MEDIOBANCA

LIMITED COMPANY
SHARE CAPITAL € 443,640,006.50
HEAD OFFICE: PIAZZETTA ENRICO CUCCIA 1, MILAN, ITALY

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

Annual Accounts and Reports as at 30 June 2021

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translation from the Italian original which remains the definitive version

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

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Massimo Bertolini	Secretary of the Board of Directors
Emanuele Flappini	Head of Company Financial Reporting

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REVIEW OF GROUP OPERATIONS

The Mediobanca Group delivered a net profit of €807.6m in the twelve months under review, representing a significant improvement on the €600.4m posted last year. The Group's ability to respond to the healthcare crisis and the various lockdowns in response to the various waves of the pandemic, have enabled it to bring results back in line, quarter by quarter, with the projections included in the 2019-23 Strategic Plan.

These results have been made possible by the outstanding performance by financial markets, a substantially accommodative monetary policy which has driven up share and credit asset prices and also, at the same time, driven a material reduction in the BTP-Bund spread (to approx. 110 bps), coupled with an interest rate structure that remains at all-time low levels. The decisive contribution made by the vaccination campaign has triggered an acceleration in economic activity, with growth estimates for 2021 now 7.1% for the United States, 4.6% for Europe, and 5.4% for Italy. Meanwhile, stock markets have been recording all-time highs, with the MSCI World Index, S&P and Eurostoxx 600 all posting record performances during the period under review. Uncertainty remains over issues such as the duration of the stimulus packages introduced and the possible effects this might have on inflation, which all the global economies expect to increase as from 2021.

For Mediobanca, higher fee and treasury income offset the slight reduction in net interest income, which affected Consumer Banking in 1H in particular, while Corporate and Investment Banking and Wealth Management, both of which reported reductions in 2H FY 2019-20, bounced back strongly. In line with the growth in revenues, the investment programme that was interrupted so brusquely in spring 2020 also resumed, and is already back at the levels envisaged in the Strategic Plan. Initiatives have included: strengthening the commercial network for all business lines, by hiring new bankers/FAs and opening new branch offices; bolstering the IT platform to facilitate remote access by staff and clients; stepping up the marketing campaigns for Compass and CheBanca!, which have driven increases in new business (new loans up 1.2% in Consumer Banking and up 2.1% in mortgage lending) and net new money (NNM up €3.8bn, €3.7bn of which attributable to CheBanca!). Good asset quality, the increased appetite for saving shown by households, coupled with the stimulus initiatives, all impacted positively on the cost of risk which has returned now to 2019 levels. Net loan loss provisions of €248.8m (30/6/20: €374.9m; 30/6/19: €222.6m) mostly consist of overlays, plus the higher coverage levels for performing loans (1.36%) which includes prudentially classifying certain exposures in Stage2 (up 12%), offsetting the writebacks deriving from the positive conclusion of the moratoria initiative, from certain corporate items returning to portfolio status, and the IFRS9 models reacting to the improvement in the macroeconomic scenario. All this took ROTE back to 8.7%, despite a growing capital base (net equity in the twelve months increased from €9.7bn to €11.1bn).

Revenues grew by 4.6%, from €2,513m to €2,628.4m, on a growing contribution from banking activity (up 6.7%) only in part offset by the reduction in income from Assicurazioni Generali (down 9.9%). The main income items performed as follows:

– Net interest income totalled €1,415m, showing good resilience (down 1.9%, from €1,442.2m), and managing to offset almost entirely the correction reported in Consumer Banking (down 7.3%, from €948m to €878.8m), through growth by the other divisions and optimization of the cost of funding. The reduction in Consumer Banking is due to the lower margins (in part the result of the mix in terms of new business, which is geared more towards special purpose rather than personal loans) and lower volumes (as a result of the lockdowns), returning to last year's levels only towards the end of the financial year. By contrast, the other divisions performed well: net interest income reported by Corporate and Investment Banking rose by 5.7% (from €271.4m to €286.9m), helped by certain non-recurring items, plus the increase in volumes in factoring business and the trading book; NII in Wealth Management rose by 3.7% (from €271m to €281.1m), driven by higher volumes reported by CheBanca! (mortgages and deposits) and CMB Monaco; the net interest expense reported by the Holding Functions division decreased from €55m to €47.4m, offsetting the reduced contribution from the banking book through increased recourse to the T-LTRO facilities, which enabled the cost of funding to stabilize;

– Net fee and commission income rose by 18.2% to a record high of €744.7m (30/6/20: €630.2m), driven by impressive increases in Corporate and Investment Banking (up 40.9%, from €225.8m to €318.1m) and Wealth

Management (up 9.7%, from €306.1m to €335.9m); in detail, investment banking fees reached the highest levels seen in the past five years, on outstanding performances in Equity Capital Market (€42m) and Corporate Finance (€127.5m), helped by some large deals in the first half of the year and over 50% growth in the Mid-Corporate component (to approx. €20m); the increase in Wealth Management reflects higher management fees from the Affluent segment (up 25.9%, from €134.6. to €169.5m) and Private Banking (up 11.1%, from €123.9m to €137.7m), on the back of the increase in AUM/AUA and higher profitability;

– Net treasury income increased to €197m, coming back strongly from last year's performance (€136.3m) and basically aligned with pre-Covid levels, following a good performance by the proprietary trading book, which delivered €94.9m (€57.5m of which attributable to the Holding Functions division), plus income from Principal Investing (dividends and other amounts collected in respect of holdings in funds totalling €31m), which offset the slowdown in client activity (which decreased from €85.6m to €60.6m), hit by the excess liquidity on the market which restricted opportunities, in fixed-income trading in particular;
– The equity-accounted companies' profit decreased, from €304.3m to €271.7m, due to the reduced contribution from Assicurazioni Generali (from €303.4m to €273.4m); the writedowns and one-off charges taken by the company in 2020 have been part offset by the healthy performance posted in 1Q FY 2021, which contributed €103.2m.

Operating costs rose by 4% (from €1,188.9m to €1,238.2m), due to an increase in labour costs of 6% (from €599.3m to €635.3m), due to the resumption of commercial development, plus the increase in remuneration to align it with the Group's results. The increase in administrative expenses was more limited, at 2.2% (up from €589.6m to €602.8m), as a result of savings in travel and entertainment expenses which offset part of the resumption in commercial activity (at CheBanca!, CMB Monaco and Compass in particular), plus the relaunch of the IT investments programme, in line with the long-term objectives; the cost/income ratio remained stable at 47%.

Loan loss provisions decreased from €374.9m to €248.8m, despite an increase in the level of provisioning and reclassifications (to Stage2 and Stage3) made on prudential grounds, in line with the ECB recommendations of end-2020. In particular, the overlays have been increased to approx. €300m (€85m of which in

4Q), which prudentially neutralize the writebacks from the IFRS9 model deriving from the improvement in the macroeconomic scenario seen in the last six months. Some two-thirds of the overlays are concentrated in Consumer Banking (€200m), 30% in the Large Corporate segment (€90m), and the other 5% in the other divisions. The Group's cost of risk stands at 52 bps, back to 2019 levels after the high recorded this time last year (82 bps), while asset quality and the coverage ratios were at their best levels ever. Consumer Banking reflects adjustments of €257.6m (vs €324.7m last year), which translates to a cost of risk of 198 bps (247 bps in 2020 and 185 bps in 2019), with coverage ratios which, in part due to the overlays, are near their all-time highs (NPLs: 75.8%; performing: 3.62%). CIB posted net writebacks of €40.1m, representing the difference between €38.1m in net writedowns in Specialty Finance and writebacks of €78.2m in the Large Corporate segment.

Net provisions for financial assets (€48.4m) reflect upward adjustments for funds (€55.5m), in particular relating to the two main seed investments (RAM up €31.1m, Cairn Capital up €16.5m), comfortably recovering the losses reported last year (€11.7m); this item also reflects writedowns of €7.1m to the banking book securities, due to prudent application of the IFRS9 model.

Contributions to the resolution funds rose from €59.7m to €73.5m, due to higher payments made to the various rescue schemes: Single Resolution Fund (up from €37.2m to €42.4m); the contribution to the national resolution system (€13.1m, vs €11.1m), and the Italian deposit guarantee scheme (DGS) (which increased from €11.4m to €17.9m, reflecting the *pro rata* contribution in respect of Carige and Banca Popolare di Bari).

Net profit also reflects non-recurring items totalling €12.2m. These include downward adjustments to goodwill (€21.5m, principally for RAM) and provisions in Consumer Banking following the "Lexitor" ruling (€15m), which were offset by income deriving from adhering to the "Patent Box" for the Compass and Mediobanca brands (€13.7m) and tax relief on intangible assets pursuant to Article 110 of Italian Decree Law 104/20 (€6.8m).

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Total assets grew from €78.9bn to €82.6bn, with constituents increasing. The main asset items reflect the following performances:

– Loans and advances to customers rose by 3.7%, from €46.7bn to €48.4bn, in a scenario made more competitive by the liquidity injected into the system and the reduced demand from households and companies. against this backdrop CheBanca! mortgages grew by 8.1% (from €10.2bn to €11.1bn), as did Specialty Finance loans (from €2.1bn to €2.7bn), while loans in Consumer Banking remained stable at €12.9bn (€13bn, after recovering the gap that had opened up in 2Q and 3Q in the fourth quarter), as did those to Large Corporates (at €16.5bn, compared with €16.6bn, despite the higher early repayments);

– The increase in funding, from €54.9bn to €56.2bn, is concentrated in retail deposits (up from €15.3bn to €16.9bn) and the increased recourse to the T-LTRO (from €5.7bn to €7.5bn), while the debt security component declined from €18.8bn to €18.4bn; thus the cost of funding remained stable at 80 bps, absorbing the reduction in the Euribor benchmark rate due to the increase in the Wealth Management deposit component (which now accounts for 45% of the total), plus the increased benefit deriving from use of the T-LTRO facilities (100 bps premium until end-June 2022);

– Banking book securities remained at around €7bn, roughly half of which in Italian government securities, with a relatively short duration (under three and a half years); the OCI reserve rose to €73m (despite gains of €44m being realized), while unrealized gains on investment securities amounted to €94m;

– Net treasury assets increased from €6.1bn to €6.4bn and include €1.8bn in deposits held with the ECB (€3.1bn) and other liquid assets worth approx. €3.4bn, with an increased use of deposits and repos. The net balance of trading instruments (€1.2bn) includes equities (€2.3bn) and debt instruments (€939.4m), which mostly cover the certificates placed with clients (€1.9bn).

Total Financial Assets in Wealth Management (TFAs) grew by more than €7.9bn (from €63.6bn to €71.5bn), helped by the trend on financial markets, which increased the stock of assets (by €4.1bn), and also generated Net New Money (NNM) of €3.8bn, €2.1bn of which in the Affluent segment and €1.4bn in Private Banking. Assets under administration and management (AUA/AUM) rose by 16.3% (from €39.8bn to €46.3bn, and represent 65% of the TFAs, on growth in deposits of 5.9% (from €23.8bn to €25.2bn) concentrated in CheBanca!. The asset allocation repositioning favoured yields, helping increase the portfolio's average profitability, which increased from 84 to 87 bps.

The Group's capital solidity remains at high levels, with a CET1 ratio phase-in of 16.31%, after deducting the expected dividend for 2021 and factoring in the recent changes introduced by CRR II. Regulatory capital increased because of the share of retained earnings, which added 50 bps (net of the cash payout at 70%), the lower deductions to goodwill (adding 15 bps, regarding the adjustments to goodwill for RAM and Messier et Associés), and the higher valuation reserves for proprietary securities (adding 20 bps). Conversely, the deduction for the Assicurazioni Generali investment was higher (minus 70 bps), to comply with the stricter concentration limit now calculated based on CET1 (as required by Article 395 of CRR II).

RWAs decreased from €48bn to €47.2bn (adding 30 bps to the CET1 ratio), chiefly due to the reduction for Assicurazioni Generali (down €1.2bn, adding 40 bps); organic growth (which added €900m) and the increase due to the regulatory changes for counterparty risk and the treatment of CIU funds (which together totalled €300m) were partly offset by certain optimization initiatives (amounting to €710m), in particular the application of the financial duration method to calculate the market requirement for interest rate risk (€490m), and application of the exemption from having to calculate the CVA for exposures to corporate counterparties (€220m).

In view of the most recent ECB recommendation (Recommendation 31/2021), the Board of Directors will submit to the approval of shareholders at the next Annual General Meeting a proposal to pay a dividend per share of €0.66, with a payout ratio of 70%, in line with the guidance for the financial year. Furthermore, in order to help reduce the Group's substantial capital position, shareholders will also be asked to approve a new buyback scheme involving up to 3% of the share capital, subject to cancelling the majority of the treasury shares already owned (totalling 24.9 million, or 2.8% of the share capital). Both proposals are subject to approval by the ECB. In line with the 2019-23 Strategic Plan objectives, capital will be deployed primarily in order to strengthen the Group's profitability in all the banking businesses in which it operates, in particular Wealth Management.

The ratio fully loaded without application of the Danish Compromise, i.e. with the Assicurazioni Generali investment deducted in full (minus 110 bps) and with the IFRS9 FTA effect applied in full (minus 13 bps), is 15.08%, higher than last year (14.50%). The total capital ratio also increased in the twelve months, from 18.82% to 18.91% (17.94% fully loaded) due to the €250m subordinated bond issued in November 2020.

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The divisional performances for the year were as follows:

– *Wealth Management*: this division delivered a net profit of €100m (an increase of 24.6% versus last year), driving ROAC up to 21%. Diversification of the asset management product offering addressed to Affluent and Private Banking clients helped drive a 7.5% increase in revenues, from €583.8m to €627.3m, with a strong contribution from fee income which closed up 9.7% (from €306.1m to €335.9m). The cost/income ratio for the division decreased to 75.2%. The Affluent segment in particular contributed a net profit of €48.7m (up 52.7% on last year), on revenues of €358m (up 12.8%) and a cost/income ratio of slightly below 75%; while Private Banking returned a €49.6m net profit (up 16%), on revenues of €202.1m (up 8.2%) and a cost/income ratio of 68%. Asset Management, meanwhile, reported a net profit of €2.4m, with revenues down 17.7% to €59m, reflecting various outflows from institutional mandates;

– *Consumer Banking*: Consumer Banking delivered a net profit of €278.9m, down 6% on last year but still better than was initially expected. Revenues remained just over the €1bn mark (down 6.4%, to €1,001.8m), nudging the cost/income ratio up to 31.4%, in part due to the higher costs (which rose from €303.2m to €314.2m) mostly in connection with credit recovery expenses and higher IT costs. Net profit was helped by lower loan loss provisions of €257.6m (compared with €324.7m last year), taking the cost of risk back to pre-Covid levels (198 bps) despite the increased levels of provisioning and the overlays;

– *Corporate and Investment Banking*: the 57.4% improvement in net profit, which climbed from €180.7m to €284.5m, reflects an excellent performance at top-line level (revenues rose 21.4%, from €575.1m to €698.2m), driven in particular by fee income generated from Wholesale Banking operations (which climbed from €191.2m to €270m); the cost/income ratio decreased to 43.9%, absorbing the higher bonus pool payable this year (labour costs up 17.3%, to €165.4m); and ROAC reached its Strategic Plan target of 16% two years ahead of schedule. The division's results reflect an outstanding performance by Wholesale Banking (net profit up 72.7%, to €268.2m), which offset the reduction by Specialty Finance (from €25.4m to €16.3m) due to higher provisioning for MBCredit Solutions;

– *Principal Investing*: Principal Investing delivered a net profit of €308.6m, recovering from last year (up 4.6%), helped by the fair value recognition of holdings in funds (adding €51.8m), which offset the reduced contribution from Assicurazioni Generali already alluded to;

– *Holding Functions*: careful management of both liquid assets and the securities portfolio enabled this division to reduce its net loss from €183.7m to €166.1m, despite the increase in payments to the various resolution funds (which rose from €59.7m to €73.5m); in the twelve months, the gain on the banking book securities portfolio increased from €37m to €58m, while net interest expense on treasury operations declined from €92.1m to €83.3m, and operating costs decreased from €172.8m to €160.1m.

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Significant events that took place during the twelve months under review were as follows:

– SREP and MREL requirements confirmed:[1] this, in view of the Group's strengthening capital solidity, has driven a further increase in the capital buffers; the SREP Overall Capital Requirement ("OCR") was confirmed at 11.75%, which, in view of the regulatory changes introduced, translates to a minimum CET1 requirement on a consolidated basis of 7.94%; (roughly half the current ratio); while the Group's MREL requirement[2] is 21.85% of RWAs[3] and 5.91% of the Leverage Ratio Exposures (LREs); taking the eligible bond issues into account, the Group's capital buffer is in the €9.5bn region;

[1] 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.

[2] Early in 2021, the Bank of Italy, at the proposal of the Single Resolution Board ("SRB"), revised the Group's MREL requirement, i.e. the amount of own funds and eligible liabilities that can be converted to equity through the bail-in mechanism.

[3] The requirement includes the combined buffer requirement (CBR) applicable at that date.

– 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 to uphold the case brought against Compass Banca and Futuro by an Italian consumers' association, extending the effects of the Lexitor ruling (on repayment of upfront costs and not just recurring ones) to include all early repayments made by clients before the Bank of Italy's letter to the market on 5 December 2019, ordering the companies to inform their clients of their right to a refund in a timely manner. In pursuance of this ruling, Compass sent a written notice to all of its customers that had accrued the right to receive such refund, and published a separate notice on its own website and in four daily Italian newspapers. The contingent liability arising as a result of this ruling has been estimated at €15m, which amount was set aside to the provision for risks and charges at 31 December 2020; in the six months since then, requests for refunds have remained below €3.5m. On 25 July 2021, Italian Law 106/21 came into force, converting Italian Decree Law 73/21 which provided for amendments to the wording of Article 125-sexies of the Italian Banking Act, and clarified that the effects of the Lexitor ruling apply only to contracts signed before the said law came into force. Accordingly, Compass has written back the €15m provision used as to just €3.5m;

– The Burgo Group debt restructuring plan under Article 67 of the Italian Bankruptcy Law has been completed, with the entry of a new institutional investor (the QuattroR fund) and the refinancing of the entire existing debt, senior and convertible. In view of this, the new position has been given assigned performing status, resulting in the writeback of much of the provision previously set aside to cover the previous exposure classified as UTP, releasing approx. €110m to the profit and loss account. At the same time, the equity instrument (SFP) received in 2015 for a nominal amount of €130m which was written off entirely, has now been recognized at a fair value of €55m (42% of its nominal value);[4]

– An agreement has been signed with the Italian revenue authority for profits deriving from use of the Mediobanca and Compass Banca to be eligible for tax relief (under the so-called "Patent Box" regulations[5]);

[4] Given the nature of this instrument and its classification as equity, the effects of the fair valuation impact only on net equity and are not passed through to profit and loss.

[5] The profit and loss impact of the Patent Box regulation is a non recurring one-off item.

this initiative, which was launched in May 2016, has enabled the current taxation for FY 2020-21 to be reduced by €13.7m in respect of the 2015-20 five-year period (the maximum period allowed by the regulations);

– Realignment of tax and accounting values for the former Banca Esperia brand and goodwill plus two properties, pursuant to Article 110 of Italian Decree Law 104/20, resulting in €6.8m being taken through profit and loss, representing the balance of the provision set aside for the withholding tax to be paid (€4.7m) and the calculation of the tax benefit expected in the coming years (deferred tax of €11.5m);

– The carrying value of Messier et Associés - Groupe Mediobanca has been decreased for €41m (from €134.2m to €93.3m), for taking into account the lower expected profitability after the exit of one of the founding partners, which is anyway offset by the gain arising from the clawback clauses activation and by the 16.7% equity stake purchase at a symbolic price of €1. On 23rd April the entry of Hubert Preschez was announced as new partner who joined the company last July.

The Group has always placed great importance on the environmental, social and governance (ESG) issues, which are seen as crucial to its long-term performance. Central banks are now recommending assessment of risks relating to climate change that could impact on both economic growth and the stability of the financial system as a whole. The European Commission has adopted an ambitious package of measures to encourage the flow of capital towards sustainable activities throughout the European Union. The Mediobanca Group has concentrated its efforts even more intensively in recent years, and has launched an entire programme activities in relation to ESG risk integration, disclosure, financial sustainability of products, and adaptation to the EU Taxonomy. In line with this roadmap undertaken, a new Group ESG Policy has been approved which incorporates detailed sector guidelines. Mediobanca's recent adhesion to the Principles for Responsible Banking, promoted by the United Nations and serving to direct the banking sector towards the Sustainable Development Goals, complements its adherence to the Global Compact and Principles for Responsible Investment,[6] representing further confirmation of the Group's commitment to generating

[6] The Principles for Responsible Banking have been signed by Mediobanca SGR, Cairn Capital and RAM Active Investments.

change at a global level. The Bank's commitment to the environment, in particular, has also been realized through the Group becoming carbon neutral by offsetting its direct CO_2 emissions (Scope 1 and 2).

The focus on inclusion is also shown in the support the Group has expressed to the community and local area in which it operates. In accordance with the roadmap, the Group has supported new initiatives to address the social and economic emergency exacerbated by the ongoing pandemic situation. These include in particular the donations made to *Fondazione Mission Bambini* to support the right to education by providing computer equipment and refurbishing two school buildings; to the *Opera San Francesco per i Poveri* and *Pane Quotidiano*, two charities committed to ensuring that food reaches the members of society most in need in Milan free of charge each day. The Group has also renewed its three-year partnership with the Academy of Woodworking run by *Fondazione Cometa*, which offers employment opportunities to young people in difficult social, economic and personal situations.

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The results of the 2021 EU-Wide Stress Test run by the European Banking Authority (EBA) were published on 30 July 2021. This was the first time the Group has taken part in the process, and the results achieved were impressive: Mediobanca proved to be the most solid Italian bank in the adverse scenario, with a minimum CET1 ratio for the 2021-23 three-year period of 11.49% on a phased-in basis (9.73% fully loaded).

Developments on capital markets

The financial year under review has seen what may be described as an extraordinary performance under the circumstances, driven by huge economic policy measures and the positive effects of the Covid-19 vaccination being rolled out on a global scale.

The crisis situation started to normalize in the second half of 2020, and confidence has increased regarding the possibility of controlling the pandemic, despite a further spike in the number of cases between 3Q and 4Q, due to substantial fiscal policy intervention by the governments of the leading industrial nations in order to restore stability and kick-start growth. As at end-December 2020, these measures were equivalent to 19.2% of GDP for the United States, 6% for China, 10.6% for the European Union, and 44% for Japan. As first the fiscal and monetary policy measures, then the vaccination campaigns progressed, the global economy gradually became more robust, a process which accelerated in the first six months of 2021.

In 2H 2020 the average GDP growth rates reported were 4.8% in the United States, 2.9% in China, 5.9% in the Eurozone, and 4.1% in Japan. In 1H 2021, by contrast, there was a significant slowdown in growth due to the fiscal stimulus measures ending, resulting in a return to more normal growth rates, with average GDP changes of 1.6% estimated for the United States, 0.8% for China, 0.9% for the European Union, and a 0.3% reduction for Japan.

The recovery in terms of economic activity has caused raw material prices to rise, with US oil prices up 87%, copper up 58%, and the industrial raw materials index posting a 45% rise.

As from 1Q 2021, the combined effect of the increase in the price of raw materials, the costs associated with the emergence of bottlenecks in various production processes, plus the fall in prices recorded the previous year, generated increases in inflation in many geographies, due specifically to certain items in the relevant basket. From end-December 2020 to end-June 2021, inflation in the Eurozone rose from -0.3% year-on-year to 1.9%, while in the United States it climbed from 1.4% YoY to 5.4%. There seems to be a widespread conviction among central bankers that inflation is destined to reduce again in due course, but developments are under the closest scrutiny, to avoid having to introduce stricter financial conditions in order to prevent inflation from spiralling out of control.

Against this backdrop, share prices have continued their strongly upward trend which started in 2Q 2020 (in the 12 months to June 2021: S&P500 up 38.6%, MSCI World Index up 37%, Eurostoxx 600 up 25.7%, MSCI Asia Pacific up 31.7%, Nikkei up 29.2%), while credit spreads returned to the low levels they were recording before the outbreak of the pandemic (iTraxx Europe fell from 67 bps to 46 bps, US high-grade CDS from 76 bps to 48 bps), while the absolute interest rate level has increased only moderately (from 0.66% to 1.47% for ten-year Treasury paper, for ten-year *Bund* from -0.45% to -0.21%).

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Turning now to the European economy, in the course of 2H 2020 the economic cycle lost some of the momentum provided by the injection of economic policy measures during 2Q, and a major disparity opened up between the manufacturing and the services sectors. The expansion recorded in services started to weaken in the sector confidence indicators starting from July 2020, before recording contractions in the period from September 2020 to March 2021 following the renewed spike in cases of Covid-19 reported after the summer period (the Euro Area service sector confidence indicator declined from 54.7 in July to 48 in September 2020). Only the rollout of the vaccination campaign enabled the indicator to start rising again, in 2Q 2021 (58.3 in June 2021). By contrast, the confidence indicator for the manufacturing sector, which is less sensitive to pandemic-related flows, was more stable and at all times reflected economic growth. As the service sector's counterparty, it too showed acceleration when the economy opened up and as the vaccination campaign progressed (rising from 51.8 in July 2020 to 63.4 in June 2021).

Growth in GDP reflected a trend not dissimilar to that reported by the services sector, with average growth in 2H 2020 of 5.9% QoQ, impacted strongly by the high growth reported in 3Q, and of 0.9% QoQ in 1H 2021.

These results have been underpinned by government-funded financial commitments, estimated from the start of the crisis to July 2021 to be equivalent to 10.5% of 2020 GDP for the Euro Area, 41.4% for Germany, 24.8% for France, 46.2% for Italy, and 22% for Spain. The impact on the level of public borrowing has obviously been material. For year-end 2020 Eurostat indicates levels of government debt equal to 97.8% of GDP for the Euro Area (100.5% in 1Q 2021), 69.7% for Germany (71.1%), 115.1% for France (118%), 155.8% for Italy (160%), and 119.9% for Spain (125.2%).

To support the national fiscal policy initiatives implemented in the last six months of 2020, the EU governance innovation process launched shortly before the crisis was realized. The principle of common financing being provided conditional upon the beneficiary country implementing economic reforms has been replaced by that of financial subsidiarity between countries. The most innovative aspect introduced is the Next Generation EU, which consists of €360bn in subsidized loans and €390bn in grants to finance national public intervention which is proportionate to the pandemic's economic impact on the various Member States. For the first time wide-ranging fiscal transfers from EU entities to individual countries have been permitted without being conditional upon external factors, but rather on timely execution of the respective Recovery and Resilience Plans (RRP) presented by each national government and approved by the European Commission. To finance the Recovery and Resilience Facilities, a debt issuance programme has been approved, which will be guaranteed jointly by each of the EU Member States.

The ECB too, in pursuing its own policy objective, has provided further impetus for economic activity, by increasing the Pandemic Emergency Purchase Programme (or PEPP) by €500bn to a maximum of €1,850bn, and extending the expiry until not before March 2022 (previously the expiry had been June 2021), and introducing certain measures to make it even cheaper for the banking system to finance companies, through the Targeted Long-Term Refinancing Operations III facility (TLTRO III).

In the course of the year, the economic recovery, the prospect of favourable financing conditions being available over the long term, the base effect on the set of raw materials, and the increase in production costs due to production processes being relocated from low-cost areas, have produced favourable conditions for financial markets and consolidated inflationary pressures. In the twelve months from end-June 2020 to end-June 2021:

– Market inflation expectation rates have increased: 5Y rates by 90 bps, to 1.47%, and 10Y rates by 70 bps, to 1.56%;
– Stock market prices have risen: the Euro Stoxx 600 is up 26%, while the German, French, Italian and Spanish indexes have all risen between 22% and 30%;
– European government spreads have tightened relative to the German curve, reaching levels not far from those seen pre-Covid. The spread on 10Y Italian government bonds has tightened by approx. 70 bps to 100 bps, and the spread on 10Y Spanish paper by approx. 32 bps, to 62 bps;
– High-yield bond prices have risen by some 11%;
– The trade-weighted Euro has remained basically unchanged (after appreciating by approx. 2.6% at year-end 2020), but has risen by some 5.4% relative to the US dollar.

* * *

In line with the European economy, the Italian economy rebounded decisively in 3Q 2020 (up 16% QoQ), on the back of the support policies implemented, plus the natural acceleration of activity during the summer months. The equally natural slowdown during 4Q took the average QoQ growth for the six-month period to 7.1%. As the recovery consolidated during 1H 2021, the average QoQ growth rate returned to 1.5%.

This result has been achieved above all thanks to the acceleration that the new government (inaugurated in mid-February 2021) marked to the vaccination campaign, as well as by the low level of the economic activity (as compared to December 2019) in the domestic area, when compared to the Eurozone.

The prospects for Italian growth continue to be promising. Government action has allowed a plan for use of the European funds distributed as part of the NGEU programme to be put together quickly, which was well received by the European Commission. In the next seven years, the investments will be concentrated in digitalization and technological innovation (approx. 20% of the funds), energy transition (30%), sustainable mobility (13%), research and education (14%), social inclusion (13%), and public healthcare (9%). The first €24.9bn tranche of the facility (out of a total of €191.5bn) was received in mid-August, and will be used to finance one component of growth in particular which is not usually its driver, namely investments. The Bank of Italy's research on companies' prospects has confirmed there has been a marked increase in the expectations of new investments in production, allied with a high degree of confidence that the general conditions of the Italian economy will improve shortly, and of improving prospects in terms of inflation and also the sales prices for their own output.

In Italy, where economic activity is struggling to match pre-Covid levels, inflation is growing more sluggishly than the European average. The average reading in 2H 2020 was -0.3% YoY, compared with -0.2% YoY for the Eurozone, and in 1H 2021 1.0% YoY, against 1.4% YoY for the Eurozone.

On financial markets, Italian stock market prices suffered a sharp correction in October 2020 (in line with European ones), in response to the spread of the Delta variant, which was made up as the launch of the vaccination campaigns approached, and as a reflection of the US reflection results (where the new government promised huge fiscal stimulus measures to support the economy), plus the recovery already underway in China (where growth was being driven by the demand for personal protection equipment from the rest of the world). In the twelve months the FTSE MIB put on 29.6%, compared with 25.7% for the Euro Stoxx 600.

* * *

As for the Italian consumer credit market, the first six months of 2021 show a pronounced, 23% rise in volumes, for total new loans of €35bn, driven largely by the statistical rebound effect due to the low volumes recorded in March-May 2020, when the first total lockdown was in place. The market has not yet, however, fully recovered its pre-crisis levels: comparison with 1H 2019 shows a 11.7% reduction, attributable chiefly to the following segment: personal loans (down 21.1%), credit cards (down 9.6%), and salary-backed finance (down 5.8%).

Looking at the data for individual segments, there were excellent performances in special purpose vehicle credit, up 46.9% on 1H 2020 (and up 5.3% on 1H 2019), followed by other special purpose loans, which reported a 30.1% increase in volumes (basically flat versus 1H 2019). Personal loans were up 31% on 1H 2020, followed by salary-backed finance (up 25.9%), and then instalment/option credit cards (up 10.5%).

	2018		2019		2020		1H 2021	
	(€m)	%	(€m)	%	(€m)	%	(€m)	%
Vehicle credit	5,861	9.8	6,371	9.7	6,664	12.5	4,138	11.8
Personal loans	24,499	41.1	26,123	39.6	17,563	32.9	11,243	32.1
Specific purpose loans	4,778	8.0	5,363	8.1	4,965	9.3	2,620	7.5
Credit cards	19,064	32.0	22,238	33.7	18,624	34.9	13,881	39.6
Salary-backed finance	5,339	9.0	5,801	8.8	5,491	10.3	3,174	9.1
	59,541	100.0	65,896	100.0	53,307	100.0	35,056	100.0

In 2020, the total number of new sales recorded by the Italian real estate sector was 558,000, 7.6% lower than in 2019, but reflecting an upward trend in the second half of the year. This continued into 1Q 2021, when a total of 162,000 house sales were recorded, up 38.6% on the same period in 2020 (when obviously results were hit hard by the effects of the Covid-19 pandemic).

The Italian mortgage lending market was worth a total of €50.5bn in 2020, an increase of 5.2% on 2019 and back to the same levels as in 2018; the positive trend continued into 1Q 2021, with even higher growth of 29%.

As for the Italian leasing market, in 2019 the volumes reported had largely consolidated the previous year's totals, the market worth €27.9bn, down 3.3% on 2018; overall 698,000 new leases were executed, down 1.7% on the previous year. In 2020, however, there was a reduction in the number of leases executed, to 537,000 (down 23.2% on 2019), worth approx. €22.9bn (down 18% on 2019), as a result of the worsening macroeconomic situation due to the Covid-19 pandemic. This trend reversed in the first six months of 2021, with new leases up 48.4% on the same period last year, reaching €14.5bn, and a positive performance in terms of the number of contracts as well, with a total of 334,000 new leases executed (up 39.2% on the same period in 2020).

	2018		2019		2020		1H 2021	
	(€m)	%	(€m)	%	(€m)	%	(€m)	%
Automotive	15,722	52.8	14,132	50.6	11,775	51.4	7,818	53.8
Plant ad equipment	9,426	31.7	9,426	33.7	7,762	33.9	5,057	34.8
Property	4,110	13.8	3,805	13.6	2,720	11.9	1,467	10.1
Shipping	516	1.7	579	2.1	631	2.8	186	1.3
	29,774	100.0	27,942	100.0	22,888	100.0	14,528	100.0

Source: Dataforce data compiled by Assilea.

Consolidated profit-and-loss/balance-sheet data

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

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(€m)

	12 mths ended 30 June 2021	12 mths ended 30 June 2020	Chg. (%)
Profit-and-loss data			
Net interest income	1,415.0	1,442.2	-1.9
Net treasury income	197.0	136.3	44.5
Net fee and commission income	744.7	630.2	18.2
Equity-accounted companies	271.7	304.3	-10.7
Total income	**2,628.4**	**2,513.0**	**4.6**
Labour costs	(635.3)	(599.3)	6.0
Administrative expenses	(602.8)	(589.6)	2.2
Operating costs	**(1,238.1)**	**(1,188.9)**	**4.1**
Loan loss provisions	(248.8)	(374.9)	-33.6
Provisions for other financial assets	48.4	(20.5)	n.m.
Other income (losses)	(85.6)	(133.4)	-35.8
Profit before tax	**1,104.3**	**795.3**	**38.9**
Income tax for the period	(292.3)	(191.1)	53.0
Minority interest	(4.4)	(3.8)	15.8
Net profit	**807.6**	**600.4**	**34.5**
Gross operating profit from banking activities	***850.8***	***640.7***	***32.8***

CONSOLIDATED BALANCE SHEET

	30/6/21	30/6/20
		(€m)
Assets		
Financial assets held for trading	11,273.7	8,818.6
Treasury financial assets and cash	8,072.1	9,257.0
Banking book securities	7,150.4	6,824.5
Customer loans	48,413.8	46,685.1
Equity Investments	4,579.0	4,009.7
Tangible and intangible assets	1,254.3	1,311.8
Other assets	1,855.4	2,043.0
Total assets	**82,598.7**	**78,949.7**
Liabilities and net equity		
Funding	56,156.2	54,917.0
Treasury financial liabilities	2,890.8	3,988.0
Financial liabilities held for trading	10,063.6	7,956.9
Other liabilities	2,215.9	2,190.3
Provisions	171.1	157.4
Net equity	10,205.2	9,048.2
Minority interests	88.3	91.5
Profit for the period	807.6	600.4
Total liabilities and net equity	**82,598.7**	**78,949.7**
Tier 1 capital	*7,689.4*	*7,745.0*
Regulatory capital	*8,919.2*	*9,041.1*
Risk-weighted assets	*47,159.3*	*48,030.5*
Tier 1 capital/risk-weightes assets	*16.31%*	*16.13%*
Regulatory capita/risk-weighted assets	*18.91%*	*18.82%*
No. of shares in issue (million)	*887.3*	*887.2*

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

(€m)

12 mths ended 30/6/21	Wealth Management	Consumer Banking	Corporate and Investment Banking	Principal Investing	Holding Functions	Group
Profit-and-loss						
Net interest income	281.1	878.8	286.9	(7.1)	(47.4)	1,415.0
Net treasury income	10.3	—	93.2	30.7	57.5	197.0
Net fee and commission income	335.9	123.0	318.1	—	11.8	744.7
Equity-accounted companies	—	—	—	271.7	—	271.7
Total income	**627.3**	**1,001.8**	**698.2**	**295.3**	**21.9**	**2,628.4**
Labour costs	(241.0)	(104.2)	(165.4)	(3.6)	(121.1)	(635.3)
Administrative expenses	(230.5)	(210.0)	(141.3)	(1.0)	(39.0)	(602.8)
Operating costs	**(471.5)**	**(314.2)**	**(306.7)**	**(4.6)**	**(160.1)**	**(1,238.1)**
Loan loss provisions	(18.6)	(257.6)	40.1	—	(12.7)	(248.8)
Provisions for other financial assets	1.9	—	2.2	51.8	(7.5)	48.4
Other income (losses)	3.5	(15.2)	0.5	—	(73.5)	(85.6)
Profit before tax	**142.6**	**414.8**	**434.3**	**342.5**	**(231.9)**	**1,104.3**
Income tax for the period	(42.4)	(135.9)	(147.0)	(33.9)	67.5	(292.3)
Minority interest	—	—	(2.8)	—	(1.7)	(4.4)
Net profit	**100.2**	**278.9**	**284.5**	**308.6**	**(166.1)**	**807.6**
Cost/Income (%)	*75.2*	*31.4*	*43.9*	*n.m.*	*n.m.*	*47.1*
Balance-sheet data						
Loans and advances to customers	14,404.5	12,942.9	19,292.3	—	1,774.1	48,413.8
Risk-weighted assets	5,217.0	11,779.2	19,924.8	7,246.0	2,992.3	47,159.3
No. of staff	2,037	1,446	635	11	792	4,921

Notes:
1) Divisions comprise:
- Wealth Management (WM): this division brings together all portfolio management services offered to the various client segments, plus asset management. It includes CheBanca!, which targets the Affluent & Premier client bracket; 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, ranging 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 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, as well as the senior management of Mediobanca S.p.A.; for further details please refer to p. 67.

2) Sum of divisional data differs from Group total due to adjustments/differences arising on consolidation between business areas (equal to €1.5m), bearing in mind that the following items have not been allocated to the divisions: goodwill impairment charges of €62.5m (€41m, referring to the adjustment for Messier et Associés); one-off gains deriving from the "Patent Box" exemption and the former Banca Esperia goodwill tax relief (€20.5m); and the effects of the clawback mechanism applied following the departure of one of the two Messier et Associés equity partners (€41m).

(€m)

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

Balance sheet

The Group's total assets increased by 4.6% from €78.9bn to €82.6bn. The main balance-sheet items, of which Mediobanca S.p.A. contributes 53.4%, showed the following trends for the twelve months under review (comparative data as at 30 June 2020).

Funding — funding rose by 2.3%, from €54.9bn to €56.2bn, impacted strongly by the downward trend in short-term interest rates, which fell approx. 20 bps in the course of the twelve months, making the cost of holding excess liquidity even more expensive. Accordingly, the Group's funding was redirected towards cheaper forms, primarily the T-LTRO programme (which increased from €5.7bn to €7.5bn) in view of the extension of the favourable terms offered (additional premium of 50 bps), followed by customer deposits in the Affluent segment, which rose from €15.3bn to €16.9bn with a view to stabilizing the cost of risk and diversifying funding risk (Wealth Management deposits account for 45% of the total). Conversely, the use of debt securities was more tactical, renewing the amount falling due (approx. €2.7bn) along with the customary net buybacks on the market (approx. €400m), which meant the stock reduced from €18.8bn to €18.4bn. New issuance totalled €2.8bn: highlights included the first senior unsecured green bond (€500m), the Bank's return to the subordinated institutional market (with a Tier 2 €250m bond), and the first Italian covered bond issue at negative interest rates (€750m) with an effective time-to-market. These actions together enabled the cost of funding to remain stable at approx. 80 bps despite the unfavourable market trend.

	30/6/21		30/6/20		Chg.
	(€m)	%	(€m)	%	
Debt securities (incl. ABS)	18,410.9	33%	18,751.0	34%	-1.8%
CheBanca! retail funding	16,919.7	30%	15,276.7	28%	10.8%
Private Banking deposits	8,290.4	15%	8,530.7	16%	-2.8%
LTRO	7,445.4	13%	5,660.8	10%	31.5%
Interbank funding (+CD/CP)	5,089.8	9%	6,697.8	12%	-24.0%
Total funding	**56,156.2**	**100%**	**54,917.0**	**100%**	**2.3%**

Loans and advances to customers – customer loans were up 3.7%, from €46.7bn to €48.4bn, due to growth in Wealth Management (up 9.3%, from €13.2bn to €14.4bn), driven in particular by CheBanca! mortgages (which rose 8.1%, from €10.2bn to €11.1bn), reflecting a resilient domestic market; while the contribution from CMB Monaco also improved further (up 15.9%, from €1.8bn to €2.1bn). Higher customer loans in Corporate and Investment Banking (up 3.5%, from €18.6bn to €19.3bn) were attributable exclusively to Specialty Finance (up from €2.1bn to €2.7bn), the factoring segment in particular; while Large Corporate loans were virtually unchanged, at €16.6bn (€16.5bn), despite higher prepayments and some the booking of some big tickets being deferred to the next financial year. Leveraged finance exposures decreased by 12%, from €5.5bn to €4.8bn, and account for less than 30% of the total Corporate loan book; while in Consumer Banking, the slight reduction recorded in previous quarters continued, with customer loans for the year totalling €12.9bn (€13bn), despite reducing in the final months.

In Wholesale Banking (Lending and Structured Finance) there were substantial repayments of €7.7bn (€2.4bn of which early repayments), against new loans of €6.8bn (up 15% on last year), despite the strong competition triggered by the negative market rates and the ample liquidity generated by the ECB programmes. Turnover in factoring was up 23%, from €7.4bn to €9.1bn. New loans in Consumer Banking also returned to growth, rising from €6.4bn to €6.5bn, still a long way from pre-Covid levels (30/6/19: €7.4bn), even though the 4Q performance (€1.8bn) augurs well for the future; and new loans in mortgage lending were by contrast aligned with pre-Covid levels (stable at €2.2bn).

	30/6/21		30/6/20		Chg.
	(€m)	%	(€m)	%	
Corporate & Investment Banking	19,292.3	40%	18,644.2	40%	3.5%
Consumer loans	12,942.9	26%	13,037.4	28%	-0.7%
Wealth Management	14,404.5	30%	13,183.6	28%	9.3%
Holding Functions (leasing)	1,774.1	4%	1,819.9	4%	-2.5%
Total loans and advances to customers	**48,413.8**	**100%**	**46,685.1**	**100%**	**3.7%**

(€m)

	30/6/21				30/6/20			
	Stage1	Stage2	Stage3	Total	Stage1	Stage2	Stage3	Total
Corporate & Investment Banking	18,173.8	631.0	487.5	19,292.3	17,229.8	739.4	675.0	18,644.2
Consumer Banking	11,240.2	1,467.3	235.4	12,942.9	11,282.9	1,430.3	324.2	13,037.4
Wealth Management	13,328.1	960.1	116.3	14,404.5	12,328.9	740.0	114.7	13,183.6
Holding Functions (leasing)	1,331.7	337.7	104.7	1,774.1	1,579.0	122.0	118.9	1,819.9
Total loans and advances to customers	**44,073.8**	**3,396.1**	**943.9**	**48,413.8**	**42,420.6**	**3,031.7**	**1,232.8**	**46,685.1**
As % of total	91.0%	7.0%	1.9%	100.0%	90.9%	6.5%	2.6%	100.0%
Total loans and advances to customers*	**44,073.8**	**3,396.1**	**560.2**	**48,030.1**	**42,420.6**	**3,031.7**	**874.2**	**46,326.5**
As % of total	91.8%	7.1%	1.2%	100.0%	91.6%	6.5%	1.9%	100.0%

* Excluding NPLs purchased by MBCredit Solutions.

	30/6/21			30/6/20		
	Gross	**Net**	**Coverage ratio %**	**Gross**	**Net**	**Coverage ratio %**
Corporate Investment Banking	225.0	103.8	53.9%	541.6	316.4	41.6%
Consumer Banking	971.5	235.4	75.8%	1,015.7	324.2	68.1%
Wealth Management	226.1	116.3	48.6%	211.9	114.7	45.9%
Holding Functions (leasing)	174.5	104.7	40.0%	185.0	118.9	35.8%
Total net non-performing loans*	**1,597.1**	**560.2**	**64.9%**	**1,954.2**	**874.2**	**55.3%**
– of which: bad loans	*510.1*	*72.0*		*425.6*	*78.4*	
As % of total loans and advances	**3.2%**	**1.2%**		**4.1%**	**1.9%**	

* Excluding NPLs purchased by MBCredit Solutions.

Gross non-performing loans decreased from €1,954.2 to €1,597.1m, and represent 3.2% of the total loan book, an all-time low level. The material reduction compared to last year (4.1%)[7] reflects the Group's highest non-performing exposure (Burgo) returning to performing status, which takes corporate NPLs to just 1.2% of total loans, and the reduction in non-performing items in Consumer Banking (from €1,015.7m to €971.5m, equal to 6.86% of total loans), helped by disposals and the widespread improvement in risk profile (with reclassifications to default status also at all-time lows).

The reduction in net NPLs is even more pronounced, down from €874.2m to €560.2m, just 1.2% of total loans), due to an increase in the coverage ratio (from 55.3% to 64.9%) in order to address the future uncertainties given that the level of litigation is still low (net bad debts in particular continue to reflect very low levels, at €72m, just over 0.15% of the total loan book). Non-performing loans do not include the NPLs acquired by MBCredit Solutions as part of its business, which increased in the twelve months from €358.6m to €383.7m following new investments totalling approx. €78.2m (worth a nominal €700.8m).

The reclassification of non-performing loans takes account of the ECB recommendations on the treatment for credit risk,[8] an area which is subject to close scrutiny by the supervisor. The performing portfolio has therefore been subject to careful analysis, and borrowers who have applied for waivers or obtained moratoria in particular have been analysed to assess whether or not there has been a significant increase in credit risk (SICR), based *inter alia* on qualitative considerations. At the year-end, positions classified in Stage2 amounted to €3,396.1m (7% of the total net loan book, which is low compared to the Italian and European averages[9]), higher than

[7] The Finrep gross NPL ratio (calculated without acquired NPLs) decreased during the twelve months from 3.4% to 2.8%; for further details please see Part E of the Notes to the Accounts.

[8] 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.

[9] Sources: EBA Risk Dashboard for 1Q 2021, *Risk Indicators in the Statistical Annex* (AQT_66: coverage ratio of Stage2 loans and advances at amortized cost). The national average of Stage2 loans as a percentage of total loans and advances for the sample of Italian banks chosen by the EBA was 13.3% in 1Q 2021 (source: EBA *Risk Dashboard*); this falls to 9% for European banks.

last year (€3,031.7m) due to reclassifications made for 4Q in Consumer Banking (over €200m, in conjunction with the introduction of more sensitive IFRS9 models in view of the transition to AIRB) and leasing (€144m, for exposures granted extensions under the terms of the "*Sostegni-Bis*" decree law).

(€m)

Moratoria (Gross book value)	**Granted until 30/6/21**[1]	**Expired**[2]	**Residual until 30/6/21**	**% Loans and advances to customers**[3]	**of which Stage1**
Corporate and Investment Banking	5.5	0.7	4.8	—	4.5
Consumer Banking	1,149.9	1,071.3	78.6	0.6%	3.1
Wealth Management	653.8	442.4	211.5	1.5%	20.0
Leasing (holding function)	698.3	271.6	426.6	22.9%	115.8
Total Moratoria for Covid-19	**2,507.4**	**1,786.0**	**721.4**	**1.4%**	**143.4**
- of which Decreto *Cura Italia*	45.1%		78.8%		
- of which industry-wide initiatives	31.8%		6.9%		
- of which individual initiative[4]	23.1%		14.2%		

[1] Gross book value net of amounts collected and repayments as at 30 June 2021.

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

[3] Covid-related moratoria outstanding as a percentage of gross customer loans at 30 June 2021.

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

As at 30 June 2021, moratoria outstanding[10] involved loans in a total amount of approx. €721.4m (or 1.4% of the total loan book), representing approx. 30% of the total amount granted during the pandemic (€2.5bn). The remainder is concentrated in leasing (approx. 60%) and mortgage lending (approx. 29%), while the amount in Consumer Banking is purely residual (at just under €80m), as follows:[11]

– Moratoria granted in leasing amounted to just under €700m, more than 85% of which under the terms of the "*Cura Italia*" decree; of these, €427m were still outstanding at 30 June 2021, but approx. 40% (€157m) have not applied for extensions and so have resumed the original schedule for concluding the moratoria process as from the month of July, while the remainder have given notice of their intention to take up the extension offered by law until 31 December 2021. Out of the moratoria that have so far expired, 89% have resumed making regular repayments, 2% have applied for further extensions, while the other 9%[12] are past due. The share classified as Stage2 has increased to €287m, as it now includes all exposures for which extensions have been granted, while the share classified as non-performing is minor (€23.6m). The exposures include interest accrued but not collected in an amount of approx. €12.6m; collection is anticipated to resume during July, including for those customers that have asked for extensions;

[10] As well as adhering to the moratoria initiatives provided under the terms of the "*Cura Italia*", "*Liquidità*", and "*Sostegni-bis*" 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, based on the conviction that it is of fundamental importance to provide its clients with assistance in these challenging times.

[11] Gross figures.

[1]) Net of positions already classified as non-performing when the moratoria were granted, the percentage of non-performing exposures past due reduces from 9% to just 1%.

- Moratoria granted for mortgages totalled €652.9m, of which €210.6m (or 1.9% of total loans) are still outstanding, after approx. 70% (€442.4m) were paid off. Of the moratoria that have so far expired, approx. 80% have resumed making regular repayments, 18% have applied for further extensions, while the other 2% are past due. The share classified as Stage2 has increased to €168.7m, and now represents approx. 80% of the total, in addition to the share already reclassified as non-performing (11%, or €22.7m). Interest accrued but pending collection at the end of the moratorium period totalled €7.2m;
- The moratoria programme in Consumer Banking came to an end on 31 March 2021: €78.6m are still outstanding (just under 7% of the total), versus a total amount granted of €1.3bn; of the share that has expired, approx. 80% resumed making regular repayments immediately; while of the current stock, approx. 90% has been classified as Stage2;
- Corporate Banking was unaffected by moratoria (the only item of relevance being approx. €5m in factoring), but around forty applications for waivers have been received, chiefly for covenants to be revised; requests for repayments (of principal and/or interest) to be deferred are marginal, at less than €15m, and of these, since the start of the pandemic, just three applications have qualified as forbearance measures. Nonetheless, certain positions have been reclassified as Stage2 on prudential grounds (as at 30 June 2021 these represented approx. one-quarter of the applications, for a total balance-sheet exposure of €373m, or 2.2% of the total performing loan book).

It should also be noted, lastly, that at 30 June 2021 Mediobanca S.p.A. had a total of seven positions outstanding with SACE coverage under the terms of the "Liquidità" decree law, involving a total exposure of €203m.

Investment holdings[13] – these increased, from €4bn to €4.6bn, €3.7bn consisting of the investment in Assicurazioni Generali. The remainder consists of holdings in funds as to €655.7m, almost 70% of which invested in the Group's asset management activities (seed capital), while €220.5m is invested in listed and unlisted equities, recognized at fair value but through other comprehensive income.

The book value of the Group's investment in Assicurazioni Generali (equal to 12.9% of the company's share capital) increased from €3,163.4m to €3,663.1m, following profit for the period totalling €273.4m (€103.2m of which in 1Q FY 2021), and an increase in the valuation reserve (up €431.2m, approx.

[13] This heading brings together investments covered by IAS28, investments measured at fair value through other comprehensive income (formerly AFS), and funds (including seed capital) recognized at fair value through profit and loss.

60% of which was attributable to the fixed-income component due to the trend in interest rates and spreads on government securities), impacted only in part by the dividend collected (€204m).

The Group's investment in IEO (25.4%) shows a reduction in book value from €41.3m to €39.7m, due to the company's shrinking profits (a pro rata loss of €1.7m for the year was recorded), reflecting the impact of the Covid-19 emergency for the whole twelve months.

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 IAS28 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. As at 30 June 2021, the fair value of the equity instruments, which to that point had been written off on prudential grounds, as a result of the changes to the company which resulted in the exposure regaining performing status, was measured at €55m, approx. 42% of their nominal value (€130m).

Investments in seed capital grew from €435.7m to €442.1m, following disposals of €42m, and reflecting valuations and gains on disposals totalling €48.1m, far higher than the entry levels; other holdings in funds (mostly private equity) decreased from €227.7m to €213.6m on net redemptions totalling €20.6m and gains arising on valuations totalling €5.9m.

Investments equities, excluding the Burgo equity instruments referred to earlier, increased from €141.6m to €165.4m as a result of new acquisitions totalling €10m (mostly new purchases, plus the addition of ordinary shares following the exercise of warrants and preference shares in relation to carried interest) and upward valuations amounting to €13.2m.

(€m)

	30/6/21		30/6/20	
	Book value	HTC&S reserve	Book value	HTC&S reserve
IAS28 investments	3,702.8	n.a.	3,204.7	n.a.
Listed shares	130.2	71.9	112.5	65.6
Other unlisted shares	90.3	63.4	29.1	5.3
Seed capital	442.1	—	435.7	—
Private equity	82.2	—	70.6	—
Other funds	131.4	—	157.1	—
Total equity holdings	**4,579.0**	**135.3**	**4,009.7**	**70.9**

The Group's investment in Assicurazioni Generali at 30 July 2021 had a stock market value of €3,426.9m, up sharply on last year, but still below its book value; the investment passed the impairment test, as the value in use, calculated in accordance with Group policy, was higher than its current book value. Based on current stock market prices, the investment is worth €3,622.5m.

For further details please see the Notes to the Accounts, Assets, section 7 – Equity investments.

(€m)

	% ownership	30/6/21	30/6/20
Assicurazioni Generali	12.87	3,663.1	3,163.4
Istituto Europeo di Oncologia	25.37	39.7	41.3
Total IAS28 investments		**3,702.8**	**3,204.7**

Banking book debt securities – Banking book debt securities rose from €6.8bn to €7.1bn, due to higher investments in the Hold to Collect & Sell segment (which total €4.3bn, representing 60% of the total portfolio), against non-renewals of securities classified as Hold to Collect (fixed assets). During the twelve months there were purchases of €4.2bn (half of which in Italian government securities classified as Hold To Collect & Sell), offsetting disposals worth €2.2bn and redemptions totalling €1.8bn (roughly half of which in the HTC portfolio). In the period under review gains totalling €49.1m were realized, with no impact on the OCI reserve, which increased from €13.1m to €73m, the increase reflecting the sharp narrowing of spreads on Italian government securities in particular.

	30/6/21		30/6/20	
	(€m)	%	(€m)	%
Hold to Collect	2,723.8	38%	3,285.4	48%
Hold to Collect & Sell	4,346.9	61%	3,485.9	51%
Other (Mandatorily measured at FV)	79.7	1%	53.2	1%
Total banking book securities	**7,150.4**	**100%**	**6,824.5**	**100%**

The sovereign portfolio grew from €4.7bn to €5.4bn, 65% of which Italian (€3.5bn, with a duration of 3.3 years), and just under 30% in other core European issuers (*Bund*, OAT and *Bonos*) to support the liquidity buffer, which overall rose to €5.5bn, including approx. €100m in bonds issued by financials. Unrealized gains on the Hold to Collect securities (which are recognized at cost) totalled €94m (€106m).

	30/6/21			30/6/20		
	Book value		OCI reserve	Book value		OCI reserve
	HTC	HTC&S		HTC	HTC&S	
Italian government bonds	1,272.4	2,229.3	41.6	1,512.5	1,740.0	2.6
Foreign government bonds	506.9	1,366.5	-1.3	621.9	873.7	-0.4
Bond issued by financial institutions	570.2	468.6	20.5	687.8	613.2	8.3
Corporate bonds	144.4	282.5	12.2	261.8	259.0	2.6
Asset Backet Securities (ABS)	229.9	—	—	201.2	—	—
Total banking book securities	**2,723.8**	**4,346.9**	**73.0**	**3,285.2**	**3,485.9**	**13.1**

Net treasury assets – the increase in net treasury assets, from €6.1bn to €6.4bn, was minor and limited to movements in instruments held for trading (which increased from €0.9bn to €1.2bn), including equities (€2.3bn) and bonds (€939.4m), and offset the certificates issued (€1.9bn) and hedging of the underlying risks. More efficient liquidity management led to a reduction in deposits held with the ECB (from €3.1bn to €1.8bn) and other liquid assets (from €2.1bn to €1.9bn) in favour of more dynamic treasury assets (such as time deposits, repos, trade secured/unsecured) in an attempt to preserve indicators such as the LCR and Asset Encumbrance Ratio, while minimizing the impact of temporary excess liquidity on earnings.

(€m)

	30/6/21	30/6/20	(€m)
Financial assets held for trading	11,273.7	8,818.6	27.8%
Treasury financial assets and cash	8,072.1	9,257.0	-12.8%
Financial liabilities held for trading	(10,063.6)	(7,956.9)	26.5%
Treasury financial liabilities	(2,890.8)	(3,988.0)	-27.5%
Net treasury assets	**6,391.4**	**6,130.7**	**4.3%**

(€m)

	30/6/21	30/6/20	Chg.
Equities	2,263.8	1,807.2	25.3%
Bond securities	939.4	564.8	66.3%
Derivative contract valuations	(107.8)	(145.4)	-25.9%
Certificates	(1,889.3)	(1,368.9)	38.0%
Trading loans	4.0	3.9	2.6%
Financial instruments held for trading	**1,210.1**	**861.6**	**40.5%**

(€m)

	30/6/21	30/6/20	Chg.
Cash and current accounts	1,851.4	2,073.7	-10.7%
Cash available at BCE	1,845.2	3,101.4	-40.5%
Deposits	1,484.7	94.0	n.m.
Net treasury	**5,181.3**	**5,269.1**	**-1.7%**

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(€m)

	30/6/21		30/6/20	
	Assets	Liabilities	Assets	Liabilities
Italian government bonds	1,758.3	(1,741.4)	1,274.8	(1,109.3)
Foreign government bonds	1,120.0	(2,059.3)	606.2	(1,828.4)
Bond issued by financial institutions	1,196.4	—	1,258.6	—
Corporate bonds	537.5	(0.9)	333.9	—
Asset Backet Securities (ABS)	128.8	—	29.0	—
Equities	2,524.5	(260.7)	2,032.2	(225.0)
Total securities	**7,265.5**	**(4,062.3)**	**5,534.7**	**(3,162.7)**

(€m)

	30/6/21		30/6/20	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	541.5	(478.3)	696.9	(587.7)
Foreign exchange	214.6	(296.0)	217.5	(256.0)
Interest rate options/futures	5.5	(20.1)	43.6	(10.5)
Equity swaps e options	2,922.9	(2,961.8)	2,134.7	(2,325.0)
Credit derivatives (others)	319.9	(355.8)	187.2	(246.1)
Derivative contract valuations	**4,004.3**	**(4,112.0)**	**3,279.9**	**(3,425.3)**

(€m)

	30/6/21		30/6/20	
	Assets	Liabilities	Assets	Liabilities
Securities lending/repos deposits	3,009.5	(1,548.9)	3,134.7	(2,596.1)
Stock lending deposits	407.1	(449.5)	324.4	(318.7)
Other deposits	962.1	(895.6)	626.0	(1,076.3)
Deposits	**4,378.7**	**(2,894.0)**	**4,085.1**	**(3,991.1)**

Tangible and intangible assets – these decreased from €1,311.8bn to €1,254.3m, following changes in goodwill (due to impairment and other adjustments), which reduced the stock of intangibles from €816.1m to €744.1m. Conversely, tangible assets increased, from €495.7m to €510.2m, due to new leases being taken out pursuant to IFRS16, and reflecting the capitalization of costs on improvements to third-party assets. As previously mentioned, at end-June 2021 the goodwill on the Group's investment in RAM was reduced, resulting in a charge of €18.6m being taken to profit and loss, due to the company's failure to meet its budget objectives because of the sharp drop in AUM, which have reduced even further than last year. In addition, there was a €2.9m adjustment to the fiduciary services cash-generating unit (CGU), and the goodwill on the Messier et Associés acquisition was also reduced to compensate for the effects of the clawback mechanism on the stake owned by Erik Maris following his departure. The goodwill and software related to the Services for Issuers CGU (i.e. Spafid Connect) were also reclassified as other assets (IFRS5) for €4.2m.

Depreciation and amortization charges for the twelve months amounted to €85.8m (€83.8m), €37.8m of which by way of value in use under IFRS16 (€38.6m), €15.6m of which for tangible assets (€15m), and €32.4m for intangible assets (€30.2m).

As required by IAS36[14] and the Group Policy, the annual impairment test has been carried out; for further details, please refer to Section 10 of the Notes to the Accounts.

	30/6/21		30/6/20		Chg.
	(€m)	%	(€m)	%	
Land and properties	459.8	37%	447.8	34%	2.7%
- of which: core	*176.7*	*14%*	*179.8*	*14%*	*-1.7%*
buildings RoU ex IFRS16	*212.4*	*17%*	*196.1*	*15%*	*8.3%*
Other tangible assets	50.4	4%	47.9	4%	5.2%
- of which: RoU ex IFRS16	*10.3*	*1%*	*11.8*	*1%*	*-12.7%*
Goodwill	602.4	48%	666.5	51%	-9.6%
Other intangible assets	141.7	11%	149.6	11%	-5.3%
Total tangible and intangible assets	**1,254.3**	**100%**	**1,311.8**	**100%**	**-4.4%**

(€m)

Transaction	30/6/21	30/6/20
Compass-Linea	365.9	365.9
Spafid	3.7	9.0
Cairn Capital	43.3	40.7
MB Private Banking	52.1	52.1
RAM	44.2	64.6
Messier et Associés	93.2	134.2
Total Goodwill	**602.4**	**666.5**

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

	Squ. M	Book value (€m)	Book value per squ. m (€k)
Milan:			
– Piazzetta Enrico Cuccia n. 1	9,318	14.4	1.5
– Via Filodrammatici n. 1, 3, 5, 7 - Piazzetta Bossi n. 1 - Piazza Paolo Ferrari n. 6	13,390	62.7	4.7
– Foro Buonaparte n. 10	2,926	9.1	3.1
– Via Siusi n. 1-7	22,608	24.2	1.1
Rome *	1,790	7.9	4.4
Vicenza	4,239	4.7	1.1
Luxembourg	442	3.6	8.1
Monaco	4,721	48.7	10.3
Other minor properties	3,637	1.3	0.4
Total	**63,071**	**176.6**	

* The Piazza di Spagna property, carried at a book value of €24.2m, is used only in part by Mediobanca, and has therefore not been included among the core assets.

[14] Having regard also to both the ESMA and Consob regulations.

Investment properties were worth €62.9m (30/6/20: €64.3m) following depreciation charges of €1.9m, while "Tangible asset inventories" (in accordance with IAS2) totalled €8m and include assets collected under leasing agreements.

Provisions – these increased from €157.4m to €171.1m, due to higher provisions being set aside to meet commitments and guarantees (which nearly doubled, from €14m to €27.2m) as a result of applying the IFRS9 provisioning models. The staff severance and post-retirement provisions were basically unchanged, at €30.4m (€28.3m), against a slight increase in provisions for risks and charges (up from €113m to €115.6m). Of the latter, there were higher provisions by Compass (up from €5.2m to €17.5m) to cover the potential liability versus Consumer Banking clients following the Lexitor ruling (out of €15m set aside to this end, a total of €3.5m has been drawn); the remaining €98.1m is split between Mediobanca (€68.9m), CheBanca! (€15.3m), SelmaBipiemme (€9.2m) and CMB Monaco (€1.2m).

	30/6/21		30/6/20		Chg.
	(€m)	%	(€m)	%	
Commitments and financial guarantees given	27.2	16	14.0	9	n.m.
Provisions for risks and charges	115.6	67	113.0	72	2.3%
Staff severance indemnity provision	28.3	17	30.4	19	-6.9%
of which: staff severance provision discount	*4.1*	—	*4.4*	—	*-6.8%*
Total provision	**171.1**	**100**	**157.4**	**100**	**8.7%**

Net equity – net equity climbed from €9,648.6m to €11,012.8m, reflecting the profit for the year (€807.6m), and also the higher valuation reserves (which rose from €374.7m to €931.2m) due to the increased contribution from Assicurazioni Generali (equity method; up from €341.7m to €780.4m) financial assets recognized at fair value through OCI (up from €71.5m to €175.8m), plus the reduced liability run on the cash flow hedge reserves (which virtually halved, from €30.6m to €16m). The higher capitalization level also reflects the non-payment of a dividend in 2020, with the entire profit for the period (€600.4m) being taken to other reserves.

The Bank owns a total of 24.9 million treasury shares (2.81% of the company's share capital), slightly lower than last year (26.6 million, or 3% of the share capital), after 1.7 million treasury shares were used in connection with the performance share scheme.

(€m)

	30/6/21	30/6/20	Chg.
Share capital	443.6	443.6	n.m.
Other reserves	8,830.4	8,229.9	7.3%
Valuation reserves	931.2	374.7	n.m.
- of which: Other Comprehensive Income	*175.8*	*71.5*	n.m.
cash flow hedge	*(16.0)*	*(30.6)*	*-47.7%*
equity investments	*780.4*	*341.7*	*n.m.*
Profit for the period	807.6	600.4	34.5%
Total Group net equity	**11,012.8**	**9,648.6**	**14.1%**

The Group's OCI reserve was in positive territory, at €175.8m, after the tax effect of €32.6m, split between equities (€135.4m) and bonds and other debt securities (€73m), including Italian sovereign debt securities of €41.6m.

(€m)

	30/6/21	30/6/20	Chg.
Equity shares*	135.4	67.8	n.m.
Bonds	73.0	13.1	n.m.
of which: Italian government bonds	*41.6*	*2.6*	*n.m.*
Tax effect	(32.6)	(9.4)	n.m.
Total OCI reserve	**175.8**	**71.5**	**n.m.**

* Includes the Burgo equity instruments for a total of €55m.

Profit and loss account

Net interest income – net interest income reflected a slight 1.9% decrease, from €1,442.2m to €1,415m, as a result of the ongoing, quarter-by-quarter reduction; following years of growth, NII in Consumer Banking (which declined by 7.3%, from €948m to €878.8m) was hit by the Covid-related effect not only in terms of the lower volumes of new loans (in part made up in the final months of the financial year), but also the reduced profitability (down 40 bps), in part the result of the different product mix, but more so the reduction in spreads due to the competitive scenario and the reduction in demand. Meanwhile, the other divisions' performances mitigated the overall impact, as follows: Corporate and Investment Banking (up 5,7%, from €271.4m to €286.9m), Wealth Management (up 3.7%, from €271m to €281.1m) and Holding Functions (net interest expense down from €55m to €47.4m). In particular, the performance in Corporate and Investment Banking was boosted, in addition to certain non-recurring items, by increased activities in securities, plus higher turnover in Specialty Finance; NII in Wealth Management reflects the trend in CheBanca! deposits, towards lower end costs; while the reduction in the net interest expense incurred by the Holding Functions reflects the increased recourse to the T-LTRO facilities, and careful management of the abundant liquidity position. Overall the cost of funding (calculated as the difference versus Euribor) was unchanged at 80 bps despite the further reduction in market rates (approx. 20 bps) and a highly volatile market at the short end of the curve.

(€m)

	12 mths ended 30/6/21	12 mths ended 30/6/20	Chg.
Consumer Banking	878.8	948.0	-7.3%
Wealth Management	281.1	271.0	3.7%
Corporate and Investment Banking	286.9	271.4	5.7%
Holding Functions and other (including IC)	(31.8)	(48.2)	-34.0%
Net interest income	**1,415.0**	**1,442.2**	**-1.9%**

Net treasury income – net treasury income returned to 2019 levels, at €197m, following last year's sharp reduction (down 31%, to €136.3m), following a good performance by the proprietary book (trading and banking), plus income from shares and funds held as part of the banking book. In particular, the Holding Functions division delivered a profit of €57.5m, with the banking book contributing €47.9m after certain gains were realized on material appreciation by the OCI valuation reserve (the balance of which was €73m, of which €41.6m involving Italian securities); proprietary trading contributed €37.4m, comfortably recovering the €7.7m loss reported last year; dividends and other income collected from the Principal Investing stakes doubled, from €15.6m to €30.7m, helped by certain non-recurring items (one-off dividends in respect of the Burgo investment, plus gains on the Jakala and Philogen investments). Conversely, client activity slowed further, with income down from €85.6m to €60.6m, almost half the amount reported in 2019, due to the difficulties in distributing structured products which hit the fixed-income segment hardest all (which last year performed well).

(€m)

	12 mths ended 30/6/21	12 mths ended 30/6/20	Chg.
Corporate Investment Banking	93.2	77.9	19.6%
of which: client fixed income	34.4	64.3	-46.5%
Principal Investing	30.7	15.6	n.m.
Holding Functions	57.5	37.5	53.3%
Other (including Intercompany)	15.6	5.3	n.m.
Net treasury income	**197.0**	**136.3**	**44.5%**

Net fee and commission income – fee income grew from €630.2m to €744.7m (up 18.2%), driven by impressive performances in Corporate and Investment Banking and Wealth Management, which recorded the highest levels seen in recent years. Fees earned from CIB were up 40.9% (from €225.8m to €318.1m), on outstanding performances in Equity Capital Market (fees of €42m, vs €5.2m), with Mediobanca participating in all the main deals; while fees from Corporate Finance rose by 13.4% (from €112.4m to €127.5m), driven not just by certain big M&A tickets (PSA – FCA, Veolia, and Intesa/UBI), but also strong growth in Mid Corporate business (fees up from €12.5m to €19.3m), on the back of close co-operation with Mediobanca Private Banking. Fee income from Specialty Finance also climbed 39% (from €34.6m to €48.1m), on good performances in both factoring (up 55%) and credit management (up 33%). Growth in AUM/AUA (up 16%) and margins (from 84 bps to 87 bps) drove fees earned in the Affluent segment up 24.2% (from €101.9m to €126.6m) and in Private Banking (up 14.1% from €124.1m to €141.6m), both contributing to the strong performance from Wealth Management (fees up 9.7%, from €306.1m to €335.9m). Fees earned from Consumer Banking were basically flat, at €123m, the lower contribution from insurance-based products (down from €61m to €49m) offset by the reduced impact of rappel fees (down from €32m to €21m, in 1H in particular).

(€m)

	12 mths ended 30/6/21	12 mths ended 30/6/20	Chg.
Wealth Management	335.9	306.1	9.7%
Corporate & Investment Banking	318.1	225.8	40.9%
Consumer Banking	123.0	122.6	0.3%
Holding Functions and other (including intercompany)	(32.3)	(24.3)	32.9%
Net fee and commission income	**744.7**	**630.2**	**18.2%**

Equity-accounted companies – the reduced contribution from Assicurazioni Generali recorded in 1H was reflected in the full-year result of €273.4m (€304.7m), and impacted on the performance for this item as a whole (which accordingly reduced from €304.3m to €271.7m), reflecting also the net loss incurred by the IEO (€1.7m), which was unable to perform its specialized activities as normal due to the ongoing healthcare crisis.

Operating costs – these were up 4.1%, from €1,188.9m to €1,238.1m, as a result of investments resuming in 2H, and compared with figures for last year which reflected the cost containment measures adopted in the spring months of 2020. The main cost components performed as follows:

– Labour costs of €635.3m (€599.3m) reflect enhancement of the commercial network, plus the increase in the variable remuneration component in line with the excellent results delivered; the increase was generalized across all business lines, in view of the sharp reductions seen last year as a result of the sudden onset of the pandemic; labour costs in Corporate and Investment Banking rose by 17.3% (from €141m to €165.4m), returning to 2019 levels after the stringent cuts made to the variable component in investment banking last year; while labour costs in Wealth Management rose by 1.9%, (from €236.5m to €241m), with growing contributions in Private Banking (up 2.7%, from €75.7m to €77.7m) and the Affluent segment (up 5.5%, from €115.7m to €122.1m), the figures affected by the new recruits in this segment;

– Administrative expenses were more or less stable, at €602.8m (€589.6m): the increase involved IT costs (up 7.8%, from €132.3m to €142.6m), and marketing and communication expenses (up 6.5%, from €37.2m to €39.6m) related to the CheBanca! and Compass adverts and the CMB Monaco rebranding, which were mostly offset by the strong reduction in travel and entertainment expenses; overall, administrative expenses in Consumer Banking increased from €201.2m to €210m, in Wealth Management from €214.3m to €230.5m (concentrated in the Affluent segment; up from €134.1m to €145.7m); while the increase in Corporate and Investment Banking was more contained (up from €135.2m to €141.3m) and was attributable to the resumption of project activities and to the higher credit recovery expenses incurred in credit management (up from €15.4m to €19.8m).

(€m)

	12 mths ended 30/6/21	12 mths ended 30/6/20	Chg.
Labour costs	635.3	599.3	6.0%
of which: directors	*7.5*	*10.7*	*-29.9%*
stock option and performance share schemes	*14.4*	*12.6*	*14.3%*
Sundry operating costs and expenses	602.8	589.6	2.2%
of which: depreciations and amortizations (incl. IFRS16)	*85.8*	*83.8*	*2.4%*
administrative expenses	*517.0*	*505.8*	*2.2%*
Operating costs	**1,238.1**	**1,188.9**	**4.1%**

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(€m)

	12 mths ended 30/6/21	12 mths ended 30/6/20	Chg.
Legal, tax and professional services	12.6	10.3	22.3%
Other consultancy expenses	33.8	35.1	-3.7%
Credit recovery activities	60.4	57.2	5.6%
Marketing and communication	39.6	37.2	6.5%
Rent and property maintenance	20.8	21.4	-2.8%
EDP	142.6	132.3	7.8%
Financial information subscriptions	44.4	44.7	-0.7%
Bank services, collection and payment commissions	24.4	24.2	0.8%
Operating expenses	64.2	65.0	-1.2%
Other labour costs *	4.7	14.7	-68.0%
Other costs	42.5	36.8	15.5%
Direct and indirect taxes	27.0	26.9	0.4%
Total administrative expenses	**517.0**	**505.8**	**2.2%**

* This heading includes travel and conference expenses.

Loan loss provisions – the sharp reduction in provisioning, from €374.9m to €248.8m, reflects improvement in the cost of risk, from 82 bps to 52 bps (aligned to 2019 levels), but at the same time conceals the prudential classification and provisioning measures implemented at end-December 2020, in full compliance with the ECB recommendations, and continued in the year-end accounts, to mitigate the release of funds in connection with the new, improved macro scenario. The main drivers in keeping down loan loss provisions were: the writebacks to the Large Corporate portfolio (the Burgo investment in particular; €110m), the good performance in terms of moratoria being paid off; and improvement across the board in all risk indicators (writeoffs in Consumer Banking; regularity in mortgage repayments; refinancing and/or capital strengthening by Large Corporate clients even in the sectors hardest hit), which all limited the numbers of reclassifications and downgrades. In accordance with the prudent approach that has distinguished Mediobanca through the years, it was decided not to recycle the effects of adapting the macroeconomic scenario in the IFRS9 models through the profit and loss account, increasing the overlays by some €300m instead, in order to preserve the same, record level of provisioning as at end-2020 (Group NPL coverage ratio: 64.9%; performing loans 1.36%). The majority of these results came from Consumer Banking, with overlays of nearly €200m, with coverage ratios at their highest ever levels (NPLs: 75.8%; performing loans: 3.62%) and Corporate and Investment Banking, with overlays of approx. €90m.

(€m)

	12 mths ended 30/6/21	12 mths ended 30/6/20	Chg.
Corporate & Investment Banking	(40.1)	20.0	n.m.
Consumer Banking	257.6	324.7	-20.7%
Wealth Management	18.6	20.5	-9.3%
Holding Functions (leasing)	12.7	9.7	30.9%
Loan loss provisions	**248.8**	**374.9**	**-33.6%**
Cost of risk (bps)	**52**	**82**	

Provisions for other financial assets[15] – this item reflects net writebacks for the twelve months of €48.4m (compared with €20.5m in value adjustments last year); this performance was driven by positive valuations of financial assets mandatorily recognized at fair value (investments in Group funds and other private equity and real estate funds) amounting to €55.5m, only in part offset by the higher provisioning for banking book activities (charges of €7.1m) related to the IFRS9 models.

(€m)

	12 mths ended 30/6/21	12 mths ended 30/6/20	Chg.
Hold-to-Collect securities	0.9	4.0	-77.5%
Hold-to-Collect & Sell securities	6.2	4.8	29.2%
Financial assets mandatorily FVTPL [1]	(55.5)	11.7	n.m.
Provisions for other financial assets	**(48.4)**	**20.5**	**n.m.**

[1] These are funds recognized at fair value.

Other gains (losses) – the net balance for this item, of €85.6m (30/6/20: €133.4m) reflects the contributions to the various resolution funds, totalling €73.5m (€59.7m), plus other, non-recurring items amounting to approx. €12.1m (€73.7m). The twelve months under review include the following payments: to the European Single Resolution Fund, of €42.4m (14.1% higher than last year, because of the increase in the deposits guaranteed by the Group and the system); the Italian resolution fund, of €13.1m; and the Italian deposit guarantee scheme (DGS), of €17.9m (which this year includes the Group's pro rata share of the one-off contributions in respect of Carige and Banca Popolare di Bari). The other components chiefly regard extraordinary charges taken by Compass (approx. €15m) to meet applications for refunds from clients following the Lexitor ruling. The heading also includes writedowns to goodwill totalling €21.5m (€18.6m of which for RAM) largely offset by non-recurring tax income of €20.5m, resulting from the exemption deriving from the Group's adherence to the "Patent Box" scheme[16] for the Mediobanca and Compass brands (resulting in a €13.7m effect on current taxes for the year under review), plus the net effect to profit of loss of the tax relief deriving from the process to align the accounting and tax values of intangible and tangible assets (€6.8m, principally in connection with the former Banca Esperia goodwill and brands).[17]

[15] Under IFRS9, 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).

[16] In accordance with the provisions of the Italian stability law.

[17] In accordance with the provisions of the 2021 Italian financial law (Article 110 of Italian Decree Law 104/20).

Income tax – income tax for the year totalled €292.3m, at an effective tax rate of 26.5%, slightly higher than last year (at €191.1m and 24% respectively), due to the higher component for dividends from associates and subsidiaries, on which IRAP is paid at 50%.

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.

In May 2021, the Board of Directors of Mediobanca S.p.A. adopted the guidelines and conduct principles for the Group in applying the tax regulations in Italy and elsewhere. These are contained in the document on Tax conduct principles which has been published on the Group's website, and constitute one of the prerequisites for adopting the Tax Control Framework.

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

WEALTH MANAGEMENT

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

– Affluent & Premier (CheBanca!);

– Private Banking (Mediobanca Private Banking and CMB Monaco).

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

(€m)

	12 mths ended 30/6/21	12 mths ended 30/6/20	Chg. (%)
Profit-and-loss			
Net interest income	281.1	271.0	3.7
Net trading income	10.3	6.7	53.7
Net fee and commission income	335.9	306.1	9.7
Total income	**627.3**	**583.8**	**7.5**
Labour costs	(241.0)	(236.5)	1.9
Administrative expenses	(230.5)	(214.3)	7.6
Operating costs	**(471.5)**	**(450.8)**	**4.6**
Loan loss provisions	(18.6)	(20.5)	-9.3
Provisions for other financial assets	1.9	(0.5)	n.m.
Other income (losses)	3.5	1.8	n.m.
Profit before tax	**142.6**	**113.8**	**25.3**
Income tax for the period	(42.4)	(32.6)	30.1
Minority interest	—	(0.8)	n.m.
Net profit	**100.2**	**80.4**	**24.6**
Cost/Income (%)	*75.2*	*77.2*	

	30/6/21	30/6/20
Balance-sheet data		
Loans and advances to customers	14,404.5	13,183.6
of which:		
Chebanca! mortgage loans	*11,062.8*	*10,235.0*
Private Banking	*3,341.7*	*2,948.6*
New loans	2,219.6	2,173.2
Risk-weighted assets	5,217.0	4,951.7
ROAC	21%	19%
No. of staff	2,037	2,021

	30/6/21	30/6/20	Chg. (%)
Commercial data			
Relationship managers	486	454	7.0%
Financial advisors	465	414	12.3%
No. of branches/agencies CheBanca!	205	192	6.8%
Private Banker	131	132	-0.8%

Wealth Management delivered a net profit of €100m, on revenues up 7.5% (to €627.3m, approx. 54% of which from fee income), with the cost/income ratio down to 75% (vs 77% last year). ROAC increased to 21% (19%). The robust commercial activity, which did not slow during the pandemic, coupled with the buoyant trend on financial markets, drove growth in TFAs (to €71.5bn, up 12.4% YoY), in indirect funding in particular (to €46.3bn up 16.3% YoY), and an increase in the average return of portfolios (ROA up from 84 bps to 87 bps).

In line with the 2019-23 Strategic Plan guidelines, during the twelve months the distribution network was strengthened with the addition of more than 80 professionals, two-thirds since January 2021. CheBanca! has increased its sales force with the addition of 32 new Premier relationship managers (making a total of 486) and 51 FAs (making a total of 465) working out of 107 branch offices and 98 POS increasingly focused on Premier clientèle. Recruitment in Private Banking (6 bankers) encouraged turnover with the same number of bankers: 131 bankers, 84 of whom on the domestic market.

In the twelve months, the wealth management platform has been expanded further, with seven new distribution agreements signed with third-party asset managers. The following placements have also been successfully completed: Mediobanca SGR's "Mediobanca Diversified Credit Portfolio Target Maturity Funds" for 2024 and 2026 (raising total subscriptions of €40m and €130m respectively) and 2027 (€30m so far, with the placement window still open); RAM's Sustainable Flexible Fund RAM (€100m); and RAM's "Diversified Alpha Fund" (€90m); there were also 24 issues of bonds and certificates, with priority being given to structures offering high degrees of protection consistent with the most recent market developments.

The product offering for Wealth Management has been enhanced with:

- New thematic portfolio management products (e.g. Asia excluding Japan, Global Impact) to complete the range of portfolio management products focused on specific areas/themes;
- Two further initiatives in luxury real estate investments as part of private markets operations through the acquisition of two buildings: the first in Via Turati 12, the second in Piazza Cordusio 1, both in Milan (€246m);
- Expansion of the "Multi-Manager" product range.

– The first two exits from the investments made by The Equity Club, with the IPO of Philogen (a company operating in the biotech sector), and the completion of the first round of investment in Jakala (media marketing), which, as well as delivering positive performances for clients, enabled the WM Division to collect carried interest as part of its proprietary investing activities;
– Successful placement of Mediobanca BlackRock Co-Investments as soft commitment (with investment in the first dedicated funds to start from 1Q FY 2021-22).

There were developments also in digital payments with the launch of a new strategic partnership between CheBanca! and Nexi, which expands the range of payment cards offered to clients, providing them with access to new and advanced services and features.

NNM reported by the division in the twelve months totalled €3.8bn, representing incremental quarter-on-quarter growth (€424m in 1Q, €1.1bn in 4Q) focused in AUM/AUA (€2.5bn, roughly half of which in 4Q). The two networks' contribution has grown in importance (NNM of €4.8bn, €3.4bn of which AUM/AUA), and offset the institutional outflows in Asset Management. In particular, the Affluent segment contributed €3.7bn (up 45% on last year), more than half of which AUM/AUA (split equally between the proprietary network and the FAs); while the Private Banking segment contributed €1.1bn (with a share of AUM/AUA virtually unchanged), with a domestic component attributable to MBPB of €824m (with inflows of AUM/AUA of €1.3bn and outflows of deposits of €0.3bn). Asset Management saw some institutional outflows which totalled €1.6bn (38% attributable to RAM, and 62% to Mediobanca SGR, in line with the fund manager's strategy to gradually exit the institutional segment), only in part offset by Cairn Capital (which reported inflows of €626m, with the launch of two new CLOs).

Total Financial Assets (TFAs) totalled €71.5bn; of these, €32.5bn (up 17.2% from last year) are attributable to the Affluent segment (€15.6bn in AUM/AUA, up 25%), €29.9bn (up 13.4%) to Private Banking (€21.6bn in AUM/AUA, up 21.1%) and €20.3bn in Asset Management. AUM/AUA (the higher profitability products) increased from €39.8bn to €46.3bn (up 16.3%). The Asset Management division's products placed within the Group rose to €11.3bn (from €9.6bn last year).

Net TFAs	30/6/20	31/12/20	30/6/21	Chg. % June 21 / June 20	Chg. % June 21 / Dec 20
Affluent Banking	27,781	29,903	32,549	17.2%	8.8%
Private Banking	26,373	27,724	29,906	13.4%	7.9%
Asset Management	19,000	19,476	20,272	6.7%	4.1%
Intercompany	(9,571)	(10,481)	(11,258)	17.6%	7.4%
Wealth Management	**63,582**	**66,622**	**71,468**	**12.4%**	**7.3%**

Deposits	30/6/20	31/12/20	30/6/21	Chg. % June 21 / June 20	Chg. % June 21 / Dec 20
Affluent Banking	15,277	15,983	16,920	10.8%	5.9%
Private Banking	8,531	8,642	8,296	-2.7%	-4.0%
Asset Management	—	—	—	n.m.	n.m.
Wealth Management	**23,807**	**24,625**	**25,216**	**5.9%**	**2.4%**

AUM/AUA	30/6/20	31/12/20	30/6/21	Chg. % June 21 / June 20	Chg. % June 21 / Dec 20
Affluent Banking	12,504	13,920	15,629	25.0%	12.3%
Private Banking	17,842	19,082	21,610	21.1%	13.2%
Asset Management	19,000	19,476	20,272	6.7%	4.1%
Intercompany	(9,571)	(10,481)	(11,258)	17.6%	7.4%
Wealth Management	**39,775**	**41,997**	**46,252**	**16.3%**	**10.1%**

Net New Money	2019-2020				2020-2021			
	IQ	IIQ	IIIQ	IVQ	IQ	IIQ	IIIQ	IVQ
Affluent Banking	290	506	853	909	818	782	1,215	889
Private Banking	710	173	261	1,166	108	545	175	221
Asset Management	(689)	295	(498)	(739)	(503)	(131)	(289)	2
Wealth Management	**310**	**974**	**616**	**1,335**	**424**	**1,195**	**1,101**	**1,112**

Customer loans in Wealth Management total €14.4bn (30/6/20: €13.2bn): the mortgage loan component stood at €11.1bn, on new loans in the twelve months of €2.2bn (in line with last year, i.e. unaffected by the public health emergency); while in Private Banking customer loans increased from €2.9bn to €3.3bn, on a growing contribution from CMB Monaco (up 15.9%, from €1.8bn to €2.1bn) and MBPB (up 9%, from €1.1bn to €1.3bn).

Moratoria granted by this division regarded almost exclusively CheBanca! customers, after the bank adhered to other initiatives apart from those granted by law (the "*Cura Italia*" and "*Sostegni-Bis*" decree laws), namely those promoted by ABI and other private initiatives. The moratoria granted on mortgage loans amount to €652.9m; of this amount, €210.6m is still outstanding (just under one-third, representing only a minor share of the total loan book, approx. 2%), after €442.4m was paid off, most of which (82%) having resumed regular repayments; moreover, 80% of the outstanding exposure has been prudentially classified as Stage2. Only a negligible number of moratoria were granted in Private Banking, to just three clients (involving a total of under €1m), and the process was formally closed on 30 June 2021.

Gross non-performing loans increased from €211.9m to €226.1m (or 1.6% of the total loan book), and chiefly regard CheBanca! mortgages (€210.5m, equal to 1.9% of the stock); while net NPLs represent less than 1% of total loans (€116.3m, €43.2m of which are bad loans), with the coverage ratio increasing from 45.9% to 48.6% (63.9% for the bad loans). Mortgages classified as Stage2 increased from €618.5m to €835.1m (just under 8% of the total), this increase, of almost one-third, is due to the reclassification of the moratoria which, in view *inter alia* of the recent ECB recommendations, have been treated as high risk.

The Wealth Management division posted significant growth in revenues (up 7.5%, from €583.8m to €627.3m), representing incremental quarter-on-quarter growth (with revenues of €145.8m in 1Q and €163.4m in 4Q), with the fee component increasing in size (from 52.4% to 53.5%) on the back of the increase in indirect funding.

(€m)

Revenues	**12 mths ended 30/6/21**	**12 mths ended 30/6/20**	**Chg. %**
Affluent	358.0	317.4	12.8%
Private Banking	202.1	186.7	8.2%
Asset Management	59.0	71.7	-17.7%
Other	8.2	8.0	2.5%
Total revenues	**627.3**	**583.8**	**7.5%**

The main income sources performed as follows:

– Net interest income for the twelve months rose by 3.7% (from €271m to €281.1m), on a positive contribution from the Affluent segment (up 7.1%, from €214.1m to €229.3m) driven by higher volumes in mortgages and deposits, which offset the reduction in Private Banking (down 8.6%, from €57.4m to €52.4m), which was widely anticipated in view of the further reductions in market rates (in particular the dollar);

– Fee income rose by 9.7%, from €306.1m to €335.9m, on a superior contribution from management fees (up 12%, from €332.1m to €372.1m), in particular recurring fees (which make up approx. 89% of the total); the non-recurring component was smaller (stable at €13.2m), and as from this year includes fees credited back from coinvestment in private equity initiatives placed with clients (approx. €8m), as well as performance fees. The increase was reflected at both the Affluent segment (up 24.2%, from €101.9m to €126.6m) and in Private Banking (up 14.1%, from €124.1m to €141.6m), offsetting the reduction in Asset Management (from €72.1m to €59.5m).

(€m)

Commissions - segment	12 mths ended 30/6/21	12 mths ended 30/6/20	Chg. %
Affluent	126.6	101.9	24.2%
Private Banking	141.6	124.1	14.1%
Asset Management	59.5	72.1	-17.5%
Other	8.2	8.0	n.m.
Total commissions	**335.9**	**306.1**	**9.7%**

(€m)

Commissions - nature	12 mths ended 30/6/21	12 mths ended 30/6/20	Chg. %
Management fees	372.1	332.1	12.0%
- of which: upfront fees	*41.8*	*33.5*	*24.8%*
Performance Fees	13.2	13.2	n.m.
Negative fees	(49.4)	(39.2)	26.1%
Total commissions	**335.9**	**306.1**	**9.7%**

– Operating costs increased from €450.8m to €471.5m (up 4.6%), on higher labour costs (up 1.9%, from €236.5m to €241m) reflecting the reinforcement of the commercial structure and the increase in the variable remuneration component due to the excellent results posted by the distribution networks; higher administrative expenses (which were up 7.6%, from €214.3m to €230.5m) chiefly reflect the resumption of project-based activities, IT infrastructure enhancement, plus the CheBanca! "*Alza la tua visione*" ("Raise your vision") advertising campaign; the reduction in costs in Asset Management (from €61.4m to €57.7m) is linked to the RAM efficiency plan.

(€m)

Costs	12 mths ended 30/6/21	12 mths ended 30/6/20	Chg. %
Affluent Banking	(267.8)	(249.8)	7.2%
Private Banking	(137.3)	(131.1)	4.7%
Asset Management	(57.7)	(61.4)	-6.0%
Other	(8.7)	(8.5)	2.4%
Total costs	**(471.5)**	**(450.8)**	**4.6%**

Loan loss provisions, virtually all of which are attributable to CheBanca! mortgage loans, decreased from €20.5m to €18.6m as a result of revision of the macroeconomic scenarios, which would have led to higher writebacks if much of these had not been offset to the more conservative approach adopted to staging for the moratoria still outstanding (more than 90% have been classified as Stage2 or Stage3), and recourse to overlays.

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, Compass Rent, which operates in second-hand vehicle and car hire, and the newly-incorporated Compass Link, which distributes Compass products and services via external collaborators. Futuro was merged into Compass Banca with effect in accounting terms from 1 July 2020.

(€m)

	12 mths ended 30/6/21	12 mths ended 30/6/20	Chg. (%)
Profit-and-loss			
Net interest income	878.8	948.0	-7.3
Net fee and commission income	123.0	122.6	0.3
Total income	**1,001.8**	**1,070.6**	**-6.4**
Labour costs	(104.2)	(102.0)	2.2
Administrative expenses	(210.0)	(201.2)	4.4
Operating costs	**(314.2)**	**(303.2)**	**3.6**
Loan loss provisions	(257.6)	(324.7)	-20.7
Other income (losses)	(15.2)	(4.7)	n.m.
Profit before tax	**414.8**	**438.0**	**-5.3**
Income tax for the period	(135.9)	(141.4)	-3.9
Net profit	**278.9**	**296.6**	**-6.0**
Cost/Income (%)	*31.4*	*28.3*	

	30/6/21	30/6/20
Balance-sheet data		
Loans and advances to customers	12,942.9	13,037.4
- of which:		
Personal loans	*6,713.8*	*7,101.2*
Salary-backed finance	*1,775.8*	*1,983.6*
New loans	6,460.4	6,380.8
Risk-weighted assets	11,779.2	11,800.8
ROAC	27%	27%
No. of staff	1,446	1,441

	30/6/21	30/6/20
Commercial data		
Branches Consumer	179	172
Agencies Consumer	52	41

In a difficult market scenario, in which the consumer credit sector has been strongly impacted by the pandemic emergency, with volumes and revenues dropping as a result of the repeated lockdowns, Compass has confirmed its position as a primary operator, with a top line in excess of €1bn and net profit of €278.9m (ROAC 27%), on the back of its extensive franchise and established capabilities in assessing and pricing risk.

The decrease in net profit, down 6% to €278.9m, reflects the trend in revenues (which were down 6.4%), but was offset in part by the reduction in the cost of risk and careful cost control (cost/income ratio stable at around 30%). The lower profit also reflects provisions of €15m, being set aside to the provision for risks and charges in connection with the "Lexitor" ruling, net of which the reduction in net profit would have been just 1%.

The sharp reduction in new loans at the start of the pandemic led to a gradual reduction in average volumes, which, along with the pressure on margins, accounts for the performance in net interest income (down 7.3%, from €948m to €878.8m), the reduced contribution from insurance products (from €61m to €49m), largely offset by the reduced impact of rappel fees being charged back to the distribution networks (down 40%). The trend in lending was reversed in 4Q, however, with new loans returning in line with their pre-Covid average (€1.9bn). The division's effective cost of risk management was borne out in 4Q as well: after the high recorded in 4Q last year, the cost of risk has gradually decreased to pre-Covid levels (CoR 198 bps), while the coverage ratios are at all-time highs (NPLs: 75.8%; performing: 3.62%).

The Italian consumer credit market reflects a 23% increase in the first six months of 2021, compared to the same period last year which was affected by the strict lockdown imposed between the months of March and May 2020. The most pronounced increases were in automotive finance (up 47%), personal loans (up 31%), and special purpose non-automotive (up 30%); while the growth was lower in salary-backed finance (26%) and credit cards (up 11%). Compass's market share has reached 10%, on the back of the outstanding results delivered in special purpose loans (up 56%) and direct personal loans (up 54%), which offset the difficulties in salary-backed finance.

New loans for the twelve months totalled €6.5bn, stable versus last year due to an outstanding performance in 4Q (€1.9bn, pre-Covid levels), with the product mix which has seen a gradual increase in personal loans (which in 4Q represented almost 50% of total new business).

Commercial efforts continued despite the operating difficulties, with a total of 18 new POS being opened in the twelve months (branch offices and agencies, two of which in 4Q), bringing the total to 231 (52 of which agencies). The positive trend in the online channel has continued, which now accounts for approx. 25% of the personal loans granted by the direct channel (with 80% of the applications processed in one day).

Various initiatives were launched during the twelve months, all of which served to strengthen the direct distribution channels. These included:

- Consolidation of Compass's market share in special purpose loans (rising to approx. 20% by end-June 2021), this being the main channel by which new clients are obtained, by strengthening commercial partnerships with operators in the large-scale distribution sector (telephony and electronics in particular), and in vehicle finance, as a result of the ongoing commercial development promoted by the geographical network;
- Launch of the new "Pagolight" product, a proprietary solution for extensions granted free of charge in real time at the POS;
- Commercial launch of a new company, Compass Rent, which offers long-term hire solutions for second-hand vehicles readily available at car dealers.

The loan stock decreased slightly, from €13bn to €12.9bn, in particular in personal loans (down 5.5%, to €6.7bn) and salary-backed finance (down 10.5%, to €1.8bn); while automotive finance bucked this trend (up 18.7%, to €2.8bn), as did other special purpose loans (up 12.5%, to €1.1bn).

Gross NPLs declined from €1,015.7m to €971.5m, due to the low rates of default plus good credit recovery flows which enabled some positions to regain performing status. Gross NPLs now represent 6.86% of total loans (7.18%), with the coverage ratio increasing to 75.8% (68.1%), driving net NPLs down from €324.2m to €235.4m, the lowest figure since the new definition of default was adopted (in September 2019) and lower than at end-March 2020 (€290.6m), i.e. pre-pandemic. Net bad loans fell to below €10m, with the coverage ratio at 97.3% and the resumption of disposals, including the revolving share.

Positions classified as Stage2 increased from €1,430.4m to €1,467.3m (11.2% of the total), reflecting the effects of the new rating model which, for the lower risk classes (special purpose loans, including automotive), has introduced increased sensitivity to changes in PD; this mechanism, which has become necessary in order to facilitate the transition to use of AIRB models, has resulted in approx. €230m being reclassified as Stage2, with negligible effects through profit and loss.

As previously mentioned, the difficulties encountered in generating new business did not cause a reduction in the level of investments, with spending continuing in order to strengthen the distribution structure and to improve processes, including through technology upgrades. Accordingly, operating costs grew by 3.6% (from €303.2m to €314.2m), following a modest increase in labour costs (up €2.2m), a new advertising campaign via television and digital channels, and higher credit recovery costs due to good performances in credit recovery and extraordinary management of the moratoria granted.

Loan loss provisions were down over 20% in the twelve months, from €324.7m to €257.6m, recovering from the highs recorded at end-March and end-June 2020. The prudential level of the provisioning has been strengthened still further, by complementing the traditional prudence shown in the treatment of non-performing loans with €200m in overlays for performing items, thus offsetting the potential writeback of funds deriving from the low rates of default and the improvement in the macroeconomic scenario. The cost of risk returned to pre-crisis levels, at 198 bps, without affecting the high coverage ratios for non-performing loans (75.8%) and performing loans (3.62%).

During the year under review, in response to a ruling by the Court of Milan, a total of €15m was set aside to the provision for risks and liabilities, to cover the estimated contingent liability deriving from the refund of upfront costs incurred by customers at the disbursement stage for loans repaid in advance, in line with the commercial practice adopted before Bank of Italy letter to the market issued on 5th December 2019.

CORPORATE E 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 et Associés);

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

(€m)

	12 mths ended 30/6/21	12 mths ended 30/6/20	Chg. (%)
Profit-and-loss			
Net interest income	286.9	271.4	5.7
Net treasury income	93.2	77.9	19.6
Net fee and commission income	318.1	225.8	40.9
Total income	**698.2**	**575.1**	**21.4**
Labour costs	(165.4)	(141.0)	17.3
Administrative expenses	(141.3)	(135.2)	4.5
Operating costs	**(306.7)**	**(276.2)**	**11.0**
Loan loss provisions	40.1	(20.0)	n.m.
Provisions for other financial assets	2.2	(3.5)	n.m.
Other income (losses)	0.5	—	n.m.
Profit before tax	**434.3**	**275.4**	**57.7**
Income tax for the period	(147.0)	(92.4)	59.1
Minority interest	(2.8)	(2.3)	21.7
Net profit	**284.5**	**180.7**	**57.4**
Cost/Income (%)	*43.9*	*48.0*	

	30/6/21	30/6/20
Balance-sheet data		
Loans and advances to customers	19,292.3	18,644.2
of which: Corporate	*16,579.6*	*16,521.7*
Factoring	*2,328.7*	*1,763.7*
Credit Management - NPLs	*384.0*	*358.8*
Corporate new loans	6,797.0	5,949.9
Factoring turnover	9,149.5	7,422.6
NPLs purchased	78.2	35.5
Risk-weighted assets	19,924.8	20,027.7
ROAC	16%	10%
No. of staff	635	630
Front Office Wholesale	300	302

Corporate and Investment Banking delivered a strong improvement in net profit for the twelve months, which totalled €284.5m,[18] up 57.4%, on the back of an outstanding performance in Investment Banking which helped drive revenues up 21.4% to €698.2m and keep the cost/income ratio down to 43.9%. The excellent trend in Wholesale Banking (net profit of €268.2m) absorbed the reduction in Specialty Finance (net profit of €16.3m, versus €25.4m), and allowed ROAC to increase to 16%, the target set in the 2019-23 Strategic Plan.

The M&A market has reached record levels in the past twelve months, and growth looks set to continue. The global M&A market more than doubled in the first six months of 2021,[19] driven by the United States (up 242%), with significant growth in Europe as well (up 56%). This trend is also reflected in the main geographies where Mediobanca is present, with growth of 80% in Italy, 67% in France, and 54% in Spain. Against a backdrop of strong market growth, market Mediobanca has strengthened its leadership position in the domestic market and in France (which now generates some 40% of the Group's advisory revenues). Hubert Preschez has recently been appointed the new partner of Messier et Associés.

Mediobanca has exploited the market conditions, acting as advisor in the most important deals announced on the Italian and French markets, some of which will be concluded between now and year-end 2021. These include: supporting Atlantia in the process to dispose of 88% of ASPI, and advising Enel on the sale of 50% of Open Fiber. The twelve months were also notable for the intense activity levels in the Mid-Corporate space, helped by the Bank's capability to generate synergies between the CIB and Private Banking divisions. Mediobanca has acted as financial advisor in numerous disposals (Cantiere del Pardo, Arrigoni, MIR Healthcare, Poligof) and in Clessidra's acquisition of Casa Vinicola Botter. In addition, Mediobanca's indepth knowledge of the real estate market has enabled the Bank to complete two club deals for properties in prestigious locations in Milan (Via Turati and Piazza Cordusio). Various Mid-Corporate deals have also been announced in 4Q that will be concluded by the year-end.

Looking at the French market, in addition to the completion of the PSA/FCA merger, the Bank is also involved in the merger between Veolia and Suez, and the acquisition of Borsa Italiana by Euronext. Mediobanca has also taken a leading role in three of the largest public tender offers announced on the Italian stock market, assisting Assicurazioni Generali in its takeover bid for Cattolica, Asterion in its offer for Retelit, and Credito Valtellinese in the offer submitted for it by Crédit Agricole Italy.

[18] The various contributions to net profit were as follows: Wholesale Banking €268.2m, of which Messier et Associés €13.1m; MBFACTA €16.1m, and MBCredit Solutions €0.2m.

[19] An increase of 121.1% (source: Refinitiv, report on "Global Mergers & Acquisition Review – First Half 2021").

In Capital Markets, Mediobanca acted as Global Co-ordinator in the IPO of Seco, and, as testimony to its increasing role at international level, as Joint Bookrunner in the capital increases of Cellnex, Euronext and SSP. In Italy, France and Spain/ Portugal, the Bank has also taken leading roles in numerous bond issues (e.g. Inwit, Euronext, Cellnex and Banco Santander), with growing expertise in the ESG segment (Assicurazioni Generali, ADR, and EDP).

Loans and advances to customers increased from €18.6bn to €19.3bn, as a result of the good contribution from factoring business (up from €1.8bn to €2.3bn) driven by increased turnover (up 23.3%, to €9.1bn), and new acquisitions of NPLs (approx. €80m, with a nominal amount of €700.8m) while corporate loans were basically stable at €16.6bn (€16.5bn), reflecting the spike in early repayments (€2.4bn), with new loans growing to €6.8bn (up 14.2%, mainly investment grade exposures (approx. 22%) so as not to affect the quality of the portfolio.

	30/6/21		30/6/20		Chg.
	(€m)	%	(€m)	%	
Italy	10,797.6	56.0	10,215.6	54.8	5.7%
France	1,661.1	8.6	1,426.4	7.7	16.5%
Spain	1,267.3	6.6	1,011.8	5.4	25.2%
Germany	1,093.5	5.7	1,509.0	8.0	-27.5%
U.K.	1,429.4	7.4	1,257.5	6.7	13.7%
Other non resident	3,043.4	15.7	3,223.9	17.4	-5.6%
Total loans and advances to customers CIB	**19,292.3**	**100.0**	**18,644.2**	**100**	**3.5%**
- of which: Specialty Finance	*2,712.7*	*14.1*	*2,122.6*	*11*	*27.8%*

Asset quality remains high: gross NPLs (which decreased from €541.6m to €225m) remain at the lowest levels seen in the past decade (1.2% of total loans); while net NPLs total €103.8m (€316.4m), with a coverage ratio of 53.9% (41.6%). As usual these figures do not include the NPLs acquired by MBCredit Solutions (which rose slightly, from €358.6m to €383.7m).

The balance of exposures classified as Stage2 decreased from €739.4m to €631m (3.3% of the total loan book). This reduction chiefly regards activity with Large Corporates (down from €598m to €548.4m), where the performance was chiefly due to repayments totalling €310.9m and reclassifications to Stage1 in an amount of €35.3m, which more than offset the reclassifications to Stage2 (€296.5m), chiefly involving counterparties that have experienced a significant increase in credit risk (SICR) after their individual ratings were downgraded. The coverage ratio for performing loans has gradually increased (from 0.59% to 0.65%) as a result of the careful provisioning policy adopted, which has mitigated the effects of the IFRS9 model's application via increased overlays, in the Large Corporate segment in particular, which together amount to €76m.[20] With the macroeconomic scenario revision at end-June 2021, the expected loss as calculated by the models fell significantly from the level estimated at end-December 2020. However, it was decided on prudential grounds to neutralize this effect by setting aside overlays of €56m, in addition to the approx. €20m to increase the provisioning, again on prudential grounds, for all borrowers included in the sectors hardest hit by Covid-19, or that have applied for waivers since the start of the pandemic. Corporate lending was unaffected by the moratoria phenomenon (apart from merely approx. €5m from factoring), but around forty requests for waivers have been received, mainly for covenants to be advised. Nonetheless, certain positions have been reclassified as Stage2 on prudential grounds (amounting to €373m, or 2.2% of the total performing loan book).

The revenues generated by the CIB division grew by 21.4% in the twelve months, from €575.1m to €698.2m, the highest levels seen in the past five years, and reflecting a balanced contribution quarter on quarter. The main income items performed as follows:

– Net interest income rose from €271.4m to €286.9m, despite a lower contribution from Specialty Finance (down 10.3%, from €79.4m to €71.2m), due to the reduction in NPL activities, which was more than offset by the higher NII reported by Wholesale Banking (up from €192m to €215.7m), attributable to non-recurring income of approx. €8m in connection with the Burgo restructuring, plus the increase posted by securities forming part of the trading book, the majority of which serve to hedge the certificates issued;

– Fee income grew by 40.9%, from €225.8m to €318.1m: the increase was attributable to all segments, but in particular the intense activity levels in advisory business and the recovery in Equity Capital Market activities (€41.4m); fees earned by Corporate Finance rose from €112.4m to €127.5m, following the good performance in the Mid Corporate space (where fees increased to €19m); excellent results were also posted by Messier et Associés, which contributed fees of €50m (buoyed by some big tickets). The recovery in acquisition finance is reflected in the higher fees earned by Lending (up from €37.8m to €50.5m), while the increase reported by Specialty Finance (from €34.6m to €48.1m) was driven by higher collections on NPLs;

– Net treasury income increased by 19.6%, from €77.9m to €93.2m, on a major contribution from the proprietary portfolio (€37.4m) which offset the reduction in client business (from €85.6m to €60.6m); the substantial liquidity on markets favoured the kind of outright positions (in equity and fixed-income) which is typical of proprietary trading desks, while limiting arbitrage trades and structured products which are more typical of client trading.

[20] This figure also comprises debt securities and on- and off-balance-sheet positions.

Revenues	**12 mths ended 30/6/21**	**12 mths ended 30/6/20**	**Chg. (%)**
Capital Market	62.5	22.9	n.m.
Lending	213.9	191.0	12.0%
Advisory M&A	127.5	112.4	13.5%
Trading Prop	60.1	11.3	n.m.
Market, sales and other gains	114.8	123.6	-7.1%
Specialty Finance	119.3	113.9	4.8%
Total Revenues	**698.2**	**575.1**	**21.4%**

Commissions	**12 mths ended 30/6/21**	**12 mths ended 30/6/20**	**Chg. (%)**
Capital Market, Sales and other gains	92.0	41.0	n.m.
Lending	50.5	37.8	33.6%
Advisory M&A	127.5	112.4	13.5%
Specialty Finance	48.1	34.6	39.1%
Total Commissions	**318.1**	**225.8**	**40.9%**

The increase in operating costs (up 11%, from €276.2m to €306.7m) chiefly involves higher labour costs (up 17.3%, from €141m to €165.4m), to align the investment banking bonus pool with the positive performance in revenues; the increase in administrative costs was limited (up 4.5%, from €135.2m to €141.3m), given that the increases related to the resumption of project-based activities (after these were halted brusquely in spring 2020) was offset by the savings on travel- and entertainment-related expenses.

The net result in terms of writebacks credited at the year-end (€40.1m) represents the difference between writebacks of €78.2 posted in Wholesale Banking, and writedowns of €38.1m charged in Specialty Finance (compared with €24.5m) in relation to NPL business, due to the higher extra collections, plus extraordinary adjustments to certain specific portfolios worst affected by Covid-19. The good performance in Wholesale Banking was largely due to the writeback credited in respect of the Burgo exposure (€110m), coupled with the improved macroeconomic scenario given the quality of the loan book (which has been preserved in the twelve months under review), also allowing substantial overlays to be set aside (€90m, €60m of which in 4Q, offsetting the writebacks released in connection with the improvement in the scenario).

	12 mths ended 30/6/21	**12 mths ended 30/6/20**
CIB loans	78.2	4.5
Specialty Finance loans	(38.1)	(24.5)
Other financial assets	2.2	(3.5)
Total provisions	**42.3**	**(23.5)**

PRINCIPAL INVESTING

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

(€m)

	12 mths ended 30/6/21	12 mths ended 30/6/20	Chg. (%)
Profit-and-loss			
Other incomes	23.6	8.5	n.m.
Equity-accounted companies	271.7	304.3	-10.7
Total income	**295.3**	**312.8**	**-5.6**
Labour costs	(3.6)	(3.3)	9.1
Administrative expenses	(1.0)	(1.0)	n.m.
Operating costs	**(4.6)**	**(4.3)**	**7.0**
Net loss provisions	51.8	(10.9)	n.m.
Profit before tax	**342.5**	**297.6**	**15.1**
Income tax for the period	(33.9)	(2.6)	n.m.
Net profit	**308.6**	**295.0**	**4.6**

	30/6/21	30/6/20
Balance-sheet data		
Banking book equity securities	744.2	673.9
IAS28 investments	3,702.8	3,204.6
Risk-weighted assets	7,246.0	8,121.9

The Principal Investing division posted a net profit for the twelve months of €308.6m, up 4.6% on last year: the reduced contribution from the equity method, which totalled €271.7m (€304.3m), was offset by the positive performance in terms of the valuation of holdings in funds, which contributed €51.8m to earnings, comfortably offsetting the €10.9m net writedowns charged last year. The result also includes dividends from shares, plus €30.7m in income from funds (twice the amount collected last year).

The book value of the Assicurazioni Generali investment increased from €3,163.4m to €3,663.1m, after net profits totalling €273.4m and an increase of €431.2m in the valuation reserve, comfortably offsetting the reduction in the dividend collected (€204m). The equity method contribution from the investee company decreased by 10%, reflecting the unfavourable comparison base with last year (which was boosted by certain contingent assets, such as the proceeds from the disposal of Generali Leben), plus several non-recurring items this year (including the settlement with BTG Pactual over the sale of BSI). The earnings performance of Assicurazioni Generali in the first quarter of the its 2021 financial year was outstanding, and is reflected in the PI division's result for 4Q (€103.2m).

The book value of the IEO investment (25.4%) fell from €41.3m to €39.7m, reflecting the Group's pro rata share in the loss incurred by the company (€1.7m).

As at 30 June 2021, the stock market value of the Group's investment in Assicurazioni Generali was €3,426.9m, lower than its book value despite having recovered from last year. However, the asset passed the impairment test by using the value in use, calculated in accordance with Group policy, which is higher than the book value. Reference is made to the Notes to the Consolidated Balance Sheet, Part B – Assets, Section 7 – Equity investments for further details.

As for other securities, there was an increase in the equity component (from €139.1m to €219m), as a result of new investments (worth approx. €12m) and the increase in fair value (up €68m) taken directly to the net equity reserve, which regards exclusively the new valuation of the Burgo equity instrument (€55m). Holdings in funds decreased from €534.8m to €525.2m, after net divestments of €60.1m only in part offset by the positive value adjustments referred to above (adding €51.8m).

HOLDING FUNCTIONS (STRUTTURE CENTRALI, TESORERIA E LEASING)

The Holding Functions comprises SelmaBipiemme Leasing, MIS, Spafid Connect[21] and Ricerche e Studi,[22] 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[23]), and the part of costs relating to central Group functions not allocated to the business lines, including operations, support units (Planning and Financial Reporting, Corporate Affairs, Investor Relations, etc.), senior management and the control units (Risk Management, Group Audit and Compliance).

(€m)

	12 mths ended 30/6/21	12 mths ended 30/6/20	Chg. (%)
Profit-and-loss			
Net interest income	(47.4)	(55.0)	13.8
Net trading income	57.5	37.5	n.m.
Net fee and commission income	11.8	10.6	11.3
Total income	**21.9**	**(6.9)**	**n.m.**
Labour costs	(121.1)	(116.5)	3.9
Administrative expenses	(39.0)	(56.3)	-30.7
Operating costs	**(160.1)**	**(172.8)**	**-7.3**
Loan loss provisions	(12.7)	(9.7)	30.9
Provisions for other financial assets	(7.5)	(5.6)	n.m.
Other income (losses)	(73.5)	(64.3)	14.3
Profit before tax	**(231.9)**	**(259.3)**	**10.6**
Income tax for the period	67.5	76.3	-11.5
Minority interest	(1.7)	(0.7)	n.m.
Net profit	**(166.1)**	**(183.7)**	**-9.6**

	30/6/21	30/6/20
Balance-sheet data		
Loans and advances to customers	1,774.1	1,819.9
Banking book securities	6,120.0	5,611.5
No. of staff[24]	792	817
Risk-weighted assets	2,992.3	3,128.4

The net loss posted by the Holding Functions division decreased from €183.7m to €166.1m, due to higher income from management of the banking book securities (which almost doubled, to €57.5m), made up of gains realized on disposal (€47.9m) and trading positions to hedge operations without affecting the valuation reserve

[21] Advanced negotiations are in progress for the disposal of the business unit providing corporate services (shareholder registers and AGM service management); the activities of the business unit concerned have therefore been reclassified as "Non-current assets held for sale and discontinued operations" under IFRS5.

[22] The company was closed in July 2021 and was removed from the Companies' Register on 30 July 2021.

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

[24] The 792 staff are divided as follows: 104 in Selmabipiemme Leasing (30/6/20: 119) and 7 in the other non-core companies; 32 in group Treasury and ALM; 130 at MIS (30/6/20: 127), 205 in operations (30/6/20: 209), 164 in support functions (30/6/20: 171), 143 in control functions (30/6/20: 145) and 7 in management (senior management and their assistants), with the cost of approximately 233 FTE (30/6/20: 224) charged back to the business lines.

which remains comfortably in positive territory (at over €73m). The improvement was helped also by the reduction in net interest expense (from €92.1m to €83.3m) and the decrease in overheads, which totalled €160.1m (€172.8m), reflecting the reduced contribution of central costs which now account for 8% of the Group's total spending. Conversely, writedowns to customer loans and other financial assets increased, from €15.3m to €20.2m, due to a more prudent classification of leases (CoR 72 bps, vs 51 bps), plus adaptation of the IFRS9 model used for the banking book securities (down €7.5m).

The main segments performed as follows:

– Treasury management: liquidity and funding optimization continues, with the increase in deposits, efficient access to the debt security market, plus the increased recourse to the facilities (up from €5.7bn to €7.5bn), the full conversion to the T-LTRO III programme now complete which serves the dual purpose of stabilizing both the liquidity indicators at more prudent levels (LCR 158%, NSFR 116%, calculated in accordance with the new regulatory methodologies), and the cost of funding at last year's levels (spread 80 bps), despite the reduction in benchmark rates (down approx. 20 bps in the twelve months). As previously mentioned, this translates to an improvement in net interest expense, which reduced from €92.1m to €83.3m, with a higher contribution from the T-LTRO premium of approx. €26m, which offset entirely the reduced contribution from the portfolio of securities held as part of the banking book (down from €69m to €48m);

– Leasing: net profit of €2.5m, higher than last year's result (€1m) which incorporated the cost of a major staff incentivization scheme (€4.5m). Revenues totalled €39.5m, due to the higher profitability of the lease book (fees up 71.4%). The reduction in costs was more pronounced (down 11.3%, from €23m to €20.4m), due to the lower labour cost component (which decreased from €12.3m to €11.6m, due to the efficiency measures referred to above) and lower IT and consultancy expenses. As mentioned previously, loan loss provisions increased from €9.7m to €12.9m, due to the prudent stance on moratoria adopted (which account for approx. one-third of the lease book), most of which are classified as Stage2, entailing an increase in the provisioning (from 0.70% to 0.91%). Customer leases fell slightly (from €1,819.9m to €1,774.1m). Gross NPLs decreased from €185m to €174.5m, and account for 9.4% of the total (9.8%); while net NPLs totalled €104.7m, representing 5.9% of the total, with a coverage ratio of 40%. The share accounted for by leases classified as Stage2 increased from €122.1m to €337.7m, chiefly due to the reclassification of the moratoria extended under the "*Sostegni-bis*" decree (€144m).

* * *

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

(€m)

Company	Percentage shareholding	Business Line	Total assets	Loans and advances to customers	Total net equity [1]	No. of staff
Mediobanca Securities (data in USDm)	100%	Corporate and Investment Banking	7.0	—	5.9	4
Mediobanca Funding Luxembourg	100%	Corporate and Investment Banking	11.0	10.0	0.9	—
Messier et Associés S.C.A. *	100%	Corporate and Investment Banking	49.1	—	30.1	35
Messier et Associés L.L.C. (data in USDm) *	100%	Corporate and Investment Banking	0.2	—	(1.8)	3
Mediobanca International	100%	Corporate and Investment Banking / Holding Functions	7,128.5	5,185.6	336.1	18
MBFACTA	100%	Corporate and Investment Banking	2,420.8	2,331.8	183.6	38
MBCredit Solutions	100%	Corporate and Investment Banking	436.9	384.0	163.6	218
MB Contact Solutions	100%	Corporate and Investment Banking	0.9	—	0.4	2
Compass Banca	100%	Consumer Banking	14,363.8	12,942.9	2,393.4	1,442
Quarzo S.r.l.	90%	Consumer Banking	0.1	—	—	—
Quarzo CQS S.r.l.	90%	Consumer Banking	0.1	—	—	—
Compass RE	100%	Consumer Banking	352.2	52.0	182.6	1
Compass Rent	100%	Consumer Banking	1.7	—	1.1	4
Compass Link	100%	Consumer Banking	0.5	—	0.5	—
CheBanca!	100%	Wealth Management	29,019.5	11,062.8	840.5	1,459
Mediobanca Covered Bond	90%	Wealth Management	0.7	—	0.1	—
CMB Monaco	100%	Wealth Management	5,824.9	2,091.3	900.6	238
Spafid	100%	Wealth Management	52.8	—	43.7	51
Spafid Family Office SIM	100%	Wealth Management	1.1	—	0.7	3
Cairn Capital Group Limited (data in GBPm) *	100%	Wealth Management	39.5	—	29.8	42
RAM Active Investments (data in CHFm) *	98,3%	Wealth Management	27.2	—	25.4	29
RAM Active Investments (Luxembourg) (data in CHFm)	100%	Wealth Management	6.8	—	3.8	6
Compagnie Monégasque de Gestion	100%	Wealth Management	5.2	—	1.5	9
Spafid Trust S.r.l.	100%	Wealth Management	1.4	—	1.3	3
Mediobanca SGR S.p.A.	100%	Wealth Management	51.6	—	43.3	51
Mediobanca Management Company S.A.	100%	Wealth Management	12.1	—	8.9	6
Mediobanca International Immobilière	100%	Holding Functions	1.9	—	2.0	—
SelmaBipiemme Leasing	60%	Holding Functions	1,899.8	1,774.1	218.3	104
Mediobanca Innovation Services	100%	Holding Functions	93.3	—	35.1	128
Ricerche e Studi (under liquidation)	100%	Holding Functions	0.1	—	—	—
Spafid Connect	100%	Holding Functions	8.2	—	6.5	6

[1] Includes profit for the period.

* Taking into account the put and call option; see Part A1 – section 3 – Area and methods of consolidation, p. 113.

(€m)

Company	Percentage shareholding	*Business Line*	Total income	Operating costs	Loss provisions	Gain/(loss) for the period
Mediobanca Securities (data in USDm)	100%	Corporate and Investment Banking	2.9	(2.8)	—	0.1
Mediobanca Funding Luxembourg	100%	Corporate and Investment Banking	0.5	(0.5)	—	—
Messier et Associés S.C.A. *	100%	Corporate and Investment Banking	50.0	(25.5)	—	19.0
Messier et Associés L.L.C. (data in USDm) *	100%	Corporate and Investment Banking	—	(0.1)	—	(0.1)
Mediobanca International	100%	Corporate and Investment Banking / Holding Functions	23.1	(10.0)	(2.6)	5.3
MBFACTA	100%	Corporate and Investment Banking	47.9	(9.9)	(12.8)	17.1
MBCredit Solutions	100%	Corporate and Investment Banking	71.7	(47.0)	(23.9)	0.3
MB Contact Solutions	100%	Corporate and Investment Banking	0.3	(0.4)	—	(0.1)
Compass Banca	100%	Consumer Banking	1,012.7	(315.2)	(257.5)	302.2
Quarzo S.r.l.	90%	Consumer Banking	—	—	—	—
Quarzo CQS S.r.l.	90%	Consumer Banking	—	—	—	—
Compass RE	100%	Consumer Banking	38.6	(1.0)	—	27.6
Compass Rent	100%	Consumer Banking	—	(1.2)	—	(0.9)
Compass Link	100%	Consumer Banking	—	—	—	—
CheBanca!	100%	Wealth Management	357.9	(267.9)	(22.6)	32.9
Mediobanca Covered Bond	90%	Wealth Management	0.1	(0.1)	—	—
CMB Monaco	100%	Wealth Management	105.4	(71.2)	(0.5)	28.7
Spafid	100%	Wealth Management	9.1	(11.8)	—	(2.9)
Spafid Family Office SIM	100%	Wealth Management	1.1	(1.5)	—	(0.3)
Cairn Capital Group Limited (data in GBPm) *	100%	Wealth Management	19.0	(21.1)	—	(1.9)
RAM Active Investments (data in CHFm) *	98,3%	Wealth Management	11.5	(13.2)	—	(1.9)
RAM Active Investments (Luxembourg) (data in CHFm)	100%	Wealth Management	1.8	(2.0)	—	(0.4)
Compagnie Monégasque de Gestion	100%	Wealth Management	5.6	(3.2)	—	1.7
Spafid Trust S.r.l.	100%	Wealth Management	0.7	(0.8)	—	(0.1)
Mediobanca SGR S.p.A.	100%	Wealth Management	24.6	(14.8)	—	6.5
Mediobanca Management Company S.A.	100%	Wealth Management	3.2	(2.2)	—	0.8
Mediobanca International Immobilière	100%	Holding Functions	0.2	(0.1)	—	0.1
SelmaBipiemme Leasing	60%	Holding Functions	39.5	(20.4)	(12.9)	4.1
Mediobanca Innovation Services	100%	Holding Functions	—	(0.1)	—	—
Ricerche e Studi (under liquidation)	100%	Holding Functions	1.3	(1.2)	—	—
Spafid Connect	100%	Holding Functions	2.5	(3.0)	—	(0.5)

* Taking into account the put and call option; see Part A1 – section 3 – Area and methods of consolidation, p. 113.

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 30 June 2021 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 no. 17221 issued on 12 March 2010 (amended most recently by resolution no. 21264 of 10 December 2020). All such accounts form part of Group companies' ordinary operations, are maintained on an arm's length basis, and are entered into solely in the interests of the companies concerned. No atypical or irregular transactions have been entered into with such counterparties.

Article 15 of Consob's market regulations

With reference to Article 15 (previously Article 36) of Consob resolution 16191/07 (Market Regulations) on the subject of prerequisites for listing in respect of parent companies incorporated or regulated by the laws of EU member states and relevant to the preparation of the consolidated accounts, 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 self-assessment 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 publishes a Consolidated Non-Financial Statement which is drawn up in accordance with Article 4 of Italian Legislative Decree 254/16, and contains information on environmental and social issues, human resources, protection of human rights and anti-corruption measures, in order to facilitate understanding of the Group's activities, performance, results and impact generated.

The 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. Besides, as from the Consolidated Non-Financial Statement for FY 2021-22, the standards developed by the Sustainability Accounting Standards Board ("SASB") have also been taken into consideration, where applicable, and a first self-assessment has been made in connection with the recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD).

Research

Economic research is carried on by the Mediobanca Research Area, which has now absorbed the activities of R&S S.p.A. (which has been placed in liquidation). The Research Area's catalogue includes the customary publications which have been produced for many years now ("Leading Italian Companies", "Financial Aggregates of Italian Companies", "Medium-Sized Industrial Companies"), plus a series of industrial economic reports on the sectors in which the Italian market is most involved internationally.

Rating

In March 2021 S&P Global Ratings – following a bank-specific review – upgraded the Outlook assigned to Mediobanca from Negative to Stable. The BBB rating remains unchanged, however, as it is aligned to the rating for the Italian Republic. At the current rating level, despite the ongoing macro uncertainties, and although the trend in economic risk for the Italian banking system remains negative, S&P believes that Mediobanca's more diversified business model, prudent risk management, and solid capitalization should provide sufficient buffers to cushion the Bank's creditworthiness against the residual impacts of the pandemic-induced crisis.

In May 2021 Moody's, as part of a sector review, has upgraded the Outlook assigned to Mediobanca from Negative to Stable, confirming the Bank's long-term rating at Baa1 and its short-term rating at P-2. The rating action reflects Mediobanca's high capitalization, profitability and diversification.

There have been no changes in the rating assigned to Mediobanca by Fitch from the situation at 31 December 2020: long-term rating BBB-, rating for long-term deposits BBB and for short-term debt F3, with stable outlook.

Other reports

The following documents are also available on the Bank's website at www.mediobanca.com (section "Governance"): the Annual Statement on Corporate Governance and Ownership Structure and the Report on Remuneration and Compensation Paid as required by Article 123-*bis* of Italian Legislative Decree 58/98 (the "Italian Finance Act"), plus the Basel III (Pillar3) Disclosure to the Public.

Outlook

The good progress being made in the vaccination programme offers grounds for optimism that the improvement in the macroeconomic scenario will continue, despite the upturn in infections and inflationary pressures.

In this scenario, recoveries are expected in lending volumes, in Consumer Banking and Corporate Lending, and in AUM, which should drive an increase in revenues. The increase is likely to be concentrated in net interest income, which looks set to grow again, driven by Consumer Banking and the contribution from the equity-accounted companies, due to the good performance by Assicurazioni Generali, as confirmed by the most recent estimates. Conversely, growth in fees is unlikely to be as strong as this year, where the expectation is that much of the growth in Wealth Management will be offset by likely difficulties in Corporate and Investment Banking, in part because of this year's outstanding performance in Investment Banking which will be hard to match in the absence of big tickets (which in turn are hard to predict). Net treasury income looks set to fall, despite stronger client activity, which is unlikely to be sufficient to offset the reductions in Holding Functions and Principal Investing after the outstanding results posted this year. The cost/income ratio is expected to stabilize in the 47%, despite the large-scale reduction in project activity and the inevitable increase in travel and entertainment expenses (at all-time low levels during the pandemic).

The cost of risk should remain at low levels, in view of the risk indicators in Consumer Banking which are still very good, and the substantial overlays set aside to cushion any sudden changes in the risk profile in the course of the new financial year.

Reconciliation of shareholders' equity and net profit

(€'000)

	Shareholders' equity	Net profit (loss)
Balance at 30/06 as per Mediobanca S.p.A. accounts	4,828,210	583,560
Net surplus over book value for consolidated companies	14,822	439,038
Differences on exchange rates originating from conversion of accounts made up in currencies other than the Euro	912	—
Other adjustments and restatements on consolidation, including the effects of accounting for companies on an equity basis	5,361,345	(215,022)
Dividends received during the period	—	—
Total	**10,205,289**	**807,576**

Milan, 23 September 2021

THE BOARD OF DIRECTORS

DECLARATION BY HEAD OF COMPANY FINANCIAL REPORTING

DECLARATION IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

as required by Article 81-*ter* of Consob resolution no. 11971
issued on 14 May 1999 as amended

1. The undersigned Alberto Nagel and Emanuele Flappini, in their respective capacities as Chief Executive Officer and Head of Company Financial Reporting of Mediobanca, hereby declare, and in view *inter alia* of the provisions contained in Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree 58/98, that the administrative and accounting procedures used in the preparation of the interim financial statements:
   – were adequate in view of the company's characteristics;
   – were effectively applied in the year ended 30 June 2021.

2. Assessment of the adequacy of said administrative and accounting procedures for the preparation of the consolidated financial statements as at 30 June 2021 was based on a model defined by Mediobanca in accordance with benchmark standards for internal control systems which are widely accepted at international level (CoSO and CobiT frameworks).

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

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

Milan, 23 September 2021

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

EXTERNAL AUDITORS' REPORT

Independent auditor's report

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

To the Shareholders of
Mediobanca SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Mediobanca Group (the "Group"), which comprise the consolidated balance sheet as of 30 June 2021, the consolidated profit and loss account, the consolidated comprehensive profit and loss account, the statement of changes to consolidated net equity, the consolidated cash flow statement for the year then ended, and notes to the accounts, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 30 June 2021, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15.

Basis for Opinion

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

Key Audit Matters

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

PricewaterhouseCoopers SpA

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Recoverable amount of intangible assets with an indefinite useful life arising from business combinations	
Notes to the accounts: *Part A- Accounting policies, A.2 Significant accounting policies – Intangible assets* *Part B – Notes to the consolidated balance sheet, Section 10 Intangible assets – Heading 100* *Part C – Notes to the consolidated profit and loss account, Section 19 Impairment charges to goodwill – Heading 270* As at 30 June 2021 the carrying amount of intangible assets with an indefinite useful life arising from business combinations amounted to Euro 683.2 million, Euro 602.4 million of which relating to goodwill and Euro 80.8 million related to brands. During the financial year, impairments were charged for Euro 62.5 million of which: - Euro 18.6 million following the partial impairment of the carrying amount of goodwill arising from the acquisition of the subsidiary RAM Active Investments S.A.; - Euro 41 million following the partial impairment of the carrying amount of goodwill arising from the acquisition of the subsidiary Messier et Associés S.C.A.; - Euro 2.9 million following the partial impairment of the carrying amount of goodwill relating to the Spafid- Servizi Fiduciari CGU. The directors are required to assess the recoverable amount of intangible assets with an indefinite useful life at least once a year through an impairment test. In accordance with IAS 36 this assessment is based on the comparison between the carrying amount and the higher of the fair value less costs to sell and the value in use of each cash generating unit (“CGU”) to which these intangible assets are allocated.	In performing our audit, we considered internal control relevant to financial reporting, in order to define appropriate auditing procedures. Specifically, the following activities were performed also with the support of experts of the PwC network: • Understanding and evaluation of the process and methodology adopted by the directors to carry out the impairment tests of the CGUs; • Verification that the valuation methods adopted were in line with the requirements of IAS 36 “Impairment of assets”, taking account of the market practice, the distinctive characteristics of each CGU, as well as the communications from the Supervisory Authorities issued following the Covid-19 pandemic; • Verification of the scope of the CGUs tested for impairment and, on a sample basis: - Comparison of the forecast data prepared during the previous year with the actual data of the current year in relation to each CGU, in order to verify the reasonableness of the directors’ assumptions; - Assessment of the reasonableness of the future projections adopted by the directors, taking account of the uncertainty linked to the Covid-19 health emergency; - Assessment of the reasonableness, also by way of a comparison with external data, where available, of the main quantitative assumptions (cost of capital, discount and growth rates, royalty rates) determined by the directors also with the support of independent third-party experts, and used to performed impairment tests; - Verification of the accuracy of the mathematical calculations behind the

The recoverable amount of each CGU was estimated by the directors also with the support of independent third-party experts, by applying the Dividend Discount Model methodology, with excess capital version for capital-intensive CGUs, as well as according to the "royalty relief" method for brands.
These valuation methods, which are consolidated and acknowledged by the prevailing practice, require the use of information, parameters and assumptions that result in a high degree of complexity of the estimation processes, with particular reference to the expected future cash flows.

Again, for the year ended 30 June 2021, the estimation process proved to be still complex considering the persisting uncertainty of the macro-economic scenario due to the Covid-19 pandemic; when deemed necessary, the directors have therefore adjusted their estimates of the cash flows projections.

For the reasons set out above, we considered the recoverable amount of intangible assets with an indefinite useful life arising from business combinations as a key audit matter for the audit of the consolidated financial statements of Mediobanca Group as at 30 June 2021.

evaluation models used and the correctness of the calculations;
- Assessment of the results of the sensitivity analyses carried out by the directors on the main quantitative parameters;

- Verification of the appropriateness and completeness of disclosures provided by the directors in the notes to the accounts as required by the International Financial Reporting Standards and the applicable regulatory framework, as well as the communications from the Supervisory Authorities issued in the aftermath of the Covid-19 pandemic.

Valuation of loans to customers measured at amortized cost

Notes to the accounts:
Part A – Accounting policies
Part B – Notes to the consolidated balance sheet, Assets, Section 4
Part C – Notes to the consolidated profit and loss account, Section 8
Part E – Information on risks and related hedging policies – 1.1 Credit risk

As of 30 June 2021 loans to customers were equal to Euro 48,924 million, corresponding to 95 per cent of line item "*40 b) Financial assets at amortized cost – due from customers*", equal to Euro 51,275 million and corresponding to 59 per cent of total assets in the consolidated financial statements.

In performing our audit we considered internal control relevant to financial reporting. In order to define auditing procedures appropriate to the circumstances, we took account of the changes and adaptations required by the ongoing uncertainties of the macro-economic scenario due to the Covid-19 pandemic.

In order to address this key audit matter, the following main activities were performed also with the support of experts of the PwC network:

- Analysis of the adequacy of the IT environment and test of the operating effectiveness of relevant controls over the IT systems and software applications used for the valuation of loans;

Net losses on loans to customers charged in the year amounted to Euro 264.5 million and represent the directors' best estimate in order to reflect the expected losses on the loan portfolio at the reporting date on the basis of the accounting standards.

Estimation processes require significant assumptions, aside from the verification of the SICR (Significant Increase in Credit Risk) and the allocation of the portfolios to the various risk stages (Staging), also when determining the hypotheses and inputs to the ECL (Expected Credit Loss) models and, in relation to assets measured individually (Stage 3), when estimating the expected future cash flows, the timing of those cash flows, and the realisable value of any collateral.

During the current year these estimation processes proved to be far more complex to take account of the uncertainties due to the persisting macro-economic scenario affected by the Covid-19 pandemic, as well as the consequent government measures to support the economy, including in particular payment moratoria and the provision or renegotiation of loans against public collaterals.

These circumstances required, as also pointed out in the communications from the Supervisory Authorities and standard setters, the update of the processes and methods to measure loans, with particular reference to the SICR determination and, and the determination of the main variables and estimation parameters of the ECL (macro-economic variables, probability of default), including adjustments to the estimation models to incorporate the uncertainties due to the evolution of the current pandemic context.

In view of the significance of the carrying value and of the complexity of processes and methods adopted, we considered the valuation of loans to customers as a key audit matter for the consolidated financial statements at 30 June 2021.

- Understanding and evaluation of the design of relevant controls over the monitoring, classification and measurement of loans to customers and tests of operating effectiveness of those controls;
- Understanding and verification of the appropriateness of the policies, procedures and models used to measure the SICR, for the stage allocation and for determining the ECL, on both a collective and individual basis.
  Special attention was paid to the parties which adopted and benefitted from measures in support of the economy in the wake of the Covid-19 pandemic, especially debt moratoria;
- Understanding and verification of the methods to determine the main estimation parameters used in the models for the ECL calculation and the changes and corrections introduced during the year. Specifically, we verified the reasonableness of the estimated made by the directors when defining the expected macro-economic scenarios with specific regard to the adjustments to the satellite model forecasts used to estimate the risk parameters such as PD (Probability of Default) and LGD (Loss Given Default), with a view to consider the increased risk in the current context linked to the Covid-19 pandemic.

Specific tests were performed on the correct application of the credit conversion factors for off-balance sheet commitments and exposures;

- Verification of the correct application of the valuation model defined for performing loans (Stage 1 and Stage 2), of the completeness and accuracy of the data bases used in the ECL calculation and the accuracy of the calculation formulas of the key estimation parameters (Probability of Default, Loss Given Default and Exposure at Default);
- Verification, on a sample basis, of the reasonableness of classification among performing loans (Stage 1 and Stage 2) and among non-performing loans (Stage 3) based on the available information on

the debtor’s status and other available evidence, including from external sources. With specific regard to non-performing loans (Stage 3), specific analyses were conducted in relation to the assumptions made with reference to the identification and quantification of the estimated future cash flows from recoveries, the measurements of the collaterals securing those exposures and the estimated timing of recovery.
For non-performing loans measured on a collective basis, verification of the correct determination of the main estimation parameters within the model used, together with the completeness and accuracy of the model input data;
- Examination of the sensitivity analyses carried out by the directors on the expected losses recorded at year-end compared with changes to the expected macro-economic scenario in the short/medium term;
- Analysis of the results of the activities performed by the external auditors of the subsidiaries;
- Verification of the completeness and adequacy of the disclosures provided in the notes to the accounts by the directors in accordance with the requirements of the International Financial Reporting Standards and the regulatory framework as well as the communications issued by the Supervisory Authorities and the standard setters following the Covid-19 pandemic.

Measurement of financial instruments not listed in active markets and measured at fair value on a recurring basis

Notes to the accounts:
Part A – Accounting policies – A.2 Significant accounting policies and A.4 Information on fair value
Part B – Notes to the consolidated balance sheet, Assets, Section 2, Section 3 and Section 5, and Liabilities, Section 2, Section 3 and Section 4
Part C – Notes to the consolidated profit and loss account, Section 4, Section 5 and Section 7

In performing our audit, we considered internal control relevant to financial reporting in order to define auditing procedures appropriate to the circumstances. In detail, to address this key audit matter we performed the following main activities:
- Analysis of the adequacy of the IT environment and tests of the operating effectiveness of relevant controls over the

Part E – Information on risks and related hedging policies – 1.2 Market risk As of 30 June 2021, financial instruments measured at fair value on a recurring basis with fair value hierarchy level 2 and level 3 showed a positive fair value equal to Euro 5,451.4 million, corresponding to about 6.6 per cent of assets in the balance sheet and a negative fair value equal to Euro 6,305.2 million, corresponding to about 7.6 per cent of the total balance sheet liabilities. Certain types of securities and derivative instruments are measured using complex valuation models, acknowledged in prevailing practice. This practice is fed with inputs and parameters directly observable and not observable in the market and estimated internally based on qualitative and quantitative assumptions (financial instruments with fair value hierarchy level 2 and level 3). This was considered as a key matter for the audit of the Group's consolidated financial statements at 30 June 2021 due to the materiality of the amounts, the number and complexity of the valuation models used and the significant estimates and assumptions required. The valuation models used, besides being numerous and different in relation to the type of instruments, require developing specific qualitative and quantitative assumptions that can bring significantly different results.	IT systems and software application used to assess financial instruments; • Understanding and evaluation of the design of relevant controls over the monitoring, classification and measurement of financial instruments and tests of the operating effectiveness of those controls; • Understanding and verification of the appropriateness of the accounting policies, procedures and valuation models used by the Group to determine fair value; • Verification, on a sample basis, of fair value to analyze the reasonableness of the qualitative and quantitative assumptions made and the inputs used. These analyses were performed with the support of experts of the PwC network; • Check of the completeness and adequacy of the disclosures closely connected with this key audit matter also in relation to what is provided for in the applicable accounting standards.

Responsibilities of the Directors and the Statutory Audit Committee for the Consolidated Financial Statements

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

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

The statutory audit committee ("collegio sindacale") is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

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

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

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

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

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

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

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

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

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

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

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

Report on Compliance with other Laws and Regulations

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

The directors of Mediobanca SpA are responsible for preparing the review of operations and the statement on corporate governance and ownership structure of the Mediobanca Group as of 30 June 2021, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the review of operations and of the specific information included in the statement on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Mediobanca Group as of 30 June 2021 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the review of operations and the specific information included in the statement on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Mediobanca Group as of 30 June 2021 and are prepared in compliance with the law.

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

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

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

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

Milan, 1 October 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.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet

(€'000)

Assets	30/6/21	30/6/20
10. Cash and cash equivalents	1,969,488	3,219,951
20. Financial assets at fair value with impact taken to profit and loss	12,649,596	9,585,412
a) Financial assets held for trading	*11,273,737*	*8,818,590*
b) Financial assets designated at fair value	*680,539*	*51,002*
c) Other financial assets mandatorily at fair value	*695,320*	*715,820*
30. Financial assets at fair value with impact taken to comprehensive income	4,567,371	3,627,591
40. Financial assets at amortized cost	56,599,625	55,957,290
a) Due from banks	*5,324,393*	*5,932,944*
b) Due from customers	*51,275,232*	*50,024,346*
50. Hedging derivatives	308,370	464,718
60. Adjustment of hedging financial assets (+/-)	—	—
70. Equity investments	3,702,925	3,204,702
80. Reinsured portion of technical reserve	—	—
90. Property, plant and equipments	510,209	495,772
100. Intangible assets	744,139	815,996
of which:		
goodwill	*602,363*	*666,536*
110. Tax assets	792,265	908,837
a) current	*208,062*	*251,337*
b) deferred	*584,203*	*657,500*
120. Assets classified as held for sale*	4,178	—
130. Other assets	750,534	669,396
Total assets	**82,598,700**	**78,949,665**

* Related to Spafid Connect business unit disposal deal.

(€'000)

Liabilities and net equity	30/6/21	30/6/20
10. Financial liabilities at amortized cost	58,475,015	58,941,428
a) Due to banks	*12,830,919*	*12,810,330*
b) Due to customers	*27,064,789*	*26,373,214*
c) Debt securities in issue	*18,579,307*	*19,757,884*
20. Trading financial liabilities	10,063,629	7,956,935
30. Financial liabilities designated at fair value	833,048	216,020
40. Hedging derivatives	375,413	465,225
50. Adjustment of hedging financial liabilities (+/-)	—	—
60. Tax liabilities	549,604	517,316
a) current	*210,817*	*191,868*
b) deferred	*338,787*	*325,448*
70. Liabilities included in disposal groups classified as held for sale*	381	—
80. Oher liabilities	898,035	798,069
90. Staff severance indemnity provision	26,886	27,862
100. Provisions	144,209	129,493
a) commitments and financial guarantees	*27,155*	*13,964*
b) post-employment and similar benefits	*1,410*	*2,573*
c) other provisions	*115,644*	*112,956*
110. Insurance reserves	131,350	157,244
120. Revaluation reserves	931,230	374,650
130. Redeemable shares repayable on demand	—	—
140. Equity instruments repayable on demand	—	—
150. Reserves	6,851,502	6,265,864
160. Share premium reserve	2,195,606	2,195,606
170. Share capital	443,640	443,617
180. Treasury share (-)	(216,736)	(231,538)
190. Minority interests (+/-)	88,312	91,492
200. Profit/(loss) for the period (+/-)	807,576	600,382
Total liabilities and net equity	**82,598,700**	**78,949,665**

* Related to Spafid Connect business unit disposal deal.

Consolidated Profit and Loss Account

(€'000)

Items		30/6/21	30/6/20
10.	Interest and similar income	1,819,894	1,943,892
	of which: interest income calculated according to the effective interest method	*1,641,948*	*1,741,687*
20.	Interest expense and similar charges	(402,327)	(502,197)
30.	**Net interest income**	**1,417,567**	**1,441,695**
40.	Fee and commission income	719,736	625,292
50.	Fee and commission expense	(134,458)	(138,630)
60.	**Net fee and commission income**	**585,278**	**486,662**
70.	Dividends and similar income	106,904	87,425
80.	Net trading income	83,916	(18,022)
90.	Net hedging income (expense)	(2,078)	(4,787)
100.	Gain (loss) on disposal/repurchase:	12,415	58,395
	a) financial assets measured at amortized cost	*(10,018)*	*(2,672)*
	b) financial assets valued at fair value with impact taken to comprehensive income	*24,051*	*60,421*
	c) financial liabilities	*(1,618)*	*646*
110.	Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss:	108,412	33,098
	a) financial assets and liabilities designated at fair value	*(7,167)*	*2,331*
	b) other financial assets mandatorily valued at fair value	*115,579*	*30,767*
120.	**Total income**	**2,312,414**	**2,084,466**
130.	Net write-offs (write-backs) for credit risk:	(270,469)	(402,364)
	a) financial assets measured at amortized cost	*(264,322)*	*(397,559)*
	b) financial assets valued at fair value with impact taken to comprehensive income	*(6,147)*	*(4,805)*
140.	Gains (losses) from contractual modifications without derecognition	(193)	(253)
150.	**Net income from financial operations**	**2,041,752**	**1,681,849**
160.	Premiums earned (net)	50,220	57,532
170.	Other income (net) from insurance activities	(14,131)	(15,791)
180.	**Net profit from financial and insurance activities**	**2,077,841**	**1,723,590**
190.	Administrative expenses:	(1,304,499)	(1,235,439)
	a) personnel coss	*(636,708)*	*(605,015)*
	b) other administrative expenses	*(667,791)*	*(630,424)*
200.	Net transfers to provisions:	(32,819)	13,720
	a) commitments and financial guarantees	*(13,125)*	*(3,427)*
	b) other sums set aside (net)	*(19,694)*	*17,147*
210.	Net adjustments to tangible assets	(53,425)	(53,551)
220.	Net adjustments to intangible assets	(32,368)	(30,222)
230.	Other operating income (expense)	217,020	189,407
240.	**Operating costs**	**(1,206,091)**	**(1,116,085)**
250.	Gain (loss) on equity investments	271,732	304,269
260.	Net result from fair value valuation of tangible and intangible assets	—	—
270.	Impairment charges to goodwill	(62,473)	(96,900)
280.	Gain (loss) on disposal of investments	(29)	59
290.	**Profit (loss) on ordinary activity before tax**	**1,080,980**	**814,933**
300.	Income tax for the year on ordinary activities	(271,781)	(213,504)
310.	**Profit (loss) on ordinary activities after tax**	**809,199**	**601,429**
320.	Gain (loss) of ceded operating assets, net of tax	—	—
330.	**Net profit (loss) for the period**	**809,199**	**601,429**
340.	Net profit (loss) for the period attributabe to minorities	(1,623)	(1,047)
350.	**Net profit (loss) for the period attributable to Mediobanca**	**807,576**	**600,382**

Consolidated Comprehensive Profit and Loss Account

(€'000)

		30/6/21	30/6/20
10.	Profit (Loss) for the period	809,199	601,429
	Other income items net of tax without passing through profit and loss	**47,350**	**656**
20.	Equity securities designated at fair value with impact taken to comprehensive income	64,121	3,148
30.	Financial liabilities at fair value with impact taken to profit and loss (variation of own credit risk)	(5,730)	(1,724)
40.	Hedging of equity securities designated at fair value with impact taken to comprehensive income	—	—
50.	Property, plant and equipments	—	—
60.	Intangible assets	—	—
70.	Defined benefit schemes	2,004	(2,261)
80.	Non-current assets held for sale	—	—
90.	Share of valuation reserves attributable to equity-accounted companies	(13,045)	1,493
	Other income items net of tax passing through profit and loss	**508,876**	**(222,294)**
100.	Foreign investments hedges	1,390	(3,212)
110.	Exchange rate differences	475	5,475
120.	Cash flow hedges	15,166	11,212
130.	Hedging instruments (non-designated elements)	—	—
140.	Financial assets (other than equity securities) valued at fair value with impact taken to comprehensive income	40,083	(15,390)
150.	Non-current assets held for sale	—	—
160.	Share of valuation reserves attributable to equity-accounted companies	451,762	(220,379)
170.	**Total other income items, net of tax**	**556,226**	**(221,638)**
180.	**Comprehensive income (Heading 10 +170)**	**1,365,425**	**379,791**
190.	**Consolidated comprehensive income attributable to minorities**	**2,310**	**1,478**
200.	**Consolidated comprehensive income attributable to Mediobanca**	**1,363,115**	**378,313**

Statement of Changes to Consolidated Net Equity

(€'000)

	Total Group net equity at 30/6/20	Allocation of profit for previous period: Reserves	Allocation of profit for previous period: Dividends and other fund applications	Changes during the reference period: Changes to reserves	Transactions involving net equity: New shares issued	Transactions involving net equity: Treasury shares acquired	Transactions involving net equity: Extra-ordinary dividend payouts	Transactions involving net equity: Changes to equity instruments	Transactions involving net equity: Treasury shares derivates	Transactions involving net equity: Stock options[1]	Transactions involving net equity: Changes to investments	Overall consolidated profit for the 12 mths ended 30/6/21	Total net equity at 30/6/21	Net equity attributable to the group at 30/6/21	Net equity attributable to the minorities at 30/6/21
Share capital:	460,246	—	—	—	23	—	—	—	—	—	—	—	460,269	443,640	16,629
a) ordinary shares	460,246	—	—	—	23	—	—	—	—	—	—	—	460,269	443,640	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	—	(19,708)	(23)	(15,038)	—	—	—	14,535	—	—	6,921,421	6,851,502	69,919
a) retained earnings	6,202,878	601,429	—	(18,667)	(23)	—	—	—	—	—	—	—	6,785,617	6,716,325	69,292
b) others	137,348	—	—	(1,041)	—	(15,038)	—	—	—	14,535	—	—	135,804	135,177	627
Valuation reserves	372,256	—	—	1,041	—	—	—	—	—	—	—	556,226	929,523	931,230	(1,707)
Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	(231,538)	—	—	—	—	14,802	—	—	—	—	—	—	(216,736)	(216,736)	—
Profit (loss) for the period	601,429	(601,429)	—	—	—	—	—	—	—	—	—	809,199	809,199	807,576	1,623
Total net equity	9,740,073	—	—	(18,667)	—	(236)	—	—	—	14,535	—	1,365,425	11,101,130	X	X
Net equity attributable to the group	9,648,581	—	—	(13,177)	—	(236)	—	—	—	14,535	—	1,363,115	X	11,012,818	X
Net equity attributable to minorities	91,492	—	—	(5,490)[2]	—	—	—	—	—	—	—	2,310	X	X	88,312

[1] Represents the effects of the performance shares related to the ESOP schemes.
[2] Represents the effect of the repurchasement of RAM Active Investments shares against Group reserves.

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

[1] Includes the effects of the first application of IFRS16 accounting standard deriving from sub-leasing contracts.
[2] Represents the effects of the stock options and performance shares related to the ESOP schemes.

Consolidated Cash Flow Statement Direct Method

(€'000)

	Amount 30/6/21	Amount 30/6/20
A. Cash flows from operating activity		
1. Operating activity	**335,123**	**251,860**
- interest received	1,593,479	1,838,280
- interest paid	(440,699)	(680,668)
- dividends and similar income	97,486	78,166
- net fees and commission income	296,147	207,441
- cash payments to employees	(484,144)	(469,204)
- net premium income	15,606	53,910
- other premium from insurance activity	(110,993)	(122,091)
- other expenses paid	(527,684)	(492,364)
- other income received	174,473	226,707
- income taxes paid	(278,548)	(388,317)
- Expenses/income from group of assets being sold	—	—
2. Cash generated/absorbed by financial assets	**(6,234,261)**	**5,234,187**
- financial assets held for trading	75,584	177,267
- financial assets valued at fair value	(592,002)	—
- financial assets mandatorily valued at fair value	117,167	122,730
- financial assets valued at fair value with impact taken to other comprehensive income	(753,595)	278,923
- financial assets valued at amortized cost	(4,854,197)	4,455,972
- other assets	(227,218)	199,295
3. Cash generated/absorbed by financial liabilities	**4,499,744**	**(2,544,716)**
- financial liabilities valued at amortized cost	4,527,626	(2,264,569)
- financial liabilities held for trading	(60,043)	(72,813)
- financial liabilities designated at fair value	580,571	160,878
- other liabilities	(548,410)	(368,212)
Net cash flow (outflow) from operating activities	**(1,399,394)**	**2,941,331**
B. Cash flows from investment activity		
1. Cash generated from:	**207,500**	**101,363**
- disposal of shareholdings	—	—
- dividends received in respect of equity investments	206,954	101,357
- disposals of tangible assets	546	6
- disposals of intangible assets	—	—
- disposals of subsidiaries or business units	—	—
2. Cash absorbed by:	**(54,875)**	**(48,774)**
- purchases of shareholdings	—	—
- purchases of tangible assets	(26,335)	(21,648)
- purchases of intangible assets	(28,540)	(27,126)
- purchases of subsidiaries or business units	—	—
Net cash flow (outflow) from investment activity	**152,625**	**52,589**
C. Cash flows from funding activity	**(3,694)**	**(512,331)**
- issuance/acquisition of treasury shares	—	(105,528)
- issuance/acquisition of capital instruments	—	—
- distribution of dividends and other purposes	(3,694)	(406,803)
- purchases/acquisition of minorities	—	—
Net cash flow (outflow) from funding activities	**(3,694)**	**(512,331)**
Net cash flow (outflow) during the period	**(1,250,463)**	**2,481,589**

Reconciliation of Movements in Cash Flow during the Period

(€'000)

Accounting items	Amount	
	30/6/21	30/6/20
Cash and cash equivalents: balance at start of period	3,219,951	738,362
Total cash flow (ouflow) during the period	(1,250,463)	2,481,589
Cash and cash equivalents: exchange rate effect	—	—
Cash and cash equivalents: balance at end of period	1,969,488	3,219,951

NOTES TO THE ACCOUNTS

NOTES TO THE ACCOUNTS

E-MARKET SDIR CERTIFIED

Part A - Accounting policies

A.1 - General policies

SECTION 1

Statement of conformity with IAS/IFRS

The Mediobanca Group's consolidated financial statements for the twelve months ended 30 June 2021 have, as required by Italian Legislative Decree 38 on February 2005, been drawn up in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB), and the respective interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), which were adopted by the European Commission in accordance with the procedure laid down in Article 6 of regulation CE 1606/02 issued by the European Parliament and Council on 19 July 2002. The consolidated financial statements for the period ended 30 June 2021 have also been prepared on the basis of the "Instructions on preparing statutory and consolidated financial statements for banks and financial companies which control banking groups" issued by the Bank of Italy in its Circular no. 262 on 22 December 2005 (sixth update issued on 30 November 2018, as amended), which define the structure to be used in compiling and preparing the financial statements and the contents of the notes to the accounts.[1]

SECTION 2

General principles

These consolidated financial statements comprise:

– Consolidated balance sheet;

– Consolidated profit and loss account;

– Consolidated comprehensive income statement;

– Statement of changes to consolidated net equity;

– Consolidated cash flow statement;

– Notes to the accounts.

[1] The Bank of Italy, in a communication issued on 15 December 2020, "Additions to the provisions of Circular no. 262, Financial statements for banks: models and rules for compilation regarding the impacts of Covid-19 and the measures introduced to support the economy and amendments made to IAS/IFRS", provided additions to the regulations governing financial reporting by banks (Circular no. 262 of 2005) with a view to providing the market with disclosure regarding the effects which Covid-19 and the measures introduced to support the economy have produced on strategies, objectives and risk management policies and on the earnings/financial situations of intermediaries in general.

These financial statements have been drawn up using the Euro as the currency of account. The amounts stated in the financial statements themselves and the data in the tables included in the Notes to the Accounts are shown in thousands of Euros, unless stated otherwise. The consolidated financial statements have been drawn up with the intention of providing clarity and a truthful and accurate representation of the capital and financial situation and earnings results of Mediobanca S.p.A. and its Group legal entities as listed in Section 3 below ("Area and methods of consolidation").

The financial statements have been drawn up in compliance with the following general principles:

- Business continuity;
- Accrual;
- Consistency of presentation;
- Substance over form.

The financial statements have been drawn up in conformity with the general principles provided for under IAS/IFRSand the accounting policies illustrated in part A.2, and show data for the year under review compared with the data for the previous financial year.

During the twelve 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, Regulation (EU) 2020/2097 of 15 December 2020, Regulation (EU) 2021/25 of 13 January 2021, and Regulation (EU) 2021/1080 of 28 June 2021:

- Regulation (EU) 2020/1434 adopts the amendments to IFRS16 proposed by the IASB[2] 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[3] ;
- Regulation (EU) 2020/2097 provides for an extension to the exemption from applying IFRS9 granted to insurance companies, allowing them to continue applying IAS39 until 2023. For the Mediobanca Group the Regulation is valid as from 1 July 2021;

[2] *International Accounting Standards Board, Covid-19-Related Rent Concessions – Amendment to IFRS16* – May 2020.

[3] After the financial statement reference date, the EU Commission, with the Regulation 2021/1421 of 30 August 2021, has endorsed the modifications to the IFRS16 standard proposed by the IASB in the document entitled "Amendments to IFRS16 Leases: Covid-19-Related Rent concessions beyond 30 June 2021" published 31 March 2021. With this Regulation amendments to the standard have been extended to payments contractually due up to 30 June 2022 included

- Regulation (EU) 2021/25 provides for the amendments to IAS39, IFRS4, IFRS7, IFRS9 and IFRS16 reflected in the document entitled "Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS9, IAS39, IFRS7, IFRS4 and IFRS16" published by the IASB on 27 August 2020.[4] This Regulation too is valid for the Group as from 1 July 2021;
- Regulation (EU) 2021/1080 introduced some minor amendments to IAS16, IAS37, IAS41, IFRS1, IFRS3 and IFRS9. These amendments are valid for the Group starting from 1 July 2022.

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 in the twelve months are summarized below. In particular, the following were issued (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 IAS1, IAS36, IFRS9, IFRS7 and IFRS16; 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.
- EBA:
  Guidelines of 2 December 2020 (EBA/GL/2020/15): "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

[4] This document takes account of the effects of transitioning from benchmark interest rates to alternative benchmark interest rates in order to determine existing rates with such alternative benchmarks; the transition is made in accordance with the provisions of *Reforming major interest rate benchmarks* published in 2014 by the Financial Stability Board (FSB).

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.

Recommendation ECB/2021/31 of 23 July 2021 on dividend distributions during the Covid-19 pandemic, which recommends extreme prudence when credit institutions decide on or pay out dividends or perform share buybacks aimed at remunerating shareholders.

– Consob:
Reminder no. 1/21 of 16 February 2021on the disclosure to be provided by regulated issuers. Consob, taking up the issues raised by ESMA in its document of 28 October 2020, clarifies in this reminder that the disclosure must also be provided in the review of operations, highlighting in particular the description of changes to the business model made in response to the pandemic, and the action taken to address the uncertainty arising, short-term and medium-term, as a result of Covid-19.

Group project on interbank benchmark rates

The internal working group set up to deal this issue has continued its work of monitoring and drawing up all the operational processes required to complete the transition to the new interbank benchmark rates by the start of 2022. Work has continued on renegotiating contracts for index-linked products soon to be discontinued, adhering where possible to the protocols developed by the sector category associations (e.g. the ISDA Benchmark & IBOR Protocol), and urging the Group's counterparties to do likewise without delay.

The Group is adopting all measures in terms of internal regulations, operational procedures and technology to ensure the transition is managed effectively.

Commission Regulation 25/2021 of 13 January 2021 introduced some further amendments to the accounting standards used (notably IAS39, IFRS4, IFRS7, IFRS9 and IFRS16). In particular, the management and accounting representation of "derecognition/modification" and "discontinuing" for hedge accounting have been simplified. These amendments will be mandatorily applicable for the Group as from the financial statements for the year ending 30 June 2022.

The Group has already applied Commission Regulation (EU) 2020/34 of 15 January 2020 ("Regulation 34"), which incorporates the IASB exemptions of September 2019 to prevent uncertainty due to the lack of a single alternative parameter for the whole market, could lead to hedging arrangements being discontinued. The trades specifically affected are 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 USD1,975m.

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 existing operations were amended: in particular, an additional discount was introduced (in the form of a fixed 50 bps annual 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 set annually 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, 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 IAS8 on accounting policies, it has been decided to account for these operations as part of the scope of financial instruments covered by IFRS9 (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.

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

The following events in the twelve months should be noted:

- 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;
- The Group’s holding in Cairn Capital Group Limited increased from 70.9% to 85.1%, following the exercise of put-and-call options involving 5.7%, plus exercise of the option to take up unsubscribed rights deriving from the capital increase in January 2021;
- Messier et Maris SA has changed its name to Messier et Associés – Groupe Mediobanca following the departure of one of the two founding partners, Erik Maris. His minority share (16.7%) was acquired for a token value of €1, and increases Mediobanca’s stake in the company from 66.42% to 83.11%;
- The holding in RAM increased from 69% to 94.7% as a result of the exit of two equity partners and the leading financial partner Reyl (which owned a share of 7.6%);

- The liquidation processes for both CMB Wealth Management and Prominvestment have now been completed, and both companies have been removed from their respective companies' registers.

  The following developments should also be noted:

- In May 2021, a resolution was adopted to wind up Group company Ricerche e Studi and place it in liquidation;[5]
- On 2 February 2021[6] Cairn Capital signed a strategic partnership agreement with Bybrook Capital LLP ("Bybrook"), a specialist distressed credit manager based in London; the deal was closed on 31 August 2021, after the clearance procedure with the ECB and FCA was completed.

[5] The company was removed from the companies register on 30 July 2021.

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

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. SPAFID S.P.A	Milan	1	A.1.1	100.00	100.00
3. SPAFID CONNECT S.P.A.	Milan	1	A.1.4	100.00	100.00
4. MEDIOBANCA INNOVATION SERVICES - S.C.P.A.	Milan	1	A.1.1	100.00	100.00
5. CMB MONACO S.A.M.	Montecarlo	1	A.1.1	100.00	100.00
6. C.M.G. COMPAGNIE MONEGASQUE DE GESTION S.A.M.	Montecarlo	1	A.1.5	99.92	99.92
7. CMB ASSET MANAGEMENT S.A.M.	Montecarlo	1	A.1.5	99.2	99.2
8. MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.	Luxembourg	1	A.1.1	99.00	99.00
		1	A.1.9	1.00	1.00
9. COMPASS BANCA S.P.A.	Milan	1	A.1.1	100.00	100.00
10. CHEBANCA! S.P.A.	Milan	1	A.1.1	100.00	100.00
11. MB CREDIT SOLUTIONS S.P.A.	Milan	1	A.1.9	100.00	100.00
12. SELMABIPIEMME LEASING S.P.A.	Milan	1	A.1.1	60.00	60.00
13. MB FUNDING LUXEMBOURG S.A.	Luxembourg	1	A.1.1	100.00	100.00
14. RICERCHE E STUDI S.P.A. - under liquidation	Milan	1	A.1.1	100.00	100.00
15. MEDIOBANCA SECURITIES USA LLC	New York	1	A.1.1	100.00	100.00
16. MB FACTA S.P.A.	Milan	1	A.1.1	100.00	100.00
17. QUARZO S.R.L.	Milan	1	A.1.9	90.00	90.00
18. QUARZO CQS S.R.L.	Milan	1	A.1.9	90.00	90.00
19. MEDIOBANCA COVERED BOND S.R.L.	Milan	1	A.1.10	90.00	90.00
20. COMPASS RE (LUXEMBOURG) S.A.	Luxembourg	1	A.1.9	100.00	100.00
21. MEDIOBANCA INTERNATIONAL IMMOBILIERE S. A R.L.	Luxembourg	1	A.1.8	100.00	100.00
22. CAIRN CAPITAL GROUP LIMITED	London	1	A.1.1	100.00*	85.1
23. CAIRN CAPITAL LIMITED	London	1	A.1.22	100.00	100.00
24. CAIRN CAPITAL NORTH AMERICA INC. (non operating)	Stamford (U.S.A.)	1	A.1.22	100.00	100.00
25. CAIRN CAPITAL GUARANTEE LIMITTED (non operating)	London	1	A.1.22	100.00	100.00
26. CAIRN CAPITAL INVESTMENTS LIMITED (non operating)	London	1	A.1.22	100.00	100.00
27. CAIRN INVESTMENT MANAGERS LIMITED (non operating)	London	1	A.1.22	100.00	100.00
28. AMPLUS FINANCE (non operating)	London	1	A.1.22	100.00	100.00
29. SPAFID FAMILY OFFICE SIM	Milan	1	A.1.3	100.00	100.00
30. SPAFID TRUST S.R.L.	Milan	1	A.1.3	100.00	100.00
31. MEDIOBANCA MANAGEMENT COMPANY S.A.	Luxembourg	1	A.1.1	100.00	100.00
32. MEDIOBANCA SGR S.P.A.	Milan	1	A.1.1	100.00	100.00
33. RAM ACTIVE INVESTMENTS S.A.	Geneva	1	A.1.1	98.3**	94.7
34. RAM ACTIVE INVESTMENTS (LUXEMBOURG) S.A.	Luxembourg	1	A.1.33	100.00	100.00
35. MESSIER ET ASSOCIES S.C.A.	Paris	1	A.1.1	100.00***	83.1
36. MESSIER ET & ASSOCIES LLC.	New York	1	A.1.35	100.00***	50.00
37. MBCONTACT SOLUTIONS S.R.L.	Milan	1	A.1.11	100.00	100.00
38. COMPASS RENT S.R.L.	Milan	1	A.1.9	100.00	100.00
39. COMPASS LINK S.R.L.	Milan	1	A.1.9	100.00	100.00

* 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..

2. Considerations and significant assumptions used to determine consolidation area

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

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

– When the investor has exposure, or rights, to variable returns from its involvement with the investee; 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 IFRS11, which involves the twofold requirement of the existence of a contractual arrangement and that such an arrangement must provide joint control to two or more parties.

For equity-accounted companies, any differences 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 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 exchange rates for the same period to the profit-and-loss items. All exchange rate differences arising as a result of conversion are recorded in a specific net equity valuation reserve which, as and when the investment is sold, is eliminated and the relevant amount is debited from or credited to the profit and loss account as the case may be.

Investee company Assicurazioni Generali, meanwhile, will continue to use IAS39 (rather than IFRS9 as adopted by the Mediobanca Group since 1 July 2018), having opted for the deferred approach provided by IFRS9 as governed by IFRS4. 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 IAS39. Such amounts will therefore be classified in the Other Comprehensive Income statement based on IAS39 with no adjustments.

3. Investments in subsidiaries with significant minority interests

Nothing to report.

4. Significant restrictions

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

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

5. Other information

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

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

Associates which have reporting periods ending on different dates compared to the 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 IAS28 (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 IFRS9 in the preparation of its own consolidated financial statements starting from 1 January 2023, in conjunction with the first-time adoption of IFRS17 – *Insurance contracts*, which replaces the current IFRS4 – *Insurance Contracts*. Until that date the Assicurazioni Generali group will therefore continue to apply IAS39. 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 IAS34. 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 reporting date

No events have taken place that would cause the results presented in the consolidated report for the twelve months ended 30 June 2021 to be amended.

On 23 September 2021, Mediobanca executed a securities lending transaction with a leading market counterparty in respect of a total of 70 million Assicurazioni Generali shares, equal to 4.4% of the company's share capital. The deal, which will have a duration of approx. eight months or until at least the Annual General Meeting of Assicurazioni Generali called to reappoint the company's Board of Directors, will result in an increase in Mediobanca's voting rights without thereby increasing the Group's current risk exposure towards Assicurazioni Generali.

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).

SECTION 5

Other aspects

The consolidated and separate financial statements have been audited by audit firm PricewaterhouseCoopers S.p.A. in accordance with Italian Legislative Decree 39/10, in implementation of the resolution adopted by shareholders at the Annual General Meeting held on 27 October 2012 for the years from 2013 to 2021.

A.2 - Significant accounting policies

Financial assets recognized at fair value through profit and loss

These include financial assets held for trading and other financial assets that must be recognized at fair value.[7]

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

[7] See Part A – Information on fair value on pp. 140 – 156.

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 or at fair value through other comprehensive income. In particular this category includes holdings in mutual funds (confirmed following clarification from the IFRSInterpretation Committee).[8]

Initial recognition occurs at the settlement date for securities, and at the subscription date for derivatives. At initial recognition, such financial assets are booked 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 Level3 assets). If the assets suffer impairment, they are written down to their current value.

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

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

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

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

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 pass the SPPI test.

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

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

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

The category also includes equities not held for trading which meet the definition provided by IAS32, 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 recognized at amortized cost

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

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

This heading also includes receivables originated from financial leasing transactions, the valuation and classification rules for which are governed by IAS16 (cf. below), even though the impairment rules introduced by IFRS9 apply for valuation purposes.

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

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

The business model is based on expected reasonable scenarios (without considering "worst case" and "best case" scenarios), and in the event of cash flows differing from those estimated at initial recognition, the Group is not bound to change the classification of financial instruments forming part of the portfolio, but uses the information for deciding the classification of new financial instruments[9].

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

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

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

At the initial recognition date, financial assets are recognized at fair value, including any costs or income directly attributable to individual transactions that can be established from the outset even if they are actually settled at later stages. The recognition value does not, however, factor in costs with the above characteristics which are repaid separately by the borrower, or may be classified as normal internal administrative expenses.

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

The amortized cost method is not used for short-term receivables, as the effect of discounting them is negligible; for this reason, such receivables are recognized at historical cost. The original effective interest rate is defined as the rate of interest which renders the discounted value of future cash flows deriving from the loan or receivable by way of principal and interest equal to the initial recognition value of the loan or receivable.

The original effective interest rate for each loan remains unchanged in subsequent years, even if new terms are negotiated leading to a reduction to below market rates, including non-interest-bearing loans. The relevant value adjustment is taken through the profit and loss account.

In accordance with the provisions of IFRS9, the impairment model involves financial assets being classified at one of three different risk stages (Stage1, Stage2 and Stage3), depending on developments in the borrower's credit standing, to which different criteria for measuring expected losses apply. Accordingly, financial assets are split into the following categories:

– Stage1: this includes exposures at their initial recognition date for as long as there is no significant impairment to their credit standing; for such instruments, the expected loss is to be calculated on the basis of default events which are possible within twelve months of the reporting date;

– Stage2: this includes exposures which, while not classified as impaired as such, have nonetheless experienced significant impairment to their credit standing since the initial recognition date; in moving from Stage1 to Stage2, the expected loss must be calculated for the outstanding life of the instrument;

– Stage3: this category consists of impaired exposures according to the definition provided in the regulations. In moving to Stage3, exposures are valued individually, that is, the value adjustment is calculated as the difference between the carrying value at the reference date (amortized cost) and the discounted value of the expected cash flows, which are calculated by applying the original effective interest rate. The cash flow estimates factor in the expected collection times, the probable net realizable value of any guarantees, and costs which are likely to be incurred in order to recover the credit exposure from a forward-looking perspective which takes account of alternative recovery scenarios and developments in the economic cycle.

The Group policy adopted to establish what constitutes significant increases in credit risk takes both the qualitative and quantitative aspects of each lending transaction or financial instrument into account. The following in particular are considered decisive: forbearance measures having been granted; the 30 days past due criterion; and other backstops having been identified, such as reclassification to watchlist status in accordance with the rules on credit risk monitoring. During the Covid-19 pandemic and in line with the guidance issued by the EBA, ECB, Consob and ESMA, the Mediobanca Group 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 recovery flows are periodically updated in light of new evidence, with flows discounted using the above-mentioned internal rate of return.

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 exposures.

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

Le expected credit loss[10] are recorded and released only insofar as the changes actually occur. For financial instruments held to be in default, the Group records an expected loss for the outstanding life of the instrument (similar to Stage2 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 the circumstances permitted under IFRS9. 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

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

separately as an asset or liability where appropriate. If the Group retains virtually all risks and benefits, the financial asset must continue to be recorded.

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

The main forms of activity currently carried out by the Group which do not require underlying assets to be derecognized are the securitization of receivables, repo trading and securities lending. Conversely, items received as part of deposit bank activity, the return on which is collected in the form of a commission, are not recorded, as the related risks and benefits continue to accrue entirely to the end-investor.

When a financial asset recognized at amortized cost is renegotiated, the Group derecognizes it only if the renegotiation entails a change of such magnitude that the initial instrument effectively becomes a new one. In such cases the difference between the original instrument's carrying value and the fair value of the new instrument is recorded through profit and loss, taking due account of any previous writedowns that may have been charged. The new instrument is classified as Stage1 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).

For all other assets, derecognition is carried out in accordance with the reference International Financial Reporting standards.

Leasing (IFRS16)

An agreement is classified as a leasing contract[11] (or contains a leasing element) based on the substance of the agreement at the execution date. An agreement is, or contains, a lease if its performance depends on the use of a specific good (or goods) and confers the right to use such good (goods) – the "Right of Use" (RoU) – for an

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

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.

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 discounted, as required by the Standard, to the marginal financing rate, equal for the Group 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 IFRS9 since 1 July 2018 and has chosen not to avail itself of the exemption provided to continue applying the rules of IAS39 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;

– Hedges of foreign investments in currencies other than the Euro: these refer to the hedging of risks in an investment in a non-Italian company expressed in foreign currency.

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.

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 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.

Foreign currency investments hedges

As far as it complies with eligibility criteria, cash flows hedge is accounted for in the following ways:

– The gain or loss share on the hedging instrument that results in an effective hedge is booked into Other Comprehensive Income; and
– The ineffective share is booked into profit and loss scheme.

The cumulative gain or loss on the hedging instrument related to the effective part of the hedging which had been accumulated into the foreign currency exchange rate reserve has to be reclassified from net equity to profit and loss as a reclassification adjustment (see IAS1), as required by par. 48 and 49 of IAS21 regarding the partial or total disposal of the foreign investment.

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 by virtue of its being represented in that company's management bodies, without actually having control of it.

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

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

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

If, in a period following the year in which a long-term reduction in value is recorded, a change occurs in the estimates used to determine the recoverable value, the book value of the investment will be revised to reflect the recoverable value and the adjustment will give rise to a writeback.

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

Property, plant and equipment

This heading comprises land, core and investment properties, plant, furniture, fittings 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 IAS2 – *Inventories*, namely assets deriving from guarantees being enforced or acquired in auction scenarios which the firm has the intention of selling in the near future, without carrying out any major refurbishment work on them, and which do not fall into any of the previous categories.

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

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

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

Intangible assets

These chiefly comprise goodwill, long-term computer software applications and other intangible assets deriving from business combinations subject to IFRS3R.

Goodwill may be recognized where this is representative of the investee company's ability to generate future income. At annual and interim reporting dates, goodwill recorded as an asset is tested for impairment.[12] Any reduction value due to impairment is calculated as the difference between the initial recognition value of the goodwill and its realizable value, the latter being equal to the higher of the fair value of the cash-generating unit concerned net of any sales costs and its assumed value of use. Any adjustments are taken through the profit and loss account.

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

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

At annual and interim reporting dates, where there is evidence of impairment the realizable value of the asset is estimated.[13] The impairment is recognized in the profit and loss account as the difference between the carrying amount and the recoverable value of the asset concerned.

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.

[12] Mediobanca has adopted a Group Impairment Policy in line with the guidance issued by the Italian organization for valuation (OIV, or *Organismo Italiano di Valutazione*) on: "Impairment testing on goodwill in financial and real crisis situations" of 14 June 2012; "Italian valuation standards" published in 2015; the discussion paper issued on 22 January 2019; discussion paper no. 01/2021 issued by the OIV on 16 March 2021 on "The use of forward-looking financial information in company valuations"; discussion paper no. 02/2021 issued by the OIV on 16 March 2021 on "Guidelines for impairment testing following the effects of the Covid-19 pandemic), along with the suggestions published by ESMA; the guidelines contained in the joint document issued by the Bank of Italy, Consob and IVASS (document no. 4 of 3 March 2010, and document no. 8 of 12 December 2018); plus the various communications from Consob.

[13] Under IAS36, 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").

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

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

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

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

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

Non current assets and group of assets being sold

Under assets heading "Non current assets and group of assets being sold" and under liability heading "Liabilities associated to group of assets being sold" the Group classifies non current assets or groups of assets/liabilities whose booking value will be presumably recovered by mean of a sale process. These assets are valued at the lower of the booking value and the fair value net of selling costs, apart from some categories of assets (like assets falling under the scope of standard IFRS9) for whom IFRS5 requires specifically that valutative provisions of the applicable standard should be used. In case of held for sale assets to be still depreciated, this process ends when assets are classified in the mentioned Heading.

Income and charges (net of tax effect), attributable to groups of assets being sold or recognized as such during the year, are shown in a separate item on the profit-and-loss statement.

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 IAS37 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 IAS37, paragraph 92, no precise indication has been given of any potential liabilities where this could compromise the company in any way.

Staff severance indemnity provision and post-retirement schemes

The staff severance indemnity provision qualifies as a defined-contribution 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 recognized at amortized cost

These include the items D*ue 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 IFRS16, but which are also affected by the IFRS9 impairment rules. For a description of the rules for valuing and classifying leasing receivables, see the relevant section.

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

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

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

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

For all other liabilities, derecognition is carried out in accordance with the reference International Financial Reporting standards.

Trading liabilities

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

Financial liabilities recognized at fair value

These include the value of financial liabilities recognized at fair value through profit and loss based on the fair value option permitted under IFRS9 and in accordance with the cases permitted under the regulation itself.

Such liabilities are recognized at fair value and the earnings results accounted for based on the following rules provided by IFRS9:

- Changes in fair value which are attributable to the issuer's own credit standing must be recognized through other comprehensive income (net equity);
- Other changes in fair value must be recognized in through profit and loss.;
- Amounts stated in other comprehensive income are not recycled through profit and loss. This method cannot be adopted, however, if the recognition of the effects of the issuer's own credit standing in net equity generates or accentuates an accounting mismatch in profit and loss. In such cases, the profits or losses related to the liability, including those caused as the effect of the change in the issuer's credit standing, must be recorded through profit and loss.

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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.

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

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

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

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

Treasury shares

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

Fees and commissions receivable in respect of services

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

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

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

In the event of additional costs being incurred to perform or execute the contract, where such costs meet the requisites of IFRS15, 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 IFRS15 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 IAS28.

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 IAS24, as follows:

a) Individuals or entities which, directly or indirectly, exercise significant influence over the Bank;

b) Shareholders with stakes of 3% or more in the Bank's share capital;[14]

c) The legal entities controlled by the Bank;

d) Associate companies, joint ventures and entities controlled by them;

e) 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;

f) Entities controlled or jointly controlled by one or more of the individuals listed under the foregoing letters a) and e) and the joint ventures of parties referred to under letter a);

g) Close family members of the individuals referred to in letters a) and e) above, that is, individuals who may be expected to influence them or be influenced by them in their relations with Mediobanca (this category includes children, spouses and their children, partners and their children, dependents, spouses' dependents and their partners' dependents) as well as any entities controlled, jointly controlled or otherwise associated with such individuals.

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	IInterests 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**

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

A.4 - Information on fair value

QUALITATIVE INFORMATION

Introduction

This section provides the disclosure on fair value stipulated by IFRS13 paragraph 24, which defines fair value as the price which would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market at the measurement date.

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 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 (i.e. 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;
- Derivative 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 (IPV) processes 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.

Macroeconomic scenario

The year under review saw markets bounce back sharply starting from November 2020, as a result of the gradual rollout of the Covid-19 vaccination programme plus the substantial liquidity injected into the market. This generated a reduction in the uncertainty of the input parameters, with the situation gradually returning to pre-Covid market conditions.

Remediation activities

The fair value framework has been subject of an On Site Inspection performed by the ECB and involving all major European market participants. During this inspection some improvement areas have been identified, regarding the fair value hierarchy and the day one profit rule application, as well as regarding the ways in which the fair value is calculated and verified (*Fair Value Adjustment and Independent Price Verification*) for capital purposes (*Prudent Value Adjustment*) and accounting calculations.

The Group has decided, while waiting the Recommendation Letter by the JST, to promptly intervene to improve the fair value framework pursuant to IFRS13 thus addressing the major part of findings emerged, avoiding as much as possible all the intervention based on expert-based approaches; further activities will be performed during the FY 2022, including the remediation plan which will be communicated by the ECB.

IPV and Prudent Valuation (PVA) 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.

As required by Bank of Italy Circular no. 285/2013, the Mediobanca Group has adopted its own Group Independent Price Verification Policy in order to structure the certification process from an operating and accounting standpoint.

The same process also includes the Regulatory Technical Standards on Prudent Valuation[15] governed by the EU regulations[16] in this area, to ensure that positions recognized at fair value (banking book with impact on net equity and trading book) are determined with an adequate degree of certainty.

In particular, the inputs required in order to value financial instruments must be validated by independent units, with the objective of ensuring that valuations are as closely aligned as possible with market conditions and the prudential criteria established[17].

To this end, the Group has produced a manual summarizing all products recognized at fair value, containing a description of the valuation techniques used and the inputs required in order to calculate the Prudent Value Adjustments (PVA).

The entire IPV and prudent valuation processes is subject to audit by the Group Audit Unit.

Coverage of the entire trading book and the inputs used to value it was more or less completed during the twelve months under review.

This has enabled the Bank to increase the number of IPV controls to correct the original valuations, necessary as a result inter alia of mismarking of volatility, correlation and dividends by using alternative info-providers.

Fair value ranking

In line with the provisions of IFRS13 as enacted in Bank of Italy circular no. 262, fair value must be reported according to rankings based on the quality of the input parameters used to determine it[18].

In particular, financial assets and liabilities recognized at fair value must be classified at levels which assign decreasing priority to measurements based on different market parameters. The highest priority (level 1) is assigned to

[15] The Prudent Valuation involves the stress of some market parameters used in the valuation models and related adjustments to fair Value with effects exclusively on the Regulatory Capital and capital ratios

[16] Under Article 105 of the Capital Requirements Regulation adopted in Regulation (EU) No. 575/2013 and referred to in Commission Delegated Regulation (EU) No. 2016/101.

[17] CRR Article 105(2), (8).

[18] Cf. IFRS13, paragraph 73: "the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement"; and paragraph 74: "The fair value hierarch ranks fair value measurements based on the type of inputs; it does not depend on the type of valuation techniques used". For further details see IFRS13, paragraphs 72-90.

measurements based on unadjusted prices quoted 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 are identified:

- Level 1: valuations based on quoted prices (single and unadjusted) in active markets for the individual financial instrument being measured.
- Level 2: valuations based on measurement techniques using inputs 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 have limited impact on fair value.
- Level 3: valuations based on measurement techniques with significant inputs which are either unobservable on the market and/or reflect complex pricing models subject to uncertainty. In this case fair value is established on the basis of assumptions regarding 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 (IFRS13, paragraph 73).

Fair Value Adjustment

Fair value adjustment is defined as the quantity to 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 practice, during the year under review the alignment of all fair value adjustments with the prudential categories defined in Article 105 of the CRR ("Prudent Valuation") was largely completed. This process resulted in further adjustments being introduced.

The new scope of fair value adjustments thus now includes the following in particular:

– Close-Out Costs: these refer to the uncertainty related to the liquidity cost that the Bank might incur in the event of the disposal, partial or total, of a position recognized at fair value;
– Investing and Funding Costs: these reflect the costs of financing or refinancing a position recognized at fair value;
– Market Price Uncertainty: this represents the uncertainty inherent in a valuation based on market prices;
– Concentrated Positions: this reflects uncertainty in the valuation of the exit price for positions defined as concentrated;
– Model Risk: adjustments to mitigate the risk of misalignment with market practice in the valuation of a product regarding the choice and implementation of the relevant pricing model.

Fair value adjustments are fundamental in order to align the individual financial instrument's valuation with its actual exit price, in view of the level of market liquidity, the uncertainty of the valuation parameters, the cost of funding.

As mentioned previously, the process of aligning the accounting reserves with the prudent valuation reserves has been largely completed during the twelve months under review, including:

– Introduction of a Close-Out Cost adjustment[19] in order to align the fair value with the exit price;
– Introduction of a Model Risk correction for auto-callable certificates, to mitigate any mispricing phenomena;
– Revision of the Market Price Uncertainty adjustments, extending the use of control info-providers to include new categories of market parameters that have become material.

[19] As required by IFRS13, the adjustment is calculated, for each risk factor considered, as the semi-bid/ask for the market data, multiplied by the exposure to the instrument to which the data refer.

Credit/Debt and Funding Valuation Adjustment (CVA/DVA/FCA)

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

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

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

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

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

The fair value of non-collateralized derivatives may be influenced by the Bank's cost of funding. To take account of this aspect, some adjustments are calculated to reflect the different cost of funding (Funding Value Adjustments), using a discount curve representative of the average funding level of banks participating in the European corporate derivative market.

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

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

However, all instruments whose 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, are classified as Level 3[20].

All level 3 instruments are subject to additional price verification procedures, which include: 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 Independent Price Verification unit runs independent checks of the parameters used, comparing them with similar inputs from different sources.

Inputs for determining fair value level

The Bank has refined its fair value level classification processes over the years, which are increasingly focused, in the absence of quoted prices on active markets, on analysis of the parameters underlying the instruments.

A description of the main inputs used to determine the fair value level 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.

[20] Cf. IFRS13, paragraphs 73 and 75. Reference is made to section A.5 for further discussion of this issue.

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: cap/floor or swaptions, exchange rates, inflation);
- Correlation: this 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: these 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). 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[21] (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.

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

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 to address the valuation uncertainty inherent in the use of alternative valuation techniques other than the use of market prices (mark to market);

- 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 IFRS13, 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 IFRS13) or Level 2 instruments (e.g. interest rate curves, implicit volatilities and credit spreads, as stipulated in paragraph 82 of IFRS13) 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 (equity index or single-name baskets), including the issuer credit risk which is thus factored into the total calculation of the fair value. If the IPV process reveals a high degree of uncertainty in the inputs used, these issues are classified as level (such uncertainty usually involves correlation[22], volatility or future dividends).

[21] For example, in cases which involve issues of certificates with auto-callable derivatives of equity baskets as the underlying instruments. These reflect a degree of uncertainty in terms of the correlation between the equity basket constituents with an impact on the instrument's fair value which is considered to be material.

All instruments classified as level 2 must in any case reflect a majority of observable inputs used in the calculation of fair value.

The observability of an input parameter depends not only on the type of product, but also on the adequacy of the parameters used. Thus the relevant issues become the availability of quotes and the expiry.

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 can be used to address the valuation uncertainty inherent in the use of alternative valuation techniques other than the use of market prices (mark to market);
– 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 (i.e. which did not pass the IFRS9 SPPI test – Solely Payments of Principal and Interest): specific valuation methodologies are adopted to represent the individual exposure's characteristics, seeking to maximize use of observable market data;
– Equities: equities are categorized as Level 1 when quoted prices are available on an active market considered to be liquid, and Level 3 when there are no quoted prices or when quoted prices have been suspended indefinitely and for which an internal model is used in order to determine the fair value. Some residual equities for which fair value cannot be established reliably using the methods described above are recognized at cost;
– Investment funds: Mediobanca owns holdings in investment funds which 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 (daily NAV); otherwise they are categorized as Level 3;

- Derivatives: when the valuation of an OTC derivative has been materially affected by unobservable parameters it is classified as Level 3. Such derivatives include:
  - Plain vanilla instruments, such as options with equity as the underlying and long expiries, or dividends on which there is no market consensus and options on equity baskets (indexes and single name);
  - Certificates issues, which reflect a degree of uncertainty in the parameters which can affect the entire fair value of the instrument, as, for example, in the case of the correlation between the constituents of the basket of equities underlying the basket's auto-callable options[23];
  - 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, for which no market prices from which to infer the correlation data used in the valuation are available.

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 recognized at 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 or on net equity. 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.

[23] In this connection, application of the new rules to establish whether an instrument is level 3, and the related day 1 profit deferral, have been in force since January 2021.

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.

A.4.2 Measurement processes and sensibilities

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

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

Non-observable inputs	**Quantification of uncertainty inherent input**	**+/- Delta vs MtM (€/000) 30/06/21**
Implicit volatility	Defined for each volatility surface point as a standard deviation from the consensus provided by data provider Markit. For underlying instruments for which no data is contributed, a proxy is derived from the underlying instruments for which data is contributed.	(18.5)
Equity-equity correlation	Defined for each expiry on the correlation curve as a standard deviation from the consensus provided by data provider Markit. For underlying instruments for which no data is contributed, a proxy is derived from the underlying instruments for which data is contributed.	(4.8)

During the year under review, the volatility and equity correlation monitoring process was improved, to take into account the changes in market conditions and the increase in operations in equity auto-callable equity instruments[24].

To this end new dynamic tolerance thresholds were introduced, to ensure that an increase in the intrinsic uncertainty of market prices is matched by a higher tolerance threshold; checks on the volatility of equities have been stepped up from monthly to daily, while those on equity correlations have been increased from monthly to fortnightly.

[24] Revision of the control process led to a new adjustment calculation methodology being defined which has been applied since December 2020.

Attempts have also been made to remove the duplication effects between IPV activities and fair value reserves.

Measurement techniques used for equity, credit and interest rate products

Product	Measurement technique	*Non-observable inputs*	Fair value* Assets 30/6/21 (€m)	Fair value* Liabilities 30/6/21 (€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]	20.29	(20.46)	14.16	(14.20)
OTC equity basket options, best of/ worst of, equity autocallable multiasset options	Black-Scholes/ Black model, local volatility model	Implicit volatility Equity-equity correlation[2]	32.28	(18.45)	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.

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 IFRS13, paragraph 48 from measuring fair value on a net basis for financial assets and liabilities with positions compensating for the counterparty's market or credit risks.

QUANTITATIVE INFORMATION

A.4.5 Fair value ranking

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

(€'000)

Financial assets/liabilities measured at fair value	30/6/21			30/6/20		
	Level1	Level2	Level3	Level1	Level2	Level3
1. Financial assets measured at fair value with impact taken to profit and loss	7,650,456	3,481,009	1,518,131	5,888,700	2,715,128	981,584
a) financial assets held for trading	7,378,291	2,773,061	1,122,385	5,582,684	2,664,126	571,780
b) financial assets designated at fair value	—	680,539	—	—	51,002	—
c) other financial assets mandatorily valued at fair value	272,165	27,409	395,746	306,016	—	409,804
2. Financial assets measured at fair value with impact taken to other comprehensive income	4,423,463	55,892	88,016	3,467,377	134,475	25,739
3. Hedging derivatives	—	308,370	—	—	464,718	—
4. Tangible assets	—	—	—	—	—	—
5. Intangible assets	—	—	—	—	—	—
Total	12,073,919	3,845,271	1,606,147	9,356,077	3,314,321	1,007,323
1. Financial liabilities held for trading	4,966,846	3,914,570	1,182,213	4,018,034	3,407,947	530,954
2. Financial liabilities valued at fair value	—	833,048	—	—	216,020	—
3. Hedging derivatives	—	375,413	—	—	465,225	—
Total	4,966,846	5,123,031	1,182,213	4,018,034	4,089,192	530,954

The Bank's trading book reflects a low level of complexity and a low number of structured transactions, all of which fall within the categories described above. As at 30 June 2021, only 4.7% of the total assets and 7.1% of the total liabilities consist of trading instruments classified at fair value levels 2 and 3. Of these, the majority at present is classified as level 2 (3.4% of total assets and 5.5% of total liabilities respectively). The majority of these positions are also netted for the same factor between assets and liabilities, hence they do not entail a volatility factor for the profit and loss account.

The Level 3 instruments held for trading include options traded, i.e. contracts involving the same underlying instrument and uncertain risk parameter, totalled €992.9m (30/6/20: €408.8m). Net of these items, the Level 3 assets increased from €162.6m to €129.4m, after new entries which were low this year €19.3m, and much lower than the outflows (€81.7m, €31.1m of which involve derivative contracts being reclassified during the course of the year, for which the uncertainty over volatility and the underlying dividends has drastically reduced. Upward movements in fair value totalled €29.2m.

Conversely, level 3 liabilities increased from €121.8m to €189.2m, already net of options traded), as a result of new positions (€123.3m) which chiefly regard auto-callable certificates on baskets of equities, and net outflows of €45.1m, due to the reduction in the degree of uncertainty in the valuation inputs (volatility and dividends) of certain certificates. The other changes involved redemptions (€8.8m) and downward adjustments to fair value (€2m).

Financial assets mandatorily recognized at fair value totalled €395.7m, down sharply following the redemption of most of the convertible issues, and chiefly involve investments in funds (including seed capital).

Financial assets recognized at fair value through other comprehensive income rose from €25.7m to €88m, reflecting the valuation of the Burgo equity instrument in an amount of €55m.

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	177,066	60,817	—	48,185	68,064	—	—	—
2.1 Purchases	55,598	19,254	—	29,178	7,166	—	—	—
2.2 Profits recognized in:	113,336	33,431	—	19,007	60,898	—	—	—
2.2.1 profit and loss	52,438	33,431	—	19,007	—	—	—	—
- of which, gains	*30,943*	*30,943*	—	—	—	—	—	—
2.2.2 net equity	60,898		—	—	60,898	—	—	—
2.3 Transfers from other levels	—	—	—	—	—	—	—	—
2.4 Other increases	8,132	8,132	—	—	—	—	—	—
3. Decreases	162,057	94,027	—	62,244	5,786	—	—	—
3.1 Disposals	78,768	31,492	—	43,628	3,648	—	—	—
3.2 Redemptions	19,138	19,138	—	—	—	—	—	—
3.3 Losses recognized in:	33,017	12,273	—	18,606	2,138	—	—	—
3.3.1 profit and loss	30,879	12,273	—	18,606	—	—	—	—
- of which, losses	*12,273*	*12,273*	—	—	—	—	—	—
3.3.2 net equity	2,138	—	—		2,138	—	—	—
3.4 Transfers to other levels	31,074	31,074	—	—	—	—	—	—
3.5 Other decreases	60	50	—	10	—	—	—	—
4. Closing balance	613,137	129,375	—	395,745	88,017	—	—	—

[1] Net of market value of options covering those attached to bonds issued (30/6/21: €146,000; 30/6/20: €351,000;) and options traded (€992.9m and €408.8m respectively), the values of which are recorded as both assets and liabilities for the same amount.

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

(€'000)

	Held for trading[1]	*Designated at fair value*	Hedging derivatives
1. Opening balance	121,759	—	—
2. Increases	177,451	—	—
2.1 Issuance	123,313	—	—
2.2 Losses recognized in:	10,177	—	—
2.2.1 profit and loss	10,177	—	—
- of which, losses	*10,177*	—	—
2.2.2 net equity	—	—	—
2.3 Transfers from other levels	43,961	—	—
2.4 Other increases	—	—	—
3. Decreases	110,004	—	—
3.1 Redemptions	8,777	—	—
3.2 Buybacks	—	—	—
3.3 Profits recognized in:	12,153	—	—
3.3.1 profit and loss	12,153	—	—
- of which, gains	*7,262*	—	—
3.3.2 net equity	—	—	—
3.4 Transfers to other levels	89,074	—	—
3.5 Other decreass	—	—	—
4. Closing balance	189,206	—	—

[1] Net of market value of options covering those attached to bonds issued (30/6/21: €146,000; 30/6/20: €351,000;) and options traded (€992.9m 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)

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	30/6/21				30/6/20			
	Book value	Level1	Level2	Level3	Book value	Level1	Level2	Level3
1. Financial assets valued at amortised cost	56,599,625	2,575,885	18,220,821	39,000,571	55,957,290	2,799,665	17,765,808	38,498,309
2. Tangible assets held for investment purposes	62,854	—	—	140,195	64,347	—	—	139,818
3. Non-current assets and groups of assets being sold	4,178	—	—	—	—	—	—	-
Total	56,666,657	2,575,885	18,220,821	39,140,766	56,021,637	2,799,665	17,765,808	38,638,127
1. Financial liabilities valued at amortised cost	58,475,015	759,204	57,857,542	145,560	59,241,107	1,287,832	57,913,842	39,433
2. Liabilities held in respect of assets being sold	381	—	—	—	—	—	—	—
Total	58,475,396	759,204	57,857,542	145,560	59,241,107	1,287,832	57,913,842	39,433

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

IFRS9 stipulates 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") can 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[25]. 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 therefore be linked to the trends in the various risk factors to which the instrument is exposed (interest rate/exchange rate risk, etc.) and recorded directly in the profit and loss account.

In accordance with established market practice, the day one profit regulations are only applied to financial instruments classified as level 3. 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 IFRS13, paragraph 73[26].

[25] IFRS9, 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 IFRS13). 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.

[26] 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.

In the past the day one profit has been suspended for the surplus generated on an arbitrage trade (executed in FY 2016-17) between the acquisition of a financial instrument convertible into listed equities (starting from year 5) and the sale of the corresponding listed equities. The €12m surplus has been released gradually to profit and loss pro rata throughout the duration of the transaction, and now stands at approx. €0.8m (the amount taken to profit and loss in the twelve months was €2.5m).

The suspension approach is also applied to the profit deriving from trades in derivatives 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. €0.5m.

Finally, as from 1 January 2021, the validation model for certificates has been completed, resulting in the auto-callable options with equity baskets as the underlying instrument being classified as level 3. The upfront effects to profit and loss have been suspended, in line with the Group's regulations. The instruments classified as level 3 reflect a fair value of approx. €80m, with day one profit suspended as to €1.2m[27].

The Bank also has deals classified as Level 3 for which the initial profit has not had to be suspended, as they were originally negotiated with other market counterparties without generating any material upfront difference, or because, as at the trading date, they had an outstanding duration which expired before the end of the financial year, hence there was no need for their effects to be deferred over time across several reporting periods.

[27] It is worth noting that early application of this model as from 1 July 2020 would have resulted in less than €500,000 in additional suspensions.

Part B - Notes to the consolidated Balance Sheet*

Assets

SECTION 1

Heading 10: Cash and cash equivalents

1.1 Cash and cash equivalents: composition

	30/6/21	30/6/20
a) Cash	124,268	118,582
b) Demand deposits with Central Banks	1,845,220	3,101,369
Total	1,969,488	3,219,951

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

SECTION 2

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

2.1 Financial assets held for trading: composition

Items/Values	30/6/21			30/6/20		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	4,210,242	519,960	10,860	2,954,447	519,132	28,968
1.1 Structured securities	10,370	70,897	—	2,758	18,177	1,998
1.2 Other securities	4,199,872	449,063	10,860	2,951,689	500,955	26,970
2. Equity securities[1]	2,339,261	—	65,433	1,962,771	—	46,476
3.UCITs	119,204	—	514	20,114	—	2,853
4. Loans	3,981	—	—	3,930	—	—
4.1 Reverse Repos	—	—	—	—	—	—
4.2 Others	3,981	—	—	3,930	—	—
Total (A)	6,672,688	519,960	76,807	4,941,262	519,132	78,297
B. Derivative instruments						
1. Financial derivatives	705,603	1,933,186	1,045,578[2]	641,422	1,957,794	493,483[2]
1.1 trading	705,603	1,931,169	1,045,432	641,422	1,953,287	493,340
1.2 related to the fair value option	—	—	—	—	—	—
1.3 others	—	2,017	146	—	4,507	143
2. Credit derivatives	—	319,915	—	—	187,200	—
2.1 trading	—	319,915	—	—	187,200	—
2.2 related to the fair value option	—	—	—	—	—	—
2.3 others	—	—	—	—	—	—
Total (B)	705,603	2,253,101	1,045,578	641,422	2,144,994	493,483
Total (A+B)	7,378,291	2,773,061	1,122,385	5,582,684	2,664,126	571,780

[1] Equities include shares committed in securities lending transactions totalling €648,410,000 at 30 June 2021 and €982,223,000 at 30/6/20.

[2] Includes €992,861,000 at 30 June 2021 and €408,844,000 at 30 June 2020 in options traded, with the matching amount booked as financial liabilities.

* 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".

2.2 Financial assets held for trading: composition by borrower/issuer/counterparty

Items/Values	30/6/21	30/6/20
A. Financial assets		
1. Debt securities	4,741,062	3,502,547
a) Central Banks	—	—
b) General Government	2,903,041	1,880,990
c) Banks	1,115,882	1,203,460
d) Other financial companies	380,043	201,525
of which: insurance companies	*4,132*	*2,904*
e) Non financial companies	342,096	216,572
2. Equity instruments	2,404,694	2,009,247
a) Banks	271,042	149,796
b) Other financial companies	287,410	464,779
of which: Insurance companies	*115,123*	*169,779*
c) Non financial companies	1,846,242	1,394,672
d) Other issuers	—	—
3. UCITs	119,718	22,967
4. Loans	3,981	3,930
a) Central Banks	—	—
b) General Government	—	—
c) Banks	—	—
d) Other financial companies	—	—
of which: insurance companies	—	—
e) Non financial companies	3,981	3,930
f) Households	—	—
Total (A)	7,269,455	5,538,691
B. Derivative instruments		
a) Central Counterparties	202,620	201,441
b) Others	3,801,662	3,078,458
Total (B)	4,004,282	3,279,899
Total (A+B)	11,273,737	8,818,590

2.3 Financial assets designated at fair value: composition*

Items/Values	30/6/21			30/6/20		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1.Debt securities	—	50,720	—	—	51,002	—
1.1 Structured securities	—	—	—	—	—	—
1.2 Other debt securities	—	50,720	—	—	51,002	—
2. Loans	—	629,819	—	—	—	—
2.1 Structured	—	—	—	—	—	—
2.2 Others[1]	—	629,819	—	—	—	—
Total	—	680,539	—	—	51,002	—

* 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] This item refers to a loan matched on the liability side by the issue of a certificate.

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

Items/Values	30/6/21	30/6/20
1. Debt securities	50,720	51,002
a) Central Banks	—	—
b) General Government	—	—
c) Banks	—	—
d) Other financial companies	50,720	51,002
of which: Insurance companies	—	—
e) Non financial companies	—	—
2. Loans	629,819	—
a) Central Banks	—	—
b) General Government	—	—
c) Banks	—	—
d) Other financial companies	629,819	—
of which: Insurance companies	*629,819*	—
e) Non financial companies	—	—
f) Households	—	—
Total	680,539	51,002

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

Items/Values	30/6/21			30/6/20		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	288	27,409	1,321	306	—	1,785
1.1 Structured securities	—	—	—	—	—	—
1.2 Others	288	27,409	1,321	306	—	1,785
2. Equity instruments	—	—	5,850	—	—	4,939
3. UCITs	271,877	—	377,827	305,710	—	352,746
4. Loans	—	—	10,748	—	—	50,334
4.1Reverse Repos	—	—	—	—	—	—
4.2 Others[1]	—	—	10,748	—	—	50,334
Total	272,165	27,409	395,746	306,016	—	409,804

[1] This item includes €7.5m in respect of the equity partner who departed from Messier et Associés during the year, and is matched by Mediobanca shares as pledge.

* 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".

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

Items/Values	30/6/21	30/6/20
1. Equity instruments	5,850	4,939
of which: banks	—	—
of which: other financial companies	*5,850*	*4,939*
of which: other non-financial companies	—	—
2. Debts securities	29,018	2,091
a) Central Banks	—	—
b) General Government	288	306
c) Banks	—	—
d) Other financial companies	28,730	1,785
of which: insurance companies	—	—
e) Non financial companies	—	—
3. UCITs	649,704	658,456
4. Loans	10,748	50,334
a) Central Banks	—	—
b) General Government	—	—
c) Banks	—	—
d) Other financial companies	—	27
of which: insurance companies	—	—
e) Non financial companies	10,748	50,307
f) Households	—	—
Total	695,320	715,820

SECTION 3

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

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

Item/Values	30/6/21			30/6/20		
	Level 1	Level 2	Level 3[1]	Level 1	Level 2	Level 3[1]
1. Debts securities	4,290,967	55,892	—	3,351,465	134,475	—
1.1 Structured securities	—	—	—	—	—	—
1.2 Other	4,290,967	55,892	—	3,351,465	134,475	—
2. Equity instruments	132,496	—	88,016	115,912	—	25,739
3. Loans	—	—	—	—	—	—
Total	4,423,463	55,892	88,016	3,467,377	134,475	25,739

[1] Includes investments in unlisted companies valued based on internal models and the participative financial instrument in Burgo company valued at €55,000,000, after the debt renegotiation.

* 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”.

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

Items/Values	30/6/21	30/6/20
1. Debt securities	4,346,859	3,485,940
a) Central Banks	—	—
b) Public administrations	3,595,826	2,613,617
c) Banks	381,346	521,126
d) Other financial companies	159,577	208,717
of which: insurance companies	*50,717*	*64,983*
e) Non financial companies	210,110	142,480
2. Equity securities	220,512	141,651
c) Banks	109	116
b) Other issuers:	220,403	141,535
- other financial companies	33,303	26,611
of which: insurance companies	—	—
- Non financial companies	187,100	114,924
- others	—	—
3. Loans	—	—
a) Central Banks	—	—
b) Public administrations	—	—
c) Banks	—	—
d) Other financial companies	—	—
of which: insurance companies	—	—
e) Non financial companies	—	—
f) Households	—	—
Total	4,567,371	3,627,591

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

	Gross value				Writedown			Write off partial total
	Stage1	*of which: low credit risk**	Stage2	Stage3	Stage1	Stage2	Stage3	
Debt securities	4,357,062	—	—	—	10,203	—	—	—
Loans	—	—	—	—	—	—	—	—
Total 30/6/21	4,357,062	—	—	—	10,203	—	—	—
Total 30/6/20	3.492.048	67,139	—	—	6,108	—	—	—
of which: impaired financial assets aquired or created	*X*	*X*	—	—	*X*	—	—	—

* As required by Bank of Italy circular no. 262, fifth amendment, the column headed "Of which: instruments with low credit risk" must show the gross value of the low credit risk instruments as defined by IFRS9, paras. B5.5.29. For the Mediobanca Group, the concept of "low credit risk" is equivalent to that of rating, hence low credit risk applies to the case of counterparties rated investment grade.

3.3a Financial assets at fair value through other comprehensive income subject to Covid-19 support measures: gross value and total accumulated impairments

At 30 June 2021 the item was not present within the Group.

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	30/6/21					
	Book value			*Fair value**		
	Stage1 and Stage2	Stage3	*of which: impaired acquired or originated*[1]	Level 1	Level 2	Level 3
A. Due from Central Banks	277,860	—	—	—	277,860	—
1 Term deposits	—	—	—	X	X	X
2 Compulsory reserves	277,860	—	—	X	X	X
3 Reverse repos	—	—	—	X	X	X
4 Others	—	—	—	X	X	X
B. Due from banks	5,046,533	—	—	386,860	4,451,798	246,603
1 Loans	4,673,952	—	—	—	4,451,798	246,603
1.1 Current accounts and demand deposits	1,303,950	—	—	X	X	X
1.2. Term deposits	111,795	—	—	X	X	X
1.3 Other loans:	3,258,207	—	—	X	X	X
- Reverse repos	1,932,575	—	—	X	X	X
- Finance leases	1,615	—	—	X	X	X
- Others	1,324,017	—	—	X	X	X
2. Debts securities	372,581	—	—	386,860	—	—
2.1 Structured securities	—	—	—	—	—	—
2.2 Other debt securities	372,581	—	—	386,860	—	—
Total	5,324,393	—	—	386,860	4,729,658	246,603

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

Type of transaction/Values	30/6/20					
	Book value			Fair value*		
	Stage1 and Stage2	Stage3	*of which: impaired acquired or originated*[1]	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
- Reverse repos	2,464,519	—	—	X	X	X
- Finance leases	1,852	—	—	X	X	X
- Others	1,113,747	—	—	X	X	X
2. Debts securities	486,197	—	—	239,190	62,959	198,327
2.1 Structured securities	—	—	—	—	—	—
2.2 Other debt securities	486,197	—	—	239,190	62,959	198,327
Total	5,932,944	—	—	239,190	5,462,612	269,588

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

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

Type of transaction/Values	30/6/21					
	Book value			Fair value*		
	Stage1 and Stage2	Stage3	*of which: impaired acquired or originated*[1]	Level 1	Level 2	Level 3
1. Loans	47,980,123	943,916	*383,738*	—	13,482,795	38,523,438
1.1 Current accounts	1,732,143	63,578	*63,576*	X	X	X
1.2 Reverse Repos	1,484,079	—	—	X	X	X
1.3 Mortgages	26,633,912	230,627	*17,707*	X	X	X
1.4 Credit cards, personal loans and salary-backed finance	8,858,741	490,317	*279,879*	X	X	X
1.5 Finance lease	1,636,255	126,322	*22,576*	X	X	X
1.6 Factoring	2,205,074	6,521	—	X	X	X
1.7 Other loans	5,429,919	26,551	—	X	X	X
2. Debt securities	2,351,193	—	—	2,189,025	8,368	230,530
2.1 Structured	—	—	—	—	—	—
2.2 Other debt securities	2,351,193	—	—	2,189,025	8,368	230,530
Total	50,331,316	943,916	*383,738*	2,189,025	13,491,163	38,753,968

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

Type of transaction/Values	30/6/20					
	Book value			Fair value*		
	Stage1 and Stage2	Stage3	*of which: impaired acquired or originated*[1]	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

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

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

Type of transaction / Values	30/6/21			30/6/20		
	Stage1 and Stage2	Stage3	*of which: impaired assets aquired or created*[1]	Stage1 and Stage2	Stage3	*of which: impaired assets aquired or created*[1]
1. Debt securities	2,351,193	—	—	2,799,241	—	—
a) General Governments	1,779,308	—	—	2,143,431	—	—
b) Other financial companies	438,534	—	—	437,441	—	—
of which: insurance companies	*208,345*	—	—	*229,394*	—	—
c) Non-financial companies	133,351	—	—	218,369	—	—
2. Loans to:	47,980,123	943,916	*383,738*	45,995,937	1,229,167	*358,574*
a) General Governments	403,906	1,868	—	343,149	2,719	—
b) Other financial companies	5,897,967	2,970	*416*	5,795,827	3,081	*401*
of which: insurance companies	*580,682*	—	—	*617,668*	—	—
c) Non-financial companies	16,181,179	256,061	*52,924*	15,271,523	483,141	*56,396*
d) Households	25,497,071	683,017	*330,398*	24,585,438	740,226	*301,777*
Total	50,331,316	943,916	*383,738*	48,795,178	1,229,167	*358,574*

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

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

	Gross value				Writedown			Partial write offs total
	Stage1	*of which: low credit risk **	Stage2	Stage3	Stage1	Stage2	Stage3	
Debt securities	2,716,338	—	13,092	—	5,192	464	—	—
Loans	49,824,631	*784,031*	3,764,356	1,974,610	290,832	366,220	1,030,694	5,681
Total 30/6/21	52,540,969	*784,031*	3,777,448	1,974,610	296,024	366,684	1,030,694	5,681
Total 30/6/20	51,979,243	*886,169*	3,333,424	2,240,213	241,145	343,398	1,011,046	6,023
of which: impaired financial assets aquired or created	*X*	*X*	—	*384,102*	*X*	—	*364*	—

* As required by Bank of Italy circular no. 262, fifth amendment, the column headed "Of which: instruments with low credit risk" must show the gross value of the low credit risk instruments as defined by IFRS9, paras. B5.5.29. For the Mediobanca Group, the concept of "low credit risk" is equivalent to that of rating, hence low credit risk applies to the case of counterparties rated investment grade.

4.4a Loans at amortized cost subject to Covid support measures: gross value and total accumulated impairments

	Gross value				Writedowns			Total partial writeoffs
	Stage1	*Of which: low credit risk*	Stage2	Stage3	Stage1	Stage2	Stage3	
1. EBA-compliant moratoria loans *	9,833	*324*	71,790	3,125	107	2,923	1,043	—
2. Other loans with Covid-19-related forbearance measures	—	—	184,350	40,117	—	8,230	10,887	—
3. Newly originated loans	236,634	—	—	30	1,001	—	12	—
Total 30/6/21	246,467	*324*	256,140	43,272	1,108	11,153	11,942	—

* The row headed "EBA - compliant moratoria loans" shows information on financial assets for which moratoria have been granted under the scope of application of the *"Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID 19 crisis"* published by the EBA (EBA/GL/2020/02) as amended.

SECTION 5

Heading 50: Hedging derivatives

5.1 Hedging derivatives: by hedge type and level

	Fair Value 30/6/21			Notional value	Fair Value 30/6/20			Notional value
	Level 1	Level 2	Level 3	30/6/21	Level 1	Level 2	Level 3	30/6/20
A. Financial derivatives								
1. Fair value	—	308,370	—	13,789,425	—	464,718	—	20,996,513
2. Cash flows	—	—	—	—	—	—	—	—
3. Foreign subsidiaries	—	—	—	—	—	—	—	—
B. Credit derivatives								
1. Fair value	—	—	—	—	—	—	—	—
2. Cash flows	—	—	—	—	—	—	—	—
Total	—	308,370	—	13,789,425	—	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 vslued at fair value with impact taken to other comprehensive income	—	—	—	—	X	X	X	—	X	X
2. Financial assets valued at amortised cost	12,701	X	—	—	X	X	X	—	X	X
3. Portfolio	X	X	X	X	X	X	—	X	—	X
4. Others	—	—	—	—	—	—	X	—	X	—
Total assets	12,701	—	—	—	—	—	—	—	—	—
1. Financial liabilities	295,669	X	—	—	—	—	X	—	X	X
2. Portfolio	X	X	X	X	X	X	—	X	—	X
Total liabilities	295,669	—	—	—	—	—	—	—	—	
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	—	—

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.	12.82	12.87
2. Istituto Europeo di Oncologia S.r.l.	Milan	Milan	2	Mediobanca S.p.A.	25.37	25.37

Legend:

1 Joint control.

2 Subject to significant influence.

3 Exclusively controlled and not consolidated.

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

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

Company name	Book value	Fair Value *	Dividend received **
A. Entities under significant influence			
1. Assicurazioni Generali S.p.A.	3,663,067	3,426,872	204,925
2. Istituto Europeo di Oncologia S.r.l.	39,744	n.d.	
Total[1]	3,702,811	—	

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 (€114,000).

* Available only for listed companies.

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

As at 30 June 2021, the book value carried under the "Equity investments" heading totalled €3,702.8m, split between Assicurazioni Generali (12.9% of the company's share capital, carried at €3,663.1m), and Istituto Europeo di Oncologia (25.4% of the entity's share capital, carried at €39.7m).

Both 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.

In November 2021, the Group's long-standing investment in Burgo (equal to 22.13% of the company's share capital, and written off entirely in 2013) was restated among the Financial Assets Recognized at Fair Value through OCI, after a new investor took a stake in the company; a rights issue reserved to the new investor was implemented, which reduced Mediobanca's shareholding to 4%, entailing the loss of significant influence.

Impairment testing of equity investments

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

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

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

IAS28, paragraph 41A states that:

- Impairment charges must be taken for an asset if the book value is higher than the recoverable value, defined by IAS36 as the higher of fair value (net of sales costs) and "value in use";
- To calculate fair value (as governed by IFRS13), the methodologies that may be used are as follows:
  - Stock market prices, in cases where the investee company is listed on an active market;
  - Valuation models generally recognized by the market, including market multiples (for significant transactions in particular);
- To calculate "value in use" (as governed by IAS28 paragraph 42), one or other of the following methodologies may be used:

– The discounted value of the cash flows generated by the investee company, as derived from the cash flows generated by the investments owned by the company and the proceeds deriving from the sale of those investments; or
– The discounted value of the cash flows assumed to derive from dividends receivable and the eventual sale of the investment.

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

* * *

Accounting data for the investee companies consolidated using the equity method is provided below, as taken from the most recent official financial statements of these companies, up to 31 December 2020.

7.3 Significant investments: accounting data (€m)

Company name	Entities under significant influence	
	Assicurazioni Generali S.p.A.	Istituto Europeo di Oncologia S.r.l.
Cash and cash-convertible assets	X	X
Financial assets	492,522	66
Non-financial assets	44,288	135
Financial liabilities	44,068	92
Non-financial liabilities	468,847	57
Total revenues	85,242	328
Profit/(Loss) on ordinary activities before tax	3,390	(4)
Profit/(Loss) on ordinary activities after tax	2,215	1
Profit/(Loss) on held-for-sale assets after tax	(183)	—
Profir/(Loss) for the period (1)	2,032	1
Other profit/(loss) components after tax (2)	718	—
Total profit/(loss) for the period (3) = (1) + (2)	2,750	1

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

(€m)

Entities under significant influence	Aggregate net equity[1]	*Pro rata* net equity	Differences arising upon consolidation[2]	Consolidated book value
Assicurazioni Generali S.p.A.	28,475.5[1]	3,665.8	(2.8)[2]	3,663.1
Istituto Europeo di Oncologia S.r.l.	156.7[3]	39.7	—	39.7

[1] The overall net equity reflects the dividend received in May 2021 (€1,592m).

[2] The differences arising on consolidation refer to the Mediobanca shares owned by the company (worth €21.6m; pro rata €2.8m).

[3] The net equity value of €130m as at 31/3/21 (€33m pro rata) has been adjusted to reflect property revaluations net of depreciation charges accrued (totalling €6.5m pro rata).

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

As at 30 June 2021, the market value of the Group's investment in Assicurazioni Generali was €3,426.9m (equal to €16.905 per share), which is below the book value of the holding (€3,663.1m), hence the value in use was calculated instead.

The dividend discount model (excess capital) was used to calculate the value in use, i.e. the same method that has been used in previous years, based solely on information in the public domain:

– The most recent analysts' estimates were used to identify the cash flows to be discounted;
– The cost of capital (8.5%) was determined based on the capital asset pricing model, and the growth rate was assumed to be consistent with the estimated inflation rate for 2023 (1.4%);
– Sensitivity analysis was also performed, to test the sensitivity of the results thus obtained to changes in the valuation parameters.

The impairment test process confirmed that the recoverable value is higher than the book value; hence according to paragraph 41A of IAS28, the impairment test was passed. The valuation obtained was also higher than the analysts' average target prices.

The following information should also be taken into account:

– Mediobanca has for many years been the Assicurazioni Generali group's leading shareholder, with an interest of 12.9% in the company's ordinary share capital;
– The book value is aligned with the Assicurazioni Generali group's net equity pro rata and therefore does not factor in any goodwill.

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

No reduction to book value was necessary for either investment.

7.5 Equity investments: movements during the period

	30/6/21	30/6/20
A. Opening balance	3,204,702	3,259,777
B. Increases	704,813	304,269
B.1 Purchases	65	—
B.2 Writebacks	—	—
B.3 Revaluations	—	—
B.4 Other changes	704,748	304,269
C. Decreases	206,590	359,344
C.1 Sales	—	—
C.2 Adjustments	—	—
C.3 Writeoffs	—	—
C.4 Other changes [1]	206,590	359,344
D. Closing balance	3,702,925	3,204,702
E. Total revaluations	—	—
F. Total adjustments	733,478	733,478

[1] Include the dividend received.

SECTION 9

Heading 90: Property, plant and equipments

9.1 Core tangible assets stated at cost

Activities/Values	30/6/21	30/6/20
1. Property assets	216,700	215,885
a) lands	84,895	84,895
b) buildings	91,757	94,884
c) furniture	16,024	14,783
d) electronic system	8,005	8,663
e) other	16,019	12,660
2. Leased assets	222,696	207,909
a) lands	—	—
b) buildings	212,381	196,082
c) furniture	—	—
d) electronic system	—	—
e) other	10,315	11,827
Total	439,396	423,794
of which: arising from the recovery of guarantees received	*73*	*75*

9.2 Properties held for investment purposes stated at cost

Activities/Values	30/6/21				30/6/20			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Property assets	62,854	—	—	140,195	64,347	—	—	139,818
a) lands	29,144	—	—	85,813	29,144	—	—	84,688
b) buildings	33,710	—	—	54,382	35,203	—	—	55,130
2. Rights of use acquired through the lease	—	—	—	—	—	—	—	—
a) lands	—	—	—	—	—	—	—	—
b) buildings	—	—	—	—	—	—	—	—
Total	62,854	—	—	140,195	64,347	—	—	139,818
of which: arising from the recovery of guarantees received	*38,659*	—	—	*45,728*	*39,774*	—	—	*46,375*

9.3 Core tangible assets: composition of revalued activities

At 30 June 2021 the item was not present within the Group.

9.4 Tangible assets held for investment purposes: composition of activities valued at fair value

At 30 June 2021 the item was not present within the Group.

9.5 Inventories pursuant to IAS2: composition

Items/Values	30/6/21	30/6/20
1. Inventories of tangible assets arising from the recovery of guarantees received	7,959	7,631
a) lands	1,027	971
b) buildings	6,932	6,660
c) furnitures	—	—
d) electronic systems	—	—
e) others	—	—
2. Other tangible assets	—	—
Total	7,959	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 IAS40), and have now been restated as Inventories in accordance with IAS2 in cases where only minor amounts are involved, and where leasing the properties out is not economically feasible and sale is expected to take place in the next three years.

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9.6 Core assets: movements during the year

	Lands	Buildings[1]	Furniture	Electronic systems	Other [1]	Total
A. Gross opening balance	84,895	372,260	67,565	44,863	75,863	645,446
A.1 Total net reduction value	—	(81,294)	(52,782)	(36,200)	(51,376)	(221,652)
A.2 Net opening balance	84,895	290,966	14,783	8,663	24,487	423,794
B. Increases:	—	58,641	4,450	1,634	12,171	76,896
B.1 Purchasing	—	4	4,444	1,632	8,515	14,595
- of which business combinations	—	—	—	—	—	—
B.2 Capitalised improvement costs	—	11,351	—	—	1	11,352
B.3 Write-backs	—	—	—	—	—	—
B.4 Positive changes in fair value allocated to	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit & loss	—	—	—	—	—	—
B.5 Positive foreign exchange differences	—	13	5	—	10	28
B.6 Transfer from investment properties	—	—	X	X	X	—
B.7 Other adjustment	—	47,273	1	2	3,645	50,921
C. Decreases:	—	45,469	3,209	2,292	10,324	61,294
C.1 Sales	—	—	48	—	496	544
- of which business combinations	—	—	—	—	—	—
C.2 Depreciation	—	36,520	3,156	2,289	9,395	51,360
C.3 Impairment losses allocated to	—	200	—	—	—	200
a) net equity	—	—	—	—	—	—
b) profit and loss [2]	—	200	—	—	—	200
C.4 Negative chages in fair value allocated to	—	—	—	—	—	—
a) net equity	—	—	—	—	—	—
b) profit & loss	—	—	—	—	—	—
C.5 Negative foreign exchange differences	—	22	1	2	5	30
C.6 Transfer to:	—	—	—	—	—	—
a) investment	—	—	X	X	X	—
b) non-current assets and group of assets held for sale	—	—	—	—	—	—
C.7 Other adjustment	—	8,727	4	1	428	9,160
D. Net closing balance	84,895	304,138	16,024	8,005	26,334	439,396
D.1 Total net write-down	—	(133,307)	(55,317)	(38,201)	(56,668)	(283,493)
D.2 Gross closing balance	84,895	437,445	71,341	46,206	83,002	722,889
E. Carried at cost	—	—	—	—	—	—

[1] Amounts include the values at 30/6/20 and movements during the period of right-of-use deriving from the IFRS16 introduction.

[2] Related to the renting contract of the Paris branch, undergoing relocation.

Movements in tangible assets for core purposes also include the right of use acquired from finance leasing operations under IFRS16. New leases executed during the year amount to €37.9m (shown in row B.7 "Other changes"), while depreciation and amortization for rights in use amount to €37.6m (stated in row C.2 "Depreciation/amortization"); there were also adjustments of €200,000 in relation to the Paris branch office, which is in the process of being transferred.

9.7 Assets held for investment purposes: movements during the year

	Lands	**Buildings**
A. Opening balance	29,144	35,203
B. Increases:	—	372
B.1 Purchasing	—	—
- *of which: business combinations*	—	—
B.2 Capitalised expenditure on improvements	—	372
B.3 Positive changes in fair value	—	—
B.4 Writebacks	—	—
B.5 Positive exchange differences	—	—
B.6 Transfer from investment properties	—	—
B.7 Other adjustment	—	—
C. Decrease	—	1,865
C.1 Sales	—	—
- *of which: business combinations*	—	—
C.2 Depreciation	—	1,865
C.3 Negative changes in fair value	—	—
C.4 Impairment losses	—	—
C5 Negative exchange difference	—	—
C.6 Transfer to:	—	—
a) property used in operations	—	—
b) non-current assets and group of assets held for sale;	—	—
C.7 Other adjustment	—	—
D. Closing balance	29,144	33,710
E. Measured at fair value	85,813	54,382

These consist of the following properties

Properties	SQU. €m.	Book value (€'000)	Book value per SQU.m. (€'000)
Rome	8,228	24,195	0.3
Lecce	21,024	16,350	1.3
Verona*	30,502	9,527	3.2
Bologna*	6,913	5,465	1.3
Vicenza	6,200	4,774	1.3
Pavia	2,250	1,131	2.0
Padova	4,208	1,412	3.0
Total	**79,325**	**62,854**	

* Includes industrial premises and areas used for offices.

9.8 Inventory of assets pursuant to IAS2: movements during the year

	Inventories of property and equipment resulting from the enforcement of guarantees					Other inventories of property and equipment	Total
	Land	Buildings	Furniture	Electronic equipment	Others		
A. Opening balance	971	6,660	—	—	—	—	7,631
B. Increases:	56	458	—	—	—	—	514
B.1 Purchases	—	—	—	—	—	—	—
B.2 Recoveries	—	—	—	—	—	—	—
B.3 Positive foreign exchange differences	—	—	—	—	—	—	—
B.4 Other changes	56	458	—	—	—	—	514
C. Decreases:	—	186	—	—	—	—	186
C.1 Sales	—	185	—	—	—	—	185
C.2 Impairment losses	—	—	—	—	—	—	—
C.3 Negative foreign exchange differences	—	—	—	—	—	—	—
C.4 Other changes	—	1	—	—	—	—	1
D. Closing balance	1,027	6,932	—	—	—	—	7,959

SECTION 10

Heading 100: Intangible assets

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

During the twelve months under review this item fell from €816m to €744.1m, chiefly as a result of the reduction in goodwill deriving from: writedowns to the goodwill for RAM AI and Spafid Connect (Fiduciary Services CGU); reduction in the goodwill for Messier et Associés, following the departure of one of the equity founders (with no impact on the Group's net earnings); and the transfer of Spafid Connect, now classified as an asset held for sale (IFRS5).

10.1 Intangible assets: composition

Activities/Values	30/6/21		30/6/20	
	Definite life	**Indefinite life**	**Definite life**	**Indefinite life**
A.1 Goodwill	X	602,363	X	666,536
A.1.1 attributable to the group	X	602,363	X	666,536
A.1.2 attributable to minorities	X	—	X	—
A.2 Other intangible assets	60,896	80,878	67,403	82,057
A.2.1 Assets valued at cost:	60,896	80,878	67,403	82,057
a) intangible assets generated internally	—	—	—	—
b) other assets	60,896	80,878	67,403	82,057
A.2.2 Assets valued at fair value:	—	—	—	—
a) intangible assets generated internally	—	—	—	—
b) other assets	—	—	—	—
Total	60,896	683,241	67,403	748,593

10.2 Intangible assets: movements during the year

	Goodwill	Other intangible assets: internally generated		Other intangible assets: others		Total
		Definite life	Indefinite life	Definite life	Indefinite life	
A. Opening balance	666,536	—	—	276,965	82,057	1,025,558
A.1 Reductions of total net value	—	—	—	(209,562)	—	(209,562)
A.2 Net opening balance	666,536	—	—	67,403	82,057	815,996
B. Increases	639	—	—	28,540	—	29,179
B.1 Purchases	—	—	—	28,540	—	28,540
- *of which business combinations*	—	—	—	—	—	—
B.2 Increases of internal intagible assets	X	—	—	—	—	—
B.3 Write-backs	X	—	—	—	—	—
B.4 Positive variations of fair value	—	—	—	—	—	—
- net equity	X	—	—	—	—	—
- to P&L	X	—	—	—	—	—
B.5 Positive exchange differences	639	—	—	—	—	639
B.6 Other variations	—	—	—	—	—	—
C. Decreases	64,812	—	—	35,047	1,179	101,038
C.1 Sales	—	—	—	12	—	12
- *of which business combinations*	—	—	—	—	—	—
C.2 Write-offs:	62,473	—	—	32,371	—	94,844
- Amortisations	X	—	—	32,371	—	32,371
- Depreciations	62,473	—	—	—	—	62,473
+ equity	X	—	—	—	—	—
+ to P&L	62,473	—	—	—	—	62,473
C.3 Negative variations of fair value	—	—	—	—	—	—
- net equity	X	—	—	—	—	—
- to P&L	X	—	—	—	—	—
C.4 Transfer to non-current assets	2,339	—	—	1,839	—	4,178
C.5 Negative exchange differences	—	—	—	39	1,179	1,218
C.6 Other variations	—	—	—	786	—	786
D. Net closing balance	602,363	—	—	60,896	80,878	744,137
D.1 Adjustment of net total values	—	—	—	(243,430)	—	(243,430)
E. Gross closing balance	602,363	—	—	304,326	80,878	987,567
F. Measurement at cost	—	—	—	—	—	—

Information on intangible assets and goodwill

No new acquisitions were completed during the twelve months under review.

A table summarizing the effects of the PPA process for all the acquisitions carried out by the Group over years is shown below:

Table 1: Summary of PPA effects, Italian acquisitions

	Linea	IFID	Spafid Connect	Barclays	Esperia
Acquisition date	*27/6/2008*	*1/8/2014*	*18/6/2015*	*26/8/2016*	*6/4/2017*
Price paid	406,938	3,600	5,124	(240,000)	233,920
of which: ancillary charges	*2,000*	*200*	—		—
Liabilities	—	—	—	80,000	—
Intangible assets, defined life	(44,200)	(700)	(3,250)	(26,000)	(4,508)
no. of years amortization	*8*	*7*	*10*	*5*	*5*
Brands	(6,300)	—	—	—	(15,489)
Fair value adjustments	—	—	—	84,200	11,232
Balance of other assets (liabilities)	(2,659)	420	(466)	98,300	(176,585)
Tax effects	12,155	220	934	3,500	6,613
Goodwill	**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
Goodwill	**37,130**	**172,099**	**134,167**

[1] All amounts are calculated pro rata (89.25%) acquired at the acquisition date.

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

- The Linea acquisition (€407m) generated goodwill of €365.9m, which is now the only amount still recorded in the books following the writeoff of the brands with the useful life of the intangible assets having ended;
- The IFID acquisition (€3.6m) generated goodwill of €3.5m and intangible assets with time-limited life for a total of €0.7m. The deal has been allocated to the "Fiduciary Services" CGU;
- The Spafid Connect acquisition (€5.1m) generated goodwill of €2.3m and intangible assets with time-limited life of €3.3m. The deal has been allocated to the "Corporate Services" CGU.
- The deal to acquire the Barclays' Italian business unit required the seller to pay badwill of €240m, generating, which in the purchase price allocation process was treated as a contingent liability in an amount of €59m (linked to the restructuring process) and loan loss provisions for mortgages totalling €21m, roughly half of which for non-performing exposures. Taking account intangible assets with time-limited life of €26m related to a list of clients with AUM and AUA with a useful life of five years, the bargain purchase generated a gain of €98.3m, most of which was absorbed by the one-off costs related to integrating the Barclays' geographical and IT networks into CheBanca! (approx. €80m);
- The Cairn Capital acquisition (£24.7m for a 51% stake, along with put-and-call options over the other 49% valued at £20.8m) generated goodwill of £37.1m (calculated based on 100%). This goodwill was confirmed at the end of the purchase price allocation processed; Cairn Capital Group has been treated as a single CGU. Following exercise of various tranches, the interest held in the company is now equal to 85.16%, while the outstanding liability, valued at the presumed realizable value, is equal to €12.5m.
- Acquisition of 50% of Banca Esperia held by Banca Mediolanum in return for a consideration of €141m (the deal closed in April 2017); in December 2017 Banca Esperia was merged into Mediobanca, and the purchase price allocation process was completed the same month, which led to a brand being recognized worth €15.5m, a customer list of €4.5m to be amortized over five years, and goodwill of €52.1m split between the Private Banking and Mid-Cap CGUs (for €29.4m and €22.7m respectively). At the same time, subsidiaries Esperia Servizi Fiduciari and Esperia Trust Company (both 100%-owned by Esperia) were transferred to Spafid and are now comprised within the Fiduciary Services CGU, contributing pre-existing goodwill of €3.1m;

– In February 2018 a 69.4% stake was acquired in RAM AI under the terms of a put-and-call arrangement which allows the investment to be increased to 89.25%. The purchase price allocation process led to recognition of a brand worth CHF 41.9m with indefinite life and a client list (related to the AUM management contracts followed by REYL) worth CHF 2.7m, to be amortized over five years. Goodwill post-PPA was calculated at CHF 172.1m, which includes the liability in respect of the put-and-call option (over the other 20.25% not acquired) valued at CHF 46.9m. As at 30 June 2021, following changes to the shareholder structure, Mediobanca's stake increased to 98.3%, whereas the liability in respect of the put and call agreement reduced (3.7%) and has been booked at CHF 2.5m;

– The acquisition of 66.4% of the share capital of Messier Maris & Associés[1] – MMA (completed in April 2019), for a consideration of €107.9m settled by means of 11.6 million Mediobanca treasury shares (equal to 1.3% of the Bank's share capital). A put-and call agreement was also executed, exercisable as from the fifth year following the acquisition, that would allow the interest acquired to rise to 100%. In conjunction with the deal closing, the Messier Maris brand was transferred at a value of €17m, which was increased by €27.2m following the PPA process, along with a client list worth €11.3m to be amortized over eight years, which reduced the goodwill to €134.2m.

The following changes to the value of goodwill recorded in the financial statements should be noted:

– With reference to the RAM AI CGU: RAM has undergone a major internal reorganization, with two partners departing the company and the appointment of a new CEO who has revised the long-term plan. In view of these changes, an external consultant was retained to carry out the valuation, which has led to an adjustment to goodwill of CHF 20.4m (€18.6m);

– With reference to the Messier et Associés CGU:[1] this company two has seen the departure of one of the two equity partners, which, under the agreements originally entered into, triggered the clawback clauses over shares in escrow and covered by put and call options; overall this generated a one-off gain of €41m which was offset in full by an adjustment to goodwill for the same amount;

[1] Messier et Maris SA has changed its name to Messier et Associés – Group Mediobanca following the departure of one of the two founding partners.

– With reference to the Spafid –Fiduciary Services CGU: the slowdown seen during the twelve months, in part due to the pandemic scenario, is reflected in impairment charges of €2.9m, roughly half the total goodwill allocated;

– With reference to the Services for Issuers CGU: as a process has been launched to dispose of the Spafid Connect business unit, all the assets and liabilities have been reclassified as Held For Sale (under IFRS5, including goodwill. To calculate the recoverable value, in this case the fair value has been used net of sale costs.

As from this year, in view of the merger of Futuro (to which the "Salary-Backed Finance" CGU referred) into Compass (to which the "Consumer Banking" and "Credit Cards" CGUs refer), and given that for internal purposes management only monitors the "Consumer Banking" segment, it has been decided to combine the three CGUs into a single CGU ("Consumer Banking". As required by IAS36, the impairment test has been run twice, i.e. considering only the "Consumer Banking" CGU, and considering the three separate CGUs; the test was passed both times.

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

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

Typology	***Deal***	**30/6/21**	**30/6/20**
Customer relationship		15,476	25,156
	Spafid	*177*	*390*
	Barclays/CheBanca!	*866*	*6,838*
	MB Private Banking	*907*	*1,807*
	CMB	*4,564*	*5,215*
	RAM Active Investments	*818*	*1,346*
	Messier et Associés	*8,144*	*9,560*
Brand		63,878	65,057
	MB Private Banking	*15,489*	*15,489*
	RAM Active Investments	*38,159*	*39,338*
	Messier et Associés [1]	*10,230*	*10,230*
Acquired software	Spafid Connect	—	2,468
Total		**79,354**	**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	30/6/21	30/6/20
Consumer	365,934	365,934
Spafid-Fiduciary services	3,733	6,620
Spafid Connect	—	2,342
Cairn Capital	43,272	40,690
Banca Esperia	52,103	52,103
RAM Active Investments	44,168	64,680
Messier & Associés	93,153	134,167
Total goodwill	**602,363**	**666,536**

Table 4: CGU summary

CGU	30/6/21	30/6/20
Consumer credit	365,934	365,934
Fiduciary services	3,733	6,620
Corporate services	—	2,342
Cairn Capital	43,272	40,690
Mid corporate	22,650	22,650
MBPrivate Banking	29,453	29,453
RAM Actice Investments	44,168	64,680
Messier & Associés	93,153	134,167
Total goodwill	**602,363**	**666,536**

Information on impairment testing

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

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

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

The Group has adopted a policy to govern the impairment testing process, the most recent update of which was approved by the Board of Directors in June 2021. This policy takes account of: the guidance issued by the *Organismo Italiano di Valutazione* (Impairment testing of goodwill in financial crises, published on 14 June 2012, *Italian Valuation Principles* (PIV) published in 2015, Discussion Paper dated 22 January 2019 (drawn up in conjunction with Nedcommunity), Discussion Paper no. 01/2021 of 16 March 2021 – "Use of forward-looking financial information in company valuations"; and Discussion Paper no. 02/2021, also of 16 March 2021 – "Guidelines on impairment testing following the effects of the Covid-19 pandemic"); the recommendations issued by ESMA;[2] and other recommendations made by the national regulatory authorities.[3]

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

The cash flows have been projected over a time horizon of three to five years, based on the Group's strategic plans and the annual budgets formulated by the management of the individual CGUs concerned.

[2] European Security and Markets Authority (ESMA): "European common enforcement priorities for 2013 financial statements", emphasizing the specific aspects of the impairment testing for goodwill and intangibles asset; and Public Statement of 28 October 2020, "European common enforcement priorities for 2020 annual financial reports", in which all issuers are invited to pay particular attention to the effects of the Covid-19 pandemic.

[3] Joint Bank of Italy, Consob and ISVAP (now IVASS) document no. 3, of 3 March 2010, which requires, among other things, that the financial statements of listed companies (annual and interim reports) should contain more detailed disclosure on how goodwill, other intangibles with indefinite useful life, and equity investments are valued, providing a description of the methodologies and indicators used which must be submitted to formal and deliberate approval by the Board of Directors; Joint Bank of Italy, Consob and ISVAP (now IVASS) document no. 8, containing guidance on the valuation of fund stock units to be applied in measuring holdings in funds at fair value; Consob communication no. DIE/17131 of 3 March 2014, containing guidance on the timescales for carrying out impairment testing, and the duties and responsibilities of the management body in this process; Consob communication no. 3907 of 19 January 2015, laying down guidelines with which listed companies must comply to ensure high quality disclosure on the issue of impairment; Consob "Warning" no. 8/20 of 16 July 2020, no. 6/20 of 9 April 2020, and no. 1/21 of 16 February 2021: "Covid-19 – Warning on financial reporting", in which management and supervisory bodies and heads of company financial reporting are reminded of the need to comply with the principles governing the financial reporting production process, in view of the impact which the effects of the pandemic may have on, among other things, the valuation of non-financial assets (i.e. the need for impairment testing).

To estimate the cost of equity, which is determined via the Capital Asset Model (CAPM) in accordance with IAS36, certain parameters common to all CGUs have been used, namely:

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

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

Table 5: Cost of equity parameters per CGU

1CGU	30/6/21					
	Risk-free rate	Equity risk premium	Beta 2y	Factor	Cost of equity	Expected growth rate
	Rf	***Erp***	***β***	***α***	***Ke***	***g***
Consumer credit	0.75%	6.41	1.10	1.50	9.29	1.3
Fiduciary services	0.75%	6.41	0.99	1.50	8.56	1.3
Private Banking	0.75%	6.41	0.99	1.50	8.56	1.3
Mid corporate	0.75%	6.41	0.99	1.50	8.56	1.3
Services to issuers	0.75%	6.41	0.99	1.50	8.56	1.3
Cairn Capital / UK	0.46%	5.49	1.11	1.50	8.07	1.7
RAM AI / Suisse	-0.40%	5.40	1.11	2.52	8.14	1.5
MA / France	-0.20%	5.73	1.15	1.50	7.87	1.5

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

Compared to last year, the individual components used to determine the Cost of Equity reflect show substantial reduction. The risk-free rate for Italy (calculated as the annual average on ten-year BTPs) has fallen from 1.33% to 0.75%; while the Equity Risk Premium, calculated as the average of the three main contributors (Fernandez, Damodaran and internal analysts), has fallen by approx. 55 bps for Italy, 45 bps for the United Kingdom, 94 bps for Switzerland, and 56 bps for France. Beta, too, reflects the same trend, apart from in consumer credit (1.10, versus 1.03). Conversely, the growth rate (g) has been maintained unchanged, referring to the three-year inflation rate in the various countries, adjusted to reflect the potential growth in the particular sector in which the CGU operates.

As for the terminal value, this has been obtained by capitalizing the cash flow distributable to shareholders beyond the explicit estimate period, prudentially assumed to be equal to the average profits estimated over the plan, in some cases complemented by historical results. A normalized terminal value has been preferred to the estimated result for the last year of the explicit forecast period, to factor in the uncertainties generated by Covid-19 in certain sectors in particular (such as asset management), where the short-term results have been poor but substantial improvements are expected over the medium/long term.

All the Group's CGUs have passed their impairment tests, with the exception of the Fiduciary Services CGU, as the net present value was higher than the book value in view of the possible measures in the course of the year.

This situation is borne out by the sensitivity analysis exercise, which contemplates changes in the scenarios, such as a 0.25% increase or decrease in the cost of equity, stressed rates of increase/decrease in the cost/income ratio (0.50%), and, for companies with credit risk, the cost of risk.

A final check was also carried out to confirm that the value in use in the three main business segments (Consumer Banking, Wealth Management and Corporate and Investment Banking), calculated to include allocation of all Holding Functions corporate costs, was higher than the respective carrying amounts.[4] No issues were noted in this connection.

Thus the impairment test was passed by all three business segments.

The values thus obtained are used in the reasonableness tests carried out for stock market prices and target prices identified by financial analysts. With reference to stock market prices and the P/BV ratio, in the last six months of 2020 the average Mediobanca stock market price was €7.07 per share, which translates to a multiple versus NAV of 0.58x; while in the first six months of 2021, the average stock market price rose to €9.08 per share, corresponding to a multiple of 0.71x versus NAV. Analysts' estimates suggest an average target price of €10.8 per share (30/6/20: €8.5), corresponding to a multiple versus NAV of 0.85x.

Based on this, a reasonableness test was carried out of the Group's value, obtained using the Sum of the Parts methodology and its stock market and target prices; and once again, no issues emerged.

[4] Calculated as the sum of the capital absorbed plus goodwill and intangibles allocated.

* * *

Before the goodwill impairment test, the brands with indefinite useful life were allocated to the various CGUs. In particular these are the brands referring to Mediobanca Private Banking, RAM and Messier et Associés. The brands' recoverable values were estimated using criteria based on royalty relief, whereby the brand's value is obtained from the discounted value of the income deriving from it, which in turn is estimated as the product of the royalty rate implied in the valuations of the respective brands made during the PPA process (Business Combinations under IFRS3) and the value of the operating income. All the brand values were confirmed and no evidence of impairment was noted.

SECTION 11

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

11.1 Advance tax assets: composition

	30/6/21	30/6/20
- Against Profit and Loss	556,808	616,727
- Against Net Equity	27,395	40,773
Total	584,203	657,500

11.2 Deferred tax liabilities: composition

	30/6/21	30/6/20
- Against Profit and Loss	301,940	302,963
- Against Net Equity	36,847	22,485
Total	338,787	325,448

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

	30/6/21	30/6/20
1. Opening balance	616,727	612,627
2. Increases	24,472	18,342
2.1 Deferred tax assets for the year	23,896	17,651
a) relating to previous years	34	1,338
b) due to changes in accounting policies	—	—
c) writebacks	—	—
d) others	23,862	16,313
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	576	691
3. Decreases	84,391	14,242
3.1 Deferred tax assets derecognised in the year	80,261	13,763
a) reversals of temporary differences	78,422	13,407
b) writedowns of non-temporary items	—	—
c) changes in accounting policies	—	—
d) others	1,839	356
3.2 Reduction in tax rates	—	—
3.3 Other decreases:	4,130	479
a) conversion into tax receivables pursuant to Italian Law 214/2011	—	—
b) others	4,130	479
4. Closing balance	556,808	616,727

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

	30/6/21	30/6/20
1. Opening balance	548,385	548,385
2. Increases	—	—
3. Decreases	72,862	—
3.1 Reversals of temporary differences	69,366	—
3.2 Conversion into tax receivables deriving from:	—	—
a) year losses	—	—
b) tax losses	—	—
3.3 Other decreases	3,496	—
4. Closing balance	475,523	548,385

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

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

	30/6/21	30/6/20
1. Opening balance	302,963	292,302
2. Increases	7,265	27,930
2.1 Deferred tax liabilities of the year	231	21,698
a) relating to previous years	—	—
b) due to changes in accounting policies	—	—
c) others	231	21,698
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	7,034	6,232
3. Decreases	8,288	17,269
3.1 Deferred tax liabilities derecognised in the year	6,335	15,506
a) reversals of temporary differences	4,314	3,768
b) due to changes in accounting policies	—	—
c) others	2,021	11,738
3.2 Reductions in tax rates	—	—
3.3 Other decreases	1,953	1,763
4. Closing balance	301,940	302,963

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

	30/6/21	30/6/20
1. Opening balance	40,773	46,856
2. Increases	18,989	39,231
2.1 Deferred tax liabilities of the year	18,973	38,346
a) relating to previous years	—	—
b) due to changes in accounting policies	—	—
c) others	18,973	38,346
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	16	885
3. Decreases	32,367	45,314
3.1 Deferred tax liabilities derecognised in the year	28,605	43,570
a) reversals of temporary differences	27,228	42,859
b) writedowns of non-recoverable amounts	—	—
c) due to changes in accounting policies	—	—
d) others	1,377	711
3.2 Reductions in tax rates	—	—
3.3 Other decreases	3,762	1,744
4. Closing balance	27,395	40,773

* Tax deriving from cash flow hedges and valuations of financial instruments recognized at fair value through Other Comprehensive Income.

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

	30/6/21	30/6/20
1. Opening balance	22,485	26,870
2. Increases:	118,050	75,772
2.1 Deferred tax liabilities of the year:	118,029	75,757
a) related to prevoius year	—	—
b) due to changes in accountable parameters	—	—
c) others	118,029	75,757
2.2 New taxes or increases in tax rates	—	—
2.3 Other increases	21	15
3. Decreases:	103,688	80,157
3.1 Deferred tax liabilities derecognized in the year	103,688	80,155
a) reversals of temporary differences	103,688	80,155
b) due to changes in accountable parameters	—	—
c) others	—	—
3.2 Decrease in fiscal rates	—	—
3.3 Other decreases	—	2
4. Closing balance	36,847	22,485

Of the reductions, €5.1m refer to the deferred tax relating to the difference between the accounting value and the tax value of the Banca Esperia brand as at 30 June 2021. The tax value of this asset was therefore realigned to the higher tax value, in application of Article 110, paragraph 8-bis, of Italian Decree Law 104/20, with all liabilities recorded in the accounts being cancelled accordingly. In accordance with the International Accounting Standards and the Bank of Italy instructions, the deferred tax has been released to profit and loss.

E-MARKET SDIR CERTIFIED

SECTION 12

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

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

	30/6/21
A. Assets held for sale	
A.1 Financial assets	
A.2 Equity investments	—
A.3 Tangible assets	—
of which: obtained by the enforcement of collateral	—
A.4 Intangible assets	4,178
A.5 Other non current assets	—
Total (A)	4,178
of which carried at cost	*4,178*
of which designated at fair value - level 1	—
of which designated at fair value - level 2	—
of which designated at fair value - level 3	—
C. Liabilities associated with assets held for sale	
C.1 Debts	
C.2 Securities	—
C.3 Other liabilities	381
Total (C)	381
of which carried at cost	*381*
of which designated at fair value - level 1	—
of which designated at fair value - level 2	—
of which designated at fair value - level 3	—

As at 30 June 2021 the accounts reflect non-current assets held for sale and related liabilities (pursuant to IFRS5), which refer to the disposal of the Spafid Connect business unit, for which advanced negotiations for the completion of the sale are in progress. The assets being disposed of refer to goodwill (Issuer Services CGU) and software; while the liabilities refer to amounts payable to staff. The transaction does not qualify as a "discontinued operation" under IFRS5.

Given that the fair value, net of the sale costs, is higher than the book value for the business unit, no impact has been recorded to earnings as a result of its being classified as an asset held for sale.

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SECTION 13

Heading 130: Other assets

13.1 Other assets: composition

	30/6/21	30/6/20
1. Gold, silver and precious metals	695	695
2. Accrued income other than capitalized income from financial assets	53,946	44,631
3. Trade receivables or invoices to be issued	311,685	256,670
4. Amounts due from tax revenue authorities (not recorded under Heading 110)	151,171	159,463
5. Other items	233,037	207,937
- bills for collection	52,565	48,197
- amounts due in respect of premiums, grants, indemnities and other items in respect of lending transactions	22,586	17,092
- advance payments on deposit commissions	2,750	2,513
- other items in transit	81,920	79,036
- sundry other items [1]	73,216	61,099
Total other assets	750,534	669,396

[1] Includes accrued income.

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	30/6/21				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	7,486,142	X	X	X	5,660,803	X	X	X
2. Loans from banks	5,344,777	X	X	X	7,149,527	X	X	X
2.1 Other current accounts and demand deposits	405,561	X	X	X	596,259	X	X	X
2.2 Time deposits	—	X	X	X	—	X	X	X
2.3 Loans	4,907,028	X	X	X	6,442,279	X	X	X
2.3.1 Repurchase agreement	1,827,468	X	X	X	2,204,642	X	X	X
2.3.2 Other	3,079,560	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 [1]	3,443	X	X	X	4,519	X	X	X
2.6 Other liabilities	28,745	X	X	X	106,470	X	X	X
Total	12,830,919	—	12,830,919	—	12,810,330	—	12,810,330	—

[1] This item includes obligations in respect of payment of future leasing instalments as required by IFRS16 and Bank of Italy circular no. 262 – VI Update.

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

Type of transaction/Values	30/6/21				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	21,420,365	X	X	X	18,957,396	X	X	X
2. Time deposits	4,955,465	X	X	X	6,232,444	X	X	X
3. Loans	336,432	X	X	X	846,472	X	X	X
3.1 Repos	170,907	X	X	X	710,173	X	X	X
3.2 Other	165,525	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]	223,640	X	X	X	212,196	X	X	X
6. Other liabilities	128,887	X	X	X	124,706	X	X	X
Total	27,064,789	—	27,064,789	—	26,373,214	—	26,373,214	—

[1] This item includes obligations in respect of payment of future leasing instalments as required by IFRS16 and Bank of Italy circular no. 262 – VI Update.

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

Type of securities/ Values	30/6/21				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	17,778,581	759,204	17,206,553	100,115	18,889,474	1,287,832	17,901,254	—
1.1 structured	2,723,465	—	2,839,281	—	3,617,647	—	3,779,434	—
1.2 other	15,055,116	759,204	14,367,272	100,115	15,271,827	1,287,832	14,121,820	—
2. Other securities	800,726	—	755,281	45,445	868,410	—	828,977	39,433
2.1 structured	—	—	—	—	—	—	—	—
2.2 other	800,726	—	755,281	45,445	868,410	—	828,977	39,433
Total	18,579,307	759,204	17,961,834	145,560	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 30 June 2021 would show a gain of €110.6m (30/6/20: €235.7m).

Debt securities in issue decreased from €18,889,474,000 to €17,778,581,000, on new issuance of €2.2bn, which offset redemptions and buybacks of €3bn (generating gains of €4.8m) and other downward adjustments (exchange rates, amortized cost and hedging effects) amounting to €261.8m.

The bonds in issue include €1.8bn related to arbitrage strategies leveraging on derivative basis indexes (skew) mainly linked to credit derivatives, and a minority to interest rates, inflation or equity risk.

All these issues involve payment of interest in the form of a coupon (including a premium – extra yield) and full repayment of capital at maturity. In case of the subscriber opting for early repayment, the issuer has the faculty, at its discretion, to choose a repayment price that takes into account the current fair value including that of the underlying transactions.

As required by par. 4.3.3 of IFRS9 standard, the embedded derivative, identified by the right to include the arbitrage value within the repayment price, has been separated by the obligation valued at amortized cost and booked at the fair value of underlying transactions.

1.4 Breakdown of subordinated debt securities

The heading "Debt securities in issue" includes the following five subordinated Lower Tier 2 issues, for a total amount of €1,639,322,000:

Emissione	**30/6/21**		
	ISIN code	**Nominal value**	**Book value**
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	499,909	526,574
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	499,271	504,858
MB OPERA 3.75 2026	IT0005188351	299,031	307,775
MB Subordinato Mar 29	XS1579416741	50,000	50,251
Mediobanca Mc Nv30 Sub Tier2 Call Eur	XS2262077675	249,250	249,864
Total subordinated securities		1,597,461	1,639,322

In November 2020 a €250m subordinated Tier2 bond was placed on the institutional market, with a ten-year maturity and a call option after five years, at a fixed rate of 2.3%. Two issues worth approx. €1bn were redeemed during the twelve months.

1.6 Lease liabilities

Amounts due under leases are calculated by applying the criteria set forth in IFRS16.

Heading 20: Trading financial liabilities

2.1 Trading financial liabilities: composition

Operation type/Values	30/6/21					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	1,476,207	1,540,833	—	—	1,540,833	1,431,165	1,653,615	—	—	1,653,615
2. Due to customers	2,362,361	2,521,458	—	—	2,521,458	1,306,066	1,509,072	—	—	1,509,072
3. Debt securities	—	—	—	—	X	—	—	—	—	X
3.1 Bonds	—	—	—	—	X	—	—	—	—	X
3.1.1 Structured	—	—	—	—	X	—	—	—	—	X
3.1.2 Other bonds	—	—	—	—	X	—	—	—	—	X
3.2 Other securities	—	—	—	—	X	—	—	—	—	X
3.2.1 Structured	—	—	—	—	X	—	—	—	—	X
3.2.2 Other	—	—	—	—	X	—	—	—	—	X
Total (A)	3,838,568	4,062,291	—	—	4,062,291	2,737,231	3,162,687	—	—	3,162,687
B. Derivative instruments										
1. Financial derivatives [1]		904,555	3,321,765	1,182,213			855,347	2,989,573	530,954	
1.1 Trading	X	904,555	3,317,662	1,181,119	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	—	4,103	1,094	X	X	—	11,438	1,196	X
2. Credits derivatives		—	592,805	—			—	418,374	—	
2.1 Trading	X	—	592,805	—	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	904,555	3,914,570	1,182,213	X	X	855,347	3,407,947	530,954	X
Total (A+B)	X	4,966,846	3,914,570	1,182,213	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 €992,861,000 (30/6/20: €408,844,000) for options traded, matching the amount booked as financial assets held for trading.

Heading 30: Financial liabilities designated at fair value

3.1 Financial liabilities designated at fair value: composition

Operation Type/Values	30/6/21					30/6/20				
	Nominal value	Fair Value			Fair Value *	Nominal value	Fair Value			Fair Value *
		Level1	Level2	Level3			Level1	Level2	Level3	
1. Due to banks	—	—	—	—	—	—	—	—	—	—
1.1 Structured	—	—	—	—	X	—	—	—	—	X
1.2 Others	—	—	—	—	X	—	—	—	—	X
of which:						—				
- commitments to disburse funds	—	X	X	X	X	—	X	X	X	X
- financial guarantees given	—	X	X	X	X	—	X	X	X	X
2. Due to customers	—	—	—	—	—	—	—	—	—	—
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	—	833,048	—	833,048	215,587	—	216,020	—	216,020
3.1 Structured	800,087	—	833,048	—	X	215,587	—	216,020	—	X
3.2 Others	—	—	—	—	X	—	—	—	—	X
Total	800,087	—	833,048	—	833,048	215,587	—	216,020	—	216,020

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

The Heading includes two bond issues (€52.2m) and some certificates (€780.6m), one of which material (€617.7m), matched by specific financial assets (Heading 20 – Financial assets recognized at fair value).

SECTION 4

Heading 40: Hedging derivatives

4.1 Hedging derivatives: by hedge type and level

	30/6/21				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	—	375,413	—	38,032,581	—	465,225	—	21,286,650
1) Fair value	—	361,882	—	29,174,781	—	428,533	—	12,943,850
2) Cash flows	—	13,531	—	8,857,800	—	36,692	—	8,342,800
3) Foreign investments	—	—	—	—	—	—	—	—
B. Credit derivatives	—	—	—	—	—	—	—	—
1) Fair value	—	—	—	—	—	—	—	—
2) Cash flows	—	—	—	—	—	—	—	—
Total	—	375,413	—	38,032,581	—	465,225	—	21,286,650

4.2 Hedging derivatives: by portfolio hedged and hedge type

Transactions/ Type of hedge	Fair Value							Cash flow		
	Specific						Generic	Specific	Generic	Foreign invest
	Debt securities and interest rates	Equities and equity index	Currencies and gold	credit	commodities	others				
1. Financial assets valuated at fair value with impact taken to comprehensive income	15,652	—	—	—	X	X	X	—	X	X
2. Financial assets valued at amortized cost	305,535	X	—	—	X	X	X	—	X	X
3. Portfolio	X	X	X	X	X	X	—	X	—	X
4. Other operations	—	—	—	—	—	—	X	—	X	—
Total assets	321,187	—	—	—	—	—	—	—	—	—
1. Financial liabilities	40,695	X	—	—	—	—	X	13,531	X	X
2. Portfolio	X	X	X	X	X	X	—	X	—	X
Total liabilities	40,695	—	—	—	—	—	—	13,531	—	—
1. Expected transactions	X	X	X	X	X	X	X	—	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	—	X	—	—

SECTION 6

Heading 60: Tax liabilities

Please see asset section 11.

SECTION 7

Heading 70: Liabilities associated to disposal group of assets

Please see asset section 12.

SECTION 8

Heading 80: Other liabilities

8.1 Other liabilities: composition

	30/6/21	30/6/20
1. Working capital payables and invoices pending receipt	315,001	255,677
2. Amounts due to revenue authorities	70,604	63,376
3. Amounts due to staff	247,104	211,853
4. Other items:	265,326	267,163
- bills for collection	25,684	24,141
- coupons and dividends pending collection	2,454	4,149
- available sums payable to third parties	92,213	57,037
- premiums, grants and other items in respect of lending transactions	21,192	16,581
- other [1]	123,783	165,255
Total liabilities	898,035	798,069

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

SECTION 9

Heading 90: Staff severance indemnity provision

9.1 Staff severance indemnity provision : changes during the period

	30/6/21	30/6/20
A. Opening balance	27,862	27,808
B. Increases	8,624	8,633
B.1 Provision of the year	7,013	6,635
B.2 Other increases	1,611	1,998
- of which business aggregation operations	—	—
C. Reductions	9,600	8,579
C.1 Severance payments	2,008	2,492
C.2 Other decreases [1]	7,592	6,087
- of which business aggregation operations	—	—
D. Closing balance	26,886	27,862
Total	26,886	27,862

[1] Includes €4,382,000 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 recorded at end-June 2021 has been used for similar companies to those being valued (equal to 0.26%, compared with 0.31% at end-June 2020), while the inflation rate has remained flat at 1.20%.

SECTION 10

Heading 100: Provisions

10.1 Provisions: composition

Items/Components	30/6/21	30/6/20
1. Funds for credit risk related to commitments to disburse funds and financial guarantees given	26,858	13,680
2. Funds on other commitments to disburse funds and guarantees given	297	284
3. Provisions to retirement payments and similar [1]	1,410	2,573
4. Other provisions	115,644	112,956
4.1 legal and fiscal controversies	—	—
4.2 staff expenses	2,658	4,835
4.3 others	112,986	108,121
Total	144,209	129,493

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

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

As at 30 June 2021, the heading "Other provisions" rose from €129.5m to €144.2m, due to commitments and guarantees component almost doubling, from €14m to €27.2m as a result of applying the IFRS9 provisioning models. The company post-retirement benefit provision (which refers exclusively to Swiss subsidiary RAM AI) decreased from €2.6m to €1.4m, while there was a slight increase in the other provisions for liabilities and charges (up from €113m to €115.6m). Among the latter, Compass increased its provisioning (from €5.2m to €17.5m), to offset the potential indemnity payable to clients following the Lexitor ruling (out of the €15m set aside, a total of €3.5m has been used), offset by the reductions in the provisioning for Mediobanca (from €71.4m to €68.9m), CheBanca! (from €19.4m to €15.3m), SelmaBipiemme (from €10m to €9.2m), and CMB Monaco (from €3.8m to €1.2m).

The most significant litigation 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, involving a total amount of €286m. 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). Judgement is still pending at the Court of Florence (at the preliminary phase);
– 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 pursued 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 Court of Milan rejected Lucchini's claim, ordering the company to pay legal expenses. Lucchini has challenged this ruling, giving notice of its appeal on 28 September 2020. The next hearing, for clarification of the pleadings, is set for 12 January 2022.

The effects of the "Lexitor" ruling on operations in the retail segment are minor, and are limited to possible disputes regarding early repayment of consumer credit operations (in salary-backed finance in particular), made before 5 December 2019 (the date on which the Bank of Italy sent its letter to the market informing participants of the Lexitor ruling). Various complaints have been received in this respect, all of which are following the normal procedure. On 25 July 2021, Italian Law 106/21 came into force, converting Italian Decree Law 73/21 which provided for amendments to the wording of Article 125-sexies of the Italian Banking Act, and clarified that the effects of the Lexitor ruling apply only to contracts signed before the said law came into force. Accordingly, Compass has written back the €15m provision used as to just €3.5m.

With reference to the disputes outstanding with the Italian revenue authorities, there have been no major changes compared to the situation last year.

With reference to the alleged non-application of transparency tax required by the regulations on Controlled Foreign Companies (CFC) to the income produced by CMB Monaco (previously called Compagnie Monégasque de Banque) and Compagnie Monégasque de Gestion in the 2013, 2014 and 2015 financial years, three disputes are currently pending with the revenue authority. In detail, the disputes refer to FY 2013-14 (on 2013 earnings, in an amount of €21.3m plus interest and fines), in which Mediobanca's appeal was upheld at the first degree, is now pending with the Lombardy regional tax tribunal, after the Italian revenue authority in turn appealed; the disputes referring to FY 2014-15 and FY 2015-16 (on 2014 and 2015 earnings respectively, for tax amounting to €16.1m and €16.4m, plus interest and fines) have yet to be heard at the first degree.

Regarding Mediobanca's alleged failure to apply withholding tax on interest payable as part of a secured financing transaction, as well as the dispute relating to 2014 (for tax in an amount of €2.3m, plus interest and fines), for which no date has yet been set for the first-degree hearing, notice of assessment has also been received for the year 2015 (for tax in an amount of €1.9m, plus interest and fines), which the Bank intends to challenge.

Regarding the three disputes over the revenue authority's failure to repay the interest accrued on VAT tax credits payable to SelmaBipiemme, which refer to different years (involving interest totalling €9.4m), on 14 June 2021 the Lombardy regional tax tribunal upheld SelmaBipiemme's appeal and ordered the Italian revenue authority to repay the interest for 2005 (equal to €6.8m). The terms for the revenue authority's appeal to the Court of Cassation are still pending. Against a contingent liability in respect of one charge that went against the company, a provision of €6m has been set aside.

Apart from those described above, a further eleven disputes remain outstanding, including:

- One relating to the former Banca Esperia's failure to report a money transfer outside of Italy as part of the tax monitoring communications, for which fines of €5.9m were handed down. The company was found guilty at both the first- and second-degree hearings, and has paid the disputed amount; its appeal to the Court of Cassation is now pending;
- One dispute involving excess VAT paid SelmaBipiemme in relation to a shipping lease in the years 2004, 2005 and 2006 (a tax refund of €1.7m has

been requested). The company has appealed the Italian revenue authority's failure to respond to the claim, and a date for the hearing is still pending;

– A total of nine disputes involving direct and indirect tax of minor amounts and at different stages of the ruling process, involving a total certified amount of €1.4m in tax.

Mediobanca SGR has also been charged in its capacity as fund manager of "Marsupio" real estate fund for its alleged failure to pay withholding tax on three transactions, involving a higher amount of tax notified of €746,000 (payable by the fund). The company was found not guilty at the first-degree hearing but guilty at the second; and has now appealed to the Court of Cassation.

On 17 December 2020 Compass Banca was notified of two invitations to participate in enquiries regarding irregularities in the IRES and IRAP paid for FY 2015-16, involving income generated from insurance brokerage activity performed versus its own clients and regarding relations with its subsidiary Compass RE. The enquiries ended in March 2021, with a consensual agreement on funds transfer pricing and payment of €3.5m in additional tax, plus fines and interest totalling €1.6m. In June 2021 the company instigated a consensual agreement with the Italian revenue authority on income of the same kind generated in FY 2016-17 and FY 2017-18 as well. The process ended on 23 July 2021, with approx. €2.1m in additional tax being paid, plus fines and interest for a total of €0.4m, covering both financial years. The method agreed to by the revenue authority being extended to the transactions executed by Compass and Compass RE in the following years should not result in any more income becoming receivable by the company.

The provision for risks and charges is adequate to cover any expenses to which Mediobanca and the Group companies may become liable as a result of any charges brought against them (no other significant litigation is currently pending).

10.2 Provisions: 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 balances	284	2,573	4,835	108,121	115,813
B. Increases	13	120	1,100	24,508	25,741
B.1 Provision for the year	13	120	1,100	24,508	25,741
B.2 Changes due to the passage of time	—	—	—	—	—
B.3 Differences due to discount rate changes	—	—	—	—	—
B.4 Other increases	—	—	—	—	—
- of which business aggregation operations	—	—	—	—	—
C. Decreases	—	1,283	3,277	19,643	24,203
C.1 Use during the year	—	—	3,277	19,643	22,920
C.2 Differences due to discount rate changes	—	—	—	—	—
C.3 Other decreases	—	1,283	—	—	1,283
- of which business aggregation operations	—	—	—	—	—
D. Closing balance	297	1,410	2,658	112,986	117,351

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 distribute funds	20,644	4,175	184	25,003
Financial guarantees given	1,149	706	—	1,855
Total	21,793	4,881	184	26,858

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.[1] 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, resulting in a liability of €1.4m (CHF 1.5m), virtually half the figure recorded last year (€2.6m, equal to CHF 2.7m).

Certain financial assumptions have been used in order to determine the amount of the liability (0.20% discount rate, salary increase rate of 1%), and also some demographic assumptions.

[1] 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.

The following table shows the breakdown of the net defined benefit obligation as at the most recent reporting date (30 June 2021):

IAS19 Net obligation	**30/6/21**	**30/6/20**
	CHF/1000	CHF/1000
Present value of defined benefit obligation	(10,800)	(14,973)
Present value of assets servicing the fund	9,252	12,232
Surplus/(deficit)	(1,548)	(2,741)
IFRIC14 adjustment	—	—
Net accounting (liability)/asset	(1,548)	(2,741)

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

During the year under review, RAM AI has embarked on a restructuring plan that includes more than 15% of the total workforce leaving the company; as the impact is significant, the "curtailment cost" has been calculated. It should also be noted that the Bâloise fund has recently revised the terms of its coverage for RAM AI, resulting in a "plan amendment". Hence the conversion rates for the return on the fund have been altered, resulting in a smaller financial outlay in the future, and under IAS19, when a DBO liability is recalculated, the different (which in this case is positive for the Group) must be taken to earnings. The total benefit taken through profit and loss in this connection was CHF 492,000 (€453,000).

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SECTION 11

Heading 110: Technical reserves

11.1 Technical reserves: composition

Items	Direct labour	Indirect labour	30/6/21	30/6/20
A. Non-life insurance	—	131,350	131,350	157,244
A.1 Premium reserves	—	120,397	120,397	147,192
A.2 Accident reserves	—	10,953	10,953	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 connected to investment funds and market index	—	—	—	—
C.2 Reserves originated by retirement funds management	—	—	—	—
D. Total technical reserves	—	131,350	131,350	157,244

11.2 Technical reserves: changes during the period

	30/6/21	30/6/20
A. Non-life business		
Opening balance	157,244	170,838
Combinations involving group companies	—	—
Changes to reserves (+/-)	(25,894)	(13,594)
Other additions	—	—
Closing balance	131,350	157,244
B. Life business and other reserves		
Opening balance	—	—
Combinations involving group companies	—	—
Changes due to premiums	—	—
Changes due to sums to be paid out	—	—
Changes due to payments	—	—
Changes due to incomes and other bonuses recognized to insured parties (+/-)	—	—
Changes to other technical reserves (+/-)	—	—
Other additions	—	—
Closing balance	—	—
C. Total technical reserves	131,350	157,244

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.

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	1,747,747
B.1 New shares isssuance as a result of:	46,566
- against payment:	—
- bonds conversions	—
- exercise of warrants	—
- others	—
- free	46,566
- to employees	46,566
- to directors	—
- others	—
B.2 Treasury shares' disposal	1,701,181
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	862,369,906
D.1 Treasury shares (+)	(24,910,107)
D.2 Shares in issue at the end of the period	887,280,013
- entirely unrestricted	887,280,013
- with restrictions	—

In accordance with the performance share plan currently in force, during the year under review a total of 1,701,181 treasury shares were allocated to staff plus another 46,566 newly-issued shares (deferred execution of the capital increase under the 2015 plan).

13.3 Share capital: other information

There is no other information to be disclosed other than that already reported on this section.

13.4 Profit reserves: other information

Item	30/6/21	30/6/20
Legal reserve	88,724	88,722
Statutory reserve	1,068,913	1,029,580
Treasury shares	216,736	231,538
Others	5,477,129	4,916,024
Total	6,851,502	6,265,864

13.5 Equity instruments: breakdowns and annual changes

There is no other information to be disclosed other than that already reported on this section.

SECTION 14

Heading 190: Minority interests

14.1 Heading 190 "Minority interests": composition

Company name	30/6/21	30/6/20
1. SelmaBipiemme S.p.A.	87,339	85,101
2. RAM Active Investments S.A.	957	6,385
3. Other minors	16	6
Total	88,312	91,492

Other information

1. Commitments and financial guarantees given

	Nominal value of commitments and financial guarantees given			30/6/21	30/6/20
	Stage1	Stage2	Stage3		
1. Commitment to disburse funds	13,973,281	262,664	2,851	14,238,796	9,938,397
a) Central Banks	—	—	—	—	—
b) General governments	3,191,105	—	—	3,191,105	1,129,491
c) Banks	9,783	—	—	9,783	33,525
d) Other financial companies	1,617,238	82,852	—	1,700,090	1,834,007
e) Non-financial companies	6,848,336	150,230	1,081	6,999,647	4,988,594
f) Households	2,306,819	29,582	1,770	2,338,171	1,952,780
2. Financial guarantees given	563,810	12,984	—	576,794	712,033
a) Central Banks	—	—	—	—	—
b) General governments	—	—	—	—	—
c) Banks	35,323	—	—	35,323	9,992
d) Other financial companies	59,843	—	—	59,843	196,331
e) Non-financial companies	444,676	12,984	—	457,660	487,048
f) Households	23,968	—	—	23,968	18,662

2. Other commitments and guarantees given

Itemes/Values	Nominal value	
	30/6/21	30/6/20
1. Other guarantees given	151,463	122,626
of which: impaired credit exposures	—	—
a) Central Banks	—	—
b) General goverments	—	—
c) Banks	5	6
d) Other financial corporations	72,736	28,533
e) Non financial corporations	10,071	30,571
f) Households	68,651	63,516
2. Other commitments	121,742	148,846
of which: impaired credit exposures	—	—
a) Central Banks	—	—
b) General goverments	—	—
c) Banks	101,203	124,199
d) Other financial corporations	—	—
e) Non financial corporations	20,539	20,747
f) Households	—	3,900

3 Assets established as collateral to secure own liabilities and commitments

Portfolios	30/6/21	30/6/20
1. Financial assets valued at fair value with impact taken to profit and loss	3,650,026	2,136,505
2. Financial assets valued at fair value with impact taken to other comprehensive income	1,374,325	1,085,935
3. Financial assets valued at amortized cost	19,755,217	18,092,585
4. Tangible assets	—	—
of which: tangible assets that constitue inventories	—	—
5. Equity investments	167,348	190,108

5. Assets managed on behalf of third parties

Type of service	30/6/21	30/6/20
1. Order execution on behalf of client		
a) purchases	31,696,192	26,849,645
1. regulated	31,429,708	26,226,551
2. non-regulated	266,484	623,094
b) sales	27,727,426	26,717,796
1. regulated	27,460,942	26,094,702
2. non-regulated	266,484	623,094
2. Portfolios management		
a) individuals	14,013,055	12,589,696
b) collectives	14,623,673	15,579,671
3. Bonds custody and management		
a) bonds of third parties in depository	10,920,424	11,123,568
1. Bonds issued by companies included in consolidation process	146,146	181,178
2. other bonds	10,774,278	10,942,390
b) bonds of third parties in depository: others	17,393,103	16,905,832
1. Bonds issued by companies included in consolidation process	30,000	35,083
2. other bonds	17,363,103	16,870,749
c) Bonds of third parties in depository at third parties	25,225,505	24,956,998
d) own bonds in depository at third parties	9,633,112	10,444,675
4. Other operations	2,627,472	2,674,546

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

Instrument type	Gross amount of financial assets (a)	Amount of financial liabilities offset in balance sheet (b)[1]	Net amount of financial assets reported in balance sheet (c=a-b)	Related amounts not recognised in Balance Sheet		Net amounts (f=c-d-e)	Net amounts (f=c-d-e)
				Financial instruments (d)	Cash collateral received (e)	30/6/21	30/6/20
1. Derivatives	3,374,873	359,810	3,015,063	2,432,070	295,925	287,068	500,407
2. Reverse Repos	3,416,654	—	3,416,654	3,416,654	—	—	—
3. Securities lending	—	—	—	—	—	—	—
4. Other operations	—	—	—	—	—	—	—
Total 30/6/21	6,791,527	359,810	6,431,717	5,848,724	295,925	287,068	X
Total 30/6/20	6,162,498	549,899	5,612,599	4,866,792	245,400	X	500,407

[1] Referring to operations in derivative financial instruments with a central counterparty with which a framework netting agreement is in place providing for daily margining.

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

Instrument type	Gross amount of financial assets (a)	Amount of financial liabilities offset in balance sheet (b)[1]	Net amount of financial assets reported in balance sheet (c=a-b)	Related amounts not recognised in Balance Sheet		Net amounts (f=c-d-e)	Net amounts (f=c-d-e)
				Financial instruments (d)	Cash collateral received (e)	30/6/21	30/6/20
1. Derivatives	2,960,588	—	2,960,588	2,432,070	422,279	106,239	336,356
2. Repos	1,998,375	—	1,998,375	1,998,375	—	—	—
3. Securities lending	—	—	—	—	—	—	—
4. Other operations	—	—	—	—	—	—	—
Total 30/6/21	4,958,963	—	4,958,963	4,430,445	422,279	106,239	X
Total 30/6/20	4,123,511	—	4,123,511	3,488,876	298,279	X	336,356

8. Securities lending operations

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

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

Of the unsecured transactions entered into by Mediobanca and outstanding at 30 June 2021, 87% featured four major banking groups as the counterparty.

Type of operation	Type of security		
	Government bonds	Securities issued by banks	Other securities
1. Securities borrowed collateralized by cash - Due from:	78,321	53,554	370,836
a) Banks	77,273	46,346	326,785
b) Financial institutions	1,048	7,208	44,051
c) Customers	—	—	—
2. Securities lended collateralized by cash - Due to:	—	(36,739)	(454,265)
a) Banks	—	(36,739)	(451,328)
b) Financial institutions	—	—	(2,937)
c) Customers	—	—	—
Total securities lending (book value)	78,321	16,815	(83,429)

Type of operation	Type of security		
	Government bonds	Securities issued by banks	Other securities
1. Securities borrowed collateralized by securities or unsecured	1,692,527	588,000	35,908
a) Banks	154	588,000	—
b) Financial institutions	1,555,837	—	35,750
c) Customers	136,536	—	158
2. Securities lended collateralized by securities or unsecured	(2,498,796)	(956,326)	(998,528)
a) Banks	(932,711)	(786,851)	(268,886)
b) Financial institutions	(1,566,085)	(169,475)	(729,642)
c) Customers	—	—	—
Total securities lending (fair value)	(806,269)	(368,326)	(962,620)

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	12 mths ended 30/6/21	12 mths ended 30/6/20
1. Financial assets valued to fair value with impact taken to P&L:	32,224	20,947	—	53,171	35,215
1.1 Financial assets held for trading	30,769	106	—	30,875	31,994
1.2 Financial assets designated at fair value	1,325	20,513	—	21,838	1,386
1.3 Other financial assets mandatorly measured at fair value	130	328	—	458	1,835
2. Financial assets recognized at fair value with impact taken to other comprehensive income	33,677	—	X	33,677	40,226
3. Financial assets at amortized cost:	46,574	1,573,248	X	1,619,822	1,767,410
3.1 Due from banks	14,475	7,107	X	21,582	35,889
3.2 Due from customers	32,099	1,566,141	X	1,598,240	1,731,521
4. Hedging derivatives[1]	X	X	54,690	54,690	79,806
5. Other assets	X	X	103	103	99
6. Financial liabilities[2]	X	X	X	58,431	21,136
Total	112,475	1,594,195	54,793	1,819,894	1,943,892
of which: interest income on impaired assets	—	*93,731*	—	*93,731*	*76,393*
of which: interest income from finance lease	—	*42,543*	—	*42,543*	*46,344*

[1] Mostly hedges of funding.

[2] Item no. "6. Financial liabilities" includes interest expense accrued as the result of the negative interest rates, €57.4m of which in connection with the T-LTRO, including the approx. €26.4m additional premium booked pro rata for the twelve months ended 30 June 2021.

1.2 Interest and similar income: other information

As at 30 June 2021, the balance of the account includes €102.8m in connection with financial assets in foreign currencies.

1.3 Interest expenses and similar charges: breakdown

Items/Technical forms	Debt securities	Loans	Other operations	12 mths ended 30/6/21	12 mths ended 30/6/20
1. Financial liabilities recognized at amortized cost	(72,424)	(297,226)	X	(369,650)	(492,996)
1.1 Due to central banks	(37)	X	X	(37)	(177)
1.2 Due to banks	(11,827)	X	X	(11,827)	(19,239)
1.3 Due to customers	(60,560)	X	X	(60,560)	(63,734)
1.4 Securities in issue	X	(297,226)	X	(297,226)	(409,846)
2. Financial trading liabilities	—	—	—	—	—
3. Financial liabilities designated at fair value	—	(22,356)	—	(22,356)	(2,453)
4. Other liabilities and funds	X	X	(522)	(522)	(5,215)
5. Hedging derivatives	X	X	—	—	—
6. Financial assets[1]	X	X	X	(9,799)	(1,533)
Total	(72,424)	(319,582)	(522)	(402,327)	(502,197)
of which: interest expenses related to lease liabilities	*(2,452)*	—	—	*(2,452)*	*(2,447)*

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

1.4 Interest expense and similar charges: composition

As at 30 June 2021, the balance of the account includes €90.6m in connection with financial liabilities in foreign currencies.

1.5 Margins on hedging transactions

Items	12 mths ended 30/6/21	12 mths ended 30/6/20
A. Positive margins on hedging transactions	88,867	189,131
B. Negative margins on hedging transactions	(34,177)	(109,325)
C. Net balance (A-B)	54,690	79,806

SECTION 2

Heading 40 and 50: Net fee and commission income

2.1 Fee and commission income: breakdown

Type of service/Values	12 months ended 30/6/21	12 months ended 30/6/20
a) guarantees given	5,132	4,004
b) credit derivatives	—	—
c) management, brokerage and consultancy income:	440,752	372,076
1. securities trading	18,743	19,101
2. currency negotiation	—	—
3. portfolio management	117,757	128,568
3.1. individual	44,828	47,205
3.2. collective	72,929	81,363
4. custody and administration of securities	19,279	17,307
5. custodian bank	7,458	7,458
6. placement of securities	154,578	83,571
7. reception and transmission of orders	24,474	22,416
8. advisory services	5,378	5,266
8.1 related to investments	5,378	5,266
8.2 related to financial structure	—	—
9. distribution of third parties services	93,085	88,389
9.1 porfolio management	13,850	13,225
9.1.1 individual	11,967	12,228
9.1.2 collective	1,883	997
9.2 insurance products	77,182	72,813
9.3 other products	2,053	2,351
d) collection and payment services	21,467	21,823
e) securitization servicing	394	438
f) factoring services	9,483	6,666
g) tax collection services	—	—
h) management of multilateral trading facilities	—	—
i) management of current account	8,412	6,309
j) other services [1]	234,096	213,976
Total	719,736	625,292

[1] The item includes advisory and M&A income.

2.2 Fee and commission expenses: breakdown

Services/Amounts	12 mths ended 30/6/21	12 mths ended 30/6/20
a) guarantees received	(98)	(49)
b) credit derivatives	—	—
c) management and brokerage services:	(22,468)	(22,366)
1. trading in financial instruments	(10,502)	(8,678)
2. currency trading	—	—
3. portfolios management::	(8,135)	(9,939)
3.1 own portfolio	—	(24)
3.2 third parties portfolio	(8,135)	(9,915)
4. custody and administration securities	(3,754)	(3,744)
5. financial instruments placement	(77)	(5)
6. off-site distribution of financial instruments, products and services	—	—
d) collection and payment services	(13,636)	(14,294)
e) other services[1]	(98,256)	(101,921)
Total	(134,458)	(138,630)

[1] The item includes expenses and fees paid to financial advisors.

SECTION 3

Heading 70: Dividends and similar income

3.1 Dividends and similar income: breakdown

Items/Income	12 mths ended 30/6/21		12 mths ended 30/6/20	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	67,841	244	71,291	349
B. Other financial assets mandatorily measured at fair value	—	19,726	—	9,448
C. Financial assets measured at fair value through other comprehensive income	16,880	—	6,337	—
D. Equity investments	2,213 ([1])	—	—	—
Total	86,934	19,970	77,628	9,797

[1] This figure refers entirely to the one-off gain in connection with repayment of the convertible loan (granted to Burgo Group), as provided for contractually 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	413,931	549,115	(125,539)	(306,332)	531,175
1.1 Debt securities	241,091	97,270	(73,371)	(48,848)	216,142
1.2 Equity	171,430	447,900	(52,168)	(256,944)	310,218
1.3 UCITs	1,298	3,945	—	(540)	4,703
1.4 Loans	68	—	—	—	68
1.5 Others	44	—	—	—	44
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	87,893
4. Derivatives instruments	3,035,070	1,514,511	(3,002,454)	(2,069,049)	(535,152)
4.1 Financial derivatives	2,473,042	1,199,152	(2,442,748)	(1,750,773)	(534,557)
- on debt securities and interest rates2	1,058,279	481,160	(1,072,819)	(434,037)	32,583
- on equity securities and shares indexes	1,414,763	717,992	(1,369,929)	(1,316,736)	(553,910)
- on currencies and gold	X	X	X	X	(13,230)
- other	—	—	—	—	—
4.2 Credit derivatives	562,028	315,359	(559,706)	(318,276)	(595)
of which: natural hedges related to the fair value option	*X*	*X*	*X*	*X*	—
Total	3,449,001	2,063,626	(3,127,993)	(2,375,381)	83,916

[1] This item contains valuations for banking book positions based at current exchange rates totalling €25,887,000.

[2] Of which €3,978,000 in positive margins on interest rate derivatives (30/6/20: minus €4,861,000).

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SECTION 5

Heading 90: Net headging income (expense)

5.1 Net hedging income (expense): breakdown

Income elements/Amounts	12 mths ended 30/6/21	12 mths ended 30/6/20
A. Income from:		
A.1 Fair value hedging instruments	211,548	84,743
A.2 Hedged asset items (fair value)	71,724	196,268
A.3 Hedged liability items (fair value)	198,342	49,544
A.4 Cash-flows hedging derivatives	8	6
A.5 Assets and liabilities denominated in currency	—	—
Total gains on hedging activities (A)	481,622	330,561
B. Losses on:		
B.1 Fair value hedging instruments	(270,912)	(120,348)
B.2 Hedged asset items (fair value)	(181,523)	(42,341)
B.3 Hedged liability items (fair value)	(31,265)	(172,659)
B.4 Cash-flows hedging derivatives	—	—
B.5 Assets and liabilities denominated in currency	—	—
Total losses on hedging activities (B)	(483,700)	(335,348)
C. Net profit from hedging activities (A-B)	(2,078)	(4,787)
of which: result of hedges on net exposures	—	—

SECTION 6

Heading 100: Gain (loss) on disposals/repurchases

6.1 Gain (loss) on disposal/repurchase: breakdown

Items / Income	12 mths ended 30/6/21			12 mths ended 30/6/20		
	Gains	Losses	Net profit	Gains	Losses	Net profit
A. Financial assets						
1. Financial assets at amortized cost	12,060	(22,078)	(10,018)	13,166	(15,838)	(2,672)
1.1 Due from banks	—	(5,178)	(5,178)	1,550	(7)	1,543
1.2 Due from customers	12,060	(16,900)	(4,840)	11,616	(15,831)	(4,215)
2. Financial assets at fair value with impact taken to comprehensive income	44,438	(20,387)	24,051	75,822	(15,401)	60,421
2.1 Debt securities	44,438	(20,387)	24,051	75,822	(15,401)	60,421
2.2 Loans	—	—	—	—	—	—
Total Assets (A)	56,498	(42,465)	14,033	88,988	(31,239)	57,749
B. Financial liabilities valud at amortized cost						
1. Due to banks	139	—	139	—	—	—
2. Due to customers	—	—	—	—	—	—
3. Debt securities in issue	1,116	(2,873)	(1,757)	6,925	(6,279)	646
Total liabilities (B)	1,255	(2,873)	(1,618)	6,925	(6,279)	646

Losses on financial assets recognized at amortized cost and those recognized at fair value through other comprehensive income are mainly attributable to the assets being valued at current exchange rates (losses of €5.8m and €20.1m respectively).

SECTION 7

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

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

Operation/Income item	Gains (A)	Proceeds from disposal (B)	Losses (C)	Minus from disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	13,480	—	(284)	—	13,196
1.1 Debt securities	—	—	(284)	—	(284)
1.2 Loans	13,480	—	—	—	13,480
2. Financial liabilities	1,345	—	(21,463)	(245)	(20,363)
2.1 Debt securities in issue	1,345	—	(21,463)	(245)	(20,363)
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	14,825	—	(21,747)	(245)	(7,167)

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

Operation/Income item	Gains (A)	Proceeds from disposal (B)	Losses (C)	Minus from disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	118,064	14,226	(7,398)	(8,607)	116,285
1.1 Debt securities	78	—	(560)	—	(482)
1.2 Equity securities	157	—	—	—	157
1.3 UCITs	50,237	14,226	(5,868)	(2,088)	56,507
1.4 Loans [1]	67,592	—	(970)	(6,519)	60,103
2. Financial assets: exchange rate differences	X	X	X	X	(706)
Total	118,064	14,226	(7,398)	(8,607)	115,579

[1] These refer to convertible instruments deriving from restructuring operations, in particular the Burgo writeback in an amount of approx. €62m and Sorgenia Power for approx. €5m.

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)			
	Stage1 and Stage2	Stage3		Primo e secondo stadio	Stage3	12 mths ended 30/6/21	12 mths ended 30/6/20
		Write-off	Others				
A. Due from banks	(1,525)	—	—	2,204	—	679	(1,300)
- Loans	(1,356)	—	—	2,025	—	669	(1,242)
- Debt receivables	(169)	—	—	179	—	10	(58)
of which: financial assets purchased or originated credit impaired	—	—	—	—	—	—	—
B. Due from customers	(368,350)	(68,779)	(302,682)	264,875	209,935	(265,001)	(396,259)
- Loans	(365,253)	(68,779)	(302,682)	262,279	209,935	(264,500)	(393,608)
- Debt receivables	(3,097)	—	—	2,596	—	(501)	(2,651)
of which: financial assets purchased or originated credit impaired	—	*(61,538)*	*(192)*	—	*61,356*	*(374)*	*7,345*
Total	(369,875)	(68,779)	(302,682)	267,079	209,935	(264,322)	(397,559)

Legenda

A = interest-related writebacks

B = other writebacks

8.1a Net writeoffs for credit risk related to financial assets valued at amortized cost for which Covid-19 related concessions have been granted: breakdown

Operation / P&L item	Net adjustments			12 mths ended 30/6/21
	Stage1 and Stage2	Stage3		
		Write-off	Others	
1. Loans and advances subject to EBA-compliant moratoria (legislative and non legislative)*	(1,444)	—	(146)	(1,590)
2. Other loans and advances subject to COVID-19-related forbearance measures	(3,798)	—	(6,783)	(10,581)
3. Newly originated loans and advances sub-ject to public guarantee schemes in the context of the COVID-19 crisis	(999)	—	(12)	(1,011)
Total	(6,241)	—	(6,941)	(13,182)

* The row headed "Loans and advances subject to EBA - compliant moratoria" shows information on financial assets for which moratoria have been granted under the scope of application of the *"Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID 19 crisis"* published by the EBA (EBA/GL/2020/02) as amended.

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

Transactions/Income	Writedowns (1)			Writebacks (2)		12 mths ended 30/6/21	12 mths ended 30/6/20
	Stage1 and Stage2	Stage3		Stage1 and Stage2	Stage3		
		Write-off	Others				
A. Debt securities	(6,147)	—	—	—	—	(6,147)	(4,805)
B. Loans	—	—	—	—	—	—	—
- to customers	—	—	—	—	—	—	—
- to banks	—	—	—	—	—	—	—
of which: financial as-sets purchased or orig-inated credit impaired	—	—	—	—	—	—	—
Total	(6,147)	—	—	—	—	(6,147)	(4,805)

SECTION 9

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

9.1 Gains (losses) from contractual modifications: breakdown

This heading, which reflects a loss of €193,000, includes the impact of modifications to contracts for financial assets which, as they do not constitute substantial modifications, under IFRS9 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 premium income

10.1 Net premiums: breakdown

Net premiums: breakdown	Direct labour	Indirect labour	12 mths ended 30/6/21	12 mths ended 30/6/20
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 (+)	—	23,425	23,425	42,521
B.2 Outward reinsurance premiums (-)	—	X	—	—
B.3 Change in gross value of premium reserve (+/-)	—	26,795	26,795	15,011
B.4 Change in premium reserve for premiums ceded to reinsures (+/-)	—	—	—	—
B.5 Totale	—	50,220	50,220	57,532
C. Total net premiums	—	50,220	50,220	57,532

SECTION 11

Heading 170: Other incomes (net) from insurance activities

11.1 Other incomes (net) from insurance activities: breakdown

Items	12 mths ended 30/6/21	12 mths ended 30/6/20
1. Net change in technical reserves	—	—
2. Claims paid out during the year	(9,557)	(10,457)
3. Other income and expense from insurance	(4,574)	(5,334)
Total	(14,131)	(15,791)

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

Changes for claims	12 mths ended 30/6/21	12 mths ended 30/6/20
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	(8,656)	(9,040)
C.1 Gross annual amount	(8,656)	(9,040)
C.2 (-) Amounts reinsured with third parties	—	—
D. Change in recoveries net of amount ceded to reinsures	—	—
E. Change in claims reserves	(901)	(1,417)
E.1 Gross annual amount	(901)	(1,417)
E.2 (-)Amounts reinsured with third parties	—	—
Total non-life business claims	(9,557)	(10,457)

SECTION 12

Heading 190: Administrative expenses

12.1 Personnel cost: breakdown

Type of expense/Sectors	12 mths ended 30/6/21	12 mths ended 30/6/20
1) Employees	(620,973)	(586,005)
a) wages and salaries	(457,155)	(421,511)
b) social security contributions	(96,240)	(91,404)
c) severance pay (only for Italian legal entities)	(3,524)	(3,556)
d) social security costs	—	—
e) allocation to employees severance pay provision	(13,064)	(12,188)
f) provision for retirement and similar provisions:	485	(63)
- defined contribution	—	—
- defined benefits	485 ([1])	(63)
g) payments to external pension funds:	(15,628)	(15,911)
- defined contribution	(15,628)	(15,911)
- defined benefits	—	—
h) expenses resulting from share based payments	(14,389)	(12,551)
i) other employees' benefits	(21,458)	(28,821)
2) Other staff	(6,413)	(6,674)
3) Directors and Statutory Auditors	(7,482)	(10,741)
4) Early retirement costs	(1,840)	(1,595)
Total	(636,708)	(605,015)

[1] This figure refers to the benefit deriving from the "curtailment cost" and the recent "Plan amendments" decided by Caisse Bâloise. See Part B – Liabilities – Defined benefit company retirement pension schemes for further details.

12.2 Average number of staff by category

	12 mths ended 30/6/21	12 mths ended 30/6/20
Employees:		
a) Senior executives	433	427
b) Executives	2,026	1,944
c) Other employees	2,377	2,408
Other staff	255	231
Total	5,091	5,010

12.5 Other administrative expenses: breakdown

Type of expense/Values	12 mths ended 30/6/21	12 mths ended 30/6/20
OTHER ADMINISTRATIVE EXPENSES		
– legal, tax and professional services	(53,717)	(57,211)
– loan recovery activity	(74,949)	(69,267)
– marketing and communications	(39,627)	(37,174)
– property	(20,821)	(21,376)
– EDP	(142,635)	(132,310)
– info-provider	(44,421)	(44,725)
– bank charges, collection and payment fees	(24,361)	(24,160)
– operating expenses	(64,158)	(64,988)
– other staff expenses	(5,743)	(15,649)
– other costs [1]	(97,266)	(87,249)
– indirect and other taxes[2]	(100,093)	(76,315)
Total other administrative expenses	(667,791)	(630,424)

[1] The item includes contributions to the various resolution funds: €73.5m for the year ended 30/6/21, and €60.8m for the year ended 30/6/20.

[2] These refer to the cost of stamp duty charged to Mediobanca Private Banking clients. The equivalent amount recovered is recorded as Other operating income as "Amounts recovered from clients".

SECTION 13

Heading 200: Net transfers to provisions

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

	12 mths ended 30/6/21			12 mths ended 30/6/20
	Provisions	Reallocation surplus	Total	Total
Loan committments	(19,247)	5,500	(13,747)	(1,630)
Financial guarantees given	(1,124)	1,759	635	(1,513)
Total	(20,371)	7,259	(13,112)	(3,143)

13.2 Net transfers related to other commitments and guarantees given

	12 mths ended 30/6/21			12 mths ended 30/6/20		
	Provisions	Reallocation surplus	Total	Provisions	Reallocation surplus	Total
Other commit-ments	—	—	—	—	—	—
Other financial guarantees given	(13)	—	(13)	(284)	—	(284)
Total	(13)	—	(13)	(284)	—	(284)

*13.3 Net transfers to other provisions: breakdown**

	12 mths ended 30/6/21			12 mths ended 30/6/20
	Provisions	**Reallocation of sur-plus**	**Total**	
1. Other provisions				
1.1 Legal disputes	—	—	—	—
1.2 Staff costs	(489)	450	(39)	(153)
1.3 Other	(21,579)	1,924	(19,655)	17,300
Total	(22,068)	2,374	(19,694)	17,147

* As at 30 June 2021, this item includes €11.5m in extraordinary provisions for Compass Banca.

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 in-vestment property				
1 Core	(51,360)	(200)	—	(51,560)
- Owned	(13,716)	—	—	(13,716)
- IFRS16 rights of use	(37,644)	(200)	—	(37,844)
2 Held for investment purpose	(1,865)	—	—	(1,865)
- Owned	(1,865)	—	—	(1,865)
- IFRS16 rights of use	—	—	—	—
3 Inventories	X	—	—	—
Total	(53,225)	(200)	—	(53,425)

SECTION 15

Heading 220: Net adjustments to intangible assets

15.1 Net adjustments to intangible assets: breakdown

Asset/Income	Depreciation (a)	Impairment losses (b)	Write-backs (c)	Net result (a + b - c)
A. Intangible assets				
A.1 Owned	(32,368)	—	—	(32,368)
- softwares	(22,893)	—	—	(22,893)
- Others	(9,475)	—	—	(9,475)
A.2 Right of use related to leases	—	—	—	—
Total	(32,368)	—	—	(32,368)

SECTION 16

Heading 230: Other operating income (expense)

16.1 Other operating expenses: breakdown

Transactions/Values	12 mths ended 30/6/21	12 mths ended 30/6/20
a) Leasing activity	(8,632)	(9,519)
b) Sundry costs and expenses	(18,052)	(9,677)
Total	(26,684)	(19,196)

16.2 Other operating income: breakdown

Transactions/Values	12 mths ended 30/6/21	12 mths ended 30/6/20
a) Amounts received from customers[1]	95,406	73,698
b) Leasing activity	7,401	6,996
c) Other income[2]	140,897	127,908
Total	243,704	208,603

[1] These refer to stamp duty charged to Mediobanca Private Banking clients being recovered. The equivalent cost item is recorded under Other administrative expenses, as “Indirect and other taxes”.

[2] Includes a one-off gain of €41m deriving from activation of the clawback mechanism versus the departing Messier et Associés equity partner, €6.4m of which has been collected, €7.5m is still to be collected but guaranteed by Mediobanca shares, and €27.1m in respect of the liability exercised at a token price of €1.

SECTION 17

Heading 250: Gain (loss) on equity investments

17.1 Gain (loss) on equity investments: breakdown

Income/ Value	12 mths ended 30/6/21	12 mths ended 30/6/20
1) Joint venture		
A. Incomes	—	—
1. Revaluation	—	—
2. Gain on disposal	—	—
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	—	—
1. Write-downs	—	—
2. Impairment losses	—	—
3. Losses on disposal	—	—
4. Other expenses	—	—
Net profit	—	—
2) Companies subject to significant influence		
A. Incomes	273,398	304,269
1. Revaluation	273,398	304,269
2. Gain on disposal	—	—
3. Writebacks	—	—
4. Other gains	—	—
B. Expenses	(1,666)	—
1. Write-downs	(1,666)	—
2. Impairment losses	—	—
3. Losses on disposal	—	—
4. Other expenses	—	—
Net profit	271,732	304,269
Total	271,732	304,269

SECTION 19

Heading 270: Impairment charges to goodwill

19.1 Impairment charges to goodwill: breakdown

Income / Value	12 mths ended 30/6/21	12 mths ended 30/6/20
Impairment charges to goodwill	(62,473)	(96,900)

Reference is made to Part A – Accounting Policies for a description of the means by which the loss of value for goodwill has been calculated.

Meanwhile, reference is made to Part B – Notes to the Consolidated Balance Sheet for a description of the results of the goodwill impairment testing process and the procedures through which it was carried out.

SECTION 20

Heading 280: Gain (loss) on disposal of investments

20.1 Gain (loss) on disposal of investments: breakdown

Income/Value	12 mths ended 30/6/21	12 mths ended 30/6/20
A. Assets	(29)	—
- Gains on disposal	31	—
- Losses on disposal	(60)	—
B. Other assets	—	59
- Gains on disposal	—	59
- Losses on disposal	—	—
Net result	(29)	59

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	12 mths ended 30/6/21	12 mths ended 30/6/20
1. Current tax expense (-)	(221,876)	(206,499)
2. Changes in current taxes of previous years (+/-)	4,361	(834)
3. Reduction in current taxes of the year (+)	196	758
3.bis Reduction in current taxes of the year for tax credits pursuant to Law no. 214/2011 (+)	—	—
4. Changes in advance tax assets (+/-)	(60,395)	4,003
5. Changes in deferred tax liabilities (+/-)	5,933	(10,932)
6. Taxes on income for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(271,781)	(213,504)

21.2 Reconciliation between theoretical and effective tax burden

	12 mths ended 30/6/21	
	Amounts %	Absolute value
Total profit or loss before tax from current operations	100.—%	1,080,980
Theoretical tax rate	27.50%	297,270
Dividends (-)	-6.73%	(72,772)
Gains on disposals of equity investments (PEX) (-)	-0.36%	(3,840)
Gains on equity-accounted investments (-)	-6.81%	(73,653)
Changes in deferred tax for previous years (-)	0.02%	189
Other taxes (non-financial and non-Italian companies) (+/-)	-0.13%	(1,385)
Non-taxable income 10% IRAP and staff cost (-)	-0.02%	(245)
Tax sparing credit (-)	-0.02%	(206)
Impairment (+/–)	0.39%	4,162
One-offs	-0.36%	(3,871)
Patent Box	-0.73%	(7,933)
Tax realignment	-0.49%	(5,278)
Other differences (+/-)	7.57%	81,833
TOTAL IRES	19.82%	214,270
IRAP	5.32%	57,511
TOTAL HEADING [1]	25.14%	271,781

[1] Compared with a tax rate of 26.20% last year.

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	12 mths ended 30/6/21	12 mths ended 30/6/20
1. SelmaBipiemme S.p.A.	1,658	736
2. RAM Active Investments S.A.	(29)	249
3. Other minor interests	(6)	62
Total	1,623	1,047

SECTION 25

Heading 350: Earnings per share

25.1 Average number of ordinary shares on a diluted basis

	12 mths ended 30/6/21	12 mths ended 30/6/20
Net profit	807,576	600,382
Avg. no. of shares in issue	862,328,603	860,611,137
Avg. no. if potentially diluted shares	4,916,003	5,255,453
Avg. no. of diluted shares	867,244,606	865,866,590
Earnings per share	0.94	0.70
Earnings per share, diluted	0.93	0.69

Part D – Comprehensive consolidated profit and loss account

Breakdown of Comprehensive Profit and Loss Constituents

Items	30/6/21	30/6/20
10. Net profit (loss)	**809,199**	**601,429**
Other income items not passing through P&L		
20. Equity instruments designated at fair value with impact taken to comprehensive income:	**64,121**	**3,148**
a) changes in fair value	64,638	2,364
b) tranfers to other shareholders' equity items	(517)	784
30. Financial liabilities designated at fair value with impact taken to profit and loss (own creditworthiness changes):	**(5,730)**	**(1,724)**
a) changes in fair value	(4,689)	(1,724)
b) tranfers to other shareholders' equity items	(1,041)	—
40. Hedge accounting of equity instruments measured at fair value with impact taken to comprehensive income:	**—**	**—**
a) fair value change (hedged instrument)	—	—
b) fair value change (hedging instrument)	—	—
50. Property, plant and equipment	**—**	**—**
60. Intangible assets	**—**	**—**
70. Defined benefits plans	**2,004**	**(2,261)**
80. Non-current assets classified as held for sale	**—**	**—**
90. Valuation reserves from equity-accounted investments:	**(13,045)**	**1,493**
100. Tax expenses (income) relating to items not reclassified to profit or loss	**—**	**—**
Other income items passing through P&L		
110. Hedges of non-Italian investments:	**1,390**	**(3,212)**
a) changes in fair value	1,390	(3,212)
b) reclassifications through profit or loss account	—	—
c) other variations	—	—
120. Exchange differences:	**475**	**5,475**
a) changes in fair value	—	—
b) reclassifications through profit or loss account	—	—
c) other variations	475	5,475
130. Cash flow hedges:	**15,166**	**11,212**
a) changes in fair value	15,166	11,212
b) reclassifications through profit or loss account	—	—
c) other variations	—	—
of which: net position	—	—
140. Hedging instruments (non-designated items):	**—**	**—**
a) changes in value:	—	—
b) reclassifications through profit or loss account	—	—
c) other variations	—	—
150. Financial assets (different from equity instruments) at fair value with impact taken to comprehensive income:	**40,083**	**(15,390)**
a) changes in fair value	43,668	(4,199)
b) reclassifications through profit or loss account	(3,585)	(11,191)
- impairment losses	2,741	2,857
- gains/losses on disposals	(6,326)	(14,048)
c) other variations	—	—
160. Assets held for sale	**—**	**—**
a) changes in fair value	—	—
b) reclassifications through profit or loss account	—	—
c) other variations	—	—
170. Valuation reserves from equity-accounted investments	**451,762**	**(220,379)**
a) changes in fair value	—	—
b) reclassifications through profit or loss account	—	—
- impairment losses	—	—
- gains/losses on disposals	—	—
c) other variations	451,762	(220,379)
180. Tax expenses (income) relating to items reclassified to profit or loss	**—**	**—**
190. Total other comprehensive income	**556,226**	**(221,638)**
200. Comprehensive income (10+190)	**1,365,425**	**379,791**
210. Consolidated comprehensive income attributable to minorities	2,310	1,478
220. Consolidated comprehensive income attributable to parent company	**1,363,115**	**378,313**

Part E – Information on risks and related hedging policies

INTRODUCTION

With regards to the Group'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 Banking Group[1] (or, 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 aspects

Although risk management is the responsibility of each individual business unit, the Risk Management unit presides over the functioning of the Group'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 Group's own operating choices identified in the RAF,[2] monitoring risks, and ascertaining that the various limits established for the various business lines are complied with.

Risk Management is organized around local teams based at the various Group companies, in accordance with the principle of proportionality, under the co-ordination of the Risk Management unit at parent company Mediobanca S.p.A. (the "Group Risk Management Unit"), which also performs specific activities for the parent company

[1] The following subsidiaries of the Group's legal entities are excluded from the prudential scope of application: Compass RE (reinsurance), Ricerche e Studi, Compass Rent and MB Contact Solutions (Other companies).

[2] 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.

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 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 "*Cura Italia*" 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.

As part of the annual budgeting process for the 2021-22 financial year, the Group has also revised the risk objectives contained in its RAF, including the economic impact of the crisis triggered by the Covid-19 pandemic, in continuity with last year.

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.

At Compass, 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. Consistent with the short duration of the moratoria, the Compass loans for which payment continues to be suspended as at 30 June 2021 represent only a marginal share of the total (0.6%, compared with 4% at 30 June 2020).

At CheBanca!, the customary credit recovery activities for positions for which suspensions have been granted have been complemented by the addition of *ad* *hoc* actions in the 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; if the client proceeds with the application, this is managed as part of the normal process for assessing moratoria. 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. CheBanca! too has seen a material reduction in the share of loans for which payment is still suspended, which at 30 June 2021 were near to 2% (30/6/20: 6%).

At SelmaBipiemme, considering the more material impact of the moratoria on the company's loan book, in September 2020 the Board of Directors approved a specific project to preserve asset quality, and so keep the cost of risk and growth in NPLs to a minimum, by avoiding customers making complaints about possible delayed responses or unjustified rejections, leading to additional reputational risk for the Mediobanca Group. The project, leveraging on all company units involved in the process of managing moratoria, analysed the possible development of the economic situation of the counterparties to which moratoria of different kinds have been granted. The objective was to try and 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. The majority of the moratoria granted by SelmaBipiemme to the SMEs are regulated by Article 56 of the "*Cura Italia*" decree, which establishes the term of the suspension (recently extended to 31 December 2021 for clients that have applied for suspensions). The share of total loans on which payments are suspended has decreased from 35% at end-June 2020 to 23% at end-June 2021, and had reduced still further by end-July 2021, to around 15%, following repayments by clients who did not apply for extensions to their moratoria under the terms of Article 56.

With regard to the lending process itself, 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. In the individual analysis carried out at the approval stage (typically for large and medium-sized enterprises, including in leasing operations), the impact of the current economic scenario and the pandemic on the sector in which the counterparty operates and their credit rating is assessed, as is the existence or otherwise of ancillary guarantees, such as guarantee from a Italian government's central guarantee fund ("FCG").

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

At Compass, the cut-off levels for personal loans originated through all channels were promptly adapted, in order to ensure that new business is aligned with 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 twelve 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, to reduce the effects of the restrictions on new business and to bring average acceptance rates back to pre-Covid levels, while retaining increased elements of protection in the approval mechanisms for categories of clients most exposed to the risks entailed by the crisis.

In the private banking and NPL acquisitions segments, which are less impacted by the moratoria phenomenon, coverage of any potential structural or short-term changes that the current scenario might produce in the reference markets has been maintained at high levels.

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 "Pillar III disclosure to the public".[3] This information is also summarized in section 6.2 of this document.

[3] The Pillar III – Disclosure to the public document is available at www.mediobanca.com in the section entitled "Capital adequacy".

2. Credit risk management policies

2.1 Organizational aspects

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

The Board of Directors, in view in particular of its role of strategic supervision, is responsible for approving strategic guidelines and directions of the risk appetite framework (RAF), the Internal Rating Systems (IRB) at the parent company level and the Roll-Out Plan for gradually extending the IRB approach across the whole Group, business and financial plans, budgets, risk management and internal control policies, and the Recovery Plan drawn up in accordance with the provisions of the Bank Recovery and Resolution Directive (Directive 2014/59/EU).

The Executive Committee is responsible for the ordinary management of the Bank and for co-ordination and management of the Group companies, without prejudice to the matters for which the Board of Directors has sole jurisdiction. The Risks Committee assists the Board of Directors in performing duties of monitoring and instruction in respect of the internal controls, risk management, and accounting and IT systems. The Statutory Audit Committee supervises the risk management and control system as defined by the RAF and the internal controls system generally, assessing the effectiveness of the structures and units involved in the process and co-ordinating them.

Within the framework of the risk governance system implemented by Mediobanca S.p.A., the following managerial committees have specific responsibilities in the processes of taking, managing, measuring and controlling risks: the Group Risk Management committee, responsible for issuing guidance in respect of credit, issuer, operational and conduct risk, and with powers of approval on market risks; Lending and Underwriting committee, for credit, issuer and conduct risk; Group ALM committee for monitoring the Group's ALM risk-taking and management policy (treasury and funding) and approving the methodologies for measuring exposure to liquidity and interest rate risk and the internal fund transfer rate; the Investments committee for equity investments owned and banking book equities; the New Operations committee, for prior analysis of new operations and the possibility of entering new sectors, new products and the related pricing models; the Operational risks committee, for management of operational risks in terms of monitoring risk profiles and defining mitigation actions; the Group Wealth Investments committee, for defining market views and monitoring their track record; the Private & Affluent Investments committee, for defining strategic and tactical asset allocation, and for selecting investment houses, funds and other financial instruments.

2.2 Management, measurement and control systems

In the process of defining its Risk Appetite Framework ("RAF"), Mediobanca has established the level of risk (overall and by individual type) which it intends to assume in order to pursue its own strategic objectives, and identified the metrics to be monitored and the relevant tolerance thresholds and risk limits. The RAF is the framework which sets the risks due to the company strategy (translating mission and strategy into qualitative and quantitative risk variables) in relation with the risk objectives of its operations (translating risk objectives into limits and incentives for each area).

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

In the process of defining its risk appetite, the parent company:

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

To define the RAF, based on the strategic positioning and risk profile which the Group has set itself the objective of achieving, the risk appetite statement is structured into metrics and risk thresholds, which are identified with reference to the six framework risk pillars, in line with best international practice: capital adequacy; liquidity; profitability; external risk metrics; bank-specific factors; and non-financial risks. The Board of Directors has a proactive role in defining the RAF, guaranteeing that the expected risk profile is consistent with the strategic plan, budget, ICAAP and recovery plan, and structured into adequate and effective metrics and limits. For each pillar analysed, the risk assumed is set against a system of objectives and limits representative of the regulatory restrictions and the Group's general attitude towards risk, as defined in accordance with the strategic planning, ICAAP and risk management processes.

In addition to identifying and setting risk appetite parameters, Mediobanca also governs the mechanisms regulating the governance and processes for establishing and implementing the RAF, in terms of updating/revising it, monitoring, and escalating reporting to the Committees and corporate bodies. Based on its operations and the markets in which it operates, the Mediobanca Group has identified the relevant risks to be submitted to specific assessment in the course of the reporting for the ICAAP (Internal Capital Adequacy Assessment Process), in accordance with the Bank of Italy instructions contained in circular no. 285 issued on 17 December 2013, "Supervisory instructions for banks" as amended, appraising its own capital adequacy from both a present and future perspective which takes into account the strategies and development of the reference scenario. As required by the provisions of the Capital Requirements Directive IV ("CRD IV"), the Group prepares an Internal Liquidity Adequacy Assessment Process document (ILAAP), describing the set of policies, processes and instruments put in place to govern liquidity and funding risks. The Group's objective is to maintain a level of liquidity that enables it to meet the payment obligations, ordinary and extraordinary, which it has taken on while minimizing costs at the same time. The Group's liquidity management strategy is based on the desire to maintain an appropriate balance between potential inflows and potential outflows, in the short and the medium/long term, by monitoring both regulatory and management metrics, in accordance with the risk profile defined as part of the RAF.

2.3 Methods for measuring expected losses

Under IFRS9 "Financial Instruments", assets which are not recognized in the financial statements at fair value on a regular basis (i.e. financial liabilities recognized at amortized cost 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 IFRS9, 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 ("Stage2") or which show objective signs of impairment ("Stage3"), and on a time horizon of twelve months for the instruments not included in the previous two categories ("Stage1"). 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 Stage2. Cases of low-risk instruments at the recording date are identified, compatible with classification as Stage1 (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 IFRS9, a change in forward-looking twelve-month PD is used as the benchmark quantitative metric for measuring the Significant Increase in Credit Risk (SICR) for the purpose of identifying positions to be classified as Stage2. 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 Stage2, 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 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. That said, apart from the Covid-related regulatory measures disclosed in the Annual Report for the year ended 30 June 2020 and those referred to in Section 2 – General principles of this document, no further measures have been introduced by the regulators and standard setters in the first six months of 2021, hence the general framework defined in 2020 remains unchanged.

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 based on a lifetime approach,[4] depending on which Stageit is classified in), discounted at the effective interest rate. The expected loss is the result of the combined valuation of three scenarios (baseline, mild-positive and mild-negative), weighted according to their likelihood of occurring (50%, 25% and 25% respectively). The scenarios, determined at Group level, are revised at least once every six months. In particular, the Group sets the estimates for the baseline scenario, compiling the economic variables using an external macroeconomic model which factors in the internal expectations for interest rates. Levels of deviation from the baseline scenario are established in order to determine the mild-negative and mild-positive scenarios; these deviations are obtained from historical analysis of trends in the macroeconomic parameters used in the risk parameter conditioning models, and the levels of variation compared to the base scenario are established using a 25% confidence level.

In view of the economic recovery starting in 3Q 2020, after the recession peaked in the quarter before that, it was decided from as early as end-December 2020 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 IFRS9

[4] The lifetime approach considers the contractual expiry of the exposure where possible. For products which do not have a contractual expiry date, such as credit cards, bill repayment plans, cancellable credit lines, current accounts or overdrafts on current account, the calculation is made over a 12-month time horizon.

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 Banking and CheBanca! mortgage segments, the projections for which would otherwise have been unduly affected by excessive volatility; compared to the PD model, the LDG model is more sensitive to changes in the macroeconomic indicators, and so tends to be overly reactive in a scenario like the current one when, following an economic shock, a sudden return to the pre-crisis situation is likely.

The macroeconomic scenario points towards a significant improvement in the main indicators for future years, consistent with the expectations of a gradual return to normality (i.e. pre-Covid conditions). However, in view of the current uncertainties over how the pandemic-related crisis will develop (e.g. possibility of government support measures being withdrawn, roll out and effectiveness of the vaccination campaign, developments in terms of variants of the virus, etc.), the estimated impairment charges deriving from application of the models have been augmented by additional provisioning, or overlays, established in view of the presence of specific aspects that cannot be factored in or valued through modelling.[5]

Overlays have been set aside in particular for positions particularly exposed to the risks posed by the pandemic situation (in corporate lending, leasing and factoring especially) and for cases where contractual exemptions or moratoria have been applied to mortgage loans and corporate and leasing exposures. Adjustments have also been applied to neutralize the possibility of reversals to profit and loss deriving from the improved macroeconomic scenario being factored into the models in the course of the last six months. This second type of overlay, applied to the corporate, leasing and factoring portfolios which make up 54% of the Group's performing exposure[6]), guarantees the coverage ratio for these positions observed before the macro-economic scenario was revised (which at end-June 2021 was 0.4%) is maintained. In Consumer Banking, overlays have been set aside for both performing and non-performing loans, to increase the level of provisioning against the uncertainties of the macroeconomic scenario generally.

[5] The approach adopted is consistent with the ECB recommendations made to banks in recent months, such as in the letters of 1 April 2020 ("IFRS9 in the context of the coronavirus (COVID-19) pandemic") and 4 December 2020 ("Identification and measurement of credit risk in the context of the coronavirus (COVID-19) pandemic").

[6] This has been calculated by considering the percentage of the Group companies' exposure to which the overlay necessary in order to maintain coverage has been applied. Both on-and off-balance-sheet exposures have been considered.

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

As far as regards calculation of the ECL, sensitivity analysis has been carried out on performing exposures (Stage1 and Stage2) in view of possible alternative macroeconomic scenarios, in order to assess how forward-looking factors might influence expected losses in different scenarios based on estimates consistent with the expected trends in macroeconomic factors. The number of possible interrelations between the individual macroeconomic factors is so high that sensitivity analysis of expected losses based on one of them is practically meaningless.

In particular, the impact of applying the risk indicators obtained as a result of applying the mild-negative and mild-positive scenarios on ECL has been estimated. The analysis covered the performing exposures in the Group's largest portfolios: the Wholesale loan book of Mediobanca S.p.A. and Mediobanca International, the CheBanca! loan book, consumer credit in Compass, factoring for MBFACTA, and leasing for SelmaBipiemme, for a total exposure of approximately 92% of the Group's total performing loans.[7] The impact deriving from the adoption of the mild-negative scenario (probability of occurrence 100%) results in an €22m increase in ECL (5% pre-overlay and 3% post-overlay). By contrast, adoption of the mild-positive scenario (probability of occurrence 100%) results in a reduction in ECL basically equivalent to the increase recorded in the unfavourable scenario. In terms of macroeconomic indicators, in the mild-negative and mild-positive scenarios the Italian GDP growth rate is 1.1% lower and 0.9% higher respectively (on average over the years of the projection) than the figures used in the baseline scenario. As far as regards the Italian unemployment rate, the figure used in the mild-negative scenario is (on average) some 0.5% higher than the one used in the baseline scenario, while it is approximately 0.4% lower in the mild-positive scenario. The analysis shows that the use of overlays adequately neutralizes the effects of possible volatility in the macroeconomic scenario.

[7] The analysis does not include the Private Banking segment (MBPB and CMB Monaco) or the MBCredit Solutions portfolio which, in terms of ECL, represent 0.6% of the Group's total performing loans.

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 financial guarantees is widespread in lending activity, in particular as follows:

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

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

Credit risk mitigation activities are governed by specific directives adopted by the Group companies concerned. The specific nature of the products originated by the individual businesses and the forms of collateral securing them, as well as the different organizational models necessarily adopted by the various Group companies, means that different CRM processes must coexist within the Group as a whole. In particular, the phases of obtaining the collateral, checking, reporting on and assessing its eligibility may be performed by different units. However, the role of Risk Management in setting eligibility criteria for regulatory and management purposes remains central, and the Group Risk Management Unit is responsible for supervising overall consistency in this area. Controls of the mitigation instruments are included in the general risk control and management framework.

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. No particularly risky situations occurred during the year under review, in part as a result of the lower market volatility.

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 requisites; "non-performing", used for the supervisory reporting statistics; and Stage3, or "credit-impaired", assets as defined by the accounting standards in force. In so doing, account has been taken of the provisions contained in the following documents: EBA Guidelines on the application of the definition of default (EBA/GL/2016/07), Commission Delegated Regulation (EU) 2018/171 of 19 October 2017, and Regulation (EU) 2018/1845 of the ECB of 21 November 2018. In line with these principles, instances of assets which qualify as "non-performing" include:

– Exposures identified using the 90 days past due principle, based on which the regulations referred to above have standardized the calculation criteria in use at EU level (in particular with reference to the applicable materiality thresholds, and the irrelevance of which instalment in particular is established as being past due for purposes of the calculation);

– Cases in which the credit obligation has been sold, leading to material losses in relation to the credit risk;
– 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.

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 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.[8]

[8] 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.

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 (the latter if 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). In line with the recommendations made by the ECB in its letter to significant credit institutions of 4 December 2020, assessment of the borrower's financial difficulties take into account market conditions, where these have changed in a way that could impact upon the borrower's ability to repay. The individual analysis is also supported by monitoring of Covid-related impacts at sector level, while the conditions set have been strengthened to include the assumption of forbearance for moratoria with more than nine months' suspended payments.

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 Stage1. 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 prudential transitions between Stages 1, 2 and 3. For instance, when concessions have been made in respect of exposures at Stage2, the exposures in question cannot return to Stage1 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 Stage3 cannot be returned to Stage1 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 Stage1, exposures must give proof of having fully recovered their credit quality and the conditions requiring them to be classified as "forborne" must have ceased to apply. Accordingly, the monitoring to detect any new needs for exposures to transition back to Stages 2 or 3 is no different from the monitoring reserved to exposures which have not moved from Stage1. Nonetheless, "forborne" exposures that have returned from Stage3 to Stage2 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 on prudential grounds to Stage3.

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 prudence and a 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 collateral and financial 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.

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 Stage2, 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 LGD readings are calculated based on the modelling used for the regulatory calculation, with the downturn effect removed. The forward-looking component of the models is factored in by applying the macroeconomic scenarios defined internally to the risk indicators. The criteria for classification to Stage2 include the quantitative criterion of deterioration in the PD beyond a certain level, plus the requirement of a minimum number of notches downgrade[9] between the date on which the asset was originated and the reporting date. Revisions to the classification of single names are also possible, based on internal decisions supported by individual analysis.

Leasing

Individual applications are processed using similar methods to those described above for corporate banking. Applications for smaller amounts are

[9] One notch if the rating at the reference date is lower than or equal to BB-, two notches if higher (investment grade ratings are always classified as Stage1 for Low Credit Risk Exemption).

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, prudentially revised downwards, 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 Stage2, in addition to the positions identified using the quantitative criterion of an increase in the PD, 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 Stage2; such signs include amounts overdue by more than the regulatory threshold, having been past due for 30 consecutive days in the previous twelve months, having already been classified as Stage2 or Stage3, and/or having been included in the watchlist (classified as Red or Amber), at the end of each quarter of the financial year, and all moratoria granted by law for which an extension until 31 December

2021 has been granted under the terms of the "*Sostegni-bis*" decree that would otherwise have been classified as Stage1.

Consumer credit

Consumer credit operations are performed primarily by Compass, 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, LGD and CCF metrics which are estimated using internal models. To estimate the PD parameters, the through-the-cycle transition matrices based on management models are used. The matrices have been calculated separately by product type, according to the specific internal management process involved (e.g. credit cards, special purpose loans, low-risk personal loans, high-risk personal loans, small tickets and salary-backed finance to public entities, private individuals or pensioners). The forward-looking component is factored in using a specific macroeconomic model based on scenarios internal to the Group. The LGD parameters are defined based on the internal models estimated on the basis of internal rates of recovery experienced.

In consumer credit, in addition to the quantitative criterion based on changes in the PD, specific quality indicators are used to classify exposures as Stage2, 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 Stage2. For such positions, a quantitative criterion has been introduced instead, namely a change in the PD (SICR), applied to all exposures that have undergone a change in their rating compared to origination; such SICR criterion is no different to the one applied to any performing exposure, and the Compass rating models being so reactive to instances of non-payment (due either to non-performance or suspension) leads naturally to an increase in the PD and a significant migration of positions which have had Covid-related suspensions in the past twelve months to Stage2.

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 Stage2, which includes counterparties classified as "Amber" or "Red".

NPL business[10]

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.

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

Private Banking

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

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

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

Provisioning for all non-performing contracts is made on an individual basis, and takes into account the value of the collateral. Provisions set aside in respect of the performing loan book are based on the estimated PD and LGD values, supplied by an external provider, 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 Stage2, 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 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 CheBanca! 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.

The existence of moratoria granted by public institutions or 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, plus the use of specific criteria (such as nine months' suspension).

Provisioning is determined analytically for bad loans and based on clusters of similar positions for unlikely to pay, other overdue and performing accounts. The analytical provision for bad loans takes account of expert valuations of the assets (prudentially 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 macroeconomic scenarios defined internally 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 applied to the macroeconomic scenarios defined internally.

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. It should also be noted that a qualitative identification factor is also used for mortgage loans to be classified as Stage2, namely if the loan in question has been assigned worst internal rating class prior to default.

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, the duration of which was subsequently extended,[11] was soon followed by another, the "Liquidity" Decree Law issued on 8 April 2020, which added further measures to support businesses relating primarily to public guarantees.

[11] The additional extensions are currently included in Italian Decree Law no. 73 of 25 May 2021, and allow SMEs to benefit from suspension until 31 December 2021.

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 "Liquidity" 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 "Liquidity" 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 "Liquidity" 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.

6.2 Moratoria granted to clients in connection with Covid-19

At year-end 2021 loans for which suspensions were still applicable, including also those for which the moratoria reached their term on 30 June 2021 but for which payment will recommence in the subsequent months based on their repayment schedules, amount to €721.4m, or 1.4% of total loans. This amount includes moratoria granted under the Group's own private initiatives, in addition to those granted under initiatives introduced by law or category associations (i.e. regardless of whether or not they qualify officially as "EBA compliant"). Some 60% of the moratoria outstanding are concentrated in leasing, and involve a total gross amount of €426.6m, while approx. 30% refer to mortgage lending (€210.6m) and the other 10% to Consumer Banking (€78.6m).

The representation provided in the EBA Guidelines, which is limited to moratoria granted under legal and category association initiatives in response to Covid-19, points to a loan book of €2bn being involved in the phenomenon since the start of the pandemic. Compared to the original version of the EBA Guidelines of 2 April 2020, the changes made in the version issued on 2 December 2020 extended the period beyond which moratoria qualifying as "EBA compliant" could be originated until 31 March 2021, but also introduced exclusions in cases where clients ended up benefiting from a total of nine months or more of suspended payments. Of the combined €721.4m in moratoria still outstanding at 30 June 2021 only €84.8m qualify officially as EBA-compliant, while the others are excluded from the prudential definition; of these (€636.6m):

- 51% involve suspensions granted under legal initiatives introduced by Article 56 (42%) and Article 54 (9%) with durations of over nine months or granted since 31 March 2021;
- 33% involve suspensions granted under Article 54 and Article 56, with ABI/Assofin moratoria excluded due to the use of a different convention to define "expired" (the definition used by the Mediobanca Group is more conservative than the EBA convention, as the moratoria are considered to have expired only once the repayment schedule has been resumed);
- 16% refer to support programmes for customers launched as private initiatives by CheBanca!,[12] SelmaBipiemme[13] and Compass,[14] which do not meet the

[12] Moratoria granted to clients who for objective or subjective reasons are unable to access the Consap moratoria (e.g. amounts of above €400,000, or mortgages not for first houses) or the "Families - 21/04/2020" initiative promoted by ABI (e.g. because they have taken out insurance for the loan).

[13] Moratoria granted to companies that do not qualify to access the measures provided by Italian Decree Law no. 18 of 17 March 2020 or the ABI "Business in Recovery 2.0" initiative but which have been impacted by the Covid-19 pandemic emergency.

[14] Under the Assofin Covid-19 moratoria, instalments can be suspended for up to six months, but shorter durations may be provided in agreement with the client. The suspension may involve the whole instalment or only the principal amount, at the lender's discretion.

requisites set by the legislative decree ("*Cura Italia*" decree, Articles 54 and 56) or the category association initiatives (ABI/Assofin).

A summary of the table provided as part of the regulatory disclosure included in the Pillar III – Disclosure to the Public document is provided below:[15]

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

(€m)

30/6/21	Gross carrying amount[1]	of which: Legislative moratoria[2]	of which: Expired[3]	Residual maturity of moratoria[4]			Total of residual moratoria
				Up to 3 months	From 3 to 6 months	From 6 to 18 months	
Loans and advances for which moratorium was offered	**1,965.0**	**1,069.3**	**1,880.2**	**39.9**	**16.5**	**28.4**	**84.8**
Households	**1,371.5**	**491.3**	**1,286.8**	**39.9**	**16.5**	**28.4**	**84.8**
of which: Collateralised by residential immovable property	*598.1*	*446.4*	*520.8*	*32.8*	*16.3*	*28.2*	*77.3*
Non-financial corporations	**590.8**	**575.5**	**590.8**	**—**	**—**	**—**	**—**
of which: Small and Medium-sized Enterprises	*405.7*	*399.2*	*405.7*	—	—	—	—
of which: Collateralised by commercial immovable property	*369.6*	*355.7*	*369.6*	—	—	—	—
Financial corporations	**2.7**	**2.5**	**2.6**	**—**	**—**	**—**	**—**

[1] Gross book value of moratoria received and/or granted by the Group as at 30/6/21.

[2] Moratoria granted pursuant to the "*Cura Italia*" Decree Law (Articles 54 and 56).

[3] I.e. for which the payment relief period has ended.

[4] Expiry date for benefit of term for suspension under moratoria granted and outstanding at 30/6/21.

The regulatory table shows that, out of the positions repaid, almost all the loans originally covered by the EBA regulations (which guaranteed continuity in terms of classification) are no longer subject to the terms of the EBA compliant moratoria, as the suspensions have either ended or have been granted further extensions not permitted under the regulations.

As at end-June 2021, new loans granted via the public guarantee mechanisms introduced amounted to €236.7m, and mainly refer to the Parent Company's operations (seven loans disbursed with SACE backing under the terms of the "Liquidity" decree, worth €202.7m).

[15] 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".

* * *

Subsequent to the reporting date, and in particular since July 2021, the moratoria outstanding in the leasing segment have reduced further still, from €426.6m to €280.7m, as a result of the suspensions granted under Article 56 of the "*Cura Italia*" decree expiring,[16] with over 90% of the exposures resuming regular repayments, while just 1% of clients has applied for a further, short-term extension, with a merely residual number of accounts past due.[17] The remaining moratoria in respect of suspensions extended[18] under the terms of the "*Sostegni-bis*" decree will expire on 31 December 2021. As far as regards CheBanca! and Compass, no issues have emerged, expiries have resumed their normal process and the performance in terms of resumption of repayment schedules as normal has been positive (over 80%), in line with the situation at end-June 2021.

Moratoria outstanding at 31 August 2021 therefore amounted to €498m, of which €278.8m in leasing, €180.2m in mortgage lending, and €36.1m in consumer credit.

6.3 Macroeconomic scenario and Covid-related impact

The macroeconomic scenario used in the provisioning process to revise the risk parameters at end-June incorporates an estimate for the sudden increase in GDP for all global economies.

The estimates used by the Group for 2021, updated in April 2021, see GDP increasing in Italy by 4.51%, in the EU area by 3.97%, and the United States by 6.59%. Equally, the estimated unemployment rate has settled at 9.80% in Italy, 7.60% in Europe, and 5.35% in the United States.

Most of these figures have been revised to show substantial improvement from the figures reported at end-June 2020 (GDP in Italy down 8.93%; EU down 6.31%; USA down 3.49%).

[16] The expiry date scheduled for these moratoria is 30 June 2021, except for clients who have applied for extensions under the "*Sostegni-bis*" decree until 31 December 2021.

[17] The percentage of positions past due declines further, from 8% to 3%, net of those which were already classified as non-performing at the time when the moratoria were granted.

[18] Unlike in the case of previous extensions, which occurred automatically, this time customers had to give notice, by 15 June 2021, of their intention to take up the extension, by the same means provided by the "*Cura Italia*" decree for presenting the initial application for the moratoria.

Table 2 – Baseline macro-economic scenario parameters[19]

GDP Forecast	2021	2022	2023	2024
Italy	4.51%	4.35%	1.46%	1.21%
UE	3.97%	4.33%	2.20%	2.03%
US	6.59%	3.86%	1.84%	1.39%

Unemployment rate	2021	2022	2023	2024
Italy	9.80%	9.88%	9.46%	9.07%
UE	7.60%	7.45%	7.01%	6.60%
US	5.35%	4.18%	3.79%	3.69%

Interest rate on Government bond (10 years)	2021	2022	2023	2024
Italy	0.64%	1.23%	1.85%	2.38%
Germany	-0.24%	0.08%	0.30%	0.48%
US	1.92%	2.51%	2.79%	3.03%

Overall, loan loss provisioning recorded for the twelve months totals €119m, largely in line with last year (€113m), albeit with a different distribution between segments.

Consumer Banking reversed last year's trend, recording writebacks of €18m at end-June 2021 (compared with €64m in writedowns one year previously). The recovery 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. The possibility of funds being released back to profit and loss as a result of the low default rates and the return of many positions to performing status has been neutralized on prudential grounds, with an increase in the level of provisioning which has involved nearly €200m being set aside as overlays for performing positions.[20]

For the Corporate loan book (including leasing and factoring), the Covid-related impact entailed €113m in adjustments. Unlike last year, when the revision of the macroeconomic scenario had a pronounced effect, this year the increase in provisioning is due to positions being reclassified as Stage2 (mainly in 2Q), given that the potential release of funds deriving from the improvement in the macroeconomic scenario at end-June 2021 was fully neutralized by the increased level of provisioning applied (overlays).

[19] As described in section 2.3, 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.

[20] The Covid-related impact involving writebacks of €18m does not include the overlays (approx. €200m).

In mortgage lending the Covid-related impact translated to €15m in adjustments, chiefly corrections to the loan book affected by the suspensions as a result of the conservative approach adopted in classifying the remaining moratoria (more than 90% of which have been classified as either Stage2 or Stage3) plus the use of overlays.

Loan loss provisioning to cover the impact of Covid also increased in leasing (€9m), in this case too reflecting the prudential approach adopted to positions for which moratoria have been granted: this has included reclassifying accounts for which a further extension of the suspension period until 31 December 2021 under the "*Sostegni-Bis*" decree[21] has been requested as Stage2, and setting aside overlays to performing accounts which have benefited from moratoria and which as of end-June 2021 had not actually resumed payment.

Table 3 – Covid-related impact on earnings

(€m)

Impact on item 130 of P&L*	**of which Covid FY20**	**of which Covid FY21**
Corporate Investment Banking	43	113
Consumer Banking	64	(18)
Wealth Manangement	4	15
Leasing (Holding Functions)	2	9
Total	**113**	**119**
of which IH	*13*	*74*
of which IIH	*100*	*45*

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

Overall the overlays amount to €297m (€82m of which in 4Q), 66% of which is concentrated in Consumer Banking (€197m), 30% in Corporate and Investment Banking (€88m), and the other 4% in the remaining divisions.

In Consumer Banking, in view of the uncertainties reflected in the macroeconomic framework, the provisioning level has been increased through recourse to overlays (€197m) applied to both non-performing and performing loans (€125m).

[21] It should be noted that non-expired moratoria do not fall within the definition of EBA-compliant measures.

In Corporate and Investment Banking, meanwhile, overlays of €88m have been set aside in order to maintain a prudential coverage level so as to mitigate the reduction in impairment due to the improved macroeconomic scenario; this is in addition to those provided at end-December 2020 (€20.8m), which referred to positions for which waivers had been granted, high-risk and for all Stage1 generally. It is worth remembering in this connection that there were virtually no overlays at all in Corporate and Investment Banking last year, as revision of the macroeconomic scenario had had a pronounced effect, resulting in an increase in the level of provisioning incorporated directly into the risk parameters used to make the calculation.

(€m)

	Overlay (stock)	
	30/6/20	**30/6/21**
Corporate and Investment Banking	1	88
Consumer Banking	115	197
Wealth Management	—	3
Leasing (Holding Functions)	—	8
Total	**116**	**296**

SECTION 2

Accounting consolidated risks

QUANTITATIVE INFORMATION

The accounting consolidation area includes the line-by-line consolidation of controlled entities Compass RE (a reinsurance company) and Ricerche e Studi, Compass Rent and MBContact 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	453,337	399,915	90,668	216,275	55,439,430	56,599,625
2. Financial assets at fair value with impact taken to comprehensive income	—	—	—	—	4,346,859	4,346,859
3. Financial assets designated at fair value	—	—	—	—	680,539	680,539
4. Other financial assets mandatorily at fair value	—	—	—	—	39,766	39,766
5. Financial assets being sold	—	—	—	—	—	—
Total 30/6/21	453,337	399,915	90,668	216,275	60,506,594	61,666,789
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 €57.1m, €73.7m of which is attributable to factoring (3.2% of the performing loans in this segment), and €54.2m to mortgage loans (0.5%). The item also includes net exposures being renegotiated under the terms of collective agreements in amounting to €402.8m, consisting primarily of mortgages loans totalling €359.4m.

* Includes the NPLs held by MBCredit Solutions in an amount of €383.7m, €381.3m of which bad loans (net values).

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

Asset portfolio/quality	Non-performing assets				Performing assets			Total (net exposition)
	Gross exposure	Accumulated impairment	Net exposure	Overall partial write-off	Gross exposure	Accumulated impairment	Net exposure	
1. Financial assets at amortized cost	1,974,615	(1,030,695)	943,920	5,681	56,318,410	(662,705)	55,655,705	56,599,625
2. Financial assets at fair value with impact taken to comprehensive income	—	—	—	—	4,357,062	(10,203)	4,346,859	4,346,859
3. Financial assets designated at fair value	—	—	—	—	X	X	680,539	680,539
4. Other financial assets mandatorily at fair value	6,636	(6,636)	—	—	X	X	39,766	39,766
5. Financial assets being sold	—	—	—	—	—	—	—	—
Total 30/6/21	1,981,251	(1,037,331)	943,920	5,681	60,675,472	(672,908)	60,722,869	61,666,789
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	—	—	8,749,308
2. Hedging Derivatives	—	—	308,370
Total 30/6/21	—	—	9,057,678
Total 30/6/20	—	—	7,251,094

The non-performing items include €383.7m attributable to MBCredit Solutions, i.e. acquisitions of non-performing loans, with a nominal amount of €6bn as at 30 June 2021. Of these items, €4.7m (with a nominal value of €475.5m) involve assets acquired from other Group companies, mostly those operating in Consumer Banking.

The purchase price of these items, and also their initial recognition value, is €587.5m, compared with a nominal (original gross) value of €6.2bn.

Information on sovereign debt exposures

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

Portfolio/quality	**Non performing loans**				**Performing**			**Total net exposure [1]**
	Gross exposure	**Individual adjustments**	**Collective adjustments**	**Net exposure**	**Gross exposure**	**Collective adjustments**	**Net exposure**	
1. Financial assets held for trading	—	—	—	—	X	X	(1,505,140)	(1,505,140)
France	—	—	—	—	X	X	(973,774)	(973,774)
Germany	—	—	—	—	X	X	(616,787)	(616,787)
Spain	—	—	—	—	X	X	120,421	120,421
Finland	—	—	—	—	X	X	70,703	70,703
Others	—	—	—	—	X	X	(105,703)	(105,703)
2. Financial assets designated at fair value through other comprehensive income	—	—	—	—	3,595,825	—	3,595,825	3,595,825
Italy	—	—	—	—	2,229,277	—	2,229,277	2,229,277
Germany	—	—	—	—	926,103	—	926,103	926,103
United States	—	—	—	—	338,434	—	338,434	338,434
Spain					51,038		51,038	51,038
Others	—	—	—	—	50,973	—	50,973	50,973
3. Financial assets at amortized cost	—	—	—	—	1,779,304	—	1,779,305	1,779,305
Italy	—	—	—	—	1,272,443	—	1,272,443	1,272,443
France	—	—	—	—	351,840	—	351,840	351,840
Spain	—	—	—	—	110,100	—	110,100	110,100
United States	—	—	—	—	12,657	—	12,657	12,657
Others	—	—	—	—	32,264	—	32,265	32,265
Total 30/6/21	—	—	—	—	5,375,129	—	3,869,990	3,869,990

* 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 €57.2m.

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

Portfolio/quality	**Trading Book [1]**			**Banking Book [2]**			
	Nominal value	**Book value**	**Duration**	**Nominal value**	**Book value**	**Fair value**	**Duration**
Italy	38,546	16,940	3,79	3,390,386	3,501,719	3,551,744	3.06
Germany	(572,750)	(616,787)	4,06	915,000	926,103	926,103	1.51
Spain*	112,700	120,421	3,0	160,000	161,138	162,677	1.20
United States	—	—	—	349,209	351,091	351,698	0.23
France	(866,635)	(973,774)	1,0	350,400	351,840	352,252	0.83
Others	(47,700)	(51,940)	—	84,579	83,239	87,855	—
Total 30/6/21	(1,335,839)	(1,505,140)		5,249,574	5,375,130	5,432,329	

* The figure does not include forward sales with a notional amount of €476m.

[1] Does not include sales of €47m on Bund/Bobl/Schatz futures (Germany), with a negative fair value of €0.2m; or sales of €54m on the BPT future (Italy) with a negative fair value of €0.3m. Net hedge buys of €1,630m 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 IFRS12, 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 structured to ensure that the voting rights (or similar) are not the main factor in establishing who controls them (the activities are often governed by contractual agreements provisions agreed when the entity itself is structured and are therefore difficult to change).

B.1 Consolidated structured entities

As stated in Part A – Section 3 of the Notes to the Accounts, the securitization SPVs instituted pursuant to Italian law 130/99, namely Quarzo S.r.l., Quarzo CQS S.r.l., and MB Funding Lux S.A., a company incorporated under Luxembourg law and 100%-owned by Mediobanca S.p.A.

B.2 Structured entities not consolidated in accounting terms

The Group has no other interests in structured entities to report, apart from the stock units held in UCITs in connection with its activities as sponsor (CheBanca!, CMB Monaco, Cairn Capital and RAM Active Investments) and as investor in funds promoted by Mediobanca S.p.A., which include seed capital activities for funds managed by Group companies (Cairn Capital, Mediobanca SGR, Compagnie Monégasque de Gestion and RAM Active Investments).

B.2.1 Structured entities consolidated prudentially

As at 30 June 2021 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

QUALITATIVE INFORMATION

The Group's operations are performed through special purpose vehicle companies (SPVs), as follows:

UCITS

In its portfolio management activities, CheBanca! handles the placement of five segments of the Yellow Funds SICAV exclusively to its own clients, plus two segments attributable to Mediobanca SGR. Mediobanca Management Company is responsible for actually managing the SICAV, while the funds are managed by BlackRock and Mediobanca SGR. In its activity as sponsor, CheBanca! at 30 June 2021 had investments outstanding totalling €21.6m, €16.7m of which in Mediobanca SGR segments.

CMB Monaco has placed six segments of CMB Global Lux (a company authorized under Luxembourg law) with its clients; the SICAV is managed by CMB Monaco itself, while the management and custody of the funds is the responsibility of respectively of its subsidiary Compagnie Monégasque de Gestion and CACEIS Luxembourg. As at 30 June 2021 Mediobanca S.p.A. did not have investments outstanding in the segments referred to.

With reference to funds promoted by RAM Active Investments SA, Mediobanca S.p.A. has subscribed for funds as seed capital with a NAV of €183.6m, in the following six funds: Global Sustainable Income Equities (€12.9m), Global Multi-Asset (€39.7m), Diversified Alpha (€72.7m) and Stable Climate Global Equities (€28m) sub-fund of the RAM (Lux) Systematic Funds SICAV, Asia Bond Total Return (€17.8m). sub-fund of RAM (Lux) Tactical Funds II SICAV, RAM Systematic I/O (€12.4m). The twelve months under review saw the partial redemption of the investments in RAM Systematic I/O (€47.8m) and Global Sustainable Income Equities (€43.7m) and the investment in Diversified Alpha (€69.8m) and the one in Stable Climate Global Equities (€21.8m). All the funds, with the exception of RAM Systematic I/O, are UCITS funds with NAV calculated daily.

Cairn Capital Group Ltd has subscribed directly to the Cairn Special Opportunities Credit Fund, the Cairn European Loan Fund, and the Cairn Loan Investment I and II SPEs for a total of €2m which, in addition to Mediobanca's share in the seed capital, makes for a total of €218.5m split between the Cairn European Loan Fund (€118.2m) sub-fund of the umbrella fund Cairn Capital Investment Funds ICAV, the Cairn

Mediobanca Strata UCITS Credit Fund (€54.3m) sub-fund, management of which has been delegated to Cairn[22], the Palladium FCP fund managed by Mediobanca Management Company, and the CLI Holdings Limited and CLI Holdings II Limited SPEs (€21.8m and €24.3m respectively). During the year under review subscriptions in CLI Holdings II were recorded for a total amount of €10.5m, while the redemption Cairn Strata Credit Fund (€55.6m) was the result of the fund's liquidation.

Of the funds that Mediobanca SGR sells to its own clients, the Group has subscribed for a total of €33.2m, split between €16.7m in the Mediobanca Global Multi-Manager fund (classes 15 and 35), €7.9m in Mediobanca Social Impact (philanthropic fund), €4.5m in the Mediobanca Euro High Yield Fund, and, €4.1m in Mediobanca Fondo per le imprese 2.

Mediobanca also invests in the Negentropy RAIF fund, an alternative investment fund incorporated under Luxembourg law managed by Negentropy Capital Partners Limited, with an investment of €77.3m.

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

Asset-backed SPEs

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

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

Hold to Collect lending transactions, recorded under asset heading 40, "Financial assets recognized at amortized cost – due from customers: composition", in which the Group is the sole lender, involve an amount of €554.2m, plus €3.9m in notes booked as Hold to Collect and Sell, and €51m in notes mandatorily recognized at fair value.

[22] Since 30 June 2021, management of the Cairn Mediobanca Strata UCITS Credit Fund has been transferred from Cairn to RAM, and the fund's name has been changed to RAM Mediobanca Strata UCITS Credit Fund.

QUANTITATIVE INFORMATION

Figures as at 30 June 2021

Balance-sheet item/SPE type	Accounted for under asset heading	Total assets (A)	Accounted for under liability heading	Total liabilities (B)	Net asset value (NAV) (C=A-B)	Maximum exposure to risk of loss (D)	Difference between exposure to risk of loss and NAV (E=D-C)
Yellow Fund Sicav	Financial assets mandatorily at fair value	4,835	—	—	4,835	4,835	—
CMG Funds	Financial assets mandatorily at fair value	49	—	—	49	49	—
Cairn European Loan Fund	Financial assets mandatorily at fair value	118,799	—	—	118,799	118,799	—
Cairn Loan Investments	Financial assets mandatorily at fair value	46,872	—	—	46,872	46,872	—
Cairn Mediobanca Strata UCITS Credit Fund	Financial assets mandatorily at fair value	54,297	—	—	54,297	54,297	—
RAM - Systematic I/O	Financial assets mandatorily at fair value	12,417	—	—	12,417	12,417	—
RAM - Asia Bond Total Return	Financial assets mandatorily at fair value	17,847	—	—	17,847	17,847	—
RAM - Global Sustainable Income Equities	Financial assets mandatorily at fair value	12,918	—	—	12,918	12,918	—
RAM - Global Multi-Asset	Financial assets mandatorily at fair value	39,723	—	—	39,723	39,723	—
RAM Diversified Alpha	Financial assets mandatorily at fair value	72,736	—	—	72,736	72,736	—
RAM Stable Global Equity	Financial assets mandatorily at fair value	27,950	—	—	27,950	27,950	—
Mediobanca Funds	Financial assets held for trading	323	—	—	323	323	—
Mediobanca Funds	Financial assets mandatorily at fair value	33,217	—	—	33,217	33,217	—
Negentropy RAIF Fund	Financial assets mandatorily at fair value	77,308	—	—	77,308	77,308	—
Other Funds	Financial assets mandatorily at fair value	513	—	—	513	513	—
Asset Backed	Financial assets at amortized cost	554,213	—	—	554,213	554,213	—
Asset Backed	Financial assets at fair value with impact taken to other comprehensive income	3,930	—	—	3,930	3,930	—
Asset Backed	Financial assets designated at fair value	50,720	—	—	50,720	50,720	—

B.2 Leveraged finance transactions

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

- Credit exposures to parties for which the total gross debt (on balance sheet and committed off balance sheet) to Ebitda ratio is more than 4x;
- Credit exposures to Group companies (with more than 50% of the share capital owned or possessed) by a financial sponsor (i.e. an investment company which carries out acquisitions of companies, inter alia financed by debt, with a medium-term time horizon).

As at 30 June 2020, the Group's aggregate exposure to Leveraged Finance was equal to €4,798.3m,[23] down 12% on the total reported last year (€5,483.6m), accounting for a share of the Corporate loan book which decreased from 33% to 29%. Pure LBOs totalled €588m (12% of the total), down 2% from last year, while deals classified as non-performing (three loans involving a total of €146m) were down 69% from end-June 2020 following the renegotiation of the Burgo Group exposure; almost half the portfolio (49%) is concentrated on domestic deals, while 29% refers to EU countries (lower than last year following the United Kingdom's exit from the European Union).

During the year under review there were redemptions totalling €1,706m (49% of which involving the closure of 24 deals), against new loans worth €1,021m (approx. 13% of the entire new loans in the large corporate segment), involving fifteen new deals in addition to drawdowns on previous commitments.

[23] Plus off-balance-sheet exposures (commitments and derivatives) totalling €1,408m (up 74% on 30 June 2020).

SECTION 3

Prudential consolidated risks *

1.1 CREDIT RISK

A. Credit quality

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

A.1.1 Prudential consolidation - Financial assets by past-due buckets (book values)

Portfolios / risk stages	Stage1			Stage2			Stage3 [1]		
	From 1 to 30 days	From more than 30 days to 90 days	More than 90 days	From 1 to 30 days	From more than 30 days to 90 days	More than 90 days	From 1 to 30 days	From more than 30 days to 90 days	More than 90 days
1. Financial assets valued at amortized cost	42,868	8,750	1,630	78,906	60,189	23,932	120,627	52,553	616,093
2. Financial assets valued at fair value with impact taken to comprehensive income	—	—	—	—	—	—	—	—	—
3. Assets classified as held for sale	—	—	—	—	—	—	—	—	—
Total 30/6/21	42,868	8,750	1,630	78,906	60,189	23,932	120,627	52,553	616,093
Total 30/6/20	71,937	11,597	3,869	125,084	118,190	3,886	140,242	73,620	677,792

[1] Includes the NPLs acquired by MBCredit Solutions.

* Compass RE, Ricerche e Studi, Compass Rent and MBContact Solutions (other companies) are excluded from the prudential area of consolidation.

A.1.2 Prudential consolidation - financial assets, commitments to disburse funds and financial guarantees given: trend in overall writedowns and provisions

Motivation / risk stages	Cumulative writedowns													Gross provisions on commitments to disburse funds and financial guarantees given			Total
	Stage1				Stage2				Stage3								
	Financial assets valued at amortized cost	Financial assets valued at fair value with impact taken to comprehensive income	of which: individual writedowns	of which: collective writedowns	Financial assets valued at amortized cost	Financial assets valued at fair value with impact taken to comprehensive income	of which: individual writedowns	of which: collective writedowns	Financial assets valued at amortized cost	Financial assets valued at fair value with impact taken to comprehensive income	of which: individual writedowns	of which: collective writedowns	of which: purchased or originated credit impaired exposures	Stage1	Stage2	Stage3	
Starting balance	241,141	6,108	—	247,249	343,399	—	—	343,399	1,011,047	—	299,098	711,949	208	9,570	1,123	2,987	1,615,375
Increase variations due to acquired or originated financial assets	132,870	6,132	—	139,002	70,637	—	—	70,637	28,996	—	425	28,571	—	9,530	2,213	116	250,494
Derecognitions other than writeoffs	(22,128)	(2,905)	—	(25,033)	(23,462)	—	—	(23,462)	(184,308)	—	(58,749)	(125,559)	—	(1,668)	(4)	(2,957)	(237,432)
Net writedowns/ writebacks due to credit risk	(55,991)	868	—	(55,123)	(26,942)	—	—	(26,942)	207,084	—	41,331	165,753	156	2,147	(427)	3	126,742
Contractual modifications without derecognitions	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Changes in estimating methodologics	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Write-offs not recognised directly in profit and loss	(1,215)	—	—	(1,215)	(1,927)	—	—	(1,927)	(36,232)	—	(19,058)	(17,174)	—	—	—	—	(39,374)
Other variations	1,227	—	—	1,227	4,979	—	—	4,979	4,109	—	(14,328)	18,437	—	2,214	1,978	34	14,541
Closing balance	295,904	10,203	—	306,107	366,684	—	—	366,684	1,030,696	—	248,719	781,977	364	21,793	4,883	183	1,730,346
Collections proceeds on financial assets subject to writeoffs	—	—	—	—	—	—	—	—	1,053	—	920	133	—	—	—	—	1,053
Writeoffs recognised directly in profit and loss	(98)	—	—	(98)	(114)	—	—	(114)	(66,204)	—	(64,793)	(1,411)	(61,538)	—	—	—	(66,416)

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					
	Transfers from Stage1 to Stage2		Transfers from Stage2 to Stage3		Transfers from Stage1 to Stage3	
	From Stage1 to Stage2	From Stage2 to Stage1	From Stage2 to Stage3	From Stage3 to Stage2	From Stage1 to Stage3	From Stage3 to Stage1
1. Financial assets valued at amortized cost	2,201,158	882,160	208,057	93,288	203,276	9,662
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	187,090	30,599	—	20	62	1,568
Total 30/06/21	2,388,248	912,759	208,057	93,308	203,338	11,230
Total 30/06/20	2,162,061	633,210	343,645	117,142	355,087	14,971

A.1.3a Exposures subject to Covid-19-related concessions: transfers between different credit risk stages (gross amounts)

Portfolio * /quality	Gross exposure / Nominal value					
	Transfers from Stage1 to Stage2		Transfers from Stage2 to Stage3		Transfers from Stage1 to Stage3	
	From Stage1 to Stage2	From Stage2 to Stage1	From Stage2 to Stage3	From Stage3 to Stage2	From Stage1 to Stage3	From Stage3 to Stage1
A. Loans and advances measured at amortized cost	76,152	110	6,438	291	2,500	—
A.1 subject to EBA-compliant moratoria (legislative and non-legislative)	40,093	110	30	31	36	—
A.2 subject to COVID-19-related forbearance measures	36,059	—	6,408	260	2,464	—
A.3 newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis	—	—	—	—	—	—
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 30/06/21	76,152	110	6,438	291	2,500	—

* The row headed "Loans subject to EBA - compliant moratoria" shows information on financial assets for which moratoria have been granted under the scope of application of the "*Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID 19 crisis*" published by the EBA (EBA/GL/2020/02) as amended.

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	6,591,519	(6,308)	6,585,211	—
- of which: forborne exposures	X	—	—	—	—
Total (A)	—	6,591,519	(6,308)	6,585,211	—
B. Off-balance-sheet exposures					
a) Non-performing	—	X	—	—	—
b) Performing	X	11,834,263	—	11,834,263	—
Total (B)	—	11,834,263	—	11,834,263	—
Total (A+B)	—	18,425,782	(6,308)	18,419,474	—

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 provision	Net exposure	Total partial write-off
	Non - performing loans	Performing loans			
A. Cash credit exposures					
a) Bad loans*	891,723	X	(438,386)	453,337	5,195
- of which: forborne exposures	*119,734*	*X*	*(108,141)*	*11,593*	—
b) Unlikely to pay*	853,700	X	(453,785)	399,915	486
- of which: forborne exposures	*493,554*	*X*	*(235,757)*	*257,797*	*35*
c) Overdue exposures (NPLs)	235,828	X	(145,160)	90,668	—
- of which: forborne exposures	*56,610*	*X*	*(38,455)*	*18,155*	—
d) Overdue exposures (performing)	X	261,028	(44,753)	216,275	—
- of which: forborne exposures	*X*	*19,516*	*(3,620)*	*15,896*	—
e) Other exposures (performing)	X	59,006,805	(621,730)	58,385,075	—
- of which: forborne exposures	*X*	*784,279*	*(59,995)*	*724,284*	—
Total (A)	1,981,251	59,267,833	(1,703,814)	59,545,270	5,681
B. Off-balance-sheet exposures					
a) Non-performing	2,851	X	(184)	2,667	—
b) Performing	X	24,650,268	(26,972)	24,623,296	—
Total (B)	2,851	24,650,268	(27,156)	24,625,963	—
Total (A+B)	1,984,102	83,918,101	(1,730,970)	84,171,233	5,681

* Includes NPLs acquired by MBCredit Solutions.

As at 30 June 2021, gross non-performing loans decreased from €2,313m to €1,981.3m, the lowest level seen in the last decade as a result of one large corporate exposure (Burgo) returning to performing status, and the improvement in the risk profile in Consumer Banking, confirming the Mediobanca Group's position as one of the best players on the Italian and European market.[24] Similarly, net NPLs decreased to €943.9m (€1,232.8m), accounting for 1.6% (2.2%) of the total cash exposures, with the coverage ratio increasing from 46.7% to 52.4% with a view to addressing future scenario uncertainties.

A.1.5a Cash and off-balance-sheet exposures to customers subject to Covid-19-related concessions: gross and net amounts

Exposure types * / amounts	Gross exposure	Total value adjustments and total provisions	Net exposure	Write-off partial total
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	43,165	(11,920)	31,245	—
a) Subject to EBA-compliant moratoria (legislative and non-legislative)	3,067	(1,029)	2,038	—
b) Subject to COVID-19-related forbearance measures	40,068	(10,879)	29,189	—
c) Newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis	30	(12)	18	—
C. NON-PERFORMING PAST DUE CREDIT EXPOSURES	107	(22)	85	—
a) Subject to EBA-compliant moratoria (legislative and non-legislative)	58	(14)	44	—
b) Subject to COVID-19-related forbearance measures	49	(8)	41	—
c) Newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis	—	—	—	—
D. PERFORMING PAST DUE EXPOSURES	1,327	(156)	1,171	—
a) Subject to EBA-compliant moratoria (legislative and non-legislative)	193	(15)	178	—
b) Subject to COVID-19-related forbearance measures	1,055	(141)	914	—
c) Newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis	79	—	79	—
E. OTHER PERFORMING EXPOSURES	501,280	(12,105)	489,175	—
a) Subject to EBA-compliant moratoria (legislative and non-legislative)	81,430	(3,015)	78,415	—
b) Subject to COVID-19-related forbearance measures	183,295	(8,089)	175,206	—
c) Newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis	236,555	(1,001)	235,554	—
TOTAL (A+B+C+D+E)	545,879	(24,203)	521,676	—

* The row headed "Loans subject to EBA - compliant moratoria" shows information on financial assets for which moratoria have been granted under the scope of application of the "*Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID 19 crisis*" published by the EBA (EBA/GL/2020/02) as amended.

[24] For further details, see section B.4b, Gross NPL Ratio.

A.1.7 Prudential consolidation - Cash exposures to customers: trend in gross non-performing exposures, by credit quality

Causals/ category	Bad loans *	Unlikely to pay*	Overdue exposures (NPLs)
A. Opening balance (gross amount)	782,717	1,168,084	362,181
- Of which sold but not derecognized	*173,265*	*251,225*	*137,341*
B. Increases	312,304	413,586	159,660
B.1 transfers from performing loans	27,326	234,893	117,977
B.2 entry from impaired financial assets acquired or originated	76,643	1,536	—
B.3 transfers from other categories of non-performing exposures	172,012	108,020	20,851
B.4 contractual changes without cancellations	—	—	—
B.5 other increases	36,323	69,137	20,832
C. Decreases	203,298	727,970	286,013
C.1 transfers to perfomorming loans	1,225	72,440	29,528
C.2 write-offs	80,843	15,378	5,307
C.3 recoveries	58,961	427,309 ([1])	87,995
C.4 sales proceeds	6,471	5,547	2,668
C.5 losses on disposals	9,165	7,831	2,738
C.6 transfers to other categories of non-performing exposures	5,741	155,830	139,312
C.7 contractual changes without cancellations	—	—	—
C.8 other decreases	40,892	43,635	18,465
D. Closing balance (gross amounts)	891,723	853,700	235,828
- Of which sold but not derecognized	*40,721*	*78,511*	38,709

* Includes NPLs acquired by MBCredit Solutions.

[1] Of which €329m relating to amounts collected in respect of the Burgo exposure.

The heading "Transferred from impaired financial assets acquired or originated" refer to the NPL portfolios acquired by MBCredit Solutions.

The heading "Other increases" refers primarily to Consumer Banking and the NPLs acquired by MBCredit Solutions.

The heading "Other reductions" refers to the stock of receivables sold to factoring in consumer credit operations.

A.1.7bis Prudential consolidation - Cash exposures to customers: trend in gross forborne exposures, by credit quality

Description/Quality	Non-performing forborne exposures	Performing forborne exposures
A. Opening balance (gross amount)	974,197	596,103
- of which: sold but not derecognised	*166,809*	*202,850*
B. Increases	215,173	527,370
B.1 Inflows from performing not forborne exposures	69,451	442,851
B.2 Inflows from performing forborne exposures	33,925	X
B.3 Inflows from non-performing forborne exposures	X	58,897
B.4 Inflows from non-performing not forborne exposures	48,759	662
B.5 other increases	63,038	24,960
C. Decreases	519,472	319,678
C.1 Outflows to performing not forborne exposures	X	45,489
C.2 Outflows to performing forborne exposures	58,897	X
C.3 Outflows to non-performing forborne exposures	X	33,925
C.4 write-off	8,790	181
C.5 recoveries	407,891	236,649
C.6 sales proceeds	—	88
C.7 losses on disposals	4,483	82
C.8 other decreases	39,411	3,264
D. Closing balance (gross amounts)	669,898	803,795
- of which: sold but not derecognised	*48,284*	*35,505*

As at 30 June 2021, gross non-performing exposures subject to forbearance measures[25] decreased from €974.2m to €669.9m, after the Burgo loan exited this category as a result of the company's entire indebtedness being renegotiated following investment by a new shareholder, which allowed the company's financial structure to be rebalanced,[26] reducing the exposure from €317.7m to €254.1m. The coverage ratio increased from 46.7% to 57.1%, and is reflected in the reduction in the net position, from €519.3m to €287.5m.

Gross performing forborne exposures totalled €803.8m, higher than last year (€596.1m), after the accounts for which moratoria granted ing mortgage lending and leasing were reclassified as Stage2, resulting in an increase which was only partially offset by the reduction in the large corporate segment; net performing forborne exposures decreased from €550.4m to €740.2m, with a coverage ratio of 7.9% (7.7%).

[25] By definition, "forbearance" is when a specific concession is offered to a client which is undergoing, or which risks encountering, temporary financial difficulties in meeting their payment obligations.

[26] The new loan has been granted performing status (and so excluded from the forborne category), as it has been renegotiated on market terms and without especial difficulties given the better-than-expected performances delivered by the company in the last three financial years, which has enabled it to complete the recovery plan required under Article 67 of the Italian bankruptcy law despite the pandemic.

Net non-performing forborne exposures account for 0.6% (1.1%) of total customer loans, whereas net performing forborne exposures account for 1.5% (1.2%).

A.1.9 Prudential consolidation - Non performing cash exposures to customers: trend in overall writedowns

Description/Category	Bad loans		Unlikely to pay		Overdue exposures (NPLs)	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Opening balance overall amount of writedowns	347.320	90.592	537.184	323.482	195.702	40.828
- Sold but not derecognised	*123.176*	*13.564*	*127.283*	*52.909*	*74.592*	*14.287*
B. Increases	271.379	54.713	284.557	94.996	107.063	60.481
B.1 Adjustments on acquired or originated impaired assets	—	X	—	X	—	X
B. 2 other value adjustments	135.700	19.646	174.457	35.013	72.845	44.798
B.3 losses on disposal	9.165	403	7.831	2.279	2.738	1.801
B.4 transfers from other categories of non-performing exposures	121.018	32.753	68.383	18.808	12.406	5.430
B.5 contractual changes without cancellations	—	—	—	—	—	—
B.6 other increases	5.496	1.911	33.886	38.896	19.074	8.452
C. Reductions	180.313	37.164	367.956	182.721	157.605	62.854
C.1 write-backs from assessments	3.282	510	54.291	39.727	8.405	1.446
C.2 write-backs from recoveries	19.319	3.411	105.626	93.745	18.426	5.509
C.3 gains on disposal	5.207	144	3.819	1.155	796	678
C.4 write-off	80.843	5.863	15.378	2.419	5.307	508
C.5 transfers to other categories of non-performing exposures	4.946	1.154	106.310	35.871	90.551	21.075
C. 6 contractual changes without cancellations	—	—	—	—	—	—
C.7 other decreases	66.716	26.082	82.532	9.804	34.120	33.638
D. Closing overall amount of writedowns	438.386	108.141	453.785	235.757	145.160	38.455
- Sold but not derecognised	*39.042*	*5.677*	*52.357*	*20.509*	*23.122*	*6.303*

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

A.2.1 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees given by class of external ratings (gross values)

Exposures	External rating classes						Unrated	Total
	class 1	class 2	class 3	class 4	class 5	class 6		
A. Financial assets valued at amortized cost	627,289	4,324,840	4,803,616	1,739,574	167,895	58,625	46,282,892	58,004,731
- First stage	627,289	4,324,840	4,803,616	1,733,397	128,128	—	40,635,397	52,252,667
- Second stage	—	—	—	6,177	39,767	54,591	3,676,914	3,777,449
- Third stage	—	—	—	—	—	4,034	1,970,581	1,974,615
B. Financial assets valued at fair value with impacts taken to other comprehensive income	1,315,549	65,925	2,425,992	356,294	78,377	—	114,925	4,357,062
- First stage	1,315,549	65,925	2,425,992	356,294	78,377	—	114,925	4,357,062
- Second stage	—	—	—	—	—	—	—	—
- Third stage	—	—	—	—	—	—	—	—
Total (A + B)	1,942,838	4,390,765	7,229,608	2,095,868	246,272	58,625	46,397,817	62,361,793
of which: impaired financial assets acquired or originated	—	—	—	—	—	—	*384,102*	*384,102*
C. Commitments and financial guarantees given								
- First stage	316,395	785,375	5,819,604	849,503	197,784	—	6,533,108	14,501,769
- Second stage	—	—	—	50,000	—	—	225,648	275,648
- Third stage	—	—	—	—	—	—	2,851	2,851
Total (C)	316,395	785,375	5,819,604	899,503	197,784	—	6,761,607	14,780,268
Total (A+B+C)	2,259,233	5,176,140	13,049,212	2,995,371	444,056	58,625	53,159,424	77,142,061

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

The table is compliant with the classification provided by Bank of Italy circular 262/05 (sixth update) which requires external ratings to be divided into six different classes of credit standing.

The first three risk classes (classes 1, 2 and 3) consist of investment grade exposures, with a Standard & Poor’s rating of between AAA and BBB-, and represent 85% of the entire portfolio, excluding unrated counterparties and non-performing loans.

The unrated exposures refer chiefly to Private Banking clients and to small and medium-sized enterprises.

A.2.2 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees given by class of internal ratings (gross values)

Exposures	Internal rating classes						Non performing exposures	Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6			
A. Financial assets valued at amortized cost	949,531	7,070,983	17,276,115	16,037,648	7,736,906	1,050,705	1,974,615	5,908,228	58,004,731
- First stage	949,531	7,022,931	17,144,983	15,081,113	6,259,460	116,243	—	5,678,406	52,252,667
- Second stage	—	48,052	131,132	956,535	1,477,446	934,462	—	229,822	3,777,449
- Third stage	—	—	—	—	—	—	1,974,615	—	1,974,615
B. Financial assets valued at fair value with impact taken to other comprehensive income	1,315,549	87,136	2,474,965	311,929	78,377	—	—	89,106	4,357,062
- First stage	1,315,549	87,136	2,474,965	311,929	78,377	—	—	89,106	4,357,062
- Second stage	—	—	—	—	—	—	—	—	—
- Third stage	—	—	—	—	—	—	—	—	—
Total (A+B)	2,265,080	7,158,119	19,751,080	16,349,577	7,815,283	1,050,705	1,974,615	5,997,334	62,361,793
of which: impaired financial assets acquired or originated	—	—	—	—	—	—	*384,102*	—	*384,102*
C. Commitments and financial guarantees given									
- First stage	163,061	1,011,918	7,656,905	1,976,164	456,885	15,208	—	3,221,628	14,501,769
- Second stage	—	—	7	101,641	37,051	19,241	—	117,708	275,648
- Third stage	—	—	—	—	—	—	2,851	—	2,851
Total (C)	163,061	1,011,918	7,656,912	2,077,805	493,936	34,449	2,851	3,339,336	14,780,268
Total (A+B+C)	2,428,141	8,170,037	27,407,992	18,427,382	8,309,219	1,085,154	1,977,466	9,336,670	77,142,061

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

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

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

A.3 Distribution of secured exposures by type of securities

A.3.1 Prudential consolidation - Cash and off-balance sheet secured exposures to banks

	Gross exposure	Net exposures	Collaterals (1)				Financial guarantees (2)									Tottal (1)+(2)
							Credit derivatives					Signature loans				
			Property - mortgages	Financial leasing property	Securities	Other guarantees	CLN	Other derivatives				Public Administrations	Banks	Other financial companies	Other entities	
								Central counterparties	Banks	Other financial companies	Other entities					
1. Secured balance sheet credit exposures:	2.664.889	2,664,657	—	925	2,622,405	690	—	—	—	—	—	—	—	—	—	2,624,020
1.1 totally secured	2.424.819	2,424,605	—	925	2,382,405	690	—	—	—	—	—	—	—	—	—	2,384,020
-of which nonperforming	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1.2 partially secured	240.070	240,052	—	—	240,000	—	—	—	—	—	—	—	—	—	—	240,000
-of which nonperforming	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Secured off-balance sheet credit exposures:	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2.1 totally secured	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
-of which nonperforming	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2.2 partially secured	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
-of which nonperforming	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

A.3.2 Prudential consolidation - Cash and off-balance sheet secured exposures to customers

	Gross exposure	Net exposures	Collaterals (1)				Financial guarantees (2)									Total (1)+(2)
			Property - mortgages	Financial leasing property	Collaterals	Other guarantees	Credit derivatives					Signature loans				
							CLN	Other				Public Administrations	Banks	Other financial companies	Other entities	
								Central counterparties	Banks	Other financial companies	Other entities					
1. Secured balance sheet credit exposures:	23,116,424	22,801,847	12,070,690	997,734	3,835,179	2,974,103	—	—	—	—	—	238,671	—	581,112	1,144,275	21,841,764
1.1 totally secured	19,176,006	18,896,908	11,173,607	997,734	2,796,728	2,598,266	—	—	—	—	—	73,143	—	438,808	720,395	18,798,681
-of which nonperforming	*495,075*	*287,941*	*168,588*	*92,239*	—	*14,680*	—	—	—	—	—	*18*	—	*6,234*	*6,181*	*287,940*
1.2 partially secured	3,940,418	3,904,939	897,083	—	1,038,451	375,837	—	—	—	—	—	165,528	—	142,304	423,880	3,043,083
-of which nonperforming	*60,891*	*37,368*	*2,627*	—	*328*	*21*	—	—	—	—	—	—	—	—	—	*2,976*
2. Secured off-balance sheet credit exposures:	2,686,642	2,681,629	65,800	—	957,434	367,073	—	—	—	—	—	5,982	—	72,069	872,690	2,341,048
2.1 totally secured	1,463,156	1,459,263	56,519	—	274,908	310,576	—	—	—	—	—	5,982	—	36,155	754,447	1,438,587
-of which nonperforming	*84*	*57*	*57*	—	—	—	—	—	—	—	—	—	—	—	—	*57*
2.2 partially secured	1,223,486	1,222,366	9,281	—	682,526	56,497	—	—	—	—	—	—	—	35,914	118,243	902,461
-of which nonperforming	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

A.4 Prudential consolidation - Financial and non-financial assets obtained by taking possession of collaterals

	Derecognized credit exposures	Gross amount	Gross writedowns	Book value	
					Of which: obtained during the period
A. Tangible assets	66,601	65,929	(19,238)	46,691	513
A.1 Core assets	82	76	(3)	73	—
A.2. Held for investment purpose	57,040	56,981	(18,322)	38,659	—
A.3 Inventories	9,479	8,872	(913)	7,959	513
B. Equity and debt securities	—	—	—	—	—
C. Other assets	—	—	—	—	—
D. Assets held for sale	—	—	—	—	—
D.1 Tangible assets	—	—	—	—	—
D.2. Other Assets	—	—	—	—	—
Total 30/6/21	66,601	65,929	(19,238)	46,691	513
Total 30/6/20	65,925	65,273	(17,793)	47,480	1,437

The table includes properties originating from the enforcement of leasing contracts by SelmaBipiemme. Such properties are booked, to the consolidated accounts and the individual financial statements of SelmaBipiemme itself, on the basis of their characteristics and in accordance with the internal procedures, as tangible assets under IAS40 or IAS2. In very few instances they are classified as core properties, whereas IFRS5 is not applied as the conditions provided for in this standard do not apply.

B. Exposures distribution and concentration

B.1 Prudential consolidation - Cash and off-balance sheet exposures to banks 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)	414	(8,672)	—	—	72,143	(38,116)	380,780	(391,454)
- of wich: forborne exposures	—	—	—	*(6,636)*	—	—	*10,295*	*(20,948)*	*1,298*	*(80,557)*
A.2 Unlikely to pay	735	(511)	2,310	(1,203)	—	—	174,958	(111,342)	221,912	(340,729)
- of wich: forborne exposures	—	—	*150*	*(190)*	—	—	*134,070*	*(82,549)*	*123,577*	*(153,018)*
A.3 Overdue exposures (NPLs)	1,133	(77)	246	(125)	—	—	8,965	(4,884)	80,324	(140,074)
- of wich: forborne exposures	—	—	—	—	—	—	*102*	*(108)*	*18,053*	*(38,347)*
A.4 Performing exposures	8,682,366	(11,506)	7,585,385	(22,738)	1,473,743	(4,936)	16,836,592	(106,439)	25,497,007	(525,800)
- of wich: forborne exposures	—	—	*17,381*	*(859)*	—	—	*204,855*	*(7,657)*	*517,944*	*(55,099)*
Total (A)	8,684,234	(12,238)	7,588,355	(32,738)	1,473,743	(4,936)	17,092,658	(260,781)	26,180,023	(1,398,057)
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	—	—	—	—	—	—	1,047	(34)	1,620	(150)
B.2 Performing exposures	3,216,399	(98)	8,182,414	(3,762)	1,218,160	(52)	10,803,489	(15,056)	2,420,994	(8,056)
Total (B)	3,216,399	(98)	8,182,414	(3,762)	1,218,160	(52)	10,804,536	(15,090)	2,422,614	(8,206)
Total (A+B) 30/6/21	11,900,633	(12,366)	15,770,769	—	2,691,903	(4,989)	27,897,194	(275,871)	28,602,637	(1,406,263)
Total (A+B) 30/6/20	8,147,436	(10,837)	13,469,495	(27,709)	2,276,800	(3,423)	25,324,466	(358,395)	27,333,580	(1,281,992)

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	449,431	(434,019)	2,816	(4,098)	477	(83)	76	(15)	537	(171)
A.2 Unlikely to pay	334,362	(414,583)	39,518	(23,135)	19,123	(1,679)	5,510	(13,734)	1,402	(654)
A.3 Overdue exposures (NPLs)	89,663	(144,870)	956	(269)	49	(21)	—	—	—	—
A.4 Performing exposures	44,515,237	(607,095)	11,635,501	(40,969)	1,787,188	(17,001)	288,152	(1,386)	375,272	(32)
Total (A)	45,388,693	(1,600,567)	11,678,791	(68,471)	1,806,837	(18,784)	293,738	(15,135)	377,211	(857)
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	2,020	(150)	—	—	—	—	647	(34)	—	—
B.2 Performing exposures	9,801,633	(14,918)	12,984,607	(10,970)	546,823	(1,084)	938,725	—	351,508	—
Total (B)	9,803,653	(15,068)	12,984,607	(10,970)	546,823	(1,084)	939,372	(34)	351,508	—
Total (A+B) 30/6/21	55,192,346	(1,615,635)	24,663,398	(79,441)	2,353,660	(19,868)	1,233,110	(15,169)	728,719	(857)
Total (A+B) 30/6/20	49,778,578	(1,591,223)	20,831,449	(57,580)	2,884,823	(19,460)	226,477	(9,176)	553,650	(1,494)

B.3 Prudential consolidation - Cash and off-balance sheet exposures to banks 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	—	—	—	—	—	—	—	—	—	—
A.2 Unlikely to pay	—	—	—	—	—	—	—	—	—	—
A.3 Overdue exposures (NPLs)	—	—	—	—	—	—	—	—	—	—
A.4 Performing exposures	2.557.155	(5.788)	3.660.587	(444)	351.789	(72)	1.041	(4)	14.639	—
Total (A)	2.557.155	(5.788)	3.660.587	(444)	351.789	(72)	1.041	(4)	14.639	—
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	—	—	—	—	—	—	—	—	—	—
B.2 Performing exposures	1.170.672	—	10.663.589	—	2	—	—	—	—	—
Total (B)	1.170.672	—	10.663.589	—	2	—	—	—	—	—
Total (A+B) 30/6/21	3.727.827	(5.788)	14.324.176	(444)	351.791	(72)	1.041	(4)	14.639	—
Total (A+B) 30/6/20	3.824.416	(5.267)	12.742.803	(310)	50.548	(20)	1.655	(3)	58	—

B.4a Credit risk indicators

	30/6/21	30/6/20
a) Gross bad loans/total loans	1.63%	1.51%
b) NPLs/cash exposures	3.33%	4.18%
c) Net bad loans/regulatory capital [1]	5.08%	4.82%

[1] This item includes the NPL portfolios acquired and held by MBCredit Solutions, which increased from €359m to €384m.

B.4b Gross NPL Ratio[27]

(€m)

	30/6/21	30/6/20
	Gross value (prudential scope of consolidation)	
Loans	48,124.4	46,028.4
NPLs	1,597.1	1,954.2
Loans and advances to customers	49,721.5	47,982.6
NPLs purchased by MBCredit Solutions	384.1	358.8
Treasury financial assets *	7,912.5	9,105.6
Total Loans and Receivables (FINREP)	58,018.1	57,447.0
Gross NPL ratio Finrep %	*3.4%*	*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 30 June 2021 the Mediobanca Group reported a Finrep gross NPL ratio of 3.4%, well below the materiality threshold of 5%, and far better than at end-June 2020 (4%), confirming the Mediobanca Group as one of the best players on the national[28] and European market.[29] The Finrep gross NPL ratio calculated without the NPLs acquired by MBCredit Solutions was 2.8% (30/6/20: 3.4%).

B.4c Large risks

	30/6/21	30/6/20
a) Book value	9,925,906	9,641,791
b) Weighted value	8,519,056	7,510,106
c) No. of exposures	9	6

As at 30 June 2021, aggregate exposures (including market risks and equity investments) to a total of nine groups of clients (three more than last year) were in excess of 10% of Tier 1 capital, for a gross exposure of €9.9bn (€8.5bn, taking into account guarantees and weightings), higher than the respective figures at end-June 2020 (€9.6bn and €7.5bn respectively). In detail the nine exposures

[27] The EBA Risk Dashboard defines the way according to which the Gross NPL ratio should be calculated: it is the ratio between the gross NPLs book value (loans and advances) and total loans and advances. Source: EBA *Risk Dashboard, Risk Indicators in the Statistical Annex* (AQT_3.2).

[28] Source: EBA Transparency exercise, June 2020, EBA Risk Dashboard 1Q 2021.

[29] The weighted average NPL ratio in the sample of banks considered by the EBA is 2.5% in 1Q 2021 (source: EBA Risk Dashboard). The same ratio rises to 4.4% for the "medium size class" banks (total assets of between €17.3bn and €156.3bn)€ to which the Mediobanca Group belongs. 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.

are to three industrial groups, one insurance company and five banking groups. The increased number and value of risks defined as large is due exclusively to the stricter definition limit coming into force (i.e. 10% of Tier 1 capital rather than total capital); if there had been no change in definition the Bank would have recorded a reduction in large risks compared to 30 June 2020.

C. Securitizations

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The Group has portfolio of securities deriving from securitizations by other issuers totalling €360m, €231.2m of which as part of the banking book (all HTC recognized at amortized cost) and €128.8m as part of the trading book €73.4m of which in relation to a negative basis strategy).

The ABS market maintained its positive trend, in line with the general recovery phase and the gradual return to normality post-pandemic. Spreads therefore benefited from falling default rates, helped by the dual effect of economic growth on the one hand and the ECB and individual European governments' support measures on the other. Despite the clearly improving scenario, new business in ABS remained sluggish, while the Consumer Banking and automotive loans segments were more buoyant as they are liked more directly to the reopening of the economy.

During the twelve months under review, senior securities in the banking book increased from €203m to €231.2m, due to a strong increase in positions in CLOs (from €22.1m to €155.2m, almost half of which invested in the senior tranches of Cairn CLO XII and CLO XIII), replacing the reduced exposure to deals with NPLs as underlying (down from €81.9m to €47.8m) and those with performing loans as underlying (down €98.9m to €28.3m). Of these positions, the share of junior securities remains very low, at €0.5m, and the exposure to mezzanine tranches has also decreased (from €69.5m to €15.6m), with a repositioning in favour of senior securities (up from €133m to €215.1m). The CLO component stands at €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 €198,000.

Holdings included in the trading book, none of which involve junior, securities, amount to €128.8m, much higher than last year (€28.9m), with a strong increase in mezzanine securities (from €28.9m to €99.6m), €73.4m of which attributable to a negative basis strategy.

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 gross investments subscribed to of €30m and €30.4m respectively;[30]
- Italian Recovery Fund, a closed-end alternative investment fund (AIF) incorporated under Italian law and managed by DeA Capital SGR S.p.A. which is currently invested in four securitizations (Valentine, Berenice, Cube, Este and Sunrise) with Italian banks' NPLs as the underlying instrument; the €30m commitment has to date been drawn as to €29m;
- 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 has senior tranches of Italian NPLs as the underlying instrument, with an aggregate NAV of €115.4m, €77.3m of which refer to Mediobanca.

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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)	46,920	—	495	(529)	350	67
B. Italy Consumer ABS	20,392	12	3,000	—	—	—
C. Netherlands Performing Loans	11,582	32	7,432	47	174	(13)
D. Germany Consumer ABS	—	—	10,533	5	—	—
E. Italy Performing Loans	6,436	44	3,256	3	—	—
F. Other receivables	158,914	(2)	90,165	1,371	—	—
Total 30/6/21	244,244	86	114,881	897	524	54
Total 30/6/20	129,025	—	85,244	(2,856)	470	(368)

[30] As at 30 June 2021, as stated in the information on structured entities not consolidated in accounting terms, the holdings in the CLI I and CLI II funds were booked to the accounts at €21.8m and €24.3m respectively.

C.3 Prudential consolidation - Interests in vehicle companies

Name	Head office	Type of consolidation	Assets			Liabilities		
			Receivables	Debt securities	Other items	Senior	Mezzanine	Junior
Quarzo 7 - Quarzo S.r.l.	Milan	Accounting	1,386,744	—	120,063	1,215,000	—	290,900
Quarzo 8 - Quarzo S.r.l.	Milan	Accounting	315,988	—	67,811	224,872	—	156,735
Quarzo 9 - Quarzo S.r.l.	Milan	Accounting	556,915	—	98,104	532,250	—	120,915
Quarzo 10 - Quarzo S.r.l.	Milan	Accounting	1,860,637	—	149,640	1,760,000	—	248,800
Quarzo CQS S.r.l. (2018)	Milan	Accounting	207,319	—	20,906	165,997	—	52,000
MB Funding Lux S.A.	Luxembourg	Accounting	1,068,430	—	—	950,186	—	—

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

Servicer	Vehicle company	Securitized assets (30/6/21)		Receivables collected during the year		Percentage share of securities repaid (30/6/21)					
						Senior		Mezzanine		Junior	
		Non performing	Performing	Non performing	Performing	Non performing	Performing	Non performing	Performing	Non performing	Performing
Compass	Quarzo CQS (2018)	200,384	11,243	—	160,355	—	72.00	—	—	—	—
Compass	Quarzo Srl (Q6)	—	—	—	930,351	—	100.00	—	—	—	—
Compass	Quarzo Srl (Q7)	1,413,741	87,551	—	897,627	—	—	—	—	—	—
Compass	Quarzo Srl (Q8)	319,709	32,512	—	253,363	—	70.00	—	—	—	—
Compass	Quarzo Srl (Q9)	572,006	28,479	—	330,646	—	32.00	—	—	—	—
Compass	Quarzo Srl (Q10)	1,913,063	44,906	—	902,616	—	—	—	—	—	—

C.6 Prudential consolidation – Consolidated securitization-related SPVs

Quarzo S.r.l. (Compass Banca)

This SPV currently has four securitizations outstanding with performing loans granted by Compass Banca as the underlying instrument (Compass has subscribed for the entire number of junior securities), which are ceded on a revolving basis for a period of between 6 and 66 months, at the end of which the amortization phase of the securitization may begin. In some of the deals Mediobanca S.p.A. or another of the Group legal entities have subscribed to the senior notes.

The Quarzo 2016 securitization was redeemed early in May 2021.

The four deals outstanding are summarized in the table below:

Issue date	Senior		Junior	Credits transferred in the year	From the repayment date
	A1	A2			
15/02/17	—	1.215	285	780	
06/12/18	600	147	153	—	01/07/19
25/11/19	600	183	117	—	01/07/20
17/04/20	—	1.760	240	718	

Legend:
A1: issued on the market
A2: subscribed to by Mediobanca S.p.A. and/or other Group companies.

Quarzo CQS S.r.l. (Compass Banca, formerly Futuro)

This SPV has just one securitization outstanding, executed in 2018, with Compass loans (salary-backed finance granted by the former Futuro) as the underlying instrument ceded in a single, non-revolving tranche. The senior securities (originally issued in a total amount of €598m, with €166m currently in issue) are listed on the Dublin stock exchange and sold on the market, while the junior securities (€52m) have been subscribed for entirely by Futuro, which has since been merged into Compass Banca[31].

MB Funding Lux S.A. (Mediobanca)

This SPV was set up by Mediobanca S.p.A. in order to execute secured transactions with a corporate loans originated by Mediobanca International (Luxembourg) SA or Mediobanca S.p.A. as the underlying instrument, of which it retains the credit risk. The notes, which form part of the parent company's "Medium-Term Note" programme of issuance, have been subscribed for entirely by other Group legal entities and used as collateral for transactions on the interbank market.

[31] Please see Part A – Section 3 – Area and methods of consolidation of this financial statement.

The five transactions have an aggregate nominal value of €940m and are made up as follows:

Issue date	Nominal Value	Refund date
25/06/17	200	25/06/22
20/12/17	100	20/12/24
30/10/18	400	30/10/23
15/03/19	140	15/03/24
11/12/20	100	11/06/26

There is also an unsecured issue of €10m expiring in June 2023.

* * *

Accounts between the originator and the SPVs during the period under review were as follows:

Issue date	Nominal Value	Rate	Maturity date	Underlying assets	Additional return maturata
Quarzo CQS S.r.l.	—	168.2	0.5	1.1	18.9
Quarzo S.r.l.	1,499.5	3,340.5	11.6	37.9	446.2
MB Funding Lux	411.9	385.3	—	—	2.4

D. Disposals

A. Financial assets sold but not entirely derecognized

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D.1 Prudential consolidation - Financial assets sold entirely recognized and related financial liabilities: book values

	Financial assets sold as a whole				Passività finanziarie associate		
	Book value	*of which: subject to securitization transactions*	*of which: subject to sale contracts with repurchase agreement*	*of which deteriorated*	Book value	*of which: subject to securitization transactions*	*of which: subject to sale contracts with repurchase agreement*
A. Financial assets held for trading	1,672,058	—	1,672,058	X	1,611,074	—	1,611,074
1. Debt securities	1,218,067	—	1,218,067	X	1,165,488	—	1,165,488
2. Equities	453,991	—	453,991	X	445,586	—	445,586
3. Loans	—	—	—	X	—	—	—
4. Derivatives	—	—	—	X	—	—	—
B. Other financial assets that are duly measured at fair value	—	—	—	—	—	—	—
1. Debt securities	—	—	—	—	—	—	—
2. Equities	—	—	—	X	—	—	—
3. Loans	—	—	—	—	—	—	—
C. Financial assets designated at fair value	—	—	—	—	—	—	—
1. Debt securities	—	—	—	—	—	—	—
2. Loans	—	—	—	—	—	—	—
D. Financial assets measured at fair value with an impact on overall comprehensive income	28,280	—	28,280	—	26,953	—	26,953
1. Debt securities	28,280	—	28,280	—	26,953	—	26,953
2. Equities	—	—	—	X	—	—	—
3. Loans	—	—	—	—	—	—	—
E. Financial assets measured at amortized cost	2,585,443	*2,531,488*	53,955	*43,420*	1,588,255	*1,532,367*	55,888
1. Debt securities	12,034	—	12,034	—	11,052	—	11,052
2. Loans	2,573,409	*2,531,488*	41,921	*43,420*	1,577,203	*1,532,367*	44,836
Totale 30/6/21	4,285,781	*2,531,488*	1,754,293	*43,420*	3,226,282	*1,532,367*	1,693,915
Totale 30/6/20	8,239,823	*5,121,867*	3,117,956	*126,463*	5,559,364	*2,778,168*	2,781,196

D.3 Prudential consolidation - Disposals related to financial liabilities with repayment exclusively based on assets sold and not fully derecognized: fair value

	Fully booked	Partially booked	Total	
			30/6/21	30/6/20
A. Financial assets held for trading	1,672,058	—	1,672,058	1,866,258
1. Debt securities	1,218,067	—	1,218,067	1,539,228
2. Equities	453,991	—	453,991	327,030
3. Loans	—	—	—	—
4. Derivatives	—	—	—	—
B. Other financial assets that are duly measured at fair value	—	—	—	—
1. Debt securities	—	—	—	—
2. Equities	—	—	—	—
3. Loans	—	—	—	—
C. Financial assets designated at fair value	—	—	—	—
1. Debt securities	—	—	—	—
2. Loans	—	—	—	—
D. Financial assets measured at fair value with an impact on overall profitability	28,280	—	28,280	383,482
1. Debt securities	28,280	—	28,280	383,482
2. Equities	—	—	—	—
3. Loans	—	—	—	—
E. Financial assets measured at amortized cost (fair value)	3,021,930	—	3,021,930	6,918,051
1. Debt securities	12,293	—	12,293	659,771
2. Loans	3,009,637	—	3,009,637	6,258,280
Total financial assets	4,722,268	—	4,722,268	9,167,791
Total associated financial liabilities	3,241,261	—	X	X
30/6/21	1,481,007	—	4,722,268	X
30/6/20	3,540,265	—	9,167,791	11,110,024

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

QUALITATIVE INFORMATION

D.4 Prudential consolidation - covered bond issues

Mediobanca Covered Bond Srl, an SPV incorporated under Article 7-bis of Italian Law 130/99, is owned as to 90% by CheBanca! and as to 10% by SPV Holding.

At a Board meeting held in December 2020, the Bank's Directors approved a resolution to renew the programme of covered bond issuance for a further ten years compared to the original expiry date (December 2021) 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;
- Mediobanca Covered Bond S.r.l. (SPV) as non-recourse recipient of the assets and guarantor of the covered bonds.

Six deals are outstanding under the current programme (one of which executed at the start of the current financial year), all rated AA- by Fitch, with a nominal value of €4,500m placed with institutional investors and covered by assets totalling €6,087.4m, as follows:

Issue date	Nominal Value	Rate	Maturity date
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
Jan-21	750	fix: 0.01%	Feb-31
	4,500		

During the twelve months under review, assets were sold by CheBanca! to Mediobanca Covered Bond in an amount of €952.4m, with assets bought back totalling €33.1m.

* * *

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. The Group has also developed a portfolio model to calculate the economic capital for credit risk, which allows concentration and diversification effects (geographical and sector) to be taken into consideration. For further details please see “Section 1.1 Credit risk” in Part E of the Notes to the Accounts.

1.2 MARKET RISKS

1.2.1 INTEREST RATE RISK AND PRICE RISK - SUPERVISORY TRADING BOOK

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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 schanges 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. The expected shortfall on the set of positions subject to VaR calculation is also calculated, by means of historical simulation; this represents the average potential losses over and beyond the level of confidence for the VaR. 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 twelve months under review saw a reduction in volatility for all asset classes, following the highs recorded in spring 2020 following the outbreak of the Covid-19 pandemic. This allowed a reduction in the risk indicator readings, confirmed by the absence of stop losses and breaches of the limits in terms of VaR in the course of the twelve months. The aggregate value-at-risk on the trading book ranged from a low of €2.7m at end-September 2020 to a high of €6.4m at the start of the financial year, with the average reading almost unchanged versus last year (at approx. €4.2m). From the high recorded at the start of July 2020, VaR gradually reduced, first to being stably between €6m and €7m, then declining as far as €3m at end-January 2021. This is due to a reduction in the outright position in the proprietary arbitrage portfolio (the most substantial being in the months of July and August 2020), plus a reduced exposure to short-term US interest rates. The continued growth in the mark-to-market equity-linked certificates business, and the related DVA hedging policies, along with the high volatility on credit and equity markets (albeit less high than last year) have nonetheless ensured that VaR remains at high levels.

Since February 2021 VaR has gradually started to rise again, with spikes of €6m, stabilizing at around €5m. This increase reflects the higher exposure to interest rates (US short-term and Eurozone interest rates linked to the yields on German and Italian government bonds), and a higher equity exposure both in the proprietary arbitrage portfolio and versus US equities. The point-in-time reading for VaR as at 30 June 2021 was €4.8m (€5.8m).

Like VaR, the expected shortfall also showed an average reading in line with last year, at around €5.5m.

The results of the daily back-testing on the trading book (based on comparison with the theoretical profits and losses) showed only one departure from VaR, which occurred in July 2020 as a result of losses posted in the proprietary arbitrage portfolio.

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

(€'000)

Risk factors (€ '000)	12 mths ended 30/6/21				12 mths ended 30/6/20
	30/6	**Min**	**Max**	**Avg.**	**Avg.**
Interest rates	1,319	451	4,186	1,886	2,026
Credit	992	890	3,622	1,411	1,750
Share prices	3,925	1,508	8,911	3,412	3,291
Exchange rates	298	285	1,245	671	718
Inflation	100	100	828	502	256
Volatility	4,542	1,338	5,635	2,820	1,828
Diversification effect *	*(6,366)*	—	—	*(6,521)*	*(5,654)*
Total	4,810	2,724	6,448	4,181	4,205
Expected Shortfall	***7,301***	***3,583***	***6,982***	***5,482***	***5,385***

* 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 trading desks. Each desk also has limits in terms of sensitivities to movements in the various risk factors (1 basis point for interest rates and credit spreads, 1 percentage point for equities, exchange rates and share volatility) which are monitored daily. Compared to last year there was a significant reduction in the average equity delta, which decreased from €738,000 to minus €180,000 (due primarily to the lower outright positions in the proprietary arbitrage portfolio, and to the increase in US short equity positions), as well as increased sensitivity to interest rates (US and Eurozone). The other sensitivities maintained a similar average level to last year, despite recording pronounced fluctuations in the course of the twelve months.

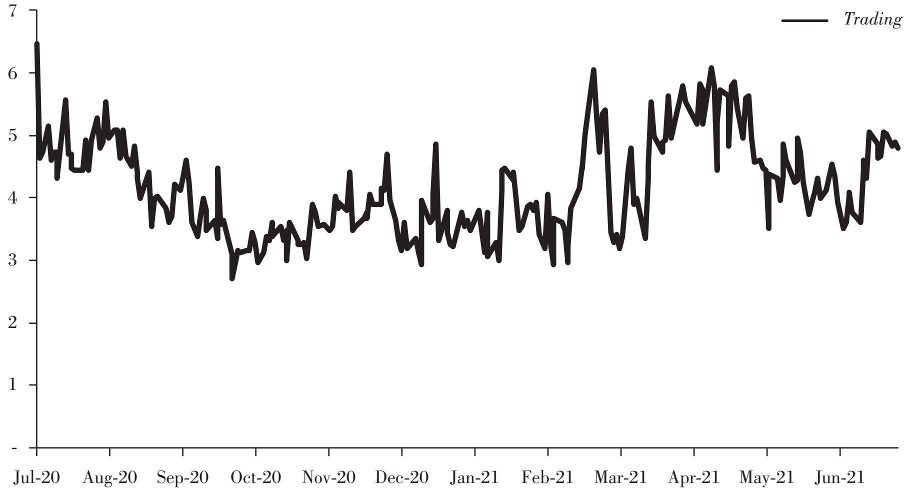
Table 2: Overview of trends in main sensitivities for trading book

(€'000)

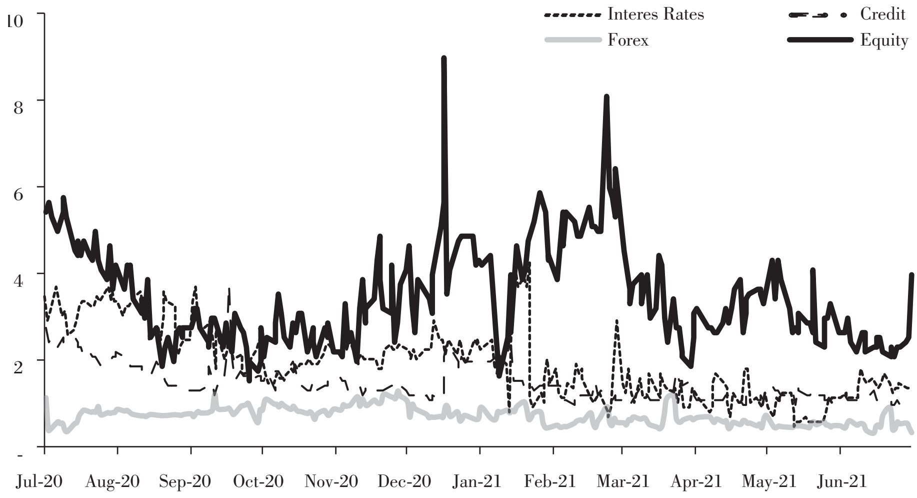
Risk factors (€ '000)	12 mths ended 30/6/21				12 mths ended 30/6/20
	30/6	**Min**	**Max**	**Avg.**	**Avg.**
Equity delta (+1%)	(378,742)	(803,970)	415,897	(180,824)	738,132
Equity vega (+1%)	1,040,027	211,980	1,629,442	991,177	858,604
Interest rate delta(+1bp)	117,109	(158,463)	585,088	189,395	23,621
Inflation delta (+1 bp)	2,907	–	88,812	50,020	34,296
Exchange rate delta (+1%) *	256,756	(187,044)	706,087	325,897	373,354
Credit delta (1 bp)	571,770	170,210	806,941	584,124	584,597

* Refers to the Euro gaining versus other currencies.

Trading book VaR trend



VaR Components Trend by Asset Class (Trading)



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QUANTITATIVE INFORMATION

1. Supervisory trading book: financial assets and liabilities in the form of cash and financial derivatives by outstanding duration (repricing date)

Type/residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets	1,597	391,053	315,742	676,989	1,944,627	414,161	996,892	—
1.1 Debt securities	1,597	391,053	315,742	676,989	1,944,627	414,161	996,892	—
– with early redemption option	—	—	—	—	—	—	—	—
– others	1,597	391,053	315,742	676,989	1,944,627	414,161	996,892	—
1.2 Other assets	—	—	—	—	—	—	—	—
2. Cash liabilities	—	2,848	306,290	156,236	2,673,347	510,395	152,510	—
2.1 Debt securities in issue	—	—	—	—	—	—	—	—
2.2 Other liabilities	—	2,848	306,290	156,236	2,673,347	510,395	152,510	—
3. Financial derivatives								
3.1 With underlying securities								
– Options								
+ long positions	—	100,000	—	—	—	—	—	—
+ short positions	—	100,000	—	—	—	—	—	—
– Others								
+ long positions	—	213,621	70,390	145,545	190,894	57,760	—	—
+ short positions	—	213,621	70,390	145,545	190,894	57,760	—	—
3.2 Without underlying securities								
– Options								
+ long positions	—	69,683,396	44,306,309	1,145,989	3,998,461	2,344,225	387,118	—
+ short positions	—	69,683,396	44,306,309	1,145,989	3,998,461	2,344,225	387,118	—
– Others								
+ long positions	542,915	16,617,443	8,358,501	9,266,285	16,186,839	5,190,037	2,429,001	—
+ short positions	702,915	21,839,350	9,216,955	3,025,923	16,186,839	5,190,037	2,429,001	—

2. Supervisory trading book: exposures in equities and UCITS

Type of exposure/Amounts	Book value		
	Level 1	Level 2	Level 3
A. Equities [1]			
A.1 Shares	2,078,595	—	65,433
A.2 Innovative equity instruments	—	—	—
A.3 Other equity instruments	—	—	—
B. UCITs units			
B.1 Italian	—	—	323
- harmonized open	—	—	—
- non-harmonized open	—	—	—
- closed	—	—	323
- reserved	—	—	—
- speculative	—	—	—
B.2 Other EU states	119,205	—	—
- harmonized	16,094	—	—
- non-harmonized open	—	—	—
- non-harmonized closed	103,111	—	—
B.3 Non-EU states	—	—	—
- open	—	—	—
- closed	—	—	—
Total	2,197,800	—	65,756

[1] Net mismatch between trading assets and technical shortfalls booked as trading liabilities: over 94% of the net exposure is to EU member states.

1.2.2 INTEREST RATE RISK AND PRICE RISK - BANKING BOOK

QUALITATIVE INFORMATION

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

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

All the scenarios present a floor set by the EBA guidelines (EBA/GL/2018/02) at minus 1% on the demand maturity with linear progression up to 0% at the twenty-year maturity.

For both sensitivities, the balance-sheet items have been treated based on their contractual profile, apart from current account deposits for retail clients, (which have been treated on the basis of proprietary behavioural models) and consumer credit items and mortgages (which reflect the possibility of early repayment).

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

With reference to the Group's banking book positions at 30 June 2021, in the event of a parallel and simultaneous 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 rises and the long part falls ("flattener"). In this scenario, estimated net interest income would reduce by €84m, due chiefly to the impact on Compass (€10m) and Mediobanca (€90m), against an increase for CheBanca! (€15m). Last year the highest reduction was €22m, in a "short down" scenario.

The data above has been summarized in the following table:

(€m)

Data at 30/6/21	***Banking Book***					
	Maximum level scenario	**Group**	**Mediobanca S.p.A.**	**CheBanca!**	**Compass**	**Others**
Net interest income sensitivity	Parallel Down	9	38	(10)	(7)	(12)
Discounted value of expected cash flows sensitivity	Flattener	(84)	(90)	15	(10)	1

At Group level, the values obtained in both scenarios continue to remain within the limits set by the Group policy on managing interest rate risk on the banking book, which are respectively 11.5% (net interest income sensitivity/ estimated Group net interest income) and 3.5% (economic value sensitivity/ CET1).

Hedging

Hedges are intended to neutralize possible losses that may be incurred on a given asset or liability, due to the volatility of a certain financial risk factor (interest rate, exchange rate, credit or some other risk parameter), through the gains that may be realized on a hedge instrument which allow the changes in fair value or cash flows to be offset. For fair value hedges in particular, the Group seeks to minimize the financial risk on interest rates by bringing the entire interest-bearing exposure in line with Euribor (generally Euribor 3 months).[32]

[32] 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.

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.

The different 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.

Counterparty risk

Counterparty risk generated by market transactions with clients or institutional counterparties is measured in terms of potential future market value. As far as regards derivatives and short-term loan collateralization products (repos and securities lending), the calculation is based on determining the maximum potential exposure (assuming a 95% confidence level) 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 IFRS13, the fair value incorporates the effects of the counterparty's credit risk (CVA) and Mediobanca's credit risk (DVA) based on the future exposure profile of the aggregate of such contracts outstanding.

QUANTITATIVE INFORMATION

1. Banking book financial assets and liabilities by outstanding duration (repricing date)

Type	On demand	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Not specified
1. Cash assets	9,134,143	19,600,851	5,865,880	3,306,040	15,201,751	4,162,866	3,560,169	162
1.1 Debt securities	—	769,500	623,756	983,156	3,533,621	984,190	5,611	—
– with early repayment option	—	—	—	—	—	—	—	—
– others	—	769,500	623,756	983,156	3,533,621	984,190	5,611	—
1.2 Loans to banks	1,764,901	1,867,247	443,089	77,921	523,674	—	247,771	60
1.3 Loans to customers	7,369,242	16,964,104	4,799,035	2,244,963	11,144,456	3,178,676	3,306,787	102
– current accounts	1,286,187	445,928	—	—	—	—	—	—
– other loans	6,083,055	16,518,176	4,799,035	2,244,963	11,144,456	3,178,676	3,306,787	102
– with early repayment option	2,821,122	3,061,915	995,959	1,831,765	8,967,780	2,925,374	3,246,681	—
– others	3,261,933	13,456,261	3,803,076	413,198	2,176,676	253,302	60,106	102
2. Cash liabilities	20,986,445	13,503,882	1,984,803	5,418,410	13,907,059	2,374,251	945,273	—
2.1 Due to customers	19,793,429	4,019,918	1,110,015	1,939,765	173,988	55,555	3,318	—
– current accounts	17,572,161	1,883,590	—	—	—	—	—	—
– other amounts due	2,221,268	2,136,328	1,110,015	1,939,765	173,988	55,555	3,318	—
– with early repayment option	—	—	—	—	—	—	—	—
– others	2,221,268	2,136,328	1,110,015	1,939,765	173,988	55,555	3,318	—
2.2 Due to banks	1,192,082	3,165,412	234,827	102,828	8,004,431	110	161,413	—
– current accounts	417,415	—	—	—	—	—	—	—
– other amounts due	774,667	3,165,412	234,827	102,828	8,004,431	110	161,413	—
2.3 Debt securities	934	6,318,552	639,961	3,375,817	5,728,640	2,318,586	780,542	—
– with early repayment option	—	—	—	—	—	—	—	—
– others	934	6,318,552	639,961	3,375,817	5,728,640	2,318,586	780,542	—
2.4 Other liabilities	—	—	—	—	—	—	—	—
– with early repayment option	—	—	—	—	—	—	—	—
– others	—	—	—	—	—	—	—	—
3. Financial derivative products								
3.1 With underlying securities								
– Options								
+ long positions	—	—	—	—	—	—	—	—
+ short positions	—	—	—	—	—	—	—	—
– Others								
+ long positions	—	—	—	—	—	—	—	—
+ short positions	—	—	—	—	—	—	—	—
3.2 Without underlying securities								
– Options								
+ long positions	—	—	—	—	1,189,896	114,606	1,007,809	—
+ short positions	—	—	—	—	1,189,896	114,606	1,007,809	—
– Others								
+ long positions	217,423	8,677,320	7,516,031	12,887,806	12,529,315	3,138,500	4,543,300	—
+ short positions	419,847	25,315,734	1,755,000	1,788,000	12,544,315	3,143,500	4,543,300	—
4. Other OTC trades	3,548,621	2,617,881	597,440	422,233	15,078,827	1,014,770	310,818	—
+ long positions	440,918	2,116,067	434,997	178,468	7,738,103	720,002	166,741	—
+ short positions	3,107,703	501,814	162,443	243,765	7,340,724	294,768	144,077	—

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

Type of exposure/Amounts	Book value		
	Level 1	Level 2	Level 3
A. Equities [1]			
A.1 Shares	132,496	—	90,897
A.2 Innovative equity instruments	—	—	—
A.3 Other equity instruments	—	—	169,600
B. UCITs units			
B.1 Italian	29,153	—	111,091
- harmonized open	24,673	—	—
- non-harmonized open	—	—	—
- closed	—	—	107,027
- reserved	—	—	—
- speculative	4,480	—	4,064
B.2 Other EU states	244,694	—	267,735
- harmonized	4,835	—	—
- non-harmonized open	—	—	77,308
- non-harmonized closed	239,859	—	190,427
B.3 Non-EU states	—	—	—
- open	—	—	—
- closed	—	—	—
Total	406,343	—	639,323

[1] Of which 41% Italian and 59% other UE member states.

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. 302 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.

The investment in RAM, in Swiss francs, is hedged by a bond issued in the same currency, and the exchange rate effect on both items is managed as a "net investment in a foreign operation", i.e. the exchange rate differences arising in connection with the asset item (goodwill) and the liability issued are recorded directly through a net equity reserve.

QUANTITATIVE INFORMATION

1. Assets/liabilities and derivatives by currency of denomination

Items	Currencies					
	US Dollar	Great Britain Pound	Japanese Yen	Swedish Krona	Swiss Franc	Other currencies
A. Financial assets	3,777,882	1,477,405	5,956	6,643	522,679	122,782
A.1 Debt securities	802,759	37,165	—	—	225,842	—
A.2 Equity securities	65,483	759,528	—	—	11,133	277
A.3 Due from banks	498,627	112,312	2,209	2,526	89,344	40,913
A.4 Due from customers	2,048,571	553,960	3,519	4,117	188,396	81,558
A.5 Other financial assets	362,442	14,440	228	—	7,964	34
B. Other assets	114,392	4,963	44	353	2,273	43,011
C. Financial liabilities	4,362,728	768,439	4,822	2,724	258,030	57,640
C.1 Due to banks	110,321	499,401	—	—	1,692	—
C.2 Due to customers	1,686,336	249,432	4,750	2,724	77,236	57,600
C.3 Debt securities in issue	2,220,268	15,325	—	—	174,129	—
C.4 Other financial liabilities	345,803	4,281	72	—	4,973	40
D. Other liabilities	113,743	4,938	42	353	2,273	43,008
E. Financial derivatives						
- Options						
+ Long positions	169,693	82,224	10,593	—	10,423	423
+ Short positions	230,716	117,085	9,941	—	11,842	472
- Other derivatives						
+ Long positions	4,838,278	613,161	271,466	5,354	1,039,622	138,689
+ Short positions	4,246,127	1,289,273	248,840	7,634	1,310,393	201,785
Total assets	8,900,245	2,177,753	288,059	12,350	1,574,997	304,905
Total liabilities	8,953,314	2,179,735	263,645	10,711	1,582,538	302,905
Difference (+/-)	(53,069)	(1,982)	24,414	1,639	(7,541)	2,000

2. Internal models and other methodologies used for sensitivity analysis

The development of the pandemic has been the factor that has affected the trend in exchange rate volatility more than any other. Volatility, and along with it, the Bank's overall forex VaR, declined last summer, when the pandemic seemed to be coming to an end, before climbing again in October 2020, and remaining at high levels to the end of December. VaR then fell again during the rest of the financial year, more or less stabilizing at between €5m and €6m. The average forex VaR was basically in line with the reading for last year, at €7m (€7.7m); while the point in time reading at 30 June 2021 was €7.8m (€11.8m).

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	30/6/21				30/6/20			
	Over the counter			Established markets	*Over the counter*			Established markets
	Central Counterparts	without central counterparties			Central Counterparts	without central counterparties		
		with clearing arrangements	without clearing arrangements			with clearing arrangements	without clearing arrangements	
1. Debt securities and interest rate	30,757,493	25,817,877	2,919,303	110,511,723	28,752,849	29,232,071	2,121,512	122,834,994
a) Options	—	5,534,985	626,316	110,236,307	—	7,096,081	260,000	120,846,902
b) Swap	30,757,493	14,951,514	2,292,987	—	28,752,849	19,590,946	1,861,512	—
c) Forward	—	475,648	—	—	—	389,044	—	—
d) Futures	—	—	—	275,416	—	—	—	1,988,092
e) Others	—	4,855,730	—	—	—	2,156,000	—	—
2. Equities and stock indexes	—	25,184,970	2,569,998	20,770,453	—	21,501,170	2,022,780	18,380,123
a) Options	—	23,349,514	906,280	20,299,618	—	19,718,025	603,365	17,881,937
b) Swap	—	1,718,307	—	—	—	1,665,996	—	—
c) Forward	—	117,149	—	—	—	117,149	—	—
d) Futures	—	—	—	470,835	—	—	—	498,186
e) Others[1]	—	—	1,663,718	—	—	—	1,419,415	—
3. Currencies and gold	—	12,072,530	1,170,726	—	—	8,208,828	741,884	—
a) Options	—	754,299	—	—	—	654,466	1,233	—
b) Swap	—	4,646,922	350,240	—	—	2,977,113	379,295	—
c) Forward	—	6,671,309	820,486	—	—	4,577,249	361,356	—
d) Futures	—	—	—	—	—	—	—	—
e) Others	—	—	—	—	—	—	—	—
4. Commodities	—	—	—	—	—	—	—	—
5. Other	—	—	—	—	—	—	—	—
Total	30,757,493	63,075,377	6,660,027	131,282,176	28,752,849	58,942,069	4,886,176	141,215,117

[1] Regards exclusively certificates issued.

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

Types of derivatives	Total 30/6/21				Total 30/6/20			
	Over the counter			Established markets	*Over the counter*			Established markets
	Central Counterparts	Without central counterparties			Central Counterparts	Without central counterparties		
		With clearing arrangements	Without clearing arrangements			With clearing arrangements	Without clearing arrangements	
1. Positive fair value								
a) Options	—	1,922,782	4,488	867,097	—	1,163,164	7,224	824,337
b) Interest rate swap	204	469,715	71,534	—	220	620,759	75,933	—
c) Cross currency swap	—	120,877	—	—	—	151,279	12,491	—
d) Equity swap	—	128,714	—	—	—	139,911	—	—
e) Forward	—	72,417	21,079	—	—	43,723	10,037	—
f) Futures	—	—	—	5,462	—	—	—	43,620
g) Others	—	—	—	—	—	—	—	—
Total	204	2,714,505	97,101	872,559	220	2,118,836	105,685	867,957
2. Negative fair value								
a) Options	—	1,880,057	7,586	1,072,720	—	1,050,845	16,385	1,232,182
b) Interest rate swap	64,850	393,202	20,280	—	133,085	440,477	14,253	—
c) Cross currency swap	—	101,024	9,785	—	—	113,339	—	—
d) Equity swap	—	1,918	—	—	—	25,574	—	—
e) Forward	—	167,397	17,304	—	—	139,099	3,522	—
f) Futures	—	—	—	20,127	—	—	—	10,490
g) Others[1]	—	—	1,652,285	—	—	—	1,196,624	—
Total	64,850	2,543,598	1,707,240	1,092,847	133,085	1,769,334	1,230,784	1,242,672

[1] Regards exclusively certificates issued.

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

Underlyings	Central Counterparts	Banks	Other financial companies	Other entities
Contracts not included in clearing agreement				
1) Debt securities and interest rate				
- notional value	X	40,000	1,203,811	1,675,492
- positive fair value	X	58,488	3,984	12,013
- negative fair value	X	47	20,006	1,431
2) Equities and stock indexes				
- notional value[1]	X	1,820,114	739,566	10,318
- positive fair value	X	5,352	5,960	4,460
- negative fair value[1]	X	1,664,426	5,502	182
3) Currencies and gold				
- notional value	X	563,906	3,443	603,378
- positive fair value	X	6,825	17	—
- negative fair value	X	1,298	1	14,349
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	30,757,493	10,395,354	10,013,469	5,409,053
- positive fair value	204	310,091	190,638	211,465
- negative fair value	64,850	323,620	322,553	34,326
2) Equities and stock indexes				
- notional value	—	13,463,109	9,907,396	1,814,466
- positive fair value	—	829,608	817,294	181,647
- negative fair value	—	897,447	786,793	21,031
3) Currencies and gold				
- notional value	—	6,570,926	3,040,794	2,460,810
- positive fair value	—	60,325	52,725	60,710
- negative fair value	—	112,163	28,840	16,825
4) Commodities				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
5) Others				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—

[1] Of which certificates with a nominal value of €1,663,718,000 and fair value of minus €1,652,285,000.

A.4 OTC financial derivatives: outstanding duration (notional values)

Underlying / residual	Up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
A.1 Financial derivative contracts on debt securities and interest rates	10,924,931	32,568,271	16,001,471	59,494,673
A.2 Financial derivative contracts on equity securities and stock indexes	10,214,620	16,974,006	566,342	27,754,968
A.3 Financial derivatives on currencies and gold	9,513,292	3,112,836	617,128	13,243,256
A.4 Financial derivatives on commodities	—	—	—	—
A.5 Other financial derivatives	—	—	—	—
Total 30/6/21	30,652,843	52,655,113	17,184,941	100,492,897
Total 30/6/20	26,410,448	47,552,333	18,618,315	92,581,096

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	4,058,005	14,988,621
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other[1]	224,545	—
Total 30/06/2021	4,282,550	14,988,621
Total 30/06/2020	4,093,895	22,413,129
2. Security sales		
a) Credit default products	2,153,060	14,920,620
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other[1]	—	—
Total 30/06/2021	2,153,060	14,920,620
Total 30/06/2020	2,635,022	22,442,171

[1] Regards exclusively certificates issued.

The column headed “Basket” includes the positions in credit indexes matched by positions on single names which go to make up the same index for the skew issues[33] (the arbitrage structures have a notional value of €12.8bn). The derivative embedded in the issues (€1.5bn) for the hedge buys is represented for the individual constituents, with notional value equal to the nominal value of the issues.

[33] Please see “Part B - Liabilities - Liabilities at amortized cost” of the present report.

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

Types of derivatives	30/6/21	30/6/20
1. Positive fair value		
a) Credit default products	319,914	187,200
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other	—	—
Total	319,914	187,200
2. Negative fair value		
a) Credit default products	355,787	246,146
b) Credit spread products	—	—
c) Total rate of return swap	—	—
d) Other[1]	237,018	172,228
Total	592,805	418,374

[1] Regards exclusively certificates issued.

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

	Central counterparts	Bank	Other financial companies	Other subjects
Contracts not covered by clearing agreements				
1) Purchase protection				
– notional value [1]	X	2,260,343	750,024	—
– positive fair value	X	7,383	3,263	—
– negative fair value [1]	X	238,830	2,129	—
2) protection sale				
– notional value	X	14,526	—	—
– positive fair value	X	2,214	—	—
– negative fair value	X	4,274	—	—
Contracts covered by clearing agreements				
1) Purchase protection				
– notional value	4,270,095	4,641,405	7,349,304	—
– positive fair value	—	4,418	7,438	—
– negative fair value	13,161	142,253	177,785	—
2) protection sale				
– notional value	4,112,454	5,456,859	7,489,840	—
– positive fair value	—	117,258	177,940	—
– negative fair value	3,672	8,041	2,661	—

[1] Of which certificates with a notional value of €224,545,000 and a fair value of minus €237,018,000.

B.4 OTC credit derivatives: outstanding duration (notional values)

Underlying/residual life	Up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
1 Hedges sales	1,610,366	15,364,544	98,769	17,073,679
2 Hedges purchases	1,771,570	17,313,766	185,835	19,271,171
Totale 30/06/2021	3,381,936	32,678,310	284,604	36,344,850
Totale 30/06/2020	1,634,072	48,948,201	1,001,945	51,584,218

1.3.2 ACCOUNTING HEDGES

QUANTITATIVE INFORMATION

A. Hedge financial derivatives

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

Underlying assets / Type of derivatives	30/6/21				30/6/20			
	Over the counter			Established markets	Over the counter			Established markets
	Central Counterparts	without central counterparties			Central Counterparts	without central counterparties		
		with clearing arrangements	without clearing arrangements			with clearing arrangements	without clearing arrangements	
1. Debt securities and interest rate	46,428,209	4,673,697	25,000	—	37,256,065	4,683,649	30,000	—
a) Options	—	2,312,311	—	—	—	2,025,181	—	—
b) Swap	46,428,209	2,361,386	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	—	695,101	—	—	—	313,449	—	—
a) Options	—	—	—	—	—	—	—	—
b) Swap	—	695,101	—	—	—	313,449	—	—
c) Forward	—	—	—	—	—	—	—	—
d) Futures	—	—	—	—	—	—	—	—
e) Others	—	—	—	—	—	—	—	—
4. Commodities	—	—	—	—	—	—	—	—
5. Other	—	—	—	—	—	—	—	—
Total	46,428,209	5,368,798	25,000	—	37,256,065	4,997,098	30,000	—

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

Types of derivatives	Positive and negative fair value								Change in the value used to calculate the ineffectiveness of the hedge	
	30/6/21				30/6/20				30/6/21	30/6/20
	Over the counter			Established markets	Over the counter			Established markets		
	Central Counterparts	Without central counterparties			Central Counterparts	Without central counterparties				
		With clearing arrangements	Without clearing arrangements			With clearing arrangements	Without clearing arrangements			
1. Positive fair value										
a) Options	—	15,847	—	—	—	5,093	—	—	—	—
b) Interest rate swap	268,119	22,821	493	—	416,547	42,396	318	—	114,713	238,804
c) Cross currency swap	—	1,090	—	—	—	365	—	—	—	—
d) Equity swap	—	—	—	—	—	—	—	—	—	—
e) Forward	—	—	—	—	—	—	—	—	—	—
f) Futures	—	—	—	—	—	—	—	—	—	—
g) Others	—	—	—	—	—	—	—	—	—	—
Total	268,119	39,758	493	—	416,547	47,854	318	—	114,713	238,804
Negative fair value										
a) Options	—	6,989	—	—	—	8,140	—	—	—	—
b) Interest rate swap	294,960	70,175	3,289	—	416,915	35,918	4,252	—	270,467	119,783
c) Cross currency swap	—	—	—	—	—	—	—	—	—	—
d) Equity swap	—	—	—	—	—	—	—	—	—	—
e) Forward	—	—	—	—	—	—	—	—	—	—
f) Futures	—	—	—	—	—	—	—	—	—	—
g) Others	—	—	—	—	—	—	—	—	—	—
Total	294,960	77,164	3,289	—	416,915	44,058	4,252	—	270,467	119,783

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

Underlyings	Central Counterparts	Banks	Other financial companies	Other entities
Contracts not included in clearing agreement				
1) Debt securities and interest rate				
- notional value	X	25,000	—	—
- positive fair value	X	493	—	—
- negative fair value	X	3,289	—	—
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	46,428,209	4,282,755	387,342	3,600
- positive fair value	268,119	34,670	3,998	—
- negative fair value	294,960	33,600	43,550	14
2) Equities and stock indexes				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
3) Currencies and gold				
- notional value	—	680,796	14,305	—
- positive fair value	—	1,067	23	—
- negative fair value	—	—	—	—
4) Commodities				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—
5) Others				
- notional value	—	—	—	—
- positive fair value	—	—	—	—
- negative fair value	—	—	—	—

A.4 OTC hedging financial derivatives: outstanding duration (notional values)

Underlying / residual	Up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
A.1 Financial derivative contracts on debt securities and interest rates	11,998,185	26,966,005	12,162,716	51,126,906
A.2 Financial derivative contracts on equity securities and stock indexes	—	—	—	—
A.3 Financial derivative contracts on currency and gold	295,355	178,527	221,219	695,101
A.4 Financial derivative on commodities	—	—	—	—
A.5 Other financial derivatives	—	—	—	—
Total 30/6/21	12,293,540	27,144,532	12,383,935	51,822,007
Total 30/6/20	9,529,277	22,202,984	10,550,902	42,283,163

C. Non-derivative hedging instruments

C.1 Hedging instruments other than derivatives, by accounting portfolio and hedge type

	Book value			Change in the value used to relieve the ineffectiveness of the hedge		
	Fair value hedges	Cash flow hedge	Foreign investments hedge	*Fair value hedges*	Cash flow hedge	Foreign investments hedge
Financial assets other than derivatives	—	—	—	—	—	—
of which: trading assets	—	—	—	—	—	—
of which: other assets mandatorily measured at fair value	—	—	—	—	—	—
of which: assets designated at fair value	—	—	—	—	—	—
Total 30/6/21	—	—	—	—	—	—
Total 30/6/20	—	—	—	—	—	—
Financial liabilities other than derivatives	—	—	137,731	—	—	2,102
Trading liabilities	—	—	—	—	—	—
Liabilities designated at fair value	—	—	—	—	—	—
Liabilities measured at amortized cost	X	X	137,731	—	—	2,102
Total 30/6/21	—	—	137,731	—	—	2,102
Total 30/6/20	—	—	142,552	—	—	5,116

D. Instruments hedged

D.1 Fair value hedges

	Specific hedges: book value	Specific hedges - net positions: balance sheet value of assets or liabilities (before offsetting)	Specific hedges			Generic hedges: book value
			Accumulated changes in fair value of hedging instrument	Ending of hedge: residual accumulated value of residual changes in fair value	Change in value used to measure hedging ineffectiveness	
A. Assets						
1. Financial assets measured at fair value with an impact on total profitability - hedges of:	895,276	—	50,749	—	41,775	—
1.1 Debt securities and interest rate	895,276	—	50,749	—	41,775	X
1.2 Equity securities and stock price indices	—	—	—	—	—	X
1.3 Currencies and gold	—	—	—	—	—	X
1.4 Credits	—	—	—	—	—	X
1.5 Other	—	—	—	—	—	X
2. Financial assets measured at amortized cost - hedges of:	10,080,034	—	419,412	—	126,313	—
1.1 Debt securities and interest rate	4,317,311	—	3,174	—	25,700	X
1.2 Equity securities and stock price indices	—	—	—	—	—	X
1.3 Currencies and gold	—	—	—	—	—	X
1.4 Credits	5,762,723	—	416,238	—	100,613	X
1.5 Other	—	—	—	—	—	X
Total 30/6/21	10,975,310	—	470,161	—	168,088	—
Total 30/6/20	8,707,895	—	342,941	—	163,572	—
B. Liabilities						
1. Financial liabilities measured at amortized cost - hedges of:	23,939,234	—	240,655	—	167,172	—
1.1 Debt securities and interest rate	23,939,234	—	240,655	—	167,172	X
1.2 Currencies and gold	—	—	—	—	—	X
1.3 Other	—	—	—	—	—	X
Total 30/6/21	23,939,234	—	240,655	—	167,172	—
Total 30/6/20	23,760,802	—	426,747	—	123,210	—

D.2 *Cash flow and foreign investment hedges*

	Change in value used to detect hedging ineffectiveness	Hedging reserves	Cessation of hedging: residual value of hedging reserves
A. Cash flows hedges			
1. Assets		—	—
1.1 Debt securities and interest rate	—	—	—
1.2 Equity securities and stock price indexes	—	—	—
1.3 Currencies and gold	—	—	—
1.4 Credits		—	—
1.5 Other	—	—	—
2. Liabilities	21,723	(16,032)	—
1.1 Debt securities and interest rate	21,723	(16,032)	—
1.2 Currencies and gold	—	—	—
1.3 Other	—	—	—
Total (A) 30/6/21	21,723	(16,032)	—
Total (A) 30/6/20	15,612	(30,571)	—
B. Foreign investments hedges	X	(5,660)	—
Total (A+B) 30/6/21	21,723	(21,692)	—
Total (A+B) 30/6/20	15,612	(37,621)	—

E. Effects of hedging taken through net equity

E.1 *Reconciliation of net equity constituents*

	Reserve hedging financial flows					Reserve hedging foreign investments				
	Debt securities and interest rate	Equity securities and stock indexes	Currencies and gold	Credits	Others	Debt securities and interest rate	Equity securities and stock indexes	Currencies and gold	Credits	Others
Opening balance	(30,571)	—	—	—	—	—	—	(7,050)	—	—
Changes in Fair Value (effective)	14,539	—	—	—	—	—	—	1,390	—	—
Transfer to P&L	—	—	—	—	—	—	—	—	—	—
of which: future transaction no-more expected	—	—	—	—	—	*X*	*X*	*X*	*X*	*X*
Other variations	—	—	—	—	—	—	—	—	—	—
of wich: transfer at initial book value of the hedged instruments	—	—	—	—	—	*X*	*X*	*X*	*X*	*X*
Closing balance	(16,032)	—	—	—	—	—	—	(5,660)	—	—

1.3.3 OTHER INFORMATION ON DERIVATIVE INSTRUMENTS (TRADING AND HEDGING)

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

	Central counterparties	Banks	Other financial companies	Other counterparties
A. Financial derivatives				
1) Debt securities and interest rates				
- notional amount	77,185,702	14,743,109	11,604,623	7,088,146
- positive fair value	268,323	403,743	198,620	223,477
- net negative fair value	359,810	360,555	386,109	35,770
2) Equity instruments and stock indexes				
- notional amount	—	15,283,223	10,646,962	1,824,785
- positive fair value	—	834,958	823,254	186,107
- net negative fair value	—	2,561,872	792,296	21,213
3) Currency and gold				
- notional amount	—	7,815,628	3,058,542	3,064,188
- positive fair value	—	68,217	52,765	60,710
- net negative fair value	—	113,461	28,841	31,174
4) Commodities				
- notional amount	—	—	—	—
- positive fair value	—	—	—	—
- net negative fair value	—	—	—	—
5) Other				
- notional amount	—	—	—	—
- positive fair value	—	—	—	—
- net negative fair value	—	—	—	—
B. Credit derivatives				
1) Hedge purchase				
- notional amount	4,270,095	6,901,749	8,099,328	—
- positive fair value	—	11,801	10,701	—
- net negative fair value	13,161	381,083	179,914	—
2) Hedge sale				
- notional amount	4,112,454	5,471,386	7,489,840	—
- positive fair value	—	119,472	177,940	—
- net negative fair value	3,672	12,316	2,661	—

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. This governance and 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 in the short and long term which is sufficient to cope with a prolonged period of stress (combining Bank-specific and systemic stress factors).

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.

To ensure that liquidity risk is managed based on integrated and consistent approach within the Group as a whole, strategic decisions are taken by the Board of Directors of Mediobanca S.p.A., to which the Policy assigns various important duties: definition and approval of the guidelines and strategic direction, responsibility for ensuring that the risk governance system is fully reliable, and monitoring the trends in liquidity and funding risk and the Group's Risk Appetite Framework over time.

The Group ALM Committee also discusses the issues most relevant to liquidity risk, defining the asset and liability structure and related risk of mismatch between them taken on, directing operations in line with the commercial and financial objectives set in the budget and the Group's Risk Appetite Framework.

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

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

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

- Group Treasury, which is responsible at Group level for managing liquidity, funding, collateral and the funds transfer pricing system;
- Business & Capital Planning, which supports Risk Management and Group Treasury in drawing up the Group Funding Plan which is consistent with the budget objectives;

– Risk Management which, in accordance with the principles of separation and independence, is responsible for the integrated second-level control of Group risks, current and future, in accordance with the Group's regulations and governance strategies.

The Group's Audit function assesses the functioning and reliability of the controls system which oversight the liquidity risk management, and verifies its adequacy and conformity to regulatory provisions. Evidence of these controls is reported, at least annually, to the statutory bodies.

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 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 tradable on the market, receivables eligible for refinancing with the ECB 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 and in a combined stress scenario of 45 days, thus effectively functioning as an early warning system if the limit is approached in normal conditions.

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

– Italy downgrade: 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 credit lines:
  – The counterbalancing capacity suffers a significant reduction in value;
– Name crisis: impacting negatively on the Group's ability to raise funds on the bond, retail and interbank markets. Higher outflows from on-demand deposits are also assumed, as is a delay in collections or failure to collect within the intraday time horizon:
  – The counterbalancing capacity suffers a reduction in value, and there are also effects on securities issued by Mediobanca (ABS and covered bonds);
– 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 3 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 twelve months under review, both indicators, short- and long-term, have shown that the Group has maintained an adequate level of liquidity at all times.

As from this year it has become mandatory to report the minimum Net Stable Funding Ratio (NSFR),[34] which complements the minimum requirement in terms of Liquidity Coverage Ratio (LCR).[35] Both these indicators are included in the Group Risk Appetite Framework, and have remained above internal and regulatory limits at all times.

The LCR reading at 30 June 2021 was 158%, while the average reading for the year was 159%, including the prudential estimate of "additional liquidity outflows for other products and services" in accordance with Article 23 of Commission Delegated Regulation (EU) No. 2015/61. The ratio reflected limited variations around its average reading, as a result of active management by Group Treasury in order to reach the target set by management. In a scenario of high liquidity levels, Group Treasury governed highly liquid assets by seeking to combine commercial strategies with the need to have a risk mitigation instrument available which is adequate in both quantitative and qualitative terms, in view of the macroeconomic scenario which is still threatened by the possibility of deteriorations in the Covid-19 situation. To strengthen its liquidity position and carry out its funding strategies, the Group has adhered to some of the monetary policy initiatives launched by the ECB last year (and subsequently extended) with a view to addressing the Covid-19 crisis. The positions relating to the T-LTRO II programme have been paid back, and the ECB T-LTRO III facility has been subscribed to and the position has been increased. While the opportunities offered by governments have been taken, the Group has also relied on its own established market position. By pursuing the Group's strategies, there has been a substantial increase in the Wealth Management division's deposits, which has enabled the cost of funding to be stabilized and funding sources to be diversified, in order to increase the Bank's resilience to protracted difficult situations and to extend the maturity profile of the funding itself. The success of these initiatives has been reflected in the impressive performance achieved in terms of the NSFR level.

[34] Directive (EU) No. 2019/878 (CRD V) and Regulation (EU) no. 2019/876 (CRR II).

[35] Commission Delegated Regulation (EU) No. 2015/61 as amended..

The Net Stable Funding Ratio at end-June 2021, calculated in accordance with the Regulation (EU) No. 2019/876, was 116%, significantly higher than the 109% recorded at 30 June 2020, calculated in accordance with the Basel Committee instructions. This increase is the direct result of the initiatives referred to above, and also derives from the application of the new regulation, which has enabled the Bank to take advantage of certain weightings, the broader definition of very highly liquid assets (introduced by the European Union via Commission Delegated Regulation (EU) No. 2015/61), and calculation of the commitments of assets linked to guaranteed bank issues.

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 time horizon of at least three years, with monitoring and half-yearly updates. A multi-risk stress test is also run as part of the same framework based on scenario analysis. A stress scenario is defined which may involve the Group, and its simultaneous impacts are assessed, taking into account the inter-relations between risks and the capability to adapt the business strategies defined in the budget to the changed scenario.

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

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

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

The foregoing sections show how stress testing is a fundamental instrument in managing liquidity risk. Liquidity risk is manifested less frequently but with significant impacts, and instruments are required to diagnose the Group's vulnerabilities over various time horizons. The results of the stress tests are therefore used principally in order to:

– Define the funding strategies for the Funding Plan and the planning activities more generally (liquidity profile of assets and liabilities);

– Assess the adequacy of the system of limits, and constitute significant events for the purpose of the regular process of revising the limits themselves;

– Provide support in assigning the actions to be taken in managing states of operating crisis or stress.

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.

Sparing use was made of debt securities as a source of funding during the twelve months, the Group confining itself to replacing transactions falling due (€3,100m, including buybacks on the market) with new issues (€2,800m), €750m of which secured in the form of a covered bond with CheBanca! mortgage receivables as the underlying, and €1,350m unsecured (€1,100m senior preferred, and €250m subordinated Tier 2). Conversely, greater use was made of the European Central Bank's facilities (use of the T-LTRO programme increased from €5,700m to €7,500m) and Wealth Management deposits (up from €23,807m to €25,210m, driven by CheBanca!, where deposits were up €1,643m, offsetting the slight reduction in Private Banking), with the objective of keeping the cost of funding under control.

As at 30 June 2021, the counterbalancing capacity totalled €11.2bn,[36] lower than last year (€13.3bn), chiefly due to the increased recourse to secured funding (T-TLRO and the new covered bond). The amount of securities eligible for refinancing with the ECB in order to obtain immediate liquidity amounts to €9bn. The balance of collateral held with the ECB is €11.6bn, of which approx. €4.1bn available immediately in cash but not used, and hence included in the counterbalancing capacity.

[36] This figure soon climbed again to approx. €12bn in the early days of July.

QUANTITATIVE INFORMATION

1 Financial assets and liabilities by outstanding life

Items/maturities	On demand	From 1 days to 7 days	From 7 days to 15 days	From 15 days to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Not specified
Cash assets	6,005,160	2,370,627	713,505	1,109,976	3,440,073	3,264,657	6,104,623	31,068,319	14,301,808	240,846
A.1 Government securities	875	788	1,638	39,066	17,777	359,805	867,185	4,861,535	1,639,981	—
A.2 Other debt securities	1,123	1,191	21,315	1,433	400,474	73,172	615,108	1,637,481	1,154,883	—
A.3 UCITS units	23,597	—	—	—	—	—	—	—	—	—
A.4 Loans and advances	5,979,565	2,368,648	690,552	1,069,477	3,021,822	2,831,680	4,622,330	24,569,303	11,506,944	240,846
– to banks	2,190,505	1,707,759	276,504	196,538	64,037	95,746	121,338	1,514,288	348,316	236,789
– to customers	3,789,060	660,889	414,048	872,939	2,957,785	2,735,934	4,500,992	23,055,015	11,158,628	4,057
Cash liabilities	20,975,636	2,098,810	595,675	1,010,848	1,384,015	2,161,858	9,154,088	21,720,148	4,121,552	—
B.1 Deposits and currentaccounts	19,963,975	2,073,539	240,120	609,105	776,030	839,528	1,270,728	179,040	5,000	—
– to banks	417,416	—	—	—	—	—	—	—	—	—
– to customers	19,546,559	2,073,539	240,120	609,105	776,030	839,528	1,270,728	179,040	5,000	—
B.2 Debt securities	934	20,086	212,520	16,554	188,562	516,837	2,847,408	10,956,462	3,792,233	—
B.3 Other liabilities	1,010,727	5,185	143,035	385,189	419,423	805,493	5,035,952	10,584,646	324,319	—
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
– long positions	535,373	418,909	29,271	1,008,394	2,462,877	563,704	1,516,368	2,136,204	824,077	—
– short positions	74,776	156,816	14,219	1,129,886	1,424,970	569,683	1,515,427	2,841,078	498,384	—
C.2 Financial derivatives without principal exchange of										
– long positions	3,489,096	8,300	10,983	3,961	39,561	53,251	124,965	—	—	—
– short positions	3,461,574	1,233	2,003	5,950	20,817	52,585	87,659	—	—	—
C.3 Deposits and loans for collection										
– long positions	1,802,985	69,813	—	77,258	62,715	145,447	77,793	232,539	—	—
– short positions	—	—	—	—	300,000	230,557	—	1,313,210	624,783	—
C.4 Irrevocable commitments to disburse funds *										
– long positions	1,455	1	8	55,781	1,534,415	19,352	61,724	685,213	1,006,653	—
– short positions	1,958,473	—	16,276	132,815	133,277	160,041	77,576	165,010	721,136	—
C.5 Financed guarantees issued	2,321	—	70	350	800	1,240	3,320	43,888	1,882	—
C.6 Financial guarantees received	—	—	—	—	—	—	—	—	—	—
C.7 Credit derivatives with exchange of principal										
– long positions	—	—	—	—	—	171,810	111,000	1,799,407	331,807	—
– short positions	—	—	—	—	7,000	219,310	107,000	1,923,164	157,550	—
C.8 Credit derivatives without exchange of principal										
– long positions	1,040,222	—	—	—	—	—	—	—	—	—
– short positions	1,104,953	—	—	—	—	—	—	—	—	—

* This item includes hedge sales perfectly matched by buys of the same amount.

1.5 OPERATIONAL RISKS

Definition

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

Capital requirements

To manage operational risk, Mediobanca has adopted the Basic Indicator Approach (BIA) in order to calculate the capital requirement for covering operating risk, applying a margin of 15% to the three-year average for the relevant indicator. Based on this method of calculation, the capital requirement as at 30 June 2021 was €329.8m (slightly higher than last year, €323m).

Risk mitigation

Operational risks are supervised, 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 operational risks, collecting and analysing loss data and providing support in connection with operational risk 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 operating losses recorded in the twelve months were very low and impacted only marginally on total revenues (around 1%).

As for the different classes of operational risk, the percentage composition of the various Basel II event types for the Group is shown below.

Event Type	% on Total Loss
Clients, products and business practices	81%
Execution, delivery and process management	11%
External fraud	5%
Employment practices and workplace safety	2%
Other	1%

The majority of operational losses derive from the "Clients, products and business practices" event type, which includes losses deriving from disputes and/or litigation with retail clients over financial terms and conditions or interest rates charged on financing products. The Lexitor provision is particularly relevant for this class, which includes the refunds made in this connection. The second category by amount of losses materializing was instances relating to process risk ("Execution, delivery and process management"), followed by external fraud on retail financing products (fake documentation and/or cards), in connection with which mitigation action has been implemented to ensure the phenomenon remains at residual levels. The extraordinary expenses necessary in order to address the pandemic and guarantee business continuity are included in the "System failures and business interruption" class (which is part of the "Other" event type).

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, which, however, reflects an industry-wide risk. The monitoring frameworks have been stepped up accordingly, in co-ordination with the other control units involved.

By business lines, operating losses were highest in Consumer Banking, and much lower in Wealth Management, albeit potentially growing due to the increase in regulations and guidelines from authorities, which expose operators to conduct risk, plus the growth in the number of different commercial channels and networks.

The Group continues to be exposed to the potential risk of low frequency/high severity inherent in businesses that feature non-standard and large-sized transactions, such as CIB and Wealth Management.

* * *

Other risks

As part of the process of assessing the current and future capital required for the company to perform regular banking activity (ICAAP), the Group has identified the following main types of risk as relevant:

- Concentration risk, i.e. risk deriving from a concentration of exposures to individual counterparties or groups of counterparties (“single name concentration risk”) or to counterparties operating in the same economic sector or which operate in the same business or belong to the same geographical area (geographical/sector concentration risk);
- Strategic risk, i.e. exposure to current and future changes in profits/margins compared to estimated data, due to volatility in volumes or changes in customer behaviour (business risk), and of current and future risk of reductions in profits or capital deriving from disruption to business as a result of adopting new strategic choices, wrong management decisions or inadequate execution of decisions taken (pure strategic risk);
- Risk from equity investments held as part of the “Hold to collect and sell” banking book (“HTC&S”), deriving from the potential reduction in value of the equity investments, listed and unlisted, which are held as part of the HTC&S 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.

* * *

Aware of the growing importance of environmental, social and governance (ESG) issues for its stakeholders, as from FY 2018-19 Mediobanca has launched a process for defining a risk assessment and reporting framework for ESG and climate change risks, followed by analysis of the reference scenario, in order to identify the risks that were potentially material for the Group based on the approach proposed by the TCFD[37].

In view of the rapidly and strongly changing regulatory scenario, plus the adoption by the European Commission of an ambitious package of measures to encourage the flow of capital towards sustainable activities throughout the European Union, at the start of 2021 the Mediobanca Group launched a combined programme addressing ESG risk integration, disclosure, product financial sustainability and adaptation to the EU taxonomy. This ESG Programme serves to outline a roadmap for the gradual adaptation of the Group's operations to the new ESG regulations, which will continue in FY 2021-22 as well. Three main project strands have been identified as part of the Programme: Proprietary, Clients and Markets, and Non-Financial Disclosure.

– In the Proprietary strand, activities are focused on adaptation to the ECB Guide on climate related and environmental risk, and the EBA Guidelines on Loan Origination and Monitoring, and on integrating ESG criteria into the lending and investment management processes, and more broadly, into the business strategy.
– For Clients and Markets, the activities are mainly concerned with incorporating the provisions of Regulation (EU) No. 2019/2088 (the Sustainable Finance Disclosure Regulation, or "SFDR").
– Activities regarding Non-Financial Disclosure are focused on defining the criteria and guidelines for applying the EU taxonomy (Regulation (EU) No. 2020/852) at Group level, starting by identifying the business lines most affected by the regulations, then gradually proceeding to adapt the disclosure for them to the new obligations (definition of the criteria of which is, however, still pending).

Furthermore, in accordance with the Strategic Plan objectives to address climate change issues, a new Group ESG Policy has been drawn up, including detailed sector guidelines introducing a series of restrictions on operators with adverse impacts on the climate[38].

[37] For further details see section 3.3 Compliance, internal control and risk management, and section 8.1 Relevant policies and risks of the Consolidated Non-Financial Statement.

[38] For further information, please consult the Group ESG Policy, published on the Mediobanca website at https://www.mediobanca.com/static/upload_new/pol/politica-esg.pdf.

Finally, with a view to creating long-term value in order to finance growth which is sustainable without being at the expense of profit, the Group recognizes the importance of a balanced distribution of the value created from the activities it carries out versus its own stakeholders, value which the stakeholders themselves have directly or indirectly contributed towards creating. For this reason the Mediobanca Group has decided to publish its economic value generated and distributed, calculated in accordance with the instructions issued by the Italian Banking Association (ABI), by restating the various items of the consolidated profit and loss account[39].

* * *

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. At end-March 2021, the EU and the United Kingdom executed a Memorandum of Understanding establishing a framework for Financial Services Regulatory Co-operation by 31 March 2021, which does not replace the banking and financial services passporting arrangements.

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 continue to perform its current activities as though it were formally authorized. The Bank is expected to start the formal process in order to receive its own authorization to operate in the United Kingdom as a third country branch from the Financial Conduct Authority before year-end 2022. Mediobanca has also 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

[39] For further information, see section 7.1, Economic value generated and distributed, of the Consolidated Non-Financial Statement.

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). There are still some areas of uncertainty, however, regarding the application of some of the market regulations (e.g. on shares/derivatives trading obligations), for which specific solutions have been adopted in order to ensure that the new rules are complied with. The total number of staff employed by the London branch, which was 89 as at 30 June 2020, had declined to 76 by 31 December 2020 and 73 at 30 June 2021. 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.

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.

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	460,269	—	—	—	460,269	16,629
2. Share premium reserve	2,197,454	—	—	—	2,197,454	1,848
3. Reserves	6,921,421	—	—	—	6,921,421	69,919
4. Equity instruments	—	—	—	—	—	—
5. Treasury shares	(216,736)	—	—	—	(216,736)	—
6. Valuation reserves:	929,523	—	—	—	929,523	(1,707)
- Equity instruments valued at fair value with impact taken to comprehensive income	126,899	—	—	—	126,899	—
- 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	48,854	—	—	—	48,854	—
- Tangible assets	—	—	—	—	—	—
- Intangible assets	—	—	—	—	—	—
- Hedging of foreign investments	(5,660)	—	—	—	(5,660)	—
- Hedging of cash flows	(17,553)	—	—	—	(17,553)	(1,521)
- Hedging instruments [not designated instruments]	—	—	—	—	—	—
- Exchange differences	864	—	—	—	864	(1)
- 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)	(6,413)	—	—	—	(6,413)	—
- Actuarial gains (losses) on defined benefits pension schemes	(7,526)	—	—	—	(7,526)	(185)
- Valuation reserves share of equity-accounted interests	780,426	—	—	—	780,426	—
- Extraordinary revaluation laws	9,632	—	—	—	9,632	—
7. Net profit (loss) for the period (+/-) of Group and minorities	809,199	—	—	—	809,199	1,623
Total	11,101,130	—	—	—	11,101,130	88,312

* Includes Compass RE (insurance), Ricerche e Studi, Compass Rent and MBContact Solutions (other companies), equity-consolidated.

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	50,035	(1,181)	—	—	—	—	—	—	50,035	(1,181)
2. Equity securities	131,417	(4,518)	—	—	—	—	—	—	131,417	(4,518)
3. Loans	—	—	—	—	—	—	—	—	—	—
Total at 30/6/21	181,452	(5,699)	—	—	—	—	—	—	181,452	(5,699)
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	52,902	66,468	—	119,370
2.1 Increases in fair value	45,451	66,468	—	111,919
2.2 Writedowns for credit risk	—	—	—	—
2.3 Profit and loss reversal of negative reserves from realize	7,451	—	—	7,451
2.4 Transfers to other equity components (equity instruments)	—	—	—	—
2.5 Other variations	—	—	—	—
3. Reductions	12,819	2,347	—	15,166
3.1 Reductions in fair value	1,782	1,830	—	3,612
3.2 Writebacks for credit risk	1,675	—	—	1,675
3.3 Profit and loss reversal from positive reserves: from disposal	9,362	517	—	—
3.4 Transfers to other equity components (equity instruments)	—	—	—	—
3.5 Other reductions	—	—	—	—
4. Closing balance	48,854	126,899	—	175,753

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 review performed by the regulator as part of the SREP process.

The regulator requires Mediobanca to maintain a CET ratio of 7.94%,[1] which includes the capital conservation buffer of 2.50% and an additional Pillar 2 ("P2R") Requirement of 0.9375%, i.e. 75% of the 1.25% required at the Overall Capital Requirement (OCR) level, which is equal to 11.75%. These requirements are unchanged from last year. In general terms, in view of the pandemic situation, the ECB has chosen to confine itself to qualitative considerations regarding current and future risk profiles, without intervening on the quantitative side.

2.1 Scope of application for regulations

Based on the new body of supervisory and corporate governance rules for banks, which consists of Capital Requirements Directive IV (CRD IV) and the Capital Requirements Regulation (CRR/CRR II) issued by the European Parliament as from 2013, and enacted in Italy in Bank of Italy circular no. 285 as amended, the Group:

– Has been authorized by the ECB to apply the phase-in regime for its investment in Assicurazioni Generali, under Article 471 of the CRR;

– Has chosen to apply the static approach in order to mitigate the effect of first-time adoption of IFRS9 over the 2019-24 five-year period[2];

On the other side, the Group has decided not to extend the phase-in regime for a further five years, as permitted in order to mitigate the impact on own

[1] The calculation does not include the countercyclical capital buffer and the P2 Guidance.

[2] As provided by Regulation (EU) 2017/2395, "Transitional arrangements for mitigating the impact of the introduction of IFRS9 on own funds", which incorporates a new version of Article 473-bis of the CRR, "Introduction of IFRS9".

funds of higher IFRS9-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.

The following regulatory changes have been incorporated during the twelve months under review:

– Software (intangible assets) weighted at 100% if the amortization period does not exceed three years, rather than being deducted from CET1 as was previously the case[3];
– Introduction of a stricter concentration limit, in that the 25% limit is now calculated relative to Tier 1 rather than eligible capital, which for the Mediobanca Group was equivalent to total capital;
– Introduction of new rules for the calculation of the Exposure at Default (EAD) used to measure counterparty risk and to calculate the Credit Value Adjustment (CVA) for derivative financial instruments; the methodology applied by the Group, pursuant to Articles 271ff of CRR II, is now the Standardized Approach for Counterparty Credit Risk (SA – CCR) as opposed to the Current Exposure Method (CEM) previously used; the additional expense added by this change to the regulation has been offset by applying the exemption from the own funds requirement for Credit Value Adjustment (CVA) risk for exposures to corporate counterparties, as permitted under Article 382 of the CRR;
– Transition to stricter prudential treatment of exposures in Collective Investment Undertakings (CIUs, consisting of funds and SICAVs) based on the effective risks of the underlying investments (the so-called "look-through" approach), in accordance with the provisions of Articles 132ff of CRR II.

The reduced weighting for prudent valuation introduced temporarily to mitigate the effects of the Covid-related situation has been discontinued[4].

[3] 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).

[4] Commission Delegated Regulation (EU) no. 101/2016 was amended on 28 May 2020 by the European Commission, set the aggregation factor "α" to 66%, applicable until 31 December 2020.

2.2 Bank equity

QUALITATIVE INFORMATION

Common Equity Tier 1 (CET1) consists of the share attributable to the Group and to minority shareholders of capital paid up, and reserves (including the profit for the period (€807.6m) net of the dividend proposed (€569.2m). The share of the reserves attributable to FVOCI financial assets totalled €1,181.9m, €1,006.2m of which deriving from Assicurazioni Generali being equity-accounted and €27m in government securities. The Board of Directors will submit a proposal to shareholders gathered in the Annual General Meeting to approve a €0.66 dividend, corresponding to a 70% payout ratio, which should be approved by the ECB in line with the recommendation issued on 23 July 2021.

The deductions regard:

– Treasury shares as to €267.1m, or 2.8% of the Bank's share capital, bearing in mind that 1.7 million shares were used in the award of performance shares;

– Intangible assets as to €141m, down slightly compared to the deductions for last year (€152.4m) due to the new method of accounting for software;

– Goodwill of €602.4m, down from last year (€666.5m) as a result of adjustments for goodwill, in particular for Messier et Associés and RAM;

– Prudential changes to the valuation of financial instruments (AVA and DVA) amounting to €80.3m (€46m);

– Significant interests in financial companies (banking and insurance firms) as to €2,056.3m, €1,787.7m of which for the investment in Assicurazioni Generali and €124.1m for subsidiary Compass RE; compared to last year (€990.8m), this figure reflects the higher deductions due to the stricter concentration limit applied.

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

Tier 2 capital includes subordinated liabilities, down in the twelve months from €1,225.1m to €1,167.3m due to amortization for the period (€299.2m) most of which was offset by the new issue (€250m)[5]. No subordinated tier 2 issue benefits from the grand-fathering permitted under Articles 483ff of the CRR.

Issue	**30/6/21**		
	ISIN	**Nominal value**	**Calculated amount***
MB Subordinato Mar 29	XS1579416741	50,000	48,502
Mediobanca Mc Nv30 Sub Tier2 Call Eur	XS2262077675	249,250	241,327
MB OPERA 3.75 2026	IT0005188351	299,031	289,440
MB Valore a Tasso Variabile con minimo 3% annuo 2025	IT0005127508	499,271	411,280
MB CARATTERE 5,75% 2023 Lower Tier 2	IT0004917842	499,909	176,708
Total subordinated debt securities		1,597,461	1,167,258

* 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 derives from the writedowns to book value being higher than the prudential expected losses calculated using the advanced models. The surplus is €106.8m, whereas the value calculated is €66.7m, virtually in line with last year (€71m), the amount corresponding to the regulatory limit of 0.6% of the amounts of the risk-weighted exposures calculated using advanced models (cf. Article 159 of the CRR) being eligible for inclusion in full in the calculation.

[5] Mediobanca issued its inaugural Tier 2 bond in November 2020. The €250m issue, reserved for institutional investors, has a ten-year maturity with call option after five years. The bond was priced at Euribor 3M not floored + 288 bps (fixed coupon 2.3%). The deal was oversubscribed, with demand 10x the amount issued, and over 70% distributed to non-Italian investors.

QUANTITATIVE INFORMATION

	30/6/21	30/6/20
A. Common equity tier 1 (CET1) prior to application of prudential filters	10,480,710	9,691,998
of which: CET1 instruments subject to phase-in regime	—	—
B. CET1 prudential filters (+/-)	(47,932)	(290)
C. CET1 gross of items to be deducted and effects of phase-in regime (A +/- B)	10,432,778	9,691,708
D. Items to be deducted from CET1	(3,935,089)	(3,523,703)
E. Phase-in regime - impact on CET1 (+/-), including minority interests subject to phase-in regime*	1,191,710	1,576,980
F. Total common equity tieer 1 (CET1) (C-D+/-E)	7,689,399	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	1,233,946	1,296,147
of which: T2 instruments subject to phase-in regime	—	—
N. Items to be deducted from T2	(4,167)	(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)	1,229,779	1,296,125
Q. Total own funds (F+L+P)	8,919,178	9,041,110

* Adjustments include application of the phase-in provisions for the introduction of IFRS9.

2.3 Capital adequacy

QUALITATIVE INFORMATION

As at 30 June 2021, the Group's Common Equity Ratio, calculated as tier 1 capital as a percentage of total risk-weighted assets, amounted to 16.31%, higher again than the same time last year (16.13%) following retained earnings for the twelve months (adding 50 bps), lower deductions for goodwill (adding 15 bps) and higher valuation reserves for proprietary securities (adding 20 bps), only in part offset by the higher deductions relating to Assicurazioni Generali (minus 30 bps, already net of the effect on the RWAs) and organic growth in RWAs (minus 30 bps).

The overall reduction in RWAs (from €48bn to €47.2bn) is due primarily to the share attributable to Assicurazioni Generali (which reduced by €1.2bn) following the changes to the concentration limit introduced by the regulations already referred to, which increased the share deducted. The growth in the Group's volumes (adding €900m) and the increase in

RWAs attributable to changes in the regulations (which, between derivative counterparty risk and the new treatment of exposures in CIUs – funds and SICAVs – added €300m), was largely offset by the optimization of existing positions. Such optimization included the application, in 1H FY 2020-21, of the financial duration method for calculating the market requirements, which enabled substantial savings in terms of RWAs (approx. €490m); while in 4Q the exemption from the own funds requirement for Credit Value Adjustment (CVA) risk for exposures to corporate counterparties was applied (saving approx. €220m).

Movements in RWAs

	Value
RWA as at 30 June 20	**48,030,468**
New regulation impact	**(931,574)**
Of which new concentration limit (AG stake)	**(1,228,882)**
Of which CRR (credit and counterparty risk)	**297,308**
Optimization (CVA and market risk)	**(713,697)**
Volume effect	**774,059**
Corporate Investment Banking - CIB	316,108
Wholesale Banking- WS	(292,732)
Specialty Finance - SF	608,840
Consumer	(21,600)
Wealth Manangement - WM	265,366
Holding Functions - HF - (*Leasing*)	84,870
Others PI	129,315
RWA as at 30 June 2021	**47,159,256**

The total capital ratio also increased from 18.8% to 18.9%, the lower increase compared to that of the CET1 ratio being attributable to the prudential amortization of the Tier 2 instruments.

Fully-loaded and without application of the Danish Compromise, i.e. with the Assicurazioni Generali stake fully deducted (which accounted for €1,115.9m including the indirect effects) and with full application of the IFRS9 effect (which accounted for €72.4m), the CET1 ratio would be 15.08% and the total capital ratio 17.94%, the higher growth (versus 14.50% and 17.55% respectively) due to the fact that the calculation is unaffected by the change in the concentration limit.

The other indicators performed as follows during the twelve months under review:

– The Leverage Ratio, calculated without the benefit of the temporary possibility allowed by the regulator to exclude reserves held with central banks from the exposures, decreased from 9.7% to 9.1%, as an effect of the increase in exposures, in secured financing transactions in particular, while remaining well above the regulatory limit of 3% at all times;
– The MREL ratio, calculated according to the hybrid approach, was again above 38% of RWAs,[6] considerably higher than the minimum level set by the Single Resolution Board for 2021, which was 21.85%, including the Combined Buffer Requirement of 2.51%.

[6] Ratio calculated using the hybrid approach recently introduced by 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.

QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts[7]		Weighted amounts/requirements	
	30/6/21	30/6/20	30/6/21	30/6/20
A. RISK ASSETS				
A.1 Credit and counterpart risk	71,850,055	70,911,069	40,728,331	40,933,278
1. Standard methodology	43,040,773	42,018,276	29,500,445	28,909,850
2. Internal rating methodology	28,612,334	28,756,686	11,114,732	11,834,261
2.1 Basic	—	—	—	—
2.2 Advanced	28,612,334	28,756,686	11,114,732	11,834,261
3. Securitization	196,948	136,107	113,153	189,167
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			3,258,266	3,274,662
B.2 Credit valuation risk			18,939	43,586
B.3 Settlement risk			—	—
B.4 Market risk			165,699	201,195
1. Standard methodology			165,699	201,195
2. Internal models			—	—
3. Concentration risk			—	—
B.5 Other prudential requirements			329,836	322,995
1. Basic Indicator Approach (BIA)			329,836	322,995
2. Standard methodology			—	—
3. Advanced methodology			—	—
B.6 Other calculation elements			—	—
B.7 Total prudential requirements			3,772,740	3,842,439
C. RISK ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets			47,159,256	48,030,483
C.2 CET1 capital/risk-weighted assets (CET1 capital ratio)			16.31%	16.13%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 capital ratio)			16.31%	16.13%
C.4 Regulatory capital/risk-weighted assets (total capital ratio)			18.91%	18.82%

[7] 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.

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

On 31 August 2021 the acquisition of Bybrook Capital LLP ("Bybrook") has been completed, by mean of the controlled entity Cairn Capital Ltd., which was announced during the month of February 2021, having received all the required authorizations by the competent regulatory bodies. Bybrook activities will start contributing to the Mediobanca Group consolidated figures starting from 1 September 2021.

SECTION 3

Retrospective adjustments

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

Part H – Related party disclosure

1. Information on remuneration for managers with strategic responsibilities

As for the disclosure of remuneration for managers with strategical responsibilities, reference is made to the "Report on remuneration and compensation paid" published on the Mediobanca website www.mediobanca.com, where the following are disclosed (with reference to the Mediobanca Group):

– the analytical detail of compensations paid to members of governing and supervisory bodies, to general managers and to other managers with strategical responsibilities;
– the detail and the evolution of performance shares schemes awarded to members of the BoD, to general managers and to other managers with strategical responsibilities, as well as of long term incentive schemes.

Group compensations include those awarded to managers of controlled entities not included into the table published within the individual financial statement (for a total of €1.3m).

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; this procedure came into force during December 2012, and was updated most recently in June 2021. 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 twelve months under review.

2.2 Quantitative information

During the twelve months under review several groups have exited the scope of relevance, including Burgo (associates), contributing to a sharp reduction in the exposure (sum of assets and guarantees and commitments) which closed at less than 1% of total assets; the contribution of interest income was also negligible (roughly 0.1% of the total).

Situation as at 30 June 2021

(€m)

	Directors, statutory auditors and strategic management	**Associates**	**Other related parties**	**Total**
Assets	2.1	4.1	110.1	116.3
of which: other assets	—	*4.1*	*101.1*	*105.2*
loans and advances	*2.1*	—	*9.0*	*11.1*
Liabilities	23.9	—	108.2	132.1
Guarantees and commitments	—	—	380.0	380.0
Interest income	—	0.7	0.5	1.2
Interest expense	—	—	(1.8)	(1.8)
Net fee income	—	—	49.8	49.8
Other income (costs)	(42.9) [1]	0.4	10.9	(31.6)

[1] Of which: short-term benefits amounting to €37.7m and performance shares worth €4.9m. The number includes the resources included among the Executives with strategic responsibilities during the year.

Situation as at 30 June 2020

(€m)

	Directors, statutory auditors and strategic management	Associates	Other related parties	Total
Assets	1.1	326.4	757.3	1.084,8
of which: other assets	—	*70.4*	*534.8*	*605.2*
loans and advances	*1.1*	*256.0*	*222.5*	*479.6*
Liabilities	16.5	0.1	41.2	57.8
Guarantees and commitments	—	14.0	22.8	36.8
Interest income	—	7.2	5.5	12.7
Interest expense	—	—	(1.6)	(1.6)
Net fee income	—	1.0	58.4	59.4
Other income (costs)	(46.4) [1]	(0.1)	(26.9)	(73.4)

[1] Of which: short-term benefits amounting to €40.8m and performance shares worth €4.4m. The number includes the resources included among the Executives with strategic responsibilities during the year.

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 table below summarizes resolutions according to which the Extraordinary Meeting of the Bank has granted to the Board of Directors the possibility to increase the capital in connection to stock options, performance stock options and performance shares schemes.

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 performance share schemes				
28 October 2015	20,000,000	X	28 October 2020	4,916,003 [1]

[1] Refers to options awarded in 2016, 2017, 2018, 2019 and 2020.

2. Description of performance shares schemes and parent company LTI

In the area of equity instruments used for staff remuneration, Mediobanca has decided to adopt a performance shares 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 to 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 for use in connection with the scheme. The 24,910,107 treasury shares owned may also be used in connection with the scheme.

As part of staff variable remuneration for the 2020 financial year, a total of 1,475,290 performance shares were allocated during the twelve months 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 663,013 in FY 2021-22, up to 223,451 in FY 2022-23, up to 300,230 in FY 2023-24, up to 143,689 in FY 2024-25, up to 132,430 in FY 2025/26 and up to 12,477 in FY 2026-27).

On 27 November 2020, a total of 1,670,800 shares were awarded in the form of treasury shares delivered; in February 2021 a total of 76,947 has also been distributed (30,381 in the form of treasury shares delivered and 46,566 via the deferral execution of the capital increase provided for in the 2015 scheme).

Since 30 June 2021, in connection with the variable remuneration for the 2021 financial year, a total of 1,608,187 performance shares have been awarded, at a figurative cost of €12.8m, as part of the variable remuneration component only. The shares, the award of which is conditional upon performance objectives being met over a five-year period, will be made available in tranches in November 2022 (up to 705,975), November 2023 (up to 272,267), November 2024 (up to 391,327), November 2025 (up to 119,558) and November 2026 (up to 119,060).

In addition, other Group companies have equipped themselves with incentive plans based on equity instruments. The following developments in the twelve months under review should also be noted:

– Messier et Associés has approved a free-shares scheme of up to 10% of the company capital reserved to employees, which are often distributed in moments of career improvements and/or for retention purposes. After the vesting period (not longer than 2 years), a further holding period of one year has been set, after which holders have the possibility to sell these shares to the parent company, receiving shares in the company itself in return. During the financial year, a total of 15,750 shares have been assigned equal to 3.1% of share capital, 7,500 with a vesting period of 1 year and the remaining one with a vesting period of 2 years, and a figurative cost of €3m has been attributed to them.

On 19th December 2019, the Board of Directors approved the Long-Term Incentive (LTI) plan, addressed to the Mediobanca Chief Executive Officer and the Mediobanca General Manager, along with the Chief Executive Officer of Compass and CheBanca!; the plan is conditional upon the targets of the Strategical Plan 19/23 being met.

B. QUANTITATIVE INFORMATION

2. Changes in performance share scheme during the year

Items/Performance shares	**30/6/21**		**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	1,475,290	5.95	1,964,004	7.37
B.2 Other additions	—	—	—	—
C. Decreases				
C.1 Performance shares cancelled	—	—	—	—
C.2 Performance shares made available	1,747,747	6.77	1,759,772	7.02
C.3 Performance shares expired	—	—	—	—
C.4 Other reductions	66,993	6.41	30,391	6.82
D. Closing balance	4,916,003	6.48	5,255,453	6.98

Part L – Segmental reporting

INTRODUCTION

Under IFRS8, 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 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, Compass Rent, which allows customers to hire assets, in particular second-hand vehicles and the newly-incorporated Compass Link, which uses external collaborators to distribute Consumer-business products and services;

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, Mediobanca International, Mediobanca Securities and Messier 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[1] and Ricerche e Studi[2], Group treasury and ALM (with the aim of minimizing the cost of funding and optimizing liquidity management on a consolidated basis, including the securities held as part of the banking book[3]), all costs relating to central Group functions including operations, support units (such as 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.1 Profit-and-loss figures by business segment

A list of the main points requiring attention with regard to the allocation of earnings results is provided below:

– Net interest income[4] 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;

[1] Negotiations are in progress for the disposal of the issuer services business unit (shareholder registers and AGM management services), the assets of which have been restated as "Non-current assets held for sale and discontinued operations" in accordance with IFRS5.

[2] The company has been placed in liquidation during the month of May 2021 and on 30th July has been removed from the companies register.

[3] Group Treasury finances the individual business areas by applying funds transfer prices (based on the FTP curve) with different spreads depending on the expiry dates of the funds' usage.

[4] The Mediobanca Group only reports net interest income based on the requirements of IFRS8, 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 [IFRS8.23].

- 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 Functions division) to the operating segments that use the services. The 792 staff employed by the Holding Functions are divided up as follows: 104 in SelmaBipiemme and 7 in the other non-core companies; 32 in Group Treasury and ALM; 130 in MIS, 205 in operations, 164 in support functions, 143 in control functions, plus seven in management (senior management and assistants), of which the cost of the approx. 233 FTEs is reallocated to the business lines, with an impact higher than last year was (the cost of approx. 224 FTE out of a total of 817[5]);
- Intercompany items are net out 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.

(€m)

Profit-and-loss figures	**Wealth Management**	**Consumer Banking**	**Corporate and Investment Banking**	**Principal Investing**	**Holding Functions**	**Writeoffs[1]**	**Group**
Net interest income	281.1	878.8	286.9	(7.1)	(47.4)	22.7	1,415.0
Net trading income	10.3	—	93.2	30.7	57.5	5.3	197.0
Net fee and commission income	335.9	123.0	318.1	—	11.8	(44.1)	744.7
Share in profits earned by equity-accounted companies	—	—	—	271.7	—	—	271.7
Total income	**627.3**	**1.001.8**	**698.2**	**295.3**	**21.9**	**(16.1)**	**2,628.4**
Personnel costs	(241.0)	(104.2)	(165.4)	(3.6)	(121.1)	—	(635.3)
Administrative expenses	(230.5)	(210.0)	(141.3)	(1.0)	(39.0)	19.0	(602.8)
Operating costs	**(471.5)**	**(314.2)**	**(306.7)**	**(4.6)**	**(160.1)**	**19.0**	**(1,238.1)**
Gains (losses) from equity investments sale	—	—	—	—	—	—	—
Loan loss provisions	(18.6)	(257.6)	40.1	—	(12.7)	—	(248.8)
Provisions for other financial assets	1.9	—	2.2	51.8	(7.5)	—	48.4
Other income (losses)	3.5	(15.2)	0.5	—	(73.5)	(0.9)	(85.6)
Profit before tax	**142.6**	**414.8**	**434.3**	**342.5**	**(231.9)**	**2.0**	**1,104.3**
Income tax for the period	(42.4)	(135.9)	(147.0)	(33.9)	67.5	(0.6)	(292.3)
Minority interest	—	—	(2.8)	—	(1.7)	0.1	(4.4)
Net profit	**100.2**	**278.9**	**284.5**	**308.6**	**(166.1)**	**1.5**	**807.6**
Cost/income ratio (%)	*75.2*	*31.4*	*43.9*	*n.m.*	*n.m.*	*n.m.*	*47.1*

[1] Sum of divisional data differs from Group total due to adjustments/differences arising on consolidation between business areas (equal to €1.5m).

[5] At 30/6/20 the 817 staff were divided as follows: 119 in Selmabipiemme Leasing and 8 in the other non-core companies; 31 in group Treasury and ALM; 127at MIS, 209 in operations, 171 in support functions, 145 in control functions and 7 in management (senior management and their assistants), with the cost of approximately 224 FTE charged back to the business lines.

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 data	**Wealth Management**	**Consumer Banking**	**Corporate and Investment Banking**	**Principal Investing**	**Holding Functions**	**Group**
Financial assets held for trading	52.4	—	11,221.3	—	—	11,273.7
Treasury funds	—	—	985.0	—	7,087.1	8,072.1
Banking book debt securities	514.7	—	515.7	—	6,120.0	7,150.4
Loans and advances to customers	14,404.5	12,942.9	19,292.3	—	1,774.1	48,413.8
Equity investments	28.0	—	77.3	4,447.3	26.4	4,579.0
Tangible and intangible assets	267.0	70.0	45.6	—	871.7	1,254.3
Other assets	369.7	542.7	55.5	—	887.4	1,855.4
Total assets	**15,636.4**	**13,555.7**	**32,192.7**	**4,447.3**	**16,766.7**	**82,598.7**
Funding	(25,210.5)	(2,450.6)	—	—	(28,495.1)	(56,156.2)
Treasury funding	—	—	(761.6)	—	(2,129.2)	(2,890.8)
Financial liabilities held for trading	—	—	(10,063.6)	—	—	(10,063.6)

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.

B. SECONDARY SEGMENTAL REPORTING

B.1 Profit-and-loss figures by business segment

(€m)

Profit-and-loss figures	Italy	International[1]	Group
Net interest income	1,361.3	53.7	1,415.0
Net trading income	185.3	11.7	197.0
Net fee and commission income	535.6	209.1	744.7
Share in profits earned by equity-accounted companies	271.7	—	271.7
Total income	**2,353.9**	**274.5**	**2,628.4**
Personnel costs	(502.8)	(132.5)	(635.3)
Administrative expenses	(532.5)	(70.3)	(602.8)
Operating costs	**(1,035.3)**	**(202.8)**	**(1,238.1)**
Net loss provisions	(198.2)	(2.2)	(200.4)
Other income (losses)	(84.9)	(0.7)	(85.6)
Profit before tax	**1,035.5**	**68.8**	**1,104.3**
Income tax for the period	(265.3)	(27.0)	(292.3)
Minority interest	(1.7)	(2.7)	(4.4)
Net profit	**768.5**	**39.1**	**807.6**
Cost/Income (%)	*44.0%*	*73.9%*	*47.1%*

[1] This heading includes the earnings results of Mediobanca International, CMB Monaco, Compass RE, MB USA, Cairn Capital, Mediobanca Management Company, RAM Active Investments, and Messier et Associés, plus the Mediobanca S.p.A. international branch offices (Paris, Madrid and London).

B.2 Balance-sheet data by business segment

(€m)

Balance-sheet data	Italy	International[1]	Group
Financial assets held for trading	11,123.4	150.3	11,273.7
Treasury funds	2,901.0	5,171.1	8,072.1
Banking book debt securities	6,578.0	572.4	7,150.4
Loans and advances to customers	41,074.9	7,338.9	48,413.8
Equity investments	4,568.0	11.0	4,579.0
Tangible and intangible assets	1,142.6	111.7	1,254.3
Other assets	1,621.9	233.5	1,855.4
Total assets	**69,009.8**	**13,588.9**	**82,598.7**
Funding	(44,646.3)	(11,509.9)	(56,156.2)

[1] This heading includes the balance-sheet data for Mediobanca International, CMB Monaco, Compass RE, MB USA, Cairn Capital, Mediobanca Management Company, RAM Active Investments, and Messier et Associés, plus the Mediobanca S.p.A. international branch offices (Paris, Madrid and London); in particular "Funding" includes €8.6bn in intercompany accounts.

Information required under letters a), b) and c) of Annex A, First Part, Title III, Section 2 of Bank of Italy circular 285/13
Situation at 30 June 2021

Business Line	Composition	Heading 120 Total income*			Heading 290 Gain (loss) before taxes			Heading 300 Taxes on ordinary activity			Full Time Employees[1]		
		Italy	International	Group	Italy	International	Group	Italy	International	Group	Italy	International	Group
Wholesale Banking	Includes Client Business (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca S.p.A., Mediobanca International, MB USA and Messier Maris & Associés)	520	114	634	424	(17)	407	(132)	(7)	(139)	233	141	374
Specialty Finance	Comprises factoring and credit management activities (including the NPLs portfolio) headed up by MBFACTA and MBCredit Solutions (formerly Creditech)	96	—	96	24	—	24	(8)	—	(8)	257	—	257
Consumer Banking	Provides retail clients with the full range of consumer credit products, ranging from personal loans to salary-backed finance (Compass, Futuro and Compass RE, a reinsurance company)	879	2	881	373	38	411	(122)	(10)	(132)	1,376	1	1,377
Affluent & Premier	Comprises deposit-taking, mortgage lending and retail banking services addressed by CheBanca!	358	—	358	74	—	74	(24)	—	(24)	1,394	—	1,394
Private & High Net Worth Individual	Includes asset management activities, addressed in Italy by the new division Mediobanca Private Banking and Spafid and in Monaco by Compagnie Monegasque de Banque and CMB Assets Management; it includes also (for what regards Alternative Asset Management activities) Cairn Capital, Compagnie Monegasque de Gestion and RAM Active Investment	119	148	267	33	37	70	(12)	(6)	(18)	239	324	563
Principal Investing	Brings together the Group's portfolio of equity investments and holdings	75	—	75	342	—	342	(34)	—	(34)	11	—	11
Holding Functions	Houses the Group's Treasury and ALM activities (as part of Mediobanca S.p.A.); and continues to include the leasing operations (headed up by SelmaBipiemme) and the services and minor companies (MIS and Prominvestment). Since 1 January 2019 the Holding Functions division has also been home to the corporate services area (performed by Spafid Connect).	19	—	19	(247)	(1)	(248)	86	(3)	83	755	23	778
Adjustments[2]		10	(28)	(18)	(7)	8	1	1	(1)	—	—	—	—
Group total		2,076	236	2,312	1,016	65	1,081	(245)	(27)	(272)	4,265	489	4,754

* Stated in accordance with P&L heading 120 pursuant to Bank of Italy circular 262/05. The figure here differs from the amount stated as "Total income" in the statements found on pages 363 and 365, which provide a more accurate reflection of the Group's operations. P&L heading 120 "Total income" pursuant to Bank of Italy circular 262/05 does not include net premiums earned, other income from insurance activities or other operating income.

[1] Full-time employees at Group level.

[2] The column headed "Adjustments" includes various adjustments in connection with differences arising on consolidation (e.g. inter-company elisions) between the different business segments.

Situation at 30 June 2020

Business Line	Composition	Heading 120 Total income*			Heading 290 Gain (loss) before taxes			Heading 300 Taxes on ordinary activity			Full Time Employees[1]		
		Italy	International	Group	Italy	International	Group	Italy	International	Group	Italy	International	Group
Wholesale Banking	Includes Client Business (lending, advisory, capital markets activities) and proprietary trading (businesses performed by Mediobanca S.p.A., Mediobanca International, MB USA and Messier Maris & Associés)	452	78	530	266	(32)	235	(77)	(3)	(80)	224	152	376
Specialty Finance	Comprises factoring and credit management activities (including the NPLs portfolio) headed up by MBFACTA and MBCredit Solutions (formerly Creditech)	101	—	101	38	—	38	(12)	—	(12)	249	—	249
Consumer Banking	Provides retail clients with the full range of consumer credit products, ranging from personal loans to salary-backed finance (Compass, Futuro and Compass RE, a reinsurance company)	941	3	944	394	44	438	(130)	(11)	(141)	1,372	1	1,373
Affluent & Premier	Comprises deposit-taking, mortgage lending and retail banking services addressed by CheBanca!	316	—	316	48	—	48	(16)	—	(16)	1,364	4	1,368
Private & High Net Worth Individual	Includes asset management activities, addressed in Italy by the new division Mediobanca Private Banking and Spafid and in Monaco by Compagnie Monegasque de Banque and CMB Assets Management; it includes also (for what regards Alternative Asset Management activities) Cairn Capital, Compagnie Monegasque de Gestion and RAM Active Investment	107	154	261	27	36	63	(12)	(5)	(17)	231	345	576
Principal Investing	Brings together the Group's portfolio of equity investments and holdings	(2)	—	(2)	298	—	298	(3)	—	(3)	11	—	11
Holding Functions	Houses the Group's Treasury and ALM activities (as part of Mediobanca S.p.A.); and continues to include the leasing operations (headed up by SelmaBipiemme) and the services and minor companies (MIS and Prominvestment). Since 1 January 2019 the Holding Functions division has also been home to the corporate services area (performed by Spafid Connect).	(13)	—	(13)	(215)	—	(215)	30	2	32	769	24	793
Adjustments[2]		(25)	(28)	(53)	(76)	(14)	(90)	25	(1)	24	—	—	—
Group total		1,877	207	2,084	781	34	815	(196)	(18)	(214)	4,220	526	4,746

* Stated in accordance with P&L heading 120 pursuant to Bank of Italy circular 262/05. The figure here differs from the amount stated as "Total income" in the statements found on pages 363 and 365, which provide a more accurate reflection of the Group's operations. P&L heading 120 "Total income" pursuant to Bank of Italy circular 262/05 does not include net premiums earned, other income from insurance activities or other operating income.

[1] Full-time employees at Group level.

[2] The column headed "Adjustments" includes various adjustments in connection with differences arising on consolidation (e.g. inter-company elisions) between the different business segments.

Part M – Disclosure on leasing

SECTION 1

Lessee

QUALITATIVE INFORMATION

With reference to IFRS16 coming into force and the contracts which fall within its scope of application, virtually the only leases the Mediobanca Group has outstanding in this connection are for properties and company cars, plus some hardware leases for only a residual amount. The property leases mostly involve premises used as offices. Such leases normally have durations of more than twelve months, and typically contain renewal or termination clauses which both lessor and lessee can exercise in accordance with the provisions of law and/or specific contractual arrangements, if any. Generally speaking such leases do not contain an option to buy at expiry or entail substantial reinstatement costs for the Group. As for the car leases, these are long-term agreements for the fleet of company cars available for use by staff members for work-related purposes in accordance with Group policy in this area.

At the first-time adoption stage for IFRS16, some simplifications have been used. In particular, leases with duration of twelve months or less ("short-term leases") have been excluded, as have those involving amounts of less than €5,000 ("low value leases"), and those for intangibles. It has also been decided not to strip out the service component from the lease proper; hence the full contract has been recognized. The discount rate used has been derived from the Funds Transfer Pricing curve used in treasury management by the Group Treasury unit.

In cases where the original lease has been replicated with another counterparty (i.e. sub-leased), the related liability is matched by an amount receivable from the counterparty at the date rather than by its value in use. Sub-leasing arrangements involve only negligible amounts.

QUANTITATIVE INFORMATION

For quantitative information on the impact on the Group's financial and earnings situation, reference is made to the contents of the following sections of the Notes to the Accounts:

- Information on rights of use acquired, in "Notes to the consolidated balance sheet - Assets - Section 9";
- Information on amounts due under leases, in the "Notes to the consolidated balance sheet - Liabilities - Section 1";
- For the effects on earnings, "Part C Notes to the consolidated profit and loss account", in particular the headings for interest income and expense and net adjustments to tangible assets.

The value in use recorded in the balance sheet at 30 June 2021 was €222.7m, broken down as follows:

- Value in use of properties: €212.4m;
- Value in use of vehicles: €10.2m;
- Value in use of other assets: €0.1m.

SECTION 2

QUALITATIVE INFORMATION

The Group has operations in finance leasing through its subsidiary SelmaBipiemme. These mostly involve property, core goods and registered moveable assets. The contracts are represented in the accounts by the amount receivable under the finance lease being recorded under Heading 40, Financial assets recognized at amortized cost, the income received under Heading 10, Interest and similar income, determined by accrual, with the provisions for any losses expected on the account being recognized under Heading 130, Net value adjustments for credit risk.

QUANTITATIVE INFORMATION

For quantitative information on the impact on the Group's financial and earnings situation, reference is made to the contents of the relevant sections of the Notes to the Accounts. In particular, the book value of the leases is found in Part B - Notes to the consolidated balance sheet - Assets - Section 4 - Heading 40: Financial assets recognized at amortized cost. During the twelve months under review, these leases generated interest income as shown in Part C - Notes to the consolidated profit and loss account - Section 1 - Headings 10 and 20: Net interest income and Section 14 - Heading 210: Net adjustments to tangible assets of the Notes to the Consolidated Accounts.

1. Balance-sheet and earnings data

2. *Finance leases*

2.1 Maturity analysis of lease payments receivable by timing bracket and reconciliation of undiscounted lease payments to the net investment in the lease

Time Bands	**30/6/21 Lease payment to be received**	**30/6/20 Lease payment to be received**
Up to 1 year	378,597	391,477
Between 1 and 2 years	317,906	326,049
Between 2 and 3 years	246,857	243,243
Between 3 and 4 years	278,115	269,143
Between 4 and 5 years	121,574	121,292
Over 5 years	294,541	347,973
Total lease payments to be received	**1,637,590**	**1,699,177**
Reconciliation with loans	**104,026**	**77,693**
Not accrued gains (+)	(140,060)	(179,162)
Unguaranteed residual value (-)	244,086	256,855
Loans for leases	**1,741,616**	**1,776,870**

The table provides a maturity analysis of the lease payments receivable, and a reconciliation of the undiscounted lease payments to the net investment in the lease, as required by IFRS16, paragraph 94. In particular it should be noted that the payments receivable under the lease, which consist of the sum of minimum payments due by way of principal and interest, are stated net of any provisions and the discounted unguaranteed residual value due to the lessor. These are reconciled with the net investment in the lease, recognized in the balance sheet under financial assets recognized at amortized cost, by subtracting financial profits not accrued and adding the unguaranteed residual value. Non-performing leases acquired are not included.

2.2 Other information

In finance leasing operations, the credit risk associated with the contract is managed in accordance with the principles described in Part E - Information on risks and related hedging policies - Section 2 - Prudential consolidated risk - 1.1. Credit quality in the Notes to the Consolidated Accounts to which reference is made.

Contracts are classified as finance leases based on whether the risks and benefits associated with ownership of the asset in question are transferred to the lessee throughout the duration of the contract, whether the contract itself contains a final option to acquire the asset on terms that would make its failure to exercise such an option uneconomic, and whether the contract has a duration which is basically the same as the economic life of the asset itself. The same may also apply in cases where the contracts do not contain options to buy or have a duration which is significantly shorter than the asset's economic life, but are accompanied by arrangements with third party buyers that guarantee the asset will be bought when the lease expires.

3. *Operating leases*

The Group currently has no operating leases outstanding.

ANNEXES

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, reverse 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);

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”.

Balance sheet as at 30 June 2021 — Assets

(€ m)

Assets	Financial assets held for trading	Treasury financial assets	Banking book securities	Customer loans	Equity Investments	Tangible and intangible assets	Other assets	Total assets
10. Cash and cash equivalents	—	1,969.5	—	—	—	—	—	1,969.5
20. Financial assets at fair value with impact taken to profit and loss	11,273.7	—	79.7	640.6	655.6	—	—	12,649.6
a) Financial assets held for trading	*11,273.7*	—	—	—	—	—	—	*11,273.7*
b) Financial assets designated at fair value	—	—	*50.7*	*629.8*	—	—	—	*680.5*
c) Other financial assets mandatorily at fair value	—	—	*29.0*	*10.7*	*655.6*	—	—	*695.3*
30. Financial assets at fair value with impact taken to comprehensive income	—	—	4,346.9	—	220.5	—	—	4,567.4
40. Financial assets at amortized cost	—	6,102.6	2,723.8	47,773.2	—	—	—	56,599.6
50. Hedging derivatives	—	—	—	—	—	—	308.4	308.4
60. Adjustment of hedging financial assets (+/-)	—	—	—	—	—	—	—	—
70. Equity investments	—	—	—	—	3,702.9	—	—	3,702.9
80. Reinsured portion of technical reserve	—	—	—	—	—	—	—	—
90. Property, plant and equipments	—	—	—	—	—	510.2	—	510.2
100. Intangible assets	—	—	—	—	—	744.1	—	744.1
110. Tax assets	—	—	—	—	—	—	792.3	792.3
120. Assets classified as held for sale	—	—	—	—	—	—	4.2	4.2
130. Other assets	—	—	—	—	—	—	750.5	750.5
Total assets	**11,273.7**	**8,072.1**	**7,150.4**	**48,413.8**	**4,579.0**	**1,254.3**	**1,855.4**	**82,598.7**

FORMAT RECOMMENDED BY BANK OF ITALY CIRCULAR NO. 262/05 6TH UPDATE

Balance sheet as at 30 June 2021 — Liabilities

(€m)

Liabilities and net equity	Funding	Treasury financial liabilities	Financial liabilities held for trading	Other liabilities	Provisions	Net equity and minority interests	Total liabilities and net equity
10. Financial liabilities at amortized cost	55,323.2	2,890.8	—	261.1	—	—	58,475.1
a) Due to banks	*10,714.5*	*2,112.8*	—	*3.6*	—	—	*12,830.9*
b) Due to customers	*26,029.6*	*778.0*	—	*257.3*	—	—	*27,064.9*
c) Debt securities in issue	*18,579.1*	—	—	*0.2*	—	—	*18,579.3*
20. Trading financial liabilities	—	—	10,063.6	—	—	—	10,063.6
30. Financial liabilities designated at fair value	833.0	—	—	—	—	—	833.0
40. Hedging derivatives	—	—	—	375.4	—	—	375.4
50. Adjustment of hedging financial liabilities (+/-)	—	—	—	—	—	—	—
60. Tax liabilities	—	—	—	549.6	—	—	549.6
70. Liabilities included in disposal groups classified as held for sale	—	—	—	0.4	—	—	0.4
80. Oher liabilities	—	—	—	898.0	—	—	898.0
90. Staff severance indemnity provision	—	—	—	—	26.9	—	26.9
100. Provisions	—	—	—	—	144.2	—	144.2
110. Insurance reserves	—	—	—	131.4	—	—	131.4
120. Revaluation reserves	—	—	—	—	—	931.2	931.2
130. Redeemable shares repayable on demand	—	—	—	—	—	—	—
140. Equity instruments repayable on demand	—	—	—	—	—	—	—
150. Reserves	—	—	—	—	—	6,851.5	6,851.5
160. Share premium reserve	—	—	—	—	—	2,195.6	2,195.6
170. Share capital	—	—	—	—	—	443.6	443.6
180. Treasury share (-)	—	—	—	—	—	(216.7)	(216.7)
190. Minority interests (+/-)	—	—	—	—	—	88.3	88.3
200. Profit/(loss) for the period (+/-)	—	—	—	—	—	807.6	807.6
Total liabilities and net equity	**56,156.2**	**2,890.8**	**10,063.6**	**2,215.9**	**171.1**	**11,101.1**	**82,598.7**

Comparison between restated profit and loss account and format recommended by Bank of Italy circular no. 262/05, sixth update

The profit and loss account shown in yhe review of operations reflects the following restatements:

- "Net interest income" includes the items stated under headings 10 "Interest and similar income", 20 "Interest and similar expense", Financial Guarantee Fees, 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". The share of interest related to the pending tax dispute has been riclassified to heading "Other icome (losses)";
- "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 €25.9m of Banking Book changes in Forex), the net profit or loss on banking book securities stated under heading 100 "Net gains (losses) on disposals/repurchases", the share of securities lending transactions stated under headings 40 "Fee and commission income" and 50 "Fee and commission expense"and the interests accrued on the related collaterals (heading 10 "Interest and similar income " and 20 "Interest expense and similar charges" 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" related to securities at fair value option;
- 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. This item also includes the Wealth Management carried interest share which is recorded under item 70 "Dividends" (€7.9m);

- 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";
- 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 gains (losses)" includes: the non-recurring costs reported under heading 190 "Administrative expenses", in particular the payments to the various resolution and deposit guarantee funds; and provisions for non-recurring costs (including €14.1m in connection with the "Lexitor" ruling, and fines payable in connection with tax disputes). The heading also includes the income deriving from the revenue share agreement in connection with Bybrook's activities pending final closing of the acquisition (€2.3m) reported under heading 40 "Fees and commissions receivable", plus the interest payable in connection with the tax disputes reported under heading 20, "Interest expense", the income deriving from the Group's adherence to the "Patent Box" regime for the Compass and Mediobanca brands (€13.7m), the tax relief on goodwill deriving from the former Banca Esperia (€6.8m) under Article 110 of Italian Decree Law 104/2020, and the changes to goodwill (€21.5, chiefly RAM AI).

RESTATED BALANCE SHEET

Profit and loss account as at 30 June 2021

(€m)

Profit-and-loss account	Net interest income	Net treasury income	Net fee and commission income	Equity-accounted companies	Operating costs	Loan loss provisions	Provisions for other financial assets	Other income (losses)	Income tax for the period	Minority interest	Net profit
10. Interest and similar income	1,818.6	1.3	—	—	—	—	—	—	—	—	1,819.9
20. Interest expense and similar charges	(398.3)	(3.5)	—	—	—	—	—	(0.5)	—	—	(402.3)
30. Net interest income	**1,420.3**	**(2.2)**	**—**	**—**	**—**	**—**	**—**	**(0.5)**	**—**	**—**	**1,417.6**
40. Fee and commission income	1.8	7.5	708.1	—	—	—	—	2.3	—	—	719.7
50. Fee and commission expense	(9.0)	(1.4)	(124.0)	—	—	—	—	—	—	—	(134.4)
60. Net fee and commission income	**(7.2)**	**6.1**	**584.1**	**—**	**—**	**—**	**—**	**2.3**	**—**	**—**	**585.3**
70. Dividends and similar income	—	99.0	7.9	—	—	—	—	—	—	—	106.9
80. Net trading income	4.0	79.9	—	—	—	—	—	—	—	—	83.9
90. Net hedging income (expense)	(2.1)	—	—	—	—	—	—	—	—	—	(-2.1)
100. Gain (loss) on disposal/repurchase	—	21.4	—	—	—	(9.0)	—	—	—	—	12.4
110. Net result from other financial assets and liabilities measured at fair value with impact taken to profit and loss	—	(7.2)	—	—	—	60.1	55.5	—	—	—	108.4
120. Total income	**1,415.0**	**197.0**	**592.0**	**—**	**—**	**51.1**	**55.5**	**1.8**	**—**	**—**	**2,312.4**
130. Net write-offs (write-backs) for credit risk	—	—	23.2	—	—	(286.6)	(7.1)	—	—	—	(270.5)
140. Gains (losses) from contractual modifications without derecognition	—	—	—	—	—	(0.2)		—	—	—	(0.2)
150. Net income from financial operations	**1,415.0**	**197.0**	**615.2**	**—**	**—**	**(235.7)**	**48.4**	**1.8**	**—**	**—**	**2,041.7**
160. Premiums earned (net)	—	—	50.2	—	—	—	—	—	—	—	50.2
170. Other income (net) from insurance activities	—	—	(14.1)	—	—	—	—	—	—	—	(14.1)
180. Net profit from financial and insurance activities	**1,415.0**	**197.0**	**651.3**	**—**	**—**	**(235.7)**	**48.4**	**1.8**	**—**	**—**	**2,077.8**
190. Administrative expenses	—	—	(0.6)	—	(1,228.0)	—	—	(75.8)	—	—	(1,304.4)
200. Net transfers to provisions	—	—	—	—	(5.6)	(13.1)	—	(14.1)	—	—	(32.8)
210. Net adjustments to tangible assets	—	—	—	—	(53.4)	—	—	—	—	—	(53.4)
220. Net adjustments to intangible assets	—	—	—	—	(32.4)	—	—	—	—	—	(32.4)
230. Other operating income (expense)	—	—	94.0	—	81.3	—	—	65.0	(20.5)	(2.8)	217.0
240. Operating costs	**—**	**—**	**93.4**	**—**	**(1,238.1)**	**(13.1)**	**—**	**(24.9)**	**(20.5)**	**(2.8)**	**(1,206.0)**
250. Gain (loss) on equity investments	—	—	—	271.7	—	—	—	—	—	—	271.7
260. Net result from fair value valuation of tangible and intangible assets	—	—	—	—	—	—	—	—	—	—	—
270. Goodwill write-offs	—	—	—	—	—	—	—	(62.5)	—	—	(62.5)
280. Gain (loss) on disposal of investments	—	—	—	—	—	—	—	—	—	—	—
290. Profit (loss) on ordinary activity before tax	**1,415.0**	**197.0**	**744.7**	**271.7**	**(1,238.1)**	**(248.8)**	**48.4**	**(85.6)**	**(20.5)**	**(2.8)**	**1,081.0**
300. Income tax for the year on ordinary activities	—	—	—	—	—	—	—	—	(271.8)	—	(271.8)
310. Profit (loss) on ordinary activities after tax	**1,415.0**	**197.0**	**744.7**	**271.7**	**(1,238.1)**	**(248.8)**	**48.4**	**(85.6)**	**(292.3)**	**(2.8)**	**809.2**
320. Gain (loss) of ceded operating assets, net of tax	—	—	—	—	—	—	—	—	—	—	—
330. Net profit (loss) for the period	**1,415.0**	**197.0**	**744.7**	**271.7**	**(1,238.1)**	**(248.8)**	**48.4**	**(85.6)**	**(292.3)**	**(2.8)**	**809.2**
340. Net profit (loss) for the period attributabe to minorities	—	—	—	—	—	—	—	—	—	(1.6)	(1.6)
350. Net profit (loss) for the period attributable to Mediobanca	**1,415.0**	**197.0**	**744.7**	**271.7**	**(1,238.1)**	**(248.8)**	**48.4**	**(85.6)**	**(292.3)**	**(4.4)**	**807.6**

GLOSSARY

GLOSSARY

The definitions of some of the technical terminology and translations used in the Review of Operations and Notes to the Accounts are provided below.

Additional Tier 1 (AT1): Additional Tier 1 capital consists of capital instruments apart from ordinary shares (which are included in common equity (see definition)) which meet the regulatory requirements for inclusion in this level of own funds.

Advisory: Activity performed by a financial intermediary assisting a client in corporate finance transactions, the duties covered by which may range from preparing valuations to drawing up documents and providing general consultancy services regarding the specific transaction.

AIRB Models (Advanced Internal Rating Based): The Basel II Accord stipulates three different methodologies for calculating credit risk: the standard method, the "foundation" internal ratings-based method (FIRB – Foundaton Internal Rating Based), and the "advanced" internal ratings-based method (AIRB – Advanced Internal Rating Based). Using the AIRB method, a bank develops its own internal models with which to estimate the indicators PD (Probability of Default), LGD (Loss-Given Default) and EAD (Exposure At Default) indicators necessary in order to calculate the capital requirement.

ALM – Asset and Liability Management: Integrated management of assets and liabilities to optimize allocation of resources on a risk/return basis.

Alternative Fund, Private Equity and Hedge Fund: Alternative investments comprise a vast range of different forms of investment, including those in private equity and hedge funds:

– Private equity investments: investments in the venture capital of companies, generally unlisted but with high growth potential and the capability to generate cash flows which are constant and stable over time;

- Hedge funds: generic term to refer to funds which use complex and sophisticated strategies to deliver returns which are higher on average than other funds.

Amortized cost (financial assets measured at amortized cost): this is one of the categories for financial assets and liabilities provided for in IFRS9 (paragraph 4.1.2). A financial asset is measured at amortized cost when both the following conditions are met:

- The instrument is held according to a business model consisting of collection of the contractual cash flows (Hold to collect, see definition); and
- The contractual terms of the instrument are such that the contractual cash flows represent solely payments of principal and interest.

Asset Under Administration (AUA): Assets under administration represent the market value of the aggregate of securities held by a financial institution received on deposit from its clients and managed on behalf of them. Management of such securities involves their custody, collection of interest/dividends, verifying draws for the attribution of premiums or for capital repayment, arranging repayments on behalf of the clients, and generally checking that all rights pertaining to the securities have been respected. Sums collected must then be credited to the client.

Assets Under Custody (AUC): Assets under custody represent the market value of financial instruments and securities in general (equities, bonds, government securities, shares held in mutual investment funds, etc.) in paper or dematerialized from, held by a financial institution on behalf of clients.

Assets Under Management (AUM): Assets under management constitute the total market value of all funds managed by a financial institution on behalf of its clients or investors, including mutual funds, asset management in funds or securities, insurance products and funds under administration.

Backstop: Indicators used to understand whether the financial instrument has experienced a significant increase in credit risk since the date of initial recognition. For the Mediobanca Group, backstop indicators include the 30-days past due period and the existence of forbearance measures.

Bail-In: Procedure to resolve banking crises via the exclusive and direct involvement of the shareholders, bond holders and current account holders of the bank itself with deposits of over €100,000. Since 2016 and the introduction of the Bank Recovery and Resolution Directive (Directive 2014/59/EU), the bail- in procedure has replaced the bail-out procedure whereby banks were rescued solely through use of public funds. The basic principle underpinning the bail- in procedure is that of "no creditor worse off" (NCWO), i.e. no shareholder, current account holder or creditor should incur greater losses than they would have incurred if the institution had been would up under normal insolvency proceedings.

Bank Recovery and Resolution Directive (Directive 2014/59/EU; BRRD): This directive introduces harmonized rules in all EU Countries to prevent and manage crises at credit institutions and investment firms. The BRRD confers on the authorities powers and instruments in order for them to be able to: plan management of the crisis; intervene in good time before the crisis fully occurs; and manage the "resolution" stages in optimal fashion.

Banking book: The banking book consists of proprietary financial assets held for purposes other than short-term trading.

Basel Accords: Guidelines on capital requirements for banks, compiled by the Basel Committee with a view to establishing standard, harmonized regulation of banking supervision at supranational level. The first accord published by the Basel Committee was in 1988, and introduced a set of minimum capital requirements for banks to reduce credit and market risk deriving from the possibility of assets losing their value excessively.

a) Basel II: The short name given to the document entitled International Convergence of Capital Measurement and Capital Standards signed in Basel in 2004 which came into force in 2008.

b) Basel III: This name refers to the new prudential requirements introduced at European level by the CRD IV/CRR package (see definition).

c) Basel IV: New regulatory framework which includes a revision of Basel III provisions and standards; it will enter into force by different stages.

Benchmark test: a qualitative and quantitative analysis, to be carried out to verify whether the conditions of the SPPI test (see definition) are met, according to paragraph B4.1.9Aff of IFRS9 standard; it regards those financial instruments which show an interest rate mismatch between the duration and the interest rate, thus for them it results a modified remuneration related to the time value of money. In order to carry out the benchmark test, an hypothetical instrument is considered (the "benchmark" instrument), identical to the instrument for which the test is carried out apart from the characteristic which modifies the interest rate. Then, it is necessary to compare the undiscounted contractual cash flows of the instrument subject of the analysis with those of the benchmark instrument; the SPPI test is considered not to be met, whether the difference arising is significant.

Beta: Indicator representing the correlation between the expected return on an equity instrument and the overall return on the benchmark market. Beta can show readings which are above zero (positive correlation) or below zero (negative correlation). It is used in the Capital Asset Pricing Model (see definition).

Bid-Ask Spread: Margin between the price at which an intermediary commits to sell stocks ("ask"; letter) and the price at which it commits to buy them ("bid"; cash). On the interbank market this takes the form of the margin between the interest rate at which funds are offered on a given maturity (letter) and the rate at which the funds are requested on the same maturity (cash).

Business Combination: A business combination comprises a set of assets or accounts which jointly may serve for the performance of an economic activity.

Business Model: The business model regards the way in which an entity manages its financial assets in order to generate cash flows (that is, it determines whether the cash flows derive from collection of cash flows stipulated contractually, from the sale of financial assets, or from both). The business model is not defined for individual assets but on the basis of like-for-like portfolios of assets. The classification of financial assets is based on the business model concept. Three types of business model are contemplated: Hold to collect, Hold to collect and sell, and Other.

Capital Absorption: Absorbed capital is the amount of capital which the Group has to hold in order to cover potential losses and which is needed to support its business activities and the positions held. It consists of regulatory capital plus internal capital. Regulatory capital is obtained by multiplying risk- weighted assets by the target Common Equity Tier 1 ratio. Internal capital is obtained from the sum of economic capital estimated internally to cover the Pillar I and Pillar II (see Basel Accords) risks to which the Bank is exposed.

Capital Asset Pricing Model (CAPM): Mathematical model used to determine the price of a financial asset in view of the relationship between return and risk, as expressed by a single risk factor, namely beta (see definition).

Capital Requirement Directive (CRD): Directives 2006/48/EU and 2006/49/EU, transposed by the Bank of Italy in its circular no. 263/06 as amended, which introduced the decisions taken as part of the Basel III agreements to the European regulatory framework. The CRD IV package in particular supersedes the foregoing Directives, and consists of Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, and Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms, transposed by the Bank of Italy in its circular no. 285 of 17 December 2013 as amended.

Capital Requirement Regulation (CRR/CRR2): Regulation (EU) 575/2013, and subsequent updates, on prudential requirements for credit institutions and investment firms. The regulation was adopted in response to the financial crisis which broke out in 2007, and is intended to reduce the likelihood of financial institutions failing by increasing their equity, reducing their exposure to risk and reducing the financial leverage used by them.

Cash Flow Hedge: One of the types of contract permitted under IFRS9 to neutralize the exposure to changes in future cash flows attributable to particular risks associated with given balance-sheet items.

Cash-Generating Unit (CGU): According to the definition provided in IAS36, paragraph 6, a cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The notion of CGU is used in the impairment test procedure (see definition).

Certificates: Certificates are financial instruments which in contractual terms are equivalent to derivatives with an option component, and which replicate the performance of an underlying asset. In acquiring a certificate the investor obtains the right to receive a sum linked to the value of the underlying instrument at a given date.

Collateralized Debt Obligation (CDO): CDOs are fixed-income securities which have a portfolio of bonds, loans and other debt instruments as their collateral.

Collateralized Loan Obligation (CLO): A particular type of CDO (see definition), in which the collateral is made up by receivables.

Commercial Paper: Short-term financing instrument with duration generally of one year or less.

Common Equity: Common equity consists of the highest-quality components of a Bank's capital, such as: ordinary shares in issue, every share premium (for ordinary shares), retained earnings, and every adjustment or prudential filter (see definition) applied to the foregoing categories for regulatory or supervisory purposes.

Common Equity Tier 1 ratio (CET1 Ratio): The CET1 ratio is the ratio of a bank's core equity capital to its total risk-weighted assets or RWAs (see definition).

C*ompound Annual Growth Rate (CAGR):* annual compound growth rate of an investment over a given period of time.

Consob – Commissione Nazionale per le Società e la Borsa: Consob is the public authority responsible for regulating the Italian financial markets. Its main functions include: *i)* checking the transparency and correct behaviour by financial market participants, in order to safeguard confidence in, and the competitiveness of, the financial system, to protect investors, and ensure that financial regulations are complied with; *ii)* exercising supervision to prevent improper conduct from occurring, and when it does, to ensure it is punished appropriately; and exercising the powers vested in it by law to ensure investors receive the necessary information in order to make informed investment decisions; and *iii)* working to guarantee maximum efficiency in trading, ensuring the quality of the prices formed and the efficiency and certainty of the means by which contracts concluded on regulated markets are executed.

Contingency Funding Plan: Set of operating procedures developed internally by a bank in order to manage liquidity crisis (short-term and/or medium-/ long- term).

Corporate Exposures: Class of credit exposures to companies which include also the following categories:

- Exposures to SMEs;
- Leveraged finance (see definition);
- Specialized lending.

Cost/Income Ratio: Operating costs (i.e. labour costs, overheads, administrative expenses and depreciation/amortization) as a percentage of total revenues.

Cost of Risk: Ratio between loan loss provisions (net of any writebacks) and average loans to customers (net of provisions). The ratio constitutes one of the indicators of the risk inherent in the Bank's assets.

Covenants: Covenants are contractual clauses which entitle the lender to renegotiate or revoke credit upon the occurrence of certain events defined in said clauses, the purpose of which being to formalize the undertakings entered into by the lender in terms of management and earnings/financial performance, and at the same time provide an instrument with which to record any differences relative to expectations to be noted.

Covered Bonds: Covered bonds are debt securities covered by assets that, in the event of failure by the issuer, serve to meet the claims of the bond-holders on a priority basis.

COVID-19: – Severe Acute Respiratory Syndrome Coronavirus-2 (SARS-CoV-2) is the name given to the 2019 novel coronavirus. COVID-19 is the name given to the disease associated with the virus. SARS-CoV-2 is a new strain of coronavirus not previously found in human beings. Current evidence suggests that SARS-CoV-2 is spread from person to person: directly, indirectly (via contaminated objects or surfaces) and through close contact with infected persons, in the form of oral and nasal secretions (saliva, respiratory secretions or droplets). To halt the spread of the virus, the free circulation of people has been limited, leading to some economic activities being halted, which has in turn led to an unprecedented economic crisis.

Credit Conversion Factor (CCF): Percentage applied to convert an off-balance- sheet exposure (e.g. a guarantee) into its equivalent balance-sheet amount. This factor is applied in the procedure used to calculate the EAD (see definition).

Credit Default Swap (CDS): Derivative contract whereby one party (the protection seller) undertakes, in return for payment of an amount of money, to pay another party (the protection buyer) an agreed amount if a given event occurs in relation to the deterioration in the credit of a third counterparty or reference entity.

Credit Risk Mitigation (CRM): Set of techniques, ancillary contracts to credit or other instruments (such as financial assets and guarantees) which enables a reduction in the capital requirements to cover credit risk.

Credit risk stage: Credit risk stage refers to the classification of financial assets valued at FVOCI or at amortized cost, commitments to disburse funds and financial guarantees issued subject to the impairment rules of IFRS9 according to changes in their credit risk (paragraph 5.5). There are three risk stages:

a) Stage1 comprises:
    a. Credit exposures originated or acquired;
    b. Exposures with no significant increase in credit risk compared to their initial recognition;
    c. Exposures subject to the low credit risk exemption.

b) Stage2: significant increase in credit risk compared to initial recognition;
c) Stage3: impaired exposures.

Crossover Fund: Investment fund holding investments in listed and unlisted companies on regulated markets.

CVA – Credit Value Adjustment: The adjustment of a portfolio's value to incorporate the counterparty credit risk into transaction prices. CVA has been explicitly introduced by the Basel III framework, and is mainly applied to over- the-counter (OTC) derivatives, i.e. derivatives not subject to specific regulations.

Default: The condition, either expected or already occurred, of failing to repay a debt.

Deposit Guarantee Scheme (DGS): The DGS (Directive 2014/49/EU) operate at national level, financed by the national credit institutions, and their principal aim is to ensure repayment of a share of bank deposits. Currently two such schemes operate in Italy: the FITD (see definition) and the FGD (*Fondo di garanzia dei Depositanti del Credito Cooperativo*). At EU level the process of implementing the third pillar of the European banking union by introducing a European Deposit Insurance Scheme (EDIS), to which the funds of the various national DGS will be transferred.

Direct Funding (retail): Cash amounts due to customers, resident or otherwise, in respect of sight or term deposits or with notice, current accounts, bonds, certificates of deposits, repos and subordinated liabilities. The definition does not include amounts due to other banks, third-party funds held under administration (received from governments, regions or public institutions), liabilities in respect of bankers' drafts and other securities.

Dividend Discount Model, Excess Capital version: This model is used in order to estimate the intrinsic value of a share based on the sum of its future dividends discounted back to their present value: in this version the dividend flows, taking into account the minimum capital limits set by the regulatory authorities, are discounted back using the cost of own capital Ke (calculated according to the *CAPM* method (see definition)) as the discount rate, while the period of time consists of the first years of explicit estimates and the terminal value (calculated via the capitalization at constant perpetual growth rate g).

Discounted Cash Flows Model: it's a valuation method, alternative to the Dividend Discount Model (see definition), suited for those companies which do not have to comply with capital strength requirements, and based on the assumption that the value of asset depends on cash flows generated by the asset, by the time horizon and by their riskiness. Also in this valuation model, cash flows are discounted using the Ke rate (determined pursuant to the CAPM methodology, see definition) over a time horizon forecast by the company into its plans and budgets, and taking also into account a terminal value obtained by using a constant growth rate "g".

Duration: Duration is a synthetic indicator of the interest rate risk of a bond, as bond prices have an inverse relation to interest rates. It is defined as the average maturity of expected cash flows, weighted by the contribution which the present value of each cash flow makes to the price. Duration is expressed in years.

ECAI: External Credit Assessment Institution, agency in charge of assessing the credit risk whortiness.

Earnings per share – EPS: the ratio between the net income and the average number of shares outstanding during the period, possibly adjusted for taking into account potential equity instruments such as options and convertible bonds.

Effective Interest Rate: the rate of interest which renders the discounted value of future cash flows deriving from the loan or receivable by way of principal and interest equal to the amount disbursed, including costs/income attributable to the loan. This method of accounting enables the effect of the costs/income to be distributed over the expected outstanding life of the loan.

Embedded Derivative: An embedded derivative is a component of a hybrid security that is embedded in a non-derivative instrument (or "host"), and cannot be stripped out from its host. For an embedded derivative to be defined as such, a portion of the cash flows from the host contract must vary in relation to changes in an external variable (such as an interest rate, credit rating, the price of a commodity, or some other).

ESG – Environmental, Social, Governance: the definition indicates non-financial criteria used to assess and measure the environmental, social and governance impact of corporations. Considering these parameters, it is also possible to rank corporations according to their degree of adaptation to these criteria.

Euro Interbank Offered Rate – EURIBOR: it means the short-term interbank rate, calculated on a daily basis, at which the most important banks exchange among them euro-denominated funds.

European Banking Authority (EBA): the EBA is an independent regulatory agency of the European Union set up in 2011 and forming part of the European System of Financial Supervisors (ESFS, a group of authorities and supervisors which since 2008 has constituted the new European micro- and macro- prudential supervisory framework). The EBA has the objective of ensuring an effective and uniform level of regulation and prudential supervision in the European banking sector, thereby ensuring financial stability within the EU and guaranteeing the integrity, efficiency and proper functioning of the banking.

Euro OverNight Index Average (EONIA): Interest rate applied to interbank loans denominated in Euros with a duration of one day (overnight), calculated daily as the weighted average of overnight unsecured lending transactions undertaken by a sample of banks with high credit standing selected on a regular basis by the European Banking Federation.

Euro Short Term Rate: This rate measures the cost of wholesale unsecured one-day funding for a sample of banks in the Euro area. The rate is calculated based on data collected as part of the Money Market Statistical Reporting (MMSR), introduced in 2016 for all money market transactions carried out by the largest banks in the Euro area.

European Central Bank (ECB): The ECB is the central bank for the European monetary union. Its primary objective is to preserve the purchasing power of the single currency, and so to maintain price stability within the Eurozone. The Single Supervisory Mechanism (SSM, the first pillar in the process of creating European banking union) has also granted the ECB powers of supervision over the largest banks in the Eurozone.

European Securities and Markets Authority (ESMA): ESMA is a European Union institution which is responsible for supervising the functioning of financial markets in Europe, ensuring the stability of the EU financial system and safeguarding its integrity, transparency and proper functioning, and strengthening investor protection.

European Systemic Risk Board (ESRB): European committee for systemic risk which is part of the European System of Financial Supervision. It is tasked with the macro-prudential oversight of the financial system within the European Union and is responsible for preventing and mitigating systemic risks that could originate within the European financial system.

Expected Loss: The expected loss is an estimate of the loss which a bank expects to incur in respect of a position or of a portfolio of assets. This amount, which by definition is predictable, in practice does not constitute a concrete risk for the Bank, and is already considered to be a component of the cost to be debited to the client when the interest rate is finalized in the loan contract.

Expected Shortfall: The expected shortfall represents the expected amount of losses over and above the VaR limit (see definition).

Exposure At Default (EAD): The amount to which the bank is exposed at the point in time upon the default of an obligor.

Fairness/Legal opinion: it means an opinion, given at request, by professionals of sure and certain competence and professionalism, in order to ensure the correctness of economic conditions and/or of the legitimacy and/or of technical aspects of a certain operation at a certain moment.

Fair Value: Fair value is the price at which an asset (or liability) can be traded (or paid off) in a free transaction between conscious and willing parties.

Fair Value Hedge: Type of hedge provided for by IAS39 to neutralize exposure to changes in a balance-sheet item's fair value.

FINREP: a document issued by the CEBS (Committee of European Banking Supervisors), a body which provides advisory services to the European Commission on banking regulations. The CEBS also promotes co-operation and convergence of regulatory practices within the European Union. In 2011 the EBA (European Banking Authority – see entry) began to define harmonized supervisory reporting schemes with statistical content. FINREP itself came into force in 2014.

FTA – First Time Adoption: Governed by IFRS1, FTA refers to entities applying IAS/IFRS for the first time and also in the event of material changes in standards already adopted. With reference to IFRS9 coming into force, first adopters must provide adequate disclosure of the effects of applying the standard to allow users of financial statements to understand the impact on the entity's financial situation and net equity. First adopters are exempted from providing comparative information.

FVOCI - Fair Value Through Other Comprehensive Income: FVOCI is one of the methods used for classifying financial assets contemplated by IFRS9 (paragraph 4.1.2A). A financial asset must be recognized at FVOCI when all the following conditions are met:

– The asset is held according to a business model, the objective of which involves both collecting contractual cash flows and selling the financial asset (Hold to collect and sell; see definition); and
– The contractual terms of the asset are such that at given dates, the cash flows consist solely of payments of principal and interest on the principal amount for repayment.

FVTPL - Fair Value Through Profit and Loss: FVTPL is one of the methods used for classifying financial assets contemplated by IFRS9 (paragraph 4.1.4). It is a residual category, given that assets are measured as FVTPL only if they do not meet the criteria for being recognized at amortized cost: it is not an instrument which pays only principal and interest and which is held for purposes other than the collection of contractual cash flows (e.g. for trading purposes). This category includes instruments for which the entity has chosen to apply the fair value option (see definition), derivative instruments and those which fail the SPPI test.

Fair Value Option (FVO): A FVO is an option for classifying a financial instrument. By exercising this option a non-derivative instrument or an asset not held for trading purposes may also be recognized at fair value through being recorded in the profit and loss account.

Financial Stability Board (FSB): A international body set up following the G20 London summit in April 2009) to monitor and supervise the global financial system. Its mission is to promote international financial stability through extended co-ordination of national financial authorities and other global standard-setters.

Fondo Interbancario di Tutela dei Depositi (FITD): This is the fund to which Italian banks contribute to guarantee depositors up to the limits provided (€100,000). The Fund intervenes on the Bank of Italy's authorization in cases of insolvency or extraordinary administration; participant banks pay funds in after the crisis has occurred, at the Fund's request.

Forborne Exposures: Forborne exposures are defined as debt contracts in which concessions have been granted to a borrower which is in, or is shortly to find itself in, a situation where it is unable to meet its financial commitments (referred to as "financial difficulties"). This situation may apply to both performing and non-performing contracts.

Foundation Internal Rating Based (FIRB) Models: This is one of the three methods used to calculate credit risk under Basel II. Unlike the AIRB model (see definition), with the FIRB model the Bank only estimates PD internally, and uses regulatory values for the other parameters (LGD and EAD) needed to calculate the capital requirement.

Forward looking information: According to the new impairment model introduced by IFRS9, writedowns must be recorded on the basis of expected future losses in value which have not occurred yet. These expectations must incorporate forward-looking information, to anticipate the effects of possible future loss events. The expected loss calculation model applied for the Mediobanca Group considers three possible macroeconomic scenarios (baseline, mild-positive and mild-negative) which impact on PD (see definition) and LGD (see definition), including any sale scenarios where the Group's NPL strategy (see definition) envisages the possibility of recovering the loss through sale on the market.

Funding: Sourcing in various forms of the funds required to perform a corporate activity or particular financial transactions.

Funds Transfer Pricing (FTP): FTP is the rate to which each branch of the Institution resells the gathered funds to the central treasury; mirror-like it can also be the rate to which branches buy funds required to finance their own loans. FTP scheme aims to rebalance the profitability among each branch/area of the institution, rebalancing both funding and loans rates.

Futures: Standardized contracts with which the parties undertake to exchange currencies, securities or assets at an agreed price on a future date. Future contracts are traded on regulated markets, where their execution is guaranteed.

Global Systemically Important Institutions (G-SIIs): These are the largest financial institutions, of global systemic importance, which as such are subject to stricter or additional requisites and specific methods of supervision.

Goodwill: Goodwill is defined as the surplus in the purchase price over and above the target company's book value (obtained as the difference between acquired assets and assumed liabilities, both valued at fair value) at the acquisition date. Goodwill is thus the premium which a buyer pays in view of future economic benefits deriving from synergies or intangible assets which cannot be recorded separately.

Governance: Governance is the set of instruments and regulations by which a company is directed and controlled, with an emphasis in particular on the transparency of company documents and deeds and the exhaustiveness of disclosure to investors.

Grandfathering: In general terms, grand-fathering refers to any clause in a new regulation that exempts facts or behaviour put in place prior to the said regulation coming into force from application of the new provisions.

Harmonized Mutual Funds: Mutual funds covered by the provisions of Directive 1985/611/EEC as amended, which are open-ended, allow stock units to be offered to the public and have certain limits on investments, one of which is the obligation to invest primarily in listed financial instruments.

Hold to collect: a business model, the objective of which is to hold the financial assets for the purpose of collecting its contractual cash flows. Assets treated according to this model must undergo an SPPI test (see definition), and if they pass it, are recognized at amortized cost (see definition).

Hold to collect and sell: a business model, the objective of which is both to collect contractual cash flows and to sell the instrument. This business model should not be confused with the held for trading model, whereby assets are acquired chiefly for the purpose of selling them in a short period of time. Assets treated according to this model must undergo an SPPI test (see definition), and if they pass it, are recognized at FVOCI (see definition).

IASB – International Accounting Standards Board: an independent body of experts which, as part of the IFRS (International Financial Reporting Standards) Foundation, has since 2001 replaced the IASC (International Accounting Standards Committee) in issuing international accounting standards. The Board is a group of independent experts with an appropriate mix of recent practical experience in setting accounting standards, in preparing, auditing, or using financial reports, and in accounting education.

IFRS16 Leasing: a lease is defined as a contract under which the lessor grants another party, known as the lessee, the right to use a given asset for a period of time in return for payment of a fee. IFRS16, which came into force on 1 January 2019 (1 July 2019 for the Mediobanca Group), replaced IAS17 which had been in force since 2005. The most important aspect which characterizes the new standard is the fact that for purposes of accounting treatment, it does away with the distinction introduced by IAS17 between finance and operating leases, introducing new concepts such as the right of use over the asset covered by the lease, which enables it to be established as to whether a given contract is a lease or a service. A contract is considered to be or to contain a lease if it transfers ownership of the right to control the use of a specific asset, for a period of time established at the outset, in return for an agreed fee, defining the terms and conditions of the asset's usage, and, even if not stated expressly, the maintenance of its efficiency over time.

Impairment: Impairment refers to the loss in value of an asset, recorded when its carrying value exceeds its recoverable amount (i.e. the value that can be obtained by selling or using the asset). IFRS9 has introduced a forward-looking impairment model (see definition) based on the expected loss in value, as opposed to the current, incurred loss model. The expected losses are estimated at 12 months (Stage1 exposures) or at the end of the instrument's life (stages 2 and 3). The impairment losses booked must therefore reflect not only the objective losses in value recorded at the reporting date, but also the expected losses in value which have not yet been incurred. For exposures belonging to Stage1, the total value adjustments are equal to the expected loss calculated over a time horizon of up to one year. For exposures belonging to stages 2 or 3, the total value adjustments are equal to the expected loss calculated over a time horizon equal to the entire duration of the related exposure.

Impairment test: Test aimed at checking the book value of each financial assets: in case of a permanent reduction in the value, the value of the assets should be reduced (with impact taken to profit and loss). This test should take place once a year both for intangible assets with indefinite life and for goodwill originated by a business combination (see definition); in all other cases, the entity should check, at the end of each reporting date, whether there are evidences of permanent reduction in value.

Indirect Funding: Equities and other value items not issued by the deposit bank but received by it to hold as a deposit under custody, administration or in connection with asset management activity. For purposes of financial reporting, the category consists of: Assets Under Management (see definition); Assets Under Custody; and Assets Under Advice (see definition): i.e. the sum of funds under administration (shares, bonds, mutual funds and government securities) and funds under management (policies, insurances and pension schemes).

Interest Rate Swap (IRS): A contract which falls within the category of derivative contracts, and in particular that of swaps, in which counterparties exchange streams of payments which may or may not be indexed to interest rates calculated based on a notional benchmark capital

Internal Capital Adequacy Assessment Process (ICAAP): Pillar II of the Basel Accord (see definition) requires all intermediaries to put in place a process for ongoing assessment of the adequacy of their internal capital (ICAAP).

The process must be formalized, documented and approved by the relevant bodies and submitted to internal review on a regular basis.

Internal Dealing: Trades involving the shares of issuers listed in Italy or elsewhere which are executed by "relevant parties" of the issuer itself or by persons closely related to them. The subject is governed by the Italian Banking Act and by CONSOB, with the parties involved being obliged to make disclosure to the market in timely fashion of any purchase or sale of securities in their company.

Internal Liquidity Adequacy Assessment Process (ILAAP): Directive 2013/36/EU stipulates that all intermediaries must put in place sound strategies, policies, processes and systems to identify, measure, manage and monitor liquidity risk, to ensure that adequate liquidity reserves are maintained.

Investment Grade: Term used to refer to counterparties and/or bonds which are highly reliable and have received a medium/high rating (see definition), e.g. not lower than BBB- on the Standard & Poor's scale.

IOSCO – International Organization of Securities Commission: IOSCO is the International body that brings together the world's securities regulators and is recognized as the global standard setter for the securities sector. IOSCO develops, implements and promotes adherence to internationally recognized standards for securities regulation. It works intensively with the G20 and the Financial Stability Board (FSB) on the global regulatory reform agenda.

Joint Venture (JV): Agreement pursuant to which two or more parties, usually companies, undertake to work together to pursue a joint project (industrial or commercial) or decide to jointly leverage their synergies, expertise or capital.

Junior: In a securitization, the junior tranche is the lowest-ranking of all securities issued, and is the first to incur the losses which may crystallize the course of recovering the underlying assets.

Large Institution: definition introduced by CRR2 regulation (see definition). A corporation falls under the definition of Large Institution when it meets one of the following conditions:

- it is a G-SII;
- it has been identified as an O-SII (systemically-important institution), according to article 131, point 1 and 3 of Directive 2013/36/EU (CRD, see definition);
- in the EU Member State it is incorporated in, it represents one of the three major corporations in terms of total assets;
- its total assets, at individual level or (when applicable) at consolidated level, amount to or exceed at least €30bn.

Leveraged Finance: Type of financing which comprises transactions aimed at:
- Acquisitions of unlisted companies sponsored by private equity funds on a no-recourse basis with debt commensurate with future cash flows;
- Acquisitions of companies sponsored by corporates or financial holding companies on a no-recourse basis with a very high risk profile;
- Supporting equity distributions (including in the form of share buybacks) by very high risk borrowers.

London InterBank Offered Rate – LIBOR: it represents a reference rate for the interbank market transactions, calculated on a daily basis by the British Bankers' Association, and represents the rate at which most important English and European banks exchange funds with short term horizon.

Loss-Given Default (LGD): The loss that the lender incurs if the borrower defaults. In order to calculate capital requirements using the internal ratings- based method, the LGD value may be calculated using the approach set by the regulator (the FIRB method) or determined internally by the Bank using its own model (the AIRB model).

Loan To Value Ratio – LTV ratio: obtained as the ratio between the amount lended and the value of the asset which is supposed to be bought with this amount. The LTV Ratio is commonly used by banks as an indicator of credit risk.

Lockdown: this term has come to be associated in particular with the response to the Covid-19 pandemic (see entry) and the measures introduced by governments to contain the spread of the virus and so safeguard the health of their respective populations.

Low credit risk exemption: Pursuant to paragraph 5.5.10ff of IFRS9, a company can assume that for a certain instrument the credit risk has not experienced a significant increase when this instruments shows, at the reporting date, a low credit risk. This definition is met for Stage1 exposures, which show a low insolvency risk since they can be qualified as investment grade instruments.

Low value (IFRS16 definition): Pursuant to paragraph 5 of IFRS16, it represents one of two cases in which the lessee can choose not to apply the standard provisions. The standard (paragraph B3) indicates 5,000$ (ca. 5,000 Euros) as the presumption for considering an asset of low value.

Macroeconomic scenario: description of the economic system at aggregate level, which factors in expected projections of material economic indicators.

Markets In Financial Instruments Directive (MIFID): Directive 2004/39/EC (transposed into Italian law under Legislative Decree 164/07) which has the objective of creating a single market for investment services and activities across the EU. It has recently been amended by Directive 2014/65/EU ("MiFID II").

Mark to Market: Valuation used in the futures and options markets, whereby the value of the net position for each operator is established daily on the basis of the most recent market prices.

Maturity: it indicates the reimbursement date or the expiring date of the instrument.

Mezzanine: In a securitization (see definition), the mezzanine tranche is the one with intermediate ranking between the junior and senior tranches.

Minimum Requirement for own funds and Eligible Liabilities (MREL): MREL is a requirement introduced by the BRRD Directive (see definition), the purpose of which is to ensure that the bail-in mechanism (see definition) works smoothly by increasing the Bank's capacity to absorb losses. The MREL indicator is calculated as follows:
(own funds + eligible liabilities) / (total liabilities + own funds)
New regulatory provisions require a MREL ratio of 21.85% on risk-weighted assets (RWAs, see definition) and of 5.91% on the leverage exposure.

Moratorium: the term “moratorium” refers to the suspension of the term for meeting an obligation, granted by provision of law, for exceptional reasons. For this reason it also covers the concessions granted in relation to the Covid-19 pandemic at government level under the so-called “Italy” Decree Law issued on 17 March 2020, and subsequent decrees, which provides for the terms set for meeting payment obligations to be suspended following the crisis caused by the pandemic. Under the terms of the EBA guidelines (EBA/GL/2020/02), Covid-related moratoria include suspensions of payment obligation deadlines granted by national legislation (which for Italy means the “Heal Italy” and “Liquidity” Decree Laws) and those granted under initiatives promoted by category associations (ABI/Assofin in Italy); they do not include voluntary payment relief or private support measure initiatives granted by individual banks. Furthermore, the EBA Guidelines issued on 2nd December 2020 have extended the period during which “EBA-compliant” moratoria can be granted up to 31th March 2021, but they have excluded cases in which a customer had been granted 9 months or more of payments suspension.

Net Asset Value (NAV): NAV is the value assigned to a fund’s net equity: it is calculated by dividing the value of all assets, securities and liquidity held in the portfolio by the number of stock units in issue. For mutual investment NAV is calculated and disclosed at different intervals: daily for open-ended funds, monthly for closed-end funds.

Non-Performing Loans: Loans for which collection is uncertain both in terms of expiry and amount of the exposure.

Non-Financial Disclosure: Document, drawn up in accordance with the provisions of Article 4 of Italian Legislative Decree 254/16, which contains information on environmental, social and staff-related issues and on human rights and measures to tackle bribery and corruption, of use to provide an understanding of the activities performed by the Group, its performance, results and the impact produced by it on the social and environmental point of view.

NSFR – Net Stable Funding Ratio: The NSFR is defined as the amount of available stable funding (ASF) relative to the amount of required stable funding (RSF). The ASF is defined as the portion of equity and liabilities considered to be reliable over the time horizon considered by the NSFR, i.e. one year. The amount of RSF required for a specific bank depends on its liquidity characteristics and the outstanding maturities of the various on- and off-balance-sheet assets held by it. The ratio must remain at a level of at least 100% on an ongoing basis.

OSI – On Site Inspection: activity included in supervisory regulation carried out by different regulator (ECB, for instance) to better analyze particular aspects of the corporation under scrutiny. These inspections are carried out at the headquarter of the Bank or institution subject to the supervisory process.

Options: Derivative contracts which include the right, but not the obligation, for the option holder, by paying a premium, to acquire (call option) or sell (put option) a financial instrument at a given price (strike price) by (US-type option) or at (European-type option) a future date.

Outsourcing: Outsourcing is when a given company process and/or corporate function held to be non-core is contracted to a supplier external to the company.

Over-The-Counter (OTC): OTC refers to markets with no contracts or standardized trading methods which are not linked to a series of regulations (admission, controls, disclosure obligations, etc.) such as those regulating official markets.

Overlay ("overlay adjustment"): the term "overlay" refers to an additional provision set aside according to the IFRS 9 model in calculating loan loss provisions. As per the instructions contained in IFRS 9 itself and the recommendations made by the various authorities (ECB, EBA and IASB), expected losses should not only be quantified on the basis of historical, current and forward-looking information, but it must also be possible to use managerial adjustments after the model has been applied ("post-model overlays or adjustments"), if it is felt that the models are unable to fully reflect the effects of the Covid-19 crisis and related government support measures.

Overtime (OVT) and Point in Time (PIT): According to IFRS15, OVT and PIT are the two possible methods by which a performance obligation (see definition) can be realized. In particular, OVT is when one of these conditions is met:

– The client simultaneously receives and uses the benefits deriving from the entity's performance in the process of its being made;

- The entity's performance creates or enhances the activity (e.g. work in progress) which the client is able to monitor in the process of its being created or enhanced; or
- The activity created by the entity's performance does not have an alternative use, and the entity has the enforceable right to receive payment for the performance completed to date.

If none of these conditions is met, then the PIT method is applicable.

Past due: This definition includes exposures, other than those classified as non- performing or unlikely to pay, which at the reference date have expired and/or are more than 90 days past due and which exceed a given materiality threshold. This limit is established with reference either to each individual borrower, or for retail exposures only, for each individual transaction.

Payout Ratio: The payout ratio is the percentage of net profit distributed to shareholders in the form of a dividend. This share depends chiefly on the company's need to retain earnings in order to finance its own activities and the returns expected by the shareholders on their investment.

Performance obligation: This is a definition introduced by IFRS15 which refers to "each promise to transfer to the client:

- A distinct good or service (or a combination of both); or
- A series of distinct goods/services which are substantially similar and which follow the same transfer method to the client".

Performance Shares: In share-based payment schemes, performance shares are shares in the company itself (or the same Group) which are granted to certain categories of staff contingent upon previously defined performance objectives being met.

Pillar III: Pillar III is a disclosure document come into force with EU Regulation n. 575/2013 (CRR, see definition) which introduces into European Union the bank supervisory rules of Basel Committee (see definition) known as "Basel 3". This includes both capital adequacy (Pillar I) and disclosure to the public (Pillar III). These disclosures enable market operators to make a more accurate assessment of banks' capital solidity and exposure to risks.

Plain Vanilla (derivatives): Plain vanilla derivatives are the simplest and least complex form of derivative instrument. The prices of such products depend on the price of their underlying instrument which is listed on regulated markets.

PPA – Purchase Price Allocation: PPA refers to the process of allocating the purchase price of the assets and liabilities of an acquired entity, which must be performed by the acquiring company, within the scope of application for IFRS3 (Business combinations).

POCI – "Purchased or Originated Credit Impaired": POCI refers to financial assets that were already credit-impaired when they were purchased or originated. POCI are usually recognized as Stage3 exposures.

Pricing: In the broad sense, the term refers to the means by which the returns on and/or costs of products or services offered by the Bank are determined; in a narrower sense, it refers to the process of establishing the price of a financial asset.

Probability of Default (PD): PD expresses the likelihood of a counterparty being unable to fully repay a loan at its expiry. The probability of the borrower defaulting within one year is estimated and a rating assigned to the counterparty accordingly.

Provisioning (loans): This term refers to transfer to provisions made in order to cover the expected credit loss. In particular:

- if at the reporting date there is no significant increase in the financial asset credit risk since its initial recognition, the corresponding provision should be valued for 12-months expected losses;
- if at the reporting date there is a significant increase in the financial asset credit risk since its initial recognition, the corresponding provision should be valued for its lifetime expected losses.

Prudential filters: These are adjustments made to accounting items in calculating regulatory capital, with a view to safeguarding the quality of the capital and reducing the potential volatility brought about by application of IAS/IFRS.

Rating: Valuation either formulated by a specialist private agency or determined internally by a specific department, of the credit standing of a given counterparty, distinguished by type of issuer and by financial instrument.

Return On Allocated Capital (ROAC): Ratio between net profit and average capital allocated/absorbed for the period under review. In percentage form it expresses earnings capacity per unit of capital allocated/absorbed.

Return On Equity (ROE): The return on equity is a measure of the profitability of a company's own equity, as expressed through the formula of net profit divided by average net equity for the period (excluding minority interest and dividends proposed and/or paid).

Return on Tangible Equity (ROTE): ROTE is calculated by dividing net profit by average "tangible" net equity (excluding minority interest and dividends proposed and/or paid as well as goodwill and other intangible assets).

Right of Use: According to IFRS16 (Appendix A) it is defined as "An asset that represents a lessee's right to use an underlying asset for the lease term".

Risk-Weighted Assets (RWAs): Summary of principal risk factors attributable to a given financial asset. The asset's nominal value is "adjusted" in order to express a more accurate measurement of its value. The more risky the asset is, the higher the risk weighting assigned to it (i.e. as the risk increases, so too do RWAs).

Royalty Relief Method: This is a valuation method used for an intangible asset (such as brands or patents), which is based on the assumption that the company that owns the asset does not have to license it from a third party and therefore does not have to pay any royalties. The value of the intangible asset is equal to the net present value of all potentially payable royalties.

Sale with Recourse: Transfer of a receivable where the selling party guarantees payment for the third party. The selling party thus guarantees both the existence of the receivable and the borrower's solvency to the recipient.

Sale without Recourse: Transfer of a receivable without the selling party offering any guarantee in the event of the borrower not meeting its obligations.

Only the existence of the receivable being sold is guaranteed by the selling party to the recipient, and nothing else, not even the borrower's solvency.

Securitization: Securitization is a financial technique used to raise additional financial resources, which is becoming increasingly common in the economic and financial panorama. Its use as an instrument to raise funding and as an alternative source of income has increased considerably in recent years, in both the private and public sector, becoming one of the principal components of the so-called "shadow" banking system. In the financial crisis referred to above, securitization enabled banks to feed the sub-prime mortgage granting mechanism "without concern".
Technically, securitization of debt is a process whereby one or more financial assets, undivided and illiquid and able to generate cash flows, such as amounts receivable by a bank, are "transformed" into divided, sellable assets, in the form of Asset Backed Securities (ABS).
Depending on the underlying instrument being securitized, we may speak of MBS (mortgage-backed securities, in which mortgages are the underlying), CDOs (collateralized debt obligations, in which public or private bonds are the underlying), or ABCP (asset backed commercial paper, in which short- or very short-term receivables are the underlying).

Senior: In a securitization, the senior tranche is the one which ranks highest in terms of priority of remuneration and repayment.

Sensitivity Analysis: Analysis carried out in order to estimate the changes in a given indicator according to the changes in one or more of the parameters which determine it (interest rates, exchange rates, market prices etc.), in order to establish the relations between the two of them.

Servicer: Intermediary regulated by the Bank of Italy (included in the special register instituted pursuant to Article 107 of the Italian Banking Act; see definition), responsible, under the provisions of Italian Law 130/99, for checking that securitizations are compliant with the provisions of the law and the contents of the information prospectus, and for collecting receivables sold and the related cash and payment services.

Significant Increase in Credit Risk – SICR: Pursuant to paragraph 5.5.3ff of IFRS9 standard, it is necessary to assess at each reporting date whether an instrument has experienced a significant increase in credit risk since the date of initial recognition. This assessment has to take into account qualitative as well as quantitative factors, typical of each facility. The granting of forbearance measures as well as the failing of the 30-days past-due period criterion are considered backstop events. Exposures showing a significant increase in credit risk at the reference date are classified into Stage2.

Short term: according to para. 5 of IFRS16, it represents one of the two cases when the lessee can decide not to apply the requirements of the principle itself. The lessee can make use of this faculty if the lease has a lease term of 12 months or less.

Significant bank: The EU Regulation n. 1024/2013 (this regulation establishes the Single Supervisory Mechanism, see definition) states three criteria to define whether the financial institution can be considered significant (if even one of this requirements is met):

- Total asset over 30 billions;
- The ratio between total assets and GDP of the EU state in which it resides is more than 20%, unless total assets value is below 5 billions;
- The ratio between total assets/liabilities of the institution and total assets/ liabilities of at least another EU state is more than 20%.

A financial institution is also considered to be significant when it has applied for or has received financial aid. Significant Institution are subject to direct supervision of ECB (see definition).

Single Resolution Board (SRB): The SRB is an authority which has been operational since January 2015 with the aim of bringing resolution to banking crises as part of the SRM (see definition) and the European Banking Union. The authority's objective is the effective resolution of banks in difficulty, with minimal impact on the real economy and public finances in countries which are member states of the European Union.

Single Resolution Mechanism (SRM): The SRM is the second pillar in the process of European Banking Union. It was established pursuant to Regulation (EU) 806/2014 of 15 July 2014, and consists of two related entities: the Single Resolution Board (SRB, see definition), which is the central authority, and the Single Resolution Fund (or SRF), the supranational fund.

Società di Gestione del Risparmio (SGR): SGRs are limited companies which are authorized to provide collective and individual asset management services jointly. In particular they are authorized to set up mutual investment funds, manage mutual funds (on a proprietary basis or other parties' instructions) and assets held as part of SICAVs, and to provide investment portfolio management services on an individual basis.

Società di Intermediazione Mobiliare (SIM): SIMs are entities which are not banks or regulated financial intermediaries which are authorized to provide investment services as defined in the Italian Finance Act (see definition). SIMs are subject to supervision by the Bank of Italy as far as regards risk management and capital solidity and to regulation by CONSOB on issues of transparency and proper conduct.

Speculative grade: Term used to refer to counterparties and/or bonds with a low rating (see definition), e.g. lower than BBB- on the Standard & Poor's scale; bonds of this type are often referred to as high-yield bonds.

Spline: mathematical function consisting of a series of curve arcs used to interpolate a series of points so that the resulting function is continuous and smooth.

Sponsor: The sponsor of a securitization, unlike the deal's originator, institutes and manages the SPV used to acquire the assets to be securitized from third parties.

Special Purpose Vehicles (SPVs): These are companies set up to pursue specific objectives, such as to ring-fence financial risk or obtain special regulatory or tax treatment for different portfolios of financial assets. SPVs do not normally have operating or management structures of their own, but use those of the other stakeholders involved in the transaction.

SPPI (Solely Payments of Principal and Interest) test: The SPPI test is the test required by the new IFRS9 in order to classify financial instruments according to the business model (see definition) in which they have been categorized by the bank. The test is carried out at the initial recognition stage, and for it to be passed, the contractual cash flows provided for must involve only the regular interest payments and repayment of the principal amount. If the test is failed, the instrument is recognized at FVTPL (see definition).

Spread: The spread is the difference in return, expressed in basis points, between two debt securities: such difference is usually due to the fact that the bonds belong to different rating classes, but also to considerations regarding the risk inherent in the bonds themselves. The comparison may be between debt securities of different sovereign states or issued by the same state but with different maturities, or between bonds issued by companies operating in different sectors.

SREP – Supervisory Review and Evaluation Process: SREP is the regular assessment and measurement of risks at the individual bank level. In SREP decisions, the supervisory authority can require each bank to hold additional capital and/or set qualitative requisites (known as Pillar II). SREP is performed by the Single Supervisory Mechanism, on the basis of the regulations contained in the Capital Requirement Directive (see definition).

Steepener: With reference to interest rates, a Steepener is a phenomenon in which the interest rate curve becomes steeper through a simultaneous decrease in short-term rates and an increase in long-term interest rates.

Stress Test: A stress test is a simulation procedure used to measure the impact of extreme market scenarios on the Bank's total exposure to risk, to allow the Bank's capital adequacy and liquidity profile to be assessed accordingly.

Structured Notes: *A structured note is a debt obligation whose return performance* is related to one or more embedded derivative components such as stock index, single securities or currency.

Sublease: According to IFRS16 (Appendix A) it is "A transaction for which an underlying asset is re-leased by a lessee ('intermediate lessor') to a third party, and the lease ('head lease') between the head lessor and the lessee remains in effect".

Swap: Transaction in which cash flows are exchanged between market operators in accordance with specific contractual provisions. Such contracts may have different underlying instruments, including interest rates (the parties to such interest rates undertake to pay cash flows calculated according to different interest rates, typically one party fixed and the other floating interest rates), exchange rates, inflation and so forth.

Tax Rate: This refers to the effective tax rate, as expressed by the ratio between income tax and profit before tax.

Testo Unico Bancario (TUB): The Italian Banking Act, i.e. Italian Legislative Decree 385/93 as amended.

Testo Unico dell'Intermediazione Finanziaria (TUF): The Italian Finance Act, i.e. Italian Legislative Decree 58/98 (also known as the "Draghi" law) as amended.

Tier 2: Tier 2 capital is the secondary component of bank capital and consists mainly of subordinated liabilities which in turn may be split between Upper Tier 2 (bonds with an original duration of more than ten years which may be used to cover losses deriving from the entity's operations which would make it unable to continue its activities), and Lower Tier 2 (bonds with an original duration of more than five years).

T-LTRO – T*argeted Long Term Refinancing Operation:* The T-LTRO is a non- conventional monetary policy actions implemented by the ECB (see definition) in order to tackle the financial crisis. Through this action, long-term liquidity is provided to banks.

Total Capital Ratio: A capitalization ratio referring to the aggregate of constituent elements which go to make up Own Funds (Tier 1 and Tier 2). It is expressed by the ratio between total regulatory capital (i.e. Tier 1 + Tier 2 capital consisting of equity instruments other than ordinary shares meeting the regulatory requirements) and the value of RWAs (see definition).

Total Loss Absorbing Capacity (TLAC): TLAC represents the prudential standard defined by the Financial Stability Board (see definition) in 2015. It serves the same purpose as MREL (see definition), namely, to ensure that the banks involved (G-SIBs) have sufficient securities in issue to be able to absorb losses.

Trading Book: The term "trading book" usually refers to securities or financial instruments in general which go to make up a portfolio of assets for use in trading activities.

Transaction price: Under IFRS15, the transaction price is "the amount to which the entity deems itself to be entitled in exchange for the transfer of the promised goods or services to the customer, excluding amounts collected on behalf of third parties". IFRS15 stipulates four elements that can create difficulties in its valuation: variable fees (and limits on them), contractual provision for a significant financial component, non-monetary fees, and fees to be paid to the customer.

Undertakings for Collective Investment in Transferable Securities (UCITS): As defined by the Italian Banking Act, there are two types of UCITS:

– Mutual investment funds, i.e. vehicles which group the financial resources of numerous investors to form a single, indistinguishable equity for investment in financial assets; and

– SICAVs (Società d'Investimento a Capitale Variabile; or investment companies with variable capital), i.e. companies whose sole purpose is to invest their own equity, which is raised by selling their shares to the general public.

UTP, Unlikely to Pay: UTP is one of the categories of impaired or non-performing loans (see definition). These are exposures for which the bank thinks the borrower will be unlikely to be able to fully comply with its contractual obligations without recourse to actions such as the enforcement of collateral.

Value at Risk (VaR): The Value at Risk is the maximum loss possible on a portfolio as a result of market performance, measured with a given confidence level and over a given time horizon, based on the assumption that the positions require a certain period of time to be sold.

Warrant: A warrant is a tradable instrument that entitles the holder to buy or sell fixed-income securities or shares from or to the instrument's issuer.

Writeoff: A writeoff is an event that entails an item being deleted from the accounts when there is no longer any reasonable expectation of being able to recover the amount receivable. It may refer to the entire amount or only a portion of the receivable. An item may be written off before legal action to recover the amount has been completed, and does not necessarily imply that the company has waived its legal right to recover it.

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