under the so-called "Cura Italia" Decree Law issued on 17 March 2020, and the "Decreto Liquidità" issued subsequently, which provides for the terms set for meeting payment obligations to be suspended following the crisis caused by the pandemic. Under the terms of the EBA guidelines (EBA/GL/2020/02), Covid-related moratoria include suspensions of payment obligation deadlines granted by national legislation (which for Italy means the "Cura Italia" and "Liquidità" Decree Laws) and those granted under initiatives promoted by category associations (ABI/

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Assofin in Italy); they do not include voluntary payment relief or private support measure initiatives granted by individual banks.

Net Asset Value (NAV): NAV is the value assigned to a fund's net equity: it is calculated by dividing the value of all assets, securities and liquidity held in the portfolio by the number of stock units in issue. For mutual investment NAV is calculated and disclosed at different intervals: daily for open-ended funds, monthly for closed-end funds.

Non-Performing Loans: Loans for which collection is uncertain both in terms of expiry and amount of the exposure.

NSFR – Net Stable Funding Ratio: The NSFR is defined as the amount of available stable funding (ASF) relative to the amount of required stable funding (RSF). The ASF is defined as the portion of equity and liabilities considered to be reliable over the time horizon considered by the NSFR, i.e. one year. The amount of RSF required for a specific bank depends on its liquidity characteristics and the outstanding maturities of the various on- and off-balance-sheet assets held by it. The ratio must remain at a level of at least 100% on an ongoing basis.

Options: Derivative contracts which include the right, but not the obligation, for the option holder, by paying a premium, to acquire (call option) or sell (put option) a financial instrument at a given price (strike price) by (US-type option) or at (European-type option) a future date.

O-SII- Other Systematically Important Institution: These are institutions that, due to their systemic importance, are more likely to create risks to financial stability.

Outsourcing: Outsourcing is when a given company process and/or corporate function held to be non-core is contracted to a supplier external to the company.

Over-The-Counter (OTC): OTC refers to markets with no contracts or standardized trading methods which are not linked to a series of regulations (admission, controls, disclosure obligations, etc.) such as those regulating official markets.

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Overtime (OVT) and Point in Time (PIT): According to IFRS 15, OVT and PIT are the two possible methods by which a performance obligation (see definition) can be realized. In particular, OVT is when one of these conditions is met:

- The client simultaneously receives and uses the benefits deriving from the entity's performance in the process of its being made;
- The entity's performance creates or enhances the activity (e.g. work in progress) which the client is able to monitor in the process of its being created or enhanced; or
- The activity created by the entity's performance does not have an alternative use, and the entity has the enforceable right to receive payment for the performance completed to date.
  If none of these conditions is met, then the PIT method is applicable.

Past due: This definition includes exposures, other than those classified as non-performing or unlikely to pay, which at the reference date have expired and/or are more than 90 days past due and which exceed a given materiality threshold. This limit is established with reference either to each individual borrower, or for retail exposures only, for each individual transaction.

Payout Ratio: The payout ratio is the percentage of net profit distributed to shareholders in the form of a dividend. This share depends chiefly on the company's need to retain earnings in order to finance its own activities and the returns expected by the shareholders on their investment.

Performance obligation: This is a definition introduced by IFRS 15 which refers to "each promise to transfer to the client:

- A distinct good or service (or a combination of both); or
- A series of distinct goods/services which are substantially similar and which follow the same transfer method to the client".

Performance Shares: In share-based payment schemes, performance shares are shares in the company itself (or the same Group) which are granted to certain categories of staff contingent upon previously defined performance objectives being met.

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Pillar III: Pillar III is a disclosure document come into force with EU Regulation n. 575/2013 (CRR, see definition) which introduces into European Union the bank supervisory rules of Basel Committee (see definition) known as “Basel 3”. This includes both capital adequacy (Pillar I) and disclosure to the public (Pillar III). These disclosures enable market operators to make a more accurate assessment of banks’ capital solidity and exposure to risks.

Plain Vanilla (derivatives): Plain vanilla derivatives are the simplest and least complex form of derivative instrument. The prices of such products depend on the price of their underlying instrument which is listed on regulated markets.

PPA – Purchase Price Allocation: PPA refers to the process of allocating the purchase price of the assets and liabilities of an acquired entity, which must be performed by the acquiring company, within the scope of application for IFRS 3 (Business combinations).

POCI – “Purchased or Originated Credit Impaired”: POCI refers to financial assets that were already credit-impaired when they were purchased or originated. POCI are usually recognized as stage 3 exposures.

Pricing: In the broad sense, the term refers to the means by which the returns on and/or costs of products or services offered by the Bank are determined; in a narrower sense, it refers to the process of establishing the price of a financial asset.

Probability of Default (PD): PD expresses the likelihood of a counterparty being unable to fully repay a loan at its expiry. The probability of the borrower defaulting within one year is estimated and a rating assigned to the counterparty accordingly.

Provisioning (loans): This term refers to transfer to provisions made in order to cover the expected credit loss. In particular:

– if at the reporting date there is no significant increase in the financial asset credit risk since its initial recognition, the corresponding provision should be valued for 12-months expected losses;

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– if at the reporting date there is a significant increase in the financial asset credit risk since its initial recognition, the corresponding provision should be valued for its lifetime expected losses.

Prudential filters: These are adjustments made to accounting items in calculating regulatory capital, with a view to safeguarding the quality of the capital and reducing the potential volatility brought about by application of IAS/IFRS.

Rating: Valuation either formulated by a specialist private agency or determined internally by a specific department, of the credit standing of a given counterparty, distinguished by type of issuer and by financial instrument.

Return On Allocated Capital (ROAC): Ratio between net profit and average capital allocated/absorbed for the period under review. In percentage form it expresses earnings capacity per unit of capital allocated/absorbed.

Return On Equity (ROE): The return on equity is a measure of the profitability of a company's own equity, as expressed through the formula of net profit divided by average net equity for the period (excluding minority interest and dividends proposed and/or paid).

Return on Tangible Equity (ROTE): ROTE is calculated by dividing net profit by average "tangible" net equity (excluding minority interest and dividends proposed and/or paid as well as goodwill and other intangible assets).

Right of Use: According to IFRS 16 (Appendix A) it is defined as "An asset that represents a lessee's right to use an underlying asset for the lease term".

Risk-Weighted Assets (RWAs): Summary of principal risk factors attributable to a given financial asset. The asset's nominal value is "adjusted" in order to express a more accurate measurement of its value. The more risky the asset is, the higher the risk weighting assigned to it (i.e. as the risk increases, so too do RWAs).

Royalty Relief Method: This is a valuation method used for an intangible asset (such as brands or patents), which is based on the assumption that the company that owns the asset does not have to license it from a third party and therefore does not have to pay any royalties. The value of the intangible asset is equal to the net present value of all potentially payable royalties.

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Sale with Recourse: Transfer of a receivable where the selling party guarantees payment for the third party. The selling party thus guarantees both the existence of the receivable and the borrower's solvency to the recipient.

Sale without Recourse: Transfer of a receivable without the selling party offering any guarantee in the event of the borrower not meeting its obligations. Only the existence of the receivable being sold is guaranteed by the selling party to the recipient, and nothing else, not even the borrower's solvency.

*Securitization: S*ecuritization is a financial technique used to raise additional financial resources, which is becoming increasingly common in the economic and financial panorama. Its use as an instrument to raise funding and as an alternative source of income has increased considerably in recent years, in both the private and public sector, becoming one of the principal components of the so-called "shadow" banking system. In the financial crisis referred to above, securitization enabled banks to feed the sub-prime mortgage granting mechanism "without concern".
Technically, securitization of debt is a process whereby one or more financial assets, undivided and illiquid and able to generate cash flows, such as amounts receivable by a bank, are "transformed" into divided, sellable assets, in the form of Asset Backed Securities (ABS).
Depending on the underlying instrument being securitized, we may speak of MBS (mortgage-backed securities, in which mortgages are the underlying), CDOs (collateralized debt obligations, in which public or private bonds are the underlying), or ABCP (asset backed commercial paper, in which short- or very short-term receivables are the underlying).

Senior: In a securitization, the senior tranche is the one which ranks highest in terms of priority of remuneration and repayment.

Sensitivity Analysis: Analysis carried out in order to estimate the changes in a given indicator according to the changes in one or more of the parameters which determine it (interest rates, exchange rates, market prices etc.), in order to establish the relations between the two of them.

Servicer: Intermediary regulated by the Bank of Italy (included in the special register instituted pursuant to Article 107 of the Italian Banking Act; see definition), responsible, under the provisions of Italian Law 130/99, for checking

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that securitizations are compliant with the provisions of the law and the contents of the information prospectus, and for collecting receivables sold and the related cash and payment services.

Significant Increase in Credit Risk – SICR: Pursuant to paragraph 5.5.3ff of IFRS 9 standard, it is necessary to assess at each reporting date whether an instrument has experienced a significant increase in credit risk since the date of initial recognition. This assessment has to take into account qualitative as well as quantitative factors, typical of each facility. The granting of forbearance measures as well as the failing of the 30-days past-due period criterion are considered backstop events. Exposures showing a significant increase in credit risk at the reference date are classified into Stage2.

Short term: according to para. 5 of IFRS 16, it represents one of the two cases when the lessee can decide not to apply the requirements of the principle itself. The lessee can make use of this faculty if the lease has a lease term of 12 months or less.

Significant bank: The EU Regulation n. 1024/2013 (this regulation establishes the Single Supervisory Mechanism, see definition) states three criteria to define whether the financial institution can be considered significant (if even one of this requirements is met):

- Total asset over 30 billions;
- The ratio between total assets and GDP of the EU state in which it resides is more than 20%, unless total assets value is below 5 billions;
- The ratio between total assets/liabilities of the institution and total assets/liabilities of at least another EU state is more than 20%.

A financial institution is also considered to be significant when it has applied for or has received financial aid. Significant Institution are subject to direct supervision of ECB (see definition).

Single Resolution Board (SRB): The SRB is an authority which has been operational since January 2015 with the aim of bringing resolution to banking crises as part of the SRM (see definition) and the European Banking Union. The authority's objective is the effective resolution of banks in difficulty, with

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minimal impact on the real economy and public finances in countries which are member states of the European Union.

Single Resolution Mechanism (SRM): The SRM is the second pillar in the process of European Banking Union. It was established pursuant to Regulation (EU) 806/2014 of 15 July 2014, and consists of two related entities: the Single Resolution Board (SRB, see definition), which is the central authority, and the Single Resolution Fund (or SRF), the supranational fund.

Società di Gestione del Risparmio (SGR): SGRs are limited companies which are authorized to provide collective and individual asset management services jointly. In particular they are authorized to set up mutual investment funds, manage mutual funds (on a proprietary basis or other parties' instructions) and assets held as part of SICAVs, and to provide investment portfolio management services on an individual basis.

Società di Intermediazione Mobiliare (SIM): SIMs are entities which are not banks or regulated financial intermediaries which are authorized to provide investment services as defined in the Italian Finance Act (see definition). SIMs are subject to supervision by the Bank of Italy as far as regards risk management and capital solidity and to regulation by CONSOB on issues of transparency and proper conduct.

Speculative grade: Term used to refer to counterparties and/or bonds with a low rating (see definition), e.g. lower than BBB- on the Standard & Poor's scale; bonds of this type are often referred to as high-yield bonds.

Spline: mathematical function consisting of a series of curve arcs used to interpolate a series of points so that the resulting function is continuous and smooth.

Sponsor: The sponsor of a securitization, unlike the deal's originator, institutes and manages the SPV used to acquire the assets to be securitized from third parties.

Special Purpose Vehicles (SPVs): These are companies set up to pursue specific objectives, such as to ring-fence financial risk or obtain special regulatory or

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tax treatment for different portfolios of financial assets. SPVs do not normally have operating or management structures of their own, but use those of the other stakeholders involved in the transaction.

SPPI (Solely Payments of Principal and Interest) test: The SPPI test is the test required by the new IFRS 9 in order to classify financial instruments according to the business model (see definition) in which they have been categorized by the bank. The test is carried out at the initial recognition stage, and for it to be passed, the contractual cash flows provided for must involve only the regular interest payments and repayment of the principal amount. If the test is failed, the instrument is recognized at FVTPL (see definition).

Spread: The spread is the difference in return, expressed in basis points, between two debt securities: such difference is usually due to the fact that the bonds belong to different rating classes, but also to considerations regarding the risk inherent in the bonds themselves. The comparison may be between debt securities of different sovereign states or issued by the same state but with different maturities, or between bonds issued by companies operating in different sectors.

SREP – Supervisory Review and Evaluation Process: SREP is the regular assessment and measurement of risks at the individual bank level. In SREP decisions, the supervisory authority can require each bank to hold additional capital and/or set qualitative requisites (known as Pillar II). SREP is performed by the Single Supervisory Mechanism, on the basis of the regulations contained in the Capital Requirement Directive (see definition).

Steepener: With reference to interest rates, a Steepener is a phenomenon in which the interest rate curve becomes steeper through a simultaneous decrease in short-term rates and an increase in long-term interest rates.

Stress Test: A stress test is a simulation procedure used to measure the impact of extreme market scenarios on the Bank's total exposure to risk, to allow the Bank's capital adequacy and liquidity profile to be assessed accordingly.

Structured Notes: A structured note is a debt obligation whose return performance is related to one or more embedded derivative components such as stock index, single securities or currency.

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Sublease: According to IFRS 16 (Appendix A) it is "A transaction for which an underlying asset is re-leased by a lessee ('intermediate lessor') to a third party, and the lease ('head lease') between the head lessor and the lessee remains in effect".

Swap: Transaction in which cash flows are exchanged between market operators in accordance with specific contractual provisions. Such contracts may have different underlying instruments, including interest rates (the parties to such interest rates undertake to pay cash flows calculated according to different interest rates, typically one party fixed and the other floating interest rates), exchange rates, inflation and so forth.

Tax Rate: This refers to the effective tax rate, as expressed by the ratio between income tax and profit before tax.

Testo Unico Bancario (TUB): The Italian Banking Act, i.e. Italian Legislative Decree 385/93 as amended.

Testo Unico dell'Intermediazione Finanziaria (TUF): The Italian Finance Act, i.e. Italian Legislative Decree 58/98 (also known as the "Draghi" law) as amended.

Tier 2: Tier 2 capital is the secondary component of bank capital and consists mainly of subordinated liabilities which in turn may be split between Upper Tier 2 (bonds with an original duration of more than ten years which may be used to cover losses deriving from the entity's operations which would make it unable to continue its activities), and Lower Tier 2 (bonds with an original duration of more than five years).

T-LTRO – Targeted Long Term Refinancing Operation: The T-LTRO is a non-conventional monetary policy actions implemented by the ECB (see definition) in order to tackle the financial crisis. Through this action, long-term liquidity is provided to banks.

Total Capital Ratio: A capitalization ratio referring to the aggregate of constituent elements which go to make up Own Funds (Tier 1 and Tier 2). It is expressed by the ratio between total regulatory capital (i.e. Tier 1 + Tier 2 capital consisting of equity instruments other than ordinary shares meeting the regulatory requirements) and the value of RWAs (see definition).

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Total Loss Absorbing Capacity (TLAC): TLAC represents the prudential standard defined by the Financial Stability Board (see definition) in 2015. It serves the same purpose as MREL (see definition), namely, to ensure that the banks involved (G-SIBs) have sufficient securities in issue to be able to absorb losses. The new requirements set the TLAC at 16 percent of RWAs and at 6 percent of leverage exposure by 1 January 2019.

Trading Book: The term "trading book" usually refers to securities or financial instruments in general which go to make up a portfolio of assets for use in trading activities.

Transaction price: Under IFRS 15, the transaction price is "the amount to which the entity deems itself to be entitled in exchange for the transfer of the promised goods or services to the customer, excluding amounts collected on behalf of third parties". IFRS 15 stipulates four elements that can create difficulties in its valuation: variable fees (and limits on them), contractual provision for a significant financial component, non-monetary fees, and fees to be paid to the customer.

Undertakings for Collective Investment in Transferable Securities (UCITS): As defined by the Italian Banking Act, there are two types of UCITS:

- Mutual investment funds, i.e. vehicles which group the financial resources of numerous investors to form a single, indistinguishable equity for investment in financial assets; and
- SICAVs (Società d'Investimento a Capitale Variabile; or investment companies with variable capital), i.e. companies whose sole purpose is to invest their own equity, which is raised by selling their shares to the general public.

UTP, Unlikely to Pay: UTP is one of the categories of impaired or non-performing loans (see definition). These are exposures for which the bank thinks the borrower will be unlikely to be able to fully comply with its contractual obligations without recourse to actions such as the enforcement of collateral.

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Value at Risk (VaR): The Value at Risk is the maximum loss possible on a portfolio as a result of market performance, measured with a given confidence level and over a given time horizon, based on the assumption that the positions require a certain period of time to be sold.

Warrant: A warrant is a tradable instrument that entitles the holder to buy or sell fixed-income securities or shares from or to the instrument's issuer.

Writeoff: A writeoff is an event that entails an item being deleted from the accounts when there is no longer any reasonable expectation of being able to recover the amount receivable. It may refer to the entire amount or only a portion of the receivable. An item may be written off before legal action to recover the amount has been completed, and does not necessarily imply that the company has waived its legal right to recover it.

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