MEDIOBANCA

Quarterly Report

for the three months ended 30 September 2003

MEDIOBANCA

LIMITED COMPANY

SHARE CAPITAL € 389,275,207.50 FULLY PAID UP - RESERVES € 3,189.1m

HEAD OFFICE: PIAZZETTA ENRICO CUCCIA 1, MILAN, ITALY

Registered as a Bank. Parent Company of the Mediobanca Banking Group

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for the three months ended 30 September 2003

REVIEW OF GROUP OPERATIONS

In the three months under review, the Mediobanca Banking Group earned a pre-tax profit of € 164.5m, compared with a loss of € 346.3m at the same stage last year. This reflects an improved performance both in terms of ordinary operations, which were up 43.4%, or € 45.3m, and the Group's investment portfolio, which contributed € 70.3m.

On the operating side, both Mediobanca's wholesale banking business and the Compass group's activities improved, and the main sources of income rose appreciably: the *Interest margin* climbed from € 111.8m to € 145.6m, an increase of 30.2%, and *Commissions and other income* rose by 26.8% from € 54m to € 68.5m. Meanwhile, the upturn in share prices in the months prior to and since 30 June 2003 led to net writebacks in the investment security portfolio of € 70.3m based on average prices in the six months to 30 September. Last year, the portfolio's performance resulted in writedowns of € 348.1m based on prices as at 30 September 2002.

Other items which contributed to the pre-tax result were net writedowns to securities and derivatives held in treasury of € 33.4m (30/9/02: € 72.5m), and net writeoffs and provisions for loan losses in connection with the Compass group's activities totalling € 18.6m (€ 12.8m), largely as a result of higher consumer credit volumes.

It should also be pointed out that:

- the different features of the various businesses in which the Group operates, including wholesale banking, equity investment, consumer and household credit, and leasing, are such that interim and especially quarterly results are not automatically indicative of the financial year as a whole, especially with regard to fee and other income, gains on trading, and investment security portfolio performance;

- Compagnie Monégasque de Banque will be consolidated on the line-by-line basis as of the interim accounts for the six months ended 31 December 2003.

Consolidated accounts

The Group's financial highlights have been restated in the usual fashion, and are given below:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	3 mths to 30/9/02	12 mths to 30/6/03	3 mths to 30/9/03
	(€ m)	(€ m)	(€ m)
Interest margin ([1])	111.8	607.4	145.6
of which: dividends	*0.1*	*118.2*	*0.1*
Commissions received and other income	54.0	232.0	68.5
General expenses ([1])	(61.5)	(300.2)	(64.5)
Gross margin from ordinary operations	**104.3**	**539.2**	**149.6**
Writedowns in securities and derivatives held in treasury	(72.5)	(70.6)	(33.4)
Net gain (loss) on sale of securities held	(13.4)	(51.1)	—
Writebacks (writedowns) in investment securities	(348.1)	(181.0)	70.3
Net writeoffs and transfers to cover loan losses and other charges ([1])	(12.8)	(69.2)	(18.6)
Gain (loss) on investments stated on net equity basis	—	(4.0)	—
Margin before taxation and provision	**(342.5)**	**163.3**	**167.9**
Transfers to provision for liabilities and charges ([1])	—	(5.1)	—
Accelerated depreciation and amortization	(0.6)	(5.1)	(0.4)
Profit attributable to minority shareholders	(3.2)	(8.8)	(3.0)
Margin before taxation	(346.3)	144.3	164.5
Transfers to provision for income tax	—	(90.7)	—
Net profit	—	53.6	—

([1]) Figures restated. In order to reflect the nature of the Group's operations more accurately, commissions on funding instruments have been included in the *Interest margin* rather than *General expenses*. The portion of *Provision for liabilities and charges* relating to possible loan losses has been included in *Bad debts written off*, which has been renamed *Net writeoffs and provisions for loan loss and other charges*.

CONSOLIDATED BALANCE SHEET

	30/9/02	30/6/03	30/9/03
	€ m	€ m	€ m
Assets			
Net treasury funds employed (1)	6,417.4	9,365.0	9,848.2
Loans and advances	16,501.4	15,033.9	16,544.9
Investment securities	3,132.3	3,168.6	3,593.8
Intangible assets	1.8	1.5	1.4
Property	120.9	123.3	122.1
Furniture and fixtures	5.2	5.4	5.0
Other assets (1)	1,899.0	2,176.8	2,230.6
Total assets	28,078.0	29,874.5	32,346.0
Liabilities			
Deposits and loans (1)	21,307.0	23,070.3	25,439.5
Provision for liabilities and charges	344.1	301.6	307.5
Consolidated provision for future liabilities and charges	5.9	—	—
Other liabilities (1)	1,852.6	1,537.3	1,609.4
Loan loss provision	13.4	13.4	13.4
Equity attributable to minority shareholders	55.9	61.5	62.7
Shareholders' equity	4,845.4	4,836.8	4,749.0
Profit (loss)	(346.3) (2)	53.6	164.5 (2)
Total liabilities	28,078.0	29,874.5	32,346.0

(1) Figures restated. In order to reflect the nature of the Group's operations more accurately, certain items normally included under *Other assets*, *Deposits and loans* and *Other liabilities* have been reclassifed as *Net treasury funds employed*.

(2) Pre-tax.

Review of key items

The following principles adopted in drawing up these accounts should be borne in mind when analysing them:

- the treasury portfolio, consisting of securities and derivatives, is stated at the lower of cost and market value, which means that writedowns are charged to earnings but unrealized gains are not;
- commissions on loans by the Compass group are taken to profit and loss in the accounting period during which the underlying contracts are executed, rather than being amortized over the life of the contracts themselves, and advance tax thereon is not credited to earnings;
- value adjustments to receivables in the case of the Compass group reflect a sizeable collective impairment provision as well as the estimated loss.

Consolidated balance sheet

The Group's key asset aggregates during the three months under review performed as follows:

Funding – this heading includes € 1.5bn in transient items in respect of back-to-back transactions with clients. The € 0.8bn rise net of such items is largely due to debt securities, which rose by 4% from € 17.7bn to € 18.4bn, whereas loans from banks, chiefly raised by the Compass group, grew from € 3.3bn to € 3.4bn. *Mediobanca International*'s contribution remained unchanged vis-à-vis 30 June 2003 at € 3.3bn.

Customer loans – these rose by € 1.5bn from € 15bn to € 16.5bn, largely due to the short-term transactions effected by Mediobanca as described above. As at 30 September 2003, 71% of the Group's loan book consisted of lendings to corporates and structured finance, 15% of leasing transactions and 14% of consumer credit. At 30 September 2003 significant exposures in terms of loan concentration according to the permitted risk weightings, i.e. in excess of 10% of consolidated regulatory capital as determined under Bank of Italy regulations, totalled € 7,668.2m (30/6/03: € 9,907.2m), or 17.2% (22.3%) of the aggregate limit of € 44,494.1m. The funds concerned were lent to eight "groups of connected clients", as against ten at the end of June.

Investment securities – these rose by € 425.2m, € 251.3m of which was due to the acquisition of a 44.35% stake in Compagnie Monégasque de Banque in July of this year. The balance is chiefly due to movements described in the Group's Annual Accounts and Report as at 30 June 2003, i.e. € 39.7m to subscribe for a rights issue by Fiat, and € 58.7m to acquire Telecom Italia equities and bonds. To these movements should be added the € 70.3m writebacks mentioned earlier based on average prices in the six months to 30 September 2003, which at current prices rise to € 153.1m. After such adjustments, the portfolio reflects a surplus over book value of € 2,564.1m, virtually unchanged at current prices. The Group's aggregate interest in Assicurazioni Generali is also unchanged vis-à-vis 30 June 2003 at 13.93% of that company's share capital, of which 12.61% is owned by Mediobanca and 1.32% by Compass, Sade Finanziaria and Spafid. This holding is carried at an aggregate book value of € 1,210.1m.

Net treasury transactions – these rose by € 483.2m from € 9.4bn to € 9.8bn, including forward transactions. This item comprises € 524.9m in net cash and short-term lendings, including forward and spot transactions, and € 9,323.3m in securities, almost all of which are fixed income. Writedowns to these securities and derivatives at the end of the three months under review total € 33.4m, after which the Group's treasury securities portfolio reflects unrealized gains of € 105.5m, plus a further € 102.2m on derivatives.

Provisions for liabilities and charges – these comprise the *Provision for taxation* amounting to € 229.2m, the *Staff termination indemnity provision* totalling € 34.1m, and the *Provision for liabilities and charges of* € 44.2m, mostly in connection with our consumer credit and leasing businesses.

Shareholders' equity – Group shareholders' equity fell by € 87.8m as a result of the proposed dividend payout.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Interest margin

This rose by over 30% compared with the first quarter of the Bank's previous financial year to reach € 145.6m (30/9/02: € 111.8m). The increase is largely due to the Compass group, whose margin rose by around 28% compared with twelve months previously, while profits from trading increased from € 23.4m to € 37.2m.

Commissions received and other income

This item rose by approximately 27% over the figure recorded twelve months previously, from € 54m to € 68.5m. The heading comprises:

- € 55.1m in fee income from wholesale banking activities (30/9/02: € 38.6m);
- € 10.4m earned by the Compass group (€ 12.5m), consisting chiefly of € 4.1m in recovered finance costs, € 2.7m in net income from leasing, and € 3.6m from recovered loans;
- € 3m from other Group companies (€ 2.9m).

General expenses

The key items under this heading consist of:

- labour costs of € 30.9m (30/9/02: € 27.4m), slightly more than half of which is attributable to Mediobanca. The increase is partly due to a rise in our headcount from 1,286 to 1,332 employees;
- bank charges of € 11.4m (€ 9.1m), € 8.9m of which were commissions paid by the Compass group (€ 6.7m);
- sundry costs and expenses of € 22.2m (€ 25m), including € 19.5m in administrative expenses (€ 20m), € 1.8m in ordinary depreciation charges (€ 2.6m), and € 0.9m in sundry other charges (€ 2.4m).

Net writeoffs and transfers to cover loan losses and other charges

These involve only the Compass group's business, chiefly consumer credit, and the increase in this item from € 12.8m to € 18.6m is largely due to growth in business volumes.

Review of group companies' performance

Mediobanca

Mediobanca earned a pre-tax profit of € 104.1m from ordinary operations in the three months ended 30 September 2003, as against € 71.1m during the equivalent period last year. This increase is due to improvement in all the main sources of income: the interest margin rose by approximately 25%, *inter alia* due to trading profits, which rose from € 24.5m to € 36.4m, and commissions and other income grew from € 35.6m to € 54.4m.

The margin before taxation and provisions was € 129.1m, as against a loss of € 350.8m as at 30 September 2002, after writebacks to the Bank's investment portfolio of € 70.3m calculated on the basis of average prices in the six months to 30 September (30/9/02: writedowns of € 348.1m). Write-downs to securities and derivatives held in treasury totalled € 33.9m (€ 73.2m), and transfers to loan loss provisions were made of € 11.3m.

Key financial data for the quarter have been condensed and compared on a like-for-like basis with those of Q1 and FY 2002-2003. They are as follows:

	30/9/02	30/6/03	30/9/03
Treasury funds employed (1)	5,705.5	8,796.6	9,297.2
Loans and advances	13,951.2	12,522.0	14,019.6
Investment securities	2,729.2	2,766.3	3,191.7
Deposits and loans (1)	18,307.7	20,042.6	22,426.9
Shareholders' equity	4,459.0	4,504.0	4,361.1
Interest margin (1)	62.6	365.6	78.8
Gross margin from ordinary operations	71.1	391.2	104.1
Net profit (loss)	(350.8) (2)	(14.0)	129.1 (2)

(1) Figures restated; see notes on pp. 4 and 5.

(2) Pre-tax.

The key asset aggregates performed as follows during the quarter under review:

Loans and advances: the increase in this item from € 12.5bn to € 14bn is due to short-term transactions, as described above.

Deposits and loans: net of transient items in respect of back-to-back transactions with clients, the € 0.9m increase in this item was principally due to debt securities, which rose from € 14.7m to € 15.4m.

Treasury accounts: these rose by 5.7% and consist of:

- € 0.4bn in cash and bank balances, including the net balance and forward transactions of € 1.4bn;
- € 8.8bn in fixed income securities (30/9/02: € 6.3bn). As at 30 September 2003, 68.6% of the portfolio consisted of government securities, 7.2% of Mediobanca bonds and the balance of sundry other securities;
- € 0.1bn in equities (30/9/02: € 1.1bn), after arbitrage transactions referred to in the Annual Accounts and Report as at 30 June 2003 were closed.

Investment securities: these were up € 425.4m at € 3,191.7m following the movements described earlier.

Adjustments were made to the holdings listed below as follows:

	€ m
Commerzbank	29.2
Telecom Italia (equities and bonds)	12.6
Capitalia	8.2
Mediolanum	7.5
Fondiaria-SAI (equities and warrants)	7.3
Finmeccanica	4.9
Fiat	(3.2)
Pirelli & C.	2.2
Other listed securities	1.6
Total	70.3

The Compass Group

	30/9/02 (€ m)		30/6/03 (€ m)	30/9/03 (€ m)	
Customer lendings	4,934.9		4,697.9	4,757.9	
Securitized lendings	511.3		1,112.2	1,112.2	
Loans disbursed	653.4		2,958.2	685.6	
Interest margin	50.4		229.9	65.9	
Gross margin from ordinary operations	30.9		122.7	41.2	
Net profit	1.5	(1)	13.1	19.4	(1)

(1) Pre-tax.

The Compass group's consolidated highlights as at 30 September 2003 reflect an improvement of 33.3% in the gross margin from ordinary operations, up from € 30.9m to € 41.2m, principally due to the lower cost of funding. Pre-tax profit rose from € 1.5m to € 19.4m, following net bad debt writeoffs and transfers to cover loan losses and other charges of € 18.6m (30/9/02: € 12.8m).

As at 30 September 2003, customer lendings totalled € 4,757.9m, versus € 4,697.9m at 30 June, 50.5% of which derives from leasing and 49.5% from consumer credit.

A review of the main developments in Group companies is given below:

Compass

This company earned a gross profit from ordinary operations (i.e. before tax and adjustments to receivables) of € 29.2m during the three months under review (30/9/02: € 17.9m). Customer lendings were 2.1% higher than at 30 June 2003.

SelmaBipiemme Leasing

Gross profit from ordinary operations (i.e. before tax, adjustments to receivables and other provisions) in the first three months of the new financial year was € 5.4m (30/9/02: € 8.3m). The net value of goods leased or pending lease was unchanged vis-à-vis 30 June 2003.

Palladio Leasing

This company earned a gross profit from ordinary operations (as defined above) of € 3.3m (€ 3.5m). The net value of goods leased or pending lease was 2.7% higher than at 30 June 2003.

Teleleasing

Gross profit from ordinary operations (as defined above) in the three months under review totalled € 7.7m (30/9/02: € 6.5m). The net value of goods leased or pending lease had grown by 1% since 30 June 2003.

Micos Banca

This company earned a gross profit from ordinary operations (as defined above) of € 2.3m (30/9/02: € 1.5m). Mortgage loans outstanding were 6.7% higher than at 30 June 2003.

The performance of the Mediobanca Banking Group's other main subsidiaries is briefly reviewed below:

MB Finstrutture - Intersomer S.p.A.

Pre-tax profit before provisions for the three months under review amounted to € 1.3m (30/9/02: € 198,000). Lendings outstanding are in line with the figure recorded at 30 June 2003.

Spafid

Profit before tax and net writedowns in securities in the three months under review was € 442,000 (30/9/02: € 459,000). Securities and value items managed on a non-discretionary basis amounted to € 1,208m, as against € 1,350m at 30 June 2003.

Mediobanca International Limited

Profit in the three-month period amounted to USD 2.1m (30/9/02: 2.3m). Total deposits were USD 3,861m, as against USD 3,733m at 30 June 2003.

* * *

Prospects

Ordinary operations should bear out the improvement in the interest margin, especially with regard to the Compass group's business. The contribution of non-recurring items such as trading gains and fee income will obviously depend on how the markets in which the Bank operates perform, whereas the investment portfolio should continue to do well, provided markets remain stable.

Milan, 28 October 2003

THE BOARD OF DIRECTORS

Methods of consolidation and accounting policies

The financial situation and profit and loss account for the three months ended 30 September 2003 have been prepared on a consolidated basis and in reclassified form consistent with the accounts for the year ended 30 June 2003 and the three months ended 30 September 2002.

Scope of consolidation

The consolidated accounts as at 30 September 2003 comprise the results of the Parent Company and those of its directly or indirectly controlled subsidiaries engaged in banking or financial services or solely or principally in activities of a substantially similar nature. The Bank's other significant equity investments have been consolidated using the net equity method. Compagnie Monégasque de Banque will be consolidated as of 31 December 2003.

Basis of consolidation

Group subsidiaries have been consolidated on the line-by-line basis by combining their earnings, expenses, assets and liabilities, and by eliminating equity and intra-group accounts against the carrying value of the underlying investments.

Net differences arising when the accounts were first consolidated as at 30 June 1994 have been recorded in the item *Negative goodwill on consolidation*. No positive goodwill on consolidation has been attributed to any assets.

The portion of net equity and share of profit for the period attributable to minority interests has been stated as *Net equity attributable to minority shareholders*.

Accounts expressed in foreign currencies

Accounts of subsidiaries denominated in currencies other than the Euro have been translated into Euros at exchange rates ruling on 30 September 2003. Exchange differences against net equity arising when the accounts were first consolidated have been taken to *Other reserves*.

Accounts used for consolidation

The consolidated accounts have been prepared from the financial statements of the individual subsidiaries as at 30 September 2003, restated where appropriate on a basis consistent with the format adopted for the Parent Company's accounts, and also adjusted to eliminate amounts charged to the profit and loss account solely to achieve tax benefits.

Leasing companies have been consolidated on the basis of their accounts prepared according to the finance lease method.

Accounting policies

The accounting policies are the same as those used in presenting the consolidated accounts.

Profit for the period ended 30 September is shown before tax.

OttavioCapriolo - Milano