



**MEDIORANCA**  
*Banca di Credito Finanziario S.p.A.*

## **Basel II pillar 3 Disclosure to the public**

**Situation as at 30 June 2011**



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## Introduction

With the issue of Circular no.263 on 27 December 2006 (“New prudential supervisory provisions for banks” as amended, or “Circular 263”), the Bank of Italy revised its regulations for supervision of banks, transposing *inter alia* the amendments introduced by the Basel Committee under the “New Basel Capital Accord, Basel II” and EU directives 2006/48/CE and 2006/49/CE.

The new prudential regulatory structure is based around three so-called “pillars”:

- ◆ “Pillar 1” introduces a capital requirement to manage typical risks of banking and financial activity, which involves the use of alternative methodologies to calculate capital requirements;
- ◆ “Pillar 2” requires banks to equip themselves with a strategy and process for controlling current and future capital adequacy;
- ◆ “Pillar 3” introduces obligations of disclosure to the public aimed at allowing market operators to make a more accurate assessment of banks’ capital solidity and exposure to risks.

With this document the Mediobanca Group (the “Group”) intends to provide the market with information regarding its own capital adequacy, exposure to risks, and the general characteristics of the systems put in place to identify, measure and manage such risks.

The document, which is structured into tables (the “Tables”) in accordance with the provisions of Circular 263, provides qualitative and quantitative information where this is considered to be applicable to the Group, within the term set for the annual financial statements to be published; unless otherwise stated, the figures shown are in thousands of Euros.

The Group updates the document on its website at [www.mediobanca.it](http://www.mediobanca.it).



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## Table 1 – General disclosure requirement

### Qualitative information

#### Introduction

The Group has equipped itself with a system for managing and controlling risks which is structured around the various organizational areas involved, to ensure the best possible coverage of significant risks to which the Group is or might be exposed, and at the same time to guarantee each unit's operations are consistent with their own propensity to risk as laid down in the Internal Capital Adequacy Assessment Process or ICAAP (Circular 263 - Section III). In particular, in the course of the ICAAP the governing bodies assess the Group's exposure to the various significant risks, both present and future, taking into account both strategies and developments in the reference scenario.

#### Group risk control and management system

Risk management involves, with different roles and responsibilities, the management and supervisory bodies and the various operating units of Mediobanca S.p.A. and the Group companies.

The Board of Directors, in view in particular of its role of strategic supervision, approves strategic guidelines and directions, business and financial plans, budgets, and risk management and internal control policies. The Board of Directors also assesses the adequacy of the Bank's organizational, administrative and accounting structure annually, with particular attention being paid to the internal control system and management of conflicts of interest.

The Executive Committee is responsible for managing the ordinary activities of the bank and for coordinating and directing the Group companies without prejudice to those issues for which the Board of Directors has sole jurisdiction.

The Internal Control Committee assists the Board of Directors, having duties of consultation and enquiry in particular with respect to the Bank's system of internal control and risk management, and the structure of its IT and financial reporting organization. With reference to risk management, the committee:

- ◆ performs monitoring, instruction and support activities to the Board of Directors with respect to the supervision of risk management policies, including compliance with applicable regulations, and ensuring these are consistent with the strategic guidance set;
- ◆ regularly reviews the functioning and efficiency of the system and procedures for controlling and managing risks, reporting back to the Board on these issues;
- ◆ reviews plans for calculating the adequacy of the Bank's aggregate capital, current and estimated, at the consolidated level in view of the large risks to which the Bank and Group are exposed (ICAAP) reporting back to the Board on this issue.

With reference to the structure of the Bank's IT and financial reporting organization, the Internal control committee assesses the compliance of decisions taken by the Head of Company Financial Reporting, the external auditors and the Board of Directors in respect of the correct application of accounting standards with primary and secondary regulations, their consistency for purposes of drawing up individual and consolidated financial statements, and generally serves in an advisory capacity to assist the Board of Directors in taking the decisions for which it has responsibility on matters of financial documents.

The Statutory Audit Committee monitors the system for managing and controlling risks and the internal controls system, assessing the effectiveness of all structures and units and also their coordination, and supervises the ICAAP process.



The Head of Company Financial Reporting is responsible for putting in place adequate administrative and accounting procedures for the preparation of the individual and consolidated accounts. The appointed bodies and the Head of Company Financial Reporting issue the statements on the company's capital, earnings and finances required by law.

The other main units of the Bank involved in risk management and control are:

- ◆ Risk management;
- ◆ Compliance;
- ◆ Group audit.

The **Risk management** unit presides over the Bank's risk management system, defining the appropriate methodologies to be used to measure the whole set of risks, current and future, in compliance with regulations in force and the Bank's own operating decisions, monitoring risks and checking that the limits established for the various business lines are complied with. In conjunction with the Accounting and financial reporting unit, it is also responsible for measuring the amount of internal capital to cover significant, quantifiable risks. It generates the flow of information to the governing bodies of the Bank based on the internal risk quantification models, in order for the various books' exposure to risk to be monitored.

The new structure of the Risk Management unit was formalized during the year, consisting of the Chief Risk Officer, who reports directly to the Chief Executive Officer and is responsible for identifying and implementing an effective risk management process through the following units:

- ◆ Enterprise risk management unit: responsible for developing risk management policies and quantifying risk appetite, preparing the ICAAP (Internal Capital Adequacy Assessment Process) document, and validating the Group's internal rating system.
- ◆ Credit risk management unit: responsible for executing the credit risk analysis entailed by lending and market transactions, and for assigning internal credit ratings to the counterparties in these transactions;
- ◆ Market risk management unit: responsible for defining the market and counterparty/issuer risk methodologies and metrics for the Financial markets division, for validating the models and methodologies used in pricing, for managing the "Product catalogue", monitoring the ALM position, managing liquidity policy and the related contingency funding plan;
- ◆ Risk management London branch unit – Risk projects: responsible for risk management at the London branch;
- ◆ Operational risk management unit, recently set up, with the aim of ensuring more effective risk prevention and mitigation action.

The **Compliance** unit is responsible for checking and managing compliance and reputational risk in accordance with the relevant regulations; it is tasked with the following duties in particular:

- ◆ checking and ensuring that the Bank's and the Group's activities are compliant with legal and regulatory requirements, with reference specifically to regulations on banking activity and the provision of investment services and on market abuse, handling operating relations with the relevant authorities;
- ◆ implementing the requisite measures and instruments to ensure that risks associated with management of conflicts of interest are controlled effectively;
- ◆ operating duties, proposing organizational and procedural changes to ensure that the risks of non-compliance are adequately covered and preparing flows of information to the governing bodies and the units involved;



- ◆ providing assistance to the units of the Bank and Group companies in operating issues, including through explanatory circulars or reports on relevant regulatory aspects, ensuring a continuous and up-to-date flow of information on developments in the domestic and international regulatory framework;
- ◆ reporting duties, preparing regular reports for the governing bodies on the activities carried out and in all instances of failure to comply with regulations, and highlighting new compliance risks as well as possible corrective action.

The **Group audit unit**, which was set up under a resolution adopted by the Board of Mediobanca on 11 May 2011, is responsible for internal audit activities for the entire Group, in accordance with the provisions on “internal controls systems” governed in the “Supervisory instructions for Banks”,<sup>1</sup> “Supervisory instructions for registered financial intermediaries”,<sup>2</sup> and the “Joint Consob – Bank of Italy regulations”.<sup>3</sup> Its duties include in particular:

- ◆ defining audit activity in line with the audit methodology adopted, and prepares a strategic and current audit plan;
- ◆ verifying compliance with the powers and operating limits assigned to the business units by the Board of Directors;
- ◆ monitoring the reliability of the IT systems including the automatic data processing and accounting systems;
- ◆ carrying out periodic checks on the operational and internal control procedures;
- ◆ performing activities inter alia with respect to specific irregularities detected, if requested by the governing bodies and/or senior management;
- ◆ checking the existence and effectiveness of first-level controls in the various operating units and the second-level controls carried out by the Risk Management and Compliance units;
- ◆ checks that irregularities detected in the operation and functioning of controls are removed;
- ◆ regularly informing the senior management of the activity it has carried out and the results thus obtained by sending specific reports;
- ◆ preparing regular summaries for the governing bodies of the Group companies, describing the main results to emerge from the audits carried out, the suggestions made and any corrective action undertaken.

### **Strategies and procedures for managing significant risks**

The Group has identified the significant risks based on its operations and reference markets to be specifically assessed as part of ICAAP reporting.

In particular, the types of risk requiring monitoring and management are credit risk, counterparty risk, market risks, operational risk, concentration risk, interest rate risk on the banking book, liquidity risk, residual risk, strategic risk, compliance risk, reputational risk, and risks deriving from securitizations.

The principal instruments of control for the main types of risk considered to be significant are described below, along with the strategies and processes adopted to mitigate them.

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1) *Bank of Italy circular no. 229 issued on 21 April 1999 as amended - Title IV Chapter 11 Section II - “Internal controls system”.*

2) *Bank of Italy circular no. 216 issued on 5 August 1996 as amended - Part 1 Chapter 6 Section II - “2. Internal controls system”.*

3) *Bank of Italy/Consob measure issued on 29 October 2007 - “Regulations on organization and procedures of intermediaries providing investment or collective savings management services”.*



## Credit risk

Credit risk refers to the risk of losses being incurred through defaults by borrowers in respect of cash and off-balance-sheet assets held in the banking book. The Group has implemented different credit management processes to reflect the specific features of the businesses carried out by the various product companies.

As part of the “Basel II New Capital Accord II” enacted under Bank of Italy Circular no. 263, the Group has set itself the objective of measuring credit risk using internal ratings. A specific project, “Basel II Project”, is therefore in progress to obtain ratification by the Bank of Italy of the internal rating models to be used in calculating the capital requirements for credit risk. The internal rating models regard the following customer segments: Banks, Insurances, Large corporate, Specialized lending (customers mostly targeted by Mediobanca S.p.A.), Mid corporate and Small businesses (customers targeted mostly by the leasing companies) and Private individuals (targeted by Compass for consumer credit and CheBanca! for mortgage lending). In addition, a plan is being implemented to comply with the experience requirement for the models to be ratified, which will involve the existing procedures for approving, monitoring and renewing loans being gradually revised with the use of the internal models that have been developed.

Given the above, considering the uncertainty over possible changes to the regulatory framework for the banking industry at the international level, the timeframe for submitting the application for the IRB system to be validated to the Bank of Italy is currently being reviewed; and until the system has been validated, the Mediobanca Group will continue to use the standardized methodology it has adopted since 1 January 2008.

The features of the processes for managing credit currently applied by the main Group companies are described below.

### Mediobanca

The Bank’s internal system for managing, evaluating and controlling credit risk reflects its traditional policy based on a prudent and highly selective approach. Lending decisions are based on individual analysis, which builds on adequate and often extensive knowledge of the borrower’s business, assets and management, as well as the macro-economic framework in which it operates. Where possible, covenants are incorporated into the terms and conditions of the loan (having regard *inter alia* to the maturity and average size of the facilities concerned) in order to provide for protection against impairment. Applications for finance are processed through the different operating levels, and, if successful, are submitted for approval to the relevant bodies, i.e. the Executive Committee, Risks Committee and Delegated Risks Committee), depending on the amount required and the credit rating of the counterparty involved, through the assignment of internal ratings. Once the finance has been disbursed the account is monitored on an ongoing basis, via analysis of published financial statements and a series of other controls to ensure that the covenants have not been breached. Any deterioration in the risk profile of a loan is brought swiftly to the attention of head of the operating unit and management.

### Leasing (SelmaBipiemme Leasing, Palladio Leasing and Teleleasing)

Individual applications are processed using similar methods to those described above for corporate banking. Applications for leases below a predetermined limit received via banks with which Mediobanca has agreements in place are approved by the banks themselves, against written guarantees from them covering a portion of the risk. At SelmaBipiemme and Teleleasing, applications for assets worth less than € 75,000 are approved using a credit scoring system developed on the basis of historical series of data, tailored to both asset type and the counterparty’s legal status (type of applicant company).

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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. All non-performing, sub-standard and restructured accounts plus those considered to be at “high risk” are tested analytically to establish the relative estimated loss against the value of the security provided and/or any other form of real or personal guarantees issued. Other performing accounts are measured individually on the basis of statistics.

#### Consumer credit (Compass)

Applications for finance are approved on the basis of a credit scoring system tailored to individual products. The scoring grids have been developed from internal historical series, enhanced by data provided by central credit *bureaux*. Points of sale are linked electronically to the company’s headquarters, in order to ensure that applications and credit scoring results are processed and transmitted swiftly. Applications for finance above a certain limit are approved 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, etc. After five overdue instalments (or three 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. Between the ninth and the twelfth overdue instalment such accounts are usually sold to Cofactor or to other factoring companies for a percentage of the value of the principal outstanding, which reflects their estimated realizable value.

#### Mortgage lending (CheBanca!)

Mortgage applications are processed and approved centrally at head office. Approval depends partly on the outcome of a credit scoring system, which is largely determined through 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 appraised in view of a wide range of indicators, such as amount, sales channel, loan-to-value, etc.

A project is underway to implement early warning systems (with links to public and private databases), to allow irregular customer behaviour to be picked up as soon as possible.

Irregular accounts are managed through monthly reports analysing the commercial, personal and financial aspects of the accounts in order to flag up promptly any potential problem areas. Procedurally mortgage loans with four or more unpaid instalments are designated as sub-standard accounts, and after the eighth or ninth unpaid instalment become non-performing. Impaired accounts are managed, for out-of-court credit recovery procedures, by a dedicated organizational structure with the help of external collectors. If further signs of deterioration are noted, property enforcement procedures are instigated through external lawyers.

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The Group uses credit risk mitigation techniques, in accordance with the provisions of Circular 263 for banks which use the standardized calculation methodology.

In particular, for real guarantees the so-called “integral” method has been adopted, with the standard regulatory amendments for volatility being applied, while for personal guarantees the replacement principle has been adopted.

Further information on the credit risk mitigation techniques used is provided in Table 8.





## Counterparty risk

Counterparty risk is defined as the risk of the counterparty in a transaction involving particular financial instruments defaulting before the transaction has been settled.

In operating terms, This is measured in terms of expected potential market value, thus doing away with the need to set arbitrary weightings for each type of fund employed, and identifies a maximum potential exposure to groups of the Bank's counterparties based on a given confidence level and over a specific time horizon. Towards the end of the financial year an overall review of the powers assigned to the Bank's various bodies was approved, with limits in terms of exposures being divided into three areas based on the product traded: 1) money market, which includes deals made on the interbank market and short-term financing in general; 2) repos and securities lending, including loans guaranteed by both bonds and equities; and 3) derivatives, which includes all exposures deriving from derivative contracts net of any collateral.

## Market risk

Mediobanca controls market risk on a daily basis by measuring sensitivity to movements in the interest rate curve; and calculating value at risk (VaR).<sup>4</sup> VaR is measured not only for the trading book but is extended to cover the Bank's entire asset structure, i.e. banking as well as trading book, net of the strategic investments, to ensure that AFS positions are monitored as well, for which changes in market value, while not impacting on the profit and loss account, nonetheless bring about changes in net equity.

The authorization structure governing Mediobanca's operations is based on value at risk readings for the various organizational units. VaR is calculated based on expected volatility and the correlation between risk factors concerned, assuming a disposal period of a single trading day and based on a 99% confidence level. As from this financial year, the parametric method has been abandoned, and VaR is now calculated exclusively using the Monte Carlo method. This method is complemented by a VaR figure based on historical simulation,<sup>5</sup> which is also used to calculate the expected shortfall, which measures average loss in 1% of the most unfavourable scenarios. All measurements are made using the following as risk factors: exchange rates, share prices (at level of individual stock level), volatility surfaces, inflation curves and interest rates, with mapping on the different maturities, and for interest rates the general market component is also separated from issuer-specific risk.

In addition to these indicators, stress tests are also carried out weekly on the main risk factors, to show the impact which historical crisis scenarios being repeated and significant movements in the main market data could have. These include the shock induced by the terrorist attacks on September 11, 2001, the bankruptcy of Lehman Brothers and the recent Greek crisis.

As for exchange rate risk, all banking and trading book positions taken on the foreign exchange market are managed regularly and are monitored in integrated fashion by the Financial Markets division using internal VaR models.

A VaR model for market risk is also used by Compagnie Monégasque de Banque (CMB), based on a 99% confidence level.

Fair value hedges and cash flow hedges are also made on future trades (share disposals hedged through forward contracts) via derivative contracts entered into with leading market counterparties, in order to mitigate price risk on equity investments held as available for sale (AFS).

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4) VaR is calculated based on a time horizon of one day and and 99% confidence level.

5) Portfolio values are calculated on the basis of random and historical changes in risk factors.

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## **Operational risk**

Operational risk is the risk of incurring losses as a result of external events or the inadequacy or malfunctioning of procedures, staff and internal systems, or due to external events. This category includes, among other things, losses deriving from fraud, human error, interruptions to operations, system unavailability, breaches of contract, and natural catastrophes. Operational risk includes legal risk.

In the review of its internal procedures as part of the “Head of company financial reporting” project, the Group has sought to identify the major sources of possible risk and the relevant measures to be taken in order to control and mitigate it, by formulating company procedures and focusing mitigation activity on the most serious aspects.

With reference to the possibility of losses caused by interruptions in operations or systems being unavailable, the Group has drawn up operating continuity and disaster recovery plans to ensure that activity can continue and to limit operating losses in the event of prolonged interruptions. The Group reviews the operating continuity and emergency plans regularly, to ensure that these are consistent with its activities and current operating strategies.

Internal access to computer systems is also monitored, in particular attacks from outside, using the appropriate IT and observation instruments.

Insurance policies have been taken out to cover the most valuable staff members and assets and as protection for management of cash.

As for the possibility of risks deriving from outsourcing activities, the Group has implemented a continuous monitoring and regular review system to assess the continuity and level of the service provided by outsourcers.

As previously mentioned, an Operational risks control team has been set up recently within the Risk management unit, with the aim of identifying risks, monitoring them regularly and reporting back to the management.

## **Interest rate risk on the banking book**

This is defined as the risk deriving from potential changes in interest rates to the banking book.

At Mediobanca, interest rate risk is also focused on the Financial Markets division, and is monitored via sensitivity analysis carried out on the banking book and the entire portfolio to changes in interest rates, using internal ALM models. This model in particular allows the impact of movements in interest rate curves on net interest income and the market value of the positions to be estimated.

Mediobanca also uses hedging to manage interest rate risk:

- ◆ fair value hedges - fair value hedges are used to neutralize exposure to interest rate or credit risk for particular asset or liability positions, via derivative contracts entered into with leading counterparties. All structured bond issues are fair-value hedged as to the interest rate component, while index-linked issues are accounted for as part of the trading book. Fair value hedges are also used in corporate finance for certain bilateral, fixed-rate transactions and to mitigate price risk on equity investments held as available for sale;
  - ◆ cash flow hedges – these are used chiefly as part of the Compass group’s operations. 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 by correlating the relevant cash flows. Mediobanca S.p.A. implemented some
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cash flow hedges of future transaction flows during the period under review (AFS securities disposals hedged through forward contracts).

Further information on interest rate risk for the banking book is provided in Table 14.

### **Liquidity risk**

This is defined as the risk that the Bank will not be able to meet its own payment commitments through being unable to raise the requisite funds (“funding liquidity risk”) or through limits on asset disposals (“market liquidity risk”).

Liquidity risk is currently measured at Group level through two indicators.

The first is a regulatory indicator, based on a scheme recommended by the Bank of Italy and sent to the supervisory authority once a week. This focuses on operations with institutional counterparties and corporate and large corporate customers, plus flows deriving from treasury movements and management of securities and finance. The movements generated by contractual deadlines are supplemented with forecast data over a quarterly time horizon, which, although based on conservative assumptions, do not contemplate extreme stress situations.

The regulatory indicator is complemented by an operating indicator, based on a six-month time horizon, which in addition to the base-case scenario created by adopting a prudential approach (e.g. not assuming automatic renewal of maturities on interbank deals), does contemplate stressful situations involving the main risk factors, such as:

- ◆ extension of maturities on all the main corporate customer loans and extraordinary drawdowns on committed lines;
- ◆ major reductions in renewals of interbank funds raised by Group companies (most of which are generally renewed on the basis of the existing commercial relationships);
- ◆ significant failure to renew CheBanca! funding when term deposits expire.

In both cases, the liquidity balances thus obtained are compared with the amount of the counterbalance capacity, defined narrowly as cash and cash equivalents plus the aggregate of securities held which are eligible for refinancing with the monetary authorities, and more broadly with the inclusion of less liquid assets (undeliverable bonds, deliverable shares, deliverable receivables) to which major haircuts are applied.

### **Other risks considered in preparing ICAAP reporting**

In addition to the risks described above, the Group has expanded the scope of the type of risks to be managed and mitigated to include other Pillar 2 risks as well :

- ◆ concentration risk – derives from a concentration of exposures to linked 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). Mediobanca manages this form of risk by ensuring that the Bank of Italy’s regulations on “large risks” are complied with and by regular monitoring of the loan book’s degree of concentration;
- ◆ residual risk - the risk that the recognized techniques used by the Bank to mitigate credit risk should prove to be less effective than anticipated. Mediobanca regularly reviews the process for managing guarantees recognized as being valid for purposes of risk mitigation, identifying possible areas of improvement in operating practices so as to make the management and



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valuation of guarantees more effective. Specific controls are also carried out to check that operations are compliant and in line with general and specific supervisory requirements;

- ◆ strategic risk - the Group has chose to divide strategic risk into two distinct macro-categories:
  - ◆ business risk - risk of current and future changes in profits/margins compared to estimated data, due to volatility in volumes or changes in customer behaviour;
  - ◆ “pure” strategic risk- current and future risk of reductions in profits or capital deriving from business discontinuities as a result of adopting new strategic choices, wrong management decisions or inadequate execution of decisions taken.

To monitor and manage strategic risk, the Group has implemented a regular review activity of the state of progress made in achieving its strategic objectives as defined in the business plan in force at the time and the earnings and financial targets set in the budget, with a view to providing indications as to corrective action to be taken if appropriate;

- ◆ compliance risk - risk of incurring legal or administrative penalties, significant financial losses or damages to the Bank’s reputation as a result of breaches of external laws and regulations or self-imposed regulations (e.g. Articles of Association, codes of conduct, ethical codes etc.) – and reputational risk – current and future risk of reductions in profits or capital deriving from a negative perception of the Bank’s image by customers, counterparties, shareholders, investors or regulatory authorities. The impact of compliance risk may therefore be quantified as possible reputational or legal damages. As previously mentioned, the strategies for mitigating compliance risk and the organizational measures in terms of the unit responsible (the Compliance unit), policies and processes adopted by the Group constitute instruments for mitigating reputational and legal risk;
- ◆ risks deriving from securitizations – the risk that the economic substance of a securitization is not fully reflected in the valuation and risk management decisions taken. Further information on securitizations is provided in Table 10.



## **Table 2 – Scope of application**

### **Qualitative information**

The disclosure requirements which subtend this document apply to Mediobanca – Banca di Credito Finanziario S.p.A., parent company of the Mediobanca Banking Group, entered in the register of banking groups, to which the data shown in the document refer.

Subsidiaries are consolidated on the line-by-line basis, whereas investments in associates and jointly-controlled operations are consolidated and accounted for using the equity method. For regulatory purposes, the investment in Banca Esperia which is subject to joint control is consolidated pro-rata; Group company Compass RE (a reinsurance company incorporated under Luxembourg law) and the investments in Fidia and Athena are deducted from regulatory capital.

When a subsidiary is fully consolidated, the carrying amount of the parent's investment and its share of the subsidiary's equity 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.

For equity-accounted companies, any differences in the carrying amount of the investment and investee company's net equity are reflected in the book value of the investment, the fairness of which is tested at the reporting date or when evidence emerges of possible impairment. The profit made or loss incurred by the investee company is recorded pro-rata in the profit and loss account under a specific heading.

Control of Ducati Financial Services was acquired during the twelve months under review, which was then merged into Compass S.p.A.; the liquidation of Technostart S.p.A. was also completed during the year.



## Quantitative information

### Area of consolidation

	Registered office	Type of relationship <sup>1</sup>	Shareholding		% voting rights <sup>2</sup>
			Investee company	% interest	
<b>A. COMPANIES INCLUDED IN AREA OF CONSOLIDATION</b>					
<b>A.1 Line-by-line</b>					
1.	MEDIOBANCA - Banca di Credito Finanziario S.p.A.	Milan	1	—	—
2.	PROMINVESTMENT S.p.A. -(in liquidation)	Roma	1	A.1.1	100.00
3.	PRUDENTIA FIDUCIARIA S.p.A.	Milan	1	A.1.1	100.00
4.	SETECI - Società Consortile per l'Elaborazione, Trasmissione dati, <i>Engineering e Consulenza Informatica S.c.p.A.</i>	Milan	1	A.1.1	100.00
5.	SPAFID S.p.A.	Milan	1	A.1.1	100.00
6.	COMPAGNIE MONEGASQUE DE BANQUE - CMB S.A.M.	Monte Carlo	1	A.1.1	100.00
7.	C.M.I. COMPAGNIE MONEGASQUE IMMOBILIERE SCI	Monte Carlo	1	A.1.6 A.1.8	99.94 0.06
8.	C.M.G. COMPAGNIE MONEGASQUE DE GESTION S.A.M.	Monte Carlo	1	A.1.6	99.89
9.	SMEF SOCIETE MONEGASQUE DES ETUDES FINANCIERE S.A.M.	Monte Carlo	1	A.1.6	99.96
10.	C.M.B. ASSET MANAGEMENT S.A.M.	Monte Carlo	1	A.1.6	99.50
11.	MONOECI SOCIETE CIVILE IMMOBILIERE	Monte Carlo	1	A.1.6 A.1.8	99.00 1.00
12.	MOULINS 700 S.A.M.	Monte Carlo	1	A.1.7	99.90
13.	CMB BANQUE PRIVÉE (Suisse) S.A.	Lugano	1	A.1.6	100.00
14.	MEDIOBANCA INTERNATIONAL (Luxembourg) S.A.	Luxembourg	1	A.1.1 A.1.15	99.00 1.00
15.	COMPASS S.p.A.	Milan	1	A.1.1	100.00
16.	CHEBANCA! S.p.A.	Milan	1	A.1.15	100.00
17.	COFACTOR S.p.A.	Milan	1	A.1.15	100.00
18.	SELMABIPIEMME LEASING S.p.A.	Milan	1	A.1.15	60.00
19.	PALLADIO LEASING S.p.A.	Vicenza	1	A.1.18 A.1.19	95.00 5.00
20.	TELELEASING S.p.A.	Milan	1	A.1.18	80.00
21.	SADE FINANZIARIA - INTERSOMER S.r.l.	Milan	1	A.1.1	100.00
22.	RICERCHE E STUDI S.p.A.	Milan	1	A.1.1	100.00
23.	CREDITECH S.p.A.	Milan	1	A.1.15	100.00
24.	MEDIOBANCA SECURITIES USA LLC	New York	1	A.1.1	100.00
25.	CONSORTIUM S.r.l.	Milan	1	A.1.1	100.00
26.	QUARZO S.r.l.	Milan	1	A.1.15	90.00
27.	QUARZO LEASE S.r.l.	Milan	1	A.1.18	90.00
28.	FUTURO S.p.A.	Milan	1	A.1.15	100.00
29.	JUMP S.r.l.	Milan	4	A.1.15	—
30.	MB COVERED BOND S.r.l.	Milan	1	A.1.16	90.00
31.	COMPASS RE (Luxembourg) S.A.	Luxembourg	1	A.1.15	100.00

#### Legend

1) *Type of relationship:*

1 = majority of voting rights in ordinary AGMs.

2 = dominant influence in ordinary AGMs.

3 = agreements with other shareholders.

4 = other forms of control.

5 = unity of direction as defined in Article 26, paragraph 1 of Italian Legislative Decree 87/92.

6 = unity of direction as defined in Article 26, paragraph 2 of Italian Legislative Decree 87/92.

7 = joint control.

2) *Effective and potential voting rights in ordinary AGMs.*



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## Table 3 – Composition of regulatory capital

### Qualitative information

#### Consolidated capital

Capital is the first and most important safeguard of a bank's stability. For this reason, the international and domestic supervisory bodies have established rigorous rules for calculating regulatory capital and the minimum capital requirements with which banks are bound to comply. In particular, the ratio between risk-weighted assets and regulatory capital must not fall below 8%. The Bank of Italy has established a prudential level of 10%, which falls to 6% if only Tier 1 capital is considered (the core Tier 1 ratio).

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 and significantly higher than those required by the regulatory guidelines.

Regulatory capital has been calculated on the basis of Bank of Italy circulars no. 263 and no. 155 (thirteenth update issued on 9 February 2011) which transpose the new prudential guidelines for banks and banking groups introduced by the New Basel Capital Accord (Basel II) into the Italian regulatory framework.

The Bank has opted for the "full neutralization" permitted by the Bank of Italy in its guidance issued on 18 May 2010, whereby the valuation reserves for sovereign debt issued by EU member states and held as AFS financial assets can be neutralized for the purpose of calculating regulatory capital.

In July 2011 the draft regulations on banks' capital and corporate governance known as the Capital Requirements Directive ("CRD IV") was published. This document represents the European Commission's transposition of the new prudential guidelines for banks known as Basel III, which involve a general strengthening of the quality of regulatory capital. The new regulations should be ready by end-2012 and applied gradually starting from January 2012, becoming fully operative as from 2019.

Tier 1 capital consists of the share attributable to the Group and to minority shareholders of capital paid up, reserves, and profit for the period net of treasury shares (€ 213.8m), intangible assets (€ 62.4m), goodwill (€ 443m), and 50% of the book value of the Bank's investments in banks and financial services companies (equal to € 51.7m).

Tier 2 capital includes 50% of the positive reserves for AFS securities (€ 119.7m), the positive valuation reserves (€ 15.1m), Tier 2 subordinated liabilities (€ 1,643.7m, up following the new issue totalling € 750m), positive exchange rate differences (€ 54.4m) less unrealized losses on investments (€ 38.2m) and the remaining share of the book value of investments in banks and financial companies (€ 51.7m).

With respect to the calculation of the Group's Tier II capital, it should be noted that Mediobanca issued a subordinated, ten-year lower Tier II in November 2010, all of which qualifies for inclusion in the Tier II capital, for a nominal amount of € 750m.

Mediobanca has also approved the further subordinated issues in an amount of up to € 1bn: the first tranche, "Quarto Atto", worth € 500m,<sup>6</sup> issued in June 2011, is currently being placed on the screen-based bond market operated by Borsa Italiana (MOT).

Since the balance-sheet date, Mediobanca has exercised its early redemption option on the € 700m "Lower Tier II Subordinated Floating Rate Notes due 2016" issue (€ 635m of which qualifies for inclusion in the calculation of Tier II capital), with settlement on 11 October 2011.

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6) As at end-September 2011 approx. € 400m was in issue.



## Quantitative information

Table 3.1 Composition of regulatory capital

Regulatory capital	30/6/11	30/6/10
<b>A. Tier 1 capital prior to application of prudential filters</b>		
A.1 Positive elements in Tier 1 capital:		
A.1.1 • share capital	455,513	455,680
A.1.2 • share premium reserve	2,127,359	2,127,129
A.1.3 • reserves	4,279,846	3,848,632
A.1.4 • non-innovative equity instruments	–	–
A.1.5 • innovative equity instruments	–	–
A.1.6 • profit for the period	229,383	257,940
A.2 Negative elements:		
A.2.1 • own shares or stock units	(213,844)	(213,844)
A.2.2 • goodwill	(443,042)	(443,042)
A.2.3 • other intangible assets	(62,369)	(66,048)
A.2.4 • Loss for the period	–	–
A.2.5 • Other negative elements:		
• Value adjustments to trading book for regulatory purposes	–	–
• Other	–	–
B. Tier 1 capital prudential filters		
B.1 IAS/IFRS positive prudential filters (+)	–	–
B.2 IAS/IFRS negative prudential filters (-)	(165,075)	(23,704)
C. Tier 1 capital incl. elements to be deducted (A+B)	6,207,771	5,942,743
D. Elements to be deducted from Tier 1 capital	51,683	18,538
<b>E. Total Tier 1 capital (TIER 1) (C-D)</b>	<b>6,156,088</b>	<b>5,924,205</b>
<b>F. Tier 2 capital prior to application of prudential filters</b>		
F.1 Positive elements in Tier 2 capital:		
F.1.1 • tangible assets valuation reserves	15,062	15,062
F.1.2 • AFS securities valuation reserves	239,446	193,845
F.1.3 • non-innovative equity instruments not included in Tier 1 capital	–	–
F.1.4 • innovative equity instruments not included in Tier 1 capital	–	–
F.1.5 • hybrid equity instruments	–	–
F.1.6 • Tier 2 subordinate liabilities	1,643,691	965,096
F.1.7 • surplus of total value adjustments over estimated losses	–	–
F.1.8 • net gains on equity investments	–	–
F.1.9 • other positive elements	54,356	26,657
F.2 Negative elements:		
F.2.1 • net losses on equity investments	(38,156)	(100,560)
F.2.2 • loans and receivables	–	–
F.2.3 • other negative elements	–	–
G. Prudential filters for Tier 2 capital		
G.1 IAS/IFRS positive prudential filters (+)	–	38,099
G.2 IAS/IFRS negative prudential filters (-)	(119,723)	(115,972)
H. Tier 2 capital incl. elements to be deducted (F+G)	1,794,676	1,022,227
I. Elements to be deducted from Tier 2 capital	(51,683)	(18,538)
<b>L. Total Tier 2 capital (TIER 2) (H-I)</b>	<b>1,742,993</b>	<b>1,003,689</b>
M. Elements to be deducted from total Tier 1 and Tier 2 capital	–	–
<b>N. Regulatory capital (E+L-M)</b>	<b>7,899,081</b>	<b>6,927,894</b>
O. TIER 3 capital	–	–
<b>P. Regulatory capital including TIER 3 (N+O)</b>	<b>7,899,081</b>	<b>6,927,894</b>





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## Table 4 – Capital adequacy

### Qualitative information

The Group pays particular attention to monitoring its own capital adequacy ratios, to ensure that its capital is commensurate with its risk propensity as well as with regulatory requirements.

As part of ICAAP, the Group assesses its own capital adequacy by considering its capital requirements deriving from exposure to the significant Pillar 1 and 2 risks to which the Group is or could be exposed in the conduct of its own current and future business. Sensitivity analyses or stress tests are also carried out to assess the impact of particularly adverse economic conditions on the Group's capital requirements deriving from its exposure to the principal risks, in order to appraise its capital resources even in extreme conditions.

This capital adequacy assessment takes the form of the ICAAP report which is produced annually and sent to the Bank of Italy, along with the resolutions and reports in which the governing bodies express their opinions on related matters according to their respective roles and responsibilities.

Capital adequacy in respect of Pillar 1 risks is also monitored Accounting and financial reporting unit through checking the capital ratios according to the rules established by Circular 263.

\* \* \*

As at 30 June 2011, the Bank's total core ratio, calculated as regulatory capital as a percentage of risk-weighted assets, stood at 14.36% while the core Tier 1 ratio, calculated as Tier 1 capital as a percentage of risk-weighted assets, amounted to 11.19% up on the figures reported one year previously, that is, 12.97% and 11.09%, driven by an increase in regulatory capital, (chiefly in connection with self-financing and the issue of the new subordinated liability, which comfortably offset the slight increase in risk-weighted assets, up from € 53.4bn to € 55bn, chiefly due to growth in the trading book.



## Quantitative information

Table 4 - Capital adequacy

Categories/amounts	Unweighted amounts		Weighted amounts/requirements	
	30/6/11	30/6/10	30/6/11	30/6/10
<b>A. Risk assets</b>				
A.1 Credit and counterpart risk	70,797,922	72,387,799	44,406,949	43,773,283
1) Standard methodology	70,485,596	72,048,600	44,194,534	43,620,095
2) Internal rating methodology	–	–	–	–
2.1) Basic	–	–	–	–
2.2) Advanced	–	–	–	–
3) Securitization	312,326	339,199	212,415	153,188
<b>B. Regulatory capital requirements</b>				
B.1 Credit and counterpart risk			3,552,555	3,501,863
B.2 Market risk			586,797	528,034
1) Standard methodology			567,082	528,034
2) Internal models			–	–
3) Concentration risk			19,715	–
B.3 Operational risk			262,685	244,179
1) Basic Indicator Approach (BIA)			262,685	244,179
2) Standard methodology			–	–
3) Advanced methodology			–	–
B.4 Other prudential requirements			–	–
B.5 Other calculation elements			–	–
B.6 Total prudential requirements			4,402,037	4,274,076
<b>C. Risk assets and regulatory ratios</b>				
C.1 Risk-weighted assets			55,025,457	53,425,956
C.2 Tier 1 capital/risk-weighted assets (Tier 1 capital ratio)			11.19%	11.09%
C.3 Regulatory capital/risk-weighted assets (total capital ratio)			14.36%	12.97%



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## Table 5 – Credit risk: general information for all banks

### Qualitative information

The definition of exposures in default (i.e. non-performing, sub-standard, restructured and overdue/overdrawn) adopted by the Mediobanca Group is based on the one used by the Bank of Italy, along with the internal criteria employed to define the transitions between the various categories of impaired loans.

The classification of impaired exposures may be summarized as follows:

- ◆ non-performing – cash exposures to individuals or entities in a state of insolvency (even if not certified by law) or in substantially equivalent situations;
- ◆ sub-standard – exposures to individuals or entities in temporary situations of objective difficulty which may be expected to be obviated within a reasonable period of time;
- ◆ restructured – exposures for which changes are agreed to the original terms of the contract due to a deterioration in the earning and financial condition of the borrower (e.g. rescheduling of repayments, reduction of debt and/or interest) which give rise to a loss;
- ◆ overdue/overdrawn – debtor positions for an individual or entity (not classified as non-performing, sub-standard or restructured) in respect of which a condition of persistent non-payment has been recorded (overdue/overdrawn for more than 90 or 180 days consecutively).

### Description of methodologies adopted to determine loan loss provisions

Loans and receivables are booked on disbursement at a value equal to the amount drawn plus (less) any income (expenses) directly attributable to individual transactions and determinable from the outset despite being payable at a later date. The item does not, however, include costs subject to separate repayment by the borrower, or which may otherwise be accounted for as ordinary internal administrative costs. Repos and reverse repos are booked as funding or lending transactions for the spot amount received or paid. Non-performing loans acquired are booked at amortized cost on the basis of an internal rate of return calculated using estimates of expected recoverable amounts.

Loans and receivables are stated at amortized cost, i.e. initial values adjusted upwards or downwards to reflect: repayments of principal, amounts written down/back, and the difference between amounts drawn at disbursement and repayable at maturity amortized on the basis of the effective interest rate. The latter 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.

Individual items are tested at annual and interim reporting dates to show whether or not there is evidence of impairment. Items reflecting such evidence are then subjected to analytical testing, and, if appropriate, adjusted to reflect the difference between their carrying amount at the time of the impairment test (amortized cost), and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Future cash flows are estimated to take account of anticipated collection times, the presumed value of receivables upon disposal of any collateral, and costs likely to be incurred in order to recover the exposure. Cash flows from loans expected to be recovered in the short term are not discounted.

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.



If the reasons which brought about the loss of value cease to apply, the original value of the loan is recovered in the profit and loss account in subsequent accounting periods up to the value of amortized cost.

Accounts for which there is no objective evidence of impairment, including those involving counterparties in countries deemed to be at risk, are subject to collective tests. Loans are grouped on the basis of similar credit risk characteristics, and the related loss percentages are estimated at the impairment date on the basis of historical series of internal and external data. Collective value adjustments are credited or charged to the profit and loss account, as appropriate. At each annual and interim reporting date, any writedowns or writebacks are remeasured on a differentiated basis with respect to the entire portfolio of loans deemed to be performing at that date.

### **Exposure to sovereign debt risk**

As requested by Consob in its communication no. DEM/11070007, the Mediobanca Group has provided information in its annual report on sovereign debt, in particular regarding which book each individual instrument is held in, the date on which it expires, its book value and fair value (as also required under sections 31-35 of IFRS7 – Financial Instruments: Disclosures).



## Quantitative information

### Sovereign exposures

#### Exposures to sovereign debt securities by state, counterparty and portfolio\*

Asset portfolio/quality	Impaired assets <sup>1</sup>				Performing assets			Total (net exposure) <sup>2</sup>
	Gross exposure	Specific adjustments	Collective adjustments	Net exposure	Gross exposure	Collective adjustments	Net exposure	
1. Financial assets held for trading	–	–	–	–	–	–	1,422,892	1,422,892
Italy	–	–	–	–	–	–	352,491	352,491
Greece	–	–	–	–	–	–	25,432	25,432
Germany	–	–	–	–	–	–	951,983	951,983
Hungary	–	–	–	–	–	–	15,820	15,820
Brazil	–	–	–	–	–	–	57,857	57,857
Others	–	–	–	–	–	–	19,309	19,309
2. AFS securities	343,680	(108,903)	–	234,777	3,425,998	–	3,425,998	3,660,775
Italy	–	–	–	–	2,894,876	–	2,894,876	2,894,876
Greece	343,680	(108,903)	–	234,777	–	–	–	234,777
Germany	–	–	–	–	497,801	–	497,801	497,801
Ireland	–	–	–	–	32,912	–	32,912	32,912
Others	–	–	–	–	409	–	409	409
3. Financial assets held to maturity	–	–	–	–	246,847	–	246,847	246,847
Italy	–	–	–	–	246,153	–	246,153	246,153
Others	–	–	–	–	694	–	694	694
<b>Total at 30/6/11</b>	<b>343,680</b>	<b>(108,903)</b>	<b>–</b>	<b>234,777</b>	<b>3,672,845</b>	<b>–</b>	<b>5,095,737</b>	<b>5,330,514</b>

\* Does not include financial and credit derivatives.

- 1) The impaired assets only include securities subject to restructuring, namely the bonds issued by Greece held in the AFS portfolio falling due in December 2020.
- 2) 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 € 14.2m; financial and credit derivatives are not included.

#### Exposures to sovereign debt securities by portfolio

Asset portfolio/ quality	Trading book <sup>1</sup>			Banking book			
	Nominal value	Book value	Duration	Nominal value	Book value	Fair value	Duration
Italy	383,831	352,491	(1.26)	3,175,814	3,141,029	3,140,125	5.34
Greece	50,139	25,432	9.90	350,000	234,777	234,777	3.58
Ireland	–	–	–	52,500	32,912	32,912	11.38
Germany	919,489	951,983	2.34	468,720	497,801	497,801	4.53
Hungary	16,344	15,820	1.04	–	–	–	–
Brazil	52,038	57,857	0.87	–	–	–	–
Others	30,406	19,309	–	13,798	1,103	16,176	–
<b>Total at 30/6/11</b>	<b>1,452,247</b>	<b>1,422,892</b>		<b>4,060,832</b>	<b>3,907,622</b>	<b>3,921,791</b>	

- 1) This item does not include €1.5bn in purchases of the Bund/Schatz future (Germany) and €0.6bn in sales of the T-note future (U.S.), both of which with a positive fair value of € 0.6m and € 3m respectively; and net hedge buys of € 192.6m with a positive fair value of € 1.8 m have not been included either.



## Quantitative information

Table 5.1 Credit and counterparty risk

Credit risk and counterparty risk	Amounts as at 30/6/11				Amounts as at 30/6/10			
	Gross amount of CRM	Unweighted amounts	Weighted amounts	Requirements	Gross amount of CRM	Unweighted amounts	Weighted amounts	Requirements
<b>A. Credit risk and counterparty risk</b>								
<b>A.1 Standardized methodology - risk assets</b>								
A.1.1 Exposures to or guaranteed by central administrations and central banks	4.567.067	4.567.067	5.664	453	3.437.874	3.437.874	4.268	341
A.1.2 Exposures to or guaranteed by regional entities	53.875	53.875	10.761	861	56.221	56.221	11.232	899
A.1.3 Exposures to or guaranteed by non-profit-making and public sector entities	614.943	400.425	334.607	26.769	572.523	441.764	409.599	32.768
A.1.4 Exposures to or guaranteed by multilateral development banks	58.547	58.547	0	0	62.340	62.340	0	0
A.1.5 Exposures to or guaranteed by international organizations	9.925	9.925	0	0	0	0	0	0
A.1.6 Exposures to or guaranteed by regulated intermediaries	17.039.181	10.709.140	3.507.202	280.576	22.119.860	13.646.969	4.148.136	331.851
A.1.7 Exposures to or guaranteed by companies	29.572.281	28.513.405	22.179.941	1.774.395	29.593.349	29.273.039	22.262.268	1.780.981
A.1.8 Retail exposures	15.211.957	13.176.049	7.523.450	601.876	15.224.911	13.007.901	7.336.147	586.892
A.1.9 Exposures guaranteed by properties	4.956.992	4.954.869	1.937.315	154.985	4.814.875	4.811.974	1.955.107	156.409
A.1.10 Overdue exposures	772.690	771.811	888.400	71.072	928.644	927.831	1.107.806	88.624
A.1.11 High-risk exposures	756.794	756.794	1.485.984	118.879	181.227	181.227	321.636	25.731
A.1.12 Exposures in the form of guaranteed bank obligations	0	0	0	0	0	0	0	0
A.1.13 Short-term exposures to companies	0	0	0	0	0	0	0	0
A.1.14 Exposures to collective investment and savings organizations (UCITS)	265.579	265.579	222.254	17.780	62.614	62.614	62.473	4.998
A.1.15 Other exposures	6.248.110	6.248.110	6.098.956	487.916	6.138.846	6.138.846	6.001.423	480.114



Credit risk: cash and off-balance-sheet exposures to banks

Type of exposure/ book	Amounts as at 30/6/11				Off-balance-sheet exposures
	Cash exposures				
	Financial assets held for trading	AFS securities	Financial assets held to maturity	Due from banks	
	Gross exposure	Gross exposure	Gross exposure	Gross exposure	
<b>A. Cash exposures</b>					
a) Non-performing	—	—	—	127	—
b) Sub-standard	—	—	—	—	—
c) Restructured	—	—	—	—	—
d) Overdue	—	—	—	—	—
e) Country risk	—	—	—	—	—
f) Other assets	1,054,281	1,268,035	399,916	5,878,195	—
<b>Total A</b>	<b>1,054,281</b>	<b>1,268,035</b>	<b>399,916</b>	<b>5,878,322</b>	<b>—</b>
<b>B. Off-balance-sheet exposures</b>					
a) Impaired	—	—	—	—	—
b) Other	—	—	—	—	88,963,771
<b>Total B</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>88,963,771</b>
<b>Total A+B</b>	<b>1,054,281</b>	<b>1,268,035</b>	<b>399,916</b>	<b>5,878,322</b>	<b>88,963,771</b>



Credit risk: cash and off-balance-sheet exposures to customers

Type of exposure/counterparty area	Amounts as at 30/6/11					
	Cash exposures					Off-balance-sheet exposures
	Financial assets held for trading	AFS securities	AFS securities	Due from customers	Non-current assets and groups of assets being sold	
	Gross exposure	Gross exposure	Gross exposure	Gross exposure	Gross exposure	Gross exposure
<b>A. Cash exposures</b>						
a) Non-performing	—	—	—	540,480	—	—
b) Sub-standard	—	—	—	407,272	—	—
c) Restructured	—	343,681	5,122	236,970	—	—
d) Overdue	—	—	—	146,612	—	—
e) Other exposures	—	—	—	—	—	—
f) Other assets	4,460,401	4,108,272	1,253,067	37,410,941	—	—
<b>Total A</b>	<b>4,460,401</b>	<b>4,451,953</b>	<b>1,258,189</b>	<b>38,742,275</b>	<b>—</b>	<b>—</b>
<b>B. Off-balance-sheet exposures</b>						
a) Impaired	—	—	—	—	—	102,541
b) Other	—	—	—	—	—	18,235,334
<b>Total B</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>18,337,875</b>
<b>Total A+B</b>	<b>4,460,401</b>	<b>4,451,953</b>	<b>1,258,189</b>	<b>38,742,275</b>	<b>706,202</b>	<b>18,337,875</b>





Cash and off-balance-sheet exposures to customers by geographical region

Type of exposure/ counterparty area	Amounts as at 30/06/2011									
	Italy		Other European countries		U.S.		Asia		Rest of world	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
<b>A. Cash exposures</b>										
a) Non-performing	—	—	127	127	—	—	—	—	—	—
b) Sub-standard	—	—	—	—	—	—	—	—	—	—
c) Restructured	—	—	—	—	—	—	—	—	—	—
d) Overdue	—	—	—	—	—	—	—	—	—	—
e) Other exposures	3,665,818	3,665,028	4,625,199	4,622,641	198,301	198,301	65,902	65,170	13,485	—
<b>Total A</b>	<b>3,665,818</b>	<b>3,665,028</b>	<b>4,625,326</b>	<b>4,622,768</b>	<b>198,301</b>	<b>198,301</b>	<b>65,902</b>	<b>65,170</b>	<b>13,485</b>	<b>—</b>
<b>B. Off-balance-sheet exposures</b>										
a) Non-performing	—	—	—	—	—	—	—	—	—	—
b) Sub-standard	—	—	—	—	—	—	—	—	—	—
c) Other impaired assets	—	—	—	—	—	—	—	—	—	—
d) Other exposures	5,054,683	5,054,683	81,172,603	81,172,603	2,735,424	2,735,424	1,061	1,061	—	—
<b>Total B</b>	<b>5,054,683</b>	<b>5,054,683</b>	<b>81,172,603</b>	<b>81,172,603</b>	<b>2,735,424</b>	<b>2,735,424</b>	<b>1,061</b>	<b>1,061</b>	<b>—</b>	<b>—</b>
<b>Total A + B</b>	<b>8,720,501</b>	<b>8,719,711</b>	<b>85,797,929</b>	<b>85,795,371</b>	<b>2,933,725</b>	<b>2,933,725</b>	<b>66,963</b>	<b>66,231</b>	<b>13,485</b>	<b>—</b>



Cash and off-balance-sheet exposures to customers by geographical region

Type of exposure/ counterparty area	Amounts as at 30/6/11									
	Italy		Other European countries		U.S.		Asia		Rest of world	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
<b>A. Cash exposures</b>										
a) Non-performing	507,417	205,380	32,333	8,831	730	346	–	–	–	–
b) Sub-standard	357,704	201,261	33,232	16,029	9,472	8,930	–	–	6,863	6,863
c) Restructured	158,690	130,847	427,014	294,735	69	68	–	–	–	–
d) Overdue	85,362	69,751	3,385	3,357	–	–	–	–	–	–
e) Other exposures	34,878,791	34,714,294	12,884,843	12,797,779	1,749,335	1,747,780	406,104	406,018	204,969	204,767
<b>Total A</b>	<b>35,987,964</b>	<b>35,321,533</b>	<b>13,380,807</b>	<b>13,120,731</b>	<b>1,759,606</b>	<b>1,757,124</b>	<b>406,104</b>	<b>406,018</b>	<b>211,832</b>	<b>211,630</b>
<b>B. Off-balance-sheet exposures</b>										
a) Non-performing	–	–	–	–	–	–	–	–	–	–
b) Sub-standard	267	267	24	24	–	–	–	–	–	–
c) Other impaired assets	98,277	98,277	3,973	3,973	–	–	–	–	–	–
d) Other exposures	10,054,259	10,054,259	7,834,732	7,834,732	222,950	222,950	123,393	123,393	–	–
<b>Total B</b>	<b>10,152,803</b>	<b>10,152,803</b>	<b>7,838,729</b>	<b>7,838,729</b>	<b>222,950</b>	<b>222,950</b>	<b>123,393</b>	<b>123,393</b>	<b>–</b>	<b>–</b>
<b>Total A + B</b>	<b>46,140,767</b>	<b>45,474,336</b>	<b>21,219,536</b>	<b>20,959,460</b>	<b>1,982,556</b>	<b>1,980,074</b>	<b>529,497</b>	<b>529,411</b>	<b>211,832</b>	<b>211,630</b>



## Cash and off-balance-sheet exposures to customers by sector

Type of exposure/ counterparty area	Amounts as at 30/6/11																	
	Governments			Other public entities			Financial companies			Insurances			Non-financial undertakings			Other entities		
	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure
<b>A. Cash exposures</b>																		
a) Non-performing	—	—	—	—	—	—	11,483	(11,483)	—	—	—	—	83,599	(37,583)	46,016	445,398	(276,857)	168,541
b) Sub-standard	—	—	—	20	(20)	—	2,004	(1,932)	72	—	—	—	151,539	(56,557)	94,982	253,709	(115,680)	138,029
c) Restructured	343,681	(108,903)	234,778	—	—	—	45,940	(5,091)	40,849	—	—	—	194,243	(46,122)	148,121	1,909	(7)	1,902
d) Overdue	—	—	—	35,502	(6,232)	29,270	310	(2)	308	—	—	—	20,135	(649)	19,486	32,799	(8,756)	24,043
e) Other exposures	5,846,247	(3,781)	5,842,466	169,220	(3,853)	165,367	9,463,188	(19,007)	9,444,181	2,681,899	(3,897)	2,678,002	17,893,400	(201,958)	17,691,442	14,069,338	(20,908)	14,048,430
<b>Total A</b>	<b>6,189,928</b>	<b>(112,684)</b>	<b>6,077,244</b>	<b>204,742</b>	<b>(10,105)</b>	<b>194,637</b>	<b>9,522,925</b>	<b>(37,515)</b>	<b>9,485,410</b>	<b>2,681,899</b>	<b>(3,897)</b>	<b>2,678,002</b>	<b>18,342,916</b>	<b>(342,869)</b>	<b>18,000,047</b>	<b>14,803,153</b>	<b>(422,208)</b>	<b>14,380,945</b>
<b>B. Off-balance-sheet exposures</b>																		
a) Non-performing	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
b) Sub-standard	—	—	—	—	—	—	—	—	—	—	—	—	54	—	54	237	—	237
c) Other impaired assets	—	—	—	—	—	—	—	—	—	—	—	—	102,250	—	102,250	—	—	—
d) Other exposures	970,097	—	970,097	—	—	—	4,449,606	—	4,449,606	287,161	—	287,161	9,603,410	—	9,603,410	2,925,060	—	2,925,060
<b>Total B</b>	<b>970,097</b>	<b>—</b>	<b>970,097</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>4,449,606</b>	<b>—</b>	<b>4,449,606</b>	<b>287,161</b>	<b>—</b>	<b>287,161</b>	<b>9,705,714</b>	<b>—</b>	<b>9,705,714</b>	<b>2,925,297</b>	<b>—</b>	<b>2,925,297</b>
<b>Total A + B</b>	<b>7,160,025</b>	<b>(112,684)</b>	<b>7,047,341</b>	<b>204,742</b>	<b>(10,105)</b>	<b>194,637</b>	<b>13,972,531</b>	<b>(37,515)</b>	<b>13,935,016</b>	<b>2,969,060</b>	<b>(3,897)</b>	<b>2,965,163</b>	<b>28,048,630</b>	<b>(342,869)</b>	<b>27,705,761</b>	<b>17,728,450</b>	<b>(422,208)</b>	<b>17,306,242</b>



## Financial assets by outstanding maturity

Type	Amounts as at 30/6/11									
	On demand	From 1 day 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	More than 5 years	Unspecified duration
<b>Cash assets</b>										
A.1 Government securities	4,271	—	—	3,197	92,342	562,879	117,894	1,538,531	1,506,043	—
A.2 Listed debt securities	—	—	—	—	—	—	—	—	—	—
A.3 Other debt securities	3,110	8,992	100,003	75,664	119,195	280,110	1,324,321	4,682,454	3,044,949	—
A.4 OICR units	—	—	—	—	—	—	—	—	—	—
A.5 Loans and advances										
- to banks	1,760,294	248,125	10,153	900,452	142,707	292,135	372,141	142,263	197,344	128,565
- to customers	2,713,090	459,754	685,198	1,956,156	1,476,548	2,405,909	3,742,436	16,647,256	9,001,018	97,927
<b>Off-balance-sheet assets</b>										
B.1 Financial derivatives with exchange of principal										
- to banks	(2,194,271)	(875,440)	(203,110)	(1,547,948)	(616,399)	(160,287)	(877,215)	(483,687)	(372,986)	(45,227)
- to customers	(3,471,693)	(620,550)	(362,066)	(697,470)	(2,378,412)	(2,180,264)	(3,542,271)	(138,513)	(949,382)	(53,707)
B.2 Deposits and loans	(2,194)	(623)	(62,463)	(727,138)	(303,755)	(1,671,903)	(2,741,552)	(22,302,488)	(6,288,070)	(55)
B.3 Other liabilities	(299,416)	(40,439)	(7,923)	(54,213)	(262,407)	(231,154)	—	—	—	—
<b>Off-balance-sheet transactions</b>										
C.1 Financial derivatives with exchange of principal										
- long positions	367,180	745,287	16,170	70,645	1,773,020	723,746	735,744	387,372	—	—
- short positions	60,059	335,844	116,055	1,239,244	2,162,933	548,608	544,187	1,634,578	437,237	—
C.2 Financial derivatives without exchange of principal										
- long positions	3,099,840	6,368	1,008	29,741	126,538	839,408	427,906	7,258	—	—
- short positions	3,254,726	3,764	8,475	22,872	139,371	175,580	315,256	9,865	—	—
C.3 Deposits and financings receivable										
- long positions	1,454,195	704,748	481,574	1,406,958	47,815	—	—	—	—	—
- short positions	—	—	—	—	31,883	291,724	17,526	167,567	3,586,590	—
C.4 Irrevocable commitments to disburse funds										
- long positions	16,041	25,000	—	3,215	1,996	2,357,033	5,339,744	58,765,360	13,206,426	—
- short positions	897,328	1,081,093	81,357	569,065	62,722	2,140,678	5,215,681	58,606,348	11,060,543	—
C.5 Financial guarantees issued	22,869	—	—	—	—	—	—	—	—	—



### Cash exposures: trends in overall value adjustments

Description/category	Amounts as at 30/6/11									
	Exposures to banks					Exposures to customers				
	Non-performing	Sub-standard	Restructured	Overdue exposures	Total	Non-performing	Sub-standard	Restructured	Overdue exposures	Total
<b>A. Adjustments at start of period</b>	(127)	(140)	–	–	(267)	(499,744)	(120,666)	(16,893)	(6,309)	(643,612)
<b>B. Additions</b>	–	–	–	–	–	(152,346)	(153,744)	(143,769)	(11,581)	(461,440)
B.1 value adjustments	–	–	–	–	–	(94,217)	(138,444)	(143,692)	(6,210)	(382,563)
B.2 transfers from other categories of impaired assets	–	–	–	–	–	(54,727)	(13,436)	(53)	(1,896)	(70,112)
B.3 other additions	–	–	–	–	–	(3,402)	(1,864)	(24)	(3,475)	(8,765)
<b>C. Reductions</b>	–	140	–	–	140	326,167	100,222	539	2,251	429,179
C.1 writebacks based on valuations	–	–	–	–	–	14,273	8,350	330	847	23,800
C.2 writebacks due to amounts collected	–	21	–	–	21	18,711	22,799	14	158	41,682
C.3 amounts written off	–	119	–	–	119	269,421	12,044	182	36	281,683
C.4 transfers to other categories of impaired assets	–	–	–	–	–	12,649	56,461	13	988	70,111
C.5 other reductions	–	–	–	–	–	11,113	568	–	222	11,903
<b>D. Total adjustments at end of period</b>	(127)	–	–	–	(127)	(325,923)	(174,188)	(160,123)	(15,639)	(675,873)
of which:										–
specific adjustments	–	–	–	–	–	(325,923)	(174,188)	(160,123)	(15,639)	(675,873)
collective adjustments	–	–	–	–	–	–	–	–	–	–
<b>E. Value adjustments taken to P/L</b>	–	–	–	–	–	–	–	–	–	–



## Table 6 – Credit risk: information on books subject to the standardized method and on specialized credit exposures and in equities in connection with use of the IRB methods

### Qualitative information

Mediobanca uses the following external ratings agencies (or “ECAIs” in order to determine risk weightings in connection with the standardized method:

- ◆ Moody’s Investors Service
- ◆ Standard & Poor’s Rating Services
- ◆ Fitch Ratings

The books for which Mediobanca uses official ratings are listed below, along with the agencies which issue the ratings and the rating’s characteristics:

Book	ECAI	Rating characteristics <sup>7</sup>
Exposures to central administrations and central banks	Moody’s Investors Service Standard & Poor’s Rating Services Fitch Ratings	Solicited/unsolicited
Exposures to international organizations	Moody’s Investors Service Standard & Poor’s Rating Services Fitch Ratings	Solicited/unsolicited
Exposures to multilateral development banks	Moody’s Investors Service Standard & Poor’s Rating Services Fitch Ratings	Solicited/unsolicited
Exposures to companies and other entities	Moody’s Investors Service Standard & Poor’s Rating Services Fitch Ratings	Solicited
Exposures to undertakings for collective investments in transferable securities (UCITS)	Moody’s Investors Service Standard & Poor’s Rating Services Fitch Ratings	Solicited
Positions in securitizations with short-term ratings	Moody’s Investors Service Standard & Poor’s Rating Services Fitch Ratings	
Positions in securitizations other than those with short-term ratings	Moody’s Investors Service Standard & Poor’s Rating Services Fitch Ratings	

7) “Solicited ratings” are ratings issued following a request by the entity being rated and in return for a fee. Ratings issued without such a request being made are treated as comparable to solicited ratings if the entity has previously received a solicited rating from the same ECAI. “Unsolicited ratings” are those issued without the entity being rated requesting a rating and without any fee being paid. The decision to use unsolicited ratings as well stems from some ECAI’s choosing to convert the ratings of some European states from solicited to unsolicited. The Bank of Italy was notified of this decision on 14 September 2011.

8)



## Quantitative information

Standardized methodology: risk assets

Portafolios	Amounts as at 30/6/11		
	Value of exposure	Exposures guaranteed	
		Real guarantee	Personal guarantee
<b>Exposures to or guaranteed by central administrations and central</b>	<b>4,567,067</b>	<b>—</b>	<b>228,599</b>
• credit rating class 1	4,562,499		
• credit rating class 2	—		
• credit rating class 3	1,189		
• credit rating classes 4 and 5	—		
• credit rating class 6	3,379		
<b>Exposures to or guaranteed by regional entities</b>	<b>53,875</b>	<b>—</b>	<b>—</b>
• credit rating class 1	53,875		
• credit rating class 2	—		
• credit rating class 3	—		
• credit rating classes 4 and 5	—		
• credit rating class 6	—		
<b>Exposures to or guaranteed by non-profit-making or public-sector</b>	<b>400,425</b>	<b>221,763</b>	<b>—</b>
• credit rating class 1	32,983		
• credit rating class 2	—		
• credit rating class 3	—		
• credit rating classes 4 and 5	367,442		
• credit rating class 6	—		
<b>Exposures to or guaranteed by multilateral development banks</b>	<b>58,547</b>	<b>—</b>	<b>—</b>
• credit rating class 1	58,547		
• credit rating class 2	—		
• credit rating class 3	—		
• credit rating classes 4 and 5	—		
• credit rating class 6	—		
<b>Exposures to or guaranteed by international organizations</b>	<b>9,925</b>	<b>—</b>	<b>—</b>
<b>Exposures to or guaranteed by regulated intermediaries</b>	<b>10,709,981</b>	<b>6,459,758</b>	<b>245,235</b>
• credit rating class 1	8,815,160		
• credit rating class 2	58,528		
• credit rating class 3	—		
• credit rating classes 4 and 5	1,835,943		
• credit rating class 6	350		
<b>Exposures to or guaranteed by companies</b>	<b>28,513,406</b>	<b>864,714</b>	<b>361,491</b>
• credit rating class 1	605,132		
• credit rating class 2	3,936,113		
• credit rating classes 3 and 4	23,706,063		
• credit rating classes 5 and 6	266,098		
<b>Retail exposures</b>	<b>13,176,049</b>	<b>2,021,624</b>	<b>—</b>
<b>Exposures guaranteed by properties</b>	<b>4,954,868</b>	<b>2,123</b>	<b>—</b>
<b>Overdue exposures</b>	<b>771,811</b>	<b>900</b>	<b>—</b>
<b>High-risk exposures</b>	<b>756,794</b>	<b>—</b>	<b>—</b>
<b>Exposures in the form of guaranteed bank debt securities</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Short-term exposures to companies</b>	<b>—</b>	<b>—</b>	<b>—</b>
• credit rating class 1	—		
• credit rating class 2	—		
• credit rating class 3	—		
• credit rating classes from 4 to 6	—		
<b>Exposures to OICRs</b>	<b>265,579</b>	<b>—</b>	<b>—</b>
• credit rating class 1	—		
• credit rating class 2	—		
• credit rating classes 3 and 4	265,579		
• credit rating classes 5 and 6	—		
<b>Other exposures</b>	<b>6,248,111</b>	<b>—</b>	<b>—</b>
<b>Total cash risk assets</b>	<b>52,526,359</b>	<b>633,049</b>	<b>763,134</b>
<b>Total guarantees issued and commitments to disburse funds</b>	<b>13,604,042</b>	<b>—</b>	<b>72,191</b>
<b>Total derivatives contracts</b>	<b>3,513,370</b>	<b>808,218</b>	<b>—</b>
<b>Total SFTs and trades with long-term settlement</b>	<b>841,825</b>	<b>8,129,615</b>	<b>—</b>
<b>Netting arrangements between various products</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Grand total</b>	<b>70,485,596</b>	<b>9,570,882</b>	<b>835,325</b>

\* Greek sovereign debt securities have been included in credit rating class 1, taking into account the zero weighting required by the prudential supervisory regulations for exposures to EU member states' central administrations and central banks (cf. Circular 263, Title II, Chapter 1, Section III).



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## Table 8 – Risk mitigation techniques

### Qualitative information

The Group has implemented specific activities aimed at defining and meeting the necessary requirements for correctly applying credit risk mitigation (CRM) techniques, to maximize the effect of mitigation on the real and personal guarantees for loans, and to obtain a positive impact on the Group's capital requirements.

With reference to Mediobanca in particular, as a unit which is independent of the Bank's operating and commercial divisions, the Compliance unit has been tasked with checking the eligibility of guarantees made for purposes of credit risk mitigation, in relation to the instructions provided by the Bank of Italy for banks or groups adopting the standardized method.

### Netting policies and processes for on- and off-balance-sheet transactions

The Group does not net credit risk exposures for on- or off-balance-sheet transactions. Instead, risk reduction policies are adopted by entering into netting agreements and collateral agreements, both for derivatives and for positions held in securities lending transactions.

With respect to derivatives, the Group has also drawn up counterparty risk reduction policies, by entering into ISDA and Credit Support Annex agreements with institutional counterparties, in accordance with regulations in force. As for securities lending transactions, the Group has implemented counterparty risk reduction policies by executing GMSLA netting agreements which provide for collateralization agreements, in some cases in the form of triparty repos.

### Policies and processes for valuing and managing real guarantees

In performing lending operations, the Group widely acquires guarantees which are typical of banking activity, principally as real guarantees over financial instruments and properties as described below:

- ◆ mortgage guarantees – the initial value of the property at the disbursement stage is based on a valuation made by independent experts. In order to ensure that the value of the collateral thus acquired is in line with the value of the underlying asset, a specific procedure has been drawn up which involves the fair value of the property being calculated and monitored on a regular basis based on market data supplied by an external information provider;
- ◆ pledge guarantees – pledge guarantees are valued on the basis of their real value, in the sense of market value for financial instruments listed on a regulated market, or presumed realization value in other cases. This value is then revised to reflect prudential margins, which vary according to the financial instrument used as the collateral in accordance with the provisions of regulatory requirements.

### Main types of guarantors and counterparties in credit derivative transactions and their credit rating

The Group uses leading market counterparties to hedge credit derivative exposures.

### Information on market or credit risk concentrations in connection with credit risk mitigation techniques adopted

More than 80% of the guarantees received (€ 8.1bn) involve securities in connection with securities financing transactions which are recorded among real financial guarantees; there is also € 800m (8% of the total) in cash collateral, chiefly in respect of derivatives trading and the remainder for structured finance transactions.





## Quantitative information

### Risk mitigation techniques

Exposures to	Amounts as at 30/6/11		
	Real financial guarantees	Other guarantees	Personal guarantees and credit derivatives
Central administrations and central banks	—	—	228,599
Regulatory intermediaries	6,459,758	84,511	160,724
Regional entities	—	—	—
Non-profit-making and public sector entities	221,763	—	—
Multilateral development banks	—	—	—
International bodies	—	—	—
Companies	864,714	—	361,491
Retail exposures	2,021,624	—	—
Short-term exposures to companies	—	—	—
UCITS Units	—	—	—
Exposures guaranteed by properties	2,123	—	—
Exposures in the form of guaranteed bank debt securities	—	—	—
Overdue exposures	900	—	—
High-risk exposures	—	—	—
Other exposures	—	—	—
<b>Total</b>	<b>9,570,882</b>	<b>84,511</b>	<b>750,814</b>



## Table 9 – Counterparty risk

### Qualitative information

This is measured in terms of expected potential market value, thus doing away with the need to set arbitrary weightings for each type of fund employed, and identifies a maximum potential exposure to groups of the Bank's counterparties based on a given confidence level and over a specific time horizon. Towards the end of the financial year an overall review of the powers assigned to the Bank's various bodies was approved, with limits in terms of exposures being divided into three areas based on the product traded: 1) money market, which includes deals made on the interbank market and short-term financing in general; 2) repos and securities lending, including loans guaranteed by both bonds and equities; and 3) derivatives, which includes all exposures deriving from derivative contracts net of any collateral. Limits are checked daily, on the basis of reports produced by the Risk management unit.

\* \* \*

For regulatory purposes, counterparty risk is calculated by applying the methodologies stipulated in Circular 263. The following methodologies in particular have been used to calculate the exposure:

- ◆ the “current value” method for financial and credit derivative instruments traded OTC and for trades with long-term settlements;
- ◆ the “integral” method for SFT trades with regulatory adjustments for volatility; such trades consist of repos, securities and/or commodities lending transactions and loans linked with securities.



## Quantitative information

### Counterparty risk

#### Counterparty risk - real guarantees held

Counterparty risk - Real guarantees held	Amounts as at 30/6/11
<b>Standardized approach</b>	
• derivatives contracts	808,218
• SFTs and trades with long-term settlement	8,129,615
<b>IRB approaches</b>	
• derivatives contracts	–
• SFTs and trades with long-term settlement	–

#### Counterparty risk - risk assets

Counterparty risk	Amounts as at 30/6/11
<b>Standardized approach</b>	
• derivatives contracts	3,759,006
• SFTs and trades with long-term settlement	4,057,870
<b>IRB approaches</b>	
• derivatives contracts	–
• SFTs and trades with long-term settlement	–

Type of transaction	30/6/11		30/6/10	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1 Debt securities and interest rates	116,053,317	44,342,682	108,320,896	45,676,567
a) Options	–	33,748,302	–	34,609,375
b) Swaps	105,797,667	–	94,267,070	–
c) Forwards	–	–	1,917,648	165,254
d) Futures	–	10,594,380	–	10,901,938
e) Others	10,255,650	–	12,136,178	–
2 Equities and share indexes	40,936,388	16,526,519	22,528,544	23,121,148
a) Options	39,179,172	16,296,837	20,061,175	23,031,364
b) Swaps	1,757,216	–	2,467,369	–
c) Forwards	–	–	–	6,903
d) Futures	–	229,682	–	82,881
e) Others	–	–	–	–
3 Exchange rates and gold	7,084,716	–	6,049,748	–
a) Options	2,225,356	–	1,881,017	–
b) Swaps	1,844,250	–	1,118,033	–
c) Forwards	3,015,110	–	3,050,698	–
d) Futures	–	–	–	–
e) Others	–	–	–	–
4 Commodities	–	–	–	–
5 Other assets	–	–	–	–
<b>Total</b>	<b>164,074,421</b>	<b>60,869,201</b>	<b>136,899,188</b>	<b>68,797,715</b>
Average values	150,765,265	64,833,458	110,156,539	39,575,216



Type of transaction	30/6/11		30/6/10	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1 Debt securities and interest rates	34,665,139	–	35,221,809	–
a) Options	–	–	–	–
b) Swaps	34,465,139	–	35,021,809	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Others	200,000	–	200,000	–
2 Equities and share indexes	28,868	–	2,377	4,397
a) Options	20	–	–	4,397
b) Swaps	26,471	–	–	–
c) Forwards	2,377	–	2,377	–
d) Futures	–	–	–	–
e) Others	–	–	–	–
3 Exchange rates and gold	29,684	–	43,716	–
a) Options	–	–	–	–
b) Swaps	29,684	–	43,716	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Others	–	–	–	–
4 Commodities	–	–	–	–
Other assets	–	–	–	–
<b>Total</b>	<b>34,723,691</b>	<b>–</b>	<b>35,267,902</b>	<b>4,397</b>
Average values	34,201,138	2,198	33,756,115	3,387

Type of transaction	30/6/11		30/6/10	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1 Debt securities and interest rates	12,251	–	12,251	–
a) Options	–	–	–	–
b) Swaps	12,251	–	12,251	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Others	–	–	–	–
2 Equities and share indexes	9,255,369	–	10,673,581	–
a) Options	9,255,369	–	10,673,581	–
b) Swaps	–	–	–	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Others	–	–	–	–
3 Exchange rates and gold	43,489	–	51,489	–
a) Options	43,489	–	51,489	–
b) Swaps	–	–	–	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Others	–	–	–	–
4 Commodities	–	–	–	–
Other assets	–	–	–	–
<b>Total</b>	<b>9,311,109</b>	<b>–</b>	<b>10,737,321</b>	<b>–</b>
Average values	9,630,028	–	17,872,889	–



Type of transactions	Positive fair value			
	30/6/11		30/6/10	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	3,341,307	557,639	3,777,654	294,494
a) Options	1,312,267	544,815	919,433	288,325
b) Interest rate swaps	1,768,448	—	2,453,180	—
c) Cross currency swaps	76,720	—	30,053	—
d) Equity swaps	91,032	—	315,821	—
e) Forwards	92,839	—	59,117	1,122
f) Futures	—	12,824	—	5,047
g) Others	1	—	50	—
B. Banking book: hedge derivatives	1,481,246	—	1,961,652	—
a) Options	—	—	—	—
b) Interest rate swaps	1,418,580	—	1,960,333	—
c) Cross currency swaps	—	—	1,319	—
d) Equity swaps	—	—	—	—
e) Forwards	—	—	—	—
f) Futures	—	—	—	—
g) Others	62,666	—	—	—
C. Banking book: other derivatives	117,586	—	286,284	—
a) Options	113,565	—	286,284	—
b) Interest rate swaps	4,021	—	—	—
c) Cross currency swaps	—	—	—	—
d) Equity swaps	—	—	—	—
e) Forwards	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
<b>Total</b>	<b>4,940,139</b>	<b>557,639</b>	<b>6,025,590</b>	<b>294,494</b>



Type of transactions	Negative fair value			
	30/6/11		30/6/10	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	(3,484,830)	(518,937)	(4,154,396)	(255,896)
a) Options	(1,230,067)	(511,173)	(905,586)	(239,051)
b) Interest rate swaps	(1,916,078)	—	(2,730,724)	—
c) Cross currency swaps	(62,475)	—	(135,793)	—
d) Equity swaps	(218,086)	—	(223,127)	—
e) Forwards	(58,123)	—	(159,127)	(126)
f) Futures	—	(7,764)	—	(16,719)
g) Others	(1)	—	(39)	—
B. Banking book: hedge derivatives	(707,717)	—	(789,716)	—
a) Options	(62,669)	—	(92,311)	—
b) Interest rate swaps	(639,630)	—	(689,757)	—
c) Cross currency swaps	(5,296)	—	(5,483)	—
d) Equity swaps	(122)	—	—	—
e) Forwards	—	—	(2,165)	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
C. Banking book: other derivatives	(291,137)	—	(343,651)	—
a) Options	(291,137)	—	(340,251)	—
b) Interest rate swaps	—	—	(3,400)	—
c) Cross currency swaps	—	—	—	—
d) Equity swaps	—	—	—	—
e) Forwards	—	—	—	—
f) Futures	—	—	—	—
g) Others	—	—	—	—
<b>Total</b>	<b>(4,483,684)</b>	<b>(518,937)</b>	<b>(5,287,763)</b>	<b>(255,896)</b>

Contracts not forming part of netting arrangements	Governments and central banks	Other public agencies	Banks	Financial companies	Insurances	Non-financial companies	Other counterparties
1. Debt securities and interest							
notional value	—	—	2,302,656	5,802,796	1,335,454	8,059,425	—
positive fair value	—	—	20,144	53,347	27,928	163,687	—
negative fair value	—	—	(37,279)	(78,621)	(5,113)	(36,681)	—
future exposure	—	—	12,741	33,967	19,801	54,971	—
2. Equities and share indexes							
notional value	—	—	319,475	626,747	176,351	607,774	904
positive fair value	—	—	6,226	82,262	1,177	35,204	—
negative fair value	—	—	(17,862)	(14,210)	—	(86)	(22)
future exposure	—	—	19,282	43,498	16,891	37,901	54
3. Exchange rates and gold							
notional value	—	—	58,506	79,742	—	403,254	43
positive fair value	—	—	317	547	—	28,972	—
negative fair value	—	—	(503)	(256)	—	(14,729)	(1)
future exposure	—	—	392	620	—	20,778	—
4. Other assets							
notional value	—	—	—	—	—	—	—
positive fair value	—	—	—	—	—	—	—
negative fair value	—	—	—	—	—	—	—
future exposure	—	—	—	—	—	—	—



Contracts forming part of netting arrangements	Governments and central banks	Other public agencies	Banks	Financial companies	Insurances	Non-financial companies	Other counterparties
1 Debt securities and interest							
notional value	–	–	83,867,476	14,285,509	400,001	–	–
positive fair value	–	–	1,364,084	244,444	26,866	–	–
negative fair value	–	–	(1,610,072)	(192,198)	–	–	–
2 Equities and share indexes							
notional value	–	–	14,008,618	25,085,400	111,118	–	–
positive fair value	–	–	389,149	732,791	14,027	–	–
negative fair value	–	–	(316,203)	(1,044,989)	(487)	–	–
3 Exchange rates and gold							
notional value	–	–	6,168,119	375,051	–	–	–
positive fair value	–	–	106,967	43,168	–	–	–
negative fair value	–	–	(112,235)	(3,282)	–	–	–
4 Other assets							
notional value	–	–	–	–	–	–	–
positive fair value	–	–	–	–	–	–	–
negative fair value	–	–	–	–	–	–	–

Contracts not forming part of netting arrangements	Governments and central banks	Other public agencies	Banks	Financial companies	Insurances	Non-financial companies	Other counterparties
1 Debt securities and interest rates							
notional value	–	–	1,766,875	5,085	–	–	–
positive fair value	–	–	73,999	–	–	–	–
negative fair value	–	–	(18,391)	(110)	–	–	–
future exposure	–	–	2,867	25	–	–	–
2 Equities and share indexes							
notional value	–	–	–	–	–	2,377	20
positive fair value	–	–	–	–	–	–	–
negative fair value	–	–	–	–	–	–	(4)
future exposure	–	–	–	–	–	–	1
3 Exchange rates and gold							
notional value	–	–	–	–	–	–	–
positive fair value	–	–	–	–	–	–	–
negative fair value	–	–	–	–	–	–	–
future exposure	–	–	–	–	–	–	–
4 Other assets							
notional value	–	–	–	–	–	–	–
positive fair value	–	–	–	–	–	–	–
negative fair value	–	–	–	–	–	–	–
future exposure	–	–	–	–	–	–	–

Transaction categories	Regulatory trading book		Other transactions	
	Individual assets	Baskets	Individual assets	Baskets
1 Hedge buys				
a) Credit default	1,876,220	73,177,102	401,904	11,500
b) Credit spread products	–	–	–	–
c) Total rate of return swaps	–	–	–	–
d) Others	–	–	–	–
<b>Total A at 30/6/10</b>	<b>1,876,220</b>	<b>73,177,102</b>	<b>401,904</b>	<b>11,500</b>
Average values	2,007,591	41,286,643	327,964	11,500
<b>Total A at 30/6/09</b>	<b>2,109,324</b>	<b>9,355,437</b>	<b>403,429</b>	<b>40,746</b>
2 Hedge sales				
a) Credit default	1,360,305	73,527,535	438,114	1,779,300
b) Credit spread products	–	–	–	–
c) Total rate of return swaps	–	–	–	–
d) Others	–	–	–	–
<b>Total B at 30/6/10</b>	<b>1,360,305</b>	<b>73,527,535</b>	<b>438,114</b>	<b>1,779,300</b>
Average values	1,349,352	41,321,308	472,464	1,038,800
<b>Total B at 30/6/09</b>	<b>1,176,265</b>	<b>9,615,081</b>	<b>510,964</b>	<b>902,000</b>



Portfolio/derivative instrument type	Positive fair value	
	30/6/11	30/6/10
<b>A Regulatory trading book</b>	1,631,291	382,619
a) Credit default products	1,631,291	382,619
b) Credit spread products	–	–
c) Total rate of returns swaps	–	–
d) Others	–	–
<b>B Banking book</b>	126,905	69,481
a) Credit default products	126,905	69,481
b) Credit spread products	–	–
c) Total rate of returns swaps	–	–
d) Others	–	–
<b>Total</b>	<b>1,758,196</b>	<b>452,100</b>

Portfolios/derivative instruments type	Negative fair value	
	30/6/11	30/6/10
<b>A Regulatory trading book</b>	(1,678,680)	(397,501)
a) Credit default products	(1,678,680)	(397,501)
b) Credit spread products	–	–
c) Total rate of returns swaps	–	–
d) Others	–	–
<b>B Banking book</b>	(125,277)	(39,139)
a) Credit default products	(125,277)	(39,139)
b) Credit spread products	–	–
c) Total rate of returns swaps	–	–
d) Others	–	–
<b>Total</b>	<b>(1,803,957)</b>	<b>(436,640)</b>

Contracts forming part of netting arrangements	Governments and central banks	Other public agencies	Banks	Financial companies	Insurances	Non-financial companies	Other counterparties
<b>Regulatory trading book</b>							
1) Hedge buys							
notional value	–	–	73,759,526	1,273,797	–	–	–
positive fair value	–	–	607,589	12,355	–	–	–
negative fair value	–	–	(1,040,611)	(15,131)	–	–	–
2) Hedge sales							
notional value	–	–	73,608,384	1,257,989	–	–	–
positive fair value	–	–	1,001,907	9,415	–	–	–
negative fair value	–	–	(609,933)	(12,676)	–	–	–
<b>Banking book</b>							
1) Hedge buys							
notional value	–	–	–	–	–	–	–
positive fair value	–	–	–	–	–	–	–
negative fair value	–	–	–	–	–	–	–
2) Hedge sales							
notional value	–	–	–	–	–	–	–
positive fair value	–	–	–	–	–	–	–
negative fair value	–	–	–	–	–	–	–





Contracts not forming part of netting arrangements	Governments and central banks	Other public agencies	Banks	Financial companies	Insurances	Non-financial companies	Other counterparties
<b>Regulatory trading book</b>							
1) Hedge buys							
notional value	—	—	20,000	—	—	—	—
positive fair value	—	—	—	—	—	—	—
negative fair value	—	—	(15)	—	—	—	—
future exposure	—	—	1,000	—	—	—	—
2) Hedge sales							
notional value	—	—	—	21,467	—	—	—
positive fair value	—	—	—	24	—	—	—
negative fair value	—	—	—	(315)	—	—	—
future exposure	—	—	—	1,073	—	—	—
<b>Banking book</b>							
1) Hedge buys							
notional value	—	—	—	—	—	—	—
positive fair value	—	—	—	—	—	—	—
negative fair value	—	—	—	—	—	—	—
2) Hedge sales							
valore nozionale	—	—	—	—	—	—	—
fair value positivo	—	—	—	—	—	—	—
fair value negativo	—	—	—	—	—	—	—
<b>Summary Table</b>							
	Governments and central banks	Other public agencies	Banks	Financial companies	Insurances	Non-financial companies	Other counterparties
1) Financial derivatives							
bilateral agreements							
positive fair value	—	—	—	—	—	—	—
negative fair value	—	—	—	—	—	—	—
future exposure	—	—	—	—	—	—	—
net counterparty risk	—	—	—	—	—	—	—
2) Credit derivatives bilateral agreements							
positive fair value	—	—	—	—	—	—	—
negative fair value	—	—	—	—	—	—	—
future exposure	—	—	—	—	—	—	—
net counterparty risk	—	—	—	—	—	—	—
3) "Cross product" agreements							
positive fair value	—	—	828,403	5,634	40,406	—	—
negative fair value	—	—	(338,119)	(337,284)	—	—	—
future exposure	—	—	2,232,259	472,087	5,295	—	—
net counterparty risk	—	—	2,261,046	462,650	39,421	—	—



## Table 10 – Securitizations

### Qualitative information

No new securitizations were implemented during the twelve months under review, except for the € 1.7bn renewal of the Quarzo deal (Compass receivables), subscribed for in full by Mediobanca S.p.A.

In addition to its traditional activity as sponsor and lead manager, Mediobanca also invests in securities originating from securitizations by other issuers. As at the reporting date these totalled € 360.3m (30/6/10: € 444.5m). The main movements during the period involved acquisitions of € 52.8m, disposals and repayments totalling € 132.2m (generating gains of € 1.8m), and downward adjustments as at the reporting date amounting to € 6.6m (€ 7.4m of which relating to the partial writedown to the ELM security), € 1.2m by way of increase in amortized cost, and €1.3m in downward adjustment to fair value as at the reporting date); the implicit loss on the fixed portfolio amounts to € 20.6m.

For the purpose of calculating the exposure for the investments held as part of the banking book, a rating-based approach is used, or alternatively an internal valuation is made using the “look-through” method for unrated positions; these involve only deals where Mediobanca has played an active role in the securitization, e.g. as sponsor, manager.



## Quantitative information

Standardized methodology: positions in securitizations

Risk Weighting classes	Amounts as at 30/6/11			
	Cash risk assets			
	Own securitizations		Third-party securitizations	
	Type of securitization		Type of securitization	
	Traditional	Synthetic	Traditional	Synthetic
Weighting 20%	–	–	198,966	–
Weighting 50%	–	–	52,322	–
Weighting 100%	–	–	–	–
Weighting 350%	–	–	23,115	–
Weighting 1250% - with rating	–	–	–	–
Weighting 1250% - without rating	–	–	2,403	–
Look-through - second loss in ABCP	–	–	–	–
Look-through - other	–	–	35,520	–
<b>Total</b>	–	–	<b>312,326</b>	–

\* No off-balance-sheet risk assets included.



## **Table 12 – Operational risk**

### **Qualitative information**

Mediobanca has decided to adopt the Basic Indicator Approach (“BIA”) in order to calculate the capital requirement for covering operational risk, applying a margin of 15% to the average of the last three readings of total income. Based on this method of calculation, the capital requirement as at 30 June 2011 was € 263m.



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## Table 13 – Exposures to equities: information on banking book positions

### Qualitative information

Equity instruments refer mostly to those assets recognized in the accounts either as “Equity investments” or “AFS securities”. The accounting policies adopted in respect of these two asset classes are described below.

#### Equity investments

This heading consists of investments in:

- ◆ associates, which are equity-accounted. Associates are defined as companies in which at least 20% of the voting rights are held, and those in which the size of the investment is sufficient to ensure an influence in the governance of the investee company;
- ◆ jointly-controlled companies, also equity-accounted;
- ◆ other investments of negligible value, measured at cost.

Where there is objective evidence that the value of an investment may be impaired, estimates are made of its current value using market prices if possible, and of the present value of estimated cash flows generated by the investment, including its terminal value. Where the value thus calculated is lower than the asset’s carrying amount, the difference is taken through the profit and loss account.

#### AFS securities

This category includes all financial assets apart from derivatives not booked under the headings *Financial assets held for trading*, *Financial assets held to maturity* or *Loans and receivables*.

AFS assets are initially recognized at fair value, which includes transaction costs and income directly attributable to them. Thereafter they continue to be measured at fair value. Changes are recognized in a separate net equity reserve, which is then eliminated against the corresponding item in the profit and loss account as and when an asset is disposed of or impairment is recognized. Fair value is measured on the same principles as described for trading instruments. Equities for which it is not possible to reliably determine fair value are stated at cost. For debt securities included in this category the value of amortized cost is also recognized against the corresponding item in the profit and loss account.

Assets are subjected to impairment tests at annual and interim reporting dates. If there is evidence of a long-term reduction in the value of the asset concerned, this is recognized in the profit and loss account on the basis of market prices in the case of listed instruments, and of estimated future cash flows discounted according to the original effective interest rate in the case of unlisted securities. In particular, the criteria for measuring impairment for shares are a reduction in fair value of more than one third, or a reduction versus the initial recognition value of more than 24 months.<sup>9</sup> If the reasons for which the loss was recorded subsequently cease to apply, the impairment is written back to the profit and loss account for debt securities to and net equity for shares.

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9) *The time limit has been extended from eighteen to twenty-four months in view of the Bank’s investment profile and given the market benchmark; this change has generated no impact on the accounts for the year ended 30 June 2011.*



## Quantitative information

### Banking book: cash exposures in equities and UCITS

Items	Amounts as at 30/6/11										
	Book value		Fair value		Impairment	Gains/losses realized		Gain/loss not realized		Gain/loss not realized included in Tier 1/Tier 2 capital	
	Listed	Unlisted	Listed	Unlisted		Gains	Losses	Gains	Losses	Gains	Losses
<b>A. Equities</b>											
A.1 Shares	3,294,856	1,163,349	3,417,582	1,163,349	(35,636)	218,783	(344,455)	894,736	(198,808)	48	(39,411)
A.2 Innovative equity instruments	–	–	–	–	–	–	–	–	–	–	–
A.3 Other equity instruments	–	251,589	–	251,589	–	–	–	–	(11,540)	–	(5,770)
<b>B. UCITS Units</b>											
B.1 Incorporated under Italian law											
harmonized, open	–	–	–	–	–	–	–	–	–	–	–
not harmonized, open	–	–	–	–	–	–	–	–	–	–	–
closed	–	56,445	–	56,445	–	–	–	5,415	(600)	2,708	(300)
reserved	–	–	–	–	–	–	–	–	–	–	–
speculative	–	–	–	–	–	–	–	–	–	–	–
B.2 Other EU states											
harmonized	–	–	–	–	–	–	–	–	–	–	–
not harmonized, open	–	–	–	–	–	–	–	–	–	–	–
not harmonized, closed	–	–	–	–	–	–	–	–	–	–	–
B.3 Non-EU states											
open	–	–	–	–	–	–	–	–	–	–	–
closed	–	5,792	–	5,792	–	–	–	688	–	344	–
<b>Total</b>	<b>3,294,856</b>	<b>1,477,175</b>	<b>3,417,582</b>	<b>1,477,175</b>	<b>(35,636)</b>	<b>218,783</b>	<b>(344,455)</b>	<b>900,839</b>	<b>(210,948)</b>	<b>3,100</b>	<b>(45,481)</b>



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Banking book: equity instruments

Category	Book value as at 30/6/10
Private equity instruments held in sufficiently diversified form	62,237
Equity instruments listed on regulated markets	3,294,856
Other equity instruments	1,414,938
<b>Total equity instruments</b>	<b>4,772,031</b>
Balance-sheet values, listed and unlisted	4,772,031
Difference	—

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## Table 14 – Interest rate risk on banking book positions

### Qualitative information

Interest rate risk management for the banking book is focused on the Bank's Financial Markets division.

The risk rate is monitored via sensitivity analysis of the banking book and the entire portfolio to changes in interest rates using internal ALM models. This model allows the impact of movements in the interest rate curve on net interest income and the market value of positions to be estimated.

### Quantitative information

The Group's exposure to interest rate risk has been quantified in accordance with the simplified methodology described by the Bank of Italy in Circular 263. The regulatory approach is based on quantifying the variation in the economic value of the supervisory banking book following a change in interest rates.

In determining internal capital under ordinary conditions, reference has been made to the annual changes in interest rates recorded during an observation period of 6 years, considering alternately the first percentile (reduction) and the 99th percentile (increase).<sup>9</sup>

The calculation of the interest rate risk on interest on the banking book is shown below, following a shift in the interest rate considering the 99th percentile (increase) in the annual changes in interest rates recorded in the last 6 years:<sup>10</sup>

(€ mln)	Amounts at 30.06.11
Interest rate risk on the banking book	249
• Euro	246
• Other currencies	3

In addition, stress tests have been carried out on the interest rate on the banking book at the consolidated level, with the aim of quantifying the effect of a parallel shift of  $\pm 200$  basis points in the interest rate curve as required by Circular 263, in order to calculate the risk indicator.

A breakdown of the exposures in the individual relevant currencies and the aggregate of non-relevant currencies is provided below, along with a calculation of the risk indicator, assuming a parallel shift in interest rates of + 200 bps:

(€ mln)	Amounts at 30.06.11
Interest rate risk on the banking book	455
• Euro	452
• Other currencies	3
Regulatory capital	7,899
Risk Index	5.76%

The riskiness index is approx. 5.76%, far below the 20% attention threshold set by the Bank of Italy.

10) The calculation methods are in line with the amendments made to the simplified methodology introduced as part of the updates to Circular 263.

11) In the event of interest rates falling, there would be an overall increase in the value of the banking book which does not represent a source of risk.





## **Declaration by Head of Company Financial Reporting**

As required by Article 154-bis, para. 2 of Italian Legislative Decree 58/98, the undersigned hereby declares that the accounting information contained in this document conforms to the documents, account ledgers and book entries kept by the company.

Head of Company Financial Reporting

Massimo Bertolini