

MEDIOBANCA



Quarterly review of operations

(30 September 2012)

MEDIOBANCA

LIMITED COMPANY
SHARE CAPITAL € 430,564,606
HEAD OFFICE: PIAZZETTA ENRICO CUCCIA 1, MILAN, ITALY

REGISTERED AS A BANK
PARENT COMPANY OF THE MEDIOBANCA BANKING GROUP



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translation from the Italian original which remains the definitive version

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REVIEW OF GROUP OPERATIONS
30 SEPTEMBER 2012



REVIEW OF GROUP OPERATIONS 30 SEPTEMBER 2012

The Mediobanca Group earned a net profit of €109m in the three months under review, virtually double the €56.8m posted at the same stage last year (which incidentally was the best quarterly result in the last financial year). The result was boosted by positive performances from banking operations, where a profit before tax of €140.2m was earned (30/9/11: €103.3m), and from the securities and equity investment portfolios, which generated a profit of €21.6m (compared with a €13m loss last year). The growth in the former reflects a healthy performance by trading activities, which delivered a profit of €59.8m, compared with a €2.9m loss last year, and offsets the weaker performances by the other main items. The portfolio result was boosted by the lack of provisions, which totalled just €4m for the quarter, compared with €70.2m last financial year. The other income items performed as follows:

- net interest income fell by 8.1%, from €281.8m to €259m; this reduction was due to the corporate and investment banking segment (where net interest income was down from €110m to €86.3m), due to the ongoing increase in the cost of funding, with flat returns on assets and declining interest rates;
- net fee and commission income fell from €117.1m to €103.8m, reflecting the downturn in lending activity to households and corporates;
- the contribution from the equity-accounted companies more than halved, from €73m to €28.1m, due to a reduction in profits earned by Assicurazioni Generali and the losses incurred by RCS MediaGroup.

Operating costs fell 11.6%, from €196.6m to €173.7m, due to reduced labour costs (down 6.7%) and administrative expenses (down 16.8%).

Loan loss provisions, which were up 8.4% year-on-year, from €102.8m to €111.4m, but down 21% quarter-on-quarter (30/6/12: €141.5m), reflect the deterioration in the risk profiles of households and corporates: provisioning in corporate business rose from €17.9m to €19.9m, in leasing from €5.2m to €5.3m, in consumer finance from €74.6m to €81m, and in retail finance from €5m to €5.1m.

Movements in the securities portfolio over the three months generated net losses of €5.1m (compared with €15.8m last year).

As for the individual business areas, corporate and investment banking recorded a €61.7m profit (compared with a €25.9m loss last year), with revenues up 11.8% (driven by net trading income), costs down 10%, and virtually no provisions for financial assets. Retail and private banking showed a profit of €27.2m (€19.8m), boosted by improved performances from CheBanca! and private banking, which offset the slowdown in consumer credit. The contribution from principal investing totalled €19.1m (€64.1m).

Turning now to the balance-sheet aggregates, there were reductions in both loans and advances to customers (from €36.3bn to €34.9bn) and debt securities (from €30bn to €29.4bn), while CheBanca! retail deposits were resilient, being virtually unchanged at €11.6bn, against slight increases in treasury assets and AFS bonds (from €18.8bn to €19.8 bn). Assets under management in private banking increased from €12.6bn to €13.1bn.

The Group's main capital ratios remain at high levels, with the Core Tier 1 ratio stable at 11.5%, despite to the increase in the regulatory weighting for domestic exposures, following the downgrade of the Italian Republic. The total capital ratio stands at 14.12% (14.16%).

* * *

Significant events that took place during the three months include the approval by the Board of Directors, at a meeting held on 5 September 2012, of the self-assessment process for governing bodies instituted pursuant to the Bank of Italy memo issued on 11 January 2012.

Consolidated financial statements *

The consolidated Profit and loss account and Balance sheet have been restated – also by business area – in the usual way, in order to provide the most accurate reflection of the Group’s operations. The results are also presented in the format recommended by the Bank of Italy as an annex, along with further details on how the various items have been restated.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	(€m)			
	3 mths to 30/9/11	12 mths to 30/6/12	3 mths to 30/9/12	Y.o.Y. Chg (%)
Profit-and-loss data				
Net interest income	281.8	1,069.8	259.0	-8.1
Net trading income	3.8	266.8	62.5	n.m.
Net fee and commission income	117.1	483.5	103.8	-11.4
Equity-accounted companies	73.0	169.5	28.1	-61.5
TOTAL INCOME	475.7	1,989.6	453.4	-4.7
Labour costs	(100.8)	(393.3)	(94.0)	-6.7
Administrative expenses	(95.8)	(395.7)	(79.7)	-16.8
OPERATING COSTS	(196.6)	(789.0)	(173.7)	-11.6
Gains (losses) on AFS, HTM and L&R ¹	(15.8)	32.4	(5.1)	-67.7
Loan loss provisions	(102.8)	(468.3)	(111.4)	8.4
Provisions for financial assets	(70.2)	(604.0)	(1.4)	n.m.
Other profits (losses)	—	45.2	—	n.m.
PROFIT BEFORE TAX ²	90.3	205.9	161.8	79.2
Income tax for the period	(32.3)	(125.5)	(53.3)	65.0
Minority interest	(1.2)	0.5	0.5	n.m.
NET PROFIT	56.8	80.9	109.0	91.9

* For a description of the methods by which the data has been restated, see also the section entitled “Significant accounting policies”.

¹ Item restated, having previously been accounted for under *Net trading income*.

² Consisting of €140.2m in profit from banking operations (30/9/11: €103.3m; 30/6/12: €562.8m) and €21.6m in profit from principal investing, securities and other items (30/9/11: loss of €13m; 30/6/12: loss of €356.9m).

RESTATED BALANCE SHEET

	30/9/11	30/6/12	30/9/12
			(€m)
Assets			
Treasury funds	7,029.4	9,330.4	9,856.5
AFS securities	7,213.0	10,552.1	11,018.3
<i>of which: fixed-income</i>	5,773.2	9,447.1	9,927.9
<i>equities</i>	1,427.4	1,090.8	1,076.1
Fixed financial assets (HTM & LR)	2,407.5	2,328.1	2,314.1
Loans and advances to customers	37,411.1	36,309.5	34,926.1
Equity investments	3,210.3	3,165.5	3,116.3
Tangible and intangible assets	763.5	718.1	718.6
Other assets	1,330.7	1,355.6	1,249.4
<i>of which: tax assets</i>	1,063.9	1,036.1	968.0
Total assets	<u>59,365.5</u>	<u>63,759.3</u>	<u>63,199.3</u>
Liabilities and net equity			
Funding	51,118.5	55,788.0	55,014.4
<i>of which: debt securities in issue</i>	33,866.4	30,004.2	29,374.7
<i>retail deposits</i>	10,014.8	11,634.1	11,643.0
Other liabilities	1,490.7	1,177.2	1,206.0
<i>of which: tax liabilities</i>	565.9	494.1	583.3
Provisions	181.6	185.1	186.5
Net equity	6,517.9	6,528.1	6,683.4
<i>of which: share capital</i>	430.6	430.6	430.6
<i>reserves</i>	5,974.8	5,988.1	6,144.2
<i>minority interest</i>	112.5	109.4	108.6
Profit for the period	56.8	80.9	109.0
Total liabilities and net equity	<u>59,365.5</u>	<u>63,759.3</u>	<u>63,199.3</u>
<i>Tier 1 capital</i>	6,153.2	6,338.9	6,290.8
<i>Regulatory capital</i>	7,796.2	7,810.0	7,725.4
<i>Tier 1 capital/risk-weighted assets</i>	11.13%	11.49%	11.50%
<i>Regulatory capital/risk-weighted assets</i>	14.10%	14.16%	14.12%
No. of shares in issue (millions)	861.1	861.1	861.1

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

	(€m)			
30 September 2012	Corporate & Investment Banking	Principal Investing	Retail & Private Banking	Group
Profit-and-loss data				
Net interest income	86.3	(2.1)	176.1	259.0
Net trading income	59.2	—	3.6	62.5
Net fee and commission income	56.5	—	56.7	103.8
Equity-accounted companies	4.4	23.0	—	28.1
TOTAL INCOME	206.4	20.9	236.4	453.4
Labour costs	(48.9)	(1.2)	(47.4)	(94.0)
Administrative expenses	(24.0)	(0.9)	(63.1)	(79.7)
OPERATING COSTS	(72.9)	(2.1)	(110.5)	(173.7)
Gains (losses) on AFS, HTM and L&R	(6.4)	—	5.2	(5.1)
Loan loss provisions	(25.2)	—	(86.2)	(111.4)
Provisions for financial assets	(1.4)	—	(3.5)	(1.4)
Other profits (losses)	—	—	0.2	—
PROFIT BEFORE TAX ¹	100.5	18.8	41.6	161.8
Income tax for the period	(39.3)	0.3	(14.4)	(53.3)
Minority interest	0.5	—	—	0.5
NET PROFIT	61.7	19.1	27.2	109.0
Cost/income ratio (%)	35.3	10.0	46.7	38.2
Balance-sheet data				
Treasury funds	11,249.6	—	8,555.4	9,856.5
AFS securities	9,639.0	144.8	1,773.0	11,018.3
Fixed financial assets (HTM & LR)	3,999.3	—	2,762.9	2,314.1
Equity investments	387.9	2,640.3	—	3,116.3
Loans and advances to customers	29,034.4	—	14,658.1	34,926.1
<i>of which: to Group companies</i>	<i>8,347.7</i>	<i>—</i>	<i>—</i>	<i>8,347.7</i>
Funding	(51,766.2)	(259.8)	(26,306.4)	(55,014.1)
Risk-weighted assets	39,673.1	2,394.2	12,088.5	54,724.7
No. of staff	962	—	2,664 *	3,494

* Includes 132 staff employed by Banca Esperia pro-forma, not included in the Group total.

¹ Consisting of €140.2m in profit from banking operations (CIB €103.9m; PI minus €4.2m; RPB €39.7m) and €21.6m in profit from principal investing, securities and other items (CIB minus €3.4m; PI €25m; RPB €1.9m).

1. Divisions comprise:

- *CIB (Corporate and investment banking)*: comprises corporate and investment banking, including leasing, plus the Group's trading investments. The companies which form part of this division are Mediobanca, Mediobanca International, MB Securities USA, Consortium, Prominvest, SelmaBipiemme Leasing, Palladio Leasing and Teleleasing;
- *Principal Investing*: comprises the Group's shareholdings in Assicurazioni Generali, RCS MediaGroup and Telco, plus stakes acquired as part of merchant banking activity and investments in private equity funds;
- *Retail and private banking*: businesses targeting retail customers via consumer credit products, mortgages, deposit accounts, private banking and fiduciary activities. The companies which make up this division are: Compass, CheBanca!, Cofactor, Futuro and Creditech (consumer credit); and Compagnie Monégasque de Banque, Spafid and Prudentia Fiduciaria, plus 50% of Banca Esperia pro-forma (private banking).

2. Sum of divisional data differs from Group total due to:

- Banca Esperia being consolidated pro-rata (50%) rather than equity-accounted;
- adjustments/differences arising on consolidation between business areas (€1.5m as at 30 September 2011, and €0.9m as at 30 September 2012 respectively).

	(€m)			
30 September 2011	Corporate & Investment Banking	Principal Investing	Retail & Private Banking	Group
Profit-and-loss data				
Net interest income	110.0	(1.9)	172.6	281.8
Net trading income	3.9	—	1.6	3.8
Net fee and commission income	64.8	—	61.4	117.1
Equity-accounted companies	5.9	67.6	—	73.0
TOTAL INCOME	184.6	65.7	235.6	475.7
Labour costs	(55.8)	(1.4)	(46.5)	(100.8)
Administrative expenses	(25.3)	(0.7)	(77.2)	(95.8)
OPERATING COSTS	(81.1)	(2.1)	(123.7)	(196.6)
Gains (losses) on AFS, HTM and L&R ¹	(15.7)	—	0.9	(15.8)
Loan loss provisions	(23.2)	—	(79.6)	(102.8)
Provisions for financial assets	(69.8)	(0.1)	(0.3)	(70.2)
Other profits (losses)	—	—	—	—
PROFIT BEFORE TAX ²	(5.2)	63.5	32.9	90.3
Income tax for the period	(19.5)	0.6	(13.1)	(32.3)
Minority interest	(1.2)	—	—	(1.2)
NET PROFIT	(25.9)	64.1	19.8	56.8
Cost/income ratio (%)	43.9	3.2	52.5	41.3
Balance-sheet data				
Treasury funds	9,155.5	—	3,108.3	7,029.4
AFS securities	6,041.5	130.9	1,528.2	7,213.0
Fixed financial assets (HTM & LR)	4,100.1	—	4,128.8	2,407.5
Equity investments	366.8	2,770.7	—	3,210.3
Loans and advances to customers	28,488.8	—	14,152.7	37,411.1
<i>of which: to Group companies</i>	5,223.3	—	—	5,223.3
Funding	(45,145.1)	(259.8)	(22,313.3)	(51,118.5)
Risk-weighted assets	40,483.6	3,217.7	11,567.5	55,293.2
No. of staff	989	—	2,637 *	3,491

* Includes 135 staff employed by Banca Esperia pro-forma, not included in the Group total.

¹ Item restated, having previously been accounted for under *Net trading income*.

² Consisting of €103.3m in profit from banking operations (CIB €74.4m; PI minus €4m; RPB €32.3m) and minus €13m in profit from principal investing, securities and other items (CIB minus €79.6m; PI €67.5m; RPB €0.6m).

Balance sheet

The main balance-sheet items, of which Mediobanca contributes over 60%, showed the following trends for the three months under review (comparative data as at 30 June 2012):

Funding – this item fell from €55,788m to €55,014.4m, following bond issue redemptions totalling €676.2m, buybacks on the market amounting to €106m (yielding profits of €6.2m), and new issues worth €118.4m. The CheBanca! retail component was stable, increasing marginally from €11,634.1m to €11,643m.

Loans and advances to customers – the 3.8% reduction in this item, from €36,309.5m to €34,926.1m, involved all business areas but in particular corporate banking (down 6.1%) and leasing (down 4.4%).

	(€m)		
	30/6/12	30/9/12	Change (%)
Corporate and investment banking	22,028.3	20,688.3	-6.1
– of which: leasing	4,119.1	3,937.7	-4.4
Retail and private banking	14,281.2	14,237.8	-0.3
– of which: consumer credit	9,197.7	9,144.5	-0.6
mortgage lending	4,310.8	4,287.8	-0.5
private banking	772.7	805.5	+4.2
TOTAL LOANS AND ADVANCES TO CUSTOMERS	36,309.5	34,926.1	-3.8

Equity investments – these declined from €3,165.5m to €3,116.3m, after profits for the period totalling €28.1m, and €77.3m in downward adjustments to the valuation reserves. The value of the Assicurazioni Generali investment declined during the quarter, as a result of the negative performance by the valuation reserves (down €79m), which was only in part offset by the profit for the period (€36.7m), plus the losses incurred by RCS MediaGroup (€13.6m). Based on current prices and holdings the portfolio shows a surplus of approx. €250m (higher than the €51.2m surplus reported at 30 September 2012).

	Percentage share holding *	Book value	Market value at 30/9/12	Gain (Loss)
LISTED EQUITY INVESTMENTS				
Assicurazioni Generali	13.24	2,314.0	2,306.2	(7.8)
RCS MediaGroup, ordinary	14.36	95.0	145.5	50.5
Pirelli & C., ordinary	4.61 — 4.49	120.7	183.7	63.0
Gemina ordinary	12.56 — 12.53	194.9	140.4	(54.5)
		<u>2,724.6</u>	<u>2,775.8</u>	<u>51.2</u>
OTHER INVESTMENTS				
Telco	11.62	206.6		
Banca Esperia	50.0	88.0		
Burgo Group	22.13	72.4		
Athena Private Equity	24.27	23.8		
Fidia	25.0	0.9		
		<u>391.7</u>		
Total Investments		<u>3,116.3</u>		

* Percentage of entire share capital.

Fixed financial assets – this portfolio consists of financial assets held to maturity totalling €1,721.4m (€1,723.3m) and unlisted debt securities (recognized at cost) worth €592.7m (€604.8m). The three months under review saw sales of €0.6m, redemptions totalling €17.7m, and €4.3m in other upward adjustments. Based on prices and holdings at the reporting date, the portfolio showed an implicit gain of €25.3m (compared with a €42.4m loss at the balance-sheet date), confirming the improved trend on financial markets.

AFS securities – this portfolio is made up of debt securities totalling €9,927.9m (€9,447.1m), equities worth €1,076.1m (€1,090.8m), and stock units in funds held by Compagnie Monégasque de Banque amounting to €14.3m (€14.2m). During the three months bond purchases worth €1,368.4m were recorded, along with disposals and redemptions totalling €1,195.3m (yielding net losses of €0.5m), and other upward adjustments of €302.7m. Movements on the equity side consist of disposals worth €14.8m (at a net loss of €5.1m), writedowns of €1.4m taken through the profit and loss account, and upward adjustments to reflect fair value at the reporting date totalling €3.7m.

	Percentage shareholding *	Book value as at 30/9/12	Adjustments to fair value	Impairment to P&L	Total AFS reserve
Sintonia S.p.A.	6.23	336.3	—	—	—
UCI Cashes		135.4	0.2	—	0.2
Delmi S.p.A., ordinary	6.0	60.2	—	—	—
Santé S.A.	9.92	54.4	—	(0.8)	—
Italmobiliare	9.5 — 5.47	30.3	4.5	—	(4.3)
Other listed shares		221.6	3.7	(0.6)	(7.0)
Other unlisted shares		237.9	(4.7)	—	12.8
TOTAL SHARES		1,076.1	3.7	(1.4)	1.7

* First figure refers to percentage of shares held in respective category; second figure refers to percentage of total share capital held.

The AFS valuation reserve showed a substantial improvement, from minus €349.5m to minus €44m, due to positive performances by all segments, in particular debt securities (up €297.3m), approx. two-thirds of which is attributable to Italian government securities.

Treasury assets – these increased from €9,330.4m to €9,856.5m, and include €809.3m (€615.1m) in cash and cash equivalents, €4,051.1m (€3,992m) in fixed-income securities, €1,008.2m (€833.6m) in equities, €4,874.2m (€4,812.1m) in treasury assets, such as repos, interbank deposits, etc., and €886.3m (€922.4m) in negative value adjustments to derivatives contracts.

Tangible and intangible assets – these closed at €718.6m (€718.1m); the heading also includes goodwill worth €365.9m and brands totalling €6.3m (unchanged).

Provisions – this item comprises the provision for liabilities and charges, which stands at €160.3m (€160.4m), virtually unchanged in the three months, and the staff severance indemnity provision, amounting to €26.2m (€24.7m), up due to the adjusting of the actuarial reserve.

Net equity – net equity increased from €6,418.7m to €6,574.8m, boosted by the improvement in the Group's valuation reserves (up €191m), and provision of undistributed earnings from the previous financial year (€38.7m), and at the same time reflecting the reductions for the equity-accounted companies (€77.3m). In detail, the AFS securities portfolio reserve improved from minus €236.1m to minus €27.3m, while the cash flow hedge reserve deteriorated from minus €121m to minus €138.9m, and the equity-accounted companies' valuation reserve declined from €6.5m to minus €76.6m.

Profit and loss account

Net interest income – the reduction in this item, from €281.8m to €259m, reflects the negative corporate banking trends seen in recent quarters, due to the generalized increase in the cost of funding, against declining returns of applications of treasury assets. The contribution from retail and private banking to this item increased slightly, up 2%.

Net trading income – trading activity generated net income of €59.8m (compared with a €2.9m loss last year), plus dividends totalling €2.7m (€6.7m). The increase is chiefly due to fixed-income trading, which trebled from €14m to €46.5m.

Net fee and commission income – this item fell from €117.1m to €103.8m, following a reduced contribution from all areas: corporate and investment banking fees fell from €63.4m to €55.3m, and consumer and retail banking fees from €52.4m to €47.5m, as a result of the reduced business volumes.

Operating costs – this item fell by 11.6%, from €196.6m to €173.7m, and consists of:

- labour costs amounting to €94m (€100.8m); these include €1.8m (€2m) in directors' emoluments, and €3.8m (€2.5m) in implicit expenses linked to performance share and stock option schemes;
- sundry costs and expenses amounting to €79.7m (€95.8m), including €10.5m (€10.9m) in depreciation charges, and administrative expenses totalling €68.7m (€84.6m), made up as follows:

	3 mths to 30/9/11	3 mths to 30/9/12
Legal, tax and other professional services	8.3	4.7
Bad debt recovery	7.2	7.1
Marketing and communications	16.3	8.3
Rent and property maintenance charges	10.0	8.8
EDP	9.0	8.6
Financial information subscriptions	6.2	6.8
Banking services, collection and payment charges	5.2	5.1
Operating expenses	13.3	12.0
Other labour costs	5.7	4.2
Other costs	1.1	1.1
Direct and indirect taxes (net of amounts withheld)	2.3	2.0
TOTAL	84.6	68.7

Loan loss provisions – provisioning for the period was up year-on-year, from €102.8m to €111.4m, but down quarter-on-quarter (30/6/12: €141.5m). Loan loss provisions for consumer credit grew from €74.6m in the first quarter last year to €81m (but declined from the €88.6m in the fourth quarter), and for wholesale banking from €17.9m to €19.9m (but again lower than the €38.2m reported at 30 June 2012).

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

A review of the Group's performance in its main areas of operation is provided below, according to the customary segmentation.

CORPORATE AND INVESTMENT BANKING (WHOLESALE BANKING AND LEASING)

	3 months to 30/9/11	12 months to 30/6/12	3 months to 30/9/12	Y.o.Y. chg. (%)
(€m)				
Profit-and-loss data				
Net interest income	110.0	381.6	86.3	-21.5
Net trading income	3.9	256.4	59.2	n.m.
Net fee and commission income	64.8	275.6	56.5	-12.8
Equity-accounted companies	5.9	19.7	4.4	-25.4
TOTAL INCOME	184.6	933.3	206.4	11.8
Labour costs	(55.8)	(202.2)	(48.9)	-12.4
Administrative expenses	(25.3)	(110.9)	(24.0)	-5.1
OPERATING COSTS	(81.1)	(313.1)	(72.9)	-10.1
Gains (losses) on AFS, HTM and L&R	(15.7)	23.8	(6.4)	-59.2
Loan loss provisions	(23.2)	(134.2)	(25.2)	8.6
Provisions for financial assets	(69.8)	(405.5)	(1.4)	n.m.
Other profits (losses)	—	—	—	n.m.
PROFIT BEFORE TAX	(5.2)	104.3	100.5	n.m.
Income tax for the period	(19.5)	(85.1)	(39.3)	n.m.
Minority interest	(1.2)	0.5	0.5	n.m.
NET PROFIT	(25.9)	19.7	61.7	n.m.
Cost/income ratio (%)	43.9	33.5	35.3	

	3 months to 30/9/11	12 months to 30/6/12	3 months to 30/9/12
Balance-sheet data			
Treasury funds	9,155.5	10,641.7	11,249.6
AFS securities	6,041.5	9,210.3	9,639.0
Fixed financial assets (HTM & LR)	4,100.1	4,013.4	3,999.3
Equity investments	366.8	385.8	387.9
Loans and advances to customers	28,488.8	30,519.7	29,034.4
<i>of which: to Group companies</i>	5,223.3	8,493.3	8,347.7
Funding	(45,145.1)	(52,552.8)	(51,766.5)

	(€m)		
Corporate & Investment Banking 30 September 2012	Wholesale	Leasing	Total
Net interest income	74.8	11.5	86.3
Net trading income	59.3	(0.1)	59.2
Net fee and commission income	55.9	0.6	56.5
Equity-accounted companies	4.4	—	4.4
TOTAL INCOME	194.4	12.0	206.4
Labour costs	(44.8)	(4.1)	(48.9)
Administrative expenses	(20.7)	(3.3)	(24.0)
OPERATING COSTS	(65.5)	(7.4)	(72.9)
Gains (losses) on AFS, HTM and L&R	(6.4)	—	(6.4)
Loan loss provisions	(19.9)	(5.3)	(25.2)
Provisions for financial assets	(1.4)	—	(1.4)
Other profits (losses)	—	—	—
PROFIT BEFORE TAX	101.2	(0.7)	100.5
Income tax for the period	(39.0)	(0.3)	(39.3)
Minority interest	—	0.5	0.5
NET PROFIT	62.2	(0.5)	61.7
Cost/income ratio (%)	33.7	61.7	35.3
Other assets	25,163.7	112.1	25,275.8
Loans and advances to customers	25,096.7	3,937.7	29,034.4
<i>of which: to Group companies</i>	<i>8,347.7</i>	—	<i>8,347.7</i>
New loans	—	60.9	—
No. of staff	784	178	962

	(€m)		
Corporate & Investment Banking 30 September 2011	Wholesale	Leasing	Total
Net interest income	93.2	16.8	110.0
Net trading income	4.1	(0.2)	3.9
Net fee and commission income	63.9	0.9	64.8
Equity-accounted companies	5.9	—	5.9
TOTAL INCOME	167.1	17.5	184.6
Labour costs	(51.5)	(4.3)	(55.8)
Administrative expenses	(22.5)	(2.8)	(25.3)
OPERATING COSTS	(74.0)	(7.1)	(81.1)
Gains (losses) on AFS, HTM and L&R	(15.8)	0.1	(15.7)
Loan loss provisions	(17.9)	(5.3)	(23.2)
Provisions for financial assets	(69.8)	—	(69.8)
Other profits (losses)	—	—	—
PROFIT BEFORE TAX	(10.4)	5.2	(5.2)
Income tax for the period	(17.2)	(2.3)	(19.5)
Minority interest	—	(1.2)	(1.2)
NET PROFIT	(27.6)	1.7	(25.9)
Cost/income ratio (%)	44.3	40.6	43.9
Other assets	19,583.0	80.9	19,663.9
Loans and advances to customers	24,100.3	4,388.5	28,488.8
<i>of which: to Group companies</i>	5,223.3	—	5,223.3
New loans	—	284.8	—
No. of staff	784	207	989

This division reported a net profit of €61.7m, compared to the €25.9m loss recorded last year, chiefly due to: the lack of adjustments to securities and equity investments (€1.4m, compared with €69.8m); the reduction in operating costs (which were down 10.1%, from €81.1m to €72.9m, equally distributed between labour costs and operating expenses), and the increase in revenues (up 11.8%, from €184.6m to €206.4m), driven by higher net trading income (up from €3.9m to €59.2m). Conversely, as already mentioned the other items declined: net interest income by 21.5%, from €110m to €86.3m, net fee and commission income by 12.8%, from €64.8m to €56.5m, and the contribution from the equity-accounted companies, which was down from €5.9m to €4.4m. Loan loss provisions increased from €23.2m to €25.2m, while net losses on securities improved to €6.4m (€15.7m).

Turning to the balance-sheet aggregates, there was a reduction in loans and advances to customers (from €30.5bn to €29bn), offset by the rise in treasury assets (from €10.6bn to €11.2bn) and AFS bonds (from €8.3bn to €8.7bn), along with a slight reduction in funding (down from €51.8bn to €52.6bn).

PRINCIPAL INVESTING

	(€m)			
	3 months to 30/9/11	12 months to 30/6/12	3 months to 30/9/12	Y.o.Y. chg. (%)
Profit-and-loss data				
Net interest income	(1.9)	(8.8)	(2.1)	10.5
Equity-accounted companies	67.6	147.8	23.0	-66.0
TOTAL INCOME	65.7	139.0	20.9	-68.2
Labour costs	(1.4)	(5.6)	(1.2)	-14.3
Administrative expenses	(0.7)	(2.8)	(0.9)	28.6
OPERATING COSTS	(2.1)	(8.4)	(2.1)	n.m.
Provisions for financial assets	(0.1)	(197.8)	—	n.m.
PROFIT BEFORE TAX	63.5	(67.2)	18.8	-70.4
Income tax for the period	0.6	3.7	0.3	-50.0
NET PROFIT	64.1	(63.5)	19.1	-70.4
	30/9/11	30/6/12	30/9/12	
AFS securities	130.9	146.3	144.8	
Equity investments	2,770.7	2,696.4	2,640.3	

The share of the investee companies' profits attributable to the Group halved, from €67.6m to €23m, due to the reduced contribution from Assicurazioni Generali (down from €63.3m to €36.7m) and the operating loss incurred by RCS MediaGroup (€13.6m). Accordingly, the net profit posted by this division declined from €64.1m to €19.1m. The book value of the investments therefore fell by €56.1m, due to the reduction in the valuation reserve (€79.1m, almost entirely attributable to Assicurazioni Generali).

RETAIL AND PRIVATE BANKING

	(€m)			
	3 months to 30/9/11	12 months to 30/6/12	3 months to 30/9/12	Y.o.Y. chg. (%)
Profit-and-loss data				
Net interest income	172.6	707.2	176.1	2.0
Net trading income	1.6	9.9	3.6	n.m.
Net fee and commission income	61.4	246.4	56.7	-7.7
TOTAL INCOME	235.6	963.5	236.4	0.3
Labour costs	(46.5)	(199.4)	(47.4)	1.9
Administrative expenses	(77.2)	(311.6)	(63.1)	-18.3
OPERATING COSTS	(123.7)	(511.0)	(110.5)	-10.7
Gains (losses) on AFS, HTM and L&R	0.9	1.5	5.2	n.m.
Loan loss provisions	(79.6)	(333.3)	(86.2)	8.3
Provisions for financial assets	(0.3)	(0.7)	(3.5)	n.m.
Other profits (losses)	—	47.5	0.2	n.m.
PROFIT BEFORE TAX	32.9	167.5	41.6	26.4
Income tax for the period	(13.1)	(46.3)	(14.4)	9.9
Minority interest	—	—	—	n.m.
NET PROFIT	19.8	121.2	27.2	37.4
	30/9/11	30/6/12	30/9/12	
Balance-sheet data				
Treasury funds	3,108.3	8,816.5	8,555.4	
AFS securities	1,528.2	1,694.6	1,773.0	
Loans and advances to customers	14,152.7	14,661.0	14,658.1	
Funding	(22,313.3)	(26,574.1)	(26,306.4)	

The profit earned by this division during the three months improved from €19.8m to €27.2m, due to stable revenues of €236.4m (compared with €235.6m) on lower operating costs (down from €123.7m to €110.5m) which offset the higher loan loss provisions (up from €79.6m to €86.2m).

Turning to the individual sectors, consumer credit showed a reduced profit of €17.8m (down from €25m), hit by the reduction in fee income (from €43.7m to €37.3m) – in part due to the decline in new business – and the higher loan loss provisions (up from €74.6m to €81m). Loans and advances to customers were stable for the three months, at €9,144.5m, with new loans falling from €1,266.6m to €1,117m.

CheBanca! cut its loss for the period to €2.8m (30/9/11: €7.4m), due to the reduction in operating costs, from €43.6m to €30.8m. At the reporting date, retail funding stood at €11,643m, more or less flat versus last year (€11,634.1m), whereas loans and advances to customers fell slightly, from €4,310.8m to €4,287.8m.

Private banking reported a net profit of €12.2m, up on the €2.2m posted this time last year, due to a healthy performance from CMB (whose net profit increased from €2.5m to €11.2m), and Banca Esperia returning to profitability with a bottom line of €0.7m (compared with a €0.5m loss last year). Revenues increased from €22.2m to €31.1m, due to net interest income and net trading income both doubling, from €5.3m to €10.9m, and from €1.4m to €3.8m respectively. Assets under management on a discretionary/non-discretionary basis increased during the three months under review, to reach €13.1bn, €6.3bn (30/6/12: €6bn) of which for CMB and €6.8bn (€6.6bn) for Banca Esperia.

A breakdown of this division's results by business segment is provided below:

	(€m)			
Retail & Private Banking 30 September 2012	Consumer credit	Retail Banking	Private Banking	Total
Net interest income	132.4	32.8	10.9	176.1
Net trading income	—	(0.2)	3.8	3.6
Net fee and commission income	37.3	3.0	16.4	56.7
Equity-accounted companies	—	—	—	—
TOTAL INCOME	169.7	35.6	31.1	236.4
Labour costs	(21.2)	(14.1)	(12.1)	(47.4)
Administrative expenses	(38.3)	(16.7)	(8.1)	(63.1)
OPERATING COSTS	(59.5)	(30.8)	(20.2)	(110.5)
Gains (losses) on AFS, HTM and L&R	—	—	5.2	5.2
Loan loss provisions	(81.0)	(5.2)	—	(86.2)
Provisions for financial assets	—	—	(3.5)	(3.5)
Other profits (losses)	—	—	0.2	0.2
PROFIT BEFORE TAX	29.2	(0.4)	12.8	41.6
Income tax for the period	(11.4)	(2.4)	(0.6)	(14.4)
Minority interest	—	—	—	—
NET PROFIT	17.8	(2.8)	12.2	27.2
Cost/income ratio (%)	35.1	86.5	65.0	46.7
Other assets	503.7	11,034.1	1,553.6	13,091.4
Loans and advances to customers	9,144.5	4,287.9	1,225.7	14,658.1
New loans	1,117.0	54.9	—	1,171.9
No. of branches	158	44	—	202
No. of staff	1,400	920	344	2,664

	(€m)			
Retail & Private Banking 30 September 2011	Consumer credit	Retail Banking	Private Banking	Total
Net interest income	130.0	37.3	5.3	172.6
Net trading income	0.2	—	1.4	1.6
Net fee and commission income	43.7	2.2	15.5	61.4
Equity-accounted companies	—	—	—	—
TOTAL INCOME	173.9	39.5	22.2	235.6
Labour costs	(19.4)	(14.4)	(12.7)	(46.5)
Administrative expenses	(40.8)	(29.2)	(7.2)	(77.2)
OPERATING COSTS	(60.2)	(43.6)	(19.9)	(123.7)
Gains (losses) on AFS, HTM and L&R	—	0.7	0.2	0.9
Loan loss provisions	(74.6)	(5.0)	—	(79.6)
Provisions for financial assets	—	—	(0.3)	(0.3)
Other profits (losses)	—	—	—	—
PROFIT BEFORE TAX	39.1	(8.4)	2.2	32.9
Income tax for the period	(14.1)	1.0	—	(13.1)
Minority interest	—	—	—	—
NET PROFIT	25.0	(7.4)	2.2	19.8
Cost/income ratio (%)	34.6	n.m.	89.6	52.5
Other assets	443.3	6,779.9	1,542.3	8,765.5
Loans and advances to customers	9,084.4	4,307.7	760.6	14,152.7
New loans	1,266.6	296.4	—	1,563.0
No. of branches	146	44	—	190
No. of staff	1,347	934	356	2,637

	(€m)			
30 September 2012	CMB	Banca Esperia 50%	Others	Total
Net interest income	8.5	2.2	0.2	10.9
Net trading income	3.4	0.4	—	3.8
Net fee and commission income	8.5	6.7	1.2	16.4
TOTAL INCOME	20.4	9.3	1.4	31.1
Labour costs	(5.9)	(5.5)	(0.7)	(12.1)
Administrative expenses	(4.6)	(3.2)	(0.3)	(8.1)
OPERATING COSTS	(10.5)	(8.7)	(1.0)	(20.2)
Gains (losses) on AFS, HTM and L&R	1.3	3.9	—	5.2
Provisions for financial assets	—	(3.5)	—	(3.5)
Other profits (losses)	—	0.2	—	0.2
PROFIT BEFORE TAX	11.2	1.2	0.4	12.8
Income tax for the period	—	(0.5)	(0.1)	(0.6)
NET PROFIT	11.2	0.7	0.3	12.2
Cost/income ratio (%)	51.5	n.m.	71.4	65.0
Asset under management	6,294.0	6,803.0	—	13,097.0
Securities held on a trustee basis	—	—	1,358.4	1,358.4

	(€m)			
Private Banking 30 September 2011	CMB	Banca Esperia 50%	Others	Total
Net interest income	4.6	0.7	—	5.3
Net trading income	1.9	(0.5)	—	1.4
Net fee and commission income	7.8	6.3	1.4	15.5
Equity-accounted companies	—	—	—	—
TOTAL INCOME	14.3	6.5	1.4	22.2
Labour costs	(7.0)	(4.8)	(0.9)	(12.7)
Administrative expenses	(4.6)	(2.4)	(0.2)	(7.2)
OPERATING COSTS	(11.6)	(7.2)	(1.1)	(19.9)
Gains (losses) on AFS, HTM and L&R	—	0.2	—	0.2
Loan loss provisions	—	—	—	—
Provisions for financial assets	(0.2)	—	(0.1)	(0.3)
Other profits (losses)	—	—	—	—
PROFIT BEFORE TAX	2.5	(0.5)	0.2	2.2
Income tax for the period	—	—	—	—
Minority interest	—	—	—	—
NET PROFIT	2.5	(0.5)	0.2	2.2
Cost/income ratio (%)	81.1	n.m.	78.6	89.6
Asset under management	5,853.0	6,512.9	—	12,365.9
Securities held on a trustee basis	—	—	1,459.0	1,459.0

Outlook

Estimates for the current financial year are strongly conditioned by unknown factors affecting financial markets in the Eurozone and the recessionary macro-economic scenario. However, the trends towards a gradual reduction in lending and the objective of maintaining comfortable liquidity are confirmed, with revenues and costs reducing accordingly. The valuations of the securities and equity investment portfolios will continue to depend on market performance, as will the contribution from trading activity.

Milan, 27 October 2012

THE BOARD OF DIRECTORS

ACCOUNTING POLICIES



Accounting Policies

A.1 – General Part

SECTION 1

Statement of conformity with IAS/IFRS

The Mediobanca Group's consolidated financial statements for the period ended 30 September 2012 have, as required by Italian Legislative Decree 38/05, been drawn up in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB), which were adopted by the European Commission in accordance with the procedure laid down in Article 6 of regulation CE 1606/02 issued by the European Parliament and Council on 19 July 2002. Adoption of the new accounting standards with respect to financial reporting by banks is governed by Bank of Italy circular no. 262 issued on 22 December 2005 (as amended on 18 November 2009); This report has also been in compliance with Consob resolution no. 11971/99 governing regulations for issuers.

SECTION 2

Area and method of consolidation

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.

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.

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

	Registered office	Type of relationship ¹	Shareholding		% voting rights ²
			Investor company	% interest	
A. COMPANIES INCLUDED IN AREA OF CONSOLIDATION					
A.1 Line-by-line					
1. MEDIOBANCA - Banca di Credito Finanziario S.p.A.	Milan	1	—	—	—
2. PROMINVESTMENT S.p.A. - in liquidation	Milan	1	A.1.1	100.0	100.0
3. PRUDENTIA FIDUCIARIA S.p.A.	Milan	1	A.1.1	100.0	100.0
4. SETECI - Società Consortile per l'Elaborazione, Trasmissione dati, Engineering e Consulenza Informatica S.c.p.A.	Milan	1	A.1.1	100.0	100.0
5. SPAFID S.p.A.	Milan	1	A.1.1	100.0	100.0
6. COMPAGNIE MONEGASQUE DE BANQUE - CMB S.A.M.	Monte Carlo	1	A.1.1	100.0	100.0
7. C.M.I. COMPAGNIE MONEGASQUE IMMOBILIERE SCI	Monte Carlo	1	A.1.6	99.94	99.94
			A.1.8	0.06	0.06
8. C.M.G. COMPAGNIE MONEGASQUE DE GESTION S.A.M.	Monte Carlo	1	A.1.6	99.89	99.89
9. SMEF SOCIETE MONEGASQUE DES ETUDES FINANCIERE S.A.M.A.	Monte Carlo	1	A.1.6	99.96	99.96
10. CMB ASSET MANAGEMENT S.A.M.	Monte Carlo	1	A.1.6	99.50	99.50
11. MONOECI SOCIETE CIVILE IMMOBILIERE	Monte Carlo	1	A.1.6	99.0	99.0
			A.1.8	1.0	1.0
12. MOULINS 700 S.A.M.	Monte Carlo	1	A.1.7	99.90	99.90
13. MEDIOBANCA INTERNATIONAL (Luxembourg) S.A.	Luxembourg	1	A.1.1	99.0	99.0
			A.1.14	1.0	1.0
14. COMPASS S.p.A.	Milan	1	A.1.1	100.0	100.0
15. CHEBANCA! S.p.A.	Milan	1	A.1.1	100.0	100.0
16. COFACTOR S.p.A.	Milan	1	A.1.14	100.0	100.0
17. SELMABIPIEMME LEASING S.p.A.	Milan	1	A.1.1	60.0	60.0
18. PALLADIO LEASING S.p.A.	Vicenza	1	A.1.17	95.0	100.0
			A.1.18	5.0	
19. TELELEASING S.p.A. - in liquidation	Milan	1	A.1.17	80.0	80.0
20. SADE FINANZIARIA - INTERSOMER S.r.l.	Milan	1	A.1.1	100.0	100.0
21. RICERCHE E STUDI S.p.A.	Milan	1	A.1.1	100.0	100.0
22. CREDITTECH S.p.A.	Milan	1	A.1.14	100.0	100.0
23. MEDIOBANCA SECURITIES USA LLC	New York	1	A.1.1	100.0	100.0
24. CONSORTIUM S.r.l.	Milan	1	A.1.1	100.0	100.0
25. QUARZO S.r.l.	Milan	1	A.1.14	90.0	90.0
26. QUARZO LEASE S.r.l.	Milan	1	A.1.17	90.0	90.0
27. FUTURO S.p.A.	Milan	1	A.1.14	100.0	100.0
28. JUMP S.r.l.	Milan	4	A.1.14	—	—
29. MEDIOBANCA COVERED BOND S.r.l.	Milan	1	A.1.15	90.0	90.0
30. COMPASS RE (Luxembourg) S.A.	Luxembourg	1	A.1.14	100.0	100.0
31. MEDIOBANCA INTERNATIONAL IMMOBILIERE S.A.r.l.	Luxembourg	1	A.1.13	100.0	100.0

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.

A.2 – Significant Accounting Policies

Financial assets held for trading

This category comprises debt securities, equities, the positive value of derivatives and the loan components held for trading, including those embedded in complex instruments such as structured bonds (recorded separately).

At the settlement date for securities and subscription date for derivatives, such assets are recognized at fair value not including any transaction expenses or income directly attributable to the asset concerned, which are taken through the profit and loss account.

After initial recognition they continue to be measured at fair value, which for listed instruments is calculated on the basis of market prices ruling at the reporting date (Level 1 assets). If no market prices are available, other valuation models are used (Level 2 assets) based on market-derived data, e.g. valuations of listed instruments with similar features, discounted cash flow analysis, option price calculation methods, or valuations used in comparable transactions, or alternatively valuations based on internal estimates (Level 3 assets). Equities and linked derivatives for which it is not possible to reliably determine fair value using the methods described above are stated at cost (these too qualify as Level 3 assets). If the assets suffer impairment, they are written down to their current value.

Gains and losses upon disposal and/or redemption and the positive and negative effects of changes in fair value over time are reflected in the profit and loss account under the heading *Net trading income*.

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. For shares, in particular, the criteria used to determine impairment are a reduction in fair value of over one half or for longer than twenty-four months, compared to the initial recognition value. 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.

Financial assets held to maturity

These comprise debt securities with fixed or otherwise determinable payments and fixed maturities which the Group's management has the positive intention and ability to hold to maturity.

Such assets are initially recognized at fair value, which is calculated as at the settlement date and includes any transaction costs or income directly attributable to them. Following their initial recognition they are measured at amortized cost using the effective interest method. Differences between the initial recognition value and the amount receivable at maturity are booked to the profit and loss account pro-rata.

Assets are tested for impairment 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.

If the reasons which brought about the loss of value subsequently cease to apply, the impairment is written back to the profit and loss account up to the value of amortized cost.

Loans and receivables

These comprise loans to customers and banks which provide for fixed or otherwise determinable payments that are not quoted in an active market and which cannot therefore be classified as available for sale. Repos and receivables due in respect of finance leasing transactions are also included, as are illiquid and/or unlisted fixed securities.

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.

Leasing

IAS 17 defines finance leases as transactions whereby risks and benefits involved in owning the asset concerned are transferred to the lessee, and stipulates the criteria for identifying whether or not a lease is a finance or operating lease. All leases entered into by the Group qualify as finance leases under the terms of IAS 17. Accordingly, a receivable is booked at an amount equal to the net outlay involved in the finance lease transaction, plus any costs directly incurred in respect of negotiating and/or performing the contract.

Hedges

There are two types of hedge:

- fair value hedges, which are intended to offset the exposure of recognized assets and liabilities to changes in their fair value;
- cash flow hedges, which are intended to offset the exposure of recognized assets and liabilities to changes in future cash flows attributable to specific risks relating to the items concerned.

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

Hedge derivatives are recognized at fair value as follows:

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

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

A hedge is considered to be effective when the changes in fair value or cash flow of the hedging instrument offset those of the hedged item within a range of 80-125%. The effectiveness of a hedge is assessed both *prospectively* and *retrospectively* at annual and interim reporting dates, the former to show expectations regarding effectiveness, the latter to show the degree of effectiveness actually achieved by the hedge during the period concerned. If an instrument proves to be ineffective, hedge accounting is discontinued and the derivative concerned is accounted for under trading securities.

Equity investments

This heading consists of investments in:

- associates, which are accounted for using the equity method. 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, which are also equity-accounted;
- other investments of negligible value, stated 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.

Property, plant and equipment

This heading comprises land, core and investment properties, plant, furniture, fittings, equipment and assets used under the terms of finance leases, despite the fact that such assets remain the legal property of the lessor rather than the lessee.

Assets held for investment purposes refer to investments in real estate, if any (whether owned or acquired under leases), which are not core to the Group's main activities and/or are chiefly leased out to third parties.

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

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

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

Intangible assets

These chiefly comprise goodwill and long-term computer software applications.

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

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

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

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

Derecognition of assets

Financial assets are derecognized as and when the Group is no longer entitled to receive cash flows deriving from them, or when they are sold and the related risks and benefits are transferred accordingly. Tangible and intangible assets are derecognized upon disposal, or when an asset is permanently retired from use and no further earnings are expected to derive from it.

Assets or groups of assets which are sold continue to be recognized if the risks and benefits associated with them (in the relevant technical form) continue to be attributable to the Group. A corresponding amount is then entered as a liability to offset any amounts received (as *Other amounts receivable* or *Repos*).

The main forms of activity currently carried out by the Group which do not require underlying assets to be derecognized are the securitization of receivables, repo trading and securities lending.

Conversely, items received as part of deposit bank activity, the return on which is collected in the form of a commission, are not recorded, as the related risks and benefits continue to accrue entirely to the end-investor.

Payables, debt securities in issue and subordinated liabilities

These include the items *Due to banks*, *Due to customers* and *Debt securities in issue less any shares bought back*. Amounts payable by the lessee under the terms of finance leasing transactions are also included.

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

Derivatives embedded in structured bonds are stripped out from the underlying contract and recognized at fair value. Subsequent changes in fair value are recognized through the profit and loss account.

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

The sale of treasury shares over the market following a buyback is treated as a new issue. The new sale price is recorded as a liability without passing through the profit and loss account.

Trading liabilities

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

Staff severance indemnity provision

This is stated to reflect the actuarial value of the provision as calculated in line with regulations used for defined benefit schemes. Future obligations are estimated on the basis of historical statistical analysis (e.g. staff turnover, retirements, etc.) and demographic trends. These are then discounted to obtain their present value on the basis of market interest rates. The values thus obtain are booked under labour costs as the net amount of contributions paid, prior years' contributions not yet capitalized, interest accrued, and actuarial gains and losses.

All actuarial profits and/or losses are included under labour costs.

Units accruing as from 1 January 2007 paid into complementary pension schemes or the Italian national insurance system are recorded on the basis of contributions accrued during the period.

Provisions for liabilities and charges

These regard risks linked with the Group's operations but not necessarily associated with failure to repay loans, and which could lead to expenses in the future. If the time effect is material, provisions are discounted using current market rates. Provisions are recognized in the profit and loss account.

Provisions are reviewed on a regular basis, and where the charges that gave rise to them are deemed unlikely to crystallize, the amounts involved are written back to the profit and loss account in part or in full.

Withdrawals are only made from provisions to cover the expenses for which the provision was originally made.

Foreign currency transactions

Transactions in foreign currencies are recorded by applying the exchange rates as at the date of the transaction to the amount in the foreign currency concerned.

Assets and liabilities denominated in currencies other than the Euro are translated into Euros using exchange rates ruling at the dates of the transactions. Differences on cash items due to translation are recorded through the profit and loss account, whereas those on non-cash items are recorded according to the valuation criteria used in respect of the category they belong to (i.e. at cost, through the profit and loss account or on an equity basis).

Tax assets and liabilities

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

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

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

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

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

Stock options and performance shares

The stock option and performance share schemes operated on behalf of Group staff members and collaborators are treated as a component of labour costs. The fair value of the instruments is measured and recognized in net equity at the grant date using a share/option pricing method adjusted to reflect historical series for previous financial years. The value thus determined is taken to the profit and loss account pro-rata to the vesting period for the individual awards.

Treasury shares

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

Dividends and commissions

These are recognized as and when they are realized, provided there is reasonable likelihood that future benefits will accrue.

Fees included in amortized cost for purposes of calculating the effective interest rate are not included, but are recorded under net interest income.

Related parties (IAS 24)

In accordance with IAS 24, related parties are defined as:

- a) individuals or entities which directly or indirectly:
 - 1. are subject to joint control by Mediobanca;
 - 2. hold an interest in Mediobanca which allows them to exert a significant influence over Mediobanca; the scope of this definition includes parties to the Mediobanca shareholders' agreement with interests of over 5% of the company's share capital, along with the entitlement to appoint at least one member of the Board of Directors;
- b) associate companies, joint ventures and entities controlled by them;
- c) management with strategic responsibilities, that is, individuals with powers and responsibilities, directly or indirectly, for the planning, direction and control of the parent company's activities, including the members of the Board of Directors and Statutory Audit Committee;
- d) entities controlled or jointly controlled by one or more of the individuals listed under the foregoing letter c);
- e) close family members of the individuals referred to in letter c) above, that is, individuals who may be expected to influence them or be influenced by them in their relations with Mediobanca (this category includes partners, children, partners' children, dependents and partners' dependents) as well as any entities controlled, jointly controlled or subject to significant influence by such individuals;
- f) pension funds for employees of the parent company or any other entity related to it.

CONSOLIDATED FINANCIAL STATEMENTS



Consolidated balance sheet (IAS/IFRS-compliant)*

(€m)

Assets	IAS-compliant 30/9/11	IAS-compliant 30/6/12	IAS-compliant 30/9/12
10. Cash and cash equivalents	36.6	29.7	39.2
20. Financial assets held for trading	14,858.1	13,838.2	14,693.5
30. Financial assets recognized at fair value	—	—	—
40. AFS securities	7,213.0	10,552.1	11,018.3
50. Financial assets held to maturity	1,744.5	1,723.3	1,721.4
60. Due from banks	5,748.3	3,962.9	5,818.1
<i>of which:</i>			
<i>other trading items</i>	4,264.1	2,742.5	4,533.9
<i>securities</i>	—	—	—
<i>other items</i>	8.4	16.2	44.2
70. Due from customers	42,515.9	41,871.1	39,426.3
<i>of which:</i>			
<i>other trading items</i>	5,722.8	5,998.9	5,004.0
<i>securities</i>	663.1	604.9	592.8
<i>other items</i>	90.4	100.6	75.3
80. Hedging derivatives	1,924.6	1,571.8	1,716.7
<i>of which:</i>			
<i>funding hedge derivatives</i>	1,924.6	1,571.8	1,716.7
<i>lending hedge derivatives</i>	—	—	—
90. Value adjustments to financial assets subject to general hedging	—	—	—
100. Equity investments	3,210.3	3,165.5	3,116.3
110. Total reinsurers' share of technical reserves	—	—	—
120. Property, plant and equipment	329.8	293.7	298.7
130. Intangible assets	433.7	424.4	419.9
<i>of which:</i>			
<i>goodwill</i>	365.9	365.9	365.9
140. Tax assets	1,063.8	1,037.1	967.9
<i>a) current</i>	373.4	299.6	290.8
<i>b) advance</i>	690.4	737.5	677.1
150. Other non-current and Group assets being sold	—	—	—
160. Other assets	195.6	209.3	170.7
<i>of which:</i>			
<i>other trading items</i>	27.6	7.5	8.9
Total assets	79,274.2	78,679.1	79,407.0

* Figures in €m.

The balance sheet provided on p. 10 reflects the following restatements:

- Treasury funds comprise asset headings 10 and 20 and liability heading 40, plus the “other trading items” shown under asset headings 60, 70 and 160 and liability headings 10 and 20, with the latter chiefly consisting of repos, interbank accounts and margins on derivatives;
- Funding comprises the balances shown under liability headings 10, 20 and 30 (excluding amounts restated as trading items in respect of repos and interbank accounts), plus the relevant amounts in respect of hedging derivatives;
- Loans and advances to customers comprise asset headings 60 and 70 (excluding amounts restated as Treasury funds) plus the relevant amounts of asset heading 80 and liability heading 60 plus the relevant share of liability heading 100.

(€m)

Liabilities and net equity	IAS-compliant 30/9/11	IAS-compliant 30/6/12	IAS-compliant 30/9/12
10. Due to banks	8,830.0	12,000.0	12,333.2
<i>of which:</i>			
<i>other trading items</i>	4,283.1	1,183.3	1,501.3
<i>other liabilities</i>	214.5	0.4	4.3
20. Due to customers	15,698.9	17,149.0	17,223.1
<i>of which:</i>			
<i>other trading items</i>	2,769.1	2,168.0	2,401.1
<i>other liabilities</i>	10.0	13.4	9.9
30. Debt securities	35,482.2	31,300.3	30,828.7
40. Trading liabilities	10,826.6	9,935.0	10,520.5
50. Liabilities recognized at fair value	—	—	—
60. Hedging derivatives	405.7	365.0	361.2
<i>of which:</i>			
<i>funding hedge derivatives</i>	308.9	275.7	262.8
<i>lending hedge derivatives</i>	54.8	44.5	49.0
70. Value adjustments to financial liabilities subject to general hedging	—	—	—
80. Tax liabilities	565.8	494.1	583.3
<i>a) current</i>	267.2	198.0	258.2
<i>b) deferred</i>	298.6	296.1	325.1
90. Liabilities in respect of Group assets being sold	—	—	—
100. Other liabilities	643.3	542.4	472.2
<i>of which:</i>			
<i>Adjustments to L & R</i>	49.7	17.0	19.0
<i>Other trading items</i>	0.8	0.2	0.1
110. Staff severance indemnity provision	24.8	24.7	26.2
120. Provisions	156.8	160.5	160.3
<i>a) post-employment and similar benefits</i>	—	—	—
<i>b) other provisions</i>	156.8	160.5	160.3
130. Technical reserves	65.4	99.3	105.9
140. Valuation reserves	(364.8)	(337.1)	(229.2)
150. Shares with right of withdrawal	—	—	—
160. Equity instruments	—	—	—
170. Reserves	4,433.3	4,418.9	4,467.1
180. Share premium reserve	2,120.1	2,120.1	2,120.1
190. Share capital	430.6	430.6	430.6
200. Treasury shares (-)	(213.8)	(213.8)	(213.8)
210. Net equity attributable to minorities (+/-)	112.5	109.4	108.6
220. Profit (loss) for the period	56.8	80.9	109.0
Total liabilities and net equity	79,274.2	78,679.1	79,407.0

Consolidated profit and loss accounts (IAS/IFRS-compliant) *

(€m)

Profit and loss account	3 mths to 30/9/11	12 mths to 30/6/12	12 mths to 30/9/12
10. Interest and similar income	773.5	3,037.2	729.2
20. Interest expense and similar charges	(487.5)	(1,949.1)	(462.5)
30. Net interest income	286.0	1,088.1	266.7
40. Fee and commission income	105.3	438.6	92.5
50. Fee and commission expense	(9.0)	(47.3)	(10.9)
60. Net fee and commission income	96.3	391.3	81.6
70. Dividends and similar income	10.9	90.8	4.7
80. Net trading income	(17.9)	116.8	45.2
90. Net hedging income (expense)	0.8	4.1	0.1
100. Gain (loss) on disposal of:	(9.9)	70.0	1.2
<i>a) loans and receivables</i>	—	—	—
<i>b) AFS securities</i>	(15.8)	34.4	(5.6)
<i>c) financial assets held to maturity</i>	—	(1.9)	0.5
<i>d) other financial liabilities</i>	5.9	37.5	6.3
120. Total income	366.2	1,761.1	398.3
130. Adjustments for impairment to:	(173.0)	(881.3)	(112.7)
<i>a) loans and receivables</i>	(100.5)	(429.1)	(98.1)
<i>b) AFS securities</i>	(69.3)	(411.5)	(1.4)
<i>c) financial assets held to maturity</i>	(0.6)	(1.3)	0.4
<i>d) other financial liabilities</i>	(2.6)	(39.4)	(13.6)
140. Net income from financial operations	193.2	879.8	285.6
150. Net premium income	4.3	22.1	7.4
160. Income less expense from insurance operations	(2.0)	(9.7)	(3.4)
170. Net income from financial and insurance operations	195.5	892.2	289.6
180. Administrative expenses:	(197.3)	(784.3)	(173.7)
<i>a) personnel costs</i>	(100.8)	(393.3)	(94.0)
<i>b) other administrative expenses</i>	(96.5)	(391.0)	(79.7)
190. Net transfers to provisions for liabilities and charges	(0.3)	(4.0)	(0.5)
200. Net adjustments to property, plant and equipment	(4.1)	(18.9)	(4.9)
210. Net adjustments to intangible assets	(6.8)	(25.8)	(5.6)
<i>of which: goodwill</i>	—	—	—
220. Other operating income (expenses)	30.2	123.0	28.8
230. Operating costs	(178.3)	(710.0)	(155.9)
240. Profit (loss) from equity-accounted companies	73.0	(21.5)	28.1
270. Gain (loss) on disposal of investments	—	45.2	—
280. Profit (loss) before tax on ordinary activities	90.2	205.9	161.8
290. Income tax on ordinary activities for the year	(32.2)	(125.5)	(53.3)
300. Profit (loss) after tax on ordinary activities	58.0	80.4	108.5
310. Net gain (loss) on non-current assets being sold	—	—	—
320. Profit (loss) for the period	58.0	80.4	108.5
330. Profit (loss) for the year attributable to minorities	(1.2)	0.5	0.5
340. Net profit (loss) for the period to Mediobanca	56.8	80.9	109.0

* Figures in €m.

The profit and loss account reported on p. 9 reflects the following restatements:

– *Net interest income* includes the result of funding and lending hedging activity (€0.9m, €4.1m and €0.1m), plus the margins on swaps reported under Heading 80 (amounting to minus €51.0m, minus €22.6m and minus €7.8m respectively) net of interest expense on securities lending totalling minus €0.3 at 30/6/12 which is accounted for as *Net trading income*;

– amounts under Heading 220 have been restated as *Net fee and commission income*, save for amounts refunded/recovered totalling €11.9m, €42.5m and €10.9m respectively which net operating costs; the amounts stated under Headings 150 and 160 have been accounted for as *Net fee and commission income*, and the provision for invoices issued under Heading 190 (€1.5m at 30/6/12) net of fees payable in respect of securities lending (minus €0.6m at 30/6/12 and minus €0.3m at 30/9/12) have been represented under heading 80;

– in addition to the items already stated, *Net trading income* also includes amounts under heading 70, 80 and dividends and gains (losses) on financial liabilities reported under Heading 100;

– *Provisions for other financial assets* involve AFS securities and financial assets held to maturity comprised under heading 130.

DECLARATION BY HEAD OF COMPANY
FINANCIAL REPORTING



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 quarterly review of operations conforms to the documents, account ledgers and book entries kept by the company.

Head of
Company Financial Reporting

Massimo Bertolini

