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MEDIOBANCA

Interim Report

for the six months ended 31 December 2020

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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

Interim Report

for the six months ended 31 December 2020

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

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translation from the Italian original which remains the definitive version

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BOARD OF DIRECTORS

			Term expires
	Renato Pagliaro	Chairman	2023
*	Maurizia Angelo Comneno	Deputy Chairman	2023
*	Alberto Nagel	Chief Executive Officer	2023
*	Francesco Saverio Vinci	General Manager	2023
	Virginie Banet	Director	2023
	Maurizio Carfagna	Director	2023
	Laura Cioli	Director	2023
	Maurizio Costa	Director	2023
	Angela Gamba	Director	2023
	Valérie Hortefeux	Director	2023
	Maximo Ibarra	Director	2023
	Alberto Lupoi	Director	2023
	Elisabetta Magistretti	Director	2023
	Vittorio Pignatti Morano	Director	2023
*	Gabriele Villa	Director	2023

* Member of Executive Committee

STATUTORY AUDIT COMMITTEE

Francesco Di Carlo	Chairman	2023
Elena Pagnoni	Standing Auditor	2023
Ambrogio Virgilio	Standing Auditor	2023
Marcella Caradonna	Alternate Auditor	2023
Roberto Moro	Alternate Auditor	2023
Stefano Sarubbi	Alternate Auditor	2023

* * *

Massimo Bertolini	Secretary of the Board of Directors
Emanuele Flappini	Head of company financial reporting

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REVIEW OF OPERATIONS

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REVIEW OF GROUP OPERATIONS

The Mediobanca Group reported a net profit of €410.6m for the six months, three times the amount posted in 2H 2019-20 (€132.8m), the performance only being marginally impacted by the second wave of the Covid-19 pandemic.

The economic and financial system reacted much better to the second wave of Covid-19 infections than the first, with fewer restrictions, in part due to announcements regarding the start of the vaccination campaign. The central banks confirmed their accommodative financing conditions, from which Italy benefited, recording a significant reduction in the BTP-Bund spread (now in the 110 bps area), with the cost of refinancing debt at all-time low levels. Financial markets fully priced in all the positive signals (launch of the vaccination campaign, finalization of the Next Generation EU agreement, signing of the Brexit agreement), which allowed many stock markets to close the year at a gain.

The Group's operations during the second lockdown period benefited from the investments in technology and processes to improve the remote operations with clients. The six months delivered higher than expected new loans, albeit below 2019 levels; indirect funding levels were strong, in line with last year, while the investment banking business delivered its best results in the last five years.

For these reasons, the Group was able to report a particularly good performance in banking activities in the six months under review, with revenues up 4.2% (to €1.2bn), the cost/income ratio declining to 50%, and the cost of risk returning to pre-Covid levels (50 bps). The latter in particular reflects substantial writebacks in corporate lending (primarily for Burgo, with €110m written back for the six months, €84m of which credited to 2Q), and improvement in the risk factors in Consumer Banking (at all-time lows), and also, conversely, a prudent provisioning policy for performing loans (for which the coverage ratio has increased from 1.06% to 1.31% in the space of twelve months). The reduction in net profit year-on-year is entirely due to the reduced contribution from Assicurazioni Generali of €112.5m (31/12/19: €183.3m), as a result of certain non-recurring items taken during the period under review.

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The Group's total revenues for the six months amounted to €1,300.8m (31/12/19: €1,325.2m), reflecting a material improvement on the previous six months (2H 2019-20: €1,187.8m), with an increasing contribution in 2Q (€674.8m vs. €626m in 1Q), including in the banking component (€608m, vs €582m); the main income items performed as follows:

– Net interest income was virtually unchanged, at €720.4m (€721.5m), reflecting the anticipated reduction in net interest income from Consumer Banking (down 5.4%, from €474m to €448.4m), almost entirely offset by the higher contributions from CIB (up 9.1%, from €136.1m to €148.5m) and Holding Functions (where net interest expense reduced from €30.7m to €22.5m), helped by non-recurring items (approx. €8m) and plus the increased recourse to the T-LTRO, which contributed approx. €16m; the cost of funding remained stable at 80 bps, having incorporated the further reduction in interest rates;

– Net fee and commission rose by 16.5%, from €328.5m to €382.8m, due to CIB, which as mentioned posted its best result in the past five years, recording fees of €172.2m, plus an improved contribution from Consumer Banking (up from €57.7m to €66.7m), helped by lower commercial fees credited back to partners; fees in Wealth Management were stable at €160m (€158m), reflecting a higher proportion of recurring fees (which rose from €165m to €177.2m), offsetting the reduction in performance fees (from €12.3m to €4.5m);

– Net treasury income totalled €86.7m, basically in line with last year (€91.5m), but virtually double the performance recorded in 2H 2019-20. The reduced contribution from client activity (down from €58.2m to €32m) already in evidence during the previous six-month period was offset by the growing contribution from the proprietary portfolio, up from €27.3m to €32.8m (€21.2m of which attributable to the Holding Functions division's activities), and from Principal Investing, where income collected from funds and dividends increased threefold (up from €5.3m to €16.5m).

Administrative costs were largely unchanged, at €591.1m: the reduced mobility and increase in working from home enabled some substantial savings (less overtime, major reduction in travel and entertainment expenses) which offset the increase due to IT investments and credit recovery expenses in Consumer Banking, plus the residual development activity (in particular the Affluent commercial network) and the increase in variable compensation payable in investment banking.

Loan loss provisions returned to last year's levels, at €117.7m (€109.5m), with an increase in the level of provisioning. In line with the ECB recommendations,

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special prudential provisioning policies have been adopted, including overlays and reclassifications to Stage 2 for counterparties that have requested moratoria or waivers of covenants. The additional provisions were more than offset by the writebacks to UTP corporate positions returning to performing status (in particular Burgo after the refinancing), plus the improvement in all the risk indicators in retail operations, with Consumer Banking in particular reflecting default and recovery percentages at their lowest ever levels. The Group's cost of risk stands at 50 bps (31/12/19: 48 bps), while for Consumer Banking in particular the cost of risk is 222 bps (190 bps).

The bottom-line result also reflects €33.4m in one-off provisions taken in Consumer Banking (€15m), plus the Group's contribution to the Deposit Guarantee Scheme (€17.9m).

* * *

Total assets increased from €78.9bn to €83.3bn on higher loans to customers (up 5.6%) plus an increase in other financial assets (trading and banking book securities); the main asset and liability headings reflect the following performances:

– Customer loans rose from €46.7bn to €48.1bn, on higher contributions from Corporate and Investment Banking (up 4.7%, from €18.6bn to €19.5bn), and Wealth Management (up 6.4%, from €13.2bn to €14bn, €10.7bn of which in mortgage loans), against a slight reduction in Consumer Banking, to €12.8bn (€13bn);

– Banking book securities grew from €6.8bn to €7.3bn, due to an increase in the government securities component (from €4.7bn to €5.2bn), and offsetting the reduction in net treasury assets (from €6.1bn to €5.7bn) reflecting the reduction in deposits held with the ECB (which decreased from €3.1bn to €1.8bn);

– Funding increased from €54.9bn to €55.9bn, on increased recourse to the T-LTRO programme (from €5.7bn to €6.2bn, €5.5bn of which in relation to T-LTRO III) allied to growth in the Wealth Management division's share of direct funding (up from €23.8bn to €24.6bn) which now accounts for 44% of the Group's total. Debt securities were virtually unchanged at €18.7bn, after new issues totalling €1.4bn which proved to be particularly attractive to the market, and helped contribute to the stability of the cost of funding (which was unchanged at 80 bps).

Total Financial Assets (TFAs) in Wealth Management increased from €63.6bn to €66.6bn, with €1.6bn in Net New Money (NNM) and a positive market effect of

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€1.4bn (thus making up all of the loss incurred to end-March 2020). Deposits rose from €23.8bn to €24.6bn, whereas AUA/AUM totalled €42bn. Growth in AUM/AUA in 6M (up €2.2bn) derives from the Affluent segment (up €1.4bn) and from Private Banking (up €1.2bn), while Asset Management (down €400m) reflects outflows of €1,045m due to institutional clients exiting their investments, partly offset by the launch of new products (adding €411m). TFAs at CheBanca! totalled €29.9bn, 8% higher than at end-June 2020, 47% of which AUA/AUM; whereas in Private Banking TFAs totalled €27.7bn (5% and 69% respectively); while Asset Management manages a total of €19.5bn, €10.5bn of which internally within the Mediobanca Group (4% higher than at the same time last year).

The Common Equity Tier 1 ratio[1] was unchanged at 16.17%, following retained earnings of €125m (adding 25 bps) plus certain regulatory benefits (adding 22 bps, 6 bps of which reflects the new prudential treatment for software, and 16 bps application of the duration method for interest rate risk in order to calculate the market requirement), which together offset the increase in RWAs (up €950m, equal to a reduction of 30 bps) attributable to higher lending volumes (up 3.1%) and the reclassifications in the large corporate portfolio. The CET1 ratio fully loaded without the Danish Compromise, i.e. with the Assicurazioni Generali investment deducted in full (minus 152bps), and with the IFRS 9 FTA effect also fully applied (minus 13bps), stood at 14.51%, in line with the reporting date (14.50%). The total capital ratio increased from 18.82% to 18.98% in the six months (17,69% fully loaded) as a result of the new subordinated bond issue (€250m).

The Group has confirmed its dividend guidance with a payout ratio of 70%, subject to removal of the ECB recommendation in force until 30 September 2020:[2] the dividend proposal for the current financial year will therefore be formulated in good time to be submitted to the approval of shareholders at the Annual General Meeting to be held at end-October 2021.

* * *

The divisional six-month performances were as follows:

– Wealth Management: this division continues to deliver growth driven by ongoing diversification of its asset management offering for Affluent and Private clients. For the six months the division posted increases in both

[1] Calculated in accordance with the most recent updates to the CRR and the Bank of Italy's Circular no. 285, and without application of the additional phase-in measures (or "prudential filters") in order to neutralize the impact of Covid-19 deriving from impairment charges that would be required under IFRS 9 and the change in the valuation reserve for government debt securities.

[2] In its recommendation, the ECB says it does not consider it prudent for credit institutions to make dividends distributions or share buybacks in amounts that exceed 15% of their own cumulated profit for 2019-20 and not higher than 20 basis points of their Common Equity Tier 1 (CET1) ratio, whichever is lower.

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revenues (up 1.1%, to €302.1m) and fee income (up 1.3%, to €160m), despite the anticipated reduction in performance fees (from €12.3m to €4.5m). TFAs returned to end-2019 levels, on a healthy performance in terms of Net New Money (NNM; €1.6bn). A net profit of €46.9m was earned in the six months, at a ROAC of 21%.

– Consumer Banking: this division delivered a net profit of €137.6m for the six months, lower than the €167.2m posted last year, but higher than the figure reported in 2H 2019-20 (€129.4m). New loans in the period totalled €3bn, split equally between the two quarters. The second wave of the pandemic, while managed much more effectively than the first, still meant that the pre-Covid levels could not be matched (new loans at end-2019: €3.9bn), which in turn impacted on net interest income (down 5.4%, from €474m to €448.4m). The cost of risk continues to improve, at 222 bps (versus 247 bps last year), despite the customary prudential margins (the coverage ratio for performing loans increased from 3.17% to 3.35%). Despite the reduction in profitability, exacerbated by one-off provisioning of €15m, Consumer Banking remains the division with the highest ROAC (28%).

– Corporate and Investment Banking: an impressive result in terms of fee income drove 9.9% growth in revenues, from €331.5m to €364.3m; the Burgo exposure returning to performing status enabled net writebacks to be credited for the six months (in an amount of €43.6m), despite taking approx. €50m in prudential provisioning on the loan book. Overall, a net profit of €170.3m was reported, with the ROAC for the division nearing 19%, well above the target set in the 2019-23 Strategic Plan.

– Principal Investing: net profit decreased to €128.4m (31/12/19: €186.9m), as a result of the lower equity-accounted contribution by Assicurazioni Generali of €112.5m (compared with €183.3m last year) due to extraordinary charges taken in 1Q, which was only partly offset by a solid contribution from the other investments (primarily in funds), which totalled €35.7m after distributions and valuations.

– Holding Functions: the net loss reported by this division decreased from €76.5m to €73.1m, with total revenues returning to positive territory at €5.4m as a result of the increased contribution from banking book securities and effective treasury management (liquidity and funding). The bottom line also reflects higher payments made to the resolution funds of €17.9m (€11.4m) and provisioning (loans and securities), up €2.5m.

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The main events to occur during the six months under review were as follows:

– SREP requirements confirmed: [3] the Overall Capital Requirement ("OCR") was confirmed at 11.75%, which, in view of the regulatory changes introduced, [4] translates to a minimum CET1 requirement on a consolidated basis of 7.94%;

– New MREL requirement: the minimum requirement for the Group in terms of equity and liability that can be converted into equity through the bail-in procedure has been set by the Single Resolution Board ("SRB") at 21.85% of RWAs [5] (21.60% last year) and at 5.91% of the leverage ratio (LRE). In quantitative terms the limit is also slightly lower than last year, at €9.1bn (€9.5bn), thus increasing the capital buffer (to over €8bn);

– Placement of two bonds on the institutional market: the first, a senior preferred green bond in an amount of €500m (seven-year duration, fixed rate 1%) to finance projects meeting the Green and Sustainable Bond Framework requirements; the second, a subordinated tier 2 bond for €250m (ten-year duration and callable after five years, fixed rate 2.3%) to support the Group's capital requirements. Both issues attracted demand well in excess of the amount allocated and reflecting significant geographical diversification, with more than 60% distributed to non-Italian investors;

– The merger of Futuro into Compass Banca, effective in legal terms as from 1 November 2020 and in accounting terms from 1 July 2020;

– The ruling by the Court of Milan, on 3 November 2020, to uphold the case brought against Compass Banca and Futuro by an Italian consumers' association, extending the effects of the Lexitor ruling [6] (on repayment of upfront costs) to include clients that repaid loans early before the Bank of Italy's letter to the market on 5 December 2019. As a result of this ruling, Compass has published a notice on its own website and in four daily Italian newspapers informing all customers of their rights, and a separate written notice has also been sent to customers;

– On 4 December 2020, the Chair of the ECB's Supervisory Board wrote a letter to all Significant Institutions, to provide them with additional guidelines on credit risk management in the context of the coronavirus pandemic. While on

[3] In view of the current crisis scenario, and in line with the statement issued by the European Banking Authority (EBA) on 22 April 2020 ("EBA statement on additional supervisory measures in the Covid-19 pandemic"), the ECB has adopted a simplified SREP cycle for 2020, confirming the prudential capital requirements set in the 2019 SREP.

[4] As from 30 June 2020, with application of Article 105 of the CRD V being brought forward, 75% of the additional Pillar 2 Requirement of 1.25% must be met by CET1 instruments. This calculation does not include the counter-cyclical capital buffer and the P2 Guidance.

[5] The requirement includes the combined buffer requirement (CBR).

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

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the one hand the ECB is seeking to mitigate excessive pro-cyclicality, on the other it highlights the need for the risks to be accurately reflected in the internal management processes and financial and regulatory processes of banks. The guidance on identification of forborne or unlikely to pay items have already been incorporated by the Mediobanca Group in its Annual Report for the twelve months ended 30 June 2020. Against this backdrop, the provisioning levels at end-December 2020 have been increased, as a result of intervention in three different areas: 1) fine-tuning of the models (increase in the risk parameters and removal of spline function) and conservative macroeconomic scenario (the unemployment rate in particular); 2) positions for which moratoria or waivers have been conceded or borrowers operating in the sectors most affected by the pandemic have rigorously been classified as Stage 2; 3) targeted overlays have been adopted for the large corporate portfolio;

– On the back of the good results achieved in recent years, the Burgo group debt restructuring plan under Article 67 of the Italian Bankruptcy Law was completed in October 2020: the plan includes the entry of a new institutional investor (the QuattroR fund) and the entire existing debt, senior and convertible, being refinanced. Despite maintaining a provisioning profile for the overall exposure, a total of some €105m has been released to profit and loss as a result of the restructuring.

* * *

Developments on capital markets

The first six months of the financial year have seen a satisfactory performance on financial markets, coupled with weaker growth due to the second wave of the Covid-19 pandemic. The seasonal acceleration in economic activity after the summer triggered a rapid increase in the number of positive cases. The lockdown and social distancing measures imposed as a result weakened the economic momentum that had accumulated at the end of the summer.

The spread of the virus had the effect of desynchronizing economic cycles, impacting heavily on the relative performance of the large economic areas. China led the Asian countries into the recovery phase at the end of the summer, while the European continent has been impacted by the second wave starting from the autumn, and the US economy suffered from the pandemic and the gradual reduction in public support to households income throughout the second half of the calendar year.

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Over the period, international financial markets have drawn benefit from the announcement of vaccines against Covid-19, governments' commitment to support economic activity, and renewed pledges by monetary authorities to maintain accommodative financial conditions until such time as inflationary pressure should become robust. On this latter point in particular, it is worth noting the radical change by the Federal Reserve in managing the inflation expectations of households, firms, and financial markets. In the new framework, the inflation target is not a level (currently 2% YoY) but an average of recent past levels, and full employment does not refer to a given unemployment rate but to the employment level beyond which inflation pressure would undermine price stability. With these changes, the central bank has allowed sizeable, if temporary, deviations from the inflation target in terms of expectations to be maintained, and, in so doing, the effectiveness of the other, currently accommodative policy measures to be compounded.

This material change, together with the possibility of the ECB moving along the same lines and the host of other expansionary measures, ignited a positive trend in equity markets over the six months (the MSCI World staged a 22% increase, S&P rose by 21.1%, Eurostoxx 600 was up 10.7% and FTSEMIB up 14.7%), leading to a full or significant recovery from the nadir reached in March 2020 (for the full year the MSCI World climbed 14.1%, S&P was up 16.3% and Eurostoxx 600 down 4.0%, while the FTSE MIB was down 5.4%),

The Democratic party candidate's victory in the US elections race late in 2020, allied with the prospects of a large stimulus package, have pushed long-term inflation expectations to 2.2% (the 22 bps inflation rise priced into the 10Y zero coupon swap since November compares with an overall rise of 58 bps in the six months), and crystallized those of consumers at 2.5% (as recorded in the University of Michigan survey).

USD weakness continued over the period, with the trade-weighted index down 7.6%, as did the downward trending volatility for the leading equity indexes and the appreciation of credit risk assets (US CDX High Yield rose by 10.6% over the period, returning to pre-Covid-19 levels, while the European CDS iTraxx Crossover started at 396 bps and ended up at around 250 bps, some 40 bps above its pre-Covid-19 level).

In Europe, one of the most important developments was obviously the conclusion of the United Kingdom's exit from the European Union (EU). The agreement, reached at the year-end and applied on a temporary basis, will be ratified by the European Parliament in the first months of 2021. Overall, the

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agreement safeguards some benefits of the pre-existing bilateral trade, mostly related to goods, strongly reduces the exchange of services, and refers financial regulation issues to a Memorandum of Understanding to be finalized by 31 March 2021. An agreement on disputes settlement protects the EU from distortions in terms of competition that access to the European market and administrative divergence could generate over time.

Ratification of the Next Generation EU (NGEU) plan at the start of the half-year, the prospects of government risk sharing at a supranational level via the Support to mitigate Unemployment Risks in an Emergency (SURE) bond issuance programme, and the commitment to continue the process of European Union integration have attracted the interest of investors generally cautious in taking exposures to European risk. The main beneficiaries of this development have been public sector issuers from Southern Europe.

In this scenario, Italy's credit risk has also benefited from the high liquidity of the domestic government bond market, the attractiveness of the yield to be earned there, and the likely alignment of economic policy actions with the scheme required by the European institutions. The BTP-Bund spread fell over the period from around 170 bps to around 110 bps, recovering some 30 bps relative to the Spanish and Portuguese spreads.

The banking sector, the cornerstone of the ECB's monetary policy action throughout the Eurozone, also benefited from the additional subsidies to credit supply introduced in the latest version of the third Targeted Long Term Refinancing Operations program (T-LTRO III).

Overall, the level of economic activity in Italy, as in other economies, still depends very much on public intervention introduced to combat Covid-19. For Italy, the principal measures adopted have resulted in a €111.3bn increase in public debt for 2020 (6.6% of GDP), and are expected to increase it by another €31.3bn in 2021 (1.8% of expected GDP), and another €35.5bn for 2022 (1.9% of expected GDP). According to official estimates, the debt-to-GDP ratio would rise to 158% in 2020 and fall to 151.5% by 2023. Uncertainty over GDP growth forecasts remains high in Italy, and justifies the prudential nature of the scenario adopted as the basis for the Mediobanca 2019-23 Strategic Plan (GDP to decrease by 11.6% in 2020 and grow by 1.2% in 2021).

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Coming now to the CIB division's reference geographical markets (Italy, Spain/Portugal and France), the M&A market reflects an aggregate deal value which is twice that seen in the first six months of 2020 and 40% higher than the last half of 2019; ECM too shows a similar trend (up 116% and 31% respectively). By contrast, the debt market slowed, with DCM posting reductions of 40% and 20%, and EMEA syndicated loans of 23% and 8%.

In M&A, more than thirty deals were completed in the six months. By industry, the following sectors' contributions were notable: FIG, 11 deals (including the Intesa Sanpaolo-UBI Banca merger, and the acquisition of the Intesa Sanpaolo merchant acquiring business by Nexi); TMT, three deals (including Ardian's investment in Inwit and Exor's acquisition of GEDI); real estate, two deals (including the club deal for the properties located in Via Turati); and energy, three deals (including Mediobanca acting as financial advisor to Veolia in the acquisition of its stake in Suez). The merger between PSA and FCA was also completed. Coverage of the mid corporate segment remained stable, with some of the main deals closed including the sales of Arrigoni to Armonia and of Cantiere del Pardo to Wise Equity, plus the disposal of Poligof by Invesco.

In capital markets, Mediobanca has lead-managed more than thirty placements, taking a key role in the largest Italian domestic transactions. The Bank was Sole Global Co-ordinator and Joint Bookrunner in the BPER capital increase, and Joint Global Co-ordinator, Bookrunner and Sponsor in the GVS IPO. In all markets covered (Italy, France, Spain/Portugal and the United Kingdom), Mediobanca also took leading roles in several bond issues, some of the main ones being those by Unipol, FCA Bank, BPCE, SO.FI.MA, Inwit, SNAM, Veolia, Cellnex and Virgin Media.

* * *

The Italian consumer credit market reflects the national emergency situation, in which household spending on durables, the main target for consumer credit, has reduced drastically; consumer confidence has collapsed to the lowest levels recorded since December 2013, and households' disposable income has shrunk markedly. New loans disbursed in 2020 totalled just €51.6bn, down more than one-fifth compared to 2019. There were signs of recovery in the third quarter, albeit on lower volumes than the previous year (down 12%), with the latter trend becoming more pronounced in conjunction with the second wave of the

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Coronavirus in the autumn (volumes down 15.1%). The segment hardest hit by the pandemic was personal loans (down 33.6%), followed by instalment/option credit cards (down (13.6%); the reductions posted in special purpose loans and salary-backed finance were less marked, down 12% and 8.7% respectively, as their target clients are less exposed to the reduction in disposable income.

	2016		2017		2018		2019		2020	
	(€m)	%	(€m)	%	(€m)	%	(€m)	%	(€m)	%
Vehicle credit	13,687	22,6	8,619	14,7	5,861	9,8	6,371	9,7	5,581	10,8
Personal loans	20,137	33,2	22,441	38,2	24,499	41,1	26,123	39,6	17,351	33,6
Specific purpose loans	4,075	6,7	3,782	6,4	4,778	8.0	5,363	8,1	4,717	9,1
Credit cards	17,472	28,8	18,759	32	19,064	32.0	22,238	33,7	18,620	36,1
Salary-backed finance	5,221	8,6	5,103	8,7	5,339	9.0	5,801	8,8	5,296	10,3
	60,592	100.0	58,705	100.0	59,541	100.0	65,896	100.0	51,566	100.0

The Italian real estate sector also showed a clear slowdown: in the first nine months of 2020 there were 374,000 new sales, down 13.9% on the same period last year. The mortgage lending market for purchases by households was helped by subrogations, and still reflects new loans of €35bn, an increase of over 4%.

The Italian leasing market in 2020 reflects a 23% reduction, with 537,000 new leases executed, and a total value of €22.9bn financed (down 18%). The pandemic situation merely compounded the reduction recorded in 2019 (down 3%).

	2018		2019		2020	
New loans	(€m)	%	(€m)	%	(€m)	%
Automotive	15,722	52.8	14,132	50.6	11,775	51.4
Plant and equipment	9,426	31.7	9,426	33.7	7,762	33.9
Property	4,110	13.8	3,805	13.6	2,720	11.9
Shipping	516	1.7	579	2.1	631	2.8
	29,774	100.0	27,942	100.0	22,888	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)

	6 mths ended 31 December 2019	12 mths ended 30 June 2020	6 mths ended 31 December 2020	Chg. (%)
Profit-and-loss data				
Net interest income	721.5	1,442.2	720.4	-0.2
Net treasury income	91.5	136.3	86.7	-5.2
Net fee and commission income	328.5	630.2	382.8	16.5
Equity-accounted companies	183.7	304.3	110.9	-39.6
Total income	**1,325.2**	**2,513.0**	**1,300.8**	**-1.8**
Labour costs	(303.5)	(599.3)	(305.0)	0.5
Administrative expenses	(287.6)	(589.6)	(286.1)	-0.5
Operating costs	**(591.1)**	**(1,188.9)**	**(591.1)**	**n.m.**
Loan loss provisions	(109.5)	(374.9)	(117.7)	7.5
Provisions for other financial assets	8.7	(20.5)	13.1	50.6
Other income (losses)	(15.8)	(133.4)	(33.4)	n.m.
Profit before tax	**617.5**	**795.3**	**571.7**	**-7.4**
Income tax for the period	(146.1)	(191.1)	(158.9)	8.8
Minority interest	(3.8)	(3.8)	(2.2)	-42.1
Net profit	**467.6**	**600.4**	**410.6**	**-12.2**
Net profit adjusted *	**467.6**	**665.5**	**410.6**	**-12.2**
Gross operating profit from banking activities	441.3	640.7	470.2	6.5

* Adjusted net profit as at 30 June 2020 does not include the RAM impairment charge (net effect €65.1m).

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CONSOLIDATED BALANCE SHEET

(€m)

	31/12/19	30/6/20	31/12/20
Assets			
Financial assets held for trading	12,526.8	8,818.6	11,559.7
Treasury financial assets and cash	9,089.3	9,257.0	8,676.8
Banking book securities	6,774.9	6,824.5	7,282.5
Customer loans	46,250.4	46,685.1	48,127.8
Equity Investments	4,608.4	4,009.7	4,505.1
Tangible and intangible assets	1,405.8	1,311.8	1,307.7
Other assets	1,803.5	2,043.0	1,875.5
Total assets	**82,459.1**	**78,949.7**	**83,335.1**
Liabilities and net equity			
Funding	52,093.5	54,917.0	55,943.6
Treasury financial liabilities	7,429.2	3,988.0	4,910.9
Financial liabilities held for trading	10,331.1	7,956.9	9,649.9
Other liabilities	2,097.2	2,190.3	2,086.9
Provisions	166.0	157.4	174.4
Net equity	9,782.8	9,048.2	10,066.1
Minority interests	91.7	91.5	92.7
Profit for the period	467.6	600.4	410.6
Total liabilities and net equity	**82,459.1**	**78,949.7**	**83,335.1**
Tier 1 capital	*6,660.5*	*7,745.0*	*7,872.3*
Regulatory capital	*8,072.8*	*9,041.1*	*9,240.8*
Risk-weighted assets	*47,089.2*	*48,030.5*	*48,693.9*
Tier 1 capital/risk-weightes assets	*14.14%*	*16.13%*	*16.17%*
Regulatory capita/risk-weighted assets	*17.14%*	*18.82%*	*18.98%*
No. of shares in issue (million)	*887.2*	*887.2*	*887.2*

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

(€m)

6 mths ended 31/12/20	Wealth Management	Consumer Banking	Corporate and Investment Banking	Principal Investing	Holding Functions	Group
Profit-and-loss						
Net interest income	137.0	448.4	148.5	(3.5)	(22.5)	720.4
Net treasury income	5.1	—	43.6	16.5	21.2	86.7
Net fee and commission income	160.0	66.7	172.2	—	6.7	382.8
Equity-accounted companies	—	—	—	110.9	—	110.9
Total income	**302.1**	**515.1**	**364.3**	**123.9**	**5.4**	**1.300.8**
Labour costs	(115.9)	(48.0)	(80.2)	(1.6)	(59.3)	(305.0)
Administrative expenses	(108.0)	(102.6)	(67.4)	(0.5)	(18.2)	(286.1)
Operating costs	**(223.9)**	**(150.6)**	**(147.6)**	**(2.1)**	**(77.5)**	**(591.1)**
Loan loss provisions	(11.8)	(143.5)	43.6	—	(6.0)	(117.7)
Provisions for other financial assets	1.5	(0.4)	1.0	19.2	(8.0)	13.1
Other income (losses)	—	(15.0)	(0.5)	—	(17.9)	(33.4)
Profit before tax	**67.9**	**205.6**	**260.8**	**141.0**	**(104.0)**	**571.7**
Income tax for the period	(21.0)	(68.0)	(89.4)	(12.6)	32.0	(158.9)
Risultato di pertinenza di terzi	—	—	(1.1)	—	(1.1)	(2.2)
Net profit	**46.9**	**137.6**	**170.3**	**128.4**	**(73.1)**	**410.6**
Cost/Income (%)	*74.1*	*29.2*	*40.5*	*n.m.*	*n.m.*	*45.4*
Balance-sheet data						
Loans and advances to customers	14,029.0	12,776.8	19,522.4	—	1,799.6	48,127.8
Risk-weighted assets	5,038.0	11,541.5	20,689.9	8,259.0	3,165.5	48,693.9
No. of staff	2,023	1,454	616	11	799	4.903

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 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 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. 54.

2 Sum of divisional data differs from Group total due to adjustments/differences arising on consolidation between business areas (equal to €0.5m).

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(€m)

6 mths ended 31/12/19	Wealth Management	Consumer Banking	Corporate and Investment Banking	Principal Investing	Holding Functions	Group
Profit-and-loss						
Net interest income	138.1	474.0	136.1	(3.5)	(30.7)	721.5
Net treasury income	2.8	—	73.5	5.3	12.1	91.5
Net fee and commission income	158.0	57.7	121.9	—	7.2	328.5
Equity-accounted companies	—	—	—	183.7	—	183.7
Total income	**298.9**	**531.7**	**331.5**	**185.5**	**(11.4)**	**1,325.2**
Labour costs	(118.4)	(50.0)	(75.6)	(1.7)	(57.7)	(303.5)
Administrative expenses	(106.3)	(99.6)	(68.1)	(0.5)	(22.3)	(287.6)
Operating costs	**(224.7)**	**(149.6)**	**(143.7)**	**(2.2)**	**(80.0)**	**(591.1)**
Loan loss provisions	(7.7)	(128.0)	30.0	—	(3.8)	(109.5)
Provisions for other financial assets	0.6	—	(0.3)	8.3	(0.1)	8.7
Other income (losses)	1.8	(4.7)	—	—	(11.8)	(15.8)
Profit before tax	**68.9**	**249.4**	**217.5**	**191.6**	**(107.1)**	**617.5**
Income tax for the period	(20.0)	(82.2)	(71.5)	(4.7)	31.9	(146.1)
Risultato di pertinenza di terzi	(0.7)	—	(1.9)	—	(1.3)	(3.8)
Net profit	**48.2**	**167.2**	**144.1**	**186.9**	**(76.5)**	**467.6**
Cost/Income (%)	*75.2*	*28.1*	*43.3*	*n.m.*	*n.m.*	*44.6*
Balance-sheet data						
Loans and advances to customers	12,627.5	13,698.4	18,041.4	—	1,883.1	46,250.4
Risk-weighted assets	4,692.2	12,936.9	20,332.7	5,746.3	3,381.1	47,089.2
No. of staff	1,963	1,432	633	11	807	4,846

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Balance sheet

The Group's total assets increased by 5.6% from €78.9bn to €83.3bn. The main balance-sheet items, of which Mediobanca S.p.A. contributes 54.5%, showed the following trends for the six months under review (comparative data as at 30 June 2020).

Funding – funding rose by 1.9%, from €54.9bn to €55.9bn, due in particular to increased recourse to the T-LTRO programme (from €5.7bn to €6.2bn, €5.5bn of which in relation to T-LTRO III) allied to growth in retail deposits (up from €15.3bn to €16bn). Debt securities were virtually unchanged at €18.7bn, after new issues totalling €1.4bn, €250m of which for the subordinated tier 2 bond, and €500m regarding Mediobanca's first green issue, offsetting €1bn in redemptions and €340m in net buybacks on the market. Direct funding attributable to the Wealth Management division (Affluent and Private deposits) accounted for 44% of the Group's funding, contributing to the stability of the average cost of funding which was around 80 bps.

	30/6/20		31/12/20		Chg.
	(€m)	%	(€m)	%	
Debt securities (incl. ABS)	18,751.0	34%	18,706.2	33%	-0.2%
CheBanca! retail funding	15,276.7	28%	15,983.2	29%	4.6%
Private Banking deposits	8,530.7	16%	8,642.2	15%	1.3%
LTRO	5,660.8	10%	6,165.1	11%	8.9%
Interbank funding (+CD/CP)	6,697.8	12%	6,446.9	12%	-3.7%
Total funding	**54,917.0**	**100%**	**55,943.6**	**100%**	**1.9%**

Loans and advances to customers – customer loans were up 3.1%, from €46.7bn to €48.1bn, on a higher contribution from CIB (up 4.7%, from €18.6bn to €19.5bn), reflecting increased volumes in both Wholesale Banking (up from €16.5bn to €16.8bn) and Specialty Finance (up from €2.1bn to €2.7bn). Customer loans increased in Wealth Management, too (up 6.4%, from €13.2bn to €14bn), in both components: CheBanca! mortgages (up 4.5%, from €10.2bn to €10.7bn), and CMB Monaco customer loans (up 14.4%, from €1.8bn to €2.1bn). In contrast, there was a slight reduction in lending in Consumer Banking, to €12.8bn (€13bn).

In the six months under review, new loans in Wholesale Banking returned to the level seen last year (€3.1bn), while turnover in factoring rose from €4.1bn to €4.4bn. Conversely, there were reductions in mortgage lending (down 15%, to €1.1bn) and Consumer Banking (down 24%, to €3bn), although the comparative data at end-December 2019 reflected all-time high levels (€1.3bn and €3.9bn respectively).

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	30/6/20		31/12/20		Chg.
	(€m)	%	(€m)	%	
Corporate & Investment Banking	18,644.2	40%	19,522.4	41%	4.7%
Consumer loans	13,037.4	28%	12,776.8	26%	-2.0%
Wealth Management	13,183.6	28%	14,029.0	29%	6.4%
Holding Functions (leasing)	1,819.9	4%	1,799.6	4%	-1.1%
Total loans and advances to customers	**46,685.1**	**100%**	**48,127.8**	**100%**	**3.1%**

(€m)

	31/12/20			
	Stage 1	Stage 2	Stage 3	Total
Corporate & Investment Banking	18,208.7	829.3	484.4	19,522.4
Consumer Banking	11,226.5	1,254.5	295.8	12,776.8
Wealth Management	13,049.0	869.3	110.7	14,029.0
Holding Functions (leasing)	1,489.7	211.1	98.8	1,799.6
Total loans and advances to customers	**43,973.9**	**3,164.2**	**989.7**	**48,127.8**
As % of total	**91.3%**	**6.6%**	**2.1%**	**100.0%**

	30/6/20		31/12/20	
	(€m)	Coverage ratio %	(€m)	Coverage ratio %
Corporate Investment Banking	316.4	41.6%	104.1	55.0%
Consumer Banking	324.2	68.1%	295.8	71.5%
Wealth Management	114.7	45.9%	110.7	48.8%
Holding Functions (leasing)	118.9	35.8%	98.8	39.5%
Total net non-performing loans*	**874.2**	**55.3%**	**609.4**	**63.1%**
- of which: bad loans	78.4		83.0	
As % of total loans and advances	**1.9%**		**1.3%**	
As % of gross total loans and advances	**4.1%**		**3.3%**	

* Excluding NPLs purchased by MBCredit Solutions.

Gross non-performing loans (NPLs) [7] decreased from €1,954.2m to €1,653m, or just 3.3% of the total loan book, a material reduction compared to end-June 2020 (4.1%) [8] and near to the lowest levels ever recorded by the Group. This marked improvement reflects the Group's highest non-performing exposure (Burgo) returning to performing status, which takes corporate NPLs to just 1.2% of total loans, against an extremely low default flow in Consumer Banking, near

[7] 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.

[8] The Finrep gross NPL ratio (calculated without acquired NPLs) remains unchanged at 2.9%; for further details please see Part E of the Notes to the Accounts.

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pre-Covid levels. The reduction in net NPLs is even more pronounced, down from €874.2m to €609.4m, and from 1.3% of total loans to 1.9%), due to an increase in the coverage ratio (from 55.3% to 63.1%) with a view to addressing the possible future effects of the pandemic. Net bad debts continue to reflect extremely low levels, at €83m (€78.4m, or just 0.17% of the total loan book), with the coverage ratio once again increasing (82.5% against 81.6%). Non-performing loans do not include the NPLs acquired by MBCredit Solutions as part of its business, which increased in the six months from €358.6m to €380.2m, following new investments totalling approx. €43m (with a nominal amount of €380.7m).

In view of the ECB recommendations on the treatment for credit risk[9] the performing portfolio has been subject to careful analysis, and borrowers in particular who have applied for waivers or obtained moratoria, in order to assess whether or not there has been a significant increase in credit risk (SICR) on the basis inter alia of qualitative considerations. Accordingly, positions classified in Stage2 increased from €3,031.7m to €3,164.2m, despite remaining at low levels (just 6.6% of the total loan book), taking account of the fact that the Consumer Banking contribution decreased from €1,430.3m to €1,254.5m after the moratoria had virtually been wiped out. Thus the coverage ratio for the Group's total performing loan book increased from 1.25% to 1.31%, in Consumer Banking in particular (up from 3.2% to 3.4%).

(€m)

Moratoria (Gross book value)	**Granted until 31/12/20**	**Expired [1]**	**Residual until 31/12/20**	**% Loans and advances to customers [2]**	**of which Stage1**	**of which loans for which concessions have been granted in conformity with EBA Guidelines [3]**
Corporate and Investment Banking	5.6	0.1	5.5	0.0%	5.2	5.5
Consumer Banking	1,281.0	1,154.1	126.9	0.9%	10.8	56.1
Wealth Management	663.1	194.3	468.8	3.3%	219.6	364.6
Leasing (holding function)	724.4	137.9	586.6	31.2%	402.0	502.8
Total Moratoria for Covid-19	**2,674.1**	**1,486.4**	**1,187.7**	**2.4%**	**637.7**	**929.0**
- of which Decreto Cura Italia	*45.1%*		*78.6%*			
- of which industry-wide initiatives	*35.3%*		*9.6%*			
- of which individual initiative [4]	*19.7%*		*11.8%*			

[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 31 December 2020.

[3] Moratoria granted under law and initiatives promoted by the category associations in accordance with the EBA guidelines (EBA/GL/2020/02 and following), which guarantee continuity of classification and in particular staging.

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

[9] In accordance with the recommendations made in ECB letter (SSM-2020-0744) " Identification and measurement of credit risk in the context of the coronavirus (Covid-19) pandemic" sent on 4 December 2020 to the CEOs of all significant institutions.

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As at 31 December 2020, moratoria outstanding [10] involved loans in a total amount of €1.2bn (or 2.4% of the total loan book), much lower than the amount granted since the start of the pandemic (€2.7bn, to over 148,000 clients). The remainder is concentrated in mortgage lending and leasing operations, with the majority of the beneficiaries in Consumer Banking having resumed regular repayments (the total involved having been cut from €1.3bn to just under €130m):

- Moratoria granted for mortgages totalled €661.7m, following repayments totalling €194.3m (approx. one-quarter); of the moratoria that have expired, 82% of the clients concerned have resumed regular payments, and 15% have applied for a further extension (the other 3% are past due). Of the concessions outstanding, some 76% should resume repayments by the end of the financial year, approx. 15% in the second half of 2021, and the remainder subsequently;
- Moratoria granted in leasing amounted to €724.4m, following new concessions totalling approx. €60m and expiries of some €137.9m (approx. 20%), with 83% of the clients having resumed making regular repayments, and 12% having applied for a further extension (the other 5% are past due); around 85% of the remainder were granted under the terms of the "Cura Italia" decree, for which the expiry date has been automatically extended until 30 June 2021, unless the clients explicitly choose not to (as at 4 February 2020, some 360 clients for loans amounting to €70m had expressed their intention to resume payments at the end of the month);
- In Consumer Banking, over 90% of the moratoria granted have now reached expiry, with high numbers having resumed making regular repayments (over 80%). The outstanding stock, involving €126.9m, primarily involves normal requests for payment deferrals and have such have been predominantly classified as Stage 2.

Investment holdings [11] – these increased, from €4bn to €4.5bn, €3.7bn consisting of the investment in Assicurazioni Generali, €656.9m in funds, almost 70% of which invested in the Group's asset management activities (seed capital), and €149.3m in in listed equities not recognized at fair value and taken through other comprehensive income.

[10] As well as adhering to the moratoria initiatives provided under the terms of the "Cura Italia" and "Liquidity" decrees and those promoted by the category associations (primarily ABI and Assofin), the Mediobanca Group has also launched its own initiatives on a voluntary basis, in Consumer Banking in particular, as it considers providing assistance to its clients to be of fundamental importance in these difficult times.

[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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The book value of the Assicurazioni Generali investment (unchanged at 12.9% of the company's share capital) increased from €3,163.4m to €3,659.2m, following profit for the period totalling €112.5m (€67.5m of which in 4Q 2020) and a sharp increase in the valuation reserve (up €722.8m), the fixed-income component in particular (up €316.6m) due primarily to the reduction in interest rates and the narrowing spreads on government securities.

The Group's investment in IEO (also unchanged at 25.4%) shows a reduction in book value (from €41.3m to €39.6m), due to the company's shrinking profits (a pro rata loss for the six months of €1.6m was recorded) reflecting the impact of the Covid-19 emergency.

Regarding the Group's historical investment in Burgo (originally equal to 22.13% of the company's share capital, then wiped out in 2013), the asset has been reclassified and is no longer an investment in an associate company as defined by IAS 28 but as shares held as part of the Financial Assets recognized at Fair Value through OCI portfolio, the stake having reduced to 4% of the company following the investment by the new shareholder.

Investments in seed capital grew from €435.7m to €455.2m, due to positive fair value adjustments at the reporting date (adding €22.6m); other holdings in funds (mostly private equity) decreased from €227.7m to €201.7m, on net redemptions totalling €26.1m and gains arising on valuation of €1.4m.

Investments in listed and unlisted equities increased from €141.6m to €149.3m, as a result of new acquisitions totalling €10m and downward valuations amounting to €0.9m.

(€m)

	30/6/20		31/12/20	
	Book value	**HTC&S reserve**	**Book value**	**HTC&S reserve**
IAS28 investments	3,204.7	n.m.	3,698.9	n.m.
Listed shares	112.5	65.6	111.0	61.0
Other unlisted shares	29.1	5.3	38.3	5.1
Seed capital	435.7	—	455.2	—
Private equity	70.6	—	67.5	—
Other funds	157.1	—	134.2	—
Total equity holdings	**4,009.7**	**70.9**	**4,505.1**	**66.1**

The Group's investment in Assicurazioni Generali at 31 December 2020 had a stock market value of €2,890.7m, up 5.9% on end-June 2020, but still below its book value.

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Testing carried out for both the investments showed no indicators of impairment as defined by IAS 36; for this reason it was not considered necessary to carry out impairment tests on their value. For further details please see the Notes to the Accounts, Assets, section 7 – Equity investments.

(€m)

	% share capital	30/6/20	30/12/20
Assicurazioni Generali	12.91	3,163.4	3,659.2
Istituto Europeo di Oncologia	25.37	41.3	39.6
Total IAS28 investments		**3,204.7**	**3,698.8**

Banking book securities

(€m)

	30/6/20		31/12/20	
	(€m)	%	(€m)	%
Hold to Collect	3,285.4	48%	3,132.5	43%
Hold to Collect & Sell	3,485.9	51%	4,096.9	56%
Other (Mandatorily measured at FV)	53.2	1%	53.1	1%
Total banking book securities	**6,824.5**	**100%**	**7,282.5**	**100%**

These totalled €7.3bn, higher than at end-June 2020 (€6.8bn), with the portfolio split equally between securities classified as Hold to Collect (fixed assets) and Hold to Collect & Sell (available for sale). During the six months under review there were purchases of €2.8bn (concentrated in Italian government securities classified as Hold To Collect & Sell) against disposals and redemptions for 2,4bn generating gains of €23,6m. The OCI reserve increased from €13.1m to €77m, after net increases of €59m and taking account of the provisioning effect (minus €4.7m).

Government debt securities increased to €5.2bn (approx. three-quarters of the total), over 70% of which are Italian (€3.7bn), with a duration di 3.5 years. Unrealized gains on the Hold to Collect securities (which are recognized at cost) were unchanged at around €106m.

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	30/6/20			31/12/20		
	Book value		OCI reserve	Book value		OCI reserve
	HTC	HTC&S		HTC	HTC&S	
Italian government bonds	1,512.5	1,740.0	2.6	1,462.3	2,278.1	39.3
Foreign government bonds	621.9	873.7	-0.4	617.6	802.1	-1.1
Bond issued by financial institutions	687.8	613.2	8.3	679.7	664.3	21.3
Corporate bonds	262.0	259.0	2.6	166.0	352.4	17.4
Asset Backet Securities (ABS)	201.2	—	—	206.9	—	—
Total banking book securities	**3,285.4**	**3,485.9**	**13.1**	**3,132.5**	**4,096.9**	**76.9**

Net treasury assets – these declined from €6.1bn to €5.7bn, following the reduction in deposits held with the ECB (which decreased from €3.1bn to €1.8bn), due to more efficient liquidity management through an increase in the trading instruments held in this portfolio, the balance of which increased from €0.9bn to €1.9bn, representing the difference between the equities and debt securities components (which totalled €2.7bn and €1.1bn respectively) and certificates issued (which increased from €1.4bn to €1.7bn). The other items remained virtually unchanged, with the liquid assets component (i.e. cash and current account balances) totalling €2.1bn.

	30/6/20	31/12/20	Chg.
	(€m)	(€m)	
Financial assets held for trading	8,818.6	11,559.7	31.1%
Treasury financial assets and cash	9,257.0	8,676.8	-6.3%
Financial liabilities held for trading	(7,956.9)	(9,649.9)	21.3%
Treasury financial liabilities	(3,988.0)	(4,910.9)	23.1%
Net treasury assets	**6,130.7**	**5,675.7**	**-7.4%**

	30/6/20	31/12/20	Chg.
	(€m)	(€m)	
Equities	1,807.2	2,669.3	47.7%
Bond securities	564.8	1,064.5	88.5%
Derivative contract valuations	(145.4)	(111.5)	-23.3%
Certificates	(1,368.9)	(1,716.5)	25.4%
Trading loans	3.9	4.0	2.6%
Financial instruments held for trading	**861.6**	**1,909.8**	**n.m.**

	30/6/20	31/12/20	Chg.
	(€m)	(€m)	
Cash and current accounts	2,073.7	2,081.6	0.4%
Cash available at BCE	3,101.4	1,796.3	-42.1%
Deposits	94.0	(112.0)	n.m.
Net treasury	**5,269.1**	**3,765.9**	**-28.5%**

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	30/6/20 (€m)		31/12/20 (€m)	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Italian government bonds	1,274.8	(1,109.3)	1,610.3	(1,987.4)
Foreign government bonds	606.2	(1,828.4)	1,303.8	(1,754.6)
Bond issued by financial institutions	1,258.6	—	1,367.9	—
Corporate bonds	333.9	—	447.0	(4.1)
Asset Backet Securities (ABS)	29.0	—	81.6	—
Equities	2,032.2	(225.0)	2,934.1	(264.8)
Total securities	**5,534.7**	**(3,162.7)**	**7,744.7**	**(4,010.9)**

	30/6/20 (€m)		31/12/20 (€m)	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Interest rate swaps	696.9	(587.7)	673.0	(582.9)
Foreign exchange	217.5	(256.0)	202.9	(342.1)
Interest rate options/futures	43.6	(10.5)	6.4	(8.8)
Equity swaps e options	2,134.7	(2,325.0)	2,471.6	(2,466.3)
Credit derivatives (others)	187.2	(246.1)	457.1	(522.4)
Derivative contract valuations	**3,279.9**	**(3,425.3)**	**3,811.0**	**(3,922.5)**

	30/6/20 (€m)		31/12/20 (€m)	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Securities lending/repos deposits	3,134.7	(2,596.1)	3,557.2	(3,420.9)
Stock lending deposits	324.4	(318.7)	388.0	(375.6)
Other deposits	626.0	(1,076.3)	856.9	(1,117.6)
Deposits	**4,085.1**	**(3,991.1)**	**4,802.1**	**(4,914.1)**

Tangible and intangible assets – these were virtually unchanged at €1.3bn, following purchases totalling €23.1m (mostly software) and around €10m in net operations under the new IFRS 16 (leasing), against depreciation and amortization charges totalling €42.9m, around half of which under IFRS 16 and €16.1m for software and other intangible assets. There were no new acquisitions relevant to IFRS 3 in the six months under review, nor any activities linked to purchase price allocation processes; thus the Group's goodwill remains unchanged except for components denominated in currencies other than the Euro, to which the exchange rates prevailing at 31 December 2020 have been applied.

As provided by IAS 36 [12] and the Group's policy, the impairment indicators for goodwill have been reviewed (analysis of closing data and any departures

[12] Account has also been taken of the ESMA Recommendations of 28 October 2020.

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from budget, updated cost of equity of the individual CGUs), without the need for any writedowns emerging, as all the CGUs remain on their budget trajectories, and the discount rates are falling.

	30/6/20		31/12/20		Chg.
	(€m)	%	(€m)	%	
Land and properties	447.8	34%	443.6	34%	-0.9%
- of which: core	*179.8*	*14%*	*178.2*	*14%*	*-0.9%*
buildings RoU ex IFRS16	*196.1*	*15%*	*193.6*	*15%*	*-1.3%*
Other tangible assets	47.9	4%	50.2	4%	4.8%
- of which: RoU ex IFRS16	*11.8*	*1%*	*11.7*	*1%*	*-0.8%*
Goodwill	666.5	51%	666.2	51%	*n.m.*
Other intangible assets	149.6	11%	147.7	11%	-1.3%
Total tangible and intangible assets	**1,311.8**	**100%**	**1,307.7**	**100%**	**-0.3%**

(€m)

Transaction	30/6/20	31/12/20
Compass-Linea	365.9	365.9
Spafid	9.0	9.0
Cairn Capital	40.7	41.3
MB Private Banking	52.1	52.1
RAM	64.6	63.7
Messier Maris et Associés	134.2	134.2
Total Goodwill	**666.5**	**666.2**

Provisions – these closed at €174.4m, and consist of provisions set aside to meet commitments and guarantees (which rose from €14m to €21.3m), the staff severance and post-retirement provisions (€31m), and provisions for risks and charges (totalling €122.1m, €70.3m of which for Mediobanca, €21.1m for Compass, and €15.3m for CheBanca! The €17m increase in the six months chiefly reflects the one-off provisioning for Compass to meet the possible refunds due to Consumer Banking clients following the Lexitor ruling referred to above (€15m).

	30/6/20		31/12/2020		Chg.
	(€m)	%	(€m)	%	
Commitments and financial guarantees given	14.0	9%	21.3	12%	52.1%
Provisions for risks and charges	113.0	72%	122.1	70%	8.1%
Staff severance indemnity provision	30.4	19%	31.0	18%	2.0%
of which: staff severance provision discount	*4.4*	—	*5.3*	—	*20.5%*
Total provision	**157.4**	**100%**	**174.4**	**100%**	**10.8%**

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Net equity – the increase in net equity, from €9.6bn to €10.5bn reflects the profit for the six months (€410.6m), and the higher valuation reserves (up from €374.7m to €783.2m) due to the increased contribution from equity-accounting the Assicurazioni Generali investment (up from €341.7m to €712.9m) which in turn reflects appreciation in the fixed-income segment.

In November 2020, a total of 1.7 million treasury shares were used in connection with the performance share scheme.

(€m)

	30/6/20	31/12/20	Chg.
Share capital	443.6	443.6	*n.m.*
Other reserves	8,229.9	8,839.3	7.4%
Valuation reserves	374.7	783.2	n.m.
- of which: Other Comprehensive Income	*71.5*	*113.1*	*58.2%*
cash flow hedge	*(30.6)*	*(30.6)*	*n.m.*
equity investments	*341.7*	*712.9*	*n.m.*
Profit for the period	600.4	410.6	-31.6%
Total Group net equity	**9,648.6**	**10,476.7**	**8.6%**

The Group's OCI reserve was in positive territory at €113.1m, following the tax effect of €30m, and made up of equities (€66.1m) and bonds and other debt securities (€77m), of which Italian sovereign debt securities of €39.3m.

(€m)

	30/6/20	31/12/20	Chg.
Equity shares	67.8	66.1	-2.5%
Bonds	13.1	77.0	n.m.
of which: Italian government bonds	*2.6*	*39.3*	*n.m.*
Tax effect	(9.4)	(30.0)	n.m.
Total OCI reserve	**71.5**	**113.1**	**58.2%**

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Profit and loss account

Net interest income – net interest income was virtually unchanged, at €720.4m (€721.5m), despite the decline reported by the principal contributor; indeed, net interest income from Consumer Banking was down 5.4% (from €474m to €448.4m), on lower new loans and a less profitable product mix. The other segments, however, saw improvements, in particular Corporate and Investment Banking (up 9.1%, from €136.1m to €148.5m) and Holding Functions (where the liability halved, from €26,7m to €13.5m): the growth in CIB was helped by a good performance in terms of volumes and CMS activity, plus the non-recurring effect linked to the Burgo refinancing, against a reduction in net interest income earned by Specialty Finance; liquidity optimization activity continued in the Holding Functions, with increased recourse to the T-LTRO (€10m of which pro rata in relation to the annual 50 bps premium), while the cost of funding reflects unchanged spreads (80 bps) despite pricing in approx. 20 bps for the reduction in market interest rates. The contribution from Wealth Management was stable, at €137m (€138.1m), where the marked decline in returns was countered by the higher volumes.

(€m)

	6 mths ended 31/12/19	6 mths ended 31/12/20	Chg.
Consumer Banking	474.0	448.4	-5.4%
Wealth Management	138.1	137.0	-0.8%
Corporate and Investment Banking	136.1	148.5	9.1%
Holding Functions and other (including IC)	(26.7)	(13.5)	-49.4%
Net interest income	**721.5**	**720.4**	**-0.2%**

Net treasury income – this item returned to last year's levels, at €86.7m (€91.5m), following the sharp reduction in 2H 2019-20 (€44.8m), with the proprietary portfolio's contribution (trading and banking) reflecting the upturn on financial markets. In particular, profits from treasury management in the Holding Functions division amounted to €21.2m (€12.1m), plus the appreciation in the OCI valuation reserve (which closed at €113.1m, €39.3m of which regarded Italian debt securities); the proprietary trading portfolio contributed €17m (€15.1m), whereas amounts collected on investments in the Principal Investing division rose from €5.3m to €16.5m due to some one-off items. Conversely, client activity decreased, from €58.2m to €32m, having been hit harder by the effects of the pandemic which has penalized structured products more heavily.

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(€m)

	6 mths ended 31/12/19	6 mths ended 31/12/20	Chg.
Corporate Investment Banking	73.5	43.6	-40.7%
Principal Investing	5.3	16.5	n.m.
Holding Functions	12.1	21.2	75.2%
Other (including Intercompany)	0.6	5.4	n.m.
Net treasury income	**91.5**	**86.7**	**-5.2%**

Net fee and commission income – fee income grew by 16.5%, from €328.5m to €382.8m, with an increasing contribution from all divisions. CIB in particular delivered fees of €172.2m, its best result in recent years, due to the positive market conditions plus the Bank's leadership position in advisory business in Italy and France. Wealth Management, where fees were up 1.3%, from €158m to €160m, continues with the process of growing TFAs and fees from niche product placement, which offset the expected reduction in performance fees (from €12.3m to €4.5m). Fees generated in Consumer Banking increased from €57.7m to €66.7m, despite the lower volumes, benefitting from lower rappel fees to commercial partners, which are concentrated at the year-end, and were especially high at end-2019.

(€m)

	6 mths ended 31/12/19	6 mths ended 31/12/20	Chg.
Wealth Management	158.0	160.0	1.3%
Corporate & Investment Banking	121.9	172.2	41.3%
Consumer Banking	57.7	66.7	15.6%
Holding Functions and other (including intercompany)	(9.1)	(16.1)	76.9%
Net fee and commission income	**328.5**	**382.8**	**16.5%**

Equity-accounted companies – the equity-accounted companies' contribution to net profit decreased from €183.7m to €110.9m, due to Assicurazioni Generali, the contribution from which declined from €183.3m to €112.5m already booked in 1Q (when a charge of €45m was taken, against the €67.5m writeback credited in 2Q) in connection with certain one-off items; the contribution from the IEO investment was negative too, down by €1.6m due to the reduced operations as a result of the Covid-19 emergency.

Operating costs – these totalled €591.1m, virtually unchanged from last year and the last six-month period, despite reflecting a different mix, as follows:

– Labour costs of €305m (31/12/19: €303.5m) were helped by savings in Consumer Banking and Asset Management (RAM and Cairn) which were only in part offset by the 6.1% increase in CIB (from €75.6m to €80.2m, where the pro rata variable compensation was aligned with the good performance in revenues); while the 5.1% increase for the Affluent segment (up 5.1%, from €57.1m to €60m) reflects the commercial network development;

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– Administrative costs of €286.1m (€287.6m): growth in Consumer Banking (from €99.6m to €102.6m) related to higher credit recovery costs and IT investments which were only in part offset by savings in communications and advertising, and in Wealth Management (from €106.3m to €108m) related to development in the Affluent segment and the marketing campaign to promote it (up from €66m to €68.4m) was countered by stability in CIB (where expenses decreased from €68.1m to €67.4m) and a reduction in the Holding Functions' expenses (from €22.3m to €18.2m), reflecting the lower incidence of costs for travel, events and entertainment, consultancy fees and project-related expenses; Covid-related expenses (safety and sanitization measures) amounted to €1.7m (compared with €3.8m in 2H 2019-20).

(€m)

	6 mths ended 31/12/19	6 mths ended 31/12/20	Chg.
Labour costs	303.5	305.0	0.5%
of which: directors	*6.1*	*5.2*	*-14.8%*
stock option and performance share schemes	*4.8*	*4.7*	*-2.1%*
Sundry operating costs and expenses	287.6	286.1	-0.5%
of which: depreciations and amortizations	*39.4*	*42.9*	*8.9%*
administrative expenses	*248.2*	*243.2*	*-2.0%*
Operating costs	**591.1**	**591.1**	**n.m.**

(€m)

	6 mths ended 31/12/19	6 mths ended 31/12/20	Chg.
Legal, tax and professional services	10.5	5.7	-45.7%
Other consultancy expenses	16.5	15.6	-5.5%
Credit recovery activities	29.4	30.0	2.0%
Marketing and communication	19.7	16.3	-17.3%
Rent and property maintenance	10.3	10.4	1.0%
EDP	60.7	67.3	10.9%
Financial information subscriptions	22.5	21.6	-4.0%
Bank services, collection and payment commissions	11.9	12.4	4.2%
Operating expenses	33.0	31.4	-4.8%
Other labour costs *	9.1	2.2	-75.8%
Other costs (including charity)	12.5	17.3	38.4%
Direct and indirect taxes	12.1	13.0	7.4%
Total administrative expenses	**248.2**	**243.2**	**-2.0%**

* This heading includes travel and conference expenses.

Loan loss provisions – the increase in provisioning, from €109.5m to €117.7m, includes the Burgo writeback of approx. €110m already referred to (€84m of which in 2Q), which comfortably offset the prudential classifications and provisioning in line with the ECB recommendations. Along with the good performance by the Consumer Banking loan book, this enabled the cost of risk to return to pre-Covid levels at 50

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bps (48 bps at end-December 2019), following the spike recorded in 2H 2019-20 (115 bps). Wholesale Banking reported net writebacks of €43.6m, representing the difference between €110m in provisions released in connection with the Burgo exposure (the Group's largest UTP position) and higher provisioning (approx. €50m) for exposures to sectors most hit by the Covid-19 emergency, including through stricter classification of positions to Stage 2. The increase in loan loss provisions in Consumer Banking, which were 12% higher than last year, was still markedly lower than the figures seen in the third and fourth quarters of 2019-20, due to the good performance by the moratoria and risk indicators continuing to be extremely low despite the enhanced provisioning for the performing portfolio, with the coverage ratio rising in the last six months from 3.17% to 3.35% (vs 2.71% at year-end 2019); the Group's cost of risk for the six months stood at 222 bps, not far off its all-time low (approx. 190 bps). Adjustments also increased in Wealth Management and leasing operations, once again reflecting the prudential measures taken in respect of positions for which moratoria have been granted (reclassifications to Stage 2 and overlays).

(€m)

	6 mths ended 31/12/19	6 mths ended 31/12/20	Chg.
Corporate & Investment Banking	(30.0)	(43.6)	45.3%
Consumer Banking	128.0	143.5	12.1%
Wealth Management	7.7	11.8	53.2%
Holding Functions (leasing)	3.8	6.0	57.9%
Loan loss provisions	**109.5**	**117.7**	**7.5%**
Cost of risk (bps)	**48**	**50**	**4.2%**

Provisions for other financial assets [13] – these totalled €13.1m, compared with €8.7m last year, representing the difference between positive valuations on financial assets mandatorily recognized at fair value, which added €21.5m (these consist of investments in Group funds and other private equity and real estate funds), and adjustments to debt securities held as part of the banking book (€8.4m) related to alignment with IFRS 9 models.

(€m)

	6 mths ended 31/12/19	6 mths ended 31/12/20	Chg.
Hold-to-Collect securities	(0.8)	(2.5)	n.m.
Hold-to-Collect & Sell securities	(0.6)	(5.9)	n.m.
Financial assets mandatorily FVTPL [1]	10.1	21.5	n.m.
Provisions for other financial assets	**8.7**	**13.1**	**50.6%**

[1] These are funds recognized at fair value.

[13] 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).

Other gains (losses) – these refer to the ordinary payment made to the Deposit Guarantee Scheme (DGS), which increased from €11.4m to €17.9m, as it incorporates the first share of the extraordinary payments for Carige and Banca Popolare di Bari, plus €15m in provisioning for Compass following the Lexitor ruling.

Income taxes – income tax for the period totalled €158.9m, at an effective tax rate of 27.8%, slightly higher as a result of the lower contribution by the Principal Investing division to the overall result.

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

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

(€m)

	6 mths ended 31/12/19	12 mths ended 30/06/20	6 mths ended 31/12/20	Chg. (%)
Profit-and-loss				
Net interest income	138.1	271.0	137.0	-0.8
Net trading income	2.8	6.7	5.1	82.1
Net fee and commission income	158.0	306.1	160.0	1.3
Total income	**298.9**	**583.8**	**302.1**	**1.1**
Labour costs	(118.4)	(236.5)	(115.9)	-2.1
Administrative expenses	(106.3)	(214.3)	(108.0)	1.6
Operating costs	**(224.7)**	**(450.8)**	**(223.9)**	**-0.4**
Loan loss provisions	(7.7)	(20.5)	(11.8)	53.2
Provisions for other financial assets	0.6	(0.5)	1.5	n.m.
Other income (losses)	1.8	1.8	—	n.m.
Profit before tax	**68.9**	**113.8**	**67.9**	**-1.5**
Income tax for the period	(20.0)	(32.6)	(21.0)	5.0
Minority interest	(0.7)	(0.8)	—	n.m.
Net profit	**48.2**	**80.4**	**46.9**	**-2.7**
Cost/Income (%)	*75.2*	*77.2*	*74.1*	

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	31/12/19	30/06/20	31/12/20
Balance-sheet data			
Loans and advances to customers	12,627.5	13,183.6	14,029.0
of which:			
Chebanca! mortgage loans	9,814.2	10,235.0	10,697.6
Private Banking	2,813.3	2,948.6	3,331.4
New loans	1,312.7	2,173.2	1,070.2
Risk-weighted assets	4,692.2	4,951.7	5,038.0
ROAC	23%	19%	21%
No. of staff	1,963	2,021	2,023

	31/12/19	30/6/20	31/12/20
Commercial data			
Relationship managers	453	454	467
Financial advisors	395	414	429
No. of branches/agencies CheBanca!	190	192	200
Private Banker	127	132	133

The Wealth Management division continues on the growth path mapped out for it in the Strategic Plan, despite the difficult conditions brought on by the pandemic: AUA/AUM increased, in part due to the offering of alternative products and opportunities for investing in the real economy; while the plan to strengthen the commercial network and the gradual repositioning of the CheBanca! brand and product offering in favour of Affluent/Premier clients also proceeds.

A net profit of €46.9m was earned in the six months under review [14], substantially higher than in the preceding six months (up 45.7%) albeit slightly lower than last year (down 2.7%), due exclusively to higher loan loss provisions of €11.8m (€7.7m); revenues were up 1.1% YoY (with the recurring fees component increasing by 7%), while the cost/income ratio also improved to 74.1% (75.2%), and ROAC for the division at 21%.

During the six months under review, the CheBanca! distribution structure increased its sales force (from 868 to 896 people), with relationship managers in the Affluent and Premier segment increasing from 454 to 467, and the addition of fifteen new financial advisors (to 429 as at end-December 2020). CMB Monaco continues with its strategic repositioning focused on the UHNWI client segment which has involved turnover in the front office staff members (twelve in 6M). Mediobanca Private Banking has also recruited two new senior bankers.

[14] The main contributors to the division's net profit were as follows: CheBanca!, €22.7m; MBPB, €9m; CMB €13.7m; and MBSGR (including Mediobanca Management Company), €4.7m; the other minor companies in this segment all reported slight losses..

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Net new money gathered by the division in the six months totalled €1.6bn, with a particularly impressive performance in 2Q, and AUA/AUM outweighing deposits (€873m, versus €748m). The Affluent segment contributed NNM of €1.6bn (double last year), with an indirect share of almost €900m, and the proprietary network's contribution slightly higher than that of the FAs (60% vs 40%). In Private Banking NNM totalled €653m, concentrated on Italian domestic clients, and the majority in the form of AUM/AUA (€612m), with inflows of deposits virtually disappearing after the strong performance in 2H 2019-20 (€41m, vs €1,055m). Conversely, there were €634m outflows in asset management, where, against new products placed worth a total of €411m (chiefly relating to the new Cairn CLO XII in an amount of €330m), there were outflows from institutional clients totalling €1bn (in relation to low-margin mandates), mostly attributable to Mediobanca SGR in line with the strategic decision to refocus on private clients.

During the six months under review, the product offering for Affluent and Private clientèle was expanded, leveraging on the Group's asset management division as far as possible, with a view to ensuring enhanced protection of the quality of products offered to our clients and strong risk management. The following developments in particular are worth noting:

– New asset management products focused on specific sectors (e.g. the new Health Care, Tech and Top Global Companies lines);
– New private markets solutions for trophy real estate assets reserved to Group clients;
– Third round of the investment programme launched in conjunction with Russell Investments, with the launch of the new Mediobanca Private Markets Fund focused on the secondary market and on distressed debt;
– The fourth round of investment by The Equity Club in mid-cap Italian companies;
– Two new Target Maturity funds managed by Mediobanca SGR: Mediobanca Diversified Credit Portfolio 2024, and Mediobanca Diversified Credit Portfolio 2026;
– The new RAM Multi-Strategy Diversified Alpha fund, which combines the company's strong capabilities in AI with the liquidity typical of a UCITS fund.

Total Financial Assets managed on behalf of clients (TFAs) are now worth €66.6bn, much higher than at end-June 2020 (€63.6bn), €29.9bn of which is attributable to the Affluent segment (€13.9bn AUM/AUA), €27.7bn to Private

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Banking (€19.1bn AUM/AUA), and the remainder (€9bn) to asset management. The more profitable AUM/AUA increased from €39.8bn at end-December 2019 to €42bn, helped by the positive market effect of €1.4bn. Asset Management division products placed within the Group totalled €10.5bn (30/6/20: €9.6bn).

Net TFAs	31/12/2019	30/6/20	31/12/20	Chg. % Dec 20 / Dec 19	Chg. % Dec 20 / June 20
Affluent Banking	26,465	27,781	29,903	13.0%	7.6%
Private Banking	25,968	26,373	27,724	6.8%	5.1%
Asset Management	21,374	19,000	19,476	-8.9%	2.5%
Intercompany	(10,091)	(9,571)	(10,481)	3.9%	9.5%
Wealth Management	**63,716**	**63,582**	**66,622**	**4.6%**	**4.8%**

Deposits	31/12/2019	30/6/20	31/12/20	Chg. % Dec 20 / Dec 19	Chg. % Dec 20 / June 20
Affluent Banking	14,460	15,277	15,983	10.5%	4.6%
Private Banking	7,446	8,531	8,642	16.1%	1.3%
Asset Management	—	—	—	n.m.	n.m.
Wealth Management	**21,906**	**23,807**	**24,625**	**12.4%**	**3.4%**

AUM/AUA	31/12/2019	30/6/20	31/12/20	Chg. % Dec 20 / Dec 19	Chg. % Dec 20 / June 20
Affluent Banking	12,005	12,504	13,920	16.0%	11.3%
Private Banking	18,522	17,842	19,082	3.0%	6.9%
Asset Management	21,374	19,000	19,476	-8.9%	2.5%
Intercompany	(10,091)	(9,571)	(10,481)	3.9%	9.5%
Wealth Management	**41,810**	**39,775**	**41,997**	**0.4%**	**5.6%**

	2019-2020			2020-2021		
Net New Money	**IQ**	**IIQ**	**IIIQ**	**IVQ**	**IQ**	**IIQ**
Affluent Banking	290	506	853	909	818	782
Private Banking	710	173	261	1,166	108	545
Asset Management	(689)	295	(498)	(739)	(503)	(131)
Wealth Management	**310**	**974**	**616**	**1,335**	**424**	**1,195**

Customer loans in Wealth Management total €14bn (30/6/20: €13.2bn), with the mortgage loan component increasing from €10.2bn to €10.7bn, on new loans of €1,084m in the six months; in Private Banking customer loans rose from €2.9bn to €3.3bn following a healthy contribution from CMB Monaco (where customer loans rose from €1.8bn to €2.1bn).

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Moratoria outstanding on Italian[15] mortgage loans amount to €467,4m (approx. 4.3% of the stock of loans outstanding), following new applications during the period (€78m) and repayments (€194m) the majority of which (82%) have resumed regular repayments; 50% of the exposure has been prudentially classified as Stage 2, allowing the level of provisioning for the performing portfolio to increase to 0.38% (31/12/19: 0.36%).

Gross non-performing loans for the division remain at low levels, accounting for €216.1m (or 1.5% of total loans), and mostly involve CheBanca! mortgage loans (€199.9m, or 1.8% of total loans); while on a net basis non-performing loans represent less than 1% of total mortgages (€110.7m, €48.9m of which are bad loans), with the coverage ratio rising from 45.9% to 48.8% (59.4% to 60.5% for bad loans).

A net profit of €46.9m was earned in the six months, slightly lower than last year (€48.2m) due to the higher loan loss provisions. Revenues increased from €298.9m to €302.1m with the recurring fees component increasing (management fees up 7.4% YoY, from €165m to €177,2m), offsetting the expected reduction in performance fees (which more than halved, from €12.3m to €4.5m).

Revenues	**6 mths ended 31/12/19**	**12 mths ended 30/6/20**	**6 mths ended 31/12/20**	**Chg. %**
Affluent	159.1	317.4	173.3	8.9%
Private Banking	95.8	186.7	94.2	-1.7%
Asset Management	39.9	71.7	30.7	-23.1%
Other	4.1	8.0	3.9	-4.9%
Total revenues	**298.9**	**583.8**	**302.1**	**1.1%**

The main income items performed as follows:

– Net interest income was basically flat at €137m: growth in the Affluent segment (up 3%, from €108.6m to €111.9m), reflecting the higher business volumes in mortgage lending and asset gathering, was offset by the reduction by CMB Monaco (from €23.4m to €20m), which reflects the higher exposure in dollars and the reduction in interest rates despite the higher contribution from lending activity;

– Fee income totalled €160m (€158m), with growth in management fees up from €165m to €177.2m) offsetting the reduction in performance fees (down €7.8m): the Affluent segment (up 21%, from €50m to €60.5m) reflects the

[15] Concessions in the form of moratoria regarded almost exclusively CheBanca! clients, who adhered to the initiatives promoted by ABI as well as those granted under law (“Cura Italia” decree law, Article 54). Applications in Private Banking were minimal (just four clients, involving a total amount of €1.3m).

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increase in TFAs; while the lower growth in Private Banking (1.3%, from €63.9m to €64.7m) is due to the lower performance fees (down 63.4%) and Asset Management fees (down 23.2%, from €40.1m to €30.8m), as well as the effect of outflows by institutional clients from RAM and Mediobanca SGR.

Commissions - segment	6 mths ended 31/12/19	12 mths ended 30/06/20	6 mths ended 31/12/20	Chg. %
Affluent	50.0	101.9	60.5	21.0%
Private Banking	63.9	124.1	64.7	1.3%
Asset Management	40.1	72.1	30.8	-23.2%
Other	4.0	8.0	4.0	n.m.
Total commissions	**158.0**	**306.1**	**160.0**	**1.3%**

Commissions - nature	6 mths ended 31/12/19	12 mths ended 30/06/20	6 mths ended 31/12/20	Chg. %
Management fees	165.0	332.1	177.2	7.4%
- of which: upfront fees	*18.0*	*33.5*	*19.5*	*8.5%*
Performance Fees	12.3	13.2	4.5	-63.4%
Negative fees	(19.3)	(39.2)	(21.7)	12.4%
Total commissions	**158.0**	**306.1**	**160.0**	**1.3%**

– Operating costs were virtually unchanged at €223.9m, due to higher costs at CheBanca! (up 4.3%, from €123.1m to €128.4m) as a result of commercial investments, against a reduction in asset management (from €32.9m to €27.8m) regarding labour costs in particular; operating costs in Private Banking were basically flat at €63.4m.

Costs	6 mths ended 31/12/19	12 mths ended 30/06/20	6 mths ended 31/12/20	Chg. %
Affluent Banking	(123.1)	(249.8)	(128.4)	4.3%
Private Banking	(64.5)	(131.1)	(63.4)	-1.7%
Asset Management	(32.9)	(61.4)	(27.8)	-15.5%
Other	(4.2)	(8.5)	(4.3)	2.4%
Total costs	**(224.7)**	**(450.8)**	**(223.9)**	**-0.4%**

Loan loss provisions rose from €7.7m to €11.8m, and refer entirely to CheBanca! mortgage lending activity, which, in addition to the higher volumes, reflects a more prudent approach to the outstanding moratoria; indeed, the cost of risk for mortgages was 21 bps (16 bps last year).

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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. 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)

	6 mths ended 30/12/19	12 mths ended 30/06/20	6 mths ended 30/12/20	Chg. (%)
Profit-and-loss				
Net interest income	474.0	948.0	448.4	-5.4
Net fee and commission income	57.7	122.6	66.7	15.6
Total income	**531.7**	**1,070.6**	**515.1**	**-3.1**
Labour costs	(50.0)	(102.0)	(48.0)	-4.0
Administrative expenses	(99.6)	(201.2)	(102.6)	3.0
Operating costs	**(149.6)**	**(303.2)**	**(150.6)**	**0.7**
Loan loss provisions	(128.0)	(324.7)	(143.5)	12.1
Provisions for other financial assets	—	—	(0.4)	n.m.
Other income (losses)	(4.7)	(4.7)	(15.0)	n.m.
Profit before tax	**249.4**	**438.0**	**205.6**	**-17.6**
Income tax for the period	(82.2)	(141.4)	(68.0)	-17.3
Net profit	**167.2**	**296.6**	**137.6**	**-17.7**
Cost/Income (%)	*28.1*	*28.3*	*29.2*	

	31/12/19	30/6/20	31/12/20
Balance-sheet data			
Loans and advances to customers	13,698.4	13,037.4	12,776.8
- of which:			
Personal loans	*7,573.3*	*7,101.2*	*6,713.8*
Salary-backed finance	*2,045.1*	*1,983.6*	*1,864.3*
New loans	3,885.3	6,380.8	2,952.6
Risk-weighted assets	12,936.9	11,800.8	11,541.5
ROAC	30%	27%	28%
No. of staff	1,432	1,441	1,454

	31/12/19	30/6/20	31/12/20
Commercial data			
Consumer Branches	172	172	178
Consumer Agencies	34	41	47

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The Consumer Banking division reported a net profit for the six months of €137.6m, higher than in 2H 2019-20 (€129.4m) but lower than last year (€167.2m), which was also one of the division's best-ever six-month results. This performance reflects the efforts made to increase the multichannel approach and the digital channel in particular, in order to limit the impact of the new operating restrictions in force due to the Covid-19 pandemic (indeed, new loans in 2Q were in line with 1Q). The improvement in default rates and credit recovery performances also continued in 2Q (the latter in particular back to pre-Covid levels); this, together with deferrals returning to residual levels, impacted positively on the cost of risk which stood at 222 bps, down sharply on 2H 2019-20 (294 bps). The lower loan loss provisions offset the reduction in revenues (which were down 3.1%) and the higher cost/income ratio of 29.2% (28.1%), with the division's ROAC still at very high levels (28%, compared with 27% at end-June 2020 and 30% at end-December 2019).

The Italian consumer credit market posted a 21% reduction compared to 2019, with the segment worst affected by the pandemic personal loans (down 33.6%), compared with special purpose loans (down 12%[16]). As at end-December 2020 consumer confidence had recovered somewhat, but the appetite for durable goods remains below pre-Covid level. Compass's market share is still above 10%.

Commercial strengthening and product innovation continued during the six months, in line with the 2019-23 Strategic Plan objectives, through:

- Enhancement of the Compass-branded direct distribution channel: geographical coverage was strengthened, with six new branches and six new agencies opened. As at 31 December 2020, a total of 178 branches were active (with a direct distribution network consisting of 906 employees), plus 47 agencies, making a total of 225 Compass-branded points of sale;
- Consolidation of the company's 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 saw virtually one-quarter of personal loans generated through the direct channel (approx. €179m, compared with €172m), with 80% of applications dealt with in one day;

[16] For further details on the consumer credit market, see the comments on p. 18 above.

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- Launch of a new commercial product: “Pagolight”, a proprietary solution for granting interest-free extensions in real time at POS;
- Launch of “Closed-loop” credit cards, which can be used for making purchases at the POS of a specific commercial partner/chain.

New loans for the six months were near €3bn, approx. 24% lower than last year (€3,885m), with average monthly new loans of just under €500m consistently throughout the period under review. Compared to the first lockdown (new loans in April 2020 were just €123m), digital marketing efforts were enhanced, complementing traditional forms of distribution (i.e. branch offices) with alternative channels (mobile and web). All this translated to resilience at the level of customer loans, which declined only slightly from €13bn to €12.8bn (31/12/19: €13.7bn); the share of direct personal loans decreased from 57% to 55%, while the stock in salary-backed finance was just under €2bn (14%).

As already mentioned, the peak in terms of moratoria granted (approx. €1.3bn) has now been fully absorbed, and the residual amount outstanding at 31 December (€127m, over 80% of which have been classified as Stage 2), now involves only the normal deferrals typical of relations with customers; applications for moratoria have been minimal in recent months and far below expectations.

The successful management of the moratoria process, with more than 80% resuming regular repayments, is reflected in the credit quality which is still comfortably under control: gross NPLs rose from €1,015.7m to €1,038.8m (increasing in relative terms from 7.18% to 7.45% of total loans); net NPLs decreased from €324.2m to €295.8m and now account for 2.3% of total loans, due to the prudential increase in the coverage ratio (from 68.1% to 71.5%). NPLs worth €77.8m were sold during the period, meaning the figures at the level of bad loans remain very low (net bad loans totalled €10.9m, with a coverage ratio of 96.3%). The gross balance of Stage 2 positions decreased from €1,691.7m to €1,492.8m (around 10.7% of the total loan book) as a result of the reduction in the moratoria; the coverage ratio for the performing loan book has increased from 3.17% to 3.35% (30/6/20: 2.71%) to factor in the uncertain macro-economic scenario, which now includes a very prudent estimate of the unemployment rate compared to the data actually observed, which benefit from the restrictions on employee dismissals.

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The trend in loans is reflected in the performance at the level of net interest income, down 5.4% (from €474m to €448.4m), due, as mentioned earlier, to the lower volumes and reduced profitability due to the different mix. The lower volumes in terms of new loans had a positive impact on commercial fees credited back to partners, which reduced sharply, from €24.7m to €7.4m, more than offsetting the decrease in insurance revenues (from €32.4m to €26.4m), with net fees up 15%.

Operating costs totalled €150.6m, slightly higher than last year (€149.6m), due to higher spending on IT investments (up €3.4m) and higher credit recovery charges (up €3.8m), only in part offset by savings on staff costs (including the benefits of one-off contributions) and on marketing and communication expenses.

Loan loss provisions rose by 12.1% versus last year, from €128m to €143.5m, but were much lower (27%) than in 2H 2019-20 (€196.7m). Similarly, the coverage ratio increased from 3.17% to 3.35% for the performing portfolio, and from 68.1% to 71.5% for the non-performing portfolio, using part of the potential writebacks from the improvements in risk indicators and recovery levels. Overall, the Covid-related impact on earnings comes to around €8m, rising to €72m for the full year 2020.

During the six months under review, following the ruling issued [17] by the Court of Milan, provisions were set aside in an amount of €15m to cover the potential liability deriving from the obligation to refund part of the upfront costs incurred at the disbursal stage on loans that have already been repaid in advance, in line with the commercial practice adopted since year-end 2019

[17] See p. 18.

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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)

	6 mths ended 31/12/19	12 mths ended 30/06/20	6 mths ended 31/12/20	Chg. (%)
Profit-and-loss				
Net interest income	136.1	271.4	148.5	9.1
Net treasury income	73.5	77.9	43.6	-40.7
Net fee and commission income	121.9	225.8	172.2	41.3
Total income	**331.5**	**575.1**	**364.3**	**9.9**
Labour costs	(75.6)	(141.0)	(80.2)	6.1
Administrative expenses	(68.1)	(135.2)	(67.4)	-1.0
Operating costs	**(143.7)**	**(276.2)**	**(147.6)**	**2.7**
Loan loss provisions	30.0	(20.0)	43.6	45.3
Provisions for other financial assets	(0.3)	(3.5)	1.0	n.m.
Other income (losses)	—	—	(0.5)	n.m.
Profit before tax	**217.5**	**275.4**	**260.8**	**19.9**
Income tax for the period	(71.5)	(92.4)	(89.4)	25.0
Risultato di pertinenza di terzi	(1.9)	(2.3)	(1.1)	(42.1)
Net profit	**144.1**	**180.7**	**170.3**	**18.2**
Cost/Income (%)	*43.3*	*48.0*	*40.5*	

	6 mths ended 31/12/19	12 mths ended 30/06/20	6 mths ended 31/12/20
Balance-sheet data			
Loans and advances to customers	18,041.4	18,644.2	19,522.4
of which: Corporate	*15,302.2*	*16,521.7*	*16,782.8*
Factoring	*2,387.9*	*1,763.7*	*2,359.1*
Credit Management - NPLs	*351.3*	*358.8*	*380.5*
Corporate new loans	3,117.9	5,949.9	3,075.0
Factoring turnover	4,072.1	7,422.6	4,381.9
NPLs purchased	12.2	35.5	42.7
Risk-weighted assets	20,332.7	20,027.7	20,689.9
ROAC	16%	10%	19%
No. of staff	633	630	616
Front Office Wholesale	256	302	294

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The CIB division posted a net profit for the six months of €170.3m (up 18.2% since last year) the highest levels posted in the last five years, with the 2Q performance matching the excellent results delivered in 1Q. In particular, fee income from investment banking [18] was near to €100m (€69m last year), as a result of numerous M&A and Capital Market deals being closed in near succession. The recovery in non-performing exposures also continues, with the Burgo position (the Group's largest UTP exposure) returning to performing status during the six months, releasing some €110m roughly half of which was used for higher provisioning, in particular to cover the part of the portfolio most affected by the Covid-19 pandemic on the assumption of potential instances of non-performance in the future. The ROAC for the division increased to 19% (30/6/20: 10%; 31/12/19: 16%), and the cost/income ratio fell to 40.5% (from 43.3% last year), despite reflecting pro rata accruals for variable staff compensation.

With reference to the CIB division's main markets (Italy, Spain/Portugal and France), the M&A market shows deal values which doubled in the six months, and were more than 40% higher than in 2H 2019-20; ECM too showed the same performance (up 116% and 31%). Conversely, the debt market slowed: DCM was down by 20% and 40% respectively, as were EMEA syndicated loans (down and 23% and 8% respectively) [19].

In this scenario Mediobanca has seen very healthy investment banking activity levels, taking part in all the main deals, including two of the largest mergers on the EU market (Intesa-UBI, which has launched the most recent round on consolidation on the European banking market, and FCA/PSA, which has resulted in the creation of the leading automotive manufacturer in the European Union), and one of the largest IPOs in Europe (GVS), demonstrating a sound capacity in selecting targets with excellent equity stories in the Italian mid corporate panorama, inter alia in collaboration with Mediobanca Private Banking.

Loans and advances to customers increased from €18.6bn to €19.5bn, with the contribution from Specialty Finance up from €2.1bn to €2.7bn on increased activity levels in ordinary factoring (turnover up 7.6%, to €4.4bn) normally concentrated towards the year end. The contribution from Lending and Structured Finance decreased from €15.2bn to €14.6bn, on new loans of €3.1bn, [20] following repayments of €3.7bn, €830m of which early, and €1.5bn in RCF lines drawn in

[18] Investment banking includes M&A and Equity Capital Markets.

[19] For further details on the division's reference markets, see p. 18.

[20] The revolving share is equal to approx. 20%; this includes six deals with SACE backing granted under the "Liquidity" decree, the aggregate risk for which as at end-2020 was just under €200m (drawn as to €150m).

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the fourth quarter of 2020. The reduction reflects the prudence required by the historical conditions, and the selective approach to lending reflected in the priority being given to counterparties rated as investment grade. During the six months the Bank also took part in several domestic leveraged finance deals, including the IMA and Sorgenia IPOs, which generated a healthy contribution in terms of fees. The loan stock in Capital Market Solutions increased during the period, from €1.3bn to €2.2bn), in connection with margin loans and collateralized lending facilities.

	30/6/20		31/12/20		Chg (%)
	(€m)	%	(€m)	%	
Italy	10,215.6	55%	10,904.1	55.9%	6.7%
France	1,426.4	8%	1,674.1	8.6%	17.4%
Spain	1,011.8	5%	1,226.6	6.3%	21.2%
Germany	1,509.0	8%	1,487.7	7.6%	-1.4%
U.K.	1,257.5	7%	1,023.4	5.2%	-18.6%
Other non resident	3,223.9	17%	3,206.5	16.4%	-0.5%
Total loans and advances to customers CIB	**18,644.2**	**100%**	**19,522.4**	**100%**	**4.7%**
- of which: Specialty Finance	*2,122.6*	*11%*	*2,359.1*	*12.1%*	*11.1%*

Asset quality improved even further: gross non-performing loans halved, from €541.6bn to €231.3m, the lowest level recorded in the last decade (1.2% of the gross loan stock, 0.5% net) following the Burgo debt refinancing (this being the largest UTP position, entailing a gross exposure of €317.7m), with minimal reclassifications to Stage 3 and increases in the coverage ratio for two positions with negative outlook involving a much smaller amount overall (€7.5m); net NPLs were just under €105m, with a coverage ratio of 55%. NPLs acquired rose from €358.6m to €380.2m, with the flow of new investments limited at €42.7m.

The Covid-related impact on the CIB loan book remains low: the number of applications for waivers rose by around twenty in the six months, in all cases regarding revisions to financial covenants, with an only a limited number of requests for payment deferrals (since the start of the pandemic, the amount of payments deferred has not exceeded €15m). The majority of the applications are temporary in nature, and the companies concerned have no structural liquidity issues; therefore, after careful analysis, none of the applications granted in the six months was deemed to constitute forbearance measures.

As at 31 December 2020, exposures reclassified to Stage 2 amounted to €444m, including another nine counterparties for which a significant increase in credit risk was noted following individual rating changes; total Stage 2 positions thus increased to €829.3m (4.2% of total loans). In view of the ECB

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recommendations and the staging process, it has been decided to increase the provisioning for the whole portfolio, making changes to the IFRS 9 provisioning models used (in particular revising the PD calibrations, and removing some of the macro scenario mitigation factors introduced last year), and subjectively increasing the expected credit loss for all borrowers operating in the sectors most affected by Covid-19 or which applied for waivers in the course of 2020. The overall effect entailed an increase in the adjustments made (approx. €49m for large corporate loans), reflected in an increase in the provisioning rate for performing loans which doubled from 0.35% to 0.72% (30/6/20: 0.59%).

The CIB division posted an increase in revenues of 9.9% year-on-year, from €331.5m to €364.3m, and of 50% vs 2H 2019-20, due to the performance of Wholesale Banking (up 12.7%, from €271.7m to €306.1m), with the performance well-balanced between the two quarters.

The main income items performed as follows:

– Net interest income rose from €136.1m to €148.5m; growth of 9.1% was driven by large corporate loans (up 8%, from €78.4m to €85.1m, as an effect inter alia of €8m in extraordinary items linked to the Burgo loan renegotiation) and a higher contribution from trading securities (up from €11.8m to €21m), principally in connection with the increase in positions covering the certificates issued in CMS activity. The lower levels of activity in NPLs and instalment factoring impacted on the performance in Specialty Finance, where NII was down 13%, from €41m to €35.9m);

– Fee income soared from €121.9m to €172.2m, an increase of 41.3% which reflects higher contributions from Equity Capital Markets, of €28m (€4m) and Lending, of €27.9m (€19.7m); the contributions from the other areas also increased, albeit not as sharply: fees from Advisory business rose from €64.6m to €67.7m), from Debt Capital Market activities from €10.5m to €11.7m, and Specialty Finance from €18.6m to €22.4m;

– Net treasury income decreased from €73.5m to €43.5m, due to the reduced client activity levels (€32m, versus €58.2m), plus certain fair value adjustments to reflect the market uncertainties (approx. €5m) which offset a good performance by the proprietary portfolio (€17m, versus €15.1m), recovering significantly after the over €20m losses reported in 2H 2019-20.

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Revenues	6 mths ended 31/12/19	12 mths ended 30/06/20	6 mths ended 31/12/20	Chg. (%)
Capital Market	14.5	22.9	39.9	n.m.
Lending	98.5	191.0	113.7	15.4%
Advisory M&A	64.6	112.4	67.7	4.9%
Trading Prop	23.3	11.3	30.3	30.1%
Mercati, Sales e Altri Proventi	70.8	123.6	54.4	-23.1%
Specialty Finance	59.8	113.9	58.2	-2.6%
Total Revenues	**331.5**	**575.1**	**364.3**	**9.9%**

Commissions	6 mths ended 31/12/19	12 mths ended 30/06/20	6 mths ended 31/12/20	Chg. (%)
Capital Market, Sales e Altri Proventi	19.0	41.0	54.2	n.m.
Lending	19.7	37.8	27.9	41.6%
Advisory M&A	64.6	112.4	67.7	4.9%
Specialty Finance	18.6	34.6	22.4	20.2%
Total CIB Commissions	**121.9**	**225.8**	**172.2**	**41.3%**

Operating costs reflect a residual increase (from €143.7m to €147.6m), which is closely related to the bonus pool being aligned pro rata to revenues (labour costs: up 6.1%); while administrative expenses were basically flat, at €67.4m, despite a higher contribution from central projects, which was offset by material savings on travel and entertainment expenses.

During the six months net writebacks of €43.6m were credited, reflecting further improvement on the €30m credited last year. Much of this was due to the Burgo writeback (€110m), more than half of which was used to further increase the provisioning for the corporate loan book, where the coverage ratio for the performing items (Stage1 + Stage2) increased from 0.35% to 0.72% (30/6/20: 0.59%). Writedowns in Specialty Finance increased from €9.5m to €17.8m, reflecting the higher volumes in factoring, the effect of the extra collections, and some prudential adjustments to take account of potential Covid-related effects, in particular with reference to NPL activities.

	6 mths ended 31/12/19	12 mths ended 30/06/20	6 mths ended 31/12/20
CIB	39.5	4.5	61.4
Specialty Finance	(9.5)	(24.5)	(17.8)
Other financial assets	(0.3)	(3.5)	1.0
Total provisions	**29.7**	**(23.5)**	**44.6**

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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)

	6 mths ended 31/12/19	12 mths ended 30/6/20	6 mths ended 31/12/20	Chg. (%)
Profit-and-loss				
Other incomes	1.8	8.5	13.0	n.m.
Equity-accounted companies	183.7	304.3	110.9	-39.6
Total income	**185.5**	**312.8**	**123.9**	**-33.2**
Labour costs	(1.7)	(3.3)	(1.6)	-5.9
Administrative expenses	(0.5)	(1.0)	(0.5)	n.m.
Operating costs	**(2.2)**	**(4.3)**	**(2.1)**	**-4.5**
Net loss provisions	8.3	(10.9)	19.2	n.m.
Profit before tax	**191.6**	**297.6**	**141.0**	**-26.4**
Income tax for the period	(4.7)	(2.6)	(12.6)	n.m.
Net profit	**186.9**	**295.0**	**128.4**	**-31.3**

	31/12/19	30/6/20	31/12/20
Balance-sheet data			
Banking book equity securities	645.6	673.9	674.5
IAS28 investments	3,830.8	3,204.6	3,698.9
Risk-weighted assets	5,746.3	8,121.9	8,259.0

The division posted a net profit of €128.4m for the six months, lower than last year (€186.9m) as a result of a reduced contribution from the equity method which added €110.9m (€183.7m) already booked to 1Q and mostly attributable to extraordinary items for Assicurazioni Generali; [21] the 2Q contribution (€67.5m) was already back to normal levels. There was an improved contribution from holdings in funds (seed capital, private equity and real estate), for which distributions in the six months rose to €13.4m, plus income from redemptions totalling €1.3m and positive valuations at the reporting date totalling €17.9m. There were also €3.1m in gains on equities, including €2.2m by way of an extraordinary distribution to Burgo shareholders prior to the group's recapitalization.

[21] Last year the extraordinary items reflected the €352m gain on the disposal of Generali Leben, while this year a one-off charge of €183m was taken in respect of the settlement reached with BTG Pactual regarding the BSI disposal .

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The book value of the Assicurazioni Generali investment increased from €3,163.4m to €3,659.2m, on profits for the period totalling €112.5m (31/12/19: €183.3m), and an increase of €722.8m in the valuation reserve following the upturn on markets. The book value of the IEO investment fell from €41.2m to €39.6m, reflecting the company's lower profitability during the April-September period, as a result of the limitations on operations due to the Covid-19 emergency.

The positions in securities held as part of the banking book declined slightly: against the reduction in holdings in funds (from €534.8m to €526.5m), on net disposals of €25.3m and upward adjustments of €17.9m, there was an increase in holdings in equities (from €139.1m to €148m) due to new investments (approx. €10m), net of downward adjustments to reflect stock market prices at end-December 2020 (resulting in a charge of €1m taken directly to the net equity reserves).

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HOLDING FUNCTIONS (CENTRAL, TREASURY AND LEASING)

The Holding Functions comprises SelmaBipiemme Leasing, MIS, Spafid Connect, 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 [22]), 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)

	6 mths ended 31/12/19	12 mths ended 30/6/20	6 mths ended 31/12/20	Chg. (%)
Profit-and-loss				
Net interest income	(30.7)	(55.0)	(22.5)	26.7
Net trading income	12.1	37.5	21.2	75.2
Net fee and commission income	7.2	10.6	6.7	-6.9
Total income	**(11.4)**	**(6.9)**	**5.4**	**n.m.**
Labour costs	(57.7)	(116.5)	(59.3)	2.8
Administrative expenses	(22.3)	(56.3)	(18.2)	-18.4
Operating costs	**(80.0)**	**(172.8)**	**(77.5)**	**-3.1**
Loan loss provisions	(3.8)	(9.7)	(6.0)	57.9
Provisions for other financial assets	(0.1)	(5.6)	(8.0)	n.m.
Other income (losses)	(11.8)	(64.3)	(17.9)	51.7
Profit before tax	**(107.1)**	**(259.3)**	**(104.0)**	**-2.9**
Income tax for the period	31.9	76.3	32.0	0.3
Minority interest	(1.3)	(0.7)	(1.1)	-15.4
Net profit	**(76.5)**	**(183.7)**	**(73.1)**	**-4.4**

	31/12/19	30/6/20	31/12/20
Balance-sheet data			
Loans and advances to customers	1.883,1	1.819,9	1.799,6
Banking book securities	5.631,2	5.611,5	6.173,1
No. of staff	807	817	799 [23]
Risk-weighted assets	3.381,1	3.128,4	3.165,5

The Holding Functions posted a lower net loss than last year, down from €76.5m to €73.1m, following a positive contribution from treasury management to total income, generating a positive result at the top-line level of €5.4m (compared with a €11.4m loss last year), and slightly lower costs of €77.5m (€80m), nonetheless

[22] 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.

[23] The 799 resources are divided as follows: 109 in SelmaBipiemme and 8 in the other non-core companies; 32 in Group Treasury and ALM; 127 in MIS, 208 in operations, 163 in support functions, 145 in control functions as well as 7 in management (senior management and assistants), of which the cost of approximately 236 FTE is reallocated to the business lines, compared to end-December 2019, when, out of a total of 807 FTEs, the cost of approx. 223 was reallocated.

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offset by higher writedowns totalling €14m (€3.9m), in particular due to adapting the IFRS 9 model for securities (€6.4m). Treasury division reduced net interest expense from €49.6m to €40.8m, as did net trading income (from €12.1m to €21.2m). The reduction in costs chiefly reflects the lower central costs, which account for approx. 8% of the Group's total spending.

The areas of operation performed as follows:

- Treasury management was boosted by the increased use of less expensive funding sources, through recourse to the new TLTRO programme (the balance of which increased from €5.7bn to €6.2bn, almost 90% of which tranche III): the cheaper funding sources allowed the liquidity ratios to be stabilized at prudent levels (LCR 155% and NSFR 106.9%) and drove a further reduction in net interest expense (from €49.6m to €40.8m), with the T-LTRO III premium contributing approx. €10m. The cost of funding was virtually unchanged at 80 bps, despite the further approx. 20 bps reduction in market interest rates. This trend was offset by the lower contribution to net interest income of securities held as part of the banking book (down from €39.7m to €30m), despite higher volumes of €6.2bn (€5.6bn), a gap which was made up for by the results of portfolio management, the profits from which increased from €12.2m to €21.2m without affecting the valuation reserve, which remains comfortably in positive territory at over €70m;
- Leasing operations posted a net profit of €1.7m, in line with last year (€1.9m), on revenues of €20.1m (virtually unchanged), and costs of €10.2m, the reduction in which (down 7.3%) was offset by a slight increase in loan loss provisions, to €6.2m (€5.9m), reflecting a cost of risk equal to 69 bps, and includes a material increase in the provisioning for the performing component (from 0.68% to 0.89%) in respect of the leases for which moratoria have been granted, and so absorbing much of the writebacks for the non-performing items. Leases outstanding decreased from €1,819.9m to €1,799.6m, approx. one-third of which were covered by moratoria (€587m, mainly under the "Cura Italia" decree), and roughly 30% classified as Stage 2. There was an improvement in the non-performing items: gross NPLs totalled €166.7m (€185m) and account for 8.9% of the total loan book; while net NPLs were down to 5.5%, taking into account the higher coverage ratio of 40.7% (35.8%). As at 31 December 2020, the share accounted for by leases classified as Stage 2 had risen from €129.1m to €219.5m, following approx. €82m in reclassifications for the six months due to moratoria.

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RESTATED PROFIT AND LOSS ACCOUNT

(€m)

	6 months ended 31/12/19	12 months ended 30/6/20	6 months ended 31/12/20	Chg. (%)
Profit-and-loss data				
Net interest income	46.7	99.9	66.2	41.8
Net treasury income	89.7	127.1	78.6	-12.4
Net fee and commission income	120.8	231.7	166.2	37.6
Dividends on investments	2.9	104.2	2.2	-24.1
Total income	**260.1**	**562.9**	**313.2**	**20.4**
Labour costs	(112.9)	(221.9)	(119.3)	5.7
Administrative expenses	(86.7)	(180.8)	(81.1)	-6.5
Operating costs	**(199.6)**	**(402.7)**	**(200.4)**	**0.4**
Loan loss provisions	48.7	15.7	62.8	29.0
Provisions for other financial assets	7.2	(21.8)	10.4	44.4
Impairment on investments	(4.6)	(61.4)	—	n.m.
Other income (losses)	(0.3)	(39.7)	(0.4)	33.3
Profit before tax	**111.5**	**53.0**	**185.6**	**66.5**
Income tax for the period	(41.1)	(13.6)	(69.0)	67.9
Net profit	**70.4**	**39.4**	**116.6**	**65.6**

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RESTATED BALANCE SHEET

(€m)

	31/12/19	30/6/20	31/12/20
Balance-sheet data			
Assets			
Financial assets held for trading	12,763.2	9,214.7	11,766.5
Treasury financial assets and cash	11,011.1	10,306.8	10,470.9
Banking book securities	10,320.3	9,592.2	9,440.2
Customer loans	28,542.2	30,507.4	34,441.5
Equity Investments	4,102.1	4,089.0	4,378.3
Tangible and intangible assets	174.0	168.4	164.2
Other assets	725.9	959.4	845.0
Total assets	**67,638.8**	**64,837.9**	**71,506.6**
Liabilities and net equity			
Funding	42,471.7	46,273.9	50,367.8
Treasury financial liabilities	8,910.7	4,614.1	5,326.8
Financial liabilities held for trading	10,563.5	8,351.7	10,058.9
Other liabilities	767.7	762.7	735.7
Provisions	103.6	121.6	140.0
Net equity	4,751.2	4,674.5	4,760.8
Profit of the period	70.4	39.4	116.6
Total liabilities and net equity	**67,638.8**	**64,837.9**	**71,506.6**

Mediobanca S.p.A. delivered a net profit of €116.6m in the six months, representing a marked improvement on the €70.4m posted last year, on higher revenues (up 20.4%), driven by strong fee income (up 37.6%), and helped by material writebacks to customer loans; with operating costs remained flat. The main income items performed as follows:

- Net interest income rose from €46.7m to €66.2m, an increase of 41.8%, and reflects the lower cost of funding due to the increased recourse to T-LTRO III (approx. €10m in additional premium for the six months), plus a non-recurring item of approx. €8m linked to the Burgo refinancing;
- Net treasury income was down 12.4%, from €89.7m to €78.6m, reflecting the reduced client activity levels (from €58.2m to €30.6m) which were only in part off-set by good performance by the proprietary portfolio; the contribution from trading activity rose from €15.1m to €17m, while the effects of the banking book taken through profit and loss came to €22m (€11.1m). The overall result includes prudential fair value adjustments of some €5m, which were more than offset by higher income from funds totalling €14.4m (€5.3m);

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- Net fee and commission income grew by 37.6%, from €120.8m to €166.2m, due to numerous advisory and capital market deals closing in near succession. The Bank has leveraged its long-standing relations with corporate clients, participating in all the leading Italian domestic deals, with increases in fee income from investment banking operations, from €55.6m to €83.6m, and lending, from €18.4m to €26.3m. Private Banking contributed fees of €36.6m: the increase in recurring fees, which totalled €34.7m (€31.2m), including a substantial amount of €5.6m from placements (€1.2m), offset the reduction in performance fees (from €6m to €1.8m);
- Labour costs increased from €112.9m to €119.3m, due to the increased weight of variable compensation components in investment banking, and the strengthening of the commercial area in Private Banking;
- Administrative expenses decreased from €86.7m to €81.1m: the reduced mobility generated savings on travel, events and entertainment expenses, and caused a slowdown in project-related activities, offsetting the anticipated increase in IT costs;
- Net writebacks on the loan book rose from €48.7m to €62.8m, and include €2.6m in adjustments to intra-Group positions (compared with €6m in net writebacks last year), plus the substantial reversal (in an amount of €110m) related to the Burgo refinancing, almost half of which was offset by increased provisioning, especially in respect of the part of the performing loan book which involves sectors most affected by Covid-19, thus anticipating potential future impairment;
- The effects of other financial assets taken through profit and loss were positive, adding €10.4m (versus €7.2m last year), representing the difference between the increase in valuations of holdings in funds (up from €9.3m to €20.1m) and greater prudence over expected losses on securities and other financial items (such losses increasing from €2.1m to €9.7m).

With regard to the main balance-sheet items:

- Loans and advances to customers rose from €30.5bn to €34.4bn, €12.4bn of which were loans to large corporates (€12.4bn), €1.3bn to Private Banking clients (€1.1bn) and €20.7bn to Group companies (€17bn). Gross non-performing exposures declined from €468.7m to €146.5m, whereas net loan loss provisions decreased from €287.2m to €74.5m;

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- Banking book debt securities were basically stable at €9.4bn, €5.3bn of which booked as Hold to collect (€2.7bn of which intercompany), €4.1bn of which as Hold to collect and sell, and €53.1m in securities mandatorily recognized at fair value;
- Investment holdings increased from €4.1bn to €4.4bn, following the capital increase by Group company CheBanca! (€280m) which was necessary in order to reach the individual leverage ratio target;
- Net treasury assets totalled €6.9bn (€6.6bn), with the growth concentrated in investments in equities against operations in derivatives with clients, in part offset by the reduction in the net balance of deposits held at the ECB (which declined from €3.1bn to €1.8bn);
- Funding increased significantly, from €46.3bn to €50.4bn, mainly attributable to CheBanca! funding (down from €12.2bn to €15bn) and the increased recourse to the T-LTRO facilities (€6.2bn, as against €5.7bn); the debt securities component remained stable at €16.4bn;
- Net equity increased from €4.7bn to €4.9bn on profit for the six months of €116.6m and higher valuation reserves (up €43.6m), the balance of which as at end-December 2020 was €117.6m, €26.3m of which in Italian government debt securities;
- AUM/AUA in the Private Banking segment rose by 7%, from €15.2bn to €16.3bn helped by NNM of €631m and positive market valuations which added €452m.

Finally, the Group's Frankfurt branch office was closed on 31 December 2020, as approved by the Board of Directors at a meeting held on 25 June 2020.

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

(€m)

Company	**Percentage shareholding**	**Business Line**	**Total assets**	**Loans and advances to customers**	**Total net equity** [1]	**No. of staff**
Mediobanca Securities (dati in USDm)	100%	Corporate and Investment Banking	6.7	—	5.9	5
Mediobanca Funding Luxembourg	100%	Corporate and Investment Banking	11.0	10.0	0.9	—
Messier Maris et Associés S.C.A. *	100%	Corporate and Investment Banking	—	—	—	34
Messier Maris et Associés L.L.C. (data in USDm) *	100%	Corporate and Investment Banking	—	—	(1.7)	4
Mediobanca International	100%	Corporate and Investment Banking / Holding Functions	6,759.1	5,247.8	330.7	18
MBFACTA	100%	Corporate and Investment Banking	2,405.2	2,363.2	166.4	36
MBCredit Solutions	100%	Corporate and Investment Banking	434.5	380.4	162.8	209
MB Contact Solutions	100%	Corporate and Investment Banking	0.9	—	0.5	—
Compass Banca	100%	Consumer Banking	14,353.7	12,776.8	2,274.0	1,450
Quarzo S.r.l.	90%	Consumer Banking	0.7	—	—	—
Quarzo CQS S.r.l.	90%	Consumer Banking	0.1	—	—	—
Compass RE	100%	Consumer Banking	400.5	123.0	205.0	1
Compass Rent	100%	Consumer Banking	2.1	—	2.0	4
CheBanca!	100%	Wealth Management	26,814.7	10,697.6	807.8	1,434
Mediobanca Covered Bond	90%	Wealth Management	0.7	—	0.1	—
CMB Monaco	100%	Wealth Management	5,787.2	2,063.0	871.7	241
Spafid	100%	Wealth Management	55.6	—	46.6	49
Spafid Family Office SIM	100%	Wealth Management	1.2	—	1.0	3
Cairn Capital Group Limited (data in GBPm) *	100%	Wealth Management	18.4	—	5.1	53
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	29.1	—	27.1	32
RAM Active Investments (Luxembourg) (data in CHFm)	100%	Wealth Management	6.7	—	4.2	6
Compagnie Monégasque de Gestion	100%	Wealth Management	9.2	—	1.3	9
Spafid Trust S.r.l.	100%	Wealth Management	1.6	—	1.4	3
Mediobanca SGR S.p.A.	100%	Wealth Management	47.8	—	36.7	50
Mediobanca Management Company S.A.	100%	Wealth Management	15.3	—	8.1	6
Mediobanca International Immobilière	100%	Holding Functions	1.9	—	1.9	—
SelmaBipiemme Leasing	60%	Holding Functions	1,947.2	1,799.7	213.4	109
Prominvestment (under liquidation - under arrangement with creditors)	100%	Holding Functions	—	—	(0.4)	—
Mediobanca Innovation Services	100%	Holding Functions	111.1	—	35.0	127
Ricerche e Studi	100%	Holding Functions	1.1	—	—	10
Spafid Connect	100%	Holding Functions	8.6	—	7.0	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. 96.

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(€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	1.5	(1.3)	—	0.1
Mediobanca Funding Luxembourg	100%	Corporate and Investment Banking	0.3	(0.3)	—	—
Messier Maris et Associés S.C.A. *	100%	Corporate and Investment Banking	24.0	(15.2)	—	6.4
Messier Maris et Associés L.L.C. (data in USDm) *	100%	Corporate and Investment Banking	—	(0.2)	—	(0.2)
Mediobanca International	100%	Corporate and Investment Banking / Holding Functions	9.7	(4.5)	(7.9)	(2.0)
MBFACTA	100%	Corporate and Investment Banking	23.8	(4.7)	(7.2)	8.1
MBCredit Solutions	100%	Corporate and Investment Banking	34.7	(21.8)	(8.2)	2.7
MB Contact Solutions	100%	Corporate and Investment Banking	—	(0.1)	—	(0.1)
Compass Banca	100%	Consumer Banking	494.2	(149.5)	(143.5)	123.9
Quarzo S.r.l.	90%	Consumer Banking	0.1	(0.1)	—	—
Quarzo CQS S.r.l.	90%	Consumer Banking	—	—	—	—
Compass RE	100%	Consumer Banking	20.8	(0.4)	—	14.2
Compass Rent	100%	Consumer Banking	—	(0.6)	—	(0.5)
CheBanca!	100%	Wealth Management	173.3	(128.4)	(13.7)	9.2
Mediobanca Covered Bond	90%	Wealth Management	—	—	—	—
CMB Monaco	100%	Wealth Management	49.2	(33.5)	(0.3)	12.7
Spafid	100%	Wealth Management	4.2	(4.3)	—	(0.2)
Spafid Family Office SIM	100%	Wealth Management	0.5	(0.8)	—	(0.2)
Cairn Capital Group Limited (data in GBPm) *	100%	Wealth Management	8.9	(9.7)	—	(0.7)
CMB Wealth Management UK (data in GBPm) (under liquidation)	100%	Wealth Management	—	—	—	—
RAM Active Investments (data in CHFm) *	89,3%	Wealth Management	6.1	(6.6)	—	(0.5)
RAM Active Investments (Luxembourg) (data in CHFm)	100%	Wealth Management	1.1	(1.0)	—	—
Compagnie Monégasque de Gestion	100%	Wealth Management	2.9	(1.7)	—	0.9
Spafid Trust S.r.l.	100%	Wealth Management	0.4	(0.4)	—	—
Mediobanca SGR S.p.A.	100%	Wealth Management	12.3	(7.0)	—	3.6
Mediobanca Management Company S.A.	100%	Wealth Management	1.9	(1.0)	—	0.7
Mediobanca International Immobilière	100%	Holding Functions	0.1	(0.1)	—	—
SelmaBipiemme Leasing	60%	Holding Functions	20.1	(10.2)	(6.2)	2.8
Prominvestment (under liquidation - under arrangement with creditors)	100%	Holding Functions	0.6	(0.2)	—	0.4
Mediobanca Innovation Services	100%	Holding Functions	—	0.3	—	0.2
Ricerche e Studi	100%	Holding Functions	0.8	(0.8)	—	—
Spafid Connect	100%	Holding Functions	1.3	(1.4)	—	(0.2)

* Taking into account the put-and-call option; see Part A1 – Section 3 – Area and methods of consolidation, p. 96.

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Finally, it should be noted that:

– CMB Monaco closed its local financial statements for the twelve months ended 31 December 2020 with a net profit of €14.4m higher than the previous year (31/12/19: €13.3m), following reversals from the provisions for risks totalling €4.5m (€2.3m last year), offsetting the lower gains on the proprietary portfolio of €1.4m (€4.1m). A good performance in fee income (up 8%, from €61.1m to €66.1m) and net interest income (up 2%, from €43.2m to €44m) despite the reduction in market interest rates, was, however, more than offset by 7% increase in costs (from €66.1m to €71m), due to major investments in connection with the strategic repositioning process (new recruits and upgrades to the IT platform). Client activity intensified in the twelve months, with customer loans rising from €1,633m to €2,064m on TFAs stable at €11.4bn, €4.3bn were deposits, up approx. €300m, covering the reduction in net AUM/AUA due to the more prudent stance being adopted by clients pending more stable market prospects.

Other information

Related party disclosure

Financial accounts outstanding as at 31 December 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 in respect of parent companies incorporated or regulated by the laws of EU member

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states and relevant to the preparation of the consolidated accounts, CMB Monaco is the only Group company affected by this provision, and adequate procedures have been adopted to ensure full compliance with it.

Principal risks facing the Group

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

In particular, this involves concentration risk 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's consolidated non-financial statement is published annually on the Bank's website at www.mediobanca.com (in the section entitled "Sustainability"), and is drawn up in accordance with the provisions of Italian Legislative Decree 254/16 and with 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.

The Group has adopted an integrated strategy, which can combine growth in business and financial solidity with social and environmental sustainability, creating value over the long term. The 2019-23 Strategic Plan includes the Group's CSR targets with the intention of contributing to six of the seventeen Sustainable Development Goals [24].

[24] See press release dated 12 November 2019.

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The Group maintains an active role in the community in which it operates, promoting numerous initiatives with social impact, including through charitable donations and support. The various long-term projects to which we are committed continue, including the following: the CheBanca! Academy of Woodworking, run in partnership with the Cometa co-operative, the financial education programme Crescere, che impresa!, "INSIEME/TOGETHER", the project to promote social inclusion through sport, and the Mediobanca Group Sport Camp at the "Cesare Beccaria" Institute for young offenders. As for the social emergency brought on by Covid-19, CheBanca! has reaffirmed its commitment by donating 1x1000 of the tied deposits made by its clients to one or more projects with select charitable associations. The second tranche of €360,000 will be donated to Fondazione Progetto Arca to fund the distribution of food parcels to 1,000 families in financial difficulties in various Italian cities over the next twelve months, with the involvement of volunteers from the Mediobanca Group as well.

Research

R&S has worked together with the Mediobanca Research Department, contributing to the development of all reports and surveys published under the "Area Studi Mediobanca" logo.

Rating

Mediobanca's rating has not undergone any changes during the six months, hence the ones disclosed in the Annual Report for the twelve months ended 30 June 2020 continue to apply.

Taking into account the cap mechanism for bank ratings, Mediobanca's rating situation therefore remains as follows: S&P Global rating BBB for long-term debt and "A-2" for short-term debt, with "negative" outlook; Moody's, Baa1 for long-term debt and "P-2" for short-term debt, with "negative" outlook; Fitch Ratings, BBB- for long-term debt, BBB for long-term deposits, and F3 for short-term debt, with stable outlook.

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Outlook

The next six months should deliver a healthy operating performance, although not as impressive as in 1H which was boosted by a particularly positive deal flow in investment banking and the writeback in respect of the Burgo exposure, even though some of the latter was offset by the extraordinary increase in provisioning for performing assets.

Volumes in Consumer Banking are expected to be stable in the next six months, translating to a slight reduction in net interest income which will also be impacted by the absence of non-recurring items in CIB during this period. Fee income generated by Wealth Management is expected to grow, and net trading income to stabilize, in line with the first two quarters without factoring in a recovery in client activity.

Operating costs should increase slightly, due to the expected growth in commercial and project-related activities, following the slowdown due the restrictions instituted.

The cost of risk, net of the one-off items in this half-year (approx. €50m) should continue to be stable, bearing in mind that all Consumer Banking indicators are back to pre-Covid levels.

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Reconciliation of shareholders' equity and net profit

(€m)

	Shareholders' equity	Net profit (loss)
Balance at 30/06 as per Mediobanca S.p.A. accounts	4,754,838	119,726
Net surplus over book value for consolidated companies	14,822	183,349
Differences on exchange rates originating from conversion of accounts made up in currencies other than the Euro	(190)	—
Other adjustments and restatements on consolidation, including the effects of accounting for companies on an equity basis	5,296,699	107,478
Dividends received during the period	—	—
Total	**10,066,169**	**410,553**

Milan, 9 February 2021

THE BOARD OF DIRECTORS

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DECLARATION BY HEAD OF COMPANY FINANCIAL REPORTING

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

1. The undersigned Alberto Nagel and Emanuele Flappini, in their respective capacities as Chief Executive Officer and Head of Company Financial Reporting of Mediobanca, hereby declare, and in view inter alia of the provisions contained in Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree 58/98, that the administrative and accounting procedures used in the preparation of the interim financial statements:
   - were adequate in view of the company's characteristics
   - were effectively applied during the six months ended 31 December 2020.
2. Assessment of the adequacy of said administrative and accounting procedures for the preparation of the consolidated financial statements as at 31 December 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 interim review:
   - has been drawn up in accordance with the International Financial Reporting Standards adopted by the European Union pursuant to EC regulation no. 1606/02 issued by the European Parliament and Council on 19 July 2002;
   - corresponds to the data recorded in the company's books and account ledgers;
   - is adequate for the purpose of providing a truthful and accurate representation of the capital, earnings and financial situation of the issuer and the group of companies included within its area of consolidation.

   3.2 the interim review of operations contains reliable analysis of the most important events to take place in the first six months of the financial year and their impact on the interim financial statements, along with a description of the main risks and uncertainties for the remaining six months. The interim review of operations also contains reliable analysis of information on major transactions involving related parties.

Milan, 9 February 2021

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

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EXTERNAL AUDITORS' REPORT

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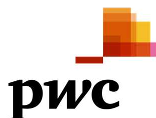
Review report on consolidated condensed interim financial statements as of 31 december 2020

Mediobanca SpA



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REVIEW REPORT ON CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

To the shareholders of
Mediobanca SpA

Foreword

We have reviewed the accompanying consolidated condensed interim financial statements of Mediobanca SpA and its subsidiaries (the Mediobanca Group) as of 31 December 2020, comprising the consolidated balance sheet, the consolidated profit and loss account, the consolidated comprehensive profit and loss account, the statement of changes to consolidated net equity, the consolidated cashflow statement and related notes to the accounts. The directors of Mediobanca Group are responsible for the preparation of the consolidated condensed interim financial statements in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these consolidated condensed interim financial statements based on our review.

Scope of Review

We conducted our work in accordance with the criteria for a review recommended by Consob in Resolution N° 10867 of 31 July 1997. A review of consolidated condensed interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than a full-scope audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the consolidated condensed interim financial statements.

PricewaterhouseCoopers SpA

Sede legale: **Milano** 20145 Piazza Tre Torri 2 Tel. 02 77851 Fax 02 7785240 Capitale Sociale Euro 6.890.000,00 i.v. C.F. e P.IVA e Reg. Imprese Milano Monza Brianza Lodi 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 071 2132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 080 5640211 - **Bergamo** 24121 Largo Belotti 5 Tel. 035 229691 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 051 6186211 - **Brescia** 25121 Viale Duca d'Aosta 28 Tel. 030 3697501 - **Catania** 95129 Corso Italia 302 Tel. 095 7532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 055 2482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 010 29041 - **Napoli** 80121 Via dei Mille 16 Tel. 081 36181 - **Padova** 35138 Via Vicenza 4 Tel. 049 873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091 349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521 275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 085 4545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06 570251 - **Torino** 10122 Corso Palestro 10 Tel. 011 556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461 237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422 696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 040 3480781 - **Udine** 33100 Via Poscolle 43 Tel. 0432 25789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332 285039 - **Verona** 37135 Via Francia 21/C Tel. 045 8263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444 393311

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated condensed interim financial statements of Mediobanca Group as of 31 December 2020 are not prepared, in all material respects, in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, 10 February 2021

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

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CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

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Consolidated Balance Sheet

(€'000)

Assets	31/12/20	30/6/20
10. Cash and cash equivalents	1,910,312	3,219,951
20. Financial assets at fair value with impact taken to profit and loss	12,900,123	9,585,412
a) Financial assets held for trading	*11,559,705*	*8,818,590*
b) Financial assets designated at fair value	*674,701*	*51,002*
c) Other financial assets mandatorily at fair value	*665,717*	*715,820*
30. Financial assets at fair value with impact taken to comprehensive income	4,246,172	3,627,591
40. Financial assets at amortized cost	57,396,447	55,957,290
a) Due from banks	*6,289,678*	*5,932,944*
b) Due from customers	*51,106,769*	*50,024,346*
50. Hedging derivatives	441,631	464,718
60. Adjustment of hedging financial assets (+/-)	—	—
70. Equity investments	3,698,825	3,204,702
80. Reinsured portion of technical reserve	—	—
90. Property, plant and equipments	493,744	495,772
100. Intangible assets	813,972	815,996
of which:		
goodwill	*666,239*	*666,536*
110. Tax assets	722,775	908,837
a) current	*131,541*	*251,337*
b) deferred	*591,234*	*657,500*
120. Assets classified as held for sale	—	—
130. Other assets	711,052	669,396
Total assets	**83,335,053**	**78,949,665**

(€'000)

Liabilities and net equity	31/12/20	30/6/20
10. Financial liabilities at amortized cost	60,271,455	58,941,428
a) Due to banks	*14,210,484*	*12,810,330*
b) Due to customers	*27,138,203*	*26,373,214*
c) Debt securities in issue	*18,922,768*	*19,757,884*
20. Trading financial liabilities	9,649,923	7,956,935
30. Financial liabilities designated at fair value	835,500	216,020
40. Hedging derivatives	506,623	465,225
50. Adjustment of hedging financial liabilities (+/-)	—	—
60. Tax liabilities	466,255	517,316
a) current	*121,428*	*191,868*
b) deferred	*344,827*	*325,448*
70. Liabilities included in disposal groups classified as held for sale	—	—
80. Oher liabilities	719,422	798,069
90. Staff severance indemnity provision	28,449	27,862
100. Provisions	145,977	129,493
a) commitments and financial guarantees	*21,269*	*13,964*
b) post-employment and similar benefits	*2,557*	*2,573*
c) other provisions	*122,151*	*112,956*
110. Insurance reserves	142,076	157,244
120. Revaluation reserves	783,201	374,650
130. Redeemable shares repayable on demand	—	—
140. Equity instruments repayable on demand	—	—
150. Reserves	6,860,681	6,265,864
160. Share premium reserve	2,195,606	2,195,606
170. Share capital	443,617	443,617
180. Treasury share (-)	(217,001)	(231,538)
190. Minority interests (+/-)	92,716	91,492
200. Profit/(loss) for the period (+/-)	410,553	600,382
Total liabilities and net equity	**83,335,053**	**78,949,665**

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Consolidated Profit and Loss Account

(€'000)

Items	31/12/20	30/6/20	31/12/19
10. Interest and similar income	929,627	1,943,892	1,005,815
of which: interest income calculated according to the effective interest method	*840,364*	*1,741,687*	*824,528*
20. Interest expense and similar charges	(210,655)	(502,197)	(262,056)
30. Net interest income	**718,972**	**1,441,695**	**743,759**
40. Fee and commission income	373,936	625,292	327,750
50. Fee and commission expense	(66,185)	(138,630)	(74,602)
60. Net fee and commission income	**307,751**	**486,662**	**253,148**
70. Dividends and similar income	39,585	87,425	38,686
80. Net trading income	69,522	(18,022)	(12,694)
90. Net hedging income (expense)	1,360	(4,787)	(701)
100. Gain (loss) on disposal/repurchase:	(12,330)	58,395	45,151
a) financial assets measured at amortized cost	*(3,610)*	*(2,672)*	*8,550*
b) financial assets valued at fair value with impact taken to comprehensive income	*(8,580)*	*60,421*	*38,387*
c) financial liabilities	*(140)*	*646*	*(1,786)*
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	75,803	33,098	34,970
a) financial assets and liabilities designated at fair value	*(5,176)*	*2,331*	*586*
b) other financial assets mandatorily valued at fair value	*80,979*	*30,767*	*34,384*
120. Total income	**1,200,663**	**2,084,466**	**1,102,319**
130. Net write-offs (write-backs) for credit risk:	(172,929)	(402,364)	(133,503)
a) financial assets measured at amortized cost	*(166,985)*	*(397,559)*	*(132,945)*
b) financial assets valued at fair value with impact taken to comprehensive income	*(5,944)*	*(4,805)*	*(558)*
140. Gains (losses) from contractual modifications without derecognition	92	(253)	20
150. Net income from financial operations	**1,027,826**	**1,681,849**	**968,836**
160. Premiums earned (net)	26,252	57,532	29,522
170. Other income (net) from insurance activities	(7,014)	(15,791)	(8,148)
180. Net profit from financial and insurance activities	**1,047,064**	**1,723,590**	**990,210**
190. Administrative expenses:	(602,616)	(1,235,439)	(591,422)
a) personnel coss	*(304,987)*	*(605,015)*	*(304,679)*
b) other administrative expenses	*(297,629)*	*(630,424)*	*(286,743)*
200. Net transfers to provisions:	(26,990)	13,720	17,169
a) commitments and financial guarantees	*(7,305)*	*(3,427)*	*(1,045)*
b) other sums set aside (net)	*(19,685)*	*17,147*	*18,214*
210. Net adjustments to tangible assets	(26,877)	(53,551)	(25,491)
220. Net adjustments to intangible assets	(16,067)	(30,222)	(13,949)
230. Other operating income (expense)	85,157	189,407	77,211
240. Operating costs	**(587,393)**	**(1,116,085)**	**(536,482)**
250. Gain (loss) on equity investments	110,879	304,269	183,726
260. Net result from fair value valuation of tangible and intangible assets	—	—	—
270. Goodwill write-offs	—	(96,900)	—
280. Gain (loss) on disposal of investments	—	59	159
290. Profit (loss) on ordinary activity before tax	**570,550**	**814,933**	**637,613**
300. Income tax for the year on ordinary activities	(158,916)	(213,504)	(168,457)
310. Profit (loss) on ordinary activities after tax	**411,634**	**601,429**	**469,156**
320. Gain (loss) of ceded operating assets, net of tax	—	—	—
330. Net profit (loss) for the period	**411,634**	**601,429**	**469,156**
340. Net profit (loss) for the period attributabe to minorities	(1,081)	(1,047)	(1,520)
350. Net profit (loss) for the period attributable to Mediobanca	**410,553**	**600,382**	**467,636**

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Consolidated Comprehensive Profit and Loss Account

(€'000)

		31/12/20	31/12/19
10.	Profit (Loss) for the period	411,634	469,156
	Other income items net of tax without passing through profit and loss	**(37,433)**	**(15,686)**
20.	Equity securities designated at fair value with impact taken to comprehensive income	(1,213)	14,017
30.	Financial liabilities at fair value with impact taken to profit and loss (variation of own credit risk)	(4,926)	—
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	(507)	(1,079)
80.	Non-current assets held for sale	—	—
90.	Share of valuation reserves attributable to equity-accounted companies	(30,787)	(28,624)
	Other income items net of tax passing through profit and loss	**445,262**	**464,859**
100.	Foreign investments hedges	901	—
110.	Exchange rate differences	(648)	4,684
120.	Cash flow hedges	233	21,374
130.	Hedging instruments (non-designated elements)	—	—
140.	Financial assets (other than equity securities) valued at fair value with impact taken to comprehensive income	42,768	5,925
150.	Non-current assets held for sale	—	—
160.	Share of valuation reserves attributable to equity-accounted companies	402,008	432,876
170.	**Total other income items, net of tax**	**407,829**	**449,173**
180.	**Comprehensive income (Heading 10 +170)**	**819,463**	**918,329**
190.	**Consolidated comprehensive income attributable to minorities**	**1,400**	**1,849**
200.	**Consolidated comprehensive income attributable to Mediobanca**	**818,063**	**916,480**

Statement of Changes to Consolidated Net Equity

(€'000)

	Total Group net equity at 30/6/20	Allocation of profit for previous period		Changes during the reference period									Total net equity at 31/12/20	Net equity attributable to the group at 31/12/20	Net equity attributable to the minorities at 31/12//20
		Reserves	Dividends and other fund applications	Changes to reserves	Transactions involving net equity							Overall consolidated profit for the 6 mths ended 31/12/20			
					New shares issued	Treasury shares acquired	Extra-ordinary dividend payouts	Changes to equity instruments	Treasury shares derivates	Stock options [1]	Changes to investments				
Share capital:	460,246	—	—	—	—	—	—	—	—	—	—	—	460,246	443,617	16,629
a) ordinary shares	460,246	—	—	—	—	—	—	—	—	—	—	—	460,246	443,617	16,629
b) other shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share premium reserve	2,197,454	—	—	—	—	—	—	—	—	—	—	—	2,197,454	2,195,606	1,848
Reserves:	6,340,226	601,429	—	4,365	—	(14,773)	—	—	—	4,667	—	—	6,935,914	6,860,681	75,233
a) retained earnings	6,202,878	601,429	—	5,406	—	—	—	—	—	—	—	—	6,809,713	6,735,107	74,606
b) others	137,348	—	—	(1,041)	—	(14,773)	—	—	—	4,667	—	—	126,201	125,574	627
Valuation reserves	372,256	—	—	1,041	—	—	—	—	—	—	—	407,829	781,126	783,201	(2,075)
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(231,538)	—	—	—	—	14,537	—	—	—	—	—	—	(217,001)	(217,001)	—
Profit (loss) for the period	601,429	(601,429)	—	—	—	—	—	—	—	—	—	411,634	411,634	410,553	1,081
Total net equity	9,740,073	—	—	5,406	—	(236)	—	—	—	4,667	—	819,463	10,569,373	X	X
Net equity attributable to the group	9,648,581	—	—	5,582	—	(236)	—	—	—	4,667	—	818,063	X	10,476,657	X
Net equity attributable to minorities	91,492	—	—	(176)	—	—	—	—	—	—	—	1,400	X	X	92,716

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

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 31/12/19	Net equity attributable to the group at 31/12/19	Net equity attributable to the minorities at 31/12/19
				Reserves	Dividends and other fund applications	Changes to reserves	Transactions involving net equity							Overall consolidated profit for the 12 mths ended 31/12/19			
							New shares issued	Treasury shares acquired	Extra-ordinary dividend payouts	Changes to equity instruments	Treasury shares derivates	Stock options [2]	Changes to investments				
Share capital:	460,237	—	460,237	—	—	—	—	—	—	—	—	—	—	—	460,237	443,608	16,629
a) ordinary shares	460,237	—	460,237	—	—	—	—	—	—	—	—	—	—	—	460,237	443,608	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	(408,548)	(20,246)	—	(15,979)	—	—	—	4,836	—	—	6,348,054	6,273,885	74,169
a) retained earnings	5,821,906	—	5,821,906	826,208	(408,548)	(21,031)	—	—	—	—	—	—	—	—	6,218,535	6,144,993	73,542
b) others	140,390	(513)	139,877	—	—	785	—	(15,979)	—	—	—	4,836	—	—	129,519	128,892	627
Valuation reserves	594,679	—	594,679	—	—	(785)	—	—	—	—	—	—	—	449,173	1,043,067	1,045,563	(2,496)
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(141,989)	—	(141,989)	—	—	—	—	(33,859)	—	—	—	—	—	—	(175,848)	(175,848)	—
Profit (loss) for the period	826,208	—	826,208	(826,208)	—	—	—	—	—	—	—	—	—	469,156	469,156	467,636	1,520
Total net equity	9,898,885	(513)	9,898,372	—	(408,548)	(21,031)	—	(49,838)	—	—	—	4,836	—	918,329	10,342,120	X	X
Net equity attributable to the group	9,809,227	(513)	9,808,714	—	(408,548)	(21,194)	—	(49,838)	—	—	—	4,836	—	916,480	X	10,250,450	X
Net equity attributable to minorities	89,658	—	89,658	—	—	163	—	—	—	—	—	—	—	1,849	X	X	91,670

[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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Consolidated Cash Flow Statement Direct Method

(€'000)

	Amount	
	31/12/20	**31/12/19**
A. Cash flows from operating activity		
1. Operating activity	**138,635**	**45,275**
- interest received	864,079	947,187
- interest paid	(232,685)	(394,884)
- dividends and similar income	35,542	32,521
- net fees and commission income	142,921	85,240
- cash payments to employees	(270,365)	(265,136)
- net premium income	7,051	27,771
- other premium from insurance activity	(45,563)	(84,298)
- other expenses paid	(303,844)	(203,322)
- other income received	17,076	41,072
- income taxes paid	(75,577)	(140,876)
- Expenses/income from group of assets being sold	—	—
2. Cash generated/absorbed by financial assets	**(4,318,010)**	**(2,310,466)**
- financial assets held for trading	(898,885)	(611,950)
- financial assets valued at fair value	(592,002)	—
- financial assets mandatorily valued at fair value	84,534	168,998
- financial assets valued at fair value with impact taken to profit and loss	(531,900)	(100,102)
- financial assets valued at amortized cost	(1,607,946)	(1,488,305)
- other assets	(771,811)	(279,107)
3. Cash generated/absorbed by financial liabilities	**2,893,076**	**2,203,003**
- financial liabilities valued at amortized cost	2,333,990	2,381,550
- financial liabilities held for trading	(19,817)	(109,758)
- financial liabilities designated at fair value	580,571	—
- other liabilities	(1,668)	(68,789)
Net cash flow (outflow) from operating activities	**(1,286,299)**	**(62,188)**
B. Cash flows from investment activity		
1. Cash generated from:	**2,529**	**1**
- disposal of shareholdings	—	—
- dividends received in respect of equity investments	2,213	—
- disposals of tangible assets	316	1
- disposals of intangible assets	—	—
- disposals of subsidiaries or business units	—	—
2. Cash absorbed by:	**(24,171)**	**(28,939)**
- purchases of shareholdings	—	—
- purchases of tangible assets	(9,256)	(16,596)
- purchases of intangible assets	(14,915)	(12,343)
- purchases of subsidiaries or business units	—	—
Net cash flow (outflow) from investment activity	**(21,642)**	**(28,938)**
C. Cash flows from funding activity	**(1,698)**	**(450,567)**
- issuance/acquisition of treasury shares	—	(49,838)
- issuance/acquisition of capital instruments	—	—
- distribution of dividends and other purposes	(1,698)	(400,729)
- purchases/acquisition of minorities	—	—
Net cash flow (outflow) from funding activities	**(1,698)**	**(450,567)**
Net cash flow (outflow) during the period	**(1,309,639)**	**(541,693)**

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Reconciliation of Movements in Cash Flow during the Period

(€'000)

Accounting items	Amount	
	31/12/20	31/12/19
Cash and cash equivalents: balance at start of period	3.219.951	738.362
Total cash flow (ouflow) during the period	(1.309.639)	(541.693)
Cash and cash equivalents: exchange rate effect	—	—
Cash and cash equivalents: balance at end of period	1.910.312	196.669

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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 interim financial statements for the six months ended 31 December 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. Account has been taken in particular of IAS 34 on interim financial reporting and the "Instructions on preparing statutory and consolidated financial statements for banks and financial companies which control banking groups" issued by the Bank of Italy in its Circular no. 262 on 22 December 2005 (sixth update issued on 30 November 2018, and following integrations), which establish 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 with that for corresponding period of the previous financial year in the case of profit-and-loss data.

During the six months under review, the European Commission has approved the following regulations, which include certain changes to accounting standards already in force: Regulation (EU) 2020/1434 of 9 October 2020 and Regulation (EU) 2020/2097 of 15 December 2020. The former adopts the amendments to IFRS 16 proposed by the IASB [1] in relation to the ongoing Covid-19 pandemic: in particular, it provides for a practical expedient granted to lessees that have benefited from concessions on payments due contractually; the regulation is effective retrospectively as from 1 July 2020. The latter (Regulation (EU) 2020/2097) provides for an extension to the exemption from applying IFRS 9 granted to insurance companies, allowing them to continue applying IAS 39 until 2023. For the Mediobanca Group the Regulation is valid as from 1 July 2021.

The measures and statements published by the regulatory and supervisory authorities regarding the most suitable means for applying the reporting standards in relation to the Covid-19 situation are summarized below. In particular, the following were issued during the six months under review, in addition to those described in the annual report for the twelve months ended 30 June 2020:

ESMA:

Public Statement of 28 October 2020, "*European common enforcement priorities for 2020 annual financial reports*", which highlights the attention which ESMA is devoting to enforcement of IAS 1, IAS 36, IFRS 9, IFRS 7 and IFRS 16, to non-financial statements with reference to the impact of the Covid-19 pandemic on non-financial matters; social and employee matters; business model and value creation; and risk relating to climate change. Considerations are also provided on application of the ESMA Guidelines on Alternative Performance Measures (APM) in relation to Covid-19

[1] International Accounting Standards Board, Covid-19-Related Rent Concessions – Amendment to IFRS 16 – May 2020.

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EBA:

Guidelines of 2 December 2020: "Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID 19 crisis", extending the application period for the regulations governing EBA-compliant moratoria.

ECB:

Letter from the Chair of the Supervisory Board to all Significant Institutions of 4 December 2020 "*Identification and measurement of credit risk in the context of the coronavirus (COVID-19) pandemic*", providing additional guidance on credit risk identification and measurement in the context of the Covid-19 pandemic. The ECB underlined the importance of striking the right balance between avoiding excessive pro-cyclicality and ensuring that the risks banks are facing are adequately reflected in their internal risk measurement and management processes, financial statements and regulatory reporting. Detailed guidance is given regarding the procedures for identifying and classifying forbearance, the process for assessing the unlikeliness of obligors to pay (including borrowers subject to general payment moratoria), identifying and recording any significant increase in credit risk at an early stage, correctly estimating provisioning levels using realistic parameters and assumptions that are appropriate to the current environment, and governance and the involvement of management bodies.

Group project on interbank benchmark rates

Compared to the situation described in the annual report for the twelve months ended 30 June 2020, regarding the Group-wide project launched by Mediobanca to manage the transition to the new interbank benchmark rates, the working group set up has continued its monitoring activities and preparing all the necessary operating procedures to allow the changes to be implemented and applied as from 2022. In particular, work has begun on analysing the fallback clauses provided for in the existing contracts (i.e. how cases will be managed if the benchmark rate is discontinued and so becomes unavailable), with the aim of planning any actions and/or improvements that might be necessary, in line with the recommendations made by the regulators and category associations.

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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").

In the preparation of these financial statements, the Group has availed itself of the exceptions provided by Regulation 34, thus 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 $1,956m.

Targeted Longer-Term Refinancing Operations– T-LTRO

T-LTRO III is a programme of ten long-term refinancing operations, each of which expiring after three years, implemented once a quarter starting from September 2019.

In the course of 2020 some of the parameters of the outstanding operations were amended: in particular, an additional discount was introduced (in the form of a fixed 50 bps premium) for operations outstanding between 24 June 2020 and 23 June 2022 (known as the "special interest period").

The premium, together with the ordinary interest rate, will be paid when each operation expires or is redeemed early, subject to certain eligibility criteria being met in terms of maintaining lending levels versus households and businesses.

The operations incorporate certain distinctive features which make it difficult to account for them under a specific financial reporting standard,

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as recognized by ESMA in its public statement on 6 January 2021, "ESMA promotes transparency regarding the accounting for the third series of the ECB's Targeted Longer-Term Refinancing Operations (TLTRO III)".

Given the above, in accordance with the provisions of IAS 8 on accounting policies, it has been decided to account for these operations as part of the scope of financial instruments covered by IFRS 9 (Financial Instruments). Based on this policy, and assuming that the eligibility criteria are likely to be met (the criteria are monitored on a monthly basis and at present are met comfortably), the floating interest rate has been recalculated to factor in the effect of the additional discount, which has been booked pro rata throughout the special interest period.

If the probability of reaching the benchmark levels for eligible loans were to reduce, this would lead to a change in the cash flows from the interest expected (i.e. the premium would be cancelled), which obviously would have an impact on earnings.

The effects on earnings for the period are stated as a note to table 1.1 Interest and similar income in section 1 of the Profit and Loss Account.

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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 six months should be noted:

- On 6 October 2020, the deed for the merger of Futuro S.p.A. into Compass Banca S.p.A. was formalized, effective in legal terms from 1 November 2020, and in accounting terms from 1 July 2020; the company was removed from the Companies' Register on 5 November 2020;
- Also in October 2020, Mediobanca exercised a call option to increase its holding in Cairn Capital Group Limited to 75.6%;
- Activities relating to the composition procedure involving Group company Prominvestment were completed on 31 December 2020; the process of formalizing the deposit of the relative documents in court is ongoing, while the winding-up process are still to be defined. Activities relating to the liquidation of CMB Wealth Management also continue.

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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. CMB MONACO 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. QUARZO CQS S.R.L.	Milan	1	A.1.11	90.0	90.0
21. MEDIOBANCA COVERED BOND S.R.L.	Milan	1	A.1.12	90.0	90.0
22. COMPASS RE (LUXEMBOURG) S.A.	Luxembourg	1	A.1.11	100.0	100.0
23. MEDIOBANCA INTERNATIONAL IMMOBILIERE S. A R.L.	Luxembourg	1	A.1.10	100.0	100.0
24. CAIRN CAPITAL GROUP LIMITED	London	1	A.1.1	100.0 *	75.6
25. CAIRN CAPITAL LIMITED	London	1	A.1.24	100.0	100.0
26. CAIRN CAPITAL NORTH AMERICA INC.	Stamford (U.S.A.)	1	A.1.24	100.0	100.0
27. CAIRN CAPITAL GUARANTEE LIMITTED (non operating)	London	1	A.1.24	100.0	100.0
28. CAIRN CAPITAL INVESTMENTS LIMITED (non operating)	London	1	A.1.24	100.0	100.0
29. CAIRN INVESTMENT MANAGERS LIMITED (non operating)	London	1	A.1.24	100.0	100.0
30. AMPLUS FINANCE (non operating)	London	1	A.1.24	100.0	100.0
31. SPAFID FAMILY OFFICE SIM	Milan	1	A.1.3	100.0	100.0
32. SPAFID TRUST S.R.L.	Milan	1	A.1.3	100.0	100.0
33. MEDIOBANCA MANAGEMENT COMPANY S.A.	Luxembourg	1	A.1.1	100.0	100.0
34. MEDIOBANCA SGR S.P.A.	Milan	1	A.1.1	100.0	100.0
35. RAM ACTIVE INVESTMENTS S.A.	Geneve	1	A.1.1	89.3 **	69.0
36. RAM ACTIVE INVESTMENTS (LUXEMBOURG) S.A.	Luxembourg	1	A.1.35	100.0	100.0
37. MESSIER MARIS & ASSOCIES S.C.A.	Paris	1	A.1.1	100.0 ***	66.4
38. MESSIER MARIS & ASSOCIES LLC.	New York	1	A.1.37	100.0 ***	50.0
39. MBCONTACT SOLUTIONS S.R.L.	Milan	1	A.1.13	100.0	100.0
40. COMPASS RENT	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 that are subject to dominant influence, a concept defined as the power to participate in activities which are significant for the company without having control of it. Dominant influence is assumed to exist in cases where one company holds at least 20% of the voting rights of another. In establishing whether or not dominant influence exists, account is also taken of potential rights, rights still to be exercised pursuant to options, warrants or conversion rights embedded in financial instruments; consideration is also given to issues of ownership structure, e.g. voting rights owned by other investors, etc.

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

For equity-accounted companies, any differences between the investee company's net equity (including profits or losses) at the time when the acquisition is made are included in the book value of the investment (which is initially

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recognized at cost); this value is also reduced if the investment distributes dividends. The profit made or loss incurred by the investment is recorded in the consolidated profit and loss account, as are any long-term reductions in value or reversals, while all other differences are taken directly 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 all the monthly average exchange-rates for the same period for 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 as 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 as "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 Parent Company 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. This possibility is expressly provided by 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 previously, Assicurazioni Generali, an associate company, will adopt IFRS 9 in the preparation of its own consolidated financial statements starting from 1 January 2023, in conjunction with the first-time adoption of IFRS 17 – *Insurance contracts*, which replaces the current IFRS 4 – *Insurance Contracts*. Until that date the Assicurazioni Generali group will therefore continue to apply IAS 39. It should be noted that under this standard, reductions in the value of the AFS equity portfolio (shares and fund units), if certain quantitative or timing thresholds are exceeded, are considered as evidence of impairment and accordingly must be recycled through profit and loss. Breach of such thresholds is recorded in accounting terms in the annual and interim financial statements drawn up in compliance with IAS 34. The effects on valuation, if material, are included among the subsequent events, if any, that require the reporting package to be amended.

SECTION 4

Events subsequent to the interim reporting date

No events have taken place that would cause the results presented in the interim consolidated report for the six months ended 31 December 2020 to be amended.

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Part E – Credit risk – Section 6, "Impact of Covid-19" – contains the disclosure required on the various support measures for clients introduced in response to the emergency brought on by the pandemic (including moratoria and applications for waivers to covenants), with an update of the situation including after the reporting date (31 December 2020).

On 2 February 2021, Cairn Capital signed [2] a strategic partnership with Bybrook Capital LLP ("Bybrook"), a London-based specialist distressed credit manager, which, once the necessary clearances have been obtained, will lead to the two businesses merging and the acquisition of the entire Bybrook group. The agreement forms part of the strategy to develop a leading alternative credit manager within the Wealth Management division.

SECTION 5

Other aspects

The consolidated interim financial statements include the declaration by the Head of Company Financial Reporting required by Article 154-bis, paragraph 2 of the Italian Finance Act, and have been subjected to a limited audit by audit firm PricewaterhouseCoopers S.p.A., in accordance with the criteria recommended by Consob in its resolution no. 10867 dated 31 July 1997.

[2] See the press release regarding the transaction published on the Bank's website at www.mediobanca.com.

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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. [3]

Financial assets held for trading are assets which have been acquired 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 (which are recorded separately).

Other financial assets that must be recognized at fair value are assets that are not held for trading but must compulsorily be recognized at fair value through profit and loss if they do not meet the requisites to be recognized at amortized cost. In particular this category includes holdings in mutual funds (confirmed following clarification from the IFRS Interpretation Committee). [4]

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 cost (these too qualify as Level 3 assets). If the assets suffer impairment, they are written down to their current value.

[3] See Part A - Information on fair value on pp. 123-139.

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

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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.

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 held on the basis of a business model in which the objective is the collection of cash flows provided for contractually and also of the proceeds deriving from the sale of instruments themselves;
- 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 loans) 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.

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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.

Financial assets 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.

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

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

The business model is based on expected reasonable scenarios (without considering "worst case" and "best case" scenarios), and in the event of cash flows differing from those estimated at initial recognition, the Group is not bound to change the classification of financial instruments forming part of the portfolio, but uses the information for deciding the classification of new financial instruments. [5]

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 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.

[5] 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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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.

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

- Stage 1: this includes exposures at their initial recognition date for as long as there is no significant impairment to their credit standing; for such instruments, the expected loss is to be calculated on the basis of default events which are possible within twelve months of the reporting date;
- Stage 2: this includes exposures which, while not classified as impaired as such, have nonetheless experienced significant impairment to their credit standing since the initial recognition date; in moving from stage 1 to stage 2, the expected loss must be calculated for the outstanding life of the instrument;
- Stage 3: this category consists of impaired exposures according to the definition provided in the regulations. In moving to stage 3, exposures

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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 has 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 that are already impaired at the point in time when they are acquired or disbursed. At the initial recognition date they are recognized at amortized cost on the basis of an internal rate of return which is calculated using an estimate of the recovery flows expected for the item, 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

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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 [6] 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.

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.

[6] 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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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 [7] (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.

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.

[7] 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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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.

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.

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

Hedge derivatives are recognized at fair value as follows:

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

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

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

- The effect of the credit risk does not prevail over the changes in value resulting from the economic relationship;
- The coverage provided by the hedging relationship is the same as the coverage which results from the quantity of the item hedged which the entity effectively hedges, and the quantity of the hedge instrument which the 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.

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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.
- 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

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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.

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

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

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

Intangible assets

These chiefly comprise goodwill, long-term computer software applications and other intangible assets deriving from business combinations subject to IFRS 3R.

Goodwill may be recognized where this is representative of the investee company's ability to generate future income. At annual and interim reporting dates, goodwill recorded as an asset is tested for impairment.[8] 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.

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

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

At annual and interim reporting dates, where there is evidence of impairment the realizable value of the asset is estimated[9]. 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.

Tax assets and liabilities

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

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

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

[9] 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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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.

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.

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.

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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.

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.

Financial liabilities 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.

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Initial recognition takes place when funds raised are collected or debt securities are issued, and occurs at fair value, which is equal to the amount collected net of transaction costs incurred directly or indirectly in connection with the liability concerned. Thereafter liabilities are stated at amortized cost on the basis of the original effective interest rate, with the exception of short-term liabilities which continue to be stated at the original amount collected.

Derivatives embedded in structured bonds are stripped out from the underlying contract and recognized at fair value when they are not closely correlated to the host instrument. Subsequent changes in fair value are recognized through the profit and loss account.

Financial liabilities are derecognized upon expiry or repayment, even if buybacks of previously issued bonds are involved. The difference between the liabilities' carrying value and the amount paid to repurchase them is recorded through the profit and loss account.

The sale of treasury shares over the market following a buyback (even in the form of repos and securities lending transactions) is treated as a new issue. The new sale price is recorded as a liability without passing through the profit and loss account.

Trading liabilities

This item includes the negative value of trading derivatives and any derivatives embedded in complex instruments. Liabilities in respect of technical shortfalls deriving from securities trading activity are also included. All trading liabilities are recognized at fair value and the changes are taken through the profit and loss account.

Financial liabilities designated 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.

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Financial liabilities recognized at present value of redemption amount

These consist of financial liabilities originating from agreements to buy out minorities in connection with acquisitions of controlling interests. Such financial liabilities, which are recorded in the balance sheet under heading 80, "Other liabilities", are recognized at the present value of the redemption amount.

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.

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.

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

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

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

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

Treasury shares

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

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Fees and commissions receivable in respect of services

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

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

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

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

Dividends

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

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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;[10]

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.

[10] 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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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	—	48
Total				—	48

A.4 – Information on fair value

QUALITATIVE INFORMATION

Introduction

This section provides the disclosure on fair value required by IFRS 13 paragraph 24, which defines fair value as the price that 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;

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- Option price calculation models, values recorded in recent comparable transactions, prudentially adjusted to reflect the illiquid nature of some market data and other risks associated with specific transactions (reputational risk, replacement risk, etc.);

If no market inputs are available, valuation models based on data estimated internally are used.

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 for fair value, 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.

IPV and prudent valuation processes

The Independent Price Verification (IPV) process for financial instruments involves defining the control, escalation and reporting methodologies used to verify the valuations of positions measured and recognized at fair value, both instruments held on own account and as collateral.

The Mediobanca Group has structured an IPV process for financial instrument prices, in accordance with the guidance issued by the Bank of Italy in its Circular no. 285/2013, in order to verify the valuations used from both a business and accounting perspective. This IPV process is regulated and governed by the Group Independent Price Verification Policy, to which reference is made for further information.

EU regulations also require the valuation of positions recognized at fair value, in either the banking or trading book, to be measured with an adequate degree of certainty, as provided by Article 105 of the CRR (Capital Requirements Regulation, in Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013), as referred to in Commission Delegated Regulation (EU) 2016/101 with regard to regulatory technical standards for prudent valuation.

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Paragraphs 2 and 8 of Article 105 establish, for PVA and IPV respectively, the guidelines to be adopted by financial institutions in their policies and procedures, to ensure that the inputs used to value financial instruments are verified by independent units, with the aim of guaranteeing valuations as closely aligned with market conditions and with prudential criteria required in order to calculate the capital for the PVA as possible.

The Commission Delegated Regulation goes into detail over the control activities for which the Bank is responsible, requiring a manual to be drawn up describing, for products recognized in the books at fair value, the valuation methodologies used and the inputs required in order to calculate both the PVA and the IPV.

The Commission Delegated Regulation also requires banks to use coherent inputs at both the PVA and the IPVs phases, and the valuations obtained to be subjected to control processes to be performed by the unit responsible for carrying out internal audits.

Macroeconomic scenario

The outbreak of the Covid-19 pandemic, and the government and healthcare measures subsequently implemented, 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 dividend payments. These two combined effects triggered a reduction in liquidity in 1Q 2020, making 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 used to value the positions held by the Bank, and the parameters used for control activities as well. As from November, once the Covid-19 vaccination timetables had begun to be scheduled, the markets began to recover strongly, which in turn impacted on liquidity, and led to a reduction in the uncertainty of the input parameters.

In terms of independent price verification (IPV), the Bank has continued to strengthen its controls during the six months, 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.

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Fair value is reported according to rankings based on the quality of the input parameters used to determine it.[1]

Fair value hierarchy

In line with the provisions of IFRS 13 as enacted in Bank of Italy circular no. 262, financial assets and liabilities recognized at fair value must be classified at levels which assign decreasing priority to measurements according to the market parameters used. 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.

Three levels in particular 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, is commonly used by other financial operators, and uses inputs that are observable on the market or estimated internally but which have limited impact on fair value.
– 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 73).

[1] 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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Fair value adjustment

Fair value adjustment is defined as the quantity be added to, or subtracted from, 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 meant that other adjustments have had to start to be calculated.

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 considered in order to align valuation with exit price, based among other things on the level of market liquidity, the uncertainty of the valuation parameters, and in order to reflect the cost of funding.

Based on some of the observations to emerge from the ECB inspection carried out last year, the Bank is continuing to revise the calculation methods used for some of the fair value adjustments, in addition to the following activities completed during the period under review:

- Revision of calculation scope and method using the "dynamic" method**:** (previously the fair value adjustment was calculated at the time when specific transactions were executed, using far worse market stress scenarios but not monitored over time; or "static reserves"). Some of the main changes entailed by this method include:
  - 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;

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  - 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.
- Removal of some FVAs: some of these adjustments were more linked to commercial than to risk issues,[2] 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.[3]

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;

[2] 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.

[3] 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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– 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.

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

As a rule Mediobanca uses market prices (level 1) or models based on observable inputs (level 2).

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.

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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Inputs used in determining fair value

A description of the main inputs used in determining the level of fair value is provided below.

- *Prices:* Instruments traded on a regulated market or for which prices for bilateral exchanges are available, are valued using prices obtained from info-providers.
- *Interest rates, inflation swap rates:* These are inputs used to value derivative instruments that involve the exchange of flows between two counterparties. The interest rate is the market's expectation regarding future trends in the interest rate, and is quoted for different maturities. The inflation swap rate, meanwhile, is the market's expectation regarding the future trend in inflation. The illiquidity of these inputs has a direct impact on the valuation of a debt instrument or a derivative.
- *Repo rates:* These are the interest rates applied in repo transactions.
- *Volatility:* Volatility is a measurement of the expectations regarding the degree to which market prices may change relative to certain benchmarks. These may be quoted directly or taken from the prices for listed instruments. Volatilities may refer to different types of underlying instrument (shares/indexes, interest rates for cap/floor and swaptions, exchange rates and inflation), among others;
- *Correlation:* Correlation is a measurement of the relationship between movements in two variables, and is used as an input in the valuation of a derivative product whose payoff is determined by multiple risk factors/ underlying instruments.
- *Dividends:* The dividend yields on equity instruments are an estimate of the possible returns that such instruments will offer in the future in terms of cash flows. The yield itself and the frequency with which dividends are paid is the most significant indicator for determining the fair value of instruments that are sensitive to the forward price of a share.
- *Credit spreads:* Credit spreads are an estimate of a counterparty's insolvency risk, and are quoted relative to a benchmark. Credit spreads refer to a wide variety of underlying instruments (indexes and single names), regions, sectors, maturities and credit qualities (high-yield and investment-grade).

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The broad spectrum covered by this category is the reason why the range of unobservable inputs is so extensive.

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[4] (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 Level 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;

[4] 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. If 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, the issues are classified as level 3.

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.

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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 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 information providers which effectively collect market prices. Basically ABS are categorized as Level 3, with the exception of those for which a bid/ask contribution can be provided with the respective quantities on an ongoing basis, in which case they are categorized as Level 1.
- 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 that provide the net asset value (NAV) per stock unit (the most recent NAV available is used, no older than six months, adjusted for any payments, investments and distributions after the NAV reference date), 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;

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- 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);
  - 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.

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).

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.

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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 (€m) 31-12-20**	**+/- delta vs MtM (€m) 30-6-20**
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)	0.02	0.52
Equity-equity correlation	Equal to 1% between two indexes and 2% between two single stocks	(0.76)	1.15

Measurement techniques used for equity, credit and interest rate products

Product	**Measurement technique**	***Non-observable inputs***	**Fair value * Assets 31.12.20 (€ m)**	**Fair value * Liabilities 31.12.20 (€ m)**	**Fair value * Assets 30.6.20 (€ m)**	**Fair value * Liabilities 30.6.20 (€ m)**
OTC equity single name options, variance swap	*Black-Scholes/ Black model*	Implicit volatility[1]	20.22	(21.47)	14.16	(14.20)
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]	47.34	(19.07)	39.05	(20.73)

* 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.

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.

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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.

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	**31/12/20**			**30/6/20**		
	Level1	**Level2**	**Level3**	**Level1**	**Level2**	**Level3**
1. Financial assets measured at fair value with impact taken to profit and loss	7,747,612	3,837,487	1,315,023	5,888,700	2,715,128	981,584
a) financial assets held for trading	7,448,951	3,162,786	947,968	5,582,684	2,664,126	571,780
b) financial assets designated at fair value	—	674,701	—	—	51,002	—
c) other financial assets mandatorily valued at fair value	298,661	—	367,055	306,016	—	409,804
2. Financial assets measured at fair value with impact taken to other comprehensive income	4,091,767	118,241	36,164	3,467,377	134,475	25,739
3. Hedging derivatives	—	441,631	—	—	464,718	—
4. Tangible assets	—	—	—	—	—	—
5. Intangible assets	—	—	—	—	—	—
Total	11,839,379	4,397,359	1,351,187	9,356,077	3,314,321	1,007,323
1. Financial liabilities held for trading	4,773,735	4,040,438	835,750	4,018,034	3,407,947	530,954
2. Financial liabilities valued at fair value	—	835,500	—	—	216,020	—
3. Hedging derivatives	—	506,623	—	—	465,225	—
Total	4,773,735	5,382,561	835,750	4,018,034	4,089,192	530,954

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	598,128	162,585	—	409,804	25,739	—	—	—
2. Increases	79,006	52,259	—	16,311	10,435	—	—	—
2.1 Purchases	35,866	21,600	—	4,366	9,900	—	—	—
2.2 Profits recognized in:	37,388	24,908	—	11,945	535	—	—	—
2.2.1 profit and loss	36,853	24,908	—	11,945	—	—	—	—
- of which, gains	*23,452*	*23,452*	—	—	—	—	—	—
2.2.2 net equity	535	X	X	X	535	—	—	—
2.3 Transfers from other levels	—	—	—	—	—	—	—	—
2.4 Other increases	5,752	5,752	—	—	—	—	—	—
3. Decreases	123,475	65,685	—	57,780	10	—	—	—
3.1 Disposals	66,191	24,535	—	41,656	—	—	—	—
3.2 Redemptions	1,631	1,631	—	—	—	—	—	—
3.3 Losses recognized in:	22,887	6,767	—	16,109	10	—	—	—
3.3.1 profit and loss	22,876	6,767	—	16,109	—	—	—	—
- of which, losses	*6,767*	*6,767*	—	—	—	—	—	—
3.3.2 net equity	10	X	X	X	10	—	—	—
3.4 Transfers to other levels	31,074	31,074	—	—	—	—	—	—
3.5 Other decreases	1,693	1,678	—	15	—	—	—	—
4. Closing balance	553,658	149,159	—	368,335	36,164	—	—	—

[1] Net of market value of options covering those attached to bonds issued (31/12/20: (€0.33m; 30/6/20: €0.35m) and options traded (€798.5m and €408.8m 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)

	Held for trading [1]	Designated at fair value	Hedging derivatives
1. Opening balance	121,759	—	—
2. Increases	21,316	—	—
2.1 Issuance	13,617	—	—
2.2 Losses recognized in:	7,699	—	—
2.2.1 profit and loss	7,699	—	—
- of which, losses	*7,699*	—	—
2.2.2 net equity	X	—	—
2.3 Transfers from other levels	—	—	—
2.4 Other increases	—	—	—
3. Decreases	106,135	—	—
3.1 Redemptions	6,078	—	—
3.2 Buybacks	—	—	—
3.3 Profits recognized in:	13,232	—	—
3.3.1 profit and loss	13,232	—	—
- of which, gains	*5,120*	—	—
3.3.2 net equity	X	—	—
3.4 Transfers to other levels	86,826	—	—
3.5 Other decreass	—	—	—
4. Closing balance	36,939	—	—

[1] Net of market value of options covering those attached to bonds issued (31/12/20: (€0.33m; 30/6/20: €0.35m) and options traded (€798.5m and €408.8m 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)

Attività/Passività finanziarie misurate al *fair value*	31/12/20				30/6/20			
	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
1. Financial assets valued at amortised cost	57,396,447	2,787,384	19,612,470	39,088,569	55,957,290	2,799,665	17,765,808	38,498,309
2. Tangible assets held for investment purposes	63,774	—	—	139,558	64,347	—	—	139,818
3. Non-current assets and groups of assets being sold	—	—	—	—	—	—	—	—
Total	57,460,221	2,787,384	19,612,470	39,228,127	56,021,637	2,799,665	17,765,808	38,638,127
1. Financial liabilities valued at amortised cost	60,271,455	1,032,875	58,928,429	39,838	59,241,107	1,287,832	57,913,842	39,433
2. Liabilities held in respect of assets being sold	—	—	—	—	—	—	—	—
Total	60,271,455	1,032,875	58,928,429	39,838	59,241,107	1,287,832	57,913,842	39,433

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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 €798.5m (30/6/20: €408.8m), plus €0.33m in options linked to bonds issued and hedged on the market (€0.35m).

Net of these items, the Level 3 assets decreased from €162.6m to €149.2m, as a result of new entries totalling €21.6m against departures totalling €26.2m. Transfers from other levels involved outflows totalling €31.1m, and chiefly involve derivative contracts being reclassified during the course of the six months due to the reduced uncertainty over volatility and the underlying dividends. Upward movements in fair value totalled €22.2m.

Level 3 liabilities, minus options traded and those linked to the bond issues referred to above, decreased from €121.8m to €36.9m as a result of the reclassifications made during the six months, regarding certain certificates and derivative contracts (worth a total of €86.8m) which became necessary due to the reduction in uncertainty over estimated dividends, plus new positions (mainly derivatives contracts) totalling €13.6m and redemptions totalling €6.1m; downward adjustments to fair value totalled €5.6m.

Financial assets compulsorily recognized at fair value, following the redemption of the Burgo and Sorgenia convertible loans, totalled €368.3m and mostly consist of investments in funds (including seed capital).

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 €36.1m (€25.7m).

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

IFRS 9 provides that the positive difference between the fair value of an instrument and the price at which it is traded at the transaction date (known as the "day one profit") may only be represented among the income items of the profit and loss account if it is based on market prices and on models that are not based on uncertain market parameters. Rather, the fair value must be adjusted by the day one profit, which is only released to profit and loss as and when the parameter becomes certain.[5] If the difference 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 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.

In accordance with established market practice, Mediobanca applies the day one profit regulations to financial instruments classified as level 3, applying FVAs in cases where there is uncertainty over the level 2 instrument parameters. In cases which involve new types of structured deal, the Bank conducts its analysis on a case-by-case basis, establishing the fair value ranking and whether or not the deal falls within the scope of application of the day one profit regulations when it is approved. At this stage, a financial instrument is classified as level 3 if the uncertain parameter's impact on fair value is considered to be material as defined in IFRS 13, paragraph 73.[6]

[5] IFRS 9, paragraphs B5.1.2A and B5.2.2A.

The best evidence of the fair value of a financial instrument at the initial recognition date is usually the price of the transaction (i.e. the fair value of the consideration paid or received; cf. also IFRS 13). If the entity establishes that the fair value at the initial recognition date differs from the price of the transaction indicated in paragraph 5.1.1 A, it must account for the instrument at that date by the following method:

a. According to the valuation method described in paragraph 5.1.1, if the fair value is provided by a price quoted on an active market or an identical liability (level 1), or it is based on a measurement technique using only data derived from observable markets. The entity must record the difference between the fair value at the initial recognition date and the price of the trade as either a profit or loss as the case may be;

b. In all other cases, according to the valuation method described in paragraph 5.1.1, adjusted for the difference between the fair value at the initial recognition date and the price of the transaction. Following the initial measurement, the entity must recognize the deferred change as a profit or loss only to the degree to which it emerges from a change in a factor (including time) that the market operators would take into consideration in establishing the price of the asset or liability.

[6] In some cases, the data used to establish the fair value of an asset or liability could be classified in different fair value hierarchy levels. In such cases, the valuation is classified entirely in the same level as the input with the lowest hierarchical ranking used in the valuation itself. Assessment of the materiality of a given input to the valuation as a whole requires judgement that takes account of the asset's or liability's individual characteristics. The adjustments made to arrive at valuations based on fair value, such as sale costs in cases where fair value is calculated after sales costs have been deducted, must not be taken into consideration in determining the fair value hierarchy level in which a valuation is classified.

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The Bank's trading book reflects a low level of complexity and a small percentage of the kind of structured transaction described in the cases above. As at 31 December 2020, only 4.1% of the total assets and 5% of the total liabilities consist of trading instruments classified as fair value level 2 or level 3. Of these, the majority are presently classified as 2 (representing 3.4% of the total assets and 4.3% of the total liabilities respectively). Most of these positions are also offset between assets and liabilities by the same risk factor, and therefore do not entail a volatility factor for profit and loss.

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, generated from the use of an internal model to value the unlisted instrument, has been suspended and is released to the profit and loss account pro rata throughout the duration of the transaction (five years). The share remaining totals approx. €2.1m, and the portion that passed through profit and loss during the period totalled €1.2m.

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 approx. €1m.

The Bank also has deals classified as level 3 for which the initial profit has not had to be suspended, as these deals were either originally negotiated with other market counterparties without generating any material upfront difference, or, as at the trade date, had a shorter outstanding duration compared to the strike date, meaning the difference does not have to be deferred over time across different financial years.

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Part B - Notes to consolidated Balance Sheet *

Assets

SECTION 1

Heading 10: Cash and cash equivalents

1.1 Cash and cash equivalents: composition

	31/12/20	30/6/20
a) Cash	114,047	118,582
b) Demand deposits with Central Banks	1,796,265	3,101,369
Total	1,910,312	3,219,951

* 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	31/12/20			30/6/20		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	4,015,612	774,149	20,805	2,954,447	519,132	28,968
1.1 Structured securities	12,340	6,874	—	2,758	18,177	1,998
1.2 Other securietes	4,003,272	767,275	20,805	2,951,689	500,955	26,970
2. Equity securites [1]	2,820,018	—	59,954	1,962,771	—	46,476
3.UCITs	52,514	—	1,633	20,114	—	2,853
4. Loans	3,977	—	—	3,930	—	—
4.1 Reverse Repos	—	—	—	—	—	—
4.2 Others	3,977	—	—	3,930	—	—
Total (A)	6,892,121	774,149	82,392	4,941,262	519,132	78,297
B. Derivative instruments						
1. Financial derivates	556,830	1,931,501	865,576 [2]	641,422	1,957,794	493,483 [2]
1.1 trading	556,830	1,928,783	865,451	641,422	1,953,287	493,340
1.2 related to the fair value option	—	—	—	—	—	—
1.3 others	—	2,718	125 [3]	—	4,507	143 [3]
2. Credit derivates	—	457,136	—	—	187,200	—
2.1 trading	—	457,136	—	—	187,200	—
2.2 related to the fair value option	—	—	—	—	—	—
2.3 others	—	—	—	—	—	—
Total (B)	556,830	2,388,637	865,576	641,422	2,144,994	493,483
Total (A+B)	7,448,951	3,162,786	947,968	5,582,684	2,664,126	571,780

* 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 €501,520,000 at 31/12/20 and €982,923,000 at 30/6/20.

[2] Includes €798,477,000 (30/6/20: €408,844,000) in options traded, with the matching amount booked as financial liabilities held for trading.

[3] Includes the market value of options (€334,000 as at 31/12/20 and €351,000 as at 30/6/20) matching those associated with bond issues booked as financial liabilities held for trading.

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2.3 Financial assets designated at fair value: composition

Items/Values	31/12/20			30/6/20		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1.Debt securities	—	51,379	—	—	51,002	—
1.1 Structured securities	—	—	—	—	—	—
1.2 Other debt securities	—	51,379	—	—	51,002	—
2. Loans	—	623,322	—	—	—	—
2.1 Structured	—	—	—	—	—	—
2.2 Others	—	623,322	—	—	—	—
Total	—	674,701	—	—	51,002	—

2.5 Other financial assets mandatorily at fair value: composition

Items/Values	31/12/20			30/6/20		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	236	—	1,448	306	—	1,785
1.1 Structured securities	—	—	—	—	—	—
1.2 Others	236	—	1,448	306	—	1,785
2. Equity instruments	—	—	4,973	—	—	4,939
3. UCITs	298,426	—	353,595	305,710	—	352,746
4. Loans	—	—	7,039	—	—	50,334
4.1 Reverse REPO	—	—	—	—	—	—
4.2 Others	—	—	7,039	—	—	50,334
Total	298,662	—	367,055	306,016	—	409,804

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	31/12/20			30/6/20		
	Level 1	Level 2	Level 3 [1]	Level 1	Level 2	Level 3 [1]
1. Debts securities	3,978,624	118,241	—	3,351,465	134,475	—
1.1 Structured securities	—	—	—	—	—	—
1.2 Other	3,978,624	118,241	—	3,351,465	134,475	—
2. Equity instruments	113,143	—	36,164	115,912	—	25,739
3. Loans	—	—	—	—	—	—
Total	4,091,767	118,241	36,164	3,467,377	134,475	25,739

* 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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SECTION 4

Heading 40: Financial assets at amortized cost *

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

Type of transaction/Values	31/12/20					
	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	665,597	—	—	—	665,597	—
1 Term deposits	—	—	—	X	X	X
2 Compulsory reserves	558,531	—	—	X	X	X
3 Reverse repos	—	—	—	X	X	X
4 Others	107,066	—	—	X	X	X
B. Due from banks	5,624,081	—	—	291,001	5,391,273	370,838
1 Loans	5,150,201	—	—	—	5,391,273	172,855
1.1 Current accounts and demand deposits	1,300,462	—	—	X	X	X
1.2. Term deposits	78,665	—	—	X	X	X
1.3 Other loans:	3,878,140	—	—	X	X	X
1.4 Reverse repos	2,595,965	—	—	X	X	X
1.5 Finance leases	1,767	—	—	X	X	X
1.6 Others	1,173,342	—	—	X	X	X
2. Debts securities	473,880	—	—	291,001	—	197,983
2.1 Structured securities	—	—	—	—	—	—
2.2 Other debt securities	473,880	—	—	291,001	—	197,983
Total	6,289,678	—	—	291,001	6,056,870	370,838

* 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”.

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Type of transaction/Values	30/06/20					
	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. Term deposits	31,990	—	—	X	X	X
1.3 Other loans:	3,580,118	—	—	X	X	X
1.4 Reverse repos	2,464,519	—	—	X	X	X
1.5 Finance leases	1,852	—	—	X	X	X
1.6 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

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

Type of transaction/ Values	31/12/20					
	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	47,458,447	989,664	380,241	—	13,548,079	38,476,418
1.1 Current accounts	1,686,113	66,247	66,247	X	X	X
1.2 Reverse Repos	1,349,265	—	—	X	X	X
1.3 Mortgages	26,438,030	222,378	17,472	X	X	X
1.4 Credit cards, personal loans and salary-backed finance	8,922,361	535,571	272,340	X	X	X
1.5 Finance lease	1,665,727	122,276	24,182	X	X	X
1.6 Factoring	2,275,233	9,478	—	X	X	X
1.7 Other loans	5,121,718	33,714	—	X	X	X
2. Debt securities	2,658,658	—	—	2,496,383	7,521	241,313
2.1 Structured	—	—	—	—	—	—
2.2 Other debt securities	2,658,658	—	—	2,496,383	7,521	241,313
Total	50,117,105	989,664	380,241	2,496,383	13,555,600	38,717,731

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

Type of transaction/ Values	30/06/20					
	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

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SECTION 5

Heading 50: Hedging derivatives

5.1 Hedging derivatives: by hedge type and level

	Fair Value			**Notional value**	***Fair Value***			**Notional value**
	31/12/20				**30/6/20**			
	Level 1	**Level 2**	**Level 3**	**31/12/20**	**Level 1**	**Level 2**	**Level 3**	**30/6/20**
A. Financial derivatives								
1. Fair value	—	441,631	—	23,996,874	—	464,718	—	20,996,513
2. Cash flows	—	—	—	—	—	—	—	—
3. Foreign subsidiaries	—	—	—	—	—	—	—	—
B. Credit derivatives								
1. Fair value	—	—	—	—	—	—	—	—
2. Cash flows	—	—	—	—	—	—	—	—
Total	—	441,631	—	23,996,874	—	464,718	—	20,996,513

5.2 Hedging derivatives: by portfolio hedged and hedge type

Transaction / Type of hedging	**Fair Value**							**Cash-flow hedges**		**Foreign subsidiaries**
	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	229	X	—	—	X	X	X	—	X	X
3. Portfolio	X	X	X	X	X	X	—	X	—	X
4. Others	—	—	—	—	—	—	X	—	X	—
Total assets	229	—	—	—	—	—	—	—	—	—
1. Financial liabilities	441,402	X	—	—	—	—	X	—	X	X
2. Portfolio	X	X	X	X	X	X	—	X	—	X
Total liabilities	441,402	—	—	—	—	—	—	—	—	
1. Highly probable transactions (CFH)	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 relationship

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

Legend:

[1] Joint control

[2] Subject to significant influence

[3] Exclusively controlled and not consolidate

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

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.

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

Company name	Book value	Fair Value *
A. Entities under significant influence		
1. Assicurazioni Generali S.p.A.	3,659,169	2,890,695
2. Istituto Europeo di Oncologia S.r.l.	39,607	n.a.
Total [1]	3,698,776	

[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.

As at 31 December 2020, the book value carried under the "Equity investments" heading totalled €3,699m, split between Assicurazioni Generali (12.9% of the company's share capital, carried at €3,659.2m) and Istituto Europeo di Oncologia (25.4% of the entity's share capital, carried at €39.6m).

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The book value of the Group's investment in Assicurazioni Generali rose from €3,163.9m to €3,659.2m[1] after earnings for the for €112.5m (€67.5m of which in 2Q) and a sharp increase of valuation reserves (up €722.8m), fixed-income reserves in particular (up €316.6m), chiefly due to the decline in interest rates and the narrowing spread on government bonds. Conversely, the book value of the IEO investment declined, from €41.2m to €39.6m, after the company's profitability was influenced by the Covid-19 pandemic.

In November 2020, the Group's long-term investment in Burgo (equal to 22.13% of the share capital and written off entirely in 2013) was reclassified under Financial assets valued at FVOCI after a new investor took a stake in the company, and a capital increase was implemented reserved to this new shareholder; as a result, Mediobanca's share has decreased to 4%, and as such no longer exercises significant influence over Burgo.

According to international accounting standards (IAS 28, IAS 36, IFRS 10 and IFRS11), the value of equity investments must be tested for impairment at least once a year or more frequently, when conditions materialize that indicate that there may be a reduction in value. The Group Policy on Impairment, in line with IAS 36 provisions, requires that the following indicators be checked for signs of impairment: stock price performance, deteriorations in the company's rating, and current and estimated operating performances. For the Assicurazioni Generali investment in particular, the following facts were noted since 30 June 2020:

- The stock market price has risen roughly 7%;
- The leading international rating agencies have confirmed the rating assigned to the company;
- At the investor day held in November, the company confirmed its strategy and its 2019-2021 business plan targets (including dividend payout targets, subject to regulatory decisions);
- Following the investor day, analysts substantially confirmed their forecasts at group level;
- The cost of equity has decreased, *inter alia* in view of the trend in equity capital market interest rates, as confirmed by the Cost of Equity used by analysts to value the company.

[1] The book value of the equity investment differs from the Group's pro rata share in the company's share capital at 30 September 2020, as Assicurazioni Generali still accounts for the second tranche of the 2019 dividend as a liability, whereas Mediobanca has factored in the BoD decision in November not to distribute of the dividend before the year-end.

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All these elements have been confirmed by the higher target prices forecast by analysts.

Thus, in preparing the interim financial statement, having ascertained that no potential impairment indicators as forecast by the IAS 36 have materialized, it has been decided it is not necessary to test the investment's value for impairment.

Also in November 2020, the Board of Directors of Assicurazioni Generali, in accordance with the supervisory authority's request, decided not to distribute the second tranche of the 2019 dividend (€0.46 per share). The company's intention, subject to a positive assessment from the supervisory authorities, is to submit the distribution of this tranche to the approval of shareholders in 2021.

SECTION 9

Heading 90: Property, plant and equipments

9.1 Core tangible assets stated at cost

Activities/Values	**31/12/20**	**30/6/20**
1. Property assets	216,667	215,885
a) lands	84,895	84,895
b) buildings	93,350	94,884
c) furniture	15,154	14,783
d) electronic system	8,629	8,663
e) other	14,639	12,660
2. Leased assets	205,299	207,909
a) lands	—	—
b) buildings	193,560	196,082
c) furniture	—	—
d) electronic system	—	—
e) other	11,739	11,827
Total	421,966	423,794
of which: arising from the recovery of guarantees received	*73*	*75*

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9.2 Properties held for investment purposes stated at cost

Activities/Values	31/12/20				30/6/20			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Owened assets	63,774	—	—	139,558	64,347	—	—	139,818
a) lands	29,144	—	—	84,729	29,144	—	—	84,688
b) buildings	34,630	—	—	54,829	35,203	—	—	55,130
2. Right of use acquired through the lease	—	—	—	—	—	—	—	—
a) lands	—	—	—	—	—	—	—	—
b) buildings	—	—	—	—	—	—	—	—
Total	63,774	—	—	139,558	64,347	—	—	139,818
of which: arising from the recovery of guarantees received	*39,375*	—	—	*46,328*	*39,774*	—	—	*46,375*

9.5 Inventories pursuant to IAS2: composition

Items/Values	31/12/20	30/6/20
1. Inventories of tangible assets arising from the recovery of guarantees received	8,004	7,631
a) lands	1,027	971
b) buildings	6,977	6,660
c) furnitures	—	—
d) electronic systems	—	—
e) others	—	—
2. Other tangible assets	—	—
Total	8,004	7,631
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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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.

Intangible assets decreased from €816m to €814m in the six months, no new acquisitions have taken place, and no Purchase Price Allocations have been carried out.

10.1 Intangible assets: composition

Activities/Values	31/12/20		30/6/20	
	Definite life	Indefinite life	Definite life	Indefinite life
A.1 Goodwill	X	666,239	X	666,536
A.1.1 attributable to the group	X	666,239	X	666,536
A.1.2 attributable minorities	X	—	X	—
A.2 Other intangible asset	66,226	81,507	67,403	82,057
A.2.1 Assets valued at cost:	66,226	81,507	67,403	82,057
a) intangible assets generated internally	—	—	—	—
b) other assets	66,226	81,507	67,403	82,057
A.2.2 Assets valued at fair value:	—	—	—	—
a) intangible assets generated internally	—	—	—	—
b) other assets	—	—	—	—
Total	66,226	747,746	67,403	748,593

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Information on intangible assets and goodwill

Table 1 summarizes the PPA effects of all the acquisitions completed by the Group over the years.

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
Total Goodwill	**365,934**	**3,540**	**2,342**	**—**	*	**55,183**

** The deal generated badwill.*

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	*GBP*	*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
Total Goodwill	**37,130**	**172,099**	**134,167**

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

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).

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

Typology	Deal	31/12/20	30/6/20
Customer relationship		19,924	25,156
	IFID	—	—
	Spafid	*282*	*390*
	Barclays/CheBanca!	*3,464*	*6,838*
	MB Private Banking	*1,357*	*1,807*
	CMB	*4,890*	*5,215*
	RAM Active Investments	*1,079*	*1,346*
	Messier Maris & Associés	*8,852*	*9,560*
Brand		64,507	65,057
	MB Private Banking	*15,489*	*15,489*
	RAM Active Investments	*38,788*	*39,338*
	Messier Maris & Associés [1]	*10,230*	*10,230*
Acquired software	Spafid Connect	2,289	2,468
Total		**86,720**	**92,681**

[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).

Table 3: Goodwill

Deal	31/12/20	30/6/20
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	41,297	40,690
Banca Esperia	52,103	52,103
RAM Active Investments	63,776	64,680
Messier Maris & Associés	134,167	134,167
Total goodwill	**666,239**	**666,536**

Information on impairment indicators

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.

On 28 October 2020, ESMA published its *Public Statement: European common enforcement priorities for 2020 annual financial report*, which refers to other previous recommendations "*Public Statement: Implications of the*

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Covid-19 outbreak on the half-yearly financial reports" of 20 May 2020, which requires all issuers to pay special attention to the effects of the pandemic in analysing possible impairment indicators in accordance with paragraph 9 of IAS 36 [2], In particular, ESMA highlights the need to take into account the high uncertainty of the current economic environment in drawing up business plans and in determining the discount rate. It also requires adequate disclosure of the key judgements and assumptions used.

The ESMA recommendations were taken into account almost entirely when the annual impairment testing was carried out in June 2020, including the effects of the pandemic in the various CGU business plans and on the rates used in determining the Cost of Equity [3].

As for the gap analysis, assessment has been made as to whether the identified CGU [4] trend is in line with the Plan forecast, which was updated in June to take the Covid-19 pandemic effects into account.

The Cost of Equity has been updated for each CGU, as shown in the table below.

Table 5: Cost of equity parameters per CGU

CGU/Impairment indicators	Tasso risk free R		Beta - ß	
	30/6/20	31/12/20	30/6/20	31/12/20
Consumer	1,33	1,11	1,03	1,09
Other CGUs (Italy)	1,33	1,11	1	0,99
Cairn Capital (UK)	0,51	0,30	1,13	1,12
RAM Active Investments (Suisse)	-0,63	-0,51	1,13	1,12
Messier et Associés (FR)	-0,11	-0,19	1,15	1,15

Compared to 30 June, the Cost of Equity declined mostly as a result of the reduction in the risk free rate, which for the domestic CGUs fell from 1.33% to 1.11% and for the CGUs related to alternative asset management (Cairn and RAM) also declined. The Beta shows minor variations for all CGUs. Finally, the risk premium and the alpha factor have remained flat when compared to 30 June 2020 to take into account and compensate for the 2020 Covid-related effect on risk-free rates.

[2] Please see the Annual Report as at 30 June 2020 for a detailed description of all Covid-19 related recommendations issued by different supervisory bodies (ESMA, BCE, EBA, IASB, IOSCO, Consob).

[3] Please see the Annual Report as at 30 June 2020 for further details.

[4] Please see the Annual Report as at 30 June 2020 for further details on CGU identification and creation over the years.

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All other trigger indicators have been verified, as required by the Group policy, in particular any gaps relative to the budgets and plans of the different companies have been analysed, and at 31 December 2020 the results for all the CGUs are in line with the half-year budget.

The checks carried out have ruled out the existence of impairment indicators for all intangible assets. The situation will be closely monitored during the second half of the year, in preparing the activities of the annual impairment test.

SECTION 11

Assets heading 110 and liabilities section 60: Tax assets and liabilities

11.1 Advance tax assets: composition

	31/12/20	30/6/20
- Against Profit & Loss	557,839	616,727
- Against Net Equity	33,395	40,773
Total	**591,234**	**657,500**

11.2 Deferred tax liabilities: composition

	31/12/20	30/6/20
- Against Profit & Loss	306,555	302,963
- Against Net Equity	38,272	22,485
Total	**344,827**	**325,448**

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

	31/12/20	30/6/20
1. Opening balance	616,727	612,627
2. Increases	17,635	18,342
2.1 Deferred tax assets for the year	16,971	17,651
a) relating to previous years	34	1,338
b) due to changes in accounting policies	—	—
c) writebacks	—	—
d) others	16,937	16,313
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	664	691
3. Decreases	76,523	14,242
3.1 Deferred tax assets derecognised in the year	72,564	13,763
a) reversals of temporary differences	72,136	13,407
b) writedowns of non-recoverable items	—	—
c) changes in accounting policies	—	—
d) others	428	356
3.2 Reduction in tax rates	—	—
3.3 Other decreases:	3,959	479
a) conversion into tax receivables pursuant to Italian Law 214/2011	—	—
b) others	3,959	479
4. Closing balance	557,839	616,727

11.5 Changes in deferred tax during the period (against profit and loss)

	31/12/20	30/6/20
1. Opening balance	302,963	292,302
2. Increases	6,619	27,930
2.1 Deferred tax liabilities of the year	898	21,698
a) relating to previous years	—	—
b) due to changes in accounting policies	—	—
c) others	898	21,698
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	5,721	6,232
3. Decreases	3,027	17,269
3.1 Deferred tax liabilities derecognised in the year	2,879	15,506
a) reversals of temporary differences	2,009	3,768
b) changes in accounting policies	—	—
c) others	870	11,738
3.2 Reductions in tax rates	—	—
3.3 Other decreases	148	1,763
4. Closing balance	306,555	302,963

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

	31/12/20	30/6/20
1. Opening balance	40,773	46,856
2. Increases	11,085	39,231
2.1 Deferred tax assets of the year	11,041	38,346
a) relating to previous years	—	—
b) due to changes in accounting policies	—	—
c) others	11,041	38,346
2.2 New taxes or increases in tax rates	11	—
2.3 Other increases	33	885
3. Decreases	18,463	45,314
3.1 Deferred tax assets derecognised in the year	14,578	43,570
a) reversals of temporary differences	14,578	42,859
b) writedowns of non-recoverable amounts	—	—
b) due to changes in accounting policies	—	—
c) others	—	711
3.2 Reductions in tax rates	—	—
3.3 Other decreases	3,885	1,744
4. Closing balance	33,395	40,773

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

	31/12/20	30/6/20
1. Opening balance	22,485	26,870
2. Increases	51,621	75,772
2.1 Defered taxes liabilities of the year	51,612	75,757
a) related to previous year	—	—
b) due to changes in accountable parameters	—	—
c) others	51,612	75,757
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	9	15
3. Decreases	35,834	80,157
3.1 Deferred taxes liabilities derecognized in the year	35,827	80,155
a) reversals of temporary differences	35,827	80,155
b) changes in accountable policies	—	—
c) others	—	—
3.2 Decreases in fiscal rates	—	—
3.3 Other decreases:	7	2
4. Closing balance	38,272	22,485

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SECTION 13

Heading 130: Other assets

13.1 Other assets: composition

	31/12/20	30/6/20
1. Gold, silver and precious metals	695	695
2. Accrued income other than capitalized income from financial assets	50,601	44,631
3. Trade receivables or invoices to be issued	222,346	256,670
4. Amounts due from tax revenue authorities (not recorded under Heading 140)	149,323	159,463
5. Other items	288,087	207,937
- bills for collection	50,535	48,197
- amounts due in respect of premiums, grants, indemnities and other items in respect of lending transactions	19,866	17,092
- advance payments on deposit commissions	3,202	2,513
- other items in transit	114,802	79,036
- sundry other items [1]	99,685	61,099
Total other assets	711,052	669,396

[1] Includes accrued income.

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Liabilities

SECTION 1

Heading 10: Financial liabilities at amortized cost

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

Type of transaction/Values	31/12/20				30/6/20			
	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	6,209,924	X	X	X	5,660,803	X	X	X
2. Loans from banks	8,000,560	X	X	X	7,149,527	X	X	X
2.1 Other current accounts and demand deposits	387,909	X	X	X	596,259	X	X	X
2.2 Time deposits	150,000	X	X	X	—	X	X	X
2.3 Loans	7,288,799	X	X	X	6,442,279	X	X	X
2.3.1 Repos	3,068,962	X	X	X	2,204,642	X	X	X
2.3.2 Other	4,219,837	X	X	X	4,237,637	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	4,940	X	X	X	4,519	X	X	X
2.6 Other liabilities	168,912	X	X	X	106,470	X	X	X
Total	14,210,484	—	14,210,484	—	12,810,330	—	12,810,330	—

1 This item includes obligations in respect of payment of future leasing instalments as required by IFRS 16 and Bank of Italy circular no. 262 – VI Update.

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

Type of transaction/Value	31/12/20				30/6/20			
	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	20,753,109	X	X	X	18,957,396	X	X	X
2. Time deposit	5,151,295	X	X	X	6,232,444	X	X	X
3. Loans	887,097	X	X	X	846,472	X	X	X
3.1 Repos	727,568	X	X	X	710,173	X	X	X
3.2 Other	159,529	X	X	X	136,299	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	—	X	X	X	—	X	X	X
5. Lease liabilities [1]	210,194	X	X	X	212,196	X	X	X
6. Other liabilities	136,508	X	X	X	124,706	X	X	X
Total	27,138,203	—	27,138,203	—	26,373,214	—	26,373,214	—

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

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

Type of securities/Values	31/12/20				30/6/20			
	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	18,187,786	1,032,875	16,884,598	—	18,889,474	1,287,832	17,901,254	—
1.1 structured	3,406,862	—	3,516,106	—	3,617,647	—	3,779,434	—
1.2 other	14,780,924	1,032,875	13,368,492	—	15,271,827	1,287,832	14,121,820	—
2. Other securities	734,982	—	695,144	39,838	868,410	—	828,977	39,433
2.1 structured	—	—	—	—	—	—	—	—
2.2 other	734,982	—	695,144	39,838	868,410	—	828,977	39,433
Total	18,922,768	1,032,875	17,579,742	39,838	19,757,884	1,287,832	18,730,231	39,433

* The fair values are shown net of Mediobanca issuer risk; if this item is included, the fair value at 31 December 2020 would show a gain of €159.2m (€235.7m).

Debt securities in issue decreased from €18,889,474,000 to €18,187,786,000, on new issuance of approx. €0.9bn, which offset redemptions and buybacks of €1.3bn and other upward adjustments (exchange rates, amortized cost and hedging effects) amounting to €231.2m.

1.4 Breakdown of subordinated debt securities

The heading “Debt securities in issue” includes the following six subordinated Lower Tier 2 issues, for a total amount of €2,065,664,000:

Issue	31/12/20		
	ISIN code	Nominal value	Book value
MB Subordinato Mar 29	XS1579416741	50,000	50,262
Mediobanca Mc Nv30 Sub Tier2 Call Eur	XS2262077675	249,750	249,056
MB OPERA 3.75 2026	IT0005188351	299,672	317,482
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	395,201	396,863
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	499,886	505,651
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	499,580	546,350
Total subordinated securities		1,994,089	2,065,664

In November 2020, a new subordinated Tier2 bond was issued in a total amount of €250m, with a ten-year maturity and a call option after five years, at a fixed rate of 2.3%.

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SECTION 2

Heading 20: Trading liabilities

2.1 Trading liabilities: composition

Operation type / Values	31/12/20					30/6/20				
	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	1,257,946	1,434,435	1,092	—	1,435,527	1,431,165	1,653,615	—	—	1,653,615
2. Due to customers	2,256,742	2,573,361	1,958	—	2,575,319	1,306,066	1,509,072	—	—	1,509,072
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)	3,514,688	4,007,796	3,050	—	4,010,846	2,737,231	3,162,687	—	—	3,162,687
B. Derivative instruments [2]										
1. Financial derivatives		765,939	3,320,183	835,750 [1]			855,347	2,989,573	530,954 [1]	
1.1 Trading	X	765,939	3,310,196	834,694	X	X	855,347	2,978,135	529,758	X
1.2 Related to the fair value option	X	—	—	—	X	X	—	—	—	X
1.3 Other	X	—	9,987	1,056 [2]	X	X	—	11,438	1,196 [2]	X
2. Credits derivatives		—	717,205	—			—	418,374	—	
2.1 Trading	X	—	717,205	—	X	X	—	418,374	—	X
2.2 Related to the fair value option	X	—	—	—	X	X	—	—	—	X
2.3 Other	X	—	—	—	X	X	—	—	—	X
Total (B)	X	765,939	4,037,388	835,750	X	X	855,347	3,407,947	530,954	X
Total (A+B)	X	4,773,735	4,040,438	835,750	X	X	4,018,034	3,407,947	530,954	X

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

[1] Including €798,477,000 (30/6/20: €408,844,000) for options traded, matching the amount booked as financial assets held for trading.

[2] Includes the market value of options (€330,000m at 31 December 2020 and €350,000 at 30 June 2020) covering others attached to bonds issued, matching the amount booked as financial assets held for trading.

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SECTION 3

Heading 30: Financial liabilities designated at fair value

3.1 Financial liabilities recognized at fair value: composition

Type of transaction/ Values	31/12/20					30/6/20				
	BV	Fair value			Fair value *	BV	Fair value			Fair value *
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
1. Debts 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	800,087	—	835,500	—	835,500	215,587	—	216,020	—	216,020
3.1 Structured [1]	800,087	—	835,500	—	X	215,587	—	216,020	—	X
3.2 Others	—	—	—	—	X	—	—	—	—	X
Total	800,087	—	835,500	—	835,500	215,587	—	216,020	—	216,020

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

The Heading include two different bond issues (€52.5m) and a certificate instrument (€622.7m), matched by specific financial assets (Heading 20 – Financial assets recognized at fair value) and by €160.3m of certificates.

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SECTION 4

Heading 40: Hedging derivatives

4.1 Hedging derivatives: by type of hedge/ranking

	31/12/20				30/6/20			
	Fair value			Nominal value	Fair value			Nominal value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	—	506,623	—	25,828,036	—	465,225	—	21,286,650
1) Fair value	—	467,127	—	17,045,236	—	428,533	—	12,943,850
2) Cash flow	—	39,496	—	8,782,800	—	36,692	—	8,342,800
3) Foreign investments	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flow	—	—	—	—	—	—	—	—
Total	—	506,623	—	25,828,036	—	465,225	—	21,286,650

4.2 Hedging derivatives: by portfolio hedged/hedge type

Transactions/Type of hedge	*Fair Value*							Cash flow		Foreign invest.
	Specific						Generic	Specific	Generic	
	debt securities and interest rates	equities and equity index	currencies and gold	credit	commodities	others				
1. Financial assets at fair value with impact taken on comprehensive income	28,721	—	—	—	X	X	X	—	X	X
2. Financial assets valued to amortized cost	413,893	X	—	—	X	X	X	—	X	X
3. Portfolio	X	X	X	X	X	X	—	X	—	X
4. Other operations	—	—	—	—	—	—	X	—	X	—
Total assets	442,614	—	—	—	—	—	—	—	—	—
1. Financial liabilities	24,513	X	—	—	—	—	X	39,496	X	X
2. Portfolio	X	X	X	X	X	X	—	X	—	X
Total liabilities	24,513	—	—	—	—	—	—	39,496	—	—
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

	31/12/2020	30/06/2020
1. Working capital payables and invoices pending receipt	251,300	255,677
2. Amounts due to revenue authorities	63,244	63,376
3. Amounts due to staff	178,319	211,853
4. Other items:	226,559	267,163
- bill for collection	23,993	24,141
- coupons and dividens pending collection	2,448	4,149
- available sums payable to third parties	61,519	57,037
- premiums, grants and other items in respect of lending transactions	15,682	16,581
-other [1]	122,917	165,255
Total	719,422	798,069

[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

	31/12/20	30/6/20
A. Opening balance	27,862	27,808
B. Increases	4,818	8,633
B.1 Provision of the year	3,704	6,635
B.2 Other increases	1,114	1,998
- of which business aggregation operations	—	—
C. Reductions	4,231	8,579
C.1 Severance payments	878	2,492
C.2 Other decreases [1]	3,353	6,087
- of which business aggregation operations	—	—
D. Closing balance	28,449	27,862
Total	28,449	27,862

[1] Includes €2,315,000 in transfers to external, defined contribution pension schemes (30/6/20: €4,200,000).

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 is 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, frequency with which advance withdrawals from the provision are requested, etc.), while for the others, account has been taken of the relevant best practice (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 at the end of December 2020 has been used for similar companies to those being valued (equal to -0.008% [1], compared with 0.31% in June 2020), while the inflation rate has remained flat at 1.20%.

[1] IAS 19 requires market rates to be adopted. The rate as at 30 December 2020 measured mid-day, considering a basket of companies with a seven to ten-years duration, was negative due to the exceptional market conditions. At end-January 2021, the rate was still near-zero but had returned to positive values.

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SECTION 10

Heading 100: Provisions

10.1 Provisions: composition

Items/Components	31/12/20	30/6/20
1. Funds for credit risk related to commitments to disburse funds and financial guarantees given	20,969	13,680
2. Funds on other commitments to disburse funds and guarantees given	300	284
3. Provision to retirement payments and similar [1]	2,557	2,573
4. Other provisions	122,151	112,956
4.1 legal and fiscal controversies	—	—
4.2 staff expenses	3,388	4,835
4.3 others	118,763	108,121
Total	145,977	129,493

[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 31 Dember2020, the heading "Other provisions" totalled €146m, and includes €21m 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 €122.2m for litigation and other contingent liabilities, including labour costs. The increase is chiefly due to the one-off provision in consumer credit to potential reimbursement payable to customers under the so-called Lexitor ruling who had requested early repayment for the share of upfront fees (€15m) not yet accrued, in addition to €1.5m linked to court proceedings pending and to Banking and Financial Ombudsman decisions in respect of appeals by customers. The balance of €122.2m is split between Mediobanca (down from €71.4m to €70.3m), CheBanca! (down from €19.4m to €15.3m), SelmaBipiemme (€10m, basically unchanged), CMB Monaco (down from €3.8m to €2m) and Compass following the merger with Futuro (from €5.2 to €21.1m).

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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 thirteen 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. The date of the next hearing is still pending confirmation, but at present is scheduled for 8 April 2021;

– Lucchini S.p.A. in extraordinary administration ("Lucchini"): against twelve banks, including Mediobanca, for their alleged involvement in the financial disaster which affected the company on account of their having compiled and implemented a business and financial plan for Lucchini based on clearly unrealistic forecasts and figures and a restructuring plan under Article 182-*bis* for the Italian bankruptcy law which included guarantees that were too favourable to the banks themselves; these two facts led allegedly to the company being put into the extraordinary administration. In a ruling issued on 21 July 2020, the presiding judge rejected Lucchini's claim and ordered the company to pay legal expenses. Lucchini has challenged this ruling, giving notice of its appeal on 28 September 2020. The next hearing is set for 31 March 2021.

With reference to the disputes outstanding with the Italian revenue authorities, in November 2020 the Milan Court of Appeal upheld the appeal against the notice of assessment relating to the non-application of taxation for transparency provided for by the regulations on Controlled Foreign Companies (CFC) of the income produced by CMB Monaco and CMG during the 2013-14 financial period (2013 profit, first year disputed). The Court found all the objections raised by the revenue authority to be generic and unproven. In the meantime, notice was also served in respect of the 2015-16 financial year (2015 profits, last year disputed) relating to the PVC already received by year-end 2019 (alleged unpaid tax of €16.4m, plus interest and fines), against which Mediobanca will appeal.

In addition to the above, the second-degree ruling on the alleged non-payment by CheBanca! of the registration tax on the deed of purchase for the former Barclays's business unit has now become final.

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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.

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	284	2,573	4,835	108,121	115,813
B. Increases	16	20	336	19,746	20,118
B.1 Provision for the year	16	20	336	19,746	20,118
B.2 Changes due to passage of time	—	—	—	—	—
B.3 Difference due to discount rate changes	—	—	—	—	—
B.4 Other increases	—	—	—	—	—
- of which business aggregation operations	—	—	—	—	—
C. Decreases	—	36	1,783	9,104	10,923
C.1 Use during the year	—	—	1,783	9,104	10,887
C.2 Differences due to discount rate changes	—	—	—	—	—
C.3 Other decreases	—	36	—	—	36
- of which business aggregation operations	—	—	—	—	—
D. Closing balance	300	2,557	3,388	118,763	125,008

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

	Provisions for credit risk related to commitments and financial guarantees given			
	Stage1	Stage2	Stage3	Total
Commitments to disburse funds	16.606	2.682	217	19.505
Financial guarantees given	758	706	—	1.464
Total	17.364	3.388	217	20.969

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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 assets used in connection with the scheme, the value of the liability amounted to €2.6m (CHF 2.8m), almost unchanged in respect of 30 June 2020. (€2.6m, equal to CHF 2.7m).

For determining the liability, some financial assumptions have been used (0.2% discounting rate, salary increase rate of 1% [3]) and also demographic assumptions [4].

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

IAS19 Net obligation	**31/12/20**	**30/6/20**
	CHF/1000	CHF/1000
Present value of defined benefit obligation	(14,424)	(14,973)
Present value of assets servicing the fund	11,661	12,232
Surplus/(deficit)	(2,763)	(2,741)
IFRIC14 adjustment	—	—
Net accounting (liability)/asset	(2,763)	(2,741)

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

RAM AI has recently started a restricting plan that includes the exit of more than 15% of total the personnel; having a significant impact, the so-called "curtailment cost" has been calculated, which brought a profit of roughly CHF 0.2m (€219,000).

[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] 30/6/20: 0.40% and 1% respectively..

[4] For some of the assumptions used, reference has been made directly to the company's own experience (frequency with which advance withdrawals from the provision are requested, frequency of early retirement, family groups composition), while for the others, account has been taken of the relevant best practice or of legislative provisions; the mortality rate, the turnover rate and the inability rate have been calculated according to BVG2015 tables; the longevity rate variations according to the CMI2016 – 1.25%; for the retirement age the legislative provisions.

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SECTION 11

Heading 110: Technical reserves

11.1 Technical reserves: composition

	Direct labour	Indirect labour	31/12/20	30/6/20
A. Non-life insurance	—	142,076	142,076	157,244
A.1 Premium reserves	—	131,941	131,941	147,192
A.2 Accident reserves	—	10,135	10,135	10,052
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	—	142,076	142,076	157,244

11.2 Technical reserves: changes during the period

	31/12/20	30/6/20
A. Non-life business		
Opening balance	157,244	170,838
Combinations involving group comapanies	—	—
Changes to reserves (+/-)	(15,168)	(13,594)
Other additions	—	—
Closing balance	142,076	157,244
B. Life insurance and other technical reserves		
Opening balance	—	—
Combinations involving group comapanies	—	—
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	142,076	157,244

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SECTION 13

Heading 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.

In November 2020, a total of 1.7 million treasury shares were used in connection with the performance share scheme.

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

Items/Type	Ordinary
A. Shares in issue at the start of the period	887,233,447
- entirely unrestricted	887,233,447
- with restrictions	—
A.1 Treasury shares (-)	(26,611,288)
A.2 Shares outstanding: opening baance	860,622,159
B. Additions	1,670,800
B.1 New shares isssuance as a result of:	—
- against payment:	—
- bonds conversions	—
- exercise of warrants	—
- others	—
- free	—
- to employees	—
- to directors	—
- others	—
B.2 Treasury shares' disposal	1,670,800
B.3 Other additions	—
C. Reductions	—
C.1 Cancellations	—
C.2 Treasury shares' buybacks	—
C.3 Disposal of business	—
C.4 Other reductions	—
D. Shares outstanding: closing balance	862,292,959
D.1 Treasury shares (+)	(24,940,488)
D.2 Shares in issue at the end of the period	887,233,447
- entirely unrestricted	887,233,447
- with restrictions	—

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13.4 Profit reserves: other information

Item	31/12/20	30/6/20
Legal reserve	88,724	88,722
Statutory reserve	1,068,937	1,029,580
Treasury shares	217,001	231,538
Others	5,486,019	4,916,024
Total	6,860,681	6,265,864

SECTION 14

Heading 190: Minority interests

14.1 Heading 210: Net equity attributable to minorities - composition

Company name	31/12/20	30/6/20
1. SelmaBipiemme S.p.A.	86,490	85,101
2. RAM Active Investments S.A.	6,213	6,385
3. Other minors	13	6
Total	92,716	91,492

Other information

1. Guarantees and commitments

	Nominal value of commitments and financial guarantees given			31/12/20	30/6/20
	Stage 1	Stage 2	Stage 3		
1. Commitment to disburse funds	10,588,615	167,710	4,142	10,760,467	9,938,397
a) Central Banks	—	—	—	—	—
b) Public Administration	1,489,333	—	—	1,489,333	1,129,491
c) Banks	51,851	—	—	51,851	33,525
d) Other financial companies	1,706,150	57,227	—	1,763,377	1,834,007
e) Non-financial companies	5,397,870	78,393	2,364	5,478,627	4,988,594
f) Families	1,943,411	32,090	1,778	1,977,279	1,952,780
2. Financial guarantees given	506,648	12,997	—	519,645	712,033
a) Central Banks	—	—	—	—	—
b) Public Administration	—	—	—	—	—
c) Banks	11,685	—	—	11,685	9,992
d) Other financial companies	73,069	—	—	73,069	196,331
e) Non-financial companies	399,324	12,997	—	412,321	487,048
f) Families	22,570	—	—	22,570	18,662

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2. Other commitments and guarantees issued

	Nominal value 31/12/2020	Nominal value 30/06/2020
1. Other guarantees given	105,036	122,626
of which: impaired credit exposures	—	—
a) Central Banks	—	—
b) Public Administration	—	—
c) Banks	5	6
d) Other financial companies	27,736	28,533
e) Non-financial companies	13,551	30,571
f) Families	63,744	63,516
2. Other commitments	144,196	148,846
of which: impaired credit exposures	—	—
a) Central Banks	—	—
b) Public Administration	—	—
c) Banks	123,288	124,199
d) Other financial companies	—	—
e) Non-financial companies	20,908	20,747
f) Families	—	3,900

5. Assets managed and traded on behalf of third parties

Type of service	Amounts 31/12/20	Amounts 30/6/20
1. Order execution on behalf of client		
a) purchases	15,704,327	26,849,645
1. settled	15,664,526	26,226,551
2. unsettled	39,801	623,094
b) sales	12,760,842	26,717,796
1. settled	12,721,041	26,094,702
2. unsettled	39,801	623,094
2. Portfolios management		
a) individuals	13,403,829	12,589,696
b) collectives	15,255,456	15,579,671
3. Custody and administration of securities		
a) Third-party securities on deposits: relating to depositary banks activities (excluding portfolio management)	10,972,432	11,123,568
1. securities issued by companies included in the area of consolidation	166,778	181,178
2. other securities	10,805,654	10,942,390
b) Third-party securities held in deposits (excluding portfolio management): other	16,412,624	16,905,832
1. securities issued by companies included in the area of consolidation	34,954	35,083
2. other securities	16,377,670	16,870,749
c) Third-party securities deposited to third	24,293,871	24,956,998
d) Own securities deposited to third	8,944,269	10,444,675
4. Other operations	1,132,888	2,674,546

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Part C – Notes to the consolidated profit and loss account

SECTION 1

Heading 10 and 20: Net interest income

1.1 Interest and similar income: breakdown

Items/Technical forms	Debt securities	Loans	Other operations	Total 6 months ended 31/12/20	Total 6 months ended 31/12/19
1. Financial assets valued at fair value with impact through P&L:	16,833	10,676	—	27,509	20,258
1.1 Financial assets held for trading	16,078	54	—	16,132	18,024
1.2 Financial assets designated at fair value	—	10,367	—	10,367	702
1.3 Other financial assets mandatorily recognized at fair value	755	255	—	1,010	1,532
2. Financial assets recognized at fair value with impact through OCI y	18,185	—	X	18,185	22,183
3. Financial assets at amortized cost:	26,494	809,992	X	836,486	893,854
3.1 Due from banks	8,934	8,092	X	17,026	17,678
3.2 Due from customers	17,560	801,900	X	819,460	876,176
4. Hedging derivatives [1]	X	X	22,153	22,153	60,071
5. Other assets	X	X	10	10	59
6. Financial liabilities [2]	X	X	X	25,284	9,390
Total	61,512	820,668	22,163	929,627	1,005,815
of which: interest income from non-performing assets	—	*49,718*	—	*49,718*	*36,916*
of which: interest income from finance leases	—	*21,811*	—	*21,811*	*23,629*

[1] Mainly hedge funding.

[2] Item no. "6. Financial liabilities" includes interest expense accrued as the result of the negative interest rates, €24.9m of which in connection with T-LTRO, including approx. €10m of additional premium accounted on a pro-rata basis in the 12 months ended 30 June 2021.

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1.3 Interest expenses and similar charges: composition

Items/Technical forms	Debts	Securities	Other operations	Total 6 months ended 31/12/20	Total 6 months ended 31/12/19
1. Financial liabilities recognized at amortized cost	(38,113)	(157,113)	X	(195,226)	(255,714)
1.1 Due to central banks	(19)	X	X	(19)	(163)
1.2 Due to banks	(7,370)	X	X	(7,370)	(11,296)
1.3 Due to customers	(30,724)	X	X	(30,724)	(34,469)
1.4 Securities in issue	X	(157,113)	X	(157,113)	(209,786)
2. Financial trading liabilities	—	—	—	—	—
3. Financial liabilities designated at fair value	—	(11,644)	—	(11,644)	(1,235)
4. Other liabilities and funds	X	X	(1,132)	(1,132)	(4,222)
5. Hedging derivatives	X	X	—	—	—
6. Financial assets [1]	X	X	X	(2,653)	(885)
Total	(38,113)	(168,757)	(1,132)	(210,655)	(262,056)
of which: interest expenses related to lease liabilities	*(1,262)*	—	—	*(1,262)*	*(1,223)*

[1] Item no. “6. Financial assets” includes interest expense accrued as the result of the negative interest rates.

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SECTION 2

Heading 40 and 50: Net fee and commission income

2.1 Fee and commission income: breakdown

Type of service/Values	Total 6 months ended 31/12/20	Total 6 months ended 31/12/19
a) guarantees given	2,749	1,963
b) credit derivatives	—	—
c) management, brokerage and consultancy income:	216,273	182,406
1. securities trading	8,554	8,178
2. currency negotiation	—	—
3. portfolio management	58,235	70,944
3.1. individual	21,984	26,539
3.2. collective	36,251	44,405
4. custody and administration of securities	9,361	8,585
5. custodian bank	—	—
6. placement of securities	80,022	37,035
7. reception and transmission of orders	11,485	8,361
8. advisory services	2,582	2,825
8.1 related to investments	2,582	2,825
8.2 related to financial structure	—	—
9. distribution of third parties services	46,034	46,478
9.1 portfolio management	6,931	7,153
9.1.1 individual	6,105	6,707
9.1.2 collective	826	446
9.2 insurance products	38,105	37,855
9.3 other products	998	1,470
d) collection and payment services	10,671	6,576
e) securitization servicing	179	231
f) factoring services	4,738	3,277
g) tax collection services	—	—
h) management of multilateral trading facilities	—	—
i) management of current account	5,401	3,554
j) other services	133,925	129,743
Total	373,936	327,750

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2.2 Fee and commission expense: breakdown

Services/Amounts	6 months ended 31/12/20	6 months ended 31/12/19
a) guarantees received	(47)	(27)
b) credit derivatives	—	—
c) management and brokerage services	(10,899)	(10,592)
1. trading in financial instruments	(4,891)	(3,799)
2. currency trading	—	—
3. portfolios management:	(4,262)	(5,476)
3.1 own portfolio	—	(15)
3.2 third parties portfolio	(4,262)	(5,461)
4. custody and administration securities	(1,702)	(1,260)
5. financial instruments placement	(44)	(57)
6. off-site distribution of financial instruments, products and services	—	—
d) collection and payment services	(6,644)	(7,260)
e) other services	(48,595)	(56,723)
Total	(66,185)	(74,602)

SECTION 3

Heading 70: Dividends and similar income

3.1 Dividends and similar income: breakdown

Items/Income	6 mths ended 31/12/20		6 mths ended 31/12/19	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	22,745	198	32,964	262
B. Other financial assets mandatorily measured at fair value	—	13,517	—	5,157
C. Financial assets measured at fair value through other comprehensive income	912	—	303	—
D. Investments	2,213[1]	—	—	—
Total	25,870	13,715	33,267	5,419

[1] This figure refers entirely to the one-off gain in connection with repayment of the convertible loan, as contractually provided for in the 2015 restructuring agreement.

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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	392,860	197,843	(201,024)	(101,878)	287,801
1.1 Debt securities	208,645	35,849	(23,531)	(14,575)	206,388
1.2 Equity	181,621	160,102	(177,489)	(87,086)	77,148
1.3 UCITs	2,532	1,892	(4)	(217)	4,203
1.4 Loans	62	—	—	—	62
1.5 Others	—	—	—	—	—
2. Financial liabilities held for trading	—	—	—	—	—
2.1 Debt securities	—	—	—	—	—
2.2 Deposits	—	—	—	—	—
2.3 Other	—	—	—	—	—
3. Financial assets and liabilities: exchange rates differences [1]	X	X	X	X	102,016
4. Derivatives instruments	1,805,569	837,614	(1,962,922)	(971,497)	(320,295)
4.1 Financial derivatives	1,216,023	677,208	(1,352,052)	(817,472)	(305,352)
- on debt securities and interest rates [2]	226,837	279,491	(317,428)	(224,399)	(35,499)
- on equity securities and shares indexes	989,186	397,717	(1,034,624)	(593,073)	(240,794)
- on currencies and gold	X	X	X	X	(29,059)
- other	—	—	—	—	—
4.2 Credit derivatives	589,546	160,406	(610,870)	(154,025)	(14,943)
of which: natural hedges related to the fair value option	X	X	X	X	—
Total	2,198,425	1,035,457	(2,163,946)	(1,073,375)	69,522

[1] This item contains valuations for banking book positions based at current exchange rates totalling minus €39,749,000.

[2] Of which €2,601,000 in positive margins on interest rate derivatives (minus €28,396,000 for the 6 months ended 31 December 2019).

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SECTION 5

Heading 90: Net hedging income (expense)

5.1 Net hedging income (expense): breakdown

Income elements/Amounts	6 months ended 31/12/20	6 months ended 31/12/19
A. Income from:		
A.1 Fair value hedging derivatives	42,423	42,770
A.2 Hedged asset items (in fair value hedge relationship)	50,190	25,489
A.3 Hedged liability items (in fair value hedge relationship)	51,573	74,784
A.4 Cash-flows hedging financial derivatives	8	6
A.5 Assets and liabilities denominated in currency	—	—
Total gains on hedging activities (A)	144,194	143,049
B. Losses on:		
B.1 Fair value hedging derivatives	(69,257)	(82,121)
B.2 Hedged asset items (in fair value hedge relationship)	(43,130)	(38,437)
B.3 Hedged liability items (in fair value hedge relationship)	(30,447)	(23,192)
B.4 Cash-flows hedging financial derivatives	—	—
B.5 Assets and liabilities denominated in currency	—	—
Total losses on hedging activities (B)	(142,834)	(143,750)
C. Net profit from hedging activities (A-B)	1,360	(701)
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 disposal/repurchase: breakdown

Items / Income	6 months ended 31/12/20			6 months ended 31/12/19		
	Gains	Losses	Net profit	Gains	Losses	Net profit
A. Financial assets						
1. Financial assets at amortized cost	6,404	(10,014)	(3,610)	10,291	(1,741)	8,550
1.1 Due from banks	—	(7,808)	(7,808)	680	(6)	674
1.2 Due from customers	6,404	(2,206)	4,198	9,611	(1,735)	7,876
2. Financial assets at fair value with impact taken to comprehensive income	23,000	(31,580)	(8,580)	39,229	(842)	38,387
2.1 Debt securities	23,000	(31,580)	(8,580)	39,229	(842)	38,387
2.2 Loans	—	—	—	—	—	—
Total Assets (A)	29,404	(41,594)	(12,190)	49,520	(2,583)	46,937
B. Financial liabilities valued at amortized cost						
1. Due to banks	139	—	139	—	—	—
2. Due to customers	—	—	—	—	—	—
3. Debt securities in issue	2,958	(3,237)	(279)	2,774	(4,560)	(1,786)
Total liabilities (B)	3,097	(3,237)	(140)	2,774	(4,560)	(1,786)

Losses on financial assets recognized at amortized cost and those recognized at fair value through other comprehensive income chiefly include current exchange rate valuations (of minus €8.5m and minus €31.2m respectively).

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SECTION 7

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

7.1 Net variation in the value of other financial assets and liabilities valued at fair value with impact taken through profit and loss: composition of financial assets and liabilities recognizeded 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	17,500	—	—	—	17,500
1.1 Debt securities	371	—	—	—	371
1.2 Loans	17,129	—	—	—	17,129
2. Financial liabilities	128	—	(22,559)	(245)	(22,676)
2.1 Debt securities in issue	128	—	(22,559)	(245)	(22,676)
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	17,628	—	(22,559)	(245)	(5,176)

Most of the effects of the net result are offset by the results of trading activity (cf, Heading 80 of Profit and Loss).

7.2 Net variation in the value of other financial assets and liabilities valued at fair value with impact taken through profit and loss: composition of other financial assets mandatorily recognized 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	99,063	1,339	(12,082)	(6,535)	81,785
1.1 Debt securities	71	—	(479)	—	(408)
1.2 Equity securities	—	—	—	—	—
1.3 UCITS	32,067	1,335	(10,560)	(17)	22,825
1.4 Loans	66,925	4	(1,043)	(6,518)	59,368
2. Financial assets: exchange rate differences	X	X	X	X	(806)
Total	99,063	1,339	(12,082)	(6,535)	80,979

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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 (1)			Writebacks (2)		6 months ended 31/12/20	6 months ended 31/12/19
	Stage1 and Stage2	Stage3		Stage1 and Stage2	Stage3		
		Write-off	Others				
A. Due from banks	(2,570)	—	—	631	—	(1,939)	232
- Loans	(2,071)	—	—	518	—	(1,553)	(55)
- Debt securities	(499)	—	—	113	—	(386)	287
of which: financial assets purchased or originated credit impaired	—	—	—	—	—	—	—
B. Due from customers	(243,764)	(29,228)	(195,275)	154,941	148,280	(165,046)	(133,177)
- Loans	(241,023)	(29,228)	(195,275)	153,301	148,280	(163,945)	(132,886)
- Debt securities	(2,741)	—	—	1,640	—	(1,101)	(291)
of which: financial assets purchased or originated credit impaired	—	*(27,150)*	*(111)*	—	*28,526*	*1,265*	*3,494*
Total	(246,334)	(29,228)	(195,275)	155,572	148,280	(166,985)	(132,945)

Overall, higher provisions related to the Covid-19 pandemic during the first six months of the financial year amount to €74m, [1] €49m relating to the large corporate market. The large corporate segment recorded net reversals of €43.6m in the period, as a result of the one-off effects of the macro-economic scenario update, the overlay effect and the higher provisions due to the prudential Stage2 reclassification of Covid-related exposures being more than offset by the Burgo writeback (which resulted in €110m being released) in connection with the debt refinancing. [2]

[1] Please refer to section 6.3 Macro-economic environment and Covid-related impacts in Part E of the Notes to the Accounts.

[2] Please refer to the Group Review of Operations for further details.

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8.1a Net value adjustments for credit risk on financial assets recognized at amortized cost subject to Covid-related support measures: composition

Transactions/Income	Net adjustments			6 mths ended 31/12/20	6 mths ended 31/12/19
	Stages 1 and 2	Stage 3			
		Write-offs	Others		
1. Loans and advances subject to EBA-compliant moratoria (legislative and non-legislative)	(5,633)	—	85	(5,548)	—
2. Other loans and advances subject to COVID-19-related forbearance measures	(184)	—	(1,105)	(1,289)	—
3. Newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis	(1,029)	—	—	(1,029)	—
Total	(6,846)	—	(1,020)	(7,866)	—

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

Transactions/Income	Writedowns (1)			Writebacks (2)		6 mths ended 31/12/20	6 mths ended 31/12/19
	Stage 1 and stage 2	Stage 3		Stage 1 and stage 2	Stage 3		
		Write-offs	Others				
A. Debt securities	(5,944)	—	—	—	—	(5,944)	(558)
B. Loans	—	—	—	—	—	—	—
- to customers	—	—	—	—	—	—	—
- to banks	—	—	—	—	—	—	—
of which: financial assets purchased or originated credit impaired	—	—	—	—	—	—	—
Total	(5,944)	—	—	—	—	(5,944)	(558)

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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 gain of €92,000, includes the impact of modifications to contracts for financial assets which, as they do not constitute substantial modifications, under IFRS 9 and the Group's own accounting policies, do not entail derecognition of the assets but require the modifications to the cash flows provided for contractually to be taken through the profit and loss account.

SECTION 10

Heading 160: Net premiums

10.1 Net premiums: breakdown

Net premiums: breakdown	Direct labour	Indirect labour	6 months ended 31/12/20	6 months ended 31/12/19
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 (+)	—	11,001	11,001	27,936
B.2. Outward reinsurance premiums (-)	—	X	—	—
B.3. Change in gross value of premium reserve (+/-)	—	15,251	15,251	1,586
B.4. Change in premium reserve for premiums ceded to reinsures (+/-)	—	—	—	—
B.5. Total	—	26,252	26,252	29,522
C. Total net premiums	—	26,252	26,252	29,522

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SECTION 11

Heading 170: Other income (net) from insurance activities

11.1 Other income (net) from insurance activities: breakdown

Items	6 months ended 31/12/20	6 months ended 31/12/19
1. Net change in technical reserves	—	—
2. Claims paid out during the year	(4,616)	(5,400)
3. Other income and expense from insurance	(2,398)	(2,748)
Total	(7,014)	(8,148)

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

Changes for claims	6 mths ended 31/12/20	6 mths ended 31/12/19
Life-business: expense related 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 amount payable	—	—
B.1 Gross annual amount	—	—
B.2 (-) Amounts reinsured with third parties	—	—
Total life-business claims	—	—
Non-life business: expense related to claims, net of recoveries and reinsurance ceded		
C. Amounts paid out	(4,534)	(4,647)
C.1 Gross annual amount	(4,534)	(4,647)
C.2 (-) Amounts reinsured with third parties	—	—
D. Change in recoveries net of amount ceded to reinsures	—	—
E. Change in claims reserves	(82)	(753)
E.1 Gross annual amount	(82)	(753)
E.2 (-)Amounts reinsured with third parties	—	—
Total non-life business claims	(4,616)	(5,400)

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SECTION 12

Heading 190: Administrative expenses

12.1 Labour costs: breakdown

Type of expense/Amounts	6 months ended 31/12/20	6 months ended 31/12/19
1) Employees	(296,689)	(291,425)
a) wages and salaries	(214,222)	(212,893)
b) social security contributions	(48,499)	(48,371)
c) severance pay (only for Italian legal entities)	(1,528)	(1,885)
d) social security costs	—	—
e) allocation to employees severance pay provision	(7,743)	(6,630)
f) provision for retirement and similar provisions:	219	(86)
- defined contribution	219[1]	(86)
- defined benefits	—	—
g) paymentsto external pension funds:	(7,765)	(8,052)
- defined contribution	(7,765)	(8,052)
- defined benefits	—	—
h) expenses resulting from share based payments	(4,695)	(4,783)
i) other employees' benefits	(12,456)	(8,725)
2) Other staff	(2,690)	(3,691)
3) Directors and Statutory Auditors	(5,238)	(8,848)
4) Early retirement costs	(370)	(715)
Total	(304,987)	(304,679)

[1] This figure refers to the gain arising from the “curtailment cost”, further details on which are provided in Section B – Liabilities, Defined benefit company retirement pension schemes.

12.2 Average number of staff by category

	6 months ended 31/12/20	6 months ended 31/12/19
Employees:		
a) Senior executives	438	431
b) Executives	2,012	1,932
c) Other employees	2,376	2,382
Other staff	238	239
Total	5,063	4,984

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12.5 Other administrative expenses: breakdown

Type of service/Values	6 mths ended 31/12/20	6 mths ended 31/12/19
OTHER ADMINISTRATIVE EXPENSES		
- legal, tax and professional services	(24,656)	(27,720)
- loan recovery activity	(37,647)	(35,539)
- marketing and communications	(16,261)	(19,681)
- property	(10,421)	(10,267)
- EDP	(67,262)	(60,687)
- info-provider	(21,594)	(22,522)
- bank charges, collection and payment fees	(12,387)	(11,889)
- operating expenses	(31,398)	(32,982)
- other staff expenses	(2,901)	(9,769)
- other costs [1]	(26,568)	(20,152)
- indirect and other taxes	(46,534)	(35,535)
Total other administrative expenses	(297,629)	(286,743)

[1] The item includes contributions to the various resolution funds: €17.9m for the period ended 31/12/20 and €12.5m for the period ended 31/12/19.

SECTION 13

Heading 200: Net transfers to provisions

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

	6 mths ended 31/12/20			6 mths ended 31/12/19
	Provisions	Reallocation surplus	Total	Total
Loan commitments	(13,036)	4,926	(8,110)	(913)
Financial guarantees given	(118)	939	821	(132)
Total	(13,154)	5,865	(7,289)	(1,045)

13.2 Net transfers related to other commitments and guarantees given

	6 mths ended 31/12/20			6 mths ended 31/12/19		
	Provisions	Reallocation of surplus	Total	Provisions	Reallocation of surplus	Total
Other commitments	—	—	—	—	—	—
Other financial guarantees given	(16)	—	(16)	—	—	—

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13.3 Net transfers to other provisions: breakdown *

	6 mths ended 31/12/20			6 mths ended 31/12/19
	Provisions	**Reallocation of surplus**	**Total**	
1. Other provisions				
1.1 Legal disputes	—	—	—	—
1.2 Staff costs	(571)	—	(571)	(153)
1.3 Other	(19,114)	—	(19,114)	18,367
Total	(19,685)	—	(19,685)	18,214

* The item includes €15m related to Compass Banca for the 6 months ended 31 December 2020.

SECTION 14

Heading 210: Net adjustments to tangible assets

14.1 Net adjustments to tangible assets: breakdown

Asset/Income	Depreciation (a)	Impairment losses (b)	Write-backs (c)	Net result (a + b - c)
A. Property, equipment and investment property				
1 Core	(25,938)	—	—	(25,938)
- Owned	(6,796)	—	—	(6,796)
- IFRS16 rights of use	(19,142)	—	—	(19,142)
2 Held for investment purpose	(939)	—	—	(939)
- Owned	(939)	—	—	(939)
- IFRS16 rights of use	—	—	—	—
3 Inventories	X	—	—	—
Total	(26,877)	—	—	(26,877)

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SECTION 15

Heading 220: Net adjustments to intangible assets

15.1 Net adjustments to intangible assets: breakdown

Asset/Income	Depreciation (a)	Impairment losses (b)	Writebacks (c)	Net result (a + b - c)
A.Intangible assets				
A.1 Owned	(16,067)	—	—	(16,067)
- Software	(11,297)	—	—	(11,297)
- Others	(4,770)	—	—	(4,770)
A.2 Right of use related to leases	—	—	—	—
Total	(16,067)	—	—	(16,067)

SECTION 16

Heading 230: Other operating income (expense)

16.1 Other operating expenses: breakdown

Transactions/Values	6 mths ended 31/12/20	6 mths ended 31/12/19
a) Leasing activity	(4,339)	(4,905)
b) Sundry costs and expenses	(6,001)	(4,954)
Total	(10,340)	(9,859)

16.2 Other operating income: breakdown

Transactions/Values	6 mths ended 31/12/20	6 mths ended 31/12/19
a) Amounts received from customers	45,174	30,823
b) Leasing activity	3,744	3,788
c) Other income	46,579	52,459
Total	95,497	87,070

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SECTION 17

Heading 250: Gain (loss) on equity investments

17.1 Gain (loss) on equity investments: breakdown

Income/ Value	6 months ended 31/12/20	6 months ended 31/12/19
1) Joint venture		
A. Income	—	—
1. Revaluations	—	—
2. Gains on disposal	—	—
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	—	—
1. Writedowns	—	—
2. Impairment adjustments	—	—
3. Losses on disposal	—	—
4. Other expenses	—	—
Net profit	—	—
2) Companies subject to significant influence		
A. Income	112,485	183,726
1. Revaluations	112,485	183,726
2. Gains on disposal	—	—
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	(1,606)	—
1. Writedowns	(1,606)	—
2. Impairment adjustments	—	—
3. Losses on disposal	—	—
4. Other expenses	—	—
Net profit	110,879	183,726
Total	110,879	183,726

SECTION 19

Heading 270: Value adjustments to goodwill

19.1 Value adjustments to goodwill: breakdown

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.

During the period, no impairment to goodwill has been recorded.

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SECTION 20

Heading 280: Gain (loss) on disposal of investments

20.1 Gain (loss) on disposal of investments: breakdown

Income/Value	6 mths ended 31/12/20	6 mths ended 31/12/19
A. Assets	—	4
- Gains on disposal	—	4
- Losses on disposal	—	—
B. Other assets	—	155
- Gains on disposal	—	155
- Losses on disposal	—	—
Net result	—	159

SECTION 21

Heading 300: Income tax for the year on ordinary activities

21.1 Income tax for the year on ordinary activity: breakdown

Income components/ Sectors	6 mths ended 31/12/20	6 mths ended 31/12/19
1. Current tax expense (-)	(99,253)	(164,657)
2. Changes in current taxes of previous years (+/-)	(67)	(976)
3. Reduction in current taxes of the year (+)	152	1,138
3.bis Reduction in current taxes of the year for tax credits pursuant to Law no. 214/2011 (+)	—	—
4. Changes in deferred tax assets (+/-)	(60,537)	(4,084)
5. Changes in deferred tax liabilities (+/-)	789	122
6. Taxes on income for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(158,916)	(168,457)

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SECTION 23

Heading 340: Net profit (loss) attributable to minorities

23.1 Breakdown of Heading 340, "Net profit (loss) for the year attributable to minorities"

Company name	6 mths ended 31/12/20	6 mths ended 31/12/19
1. SelmaBipiemme S.p.A.	1,129	1,275
2. RAM Active Investments S.A.	(48)	245
3. Other minor interests	—	—
Total	1,081	1,520

SECTION 25

Earnings per share

25.1 Average number of ordinary shares on a diluted basis

	6 mths ended 31/12/20	6 mths ended 31/12/19
Net profit	410,553	467,636
Avg. no. of shares in issue	862,281,937	868,243,576
Avg. no. if potentially diluted shares	4,919,928	5,272,723
Avg. no. of diluted shares	867,201,865	873,516,299
Earnings per share	0.48	0.54
Earnings per share, diluted	0.47	0.54

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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.

SECTION 1

Banking Group Risks

1.1 CREDIT RISKS

QUALITATIVE INFORMATION

1. General aspect

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

[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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activities for the parent company scope of risk, in the same way that the local teams do for their own companies. The Group Risk Management Unit, which reports directly to the Chief Executive Officer under the Group Chief Risk Officer's leadership, consists of the following sub-units: i) Group Enterprise Risk Management & Supervisory Relations, which manages the integrated Group processes (ICAAP, RAF, Recovery Plan, support in 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, co-ordinating, 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 co-ordinating 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

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regard to exposures for which the standardized methodology for calculating regulatory capital is still used, the Group has nonetheless instituted internal rating models for credit risk used for management purposes.

The Group has also adopted a portfolio model in order to calculate the economic capital for credit risk, which enables geographical and sector concentration and diversification effects to be factored in.

Impact of Covid-19 pandemic

The Mediobanca Group rapidly developed and planned procedures appropriate to the relevant sector of activities and product portfolio, to provide an adequate response to the provisions introduced by the decrees to provide support for households and businesses. It took steps to implement the provisions of the "Heal Italy" and "Liquidity" decrees, and participated in the initiatives promoted by category associations ABI and Assofin (the Italian association for the consumer credit and mortgage lending sector). Please refer to section 6.1 for further details.

The Group has also revised the risk objectives contained in its RAF, which was compiled as part of the annual budgeting process for the 2020-21 financial year, including the economic impact of the crisis triggered by the Covid-19 pandemic.

Operating procedures have been defined proactively in order to identify borrowers in potential difficulties but still fundamentally sound and solvent at the moratoria expiry dates, with a view to offering them solutions to limit the negative impact on credit quality. The measures have been focused on those business areas where the phenomenon has had a material impact, namely Consumer Banking, mortgage lending and leasing. In particular, at Compass Banca, the decision adopted has been to agree on the duration of the suspension period with the client itself (as permitted under the Assofin protocol), rather than simply offering six-month suspension period (the maximum allowed by the Assofin protocol) for each application without actually discussing the matter with the client. This was considered to be the best way to balance the opportunity for moratoria with careful and sound credit management, to avoid a situation whereby a long blind period of six months was followed by a substantial impact (or "cliff effect") at the end of the suspension period. At CheBanca!, the customary credit recovery activities for positions for which suspensions

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have been granted have been complemented with the addition of *ad hoc* action in month when the moratoria expires. The client is contacted by phone and informed that the standard repayment schedule will resume the following month, then, if the financial difficulties are ongoing, they are directed towards applying for the concession to be extended. All the moratoria expiring are managed by an outsourcer, who receives a fee for their services which differs on the basis of a behavioural model that estimates the probability of the position generating an instance of non-payment with the next instalment. At SelmaBipiemme, in September 2020 the Board of Directors approved a specific project, the objective of which is not only to preserve asset quality, thus keeping the cost of risk and growth in NPLs to a minimum, but also to avoid customers making complaints about possible delayed responses or unjustified rejections, leading to additional reputational risk for the Mediobanca Group. The project leverages on all company units involved in the process of managing moratoria, to analyse the possible development of the economic situation of the counterparties to which moratoria of different kinds have been granted. The objective is to understand what share of the portfolio will resume making regular payments at the end of the moratorium period, provide further support to counterparties in difficulties, monitor any positions entering non-performing status, preserve the value of the credits and their underlying assets, and speed up launch of the recovery process.

Other measures have involved credit strategies and policies, bearing in mind the change in the macro scenario and in accordance with the results of the sector analysis carried out in order to identify which sectors are most vulnerable. The individual analysis carried out at the approval stage (typically for large and medium-sized enterprises, including in leasing and factoring operations), take into account the impact of the current economic scenario and the pandemic on the sector in which the counterparty operates and their credit rating and due consideration is given to the existence or otherwise of ancillary guarantees, such as the Central Guarantee Fund guarantee.

In CheBanca!, sector analyses have been launched, to identify which ones are most vulnerable to the crisis. Pending the conclusions to be drawn from this analysis, no changes have yet been made to the credit policies, but the attention levels have been raised by the Lending division. Despite the fact that the majority of the finance granted by CheBanca! is to employees rather than businesses (the number of loans granted to self-employed and freelance workers is marginal), the economic sector in which the borrower's employer operates is analysed at the processing stage. In cases where the employer's size and sector

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of operations are more vulnerable to the crisis, the analysis is complemented by commercial checks carried out via specialist companies.

At Compass Banca, the cut-off levels for personal loans originated through all channels were promptly amended, in order to ensure that new business is adapted to the changing market scenario. The July-December 2020 period saw the continuation of the relaxing of the restrictive measures introduced during the first lockdown in March-April 2020. During the six months under review, in the light of the substantial improvements recorded in credit recovery performances, the stringent measures for cut-off levels were revised in part, in order to reduce the effects of the restrictions on new business.

Some business segments, such as private banking and NPL acquisitions, were less impacted by the moratoria phenomenon, so normal behavioural analysis for payments, collateral valuation and collection can be used for these segments, despite obviously monitoring carefully any potential structural or short-term changes that the current scenario might produce in the reference markets.

For details on how the risk measurement and control systems have been adapted, please see sections 2.3, 5 and 6.2.

Specific public disclosures are also required by the EBA "Guidelines on reporting and disclosure of exposures subject to measures applied in response to the Covid 19 crisis", which the Group has included in its "Basel III Pillar 3 disclosure to the public". This information is also summarized in section 6.2 of this document.

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.

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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 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.

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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.

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

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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.

2.3 Methods for measuring expected losses

Under IFRS 9 "Financial Instruments", assets which are recognized in the financial statements at (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

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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.

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. Please refer to section 5 for details on the treatment used for the different business segments, to section 6.1 for the government and regulatory action introduced in response to Covid-19, and to section 6.2 for quantitative analysis of the moratoria granted to clients in connection with the pandemic.

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

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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 view of the economic recovery which started in 3Q 2020, after the recession peaked in the quarter before that, and although growth rates remained in negative territory until 1Q 2021, it has been decided to limit the use of the "spline" technique, applied at the balance-sheet date at end-June 2020, to the estimates provided by the models used in the IFRS 9 methodological framework (the so-called "satellite models"). In particular, the spline has been abandoned for the PD satellite model for the wholesale portfolio, but has been maintained for the LGD satellite models for both the wholesale and mortgages segments, the projections for which would otherwise have been unduly affected by excessive volatility. In this way, compared to the results obtained in the previous six-month period, an incremental effect has been factored in as a result primarily of the increase in the one-year PD.

Furthermore, as it was felt that the consensus scenario used for the projections (which saw strong growth for the 2021-22 period) were not free from uncertainty related to the development of the crisis situation brought on by the pandemic, the model estimates used for the provisioning have been complemented by additional adjustments based on specific aspects that cannot be valued by modelling techniques.

For the corporate loan book, overlays have been added to the model estimates for the performing positions, to manage uncertainties linked to the macroeconomic scenario, and specific uncertainties related to the possible impact of the crisis on individual counterparties. The following aspects in particular have been considered: existence of temporary contractual waivers, operations in industrial sectors considered to be most vulnerable, and a possible

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revision of credit risk to be assessed in view of the consolidation of the balance-sheet data impacted by the last year's crisis.

For Compass, the one-year Probability of Default indicator has been revised upwards for each rating class, with an average one-year PD more than 100 basis points higher than the output suggested by the existing modelling. The correction has involved all rating classes, but has not affected a position's classification as Stage 1, Stage 2 or Stage 3.

The stress effect has also been applied to the expected loss after the first year of default (for exposures classified in Stage 2). The conservative factor has been applied in view of the well-known time lag inherent in the current modelling, which does not react promptly to the unemployment rate (which is expected to deteriorate). Conservative corrections have also been made to the coverage on non-performing positions, to ensure consistency with the current objectives of the specific Compass strategy, take account of the specific regulatory expectations in terms of hedging this portion of the portfolio, and guarantee more immediate representation of the impact of the Covid-19 crisis.

At CheBanca! internal analysis has focused attention on the mortgages which have been granted moratoria, which based on the number of insolvencies recorded by positions with moratoria that have already expired, have been deemed to require more restrictive assessment. In this case a conservative multiple has been applied to the PD parameter for performing moratoria outstanding, in order to bring forward the adjustments that would be generated if the mortgage has to transition to default, and if performing moratoria outstanding have to be reclassified from Stage 1 to Stage 2.

In the same way, at SelmaBipiemme an overlay has been applied to moratoria classified as Stage 1 until December 2020, with enhanced provisioning instead of the results suggested by the model in cases where Covid-related moratoria have been granted at the initiative of SelmaBipiemme itself (i.e. not moratoria granted under law/ABI) and those granted to clients operating in sectors particularly affected by the pandemic.

In factoring, a correction has been made for large corporate counterparties operating in the sectors most impacted by the pandemic crisis and for non-performing retail counterparties for which lower recoveries than those suggested by the current modelling may be assumed.

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No other corrections have been made for the other business segments.

For further details on the macroeconomic scenario and the Covid-related impact, please refer to section 6.3.

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; haircuts are then applied to the values thus calculated which differ according to the financial instruments over which the pledge has been made.

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

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

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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.

The high volatility recorded on financial markets following the outbreak and spread of the Covid-19 pandemic has required monitoring activities to be stepped up in respect of financial instruments used as collateral. In Private banking in particular, the situations most at risk are identified promptly in order to launch the activities required to restore the collateral margins typical of "Lombard" credit. The overall exposure reflects both portfolio diversification for the collateral and the haircuts required when the lending value is determined.

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, like-for-like definition for all the following instances: "default" as defined by the regulations on regulatory capital requirements; "non-performing", 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

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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;
– debt restructuring which entails a cost, 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 insolvency 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, breach 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 Mediobanca since the reports issued on 30 September 2019, after authorization was received from the ECB for the AIRB segment. 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" (subsequently amended on 2 December 2020), 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.

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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.

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

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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. [2]

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 transitions between Stages 1, 2 and 3. For instance, when concessions have been made in respect of exposures at Stage 2, the exposures in question cannot return to Stage 1 in less than two years, in line with the minimum duration of two years provided for the "forborne performing exposure" status (during this period, the status can only be downgraded to reflect the exposure's transition to non-performing). Similarly, exposures in Stage 3 cannot be returned to Stage 1 in less than three years, in line with the requirement for "non-performing forborne exposure" to retain this status for at least one year, followed (unless the non-performing status requires to be prolonged) by the minimum duration of two years for the "forborne performing exposure" status.

To return to Stage 1, exposures must give proof of having fully recovered their credit quality and the conditions requiring them to be classified as "forborne" must have ceased to apply. Accordingly, the monitoring to detect

[2] Please refer to section 5 for details of the treatment for each business segment, to section 6.1 for the government and regulatory action introduced in response to Covid-19, and to section 6.2 for quantitative analysis of the moratoria granted to clients.

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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.

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

With reference to the correct application of credit risk mitigation techniques, specific activities are implemented to define and meet all the requirements to ensure that the real and personal guarantees have the maximum mitigating effects on the exposures.

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.

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The Credit Risk Management unit also carries out a review of the ratings assigned to the counterparties at least once a year. Approved loans must also be confirmed by the approving body 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 indepth 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 modelling used for the regulatory calculation, with the downturn effect removed. At end-June 2020, in order to limit the impact of the risk factors' excessive volatility, a further requirement was added to main criterion for positions to be reclassified as Stage 2 (i.e. an observed increase in the Probability of Default), namely the internal rating having to have been downgraded by at least two notches compared to the original rating. Provision was also made for the Group Chief Risk Officer or the Lending and Underwriting Committee to revise the classification. Without prejudice to such discretionary powers for management of individual counterparties, which remain in force, at end-December 2020 the downgrade requirement was revised to make it more conservative, with only a one notch downgrade required for risk positions rated BB- or lower. This change allows the significant increase in credit risk in relation to the Covid-19 emergency to be captured, not least because the entire loan book has been reviewed on the basis of individual analysis.

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Leasing

Individual applications are processed using similar methods to those described above for corporate banking. 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. watchlist) 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 and/or any other 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. Contracts which were already showing signs of weakness when the moratoria were granted are also classified as Stage 2; such signs include amounts overdue by more than the regulatory threshold, having

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been past due for 30 consecutive days in at least one of the previous twelve months, having already been classified as Stage 2 or Stage 3, and/or having been included in the watchlist (classified as Red or Amber).

Consumer credit

Consumer credit operations are performed primarily by Compass Banca, 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.

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

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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 the automatism does not apply but they can be placed in Stage 2 based on the general change in the PD criteria applied to all exposures that have undergone a change in their rating compared to origination.

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.

Non-performing exposures to corporate counterparties are quantified analytically, while non-performing exposures to retail counterparties are based on the identification of clusters of exposures with similar characteristics. The portfolio of performing assets is valued on the basis of PD and LGD parameters. PD parameters are defined by using the revised parameters supplied by external providers or internal estimates based on the retail portfolio. For transactions valued by Mediobanca S.p.A. as part of its corporate business, the parameters set in the Parent Company's process apply. 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".

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NPL business [3]

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 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.

[3] See Part A of the Notes to the Accounts for definition and treatment of POCIs.

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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 LGD values used differ according on the type of collateral and guarantees involved. 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".

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

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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 require the following to be recorded as unlikely to pay: all cases with four or more unpaid instalments (not necessarily consecutive), cases with persistent irregularities, concessions generating a reduction of more than 1% in the financial obligation, and cases which, based on internal or external information (e.g. central databases, public and/or private), the unit responsible assesses should be classified as unlikely to pay. Exposures are 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 legislative moratoria or granted at the individual 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; however, if there is information on the borrower or the borrower's employer that 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

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assets (suitably deflated) 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.

For performing loans which still have active moratoria, a specific PD multiple has also been introduced, in view of the increased risk expected for this segment.

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, which gave rise to the moratoria granted under law, [4] was soon followed by another, the "Liquidità" Decree Law issued on 8 April 2020, which added further measures to support businesses relating primarily to public guarantees.

The "Rilancio" Decree Law of 19 May 2020 confirmed and reinforced the measures introduced by the "Cura Italia" Decree Law, extending their duration 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.

[4] These moratoria (in particular those granted pursuant to Article 56, to SMEs) were subsequently extended by Italian Decree Law 104/20, and again by Italian Law 178/20 (the 2021 Budget Law).

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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, Compass 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 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.

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6.2 Moratoria granted to clients in connection with Covid-19

Since the start of the pandemic, in addition to adhering to the moratoria provided for by the "Cura Italia" and "Liquidità" Decree Laws and the initiatives promoted by category associations for consumer loans,[5] 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.

Moratoria in line with EBA/GL/2020/02[6] (legislative moratoria and category association initiatives[7] which allow continuity in terms of classification and in particular staging) have been applied by the Group since the start of the emergency cover a loan book amounting to a total of €2.1bn.

Table 1 - Moratoria granted by type of counterparty and timing bracket (excerpt from Template no. 2 of the EBA Guidelines)[8]

31/12/20	Gross carrying amount [1]	of which: Legislative moratoria [2]	of which: Expired [3]	Residual maturity of moratoria [4]			Total residual moratoria
				Up to 3 months	From 3 to 6 months	From 6 to 18 months	
Loans and advances for which moratorium was offered	**2,147.6**	**982.7**	**1,218.6**	**790.0**	**63.4**	**75.6**	**929.0**
Households	**1,532.3**	**383.5**	**1,093.4**	**301.5**	**62.2**	**75.3**	**439.0**
of which: Collateralised by residential immovable property	616.5	335.3	256.7	225.5	59.3	75.0	359.8
Non-financial corporations	**612.6**	**596.7**	**125.1**	**485.9**	**1.2**	**0.3**	**487.4**
of which: Small and Medium-sized Enterprises	424.9	418.0	93.0	330.3	1.2	0.3	331.8
of which: Collateralised by commercial immovable property	375.8	361.5	69.4	304.9	1.2	0.3	306.4
Financial corporations	**2.7**	**2.5**	**0.1**	**2.6**	**—**	**—**	**2.6**

[1] Gross book value of moratoria received and/or granted by the Group as at 31/12/20.

[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 31/12/20.

[5] 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.

[6] 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.

[7] The category initiatives are the ones promoted by ABI and Assofin.

[8] 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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At end-December 2020, loans for which concessions compliant with the Guidelines have been granted and have reached expiry account for roughly half the total number of moratoria granted; the majority of the positions expiring refer to consumer credit operations: Consumer Banking clients were allowed to postpone their payments under the Assofin initiative, the terms of which provided for only brief moratoria. Approx. 85% of the moratoria that have not yet expired (€929m) involve the initiatives introduced under law, for which the expiries are imminent. Of the loans for which repayments should have resumed by 31 December 2020, 9% were the beneficiaries of further extensions (in addition to those granted by law).

It should be noted that the amounts shown in the table do not include the additional support programmes implemented by CheBanca!,[9] SelmaBipiemme[10] and Compass[11] of approx. €526m, granted to clients who did not meet the requisites set by the legislative decree (the "Cura Italia" decree, Articles 54 and 56) and the ABI/Assofin category association initiatives.

* * *

As at end-December 2020, new loans granted via the public guarantee mechanisms introduced amounted to €176m, and mainly refer to the Parent Company's operations (five loans disbursed with SACE backing under the terms of the "Liquidità" decree, worth €153m).

It should be emphasized that the moratoria granted under Article 56 of the "Cura Italia" decree for businesses have been extended automatically by the Budget Law for 2021 from 31 January 2021[12] to 30 June 2021, unless the client explicitly chooses to waive this opportunity; as at 4 February 2021, in leasing (the segment most affected by this phenomenon), some 360 clients (involving an amount of around €70m) expressed their intention to resume payments as from the month-end.

[9] Moratoria granted to clients who for objective or subjective reasons were unable to access the Consap initiatives (e.g. amounts above €400,000 or mortgages for properties other than principal habitations) or the ABI "Famiglie - 21/04/2020" promotion (e.g. because they had taken out insurance policies on their loans).

[10] Moratoria granted to companies impacted by the Covid-19 pandemic that did not meet the requirements for accessing the measures introduced by Italian Decree Law 18/20 or the ABI "Imprese in Ripresa 2.0" initiative.

[11] The suspension of repayments granted under the Assofin Covid-19 moratoria can last up to six months, although shorter durations can be agreed with the client. The suspension may involve the full amount of the instalment or only the principal amount, at the lender's discretion.

[12] 31 March 2021 for companies operating in the tourist industry.

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6.3 Macroeconomic scenario and Covid-related impact

The macroeconomic scenario used in the provisioning process to revise the risk parameters as at end-December 2020 reflects the pathway to economic recovery already observed in 2H 2020. Indeed, even though the growth rates themselves remained negative for the last six months of the year, the macroeconomic performance overall showed clear signs of recovery, ahead of the expectations at end-June.

The estimates used by the Group for 2020 see GDP falling in Italy by 8.99%, in the EU area by 6.78%, and the United States by 3.59%. Equally, the estimated unemployment rate has settled at 9.39% in Italy, 7.13% in Europe, and 8.28% in the United States. Most of these figures have been revised to show substantial improvements for 2021 (GDP in Italy +4.21%; EU +3.50%; USA +3.52%), with the return to pre-Covid levels expected only midway through 2022.

For the unemployment rate, the estimates used have been revised from the consensus base scenario. The base scenario for the 2021-23 period for Italy averaged around 10%, in line with the pre-crisis levels. However, the possible removal of the temporary measures to protect the labor market introduced in 2020 makes the containment of unemployment at the estimated levels rather uncertain. In order to manage this uncertainty inadequate fashion, the unemployment rate for the Italian market in 2021 has been kept at the conservative scenario levels used to estimate the parameters at end-June 2020, namely 14.76%. It has been assumed that the long-term figures proposed by the consensus scenario will be regained gradually over the course of the next two years.

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.

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*Table 2 - Macroeconomic scenario parameters**

GDP Forecast	2020	2021	2022	2023
Italy	-8.99%	4.21%	4.71%	1.81%
UE	-6.78%	3.50%	4.81%	2.54%
US	-3.59%	3.52%	2.96%	2.61%

Unemployment rate	2020	2021	2022	2023
Italy	9.39%	14.76%	12.78%	10.05%
UE	7.13%	7.95%	7.32%	6.80%
US	8.28%	6.58%	5.62%	4.79%

Interest rate on Government bond (10 years)	2020	2021	2022	2023
Italy	1.16%	0.74%	1.13%	1.58%
Germany	-0.46%	-0.50%	-0.37%	0.03%
US	0.90%	1.02%	1.15%	1.40%

* As mentioned previously, the unemployment rate based on internal valuations has been estimated at higher levels than those in the consensus scenario, in order to adequately reflect the uncertainty regarding the employment protection measures introduced in 2020 being discontinued.

Overall, the increase in loan loss provisioning recorded in the six months attributable to Covid-19 is €74m; approx. €49m of which regards the large corporate segment.

For the Corporate loan book (including leasing and factoring), the impact due to the risk parameter estimate methodology revision was in part offset by the results of the macroeconomic scenario fine-tuning; plus obviously the overlay effect and the increased provisioning in order to reclassify the positions most exposed to Covid-related risks as Stage 2.

In mortgage lending, the impact on Covid-19 on the results for the six months amounts to €10m, mainly in corrective provisioning for the mortgages for which moratoria have been granted.

The Covid-related adjustments for the six months in Consumer Banking are far lower than those taken for the first six months of 2020, at €8m (€64m); this reflects the ongoing improvement in the Consumer Banking loan book, and the fact that the increase in the coverage levels due to the expected increase in rates of default (already reflected in the changes to staging) was already made in the previous financial year.

Table 3 – Covid-related impact on earnings

Impact on item 130 of P&L (*)	of which Covid FY20	of which IVQ20	of which Covid 1H21	of which IQ21	of which IIQ21
Corporate Investment Banking	43	42	52	6	46
Consumer Banking	64	52	8	13	-5
Wealth Manangement	4	4	10	5	5
Leasing (Holding Functions)	2	2	4	1	3
Total	113	100	74	25	49

* Net writedowns (writebacks) for credit risk – see Section 8.

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QUANTITATIVE INFORMATION

SECTION 1 - ACCOUNTING CONSOLIDATED RISKS

The accounting consolidation area includes the line-by-line consolidation of controlled entities Compass RE (a reinsurance company) and Ricerche e Studi, Compass Rent and MB Contact Solutions (other companies), which under the banking group method of consolidation are accounted under the equity method.

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	461,311	413,224	115,130	248,436	56,158,346	57,396,447
2. Financial assets at fair value with impact taken to comprehensive income	—	—	—	—	4,096,865	4,096,865
3. Financial assets designated at fair value	—	—	—	—	674,701	674,701
4. Other financial assets mandatorily at fair value	—	—	—	—	8,722	8,722
5. Financial assets being sold	—	—	—	—	—	—
Total 31/12/20	461,311	413,224	115,130	248,436	60,938,634	62,176,735
Total 30/6/20	435,397	630,900	166,479	334,564	57,979,317	59,546,657

1 Regarding the net exposure in overdue performing loans, the gross value of the unpaid instalments is €81m, €73m of which is attributable to factoring (3.7% of the performing loans in this segment), and €56.7m to mortgage loans (0.5%). The item also includes net exposures being renegotiated under the terms of collective agreements in amounting to €350m, consisting primarily of mortgage loans totalling €235.1m.

* Includes the NPLs held by MBCredit Solutions in an amount of €380.6m, €378m of which bad loans (net values).

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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	2,026,256	(1,036,591)	989,665	5,654	57,045,418	(638,636)	56,406,782	57,396,447
2. Financial assets at fair value with impact taken to comprehensive income	—	—	—	—	4,107,669	(10,804)	4,096,865	4,096,865
3. Financial assets designated at fair value	—	—	—	—	X	X	674,701	674,701
4. Other financial assets mandatorily at fair value	7,259	(7,259)	—	—	X	X	8,722	8,722
5. Financial assets being sold	—	—	—	—	—	—	—	—
Total 31/12/20	2,033,515	(1,043,850)	989,665	5,654	61,153,087	(649,440)	61,187,070	62,176,735
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

Asset portfolio/quality	Assets with obviously poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	—	—	8,625,565
2. Hedging Derivatives	—	—	441,631
Total 31/12/20	—	—	9,067,196
Total	—	—	7,251,094

The non-performing items include €380.2m attributable to MBCredit Solutions, i.e. acquisitions of non-performing loans, with a nominal amount of €5.7bn as at 31 December 2020. Of these items, €4.8m (with a nominal value of €480.7m) 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 €558.5m, compared with a nominal (original gross) value of €5.9bn.

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Information on sovereign debt exposures

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

Portafogli/qualità	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	(1,300,480)	(1,300,480)
Italy	—	—	—	—	X	X	147,533	147,533
Spain	—	—	—	—	X	X	50,565	50,565
Germany	—	—	—	—	X	X	(623,016)	(623,016)
France	—	—	—	—	X	X	(875,562)	(875,562)
Others	—	—	—	—	X	X	(11,982)	(11,982)
2. Financial assets designated at fair value through other comprehensive income	—	—	—	—	3,080,220	—	3,080,220	3,080,220
Italy	—	—	—	—	2,278,127	—	2,278,127	2,278,127
United States	—	—	—	—	329,360	—	329,360	329,360
Germany	—	—	—	—	269,787	—	269,787	269,787
France	—	—	—	—	100,252	—	100,252	100,252
Others	—	—	—	—	102,694	—	102,694	102,694
3. Financial assets at amortized cost	—	—	—	—	2,079,905	—	2,079,905	2,079,905
Italy	—	—	—	—	1,462,258	—	1,462,258	1,462,258
France	—	—	—	—	367,808	—	367,808	367,808
Spain	—	—	—	—	110,381	—	110,381	110,381
United States	—	—	—	—	57,228	—	57,228	57,228
Others	—	—	—	—	82,230	—	82,230	82,230
Total 31/12/20	—	—	—	—	5,160,125	—	3,859,645	3,859,645

* 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 €71.9m.

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A.1.2b Exposures to sovereign debt securities by portfolio

Portfolio/quality	Trading Book [1]			Banking Book [2]			
	Valore nominale	*Book Value*	*Duration*	**Valore nominale**	*Book Value*	*Fair Value*	*Duration*
Italy	180.665	147.533	3,06	3.637.305	3.740.385	3.802.094	3,52
Germany	(578.350)	(623.016)	3,90	315.000	319.826	319.864	1,13
Spain *	50.000	50.565	3,0	160.000	161.619	163.496	1,69
United States	—	—	—	383.017	386.588	387.788	0,68
France	(803.181)	(875.562)	1,93	465.400	468.060	469.654	1,09
Others	(8.600)	(11.982)	—	85.364	83.647	89.080	—
Total 31/12/20	(1.159.466)	(1.312.462)		5.046.086	5.160.125	5.231.976	

* The figure does not include forward sales with a notional amount of €271m.

[1] Does not include purchases of €202m on *Bund/Bobl/Schatz* futures (Germany), with a negative fair value of €0.7m; or sales of €20.0m on the *BPT* future (Italy) with a positive fair value of virtually nil. Net hedge buys of €524m 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.

B. 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.

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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 exclusively in connection with its activities as sponsor and/or seed capital, with the following investments in particular:

– funds distributed by CheBanca! in an amount of €21.1m, €4.8m of which invested in the two segments of the Yellow Funds Sicav, and €16.3m in the Mediobanca Global Multimanager 15 and 35 funds;

– funds managed by Cairn Capital totalling €254.3m in the Cairn Loan Investments I and II funds, Cairn European Loan Fund, Cairn Strata Credit Fund and Cairn Mediobanca Strata UCITS, as well as direct investments worth €1.8m;

– funds managed by RAM Active Investments totalling €161.5m (as part of the Seed Capital Agreement with the Parent Company), in the RAM Global Sustainable Income Equities, RAM Diversified Alpha, RAM Stable Climate Global Equities, RAM Global Multi-Asset, RAM Asia Bond Total Return and RAM Systematic IO funds, as well as direct investments worth €0.3m;

– funds in funds managed by Mediobanca SGR totalling €16.4m (Mediobanca Fondo per le Imprese II, Mediobanca CoCo Credit Fund, and Mediobanca Social Impact).

B.2.1 Structured entities consolidated prudentially

As at 31 December 2020 there was no disclosure to be made as no instances of this type of interest apply in the case of Mediobanca.

B.2.2 Other structured entities

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 (24 months) 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.

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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 €556.5m, plus €2.5m in notes booked as Hold to Collect and Sell, and €51m in notes mandatorily recognized at fair value.

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 31 December 2020 the Group's aggregate exposure was equal to €5,058.7m, [13] down 8% on the total reported at 30 June 2020 (€5,483.6m), and represents 30% of the corporate loan book. Of these exposures, just 13% consists of pure LBOs (€671m, up 11% on the balance-sheet date), whereas less than 3% were classified as non-performing (three deals involving €146m, down 69% on end-June 2020 due to the Burgo group renegotiation); The loan book continues to be concentrated on domestic transactions (47%). During the period

[13] Plus off-balance-sheet exposures (commitments and derivatives) totalling €1,028m (30/6/20: €811m).

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under review there were redemptions totalling €873m (half of which involving the closure of fifteen deals), against new loans worth €649m (approx. 16% of the entire new loans in the large corporate segment), involving twelve new deals in addition to drawdowns on previous commitments.

1.1 - CREDIT QUALITY

QUALITATIVE INFORMATION

For the qualitative information, see pp. 195ff 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.1.3 Prudential consolidation - financial assets, commitments to end funds and financial guarantees given: transfers between different stages of credit risk (gross and nominal values)

Portofolios/risk stages	Gross exposure / Nominal value					
	Passages from stage 1 to stage 2		Passages from stage 2 to stage 3		Passages from 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	1,577,254	867,276	180,237	59,072	104,756	9,120
2. Financial assets valued at fair value with impact taken to other comprehensive income	—	—	—	—	—	—
3. Financial assets held for sale	—	—	—	—	—	—
4. Commitments to disburse funds and financial guarantees given	103,426	20,467	9	20	174	1,068
31/12/2020	1,680,680	887,743	180,246	59,092	104,930	10,188
30/06/2020	2,162,061	633,210	343,645	117,142	355,087	14,971

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A.1.3a Loans covered by Covid-19 support measures: transfers between different credit risk stages (gross values)

Portfolio/quality	Gross exposure / Nominal value					
	Passages from stage 1 to stage 2		Passages from stage 2 to stage 3		Passages from 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
A. Loans and advances measured at amortized cost	263,889	6,208	2,190	8,145	973	—
A.1 subject to EBA-compliant moratoria (legislative and non-legislative)	190,257	6,208	1,566	8,145	164	—
A.2 subject to COVID-19-related forbearance measures	30,772	—	624	—	809	—
A.3 newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis	42,860	—	—	—	—	—
B. Loans and advances valued at fair value with an impact on overall profitability	—	—	—	—	—	—
B.1 subject to EBA-compliant moratoria (legislative and non-legislative)	—	—	—	—	—	—
B.2 subject to COVID-19-related forbearance measures	—	—	—	—	—	—
B.3 newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis	—	—	—	—	—	—
Total 31/12/20	263,889	6,208	2,190	8,145	973	—

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 provisions	Net Exposure	*Total partial - write-off*
	Non-performing loans	Performing loans			
A. Cash credit exposures					
a) Bad loans	—	X	—	—	—
- of which: forborne exposures	—	*X*	—	—	—
b) Unlikely to pay	—	X	—	—	—
- of which: forborne exposures	—	*X*	—	—	—
c) Overdue exposures (NPLs)	—	X	—	—	—
- of which: forborne exposures	—	*X*	—	—	—
d) Overdue exposures (performing)	X	—	—	—	—
- of which: forborne exposures	*X*	—	—	—	—
e) Other exposures (performing)	X	7,910,368	(9,397)	7,900,971	—
- of which: forborne exposures	*X*	—	—	—	—
Total (A)	—	7,910,368	(9,397)	7,900,971	—
B. Off-balance-sheet exposures					
a) Non-performing	—	X	—	—	—
b) Performing	X	10,517,565	(1)	10,517,564	—
Total (B)	—	10,517,565	(1)	10,517,564	—
Total (A+B)	—	18,427,933	(9,398)	18,418,535	—

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A.1.5 Prudential consolidation - Cash and off-balance-sheet exposures to customers: gross and net values

Type of exposure/assets	Gross exposures		Accumulated impairment and provisions	Net Exposure	Total partial write-off
	Non performing loans	Performing loans			
A. Cash credit exposures					
a) Bad loans*	851,809	X	(390,498)	461,311	5,203
- of which: forborne exposures	*115,938*	*X*	*(100,646)*	*15,292*	—
b) Unlikely to pay*	909,715	X	(496,491)	413,224	451
- of which: forborne exposures	*489,091*	*X*	*(234,593)*	*254,498*	—
c) Overdue exposures (NPLs)	271,991	X	(156,861)	115,130	—
- of which: forborne exposures	*58,148*	*X*	*(36,997)*	*21,151*	—
d) Overdue exposures (performing)	X	290,895	(42,459)	248,436	—
- of which: forborne exposures	*X*	*42,152*	*(4,462)*	*37,690*	—
e) Other exposures (performing)	X	58,187,179	(597,057)	57,590,122	—
- of which: forborne exposures	*X*	*650,586*	*(45,061)*	*605,525*	—
Total (A)	2,033,515	58,478,074	(1,683,366)	58,828,223	5,654
B. Off-balance-sheet exposures					
a) Non-performing	4,604	X	(219)	4,385	—
b) Performing	X	20,772,480	(21,052)	20,751,428	—
Total (B)	4,604	20,772,480	(21,271)	20,755,813	—
Total (A+B)	2,038,119	79,250,554	(1,704,637)	79,584,036	5,654

* Includes NPLs acquired by MBCredit Solutions.

As at 31 December 2020, gross impaired positions subject to forbearance measures amounted to €663.2m (30/6/20: €974.2m), the coverage ratio increasing to 56.1% (46.7%) due to the prudential provisioning policy adopted; while net forborne positions declined to €290.9m (€519.3m). Gross performing forborne exposures amounted to €692.7m (€596.1m), with a coverage ratio of 7.1% (7.7%), which declines to €643.2m on a net basis (€550.4m). Overall, net non-performing forborne positions represent 0.6% (1.1%) of total customer loans, and performing forborne exposures 1.3% (1.2%).

[14] By definition, forbearance occurs when a specific measure is offered to a client experiencing, or which is risking, temporary financial difficulties in meeting their payment obligations.

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A.1.5a Cash exposures to clients to which Covid-related support measures have been granted: gross and net values

Exposure types / amounts	Gross exposure	Accumulated impairment and provisions	Net exposure	Total partial write-off
A. Bad credit exposures				
a) Subject to EBA-compliant moratoria (legislative and non-legislative)	—	—	—	—
b) Subject to COVID-19-related forbearance measures	—	—	—	—
c) Newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis	—	—	—	—
B. Unlikely to pay credit exposures	38,615	(9,392)	29,223	—
a) Subject to EBA-compliant moratoria (legislative and non-legislative)	10,231	(3,684)	6,547	—
b) Subject to COVID-19-related forbearance measures	28,384	(5,708)	22,676	—
c) Newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis	—	—	—	—
C. Non-performing past due credit exposures	318	(76)	242	—
a) Subject to EBA-compliant moratoria (legislative and non-legislative)	240	(65)	175	—
b) Subject to COVID-19-related forbearance measures	78	(11)	67	—
c) Newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis	—	—	—	—
D. Performing past due exposures	29,754	(1,574)	28,180	—
a) Subject to EBA-compliant moratoria (legislative and non-legislative)	12,115	(963)	11,152	—
b) Subject to COVID-19-related forbearance measures	17,570	(611)	16,959	—
c) Newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis	69	—	69	—
E. Other performing exposures	1,213,046	(30,920)	1,182,126	—
a) Subject to EBA-compliant moratoria (legislative and non-legislative)	906,430	(26,270)	880,160	—
b) Subject to COVID-19-related forbearance measures	131,097	(3,607)	127,490	—
c) Newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis	175,519	(1,043)	174,476	—
TOTAL (A+B+C+D+E)	1,281,733	(41,962)	1,239,771	—

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	—	(144)	413	(9,295)	—	—	79,932	(38,434)	380,966	(342,625)
- of wich: forborne exposures	—	—	—	*(7,259)*	—	—	*13,717*	*(21,180)*	*1,575*	*(72,207)*
A.2 Unlikely to pay	720	(206)	2,367	(1,202)	—	—	162,075	(111,602)	248,062	(383,481)
- of wich: forborne exposures	—	—	*156*	*(195)*	—	—	*122,566*	*(80,683)*	*131,776*	*(153,715)*
A.3 Overdue exposures (NPLs)	1,239	(110)	207	(110)	1	1	12,078	(4,996)	101,606	(151,645)
- of wich: forborne exposures	—	—	—	—	—	—	*234*	*(140)*	*20,917*	*(36,857)*
A.4 Performing exposures	8,422,777	(12,516)	7,336,151	(22,710)	1,603,065	(4,920)	17,104,713	(125,351)	24,974,917	(478,939)
- of wich: forborne exposures	—	—	*30,608*	*(619)*	—	—	*206,124*	*(5,761)*	*406,483*	*(43,143)*
Total (A)	8,424,736	(12,976)	7,339,138	(33,317)	1,603,066	(4,921)	17,358,798	(280,383)	25,705,551	(1,356,690)
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures		—	—	—	—	—	2,264	(100)	2,121	(119)
B.2 Performing exposures	1,520,240	(58)	8,403,407	(3,839)	*1,565,833*	*(101)*	8,771,686	(12,474)	2,056,095	(4,681)
Total (B)	1,520,240	(58)	8,403,407	(3,839)	1,565,833	(101)	8,773,950	(12,574)	2,058,216	(4,800)
Total (A+B) 31/12/2020	9,944,976	(13,034)	15,742,545	(37,156)	3,168,899	(5,022)	26,132,748	(292,957)	27,763,767	(1,361,490)
Total (A+B) 30/06/2020	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)

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B.2 Prudential consolidation - Cash and off-balance sheet exposures to customers by geography

Exposures/geographical area	Italy		Other Europeans countries		America		Asia		Rest of the world	
	Net exposures	Accumulated impairment	Net exposures	Accumulated impairment	Net exposures	Accumulated impairment	Net exposures	Accumulated impairment	Net exposures	Accumulated impairment
A. Balance sheet credit exposures										
A.1 Bad loans	456,936	(386,246)	3,460	(4,035)	380	(46)	62	(15)	473	(156)
A.2 Unlikely to pay	351,598	(457,895)	38,182	(22,826)	18,045	(1,693)	3,986	(13,237)	1,413	(840)
A.3 Overdue exposures (NPLs)	114,647	(156,670)	477	(188)	2	(1)	—	—	4	(3)
A.4 Performing exposures	43,975,145	(572,027)	11,451,145	(46,016)	1,911,678	(20,288)	209,741	(270)	290,849	(915)
Total (A)	44,898,326	(1,572,838)	11,493,264	(73,065)	1,930,105	(22,028)	213,789	(13,522)	292,739	(1,914)
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	2,517	(117)	6	(3)	—	—	1,862	(99)	—	—
B.2 Performing exposures	8,059,841	(10,245)	11,263,641	(10,085)	499,685	(723)	629,628	—	298,632	—
Total (B)	8,062,358	(10,362)	11,263,647	(10,088)	499,685	(723)	631,490	(99)	298,632	—
Total (A+B) 31/12/2020	52,960,684	(1,583,200)	22,756,911	(83,153)	2,429,790	(22,751)	845,279	(13,621)	591,371	(1,914)
Total (A+B) 30/06/2020	49,778,578	(1,591,223)	20,831,449	(57,580)	2,884,823	(19,460)	226,477	(9,176)	553,650	(1,494)

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B.3 Prudential consolidation - Cash and off-balance sheet exposures to banks by geography

Exposures / Geographical Area	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposures	Accumulated impairments	Net exposures	Accumulated impairments	Net exposures	Accumulated impairments	Net exposures	Accumulated impairments	Net exposures	Accumulated impairments
A. Balance sheet credit exposures										
A.1 Bad loans	—	—	—	—	—	—	—	—	—	—
A.2 Unlikely to pay	—	—	—	—	—	—	—	—	—	—
A.3 Overdue exposures (NPLs)	—	—	—	—	—	—	—	—	—	—
A.4 Performing exposures	3,852,604	(8,383)	3,995,099	(988)	50,739	(23)	2,424	(3)	105	—
Total (A)	3,852,604	(8,383)	3,995,099	(988)	50,739	(23)	2,424	(3)	105	—
B. Off-balance sheet credit exposures										
B.1 Non performing exposures	—	—	—	—	—	—	—	—	—	—
B.2 Performing exposures	614,622	—	9,901,731	(1)	—	—	1,211	—	—	—
Total (B)	614,622	—	9,901,731	(1)	—	—	1,211	—	—	—
Total (A+B) 31/12/2020	4,467,226	(8,383)	13,896,830	(989)	50,739	(23)	3,635	(3)	105	—
Total (A+B) 30/06/2020	3,824,416	(5,267)	12,742,803	(310)	50,548	(20)	1,655	(3)	58	—

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B.4a Credit risk indicators

	31/12/20	30/6/20
a) Gross bad loans/total loans	1.55%	1.51%
b) NPLs/cash exposures	4.18%	4.18%
c) Net bad loans/regulatory capital 1	4.71%	4.82%

[1] This item includes the NPL portfolios acquired and held by MBCredit Solutions, which increased from €357m to €378m.

B.4b Gross NPL Ratio [15]

(€m)

	31/12/20	30/6/20
	Gross value (prudential scope of consolidation)	
Loans	48,146.3	46,028.4
NPLs	1,653.0	1,954.2
Loans and advances to customers	49,799.3	47,982.6
NPLs purchased by MBCredit Solutions	380.6	358.8
Treasury financial assets *	8,645.5	9,105.6
Total Loans and Receivables (FINREP)	58,333.6	57,447.0
Gross NPL ratio Finrep %	3.5%	4.0%

* In line with the guidelines of the EBA Risk Dashboard, the calculation excludes cash and includes untied deposits held with central banks.

At 31 December 2020 the Mediobanca Group reported a Finrep gross NPL ratio of 3.5%, better than at end-June 2020 (4%) and with the EBA average,[16] confirming the Mediobanca Group as one of the best players on the national and European market.[17] The Finrep gross NPL ratio calculated without the NPLs acquired by MBCredit Solutions was 2.9% (30/6/20: 3.4%).

B.4c Large risks

	31/12/20	30/6/20
a) Book value	11,329,821	9,641,791
b) Weighted value	7,825,205	7,510,106
c) No. of exposures	7	6

As at 31 December 2020, aggregate exposures (including market risks and equity investments) to a total of seven groups of clients (one more than last year) were in excess of 10% of the regulatory capital, for a gross exposure of

[15] 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).

[16] The weighted average NPL ratio in the sample of banks considered by the EBA is 2.9% in 2Q 2020 and 2.8% in 3Q 2020 (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.

[17] Source: ECB Transparency exercise, June 2020.

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€11.3bn (€7.8bn, taking into account guarantees and weightings), higher than the respective figures at end-June 2020 (€9.6bn and €7.5bn respectively). In detail the seven exposures are to two industrial groups, one insurance company and four banking groups.

C. Securitizations

QUALITATIVE INFORMATION

The Group has portfolio of securities deriving from securitizations by other issuers totalling €289.7m, €208.3m of which as part of the banking book (almost all HTC recognized at amortized cost) and €81.3m as part of the trading book €52.1m of which in relation to a negative basis strategy).

The ABS market performed well in 2020, demonstrating resilience to the economic and financial crisis brought on by Covid-19, because of the secured nature of the asset class, and helped by the ECB's active presence in all European jurisdictions. It should also be noted that supply was fairly limited, creating helpful conditions for spreads. Spreads on the secondary market benefited from the economic projections being better than expected, while issues on the primary market could remain limited, coupled with the ECB's financing policy, still offer competitive instruments that can meet issuers' needs. At the same time, the government support schemes for unemployment and small businesses should maintain an acceptable level of protection for consumers, thus limiting the possibility of a sharp rise in delays in making payments and insolvencies in portfolios.

During the six months under review, senior securities in the banking book increased from €129m to €152.7m, due to the increase in positions in securities with performing loans as underlying and CLOs (from €48.3m to €81.2m, almost half of which invested in the senior tranches of Cairn CLO XII DAC recently launched by Cairn Capital), in part offset by the reduced exposure to deals with NPLs as underlying (down from €80.7m to €71.5m), the latter continue to be concentrated on domestic deals (approx. 80% of which consisting of Unicredit-Fino, Intesa-Belvedere and Prisma). The exposure to mezzanine tranches decreased from €56.3m to €55.1m, €45.1m of which in relation to deals with performing receivables as underlying and €9.3m in CLO. The share of junior securities remains very low at €0.5m. The CLO component stands at

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€61.5m, only €9.3m of which mezzanine. The difference between book value (amortized cost) and fair value (obtained from the market platforms) remains low, at €238,000.

Holdings included in the trading book rose from €28.9m to €81.3m, consisting of €10.5m in senior CLOs and €70.8m in mezzanine securities, €53.7m of which in CLO tranches (€52.1m attributable to a negative basis strategy constructed by Mediobanca International in the six months, hedging against the whole credit risk), and €17.1m in securitizations of performing receivables (Italian and German primarily).

Mediobanca also has an exposure to:

- Cairn Loan Investments LLP (CLI and CLI II), a Cairn-branded CLO management company 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 €23m and €12m 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 five securitizations (Valentine, Berenice, Cube, Este and Sunrise) with Italian banks' NPLs as the underlying instrument; the €30m commitment has to date been drawn as to €27m;
- Negentropy RAIF – Debt Select Fund, an alternative investment fund instituted under Luxembourg law and managed by Negentropy Capital Partners Limited, for which Mediobanca has acted as advisor; the fund as at 31 December 2020 had a soft NAV of €114.9m, with senior tranches of Italian NPLs as the underlying instrument, 44% of which consists of the initial transfer from the Belvedere deal; the investment currently stands at €78.2m;
- Mitchell & Butler Financial Guarantee: Mediobanca has subscribed to £47.5m of a financial guarantee with HSBC in order to guarantee unfunded protection for a liquidity facility in a total amount of £147.5m, issued by HSBC to Mitchell & Butler Finance PLC for the management of its own securitizations.

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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)	56,711	—	620	(404)	351	68
B. Spain NPLs (residential mortgages and real estates)	14,823	—	—	—	—	—
C. Italy Performing Loans	16,621	—	36,771	66	—	—
D. Netherlands Performing Loans	12,330	—	3,079	3	184	(4)
E. Spain Performing Loans	—	—	—	—	—	—
F. Germany Performing Loans	—	—	—	—	—	—
G. UK Performing Loans	—	—	2,299	(3)	—	—
H. Germany Consumer Loans	—	—	20,099	10	—	—
I. Other receivables	62,774	9	63,022	571	—	—
Total 31/12/20	163,259	9	125,890	243	535	64
Total 30/6/20	129,025	—	85,244	(2,856)	470	(368)

C.3 Prudential consolidation – interests in SPVs

Name	Head office	Type of consolidation	Assets			Liabilities		
			Receivables	Debt securities	Other items	*Senior*	*Mezzanine*	*Junior*
Quarzo 6 - Quarzo S.r.l.	Milan	Accounting	1,424,831	—	189,623	767,135	—	672,012
Quarzo 7 - Quarzo S.r.l.	Milan	Accounting	1,398,957	—	107,819	1,215,000	—	290,900
Quarzo 8 - Quarzo S.r.l.	Milan	Accounting	420,615	—	75,671	337,322	—	156,735
Quarzo 9 - Quarzo S.r.l.	Milan	Accounting	695,594	—	102,058	674,893	—	120,915
Quarzo 10 - Quarzo S.r.l.	Milan	Accounting	1,876,833	—	133,301	1,760,000	—	248,800
Quarzo CQS S.r.l. (2018)	Milan	Accounting	281,060	—	20,330	237,073	—	52,000
MB Funding Lux S.A.	Luxembourg	Accounting	1,176,734	—	—	950,219	—	—

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C.5 Prudential consolidation – servicing – collecting securitized receivables and redeeming securities issued by SPVs

Servicer	Vehicle company	Securitized assets (31/12/20)		Receivables collected during the year		Percentage share of securities repaid (31/12/20)					
						Senior		*Mezzanine*		*Junior*	
		Non performing	Performing	Non performing	Performing	Non performing	Performing	Non performing	Performing	Non performing	Performing
Compass	Quarzo CQS (2018)	14,054	271,218	—	80,962	—	60.36	—	—	—	—
Compass	Quarzo Srl (Q6)	199,722	1,417,885	—	568,415	—	70.94	—	—	—	—
Compass	Quarzo Srl (Q7)	94,702	1,413,228	—	428,621	—	—	—	—	—	—
Compass	Quarzo Srl (Q8)	36,356	422,418	—	133,400	—	54.84	—	—	—	—
Compass	Quarzo Srl (Q9)	24,549	714,688	—	164,964	—	13.81	—	—	—	—
Compass	Quarzo Srl (Q10)	32,931	1,932,430	—	401,748	—	—	—	—	—	—

C.6 Prudential consolidation – consolidated securitization-related SPVs

Accounts between the originator and the SPVs during the six months under review break down as follows:

SPV	**Receivables ceded**	**Amounts collected**	Servicing fees	Interest on junior amounts	**Additional return accrued**
Quarzo CQS S.r.l.	—	84.6	0.2	0.5	10.1
Quarzo S.r.l.	687.5	1,710.3	5.9	19.8	228.4
MB Funding Lux	83.0	129,9	—	—	1.2

D. Disposals

B. Financial assets sold and fully derecognized with continuing involvement recorded

D.4 Prudential consolidation - covered bond issues

In December 2020, the covered bond issuance programme was renewed until December 2031, for a total amount of €10bn.

The deal entails the involvement of;

- 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;

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– Mediobanca Covered Bond S.r.l.,[18] an SPV set up under Article 7-*bis* of Italian Law 130/99 and non-recourse recipient of the assets and guarantor of the covered bonds.

Five deals are outstanding under the current programme, all rated AA- by Fitch, with a nominal value of €3,750m placed with institutional investors and covered by assets totalling €6,036.2m, as follows:

Issuance Date	Nominal Value	Rate	Legal Maturity
Oct. 13	750	Fix: 3.625%	Oct. 23
Nov. 15	750	Fix: 1.375%	Nov. 25
Nov. 17	750	Fix: 1.25%	Nov. 29
Jul. 18	750	Fix: 1.125%	Aug. 24
Jul. 19	750	Fix: 0.5%	Oct. 26
	3.750		

During the six months under review, assets were sold by CheBanca! to Mediobanca Covered Bond in an amount of €405.3m, with assets bought back totalling €10.9m.

On 20 January 2021, a new ten-year bond was issued in a nominal amount of €750m and at a rate of 0.01%; including the discount, this is the first medium-/long-term issue made at negative interest rates. The mortgage loan portfolio covering the issue is worth €951.2m, and the assets were transferred to the company in December 2020.

E. Prudential consolidation – models for managing 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.

[18] Company owned as to 90% by CheBanca! al 90% and as to 10% by SPV Holding.

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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.

The six months under review were marked by lower volatility levels for all asset classes, allowing a reduction in the risk indicator readings confirmed by the absence of stop losses and breaches of the market risk limit. The aggregate

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value-at-risk on the trading book in the six months ranged from a low of €2.7m at end-September 2020 to a high of €6.4m at the start of July 2020, with the average reading of approx. €3.9m, much lower than the average figure in the preceding six-month period (€4.7m). The VaR reading at the start of the period was high, as mentioned above, starting at €6.5m before progressively reducing to just below €3m, and then settling in a range between €3m and €4m until the end of December. The mitigation of the value at risk reflects the improved situation on financial markets, due to the partial easing of the Covid-19 crisis, approval of the first vaccines, and the results of the US presidential elections. The point-in-time reading for VaR as at 31 December 2020 was €3.5m (€5.8m).

Like VaR, the expected shortfall also showed an average reading of around €5.2m, below the €6.1m recorded for the previous six-month period.

The results of the daily backtesting on the trading book (based on comparison with the theoretical profits and losses) showed a single instance of departure from VaR, compared with four in 2H 2019-20, which occurred in July in the equity arbitrage portfolio.

Table 1: Value-at-risk and expected shortfall: trading book (€ '000)

Risk factors	**6 mths ended 31/12/20**				**6 mths ended 30/6/20**
	31/12	**Min**	**Max**	**Avg.**	**Avg.**
Interest rates	2,142	1,386	3,667	2,424	2,541
Credit	1,887	1,042	3,622	1,626	2,256
Share prices	4,143	1,508	8,911	3,354	4,500
Exchange rates	876	325	1,245	787	556
Inflation	486	465	828	677	326
Volatility	1,979	1,559	4,446	2,302	2,196
Diversification effect *	*(8,018)*	*(5,138)*	*(12,627)*	*(7,235)*	*(7,718)*
Total	3,496	2,724	6,448	3,936	4,657
Expected Shortfall	**5,012**	**3,583**	**16,659**	**5,218**	**6,072**

* Due to mismatch between risk factors.

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.

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Compared to the first half of last year, the average exposures to the various asset classes have increased slightly, with the exception of equity which saw a substantial reduction. The interest rate delta ranged from minus €-152,000 to plus €407,000, with an average reading of around €260,000. The average exposure to exchange rates also increased, ranging from a low of €-123,000 to a high of €771,000 per percentage point (in line with the first half of last year).

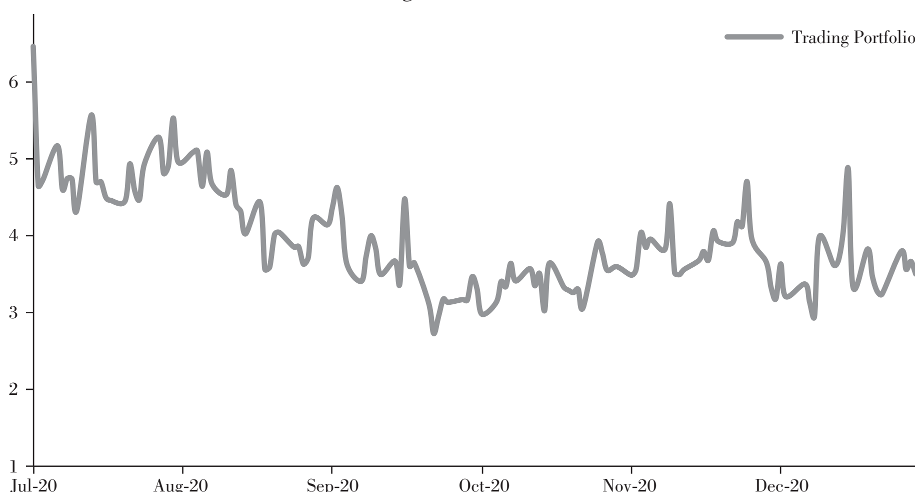
Table 2: Overview of trends in main sensitivities for trading book

(€ ‘000)

Risk factors	6 mths ended 31/12/20				6 mths ended 30/6/20
	31/12	Min	Max	Avg.	Avg.
Equity delta (+1%)	96	(332)	416	(1)	738
Equity vega (+1%)	1,251	212	1,465	1,012	859
Interest rate delta(+1bp)	314	53	407	260	24
Inflation delta (+1 bp)	63	20	89	70	34
Exchange rate delta (+1%) *	(31)	(123)	771	424	373
Credit delta (1 bp)	619	538	788	636	585

* Refers to the Euro gaining versus other currencies.

Trading book VaR trends



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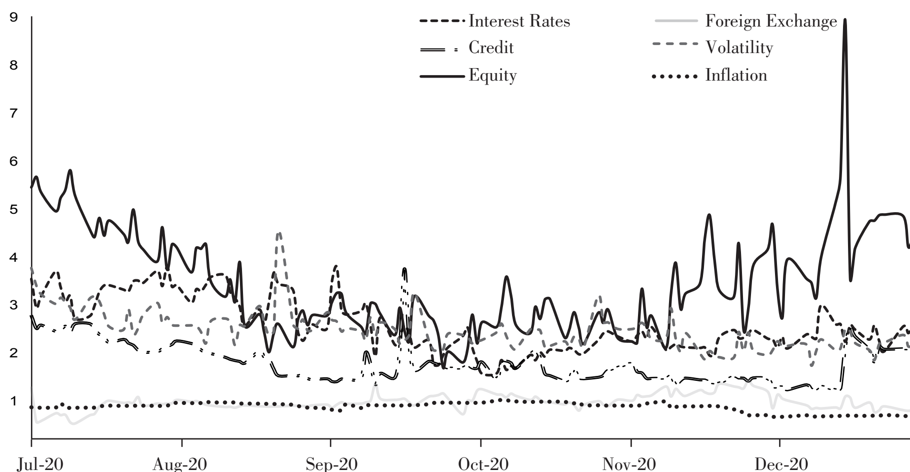
VaR Components Trend by Asset Class (Trading))



1.2.2 INTEREST RATE AND PRICE RISK – BANKING BOOK

QUALITATIVE INFORMATION

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

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

All the scenarios present a floor set by the 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,

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(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 31 December 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 (like last year).

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 ("flattener"). In this scenario, estimated net interest income would reduce by €44m, due chiefly to the impact on Mediobanca (€-50m), against an increase for Compass (of €2m) and CheBanca! (€11m). Last year the highest reduction was €73m, again in a "flattener" scenario.

The data above has been summarized in the following table:

(€ m)

Data at 31/12/20	***Banking Book***					
	Maximum level scenario	**Group**	**Mediobanca S.p.A.**	**CheBanca!**	**Compass**	**Others**
Net interest income sensitivity	*Parallel Down*	22	56	(15)	(9)	(10)
Discounted value of expected cash flows sensitivity	*Flattener*	(44)	(57)	18	2	(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).

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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].

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. For interest rate risk in particular, the Group applies specific hedges to individual items or clusters of like-for-like assets and liabilities in terms of interest rate risk. The objective of these hedges is to reduce the interest rate risk through swaps that convert fixed-rate assets and/or liabilities into floating rate ones. The main items hedged are fixed-rate or structured liabilities issued by Mediobanca, investments in fixed-rate assets forming part of the HTC and HTCS portfolios, the fixed-rate mortgage loan book, and the stable CheBanca! deposit component. 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 also used by Mediobanca S.p.A. to mitigate price risk on equity investments recognized at FVOCI.

The CheBanca! mortgage loan book is hedged via amortizing swaps, the notional and maturity profile of which follows that of the mortgage repayments and the estimated prepayment rate for the loan book based on the model developed by Risk Management and subject to internal approval, with a prudential margin allowed on prepayments.

Recently the stable component of CheBanca! deposits considered to be fixed-rate has also been hedged, with the component being derived from the model developed by Risk Management and approved internally.

[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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The differeint maturities and cash flow profiles mean that use of natural hedges is limited to only a few asset and liability positions.

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.

C. Foreign investment hedging activities

This involves hedging an exposure to a controlling interest in a company and the goodwill associated with it (including any intangibles identified as a result of the Purchase Price Allocation process) in currencies other than the Euro. The exposure may be hedged via derivatives or other financial instruments in different currencies, such as bond issues. The exchange rate effect of the hedge is taken through the net equity reserve, to cover the effects of the hedged instrument. Reference is made to 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. Items hedged

Items hedged and hedging instruments have been described in detail above and are referred to at various points in the rest of this report.

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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 the Mediobanca Group, 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.

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. 244 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 31 December 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

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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.

2. Internal models and other methodologies used for sensitivity analysis

Exposures to exchange rates for the principal currencies at the aggregate Group level were higher in 1Q before reducing from mid-September to end-December. The Covid-19 pandemic was again the main factor impacting on trends in exchange rate volatility in 1H 2020-21: after the volatility had abated during the summer months as the worst of the epidemic seemed to be over, it started to rise once more in October, and fluctuated at around these levels until end-December. VaR performed very similarly: the average reading was around €7.7m, down slightly on the first half of last year (€11.8m); while the point-in-time reading at 31 December 2020 was €9.3m (30/6/20: €11.9m).

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1.3 DERIVATIVE FINANCIAL PRODUCTS AND HEDGING POLICIES

1.3.1 TRADING DERIVATIVES

A. Financial derivatives

A.1 Trading financial derivatives: average and reporting-date notional values

Underlying assets / Type of derivatives	31/12/20				30/6/20			
	Over the counter			Established markets	*Over the counter*			Established markets
	Central Counterparties	without central counterparties			Central Counterparties	without central counterparties		
		with clearing arrangements	without clearing arrangements			with clearing arrangements	without clearing arrangements	
1. Debt securities and interest rate	29,311,634	31,098,070	1,813,136	16,767,656	28,752,849	29,232,071	2,121,512	122,834,994
a) Options	—	7,395,924	381,197	15,085,441	—	7,096,081	260,000	120,846,902
b) Swap	29,311,634	17,109,352	1,431,939	—	28,752,849	19,590,946	1,861,512	—
c) Forward	—	1,310,876	—	—	—	389,044	—	—
d) Futures	—	—	—	1,682,215	—	—	—	1,988,092
e) Others	—	5,281,918	—	—	—	2,156,000	—	—
2. Equities and stock indexes	—	22,956,321	2,363,808	17,866,639	—	21,501,170	2,022,780	18,380,123
a) Options	—	20,623,476	751,950	17,149,196	—	19,718,025	603,365	17,881,937
b) Swap	—	2,215,696	—	—	—	1,665,996	—	—
c) Forward	—	117,149	—	—	—	117,149	—	—
d) Futures	—	—	—	717,443	—	—	—	498,186
e) Others [1]	—	—	1,611,858	—	—	—	1,419,415	—
3. Currencies and gold	—	9,100,945	648,356	—	—	8,208,828	741,884	—
a) Options	—	1,276,776	—	—	—	654,466	1,233	—
b) Swap	—	3,098,869	260,141	—	—	2,977,113	379,295	—
c) Forward	—	4,725,300	388,215	—	—	4,577,249	361,356	—
d) Futures	—	—	—	—	—	—	—	—
e) Others	—	—	—	—	—	—	—	—
4. Commodities	—	—	—	—	—	—	—	—
5. Other	—	—	—	—	—	—	—	—
Total	29,311,634	63,155,336	4,825,300	34,634,295	28,752,849	58,942,069	4,886,176	141,215,117

[1] Regards exclusively certificates issued.

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A.2 Trading financial derivatives: positive and negative fair values by product

Types of derivatives	Total 31/12/20				Total 30/6/20			
	Over the counter			Established markets	*Over the counter*			Established markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With clearing arrangements	Without clearing arrangements			With clearing arrangements	Without clearing arrangements	
1. Positive fair value								
a) Options	—	1,542,353	21,536	716,028	—	1,163,164	7,224	824,337
b) Interest rate swap	123	601,309	71,587	—	220	620,759	75,933	—
c) Cross currency swap	—	116,812	—	—	—	151,279	12,491	—
d) Equity swap	—	191,713	—	—	—	139,911	—	—
e) Forward	—	81,910	4,148	—	—	43,723	10,037	—
f) Futures	—	—	—	6,389	—	—	—	43,620
g) Others	—	—	—	—	—	—	—	—
Total	123	2,534,097	97,271	722,417	220	2,118,936	105,685	867,957
2. Negative fair value								
a) Options	—	1,452,187	11,772	960,369	—	1,050,845	16,385	1,232,182
b) Interest rate swap	129,096	438,753	15,084	—	133,085	440,477	14,253	—
c) Cross currency swap	—	102,001	111	—	—	113,339	—	—
d) Equity swap	—	41,999	—	—	—	25,574	—	—
e) Forward	—	233,866	6,151	—	—	139,099	3,522	—
f) Futures	—	—	—	8,760	—	—	—	10,490
g) Others [1]	—	—	1,521,722	—	—	—	1,196,624	—
Total	129,096	2,268,806	1,554,840	969,129	133,085	1,769,334	1,230,784	1,242,672

[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 counterparties	Banks	Other financial companies	Other entities
Contracts not included in clearing agreement				
1) Debt securities and interest rate				
- notional value	X	40,000	969,086	804,050
- positive fair value	X	61,651	5,065	22,350
- negative fair value	X	—	15,077	466
2) Equities and stock indexes				
- notional value [1]	X	2,041,078	322,710	20
- positive fair value	X	6,221	266	425
- negative fair value [1]	X	1,533,186	147	75
3) Currencies and gold				
- notional value	X	305,146	83,069	260,141
- positive fair value	X	1,124	168	—
- negative fair value	X	4,360	1,418	111
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	29,311,634	14,463,080	10,867,750	5,767,240
- positive fair value	123	423,220	178,275	283,794
- negative fair value	129,096	399,959	399,280	41,665
2) Equities and stock indexes				
- notional value	—	13,025,936	8,138,781	1,791,604
- positive fair value	—	671,613	476,153	302,233
- negative fair value	—	737,409	501,774	15,182
3) Currencies and gold				
- notional value	—	5,394,338	2,640,054	1,066,553
- positive fair value	—	66,498	72,020	60,291
- negative fair value	—	133,905	20,521	19,111
4) Commodities				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
5) Others				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—

[1] Of whitch certificates with a nominal value of € 1,611,858,000 and fair value of minus € 1,521,722,000

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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. Protection purchases		
a) Credit default products	3,841,635	17,971,901
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other [1]	182,560	—
Total 31/12/20	4,024,195	17,971,901
Total 30/6/20	4,093,895	22,413,129
2. Security sales		
a) Credit default products	2,264,447	17,791,526
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other [1]	—	—
Total 31/12/20	2,264,447	17,791,526
Total 30/6/20	2,635,022	22,442,171

[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.

B.2 Trading credit derivatives: positive and negative fair values by product

Types of derivatives	31/12/20	30/6/20
1. Positive fair value		
a) Credit default products	457,135	187,200
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other	—	—
Total	457,135	187,200
2. Negative fair value		
a) Credit default products	522,424	246,146
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other [1]	194,779	172,228
Total	717,203	418,374

[1] Regards exclusively certificates issued.

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B.3 OTC trading credit derivatives: notional values, gross positive and negative fair values by counterparty

	Central counterparties	Bank	Other financial companies	Other subjects
Contracts not covered by clearing agreements				
1) Purchase protection				
– notional value [1]	X	2,115,704	750,024	—
– positive fair value	X	14,156	3,694	—
– negative fair value [1]	X	195,527	1,014	—
2) Hedge sale				
– notional value	X	14,526	—	—
– positive fair value	X	8,414	—	—
– negative fair value	X	1,416	—	—
Contracts covered by clearing agreements				
1) Hedge purchase				
– notional value	3,820,254	5,630,188	9,679,926	—
– positive fair value	—	90	4,435	—
– negative fair value	11,509	190,924	281,743	—
2) Hedge sale				
– notional value	3,640,150	6,924,612	9,476,685	—
– positive fair value	—	155,177	271,167	—
– negative fair value	5,844	28,586	642	—

[1] Of which certificates with a notional value of €182,560 and a fair value of minus €194,779.

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1.3.2 ACCOUNTING HEDGES

A. Hedge financial derivatives

A.1 Hedge financial derivatives: average and reporting-date notional values

Underlying assets / Type of derivatives	31/12/20				30/6/20			
	Over the counter			Established markets	Over the counter			Established markets
	Central Counterparties	without central counterparties			Central Counterparties	without central counterparties		
		with clearing arrangements	without clearing arrangements			with clearing arrangements	without clearing arrangements	
1. Debt securities and interest rate	44,529,440	4,984,430	25,000	—	37,256,065	4,683,649	30,000	—
a) Options	—	2,484,843	—	—	—	2,025,181	—	—
b) Swap	44,529,440	2,499,587	25,000	—	37,256,065	2,658,468	30,000	—
c) Forward	—	—	—	—	—	—	—	—
d) Futures	—	—	—	—	—	—	—	—
e) Others	—	—	—	—	—	—	—	—
2. Equities and stock indexes	—	—	—	—	—	—	—	—
a) Options	—	—	—	—	—	—	—	—
b) Swap	—	—	—	—	—	—	—	—
c) Forward	—	—	—	—	—	—	—	—
d) Futures	—	—	—	—	—	—	—	—
e) Others	—	—	—	—	—	—	—	—
3. Currencies and gold	—	286,040	—	—	—	313,449	—	—
a) Options	—	—	—	—	—	—	—	—
b) Swap	—	286,040	—	—	—	313,449	—	—
c) Forward	—	—	—	—	—	—	—	—
d) Futures	—	—	—	—	—	—	—	—
e) Others	—	—	—	—	—	—	—	—
4. Commodities	—	—	—	—	—	—	—	—
5. Other	—	—	—	—	—	—	—	—
Total	44,529,440	5,270,470	25,000	—	37,256,065	4,997,098	30,000	—

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A.2 Hedge financial derivatives: gross positive and negative fair values by product

Types of derivatives	Fair value positive and negative								Change in the value used to measure the ineffectiveness of the hedging	
	31/12/20				30/6/20					
	Over the counter			Established markets	Over the counter			Established markets	31/12/20	30/6/20
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties				
		With clearing arrangements	Without clearing arrangements			With clearing arrangements	Without clearing arrangements			
1. Positive fair value										
a) Options	—	4,895	—	—	—	5,093	—	—	—	—
b) Interest rate swap	400,558	35,185	626	—	416,547	42,396	318	—	44,102	238,804
c) Cross currency swap	—	368	—	—	—	365	—	—	—	—
d) Equity swap	—	—	—	—	—	—	—	—	—	—
e) Forward	—	—	—	—	—	—	—	—	—	—
f) Futures	—	—	—	—	—	—	—	—	—	—
g) Others	—	—	—	—	—	—	—	—	—	—
Total	400,558	40,448	626	—	416,547	47,854	318	—	44,102	238,804
Negative fair value										
a) Options	—	12,780	—	—	—	8,140	—	—	—	—
b) Interest rate swap	425,287	64,507	4,049	—	416,915	35,918	4,252	—	69,257	119,783
c) Cross currency swap	—	—	—	—	—	—	—	—	—	—
d) Equity swap	—	—	—	—	—	—	—	—	—	—
e) Forward	—	—	—	—	—	—	—	—	—	—
f) Futures	—	—	—	—	—	—	—	—	—	—
g) Others	—	—	—	—	—	—	—	—	—	—
Total	425,287	77,287	4,049	—	416,915	44,058	4,252	—	69,257	119,783

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A.3 OTC hedge financial derivatives: notional values, gross positive and negative fair values by counterparty

Underlyings	Central Counterparties	Banks	Other financial companies	Other entities
Contracts not included in clearing agreement				
1) Debt securities and interest rate				
- notional value	X	25,000	—	—
- positive fair value	X	626	—	—
- negative fair value	X	4,049	—	—
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	44,529,440	4,451,501	532,929	—
- positive fair value	400,558	35,070	5,010	—
- negative fair value	425,287	37,337	39,950	—
2) Equities and stock indexes				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
3) Currencies and gold				
- notional value	—	272,186	13,854	—
- positive fair value	—	345	23	—
- negative fair value	—	—	—	—
4) Commodities				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
5) Others				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—

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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.

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.

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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.

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.

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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.

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;

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- 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 six months under review, both indicators, short- and long-term, have shown that the Group has maintained an adequate level of liquidity at all times.

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

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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. These measures were confirmed in December 2020 and their effectiveness extended in time.

Throughout the observation period, the Mediobanca Group has managed to keep its liquidity indicators well above the limits set by the regulators, closing 1H with an LCR of 155% (compared with 165% at 30 June 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.

As at end-December 2020 the NSFR stood at 107%, comfortably above the regulatory limits. The reduction from the 109% reading as at end-June 2020 is attributable in equal measure to higher lending volumes to corporate counterparties and to the lower level of assets eligible for refinancing, after the pool of mortgages underlying the covered bond issue in January 2021.

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

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

The objective of the Contingency Funding Plan is to ensure prompt implementation of effective action to tackle a liquidity crisis, through precise identification of stakeholders, powers, responsibilities, communication procedures and reporting criteria, in order to increase the likelihood of coming through the state of emergency successfully. This objective is achieved primarily

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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 six months under review, issues totalling €1.4bn were placed, €250m of which subordinated, against redemptions and buybacks totalling €1.1bn. Recourse to the ECB's T-LTRO programme increased to €6.2bn, in view of the especially favourable terms introduced post-Covid.

As at 31 December 2020, the counterbalancing capacity stood at €10.6bn, lower than at end-June 2020 (€13.3bn), and includes €8.1bn 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. €10.4bn, some €4.3bn of which in the form of cash not used, and hence qualifying as part of the counterbalancing capacity. The reduction reflects both the increased recourse to the T-LTRO programme, and the reduction in the collateral generated internally (ABS auto-retained and mortgage loans). In particular, a portion of the mortgages was removed from the balance, for use in the collateral pool for the €750m covered bond issued on 20 January 2021.

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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 31 December 2020 was €323m (unchanged versus end-June 2020).

Risk mitigation

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

The processes of identifying and assessing risks, collecting and analysing loss data and providing support in connection with mitigation activities 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 weighting for the Group's different Basel II event types recorded in the six months is shown in the table below.

Event Type	% su Total Loss
Clients, products and business practices	88%
Execution, delivery and process management	3%
External fraud	2%
Employment practices and workplace safety	1%
Other	5%

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The period under review saw substantial provisions made in order to cover possible claims for refunds from clients in Consumer Banking following the Lexitor ruling by the European Court of Justice and the subsequent rulings by the Court of Milan. These provisions are attributable to the "Clients, products and business practices" event type. The second category by amount of losses materializing was instances relating to process risk ("Execution, delivery and process management"), followed by provisions and expenses for managing relations with staff for 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. The "Other" category includes the extraordinary costs incurred to ensure business continuity during the months of the pandemic with the necessary characteristics to constitute operating losses.

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.

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.

* * *

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);

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- 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.

* * *

The agreement on future relations between the United Kingdom and the European Union was signed on 30 December 2020. The European Parliament is expected to ratify the deal in the early months of 2021, but came into force provisionally 1 January 2021 as authorized by the European Council. For financial services, the agreement does not provide for any broader reciprocal access to markets than the agreements which the EU has entered into with other commercial partners. However, in a joint declaration the EU and the United Kingdom have committed to executing a Memorandum of Understanding establishing a framework for Financial Services Regulatory Co-operation by 31 March 2021, which will not replace the banking and financial services passporting arrangements.

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Mediobanca currently operates in the United Kingdom, both at its London branch office and cross-border, under the Temporary Permissions Regime (TPR) permitted by the Financial Conduct Authority, which allows the Bank to perform the activities permitted under the existing regulatory authorizations in force at end-2020. The majority of the EU national authorities have not introduced equivalent measures. Mediobanca has undertaken a series of initiatives, in accordance with the ECB guidance, to address the issue of no longer being allowed to serve EU clients from the United Kingdom. These have included transferring some front office staff members (including some considered as key function holders) from the London branch offices to other offices located within the EU (15 in total in the course of 2020). The total number of staff employed at the London branch office, which at 31 December 2019 was 102 had reduced to 76 by 31 December 2020. It should be emphasized that the Group's activities in the United Kingdom continue to be relatively minor (accounting for approx. 3% of its total revenues). There are still some areas of uncertainty, however, regarding the application of some of the market regulations (e.g. on transaction reporting, shares/derivatives trading obligations), for which specific solutions have been adopted in order to ensure that the new rules are complied with.

As far as regards UK-based Group company Cairn Capital ("Cairn"), the company has delegated management of its funds to an Ireland-based fund manager (Carne Global Fund Managers Ireland Limited), which in turn has sub-delegated management back to Cairn itself. Cairn will therefore continue to handle the investment strategies and portfolio management for the funds. The marketing activity for the funds, though, will be performed by a company in the process of being set up to be owned by Cairn, for which clearance from the ECB is currently pending.

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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	460,246	—	—	—	460,246	16,629
2. Share premium reserve	2,197,454	—	—	—	2,197,454	1,848
3. Reserves	6,935,914	—	—	—	6,935,914	75,233
4. Equity instruments	—	—	—	—	—	—
5. Treasury shares	(217,001)	—	—	—	(217,001)	—
6. Valuation reserves:	781,127	—	—	—	781,127	(2,075)
- Equity instruments valued at fair value with impact taken to comprehensive income	61,565	—	—	—	61,565	—
- 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	51,539	—	—	—	51,539	—
- Tangible assets	—	—	—	—	—	—
- Intangible assets	—	—	—	—	—	—
- Hedging of foreign investments	(6,149)	—	—	—	(6,149)	—
- Hedging of cash flows	(32,486)	—	—	—	(32,486)	(1,875)
- Hedging instruments [not designated instruments]	—	—	—	—	—	—
- Exchange differences	(258)	—	—	—	(258)	(4)
- Non-current assets and group of assets being sold	—	—	—	—	—	—
- Financial liabilities designated at fair value with impact taken to profit and loss (variation of own credit risk)	(5,609)	—	—	—	(5,609)	—
- Actuarial gains (losses) on defined benefits pension schemes	(10,037)	—	—	—	(10,037)	(196)
- Valuation reserves share of equity-accounted interests	712,930	—	—	—	712,930	—
- Extraordinary revaluation laws	9,632	—	—	—	9,632	—
7. Net profit (loss) for the period (+/-) of Group and minorities	413,050	—	—	—	413,050	1,082
Total	10,570,790	—	—	—	10,570,790	92,717

* Includes Compass RE (insurance), Ricerche e Studi, Compass Rent and MB Contact Solutions (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	53,000	(1,461)	—	—	—	—	—	—	53,000	(1,461)
2. Equity securities	66,255	(4,690)	—	—	—	—	—	—	66,255	(4,690)
3. Loans	—	—	—	—	—	—	—	—	—	—
Total at 31/12/20	119,255	(6,151)	—	—	—	—	—	—	119,255	(6,151)
Total at 30/6/20	85,296	(13,747)	—	—	—	—	—	—	85,296	(13,747)

B.3 Valuation reserves for financial assets recognized at FVOCI: movements during the period

	Debt securities	Equity securities	Loans	Total
1. Opening balance	8,771	62,778	—	71,549
2. Additions	51,925	1,402	—	53,327
2.1 Increases in fair value	47,060	1,402	—	48,462
2.2 Writedowns for credit risk	4,161	—	—	4,161
2.3 Profit and loss reversal of negative reserves from realize	704	X	—	704
2.4 Transfers to other equity components (equity instruments)	—	—	—	—
2.5 Other variations	—	—	—	—
3. Reductions	9,157	2,615	—	11,772
3.1 Reductions in fair value	1,573	2,098	—	3,671
3.2 Writebacks for credit risk	1,018	—	—	1,018
3.3 Profit and loss reversal from positive reserves: from disposal	6,566	X	—	—
3.4 Transfers to other equity components (equity instruments)	—	517	—	517
3.5 Other reductions	—	—	—	—
4. Closing balance	51,539	61,565	—	113,104

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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 financial structure, with capital ratios that have been consistently higher than those required by the regulatory guidelines, as shown by the comfortable margin emerging from the Internal Capital Adequacy Assessment Process (ICAAP) and the process performed by the regulator as part of the SREP process.

The regulator requires Mediobanca to maintain a CET ratio of 7.94% . confirming the capital requirements set last year, given that no assessment was made of the institution in the 2020 SREP process, only certain comments on the current and future risk profile. The minimum requirement includes the capital conservation buffer of 2.50% and an additional Pillar 2 ("P2R") requisite of 1.25%, 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 Total SREP Capital Requirement (TSCR) was unchanged from last year at 11.75%.

2.1 Scope of application for regulations

Based on the new body of supervisory and corporate governance rules for banks, which consists of Capital Requirements Directive IV (CRD IV), 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, as well as adoption of the phase-in regime applied to the Assicurazioni Generali investment, as from previous years (IFRS 9 first-time adoption), in order to mitigate the effect of the new accounting standards on banks' prudential ratios, 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 473 bis "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, by including a decreasing amount of loan loss provisions in CET1 over that time.

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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, and 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.

As from 31 December 2020, the new prudential treatment for software intangibles has been applied. [1] Such assets, if amortized over three years, are weighted at 100% rather than being deducted from CET1 as previously. Also applied as from the reporting date is the financial duration method for interest rate risk used to calculate the market requirement. [2]

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 €1,080m of the positive FVOCI financial assets reserves, €25.6m in government securities, and €966.9m deriving from Assicurazioni Generali being equity-accounted), plus profit for the period (€411.6m) which has been included in the calculation of CET1 net of the payout confirmed at 70%, as the recent update to the ECB Recommendation not to pay dividends during the Covid-19 pandemic is not at present applicable to the Mediobanca Group.

The deductions regard:

- Treasury shares as to €267.1m, or 2.8% of the Bank's share capital, after a total of 1.7 million treasury shares were used in connection with the award of performance shares;
- Intangible assets as to €112.4m, lower than the deductions made as at 30 June 2020 (€152.4m), following the new prudential treatment and goodwill of €666.2m, in line with the deductions made at end-June 2020;

[1] Prudential treatment in accordance with the provisions of Commission Delegated Regulation (EU) 2020/2176, published in the Official Journal of the European Union on 22 December 2020, which comes into force from the reporting for reference date 31 December 2020 (the new treatment had already been introduced in 2019 with the approval of CRR II, and was later also included in the "quick-fix" package adopted in response to the current market scenario).

[2] Following internal approval, specific notification was sent to the competent authority of the decision to abandon the expiry method.

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– Prudential changes to the valuation of financial instruments (AVA and DVA) amounting to €43.3m, down slightly from last year (€46m) and still applying the lower weighting temporarily introduced by the regulator to mitigate the effects of post-Covid volatility; [3]

– Significant interests in financial companies (banking and insurance firms) as to €1,637.9m, €1,400.9m of which for the investment in Assicurazioni Generali and €138.9m for subsidiary Compass RE. The increase from last year (€1,196m) is due chiefly to the higher book value of the Assicurazioni Generali (the deductions last year totalled €990.8m), mostly due to the increase in the valuation reserve, the change in which has no effect on the capital ratios.

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

Tier 2 capital includes subordinated liabilities, up in the six months from €1,225.1m to €1,301.6m due to the new €250m issue made on 23 November 2020, only in part offset by the amortization of other liabilities (€118.3m). No subordinated tier 2 issue benefits from the grand-fathering permitted under Articles 483ff of the CRR.

Issue	31/12/20		
	ISIN	Nominal value	Calculated amount *
MB Subordinato Mar 29	XS1579416741	50,000	48,506
Mediobanca Mc Nv30 Sub Tier2 Call Eur	XS2262077675	249,750	241,160
MB OPERA 3.75 2026	IT0005188351	299,672	291,401
MB Quarto Atto a Tasso Variabile 2021 Lower Tier 2	IT0004720436	395,201	34,674
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	499,886	459,958
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	499,580	225,870
Total subordinated debt securities		1,994,089	1,301,568

* 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 €120.3m, higher than last year as a result of performing loan hedges being recalculated using parameters adapted to the new macroeconomic scenario, the effect of the overlays and positions most

[3] 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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exposed to Covid-related risks being prudentially reclassified to Stage 2 and Stage 3, whereas the calculated figure, equal to €70.8m, is in line with the figure reported at end-June 2020, given that the most that could be calculated was the equivalent of 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.

QUANTITATIVE INFORMATION

	31/12/20	30/6/20
A. Common equity tier 1 (CET1) prior to application of prudential filters	10,230,549	9,691,998
of which: CET1 instruments subject to phase-in regime	—	—
B. CET1 prudential filters (+/-)	2,206	(290)
C. CET1 gross of items to be deducted and effects of phase-in regime (A +/- B)	10,232,755	9,691,708
D. Items to be deducted from CET1	(3,988,756)	(3,523,703)
E. Phase-in regime - impact on CET1 (+/-), including minority interests subject to phase-in regime *	1,628,306	1,576,980
F. Total common equity tieer 1 (CET1) (C-D+/-E)	7,872,305	7,744,985
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	1,372,398	1,296,147
of which: T2 instruments subject to phase-in regime	—	—
N. Items to be deducted from T2	(3,891)	(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)	1,368,507	1,296,125
Q. Total own funds (F+L+P)	9,240,812	9,041,110

* Adjustments include application of the phase-in provisions for the introduction of IFRS 9.

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2.3 Capital adequacy

QUALITATIVE INFORMATION

As at 31 December 2020, the Group's Common Equity Ratio, calculated as tier 1 capital as a percentage of total risk-weighted assets, amounted to 16.17%, in line with the ratio this last year (16.13%). The growth, which is attributable to the profit for the six months (€411.6m, corresponding to 85 bps), the increase in the valuation reserves (up 8 bps), the new prudential treatment for software (which added 6 bps), and application of the financial duration method for calculating the market requirements (which added 16bps), was almost entirely offset by the dividend accrual (which accounted for 60 bps, corresponding to a payout of 70%), the higher deductions in relation to the Assicurazioni Generali investment (accounting for 13 bps), and the business growth in RWAs (30 bps, 5 bps of which for the rerating of certain corporate positions, and 10 bps relating to the Burgo exposure returning to performing status).

RWAs in the six months rose from €48bn to €48.7bn, due to a higher contribution from Wholesale Banking (up €0.1bn net of the benefit from the market requirement), Specialty Finance (up €0.6bn) and Principal Investing (up €0.2bn), only in part offset by the decrease in RWAs for Consumer Banking (which accounted for €0.3bn). The performance by the other business lines (Wealth Management and Holding Functions) was stable overall.

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MOVEMENTS IN RWAS

	Value
RWA as at 30 June 20	**48,030,483**
Regulatory changes	**(229,719)**
Partecipation in Assicurazioni Generali	*228,339*
RWA Software	*34,642*
Market requirement - Duration approach	*(492,700)*
Re-rating and riclassifications	**440,000**
Volume effect	**453,171**
Corporate Investment Banking - CIB	*745,943*
Wholesale Banking- WS	*128,058*
Specialty Finance - SF	*617,885*
Consumer	*(263,526)*
Wealth Manangement - WM	*77,694*
Holding Functions - HF - (Leasing)	*37,026*
Others	*(143,966)*
RWA as at 31 December 20	**48.693.936**

The total capital ratio also increased from 18.82% to 18.98%.

Fully-loaded and without application of the Danish Compromise, i.e. with the Assicurazioni Generali stake fully deducted (which accounted for €1,552.3m, including the indirect effects) and with full application of the IFRS 9 effect (which accounted for €76.0m, considering the higher deductions), the CET1 ratio was 14.51% and the total capital ratio 17.69%, also higher than the figures reported at end-June last year, which were 14.50% and 17.55% respectively.

The other indicators performed as follows during the period 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, fell during the six months from 9.7% to 9.4%, as a result of the significant increase in the exposures, in particular in Wholesale Banking and in factoring, and once again was well above the regulatory limit set (3%);
- The MREL ratio was again above 40% of RWAs,[4] considerably higher than the minimum level set by the Single Resolution Board for 2020, which was 21.60%.

[4] Ratio calculated using the hybrid approach recently introduced b the regulator, which takes into consideration consolidate down funds and eligible liabilities (apart from own funds) issued by the resolution entity to institutions external to the resolution group.

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QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts[5]		Weighted amounts/requirements	
	31/12/20	30/6/20	31/12/20	30/6/20
A. RISK ASSETS				
A.1 Credit and counterpart risk	71,882,987	70,911,069	41,797,670	40,933,278
1. Standard methodology	43,185,106	42,018,276	29,770,476	28,909,850
2. Internal rating methodology	28,533,013	28,756,686	11,804,931	11,834,261
2.1 Basic	—	—	—	—
2.2 Advanced	28,533,013	28,756,686	11,804,931	11,834,261
3. Securitization	164,869	136,107	222,263	189,167
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			3,343,814	3,274,662
B.2 Credit valuation risk			44,124	43,586
B.3 Settlement risk			—	—
B.4 Market risk			184,582	201,195
1. Standard methodology			184,582	201,195
2. Internal models			—	—
3. Concentration risk			—	—
B.5 Other prudential requirements			322,995	322,995
1. Basic Indicator Approach (BIA)			322,995	322,995
2. Standard methodology			—	—
3. Advanced methodology			—	—
B.6 Other calculation elements			—	—
B.7 Total prudential requirements			3,895,515	3,842,439
C. RISK ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets			48,693,936	48,030,483
C.2 CET1 capital/risk-weighted assets (CET1 capital ratio)			16.17%	16.13%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 capital ratio)			16.17%	16.13%
C.4 Regulatory capital/risk-weighted assets (total capital ratio)			18.98%	18.82%

[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 period under review.

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 July 2020. 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 are no transactions to report for the six months under review.

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2.2 *Quantitative information*

Activities with related parties have reduced significantly following the exit of two major groups from the scope of relevance: the Telecom Italia group (due to Marie Bolloré leaving the Board of Directors of Mediobanca), and the Burgo Group (now that Mediobanca no longer has significant influence over the company following the investment by a new shareholder).

Furthermore, in January 2021 the Bolloré Group also definitively exited the scope of relevance, after reducing its shareholding in Mediobanca to below 3% (the threshold below which, under the Group Regulations, it is not necessary to identify shareholders as significant).

Situation as at 31 december 2020

(€m)

	Directors and strategic management	Associates	Other related parties	Total
Assets	2.2	3.8	138.1	144.1
of which: other assets	—	*3.8*	*138.1*	*141.9*
loans and advances	*2.2*	—	—	*2.2*
Liabilities	24.1	—	77.5	101.6
Guarantees and commitments	—	—	—	—
Interest income	—	10.4 [2]	0.4	10.8
Interest expense	—	—	(0.8)	(0.8)
Net fee income	—	—	24.2	24.2
Other income (costs)	(23.3) [1]	(4.0) [2]	(7.5)	(34.8)

[1] Of which: short-term benefits amounting to €21.2m and performance shares worth €1.9m. The number includes the resources included among the Executives with strategic responsibilities during the year.

[2] The headings include all Burgo Group items accrued until its exit from the scope of relevance (which occurred when the loan was renegotiated early in October 2020).

Situation as at 30 June 2020

(€m)

	Directors 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.

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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 option				
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	4,919,928 [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] Refers to options awarded in 2015, 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.

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 and long term incentive

With reference to equity instruments used for staff remuneration purposes, Mediobanca has found it convenient to adopt a performance share scheme, the most recent version of which was approved by shareholders at the Annual General Meeting held on 28 October 2020.

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.

A resolution was approved by shareholders at the Annual General Meeting held on 28 October 2020, authorizing the Board of Directors to increase the Bank's share capital free of charge through the issuance of up to 20 million shares tor use in connection with the scheme. The 24,940,488 treasury shares owned may also be used in connection with the scheme.

A total of 1,384,147 performance shares were allocated during the six months

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under review: the shares, the award of which is conditional upon performance objectives being met over a three-year and/or five-year (for Executive Directors and other Material Risk-Takers), will be made available in tranches (up to 683,207 in FY 2021-22, up to 170,033 in FY 2022-23, up to 289,986 in FY 2023-24, up to 120,968 in FY 2024-25, and up to 119,953 in FY 2025/26).

On 27 November 2020, a total of 1,670,800 shares were awarded in the form of treasury shares delivered.

QUANTITATIVE INFORMATION

1. Changes in performance share scheme during the year

	31/12/20		30/6/20	
	No. of performance shares	**Avg. price**	**No. of performance shares**	**Avg. price**
A. Opening balance	5,255,453	6.98	5,081,612	6.84
B. Increases				
B.1 New issues	1,384,147	5.94	1,964,004	7.37
B.2 Other additions	—	—	—	—
C. Decreases				
C.1 Performance shares cancelled	—	—	—	—
C.2 Performance shares made available	1,670,800	6.72	1,759,772	7.02
C.3 Performance shares expired	—	—	—	—
C.4 Other reductions	48,872	6.47	30,391	6.82
D. Closing balance	4,919,928	6.51	5,255,453	6.98

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Part L - Segmental reporting

INTRODUCTION

Under IFRS 8, an entity must disclose information to enable users of its financial statements to evaluate the nature and financial effects of the different business activities in which it engages and the different economic environments in which it operates.

Disclosure is therefore required regarding the contribution of the different "operating segments" to the formation of the Mediobanca Group's earnings results.

The aggregation of the "operating segments" illustrated in this section, as required by IFRS 8, is consistent with the means adopted by the Group's management to take business decisions, and is based on the internal reporting used in order to allocate resources to the various segments, and to analyse their respective performances as described in the Review of Operations, to which reference is made for detailed and exhaustive analysis of the individual business lines' earnings and financial performances.

A. PRIMARY SEGMENTAL REPORTING

At Group level the following business lines have been identified:

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: personal and special-purpose loans, and salary-backed finance (Compass Banca). 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;

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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 set-up MBContact Solutions;

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

Holding Functions: this division comprises SelmaBipiemme Leasing, MIS, Spafid Connect, 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), 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.

A list of the main points requiring attention with regard to the allocation of earnings results is provided below:

– Net interest income [1] is obtained by applying the internal funds transfer pricing (FTP) rates consistent with the financial characteristics of the products concerned. Notional interest is allocated using a centralized FTP model which assigns volumes and costs of liquidity based on durations, without distinction between lending and funding ("bid/ask"), assuming the same expiry;
– The costs incurred by the service units, plus a part of the central function costs, are charged back by the relevant corporate centre (the Holding

[1] The Mediobanca Group only reports net interest income based on the requirements of IFRS 8, which specifies that an institution must record interest income and interest expense separately for each reporting segment, unless the majority of the revenue generated by that segment derives from interest and unless management bases itself primarily on net interest income in order to assess the segment's results and take decisions regarding the resources to be allocated to the segment. In this case an institution may refer to the segment's interest revenue net of interest expense, provided it specifies this [IFRS 8.23].

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Functions division) to the operating segments that use the services. The 799 resources attributable to the Holding Functions are divided as follows: 109 in SelmaBipiemme and 8 in the other non-core companies; 32 in Group Treasury and ALM; 127 in MIS, 208 in operations, 163 in support functions, 145 in control functions as well as 7 in management (senior management and assistants), of which the cost of approximately 236 FTE is reallocated to the business lines, compared to end-December 2019, when, out of a total of 807 FTEs, the cost of approx. 223 was reallocated.

– Intercompany items are elided only if they involve companies belonging to the same segment; items involving different segments are cross-checked and recorded as adjustments, along with the consolidation entries regarding companies belonging to different segments.

A.1 Profit-and-loss figures by business segment

(€m)

Profit-and-loss	Wealth Management	Consumer Banking	Corporate & Investment Banking	Principal Investing	Holding Functions	Adjustments[1]	Group
Net interest income	137.0	448.4	148.5	(3.5)	(22.5)	12.5	720.4
Net trading income	5.1	—	43.6	16.5	21.2	0.3	86.7
Net fee and commission income	160.0	66.7	172.2	—	6.7	(22.8)	382.8
Equity-accounted companies	—	—	—	110.9	—	—	110.9
Total income	**302.1**	**515.1**	**364.3**	**123.9**	**5.4**	**(10.0)**	**1.300.8**
Labour costs	(115.9)	(48.0)	(80.2)	(1.6)	(59.3)	—	(305.0)
Administrative expenses	(108.0)	(102.6)	(67.4)	(0.5)	(18.2)	10.6	(286.1)
Operating costs	**(223.9)**	**(150.6)**	**(147.6)**	**(2.1)**	**(77.5)**	**10.6**	**(591.1)**
Loan loss provisions	(11.8)	(143.5)	43.6	—	(6.0)	—	(117.7)
Provisions for other financial assets	1.5	(0.4)	1.0	19.2	(8.0)	(0.2)	13.1
Other income (losses)	—	(15.0)	(0.5)	—	(17.9)	—	(33.4)
Profit before tax	**67.9**	**205.6**	**260.8**	**141.0**	**(104.0)**	**0.4**	**571.7**
Income tax for the period	(21.0)	(68.0)	(89.4)	(12.6)	32.0	0.1	(158.9)
Minority interest	—	—	(1.1)	—	(1.1)	—	(2.2)
Net profit	**46.9**	**137.6**	**170.3**	**128.4**	**(73.1)**	**0.5**	**410.6**
Cost/income ratio (%)	*74.1*	*29.2*	*40.5*	*n.m.*	*n.m.*	*n.m.*	*45.4*

[1] Sum of divisional data differs from Group total due to adjustments/differences arising on consolidation between business areas (equal to €0.5m).

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A.2 Balance-sheet data by business segment

The balance-sheet items shown below represent each business area's contribution to the consolidated balance sheet, hence no adjustments have been made between the sum of the components and the Group total.

(€m)

Balance-sheet	Wealth Management	Consumer	Corporate & Investment Banking	Principal Investing	Holding Functions	Group
Financial assets held for trading	23.2	—	11,536.5	—	—	11,559.7
Treasury financial assets and cash	—	—	1,377.0	—	7,299.8	8,676.8
Banking book securities	582.4	—	526.5	—	6,173.6	7,282.5
Customers loans	14,029.0	12,776.8	19,522.4	—	1,799.6	48,127.8
Equity investments	26.6	—	78.3	4,372.1	28.1	4,505.1
Tangible and intangible assets	255.2	85.9	46.1	—	920.5	1,307.7
Other assets	372.6	504.6	68.4	—	929.9	1,875.5
Total assets	**15,289.0**	**13,367.3**	**33,155.2**	**4,372.1**	**17,151.5**	**83,335.1**
Funding	(24,625.5)	(3,272.6)	—	—	(28,045.5)	(55,943.6)
Treasury financial liabilities	—	—	(1,529.6)	—	(3,381.3)	(4,910.9)
Financial liabilities held for trading	—	—	(9,649.9)	—	—	(9,649.9)

The following in particular should be noted:

- Debt securities, loans and treasury deposits are allocated almost entirely to treasury operations (Holding Functions);
- Tangible and intangible assets are allocated to the respective business lines;
- Goodwill and the other intangibles arising on the Group's acquisitions are typically included in the Holding Functions columns.

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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, sixth update

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:

- The 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 31 December 2020 - Assets

(€m)

Scheme pursuant to 262 Circular - VI update

Restated balance sheet

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	—	1,910.3	—	—	—	—	—	**1,910.3**
20. Financial assets at fair value with impact taken to profit and loss	11,559.7	—	53.1	630.4	657.0	—	—	**12,900.2**
a) Financial assets held for trading	*11,559.7*	—	—	—	—	—	—	***11,559.7***
b) Financial assets designated at fair value	—	—	*51.4*	*623.3*	—	—	—	***674.7***
c) Other financial assets mandatorily at fair value	—	—	*1.7*	*7.0*	*657.0*	—	—	***665.7***
30. Financial assets at fair value with impact taken to comprehensive income	—	—	4,096.9	—	149.3	—	—	**4,246.2**
40. Financial assets at amortized cost	—	6,766.5	3,132.5	47,497.4	—	—	—	**57,396.4**
50. Hedging derivatives	—	—	—	—	—	—	441.6	**441.6**
60. Adjustment of hedging financial assets (+/-)	—	—	—	—	—	—	—	**—**
70. Equity investments	—	—	—	—	3,698.8	—	—	**3,698.8**
80. Reinsured portion of technical reserve	—	—	—	—	—	—	—	**—**
90. Property, plant and equipments	—	—	—	—	—	493.7	—	**493.7**
100. Intangible assets	—	—	—	—	—	814.0	—	**814.0**
110. Tax assets	—	—	—	—	—	—	722.8	**722.8**
120. Assets classified as held for sale	—	—	—	—	—	—	—	**—**
130. Other assets	—	—	—	—	—	—	711.1	**711.1**
Total assets	**11,559.7**	**8,676.8**	**7,282.5**	**48,127.8**	**4,505.1**	**1,307.7**	**1,875.5**	**83,335.1**

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Balance sheet as at 31 December 2020 - Liabilities

(€m)

Restated balance sheet

Scheme pursuant to 262 Circular VI update

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	55,108.1	4,910.9	—	252.4	—	—	**60,271.4**
a) Due to banks	*10,495.5*	*3,709.9*	—	*5.1*	—	—	***14,210.5***
b) Due to customers	*25,690.1*	*1,201.0*	—	*247.1*	—	—	***27,138.2***
c) Debt securities in issue	*18,922.5*	—	—	*0.2*	—	—	***18,922.7***
20. Trading financial liabilities	—	—	9,649.9	—	—	—	**9,649.9**
30. *Financial liabilities designated at fair value*	835.5	—	—	—	—	—	**835.5**
40. Hedging derivatives	—	—	—	506.6	—	—	**506.6**
50. Adjustment of hedging financial liabilities (+/-)	—	—	—	—	—	—	**—**
60. Tax liabilities	—	—	—	466.3	—	—	**466.3**
70. Liabilities included in disposal groups classified as held for sale	—	—	—	—	—	—	**—**
80. Oher liabilities	—	—	—	719.5	—	—	**719.5**
90. Staff severance indemnity provision	—	—	—	—	28.4	—	**28.4**
100. Provisions	—	—	—	—	146.0	—	**146.0**
110. Insurance reserves	—	—	—	142.1	—	—	**142.1**
120. Revaluation reserves	—	—	—	—	—	783.2	**783.2**
130. Redeemable shares repayable on demand	—	—	—	—	—	—	**—**
140. Equity instruments repayable on demand	—	—	—	—	—	—	**—**
150. Reserves	—	—	—	—	—	6,860.7	**6,860.7**
160. Share premium reserve	—	—	—	—	—	2,195.6	**2,195.6**
170. Share capital	—	—	—	—	—	443.6	**443.6**
180. Treasury share (-)	—	—	—	—	—	(217.0)	**(217.0)**
170. Minority interests (+/-)	—	—	—	—	—	92.7	**92.7**
180. Profit/(loss) for the period (+/-)	—	—	—	—	—	410.6	**410.6**
Total liabilities and net equity	**55,943.6**	**4,910.9**	**9,649.9**	**2,086.9**	**174.4**	**10,569.4**	**83,335.1**

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Comparison between restated profit and loss account and format recommended by Bank of Italy circular no. 262/05, sixth update

The profit and loss shown in the Group Review presents the following restatements:

– “Net interest income” includes the items stated under headings 10 “Interest and similar income”, 20 “Interest and similar expense”, fees and commissions arising from Financial Guarantee Fee, 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 €-39.8m 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”, interests arising on related collaterals (heading 10 and 20) 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 write-offs (write-backs) 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”;

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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. The head also includes some one-off costs mainly related to the Lexitor ruling (€15m).

Profit and loss account as at 31 December 2020

(€m)

Format recommended by bank of italy circular no. 262/05 5th update

Profit-and-loss account	Restated 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	929.0	0.6	—	—	—	—	—	—	—	—	929.6
20. Interest expense and similar charges	(208.7)	(2.0)	—	—	—	—	—	—	—	—	(210.7)
30. Net interest income	**720.3**	**(1.4)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**718.9**
40. Fee and commission income	0.9	3.7	369.3	—	—	—	—	—	—	—	373.9
50. Fee and commission expense	(4.8)	(0.7)	(60.6)	—	—	—	—	—	—	—	(66.1)
60. Net fee and commission income	**(3.9)**	**3.0**	**308.7**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**307.8**
70. Dividends and similar income	—	39.6	—	—	—	—	—	—	—	—	39.6
80. Net trading income	2.6	66.9	—	—	—	—	—	—	—	—	69.5
90. Net hedging income (expense)	1.4	—	—	—	—	—	—	—	—	—	1.4
100. Gain (loss) on disposal/repurchase	—	(16.2)	—	—	—	3.9	—	—	—	—	(12.3)
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss	—	(5.2)	—	—	—	59.4	21.6	—	—	—	75.8
120. Total income	720.4	86.7	308.7	—	—	63.3	21.6	—	—	—	1,200.7
130. Net write-offs (write-backs) for credit risk	—	—	9.3	—	—	(173.8)	(8.5)	—	—	—	(173.0)
140. Gains (losses) from contractual modifications without derecognition	—	—	—	—	—	0.1		—	—	—	0.1
150. Net income from financial operations	**720.4**	**86.7**	**318.0**	**—**	**—**	**(110.4)**	**13.1**	**—**	**—**	**—**	**1,027.8**
160. Premiums earned (net)	—	—	26.3	—	—	—	—	—	—	—	26.3
170. Other income (net) from insurance activities	—	—	(7.0)	—	—	—	—	—	—	—	(7.0)
180. Net profit from financial and insurance activities	**720.4**	**86.7**	**337.3**	**—**	**—**	**(110.4)**	**13.1**	**—**	**—**	**—**	**1,047.1**
190. Administrative expenses	—	—	(0.1)	—	(583.4)	—	—	(17.9)	—	—	(601.4)
200. Net transfers to provisions	—	—	—	—	(4.2)	(7.3)	—	(15.5)	—	—	(27.0)
210. Net adjustments to tangible assets	—	—	—	—	(26.9)	—	—	—	—	—	(26.9)
220. Net adjustments to intangible assets	—	—	—	—	(16.1)	—	—	—	—	—	(16.1)
230. Other operating income (expense)	—	—	45.6	—	39.5	—	—	—	—	—	85.1
240. Operating costs	**—**	**—**	**45.5**	**—**	**(591.1)**	**(7.3)**	**—**	**(33.4)**	**—**	**—**	**(586.3)**
250. Gain (loss) on equity investments	—	—	—	110.9	—	—	—	—	—	—	110.9
260. Net result from fair value valuation of tangible and intangible assets	—	—	—	—	—	—	—	—	—	—	—
270. Goodwill write-offs	—	—	—	—	—	—	—	—	—	—	—
280. Gain (loss) on disposal of investments	—	—	—	—	—	—	—	—	—	—	—
290. Profit (loss) on ordinary activity before tax	**720.4**	**86.7**	**382.8**	**110.9**	**(591.1)**	**(117.7)**	**13.1**	**(33.4)**	**—**	**—**	**571.7**
300. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—	(158.9)	—	(158.9)
310. Profit (loss) on ordinary activities after tax	**720.4**	**86.7**	**382.8**	**110.9**	**(591.1)**	**(117.7)**	**13.1**	**(33.4)**	**(158.9)**	**—**	**412.8**
320. Gain (loss) of ceded operating assets, net of tax	—	—	—	—	—	—	—	—	—	—	—
330. Net profit (loss) for the period	**720.4**	**86.7**	**382.8**	**110.9**	**(591.1)**	**(117.7)**	**13.1**	**(33.4)**	**(158.9)**	**—**	**412.8**
340. Net profit (loss) for the period attributabe to minorities	—	—	—	—	—	—	—	—	—	(2.2)	(2.2)
350. Net profit (loss) for the period attributable to Mediobanca	**720.4**	**86.7**	**382.8**	**110.9**	**(591.1)**	**(117.7)**	**13.1**	**(33.4)**	**(158.9)**	**(2.2)**	**410.6**

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Mediobanca S.p.A.: comparison between restated balance sheet and format recommended by Bank of Italy circular no. 262/05, sixth update

Balance sheet as at 31 December 2020

Balance sheet as at 31 December 2020 - Assets

(€m)

Format recommended by bank of italy circular no. 262/05 6th update

	Restated balance sheet							
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	—	1,790.1	—	—	—	—	—	**1,790.1**
20. Financial assets at fair value with impact taken to profit and loss	11,766.5	—	53.1	634.4	631.7	—	—	**13,085.7**
a) Financial assets held for trading	*11,766.5*	—	—	—	—	—	—	***11,766.5***
b) Financial assets designated at fair value	—	—	*51.4*	*623.3*	—	—	—	***674.7***
c) Other financial assets mandatorily at fair value	—	—	*1.7*	*11.1*	*631.7*	—	—	***644.5***
30. Financial assets at fair value with impact taken to comprehensive income	—	—	4,096.8	—	314.4	—	—	**4,411.2**
40. Financial assets at amortized cost	—	8,680.8	5,290.3	33,807.1	—	—	—	**47,778.2**
50. Hedging derivatives	—	—	—	—	—	—	449.3	**449.3**
60. Adjustment of hedging financial assets (+/-)	—	—	—	—	—	—	—	**—**
70. Equity investments	—	—	—	—	3,432.2	—	—	**3,432.2**
80. Property, plant and equipments	—	—	—	—	—	135.7	—	**135.7**
90. Intangible assets	—	—	—	—	—	28.5	—	**28.5**
100. Tax assets	—	—	—	—	—	—	180.4	**180.4**
110. Assets classified as held for sale	—	—	—	—	—	—	—	—
120. Other assets	—	—	—	—	—	—	215.3	**215.3**
Total assets	**11,766.5**	**10,470.9**	**9,440.2**	**34,441.5**	**4,378.3**	**164.2**	**845.0**	**71,506.6**

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Balance sheet as at 31 December 2020 - Liabilities

(€m)

Restated balance sheet

Format recommended by bank of italy circular no. 262/05 6th update

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	49,532.3	5,326.8	—	21.3	—	—	**54,880.4**
a) Due to banks	*27,134.7*	*4,125.7*	—	*4.0*	—	—	***31,264.4***
b) Due to customers	*6,446.2*	*1,201.1*	—	*17.1*	—	—	***7,664.4***
c) Debt securities in issue	*15,951.4*	—	—	*0.2*	—	—	***15,951.6***
20. Trading financial liabilities	—	—	10,058.9	—	—	—	**10,058.9**
30. *Financial liabilities designated at fair value*	835.5	—	—	—	—	—	**835.5**
40. Hedging derivatives	—	—	—	163.7	—	—	**163.7**
50. Adjustment of hedging financial liabilities (+/-)	—	—	—	—	—	—	**—**
60. Tax liabilities	—	—	—	320.2	—	—	**320.2**
70. Liabilities included in disposal groups classified as held for sale	—	—	—	—	—	—	**—**
80. Oher liabilities	—	—	—	230.5	—	—	**230.5**
90. Staff severance indemnity provision	—	—	—	—	7.6	—	**7.6**
100. Provisions	—	—	—	—	132.4	—	**132.4**
110. Revaluation reserves	—	—	—	—	—	117.6	**117.6**
120. Redeemable shares repayable on demand	—	—	—	—	—	—	**—**
130. Equity instruments repayable on demand	—	—	—	—	—	—	**—**
140. Reserves	—	—	—	—	—	2,221.0	**2,221.0**
150. Share premium reserve	—	—	—	—	—	2,195.6	**2,195.6**
160. Share capital	—	—	—	—	—	443.6	**443.6**
170. Treasury share (-)	—	—	—	—	—	(217.0)	**(217.0)**
180. Profit/(loss) for the period (+/-)	—	—	—	—	—	116.6	**116.6**
Total liabilities and net equity	**50,367.8**	**5,326.8**	**10,058.9**	**735.7**	**140.0**	**4,877.4**	**71,506.6**

Mediobanca S.p.A.: comparison between restated balance sheet and format recommended by Bank of Italy circular no. 262/05, sixth update

Profit and loss account as at 31 December 2020

(€m)

Format recommended by bank of italy circular no. 262/05 6th update

Profit-and-loss account	*Restated profit and loss account* Net interest income	Net treasury income	Net fee and commission income	Dividends on investments	Operating costs	Gains (losses) on disposal of equity holdings	Loan loss provisions	Provisions for other financial assets	Impairment on investments	Other income (losses)	Income tax for the period	Net profit
10. Interest and similar income	338.8	0.6	0.1	—	—	—	—	—	—	—	—	339.4
20. Interest expense and similar charges	(280.6)	(2.0)	—	—	—	—	—	—	—		—	(282.5)
30. Net interest income	**58.2**	**(1.4)**	**0.1**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**56.9**
40. Fee and commission income	3.4	3.7	172.5	—	—	—	—	—	—	—	—	179.6
50. Fee and commission expense	(4.8)	(2.0)	(12.1)	—	—	—	—	—	—	—	—	(18.9)
60. Net fee and commission income	**(1.4)**	**1.7**	**160.4**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**160.7**
70. Dividends and similar income	—	37.3	—	2.2	—	—	—	—	—	—	—	39.5
80. Net trading income	8.4	62.6	—	—	—	—	—	—	—	—	—	71.0
90. Net hedging income (expense)	1.0	—	—	—	—	—	—	—	—	—	—	1.0
100. Gain (loss) on disposal/repurchase	—	(16.4)	—	—	—	—	—	—	—	—	—	(16.4)
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	—	(5.2)	—	—	—	—	59.4	20.1	—	—	—	74.3
120. Total income	**66.2**	**78.6**	**160.5**	**2.2**	**—**	**—**	**59.4**	**20.1**	**—**	**—**	**—**	**387.0**
130. Net write-offs (write-backs) for credit risk	—	—	—	—	—	—	24.1	(9.7)	—	—	—	14.4
140. Gains (losses) from contractual modifications without derecognition	—	—	—	—	—	—	—	—		—	—	—
150. Net income from financial operations	**66.2**	**78.6**	**160.5**	**2.2**	**—**	**—**	**83.5**	**10.4**	**—**	**—**	**—**	**401.4**
160. Administrative expenses	—	—	(0.1)	—	(204.2)	—	—	—	—	(0.4)	—	(204.7)
170. Net transfers to provisions	—	—	—	—	(0.4)	—	(20.7)	—	—	—	—	(21.1)
180. Net adjustments to tangible assets	—	—	—	—	(4.3)	—	—	—	—	—	—	(4.3)
190. Net adjustments to intangible assets	—	—	—	—	(0.8)	—	—	—	—	—	—	(0.8)
200. Other operating income (expense)	—	—	5.8	—	9.3	—	—	—	—	—	—	15.1
210. Operating costs	**—**	**—**	**5.7**	**—**	**(200.4)**	**—**	**(20.7)**	**—**	**—**	**(0.4)**	**—**	**(215.8)**
220. Gain (loss) on equity investments	—	—	—	—	—	—	—	—	—	—	—	—
230. Net result from fair value valuation of tangible and intangible assets	—	—	—	—	—	—	—	—	—	—	—	—
240. Goodwill write-offs	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
250. Gain (loss) on disposal of investments	—	—	—	—	—	—	—	—	—	—	—	—
260. Profit (loss) on ordinary activity before tax	**66.2**	**78.6**	**166.2**	**2.2**	**(200.4)**	**—**	**62.8**	**10.4**	**—**	**(0.4)**	**—**	**185.6**
270. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—	—		(69.0)	(69.0)
280. Profit (loss) on ordinary activities after tax	**66.2**	**78.6**	**166.2**	**2.2**	**(200.4)**	**—**	**62.8**	**10.4**	**—**	**(0.4)**	**(69.0)**	**116.6**
290. Gain (loss) of ceded operating assets, net of tax	—	—	—	—	—	—	—	—	—	—	—	—
300. Net profit (loss) for the period	**66.2**	**78.6**	**166.2**	**2.2**	**(200.4)**	**—**	**62.8**	**10.4**	**—**	**(0.4)**	**(69.0)**	**116.6**

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